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Security Code No.: STERTOOLS	**Security Code No.: 530759**

Date: 14th November, 2022

Sub: Transcript of Analyst/ Investor Conference Call

Dear Sir/ Madam,

Pursuant to regulation 30 (6) and 46 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, we wish to inform you that a Conference Call for the analyst and investors to discuss the financial and operational performance of the Company was held on November 10, 2022.

Please find attached herewith the transcript of the aforesaid call. The same will be placed on the website of the Company i.e. www.stlfasteners.com

This is for your information and records.

Sincerely
For **Sterling Tools Limited**

For STERLING TOOLS LIMITED
Authorised Signatory

ANIL AGGARWAL

Digitally signed by ANIL AGGARWAL
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"Sterling Tools Limited
Q2 FY23 Earnings Conference Call"
November 10, 2022

MANAGEMENT: **MR. ATUL AGGARWAL – WHOLE TIME DIRECTOR – STERLING TOOLS LIMITED**
MR. JAIDEEP WADHWA – DIRECTOR – STERLING TOOLS LIMITED
MR. PANKAJ GUPTA – CHIEF FINANCIAL OFFICER – STERLING TOOLS LIMITED

MODERATOR: **MR. VIJAY GYANCHANDANI – S-ANCIAL TECHNOLOGIES**

Moderator: Ladies and gentlemen, good day, and welcome to Q2 FY '23 Earnings Conference Call of Sterling Tools Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance, during the conference call, please signal an operator by pressing star and then zero on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Vijay Gyanchandani from S-Ancial Technologies. Thank you, and over to you, sir.

Vijay Gyanchandani: Thank you, operator. Good morning, everyone. Welcome to Sterling Tools Limited Q2 FY '23 Earnings Conference Call. From the management, we have today Mr. Atul Aggarwal, Whole Time Director; Mr. Jaideep Wadhwa, Director; and Mr. Pankaj Gupta, CFO. Now I request Mr. Pankaj Gupta to take us through the key remarks. After that, we can open the floor for the Q&A session. Thank you, and over to you, Sir.

Pankaj Gupta: Good morning, everyone, and thank you very much for joining Q2 FY '23 call. I hope this presentation, which we have put on the BSE have gone through that. Still just as a few key numbers to take away from this quarter. We had a sales turnover from fasteners business of INR 155 crores in this quarter, aggregating to INR 293 crores of sale in six months, which for fasteners business is all-time high, what we have achieved. Q-o-Q, this is about 20% higher as compared to last year. Our electric vehicle business, we did INR 25 crores of sales. Half yearly number reaches to INR 62 crores.

Again, we are on track with our target for the year on EV. On a group consoled basis, the quarter number is INR 180 crores of turnover with the half year number reaching to INR 350 crores. As we shared last time, there is a delta improvement in the margin in the fasteners business by about 110 basis points. EBITDA margin stood at 16.7% for this quarter. And as we shared a lot of effort from management in terms of cost control, et cetera, has started seeing the impact in Q2, which we should continue in Q3 and Q4. Overall, a good quarter and a good half year for us, exciting time ahead. I will request Mr. Atul ji to give more insight on the sale.

Atul Aggarwal: Good morning, everybody. Like Pankaj said, we've had a good second quarter, I would say a good first half. I would like to talk about the first half more as a consolidated number because that gives a true picture as to what our trends are looking like. So our fastener business, like Bankers, we are up 34% in revenue for the first half on a year-on-year basis on the back. I think we have done some great operating work across the teams in our company.

We have done on a consolidated level, half yearly, we had about INR 350 crores odd. Our EV revenues at about 17% of our total revenues. And I think the guidance we have, we believe it will be close to 20% for the full year. So we have had tremendous -- we are on track with our plans for our EV business. I think you're looking at a multiple x growth in our revenue from last year. Since we had only one quarter of operation -- just a couple of other highlight numbers.

Our EBITDA levels are trending upward. Quarter-on-quarter, we are improving our EBITDA levels. And we believe for the full year, our EBITDA levels will be much more respectable than what we had last year because last year was a tough year on account of inflationary pressure, but we'll be able to work around with our customers and internally in our cost structures to bring our EBITDA numbers back to a more normal levels we are used to. We've had tremendous success going back to our electric vehicle business.

We've had tremendous success in that business. We believe, according to our estimation, we have nearly 50% market share in the high-speed scooter segment and about 33% in overall E2-wheeler segment. On the back of from great customer acquisition and some of our customers have ramped up volumes substantially. There were some concern in Q2 in a couple of months, but I think we've been able to overcome that and ramp up the volumes substantially.

Our EV business, despite being in a start-up phase is EBITDA positive and PBT positive. So I think that speaks volumes of the kind of value addition we are doing to that product for our customers and the market leadership position we have in that particular segment right now. We've also had success in our EV business in new customer acquisitions. We have acquired customers beyond the 2-wheeler space. We have acquired customers in the light commercial vehicle last mile delivery product range. We have acquisition of customers.

We acquired customers in Switch mobility, which is part of a show clearance. We acquired customers at Mahindra and Mahindra. And also, just recently, we also acquired a business at Volvo Eicher for the last mile delivery products in the one to four ton category of last-mile delivery. So we now riding on top of our success in our 2-wheeler customer acquisition. We are also finding, we are making penetration in the segments of last mile delivery and LCV segment also.

We have invested substantially in our engineering capabilities. We have a large team, our tech center in Bangalore is being ramped up. So a lot of capabilities are being added in our engineering capabilities, both hardware and software, we believe that's the backbone of what we're trying to do. And that is also allow us to have a more strong position because we our customers, our cost structures, our profitability structure and will help us in new customer acquisition.

We are also investing as per plan on our manufacturing capabilities and capacities for our EV business. And we are also keeping in mind, long term, we are currently under study as to what we need to do in terms of investments in the next 12 months. Keeping in mind the visibility we have for our business for the next three years. So we are still internally debating as to what we need to do. We will keep you guys, we keep the investor community updated as soon as we have a more definitive plan going forward. But we are very positive of our EV business. Like I said, it will be about 20% of our revenue, on a consolidated level for this financial year. But next financial year, we probably talked this number of 20%, maybe going up to close to 30% going forward. So our EV strategy has played out well for us and is giving us good results.

Jaideep, I'm going to leave it to you if you want to make any more comments on the EV business. And after that, we'll open the floor for Q&A.

Jaideep Wadhwa: No, I think Atul, you've captured everything very-very nicely there. I think the only thing I would mention is that if you look at the penetration of electric vehicles and the basis, which is the core basis of our business plan. I mean it's actually progressing faster despite COVID, despite all the other macro events that have happened. So we are very bullish about this. We continue to invest, and we hope to see good returns despite the challenges of a new business and a new technology.

Management: Excellent. So Vijay, we can open the floor for question and answer, please?

Moderator: Thank you, very much. We will now begin the question-and-answer session. Anyone who wishes to ask a question may press star and one on the touchtone telephone. If you wish to remove yourself from the question queue you may press star and two. Participants are requested to use handsets while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Chirag Setalvad from HDFC Mutual Fund.

Chirag Setalvad: Congratulations on a great result and the fantastic performance in EV. Actually, my questions are in the non-EV business, if you could highlight the first half and the outlook going forward in non-EV, that would be helpful. So that's my first question. On EVs itself, I missed, I'm sorry, I missed a few numbers. You mentioned a 50% market share. And then if I get it right, you mentioned that 33% market share. So if you could just clarify what that is exactly? So those are my two starting off questions.

Management: Chirag, let me answer the second question first, a simpler one. Is that, when we talk about 50% in E2-wheelers, in scooters, there are two segments. One is the low-speed segment, one is a high-speed segment. And so we were talking about the high-speed segment where typically the speeds are 60 kilometers an hour more or more going up to 100 kilometers an hour, and the range is up to 150 kilometers also.

So in that segment, we believe we are at about 50% market share. And that low-speed segment, which is typically where low-electric operates and, which is average speeds. When you say low speed, we mean scooters, which have average speed of 25 kilometers hour going up to 40, 50 kilometers an hour because these low-speed scooters, I believe, do not require registration. The costs are a little lower. That's -- and in that, we don't have much presence in that segment. We are more in the high-speed scooter segment, which is the larger segment going forward. So when we said 50%, we were talking about high speed, but keeping in mind the total registrations of E2-wheelers from that perspective, we are at 33%. So I hope I'm able to clarify on that question.

Going back to your first question on fasteners. We have about 34% up in revenue first half. I think we're on track. We are looking at like I promised on the call last quarter, we did bought INR 470 crores of revenue in our fastener business last financial year on a full year basis. I think we are on track to give you a 20%, 25% growth on that for this financial year. That's the visibility we have for our business second half. So we are on track. We had a strong second half last year. That's why the overall numbers may look a little lower than my first half growth of 34%. But I think overall, for the full financial year, that's the guidance we would do on numbers.

Chirag Setalvad: And if you were to look at beyond FY '23, I know it's difficult because some of the underlying businesses are cyclical in nature. But if you could just highlight what you think can possibly happen over the next couple of years, the kind of investments you're making, the focus area. This is specifically in fasteners. So essentially to give us a little bit of a road map beyond FY '23 for the next couple of years in terms of what could possibly have?

Management: So if you had asked me this question three years ago, I have given you a very definitive feedback as to what's going to happen in FY '24. But we find that the business, business environment is changing so rapidly every half year, every quarter numbers, what I predict this quarter may not be relevant for next quarter because the industry is changing all the time because of various factors of inflation, economy, interest rates, Ukraine war, etc. So there's the predictability of forecasting something on a definitive basis, very difficult. But having said that, for FY '24, from our resource availability, I think we have done substantial investments this year in the previous years. So we have, we don't need to do much investments on a capex basis to ramp up or up sales revenue. So I think we'll have to do a marginal capex going forward, but all going well. I think we are looking at another maybe about a 15% to 18% growth next financial year.

Chirag Setalvad: And what is the current capacity utilization in past quarter?

Management: That's a long conversation because there's a large sign to our -- in a nutshell, I can say our capacity identification firstly, before I company utilization is dependent on the product mix. For example, for example, a machine is capable of making a small diameter part, so let's say, M6 into 20-millimeter length being 22 grams. That same machine is also capable of making an MA diameter part with 15-millimeter lent being maybe about 70, 80 grams.

So the capacities can vary on that sense. It's a function of the kind of raw material we are using, which impacts the recipe time in our heat treatment processes. So it's a combination of a product mix and the employee. But on a current basis, I would say we still have headroom to -- we still have a lot of capacity based on the current product mix on an optimal basis to go to a revenue of about INR 800 crores.

Chirag Setalvad: And last question from my side. From a profitability standpoint, you've done a fantastic job. So where do you see profitability sustaining? And what has led to this improvement? If you could give us some picture in terms of the initiatives that have been taken so far?

Management: Firstly, we've been able to get compensation from our customers on steel price increases. -- there's a lag period to that. I think that's what you saw a dip last year in our margin structure. We've been able to work with our customers. We've been able to focus on just focusing on product mix and focusing a lot more on the high-value parts, which have a little more complex engineering structures. So we are able to work closely internally and with our customers.

Thirdly, we've been able to, like automotive business, it's a year-on-year exercise of getting more efficient in terms of manufacturing processes and also looking at our cost structure all the time. And so finally, lastly, I think we've been able to try and convince customers of increasing -- giving us some cost compensation on costs going on sort of energy, chemicals, oils, tools, et cetera, et cetera, we've been able to convince customers to give us some composition of just a variety of initiatives we have taken and to normalize our margin structure.

Chirag Setalvad: Just a very last question from my side. If you were to look at it much longer term, not the next couple of years, but if you were to look at it sort of over the next couple of decades even. And right now, you are in essentially two businesses. Over a period of time, when things stabilize, is it -- would you like to get into other businesses other than just the MCU and EV and fasteners. I know this is enough to satisfy you for the next couple of years, but when you sort of eyeball what is going to happen on a greater time frame? Is there something which is there at the back are mine or otherwise in terms of what you would like to get into?

Management: Yes. So Jaideep and I are working on, I think we have a good EV success story in our motor control unit business. But we are not going to rest on that. The auto industry is trending dynamically, very fast. So we need to protect our future, which means we need to add more components in the EV supply chain. And I think we are looking to identify more products in that particular segment of business, which we believe is the penetration of EVs across all segments will go up as we believe it has and it will. And we will be identifying more products as we go forward. In fact, we have already working on some -- and we'll update you as soon as we have a little more news as to what we are trying to do on that.

Chirag Setalvad: And who is the current competition in MCU in both high speed as well as low speed?

Management: Jaideep if you want to take that.

Jaideep Wadhwa: Well, the current competition is HELLA, Anand Mando and Bosch who have been there for some time. Those would be the ones who probably have made the most impact. But there's just a slew of competitors who want to enter into this field. And everyone wants to try, we believe that there is a learning curve. There is a software maturity and vehicle integration and vehicle architecture experience that is crucial that will serve as barriers to entry for some of the people for quite some time.

Chirag Setalvad: Could you indicate which are the other products in EV? You mentioned you'd be doing other products as well in terms of what is at least on the table in terms of what you're evaluating?

Management: I think it would not be -- I mean -- so there are -- if you look at an EV architecture, there's very little in terms of components, you have the charges, which can be on-board or off-board -- do you have the battery management system and the battery pack, then there is obviously the motor control unit, the motor and then the DC converter and the auxiliary drives in the case of larger vehicles. And then, of course, there's the cabling, etc, and things.

So that's pretty much the entire EV ecosystem. We are looking at opportunities in all of these areas. For us, what we are -- I mean, I can't get into the details because it won't be correct it would be too premature at this stage. But I can tell you that we look for -- we are looking for opportunities where there is some level of differentiation, either where we have software as a differentiator where it's just not a hardware build, but there's also a software component to the product or we're looking for areas where there is a technology differentiation. And so it's not just, there is a new technology that either offers a supply chain advantage or technology advantage. So within this, we're looking at all of the areas, but we're just trying to find something that allows us some differentiation.

Management: Yes. Just to add to what Jaideep was saying, we're looking at products where we can we are not just a screw driver company. We just want to add a lot more tech, a lot more layers of competent technology on top. And so we're able to work with customers on a deeper level and a long-term level and also enabling growth and margin structures.

Chirag Setalvad: Sure. And to my earlier question in terms of profitability, do you see margins sustaining at these levels? Or considering that RM prices have come off a bit and you've managed to push through price increases, is there a possibility in the fasteners business of profitability rising from here?

Management: I think if you look at the last five, seven years, number of Sterling fastener business, I think our EBITDA levels have been normalizing between anyway, depending on the year between 16% to 19%, I think, so my guidance would be we'll be within that range going forward. I that that's my internal vision is we need to go back to those numbers and try and achieve them on the higher end of the range I spoke about.

Moderator: The next question is from the line of Abhishek Jain from Dolat Capital.

Abhishek Jain: Sir, how much increase in overall volume in the first half FY '23 in the fastener business?

Management: Can you repeat that question, again, please?

Abhishek Jain: Sir, how much increase in overall volumes in first half FY '23 in fastener business?

Management: 22%. Volume growth is 22% overall growth is 34%.

Abhishek Jain: And so what sort of the impact do you see in the top line due to the fall in the steel prices. I mean that as the steel price has gone down right at 25% - 30%, and that will impact the overall net-ASP of the company?

Management: So firstly, steel prices have not gone down by 25% - 30%. We don't buy commodity steel. We have been buying low carbon alloy steels. So our prices have not fallen, I think, not more than to my sense, but 5%, 6%, 7%. So that is not there, that impact is not there or not. Yes, we have factored that impact of that fall, but not to the extent of 20% - 25%. So having said that, we've had, if you look at the big numbers, we are up 22% in volume, 34% overall. And that extra 10%, 12% is not account of steel only. Also, yes, on account of steel price increase, but it's also on account of we are trying to improve our product mix year-on-year basis to do more high-value parts.

Abhishek Jain: So during this quarter, we have seen an improvement in the mix, because higher revenue growth from the CVs and the passenger vehicle side. So in that case also that realization has gone down by 12% in the first half?

Management: No, I'm not able to understand that question. I don't know what numbers you're referring to?

Abhishek Jain: Sir, my question is the revenue mix is improving right now, because we are getting a revenue of around 24% in the passenger vehicle segment. And as CV is around 22%. And overall, revenue contribution from the 2-wheelers is going down. In that sense also our realization is going down.

Management: No, it's not. Our realizations are not going down in changing of product mix. So just to clarify, we have a very keen on our realizations. And despite the product mix changing for reasons of growth and slowdown in the 2-wheeler segment, we are not 2-wheeler segment I think we look at the mix of the business and as a mix of the business, our realizations are still healthy. There is no drop in realizations.

Abhishek Jain: And how is the mix for the special versus standard fastener in the first half?

Management: Say again, please, your voice is muffled? Kindly speak clear?

Abhishek Jain: How is the mix for the special versus standard fastener in the first half?

Management: I think our specials, I think if you refer to our past calls, especially on the range of about 33%- 40% of revenue. And we can't do dramatic changes or going to 50%- 60%. So quickly, it's an ongoing process. We look at a small needle movements share every quarter-on-quarter. But on a long-term basis, our objective is ticked up to 50%.

Abhishek Jain: And this quarter, other operating cost has gone up slightly. What is the reason, sir?

Management: No. Those are inflationary costs going up. Like, for example, energy has gone up dramatically. And secondly, energy for us is a combination of power coming from the grid and what we generate with our generator, diesel generating sets the costs we have incurred on energy because diesel costs have gone up dramatically for two reasons. One, the underlying cost of diesel per liter, but also availability of power in the month of June, July, August was not as high as last year. I think there were a lot of great failure/load shedding, that's one. Then cost across a lot of our consumables we use are fossil fuel based, for example, the chemicals we use, the coating facilities to, coating chemicals we have, etcetera, a lot of lot of them are fossil fuel base. So they have also gone up and the tool steel, etc, they have all put pressure on our cost structure.

Abhishek Jain: Sir, next question is from the non-fastener business. So during this quarter, we have seen around INR 25 crores kind of the revenue from the MCU business, which is down quarter-on-quarter basis. So what is the reason of low revenue despite the strong growth in the 2-wheeler electric well, scooters in the second quarter?

Management: So I would like to -- I think let me just I give to you, but I just want to make one statement. The 2-wheeler business has been strong, only in the last couple of months, if you see the registrations. The E2-wheeler registrations were weak for two, three months in the middle for various reasons. So I don't think our numbers have gone down vis-à-vis the industry growth of E2-wheelers. I think -- like I said, our market share has only gone up. And Jaideep, I will give the first part of the question, why is the revenue lower in the second quarter, yes?

Jaideep Wadhwa: I think -- yes, exactly. So I think you have to look at the electric 2-wheeler business as a combination or as -- by the segment, you've got the low speed and the high speed. We have a predominant market share in the high speed and we had two impacts there. We had slightly lower volumes in the high speed and with the new safety norms that the government launched on battery packs, there were delays on most product launches and on the sales of the product. So that really impacted revenues for the high-speed segment in the second quarter.

What you saw being sold a lot of where the sales were coming in was in the lower segment, which is the low-speed scooter and as we've discussed, I think in the past call that you may have been there, is that the value of the MEMs in the low-speed scooters is anywhere between 1/3 and 1/4 the price of our MCUs for the high speed, the ones that we specialized in. So no, I mean, if you look at the value of total MCU sold and you looked at our share, our share did not drop.

Abhishek Jain: So your guidance would be intact for FY '23 of around INR 150 crores kind of the sales from -- for FY '23 from MCU?

Management: Yes. Yes.

Management: Yes, I mean, I think that's a very strong year, yes. I won't say more than that.

Abhishek Jain: And how much current order book in this segment in 2-wheelers and LCVs, sir?

Management: Well in excess of -- well in excess of what we need to get to 150.

Abhishek Jain: Sir, I'm talking about the order books.

Management: Yes, that's what I'm saying. We are covered for FY '23, and we've got very strong coverage for FY '24.

Abhishek Jain: And is there any differences in the realization of MCUs of 2-wheelers and LCVs?

Management: Sorry, could you repeat that, please?

Abhishek Jain: So what is the difference in the price of the 2-wheelers M2 and the LCVs.

Management: So again, it depends on -- again, there's a lot of power ratings, but on a minimum and LCV, MCU would be 6x of 2-wheeler, at least, could be even higher.

Moderator: The next question is from the line of Manish Ostwal from Nirmal Bang Securities.

Manish Ostwal: Most of the questions has already been answered. I have one question. You were talking about the price action because it was...

Moderator: There is a lot of disturbance from your line. I would request you to please rejoin the queue. The next question is from the line of Anmol Grover from Albatross Capital.

Anmol Grover: I have two questions, both are on the EV business. First question is, what is the capacity utilization in EV as of now?

Management: There is fluctuation month-to-month, but we are less than 50% right now...

Anmol Grover: Less than 50% right now.

Anmol Grover: And my second question is, I know you've emphasized it a bit before, but I'm giving it is shot. Can you give a road map on the new products in the EV space?

Management: So I think I addressed a part of this a little earlier to say that look, we are looking at all of the power electronics and other components in the EV segment. As I was looking at my notes and going over, I think the one area that I can share with you is that, we have had initial success on DC-DC converters and auxiliary drives for commercial vehicles. So that's something that we've already entered into and we're able to do and we've had some good success initially. So that's one part of it.

But like I said earlier, that we continue to look for areas in EV space where we can differentiate ourselves through hardware or through a technology that sets us apart from other players. And the number of components in an EV as all of you are aware are limited. So, it's within those that we are investigating optional. We're looking at different options, what the options could be.

Anmol Grover: So can you share anything further on the component right for CV where you had success?

Management: So this is very interesting. I mean I don't want to get into an operational listing, but it's a very interesting application. These are actually being sold for mining trucks. If you think about large commercial vehicles, buses, trucks, etc, these require – they have a bus voltage of 300 volts or 500 volts or whatever the voltage that the architecture is being decided upon. That needs to be stepped down to 48, 24, 12 as the case may be to drive things like the lights, the horns, the music system, things like that.

The things that we currently use, lead acid batteries for these vehicles to power. So that's what the DC-DC does. It takes -- so it's that part of it. And then the auxiliary drivers are that you need -- on these large vehicles, you need air compressors, you need pumps to drive steering motors and so on. And so the units that we have supplied are units that a) converts the power into a lower voltage; & b) they drive these air compressors and pumps so that the systems on a vehicle can be managed.

Moderator: The next question is from the line of Rajesh Jain from NB Investments.

Rajesh Jain: The first few questions are on the EV. You have already mentioned about clear visibility for this segment for the current year as well as for the coming next year. Would you mind sharing what is the quantum of order that we have? And is it possible to share is that how many of these customers are all repeat customers?

Management: I just want to make two broad statements on this before we throw numbers. One, we are single source at all the customers we work with, which also means our business is not -- it's like the traditional fastener business we do. Our orders are not based on, okay, you got an INR 10 crore order, INR 50 crore order, etc. Our business is based on being single source for the customer and whatever volumes they produce, we'll be shipping that volume accordingly. So if I give you a number X, it may not be relevant or I can -- for example, I can say a numbing a fastener business, maybe your order book is currently in the range of INR 1,500 crores. So a similar philosophy we'll apply to the EV business also.

So I think that's one thing to keep in mind. And you had one -- what was the second question again second part of the question again? Because whatever customers we have acquired, they are still in play, they're satisfied. We are growing with them. It's a new business. And I think repeat customers, it's too early to talk about. But having said that, all our customers are satisfied and growing with us. On top of that, we've been acquiring customers, like I mentioned at the beginning of the call, we have had success beyond two wheelers in the last-mile delivery with customers like Switch Mobility, Mahindra and Volvo Eicher. Jaideep over to you in terms of order value. So I can say we are running multi-hundred crores of orders in our EV business, multi-hundred crores. Jaideep?

Jaideep Wadhwa: Yes. No. I mean that kind of covers it. As Atul said, the products, it's not a matter of a repeat order we -- once we get a business award, and I think we've shared in the past that we have 11 business sports areas where the company -- they started supplies. And obviously, there are other customers that we are in -- we are engaging with. Now once we get a business award, as the company's volumes progress, we progress with that, and we can share with you the customer projections, which are very optimistic, but that's what they are. I mean companies that are doing 10,000 units today are talking about 100,000 units next year. But that's the industry.

Now we -- as I pulsed, we are -- because of the fact that our MCU has a huge software component. It ties up with it interfaces with the vehicle control unit. It interfaces with the battery management system and so on. So it's not something that the instrument cluster. So it's not something that you can swap out one day. There's a complete vehicle software rework that needs to go in. So eventually, I guess, customers will have dual sources. I mean that they will require that for business continuity. But as of today, we are a single source. And if you just look at the projections that our customers have for their volume growth, that's the projection that we have.

Rajesh Jain: The second thing I just wanted to know is company is doing a lot of localization for all these new EV product, and you had done some modules already and you had a target to complete some again during the current year and maybe beginning of next financial year. So I just wanted to know when you take those have so much of efforts for that. What is the possible savings for the company by doing the localization?

Management: So you see, first of all, I mean, it's not a VAV exercise. This is a compliance requirement. The government requires us to localize because otherwise, our customers cannot claim into benefits. Okay? So that's the first part of it. The second part of it is compared to a China supply chain, the savings are not huge. We get some savings, but they're not huge. We have to keep in mind that all electronic components, the complete BOM, I mean if you look at what we sell to high-speed scooter customer, I mean that may have 700 electronic components in it. There's nothing made in India. All of that continues to be imported. It's just that the valuation is being done in India. The at the population of the PCB, the manufacturing of the mechanical components, the assembly, the test, all of that, the software customization, that's what we are doing. But as far as electronic BOM goes, that's 100% imported from USA, Europe and China. I mean, the suppliers could be a TI or a Chinese company or from wherever else, but I mean these are all coming in from overseas.

Rajesh Jain: So what you are saying is whatever the major part that is the electronic hardware and all that cannot be localized as of now. And the rest of the mechanical or the software localization, all that has been done by the company. Is that understanding is correct?

Jaideep Wadhwa: That's correct.

Management: So it's if I can add to that, Jaideep, please allow me. If we can add to that. See the current infrastructure or the capabilities in India for making electronic componentry. This not only applies to motor control in what we're trying to do. It could be common PLI scheme for mobile telephony. I think that will have a cascading effect. There's a lot more in France capacity coming in more pure electronic componentry.

And as that happens, we will be able to localize them. Currently, India does not have the capabilities in these sectors in local manufacturing. But they are going online as we speak. And every quarter, every year, you'll find changes in that. And that's the key objective of the government's PLI initiative in the segment because we currently run a very negative import bill on such products. So yes, that's the current status, but it's not a status quo. I think we foresee a tremendous amount of localization happening in that area.

Rajesh Jain: Sir, my next question is regarding the EBITDA margin. It was nice to know that the company has achieved the EBITDA positive for the EV segment. So I know once you pick up more and more value, this margin will keep going up. So what I want to know is, in case if you want to reach around 15% type of margin. So what should be the turnover from this segment to achieve that? And based on the current demand, how many years will it take to reach that?

Management: So I think the EBITDA margin in the motor control in business is not purely dependent on volume. Yes, some volume has an impact on margin structure. It's also a function of the kind of capabilities we add in our engineering room, the kind of products and services we offer to our customers and the design capabilities we have there. And also lastly, if you're able to localize more and more as we go forward, if you are able to have the capabilities in India keep on improving in terms of more electronic components are being manufactured out here. And lastly, I would say it's a function of with the rupee parity vis-a-vis the dollar or the RMB is it's a combination of various things.

But having said what I said, we believe that we can reach double-digit numbers. It's very early in the game to talk about what kind of EBITDA numbers we'll have on a normalized basis. But yes, we see visibility on 10%, give or take, a few percentage points. I think our focus today is to grow revenue profitably and acquired customers, increase market share. That's our objective in the next 12 months. And then we'll probably work harder after that to improve our margin structure. We just need to do a lot more investments today, both in terms of people and capabilities and technology and customer acquisition. But having said that, despite that, we've been the range of 10% currently. And definitely, as we get more mature in a couple of years' time, those numbers will improve.

Management: Atul, if I may add, the -- just to pick up on a couple of key words that Atul used, we are in the investment phase, 40% of our total manpower today is in engineering. That number will increase to over 50% next year. Actually, it will increase to over 50% this year itself by the end of this year. So we are not only being driven -- and I can tell you that engineering resources in this segment are not cheap. And so as we are increasing volumes, it's not that all of the margin drops straight through to the bottom line, which is what would happen in the traditional business. As we are continuing to invest very heavily in engineering, we are using up a lot of that extra margin or the incremental margin to build the capabilities for the future. So please think of this as an investment for the future. Think of this as an engineering business that requires the upfront investment, and that is what we are doing.

Rajesh Jain: That I understood, that it is still a very early stages of business. But I just wanted to know that just the way you're growing in this segment, maybe in the next three to four years, the revenues from EV segment may be same or may overtake our regular business. So just wanted to now by that time, will we have this double-digit type of margins in that?

Management: That's done for endeavor. We want to get -- that's our objective to, but as 2- 3 years out, current, like I said, our focus is on customer acquisition and revenue growth and market share expansion.

Management: And the other thing I'll also tell you is that because of the structure of the business where it's engineering heavy, you -- it's a business that even at lower margins, it's a very high ROCE business. But that's how we've designed it. That's how we look at it. As we look at investment decisions at the board and in the management committees -- we obviously want any investment that we do to add value to, for all shareholders and all stakeholders. And that means that we will deliver comparable results in terms of EBITDA, in terms of ROC, etc.

Rajesh Jain: Sir, a lot has already been discussed about the new product that you want to look in the EV segment. I don't want to repeat the same question, but what I want to know is, whichever the product segment that you would be going or concentrating as of now, do you have the technology for that? Or will it have to be a JV with some MNCs or so?

Management: So I'd say that our strategy that we have developed is that we -- while we are building up engineering capabilities to do this, we believe that in the initial stages, we want to import technologies. We want to have technology partners. We want to be able to bring the best available technology and then to further work on it and customize it and make it more cost effective or whatever else. So the short answer is we are looking for technology partners and we do not plan to launch products initially with our own technology, but to build up our own technology once we've launched the product, understand the market, understand the customer, the Indian use case, etc.

Rajesh Jain: And lastly, on the our regular business, I know the subscription of EVs may take more than 10 years depending on the segment that we are looking at, but the way things are happening, I think the exponential type of growth can be seen in most of the segment. So just a clarity on what is the management thinking about the old business? No, we need sustain some type of revenues every year? Or will it keep going down? What is the company has some type of sort I don't say vision, but what do they think about the fastener business going ahead, maybe after three years or five years?

Management: So we still find a lot of runway for growth in our fastener business. It goes back to a longer discussion we've been having in earlier calls also wherein the penetration of electric vehicles will happen in 2-wheelers and three-wheelers in public transport and last-mile delivery. But for that penetration to pick up, for passenger vehicles and commercial vehicles and the tractor industry in the off-highway.

And our fastener business operates in all the segments. That penetration in those segments is a little way off because of infrastructure issues, technology issues, pricing issues, etc. So there's a lot of, we believe that we still have a run rate of growth beyond three to four, five years. I think it's early days to talk about doing any kind of limitation on that. We still want to grow faster than the industry in that particular segment.

I think we operate that business very well, great customer profile across different segments, across all segments. And we want to strengthen that position we have going forward. It's early days to talk about from our perspective, on what's going to happen to that business and whether we should limit any more capex. And but we'd rather focus on the growth in our fasteners business organically.

At the same time, we are putting in a lot of capabilities. If you see the bulk of the call today is the conversation is more around electric vehicles. We had started that exercise three years ago. We have realized that opportunities will come in this space. We started doing early investments 2, 3, 4 years ago by looking at products, technologies, etcetera, we could we offer customers. So we want to grow both the businesses. And having said that, the EV business segment will grow much faster because it's a new green area for the, as an economy, and we are making headway. We will grow both concurrently. But EV business will grow much faster. So we'll have a larger consolidated revenues as we go forward.

Moderator: The next question is from the line of Sonal Gupta from L&T Mutual Fund.

Sonal Gupta: So just on the EV business. One, I just wanted to understand in terms of localization, road map, where you are. I understand that the, like you mentioned, the things like chipsets will not get localized. But in terms of your overall localization and engineering that road map, I mean, how do you see that over the next couple of years? And then related to that, essentially, I mean, like, because like you said, there are a lot of competitors and a lot, everybody wants a piece of the pie. So I mean, what do you think you can do to sort of -- fortify more in this space?

Management: Atul, you want me to address that?

Management: Yes, please.

Management: So I think, first of all, let's talk about localization. As I mentioned, we are only, first of all, we have a huge portfolio. We go from 1 kilowatt, which is for the low-speed scooter to 200 kilowatt for heavy buses and trucks. And obviously, we can't localize everything. But whenever we start, a customer gives us a program, they award us a program based on a commitment for localization. So we can sell samples, we can send five pieces, 10 pieces, etc.

But when they get into production and they want to be able to avail same to benefits, we need to commit to a localization schedule and that we then adhere to. The localization means all the mechanical components are localized. It means that we do the PCB assembly in India. We do all the software customization in India. We work on the CAN development, which is the, how within a vehicle -- the controlled area network, which is how the different parts of vehicles speak to each other. We do that development in India.

So there's a lot of activity in India. But like Atul just explained with ICs, MOSFETs, even resistors and capacitors in SMP formats are not available in India right now. So there the localization plan in terms of capability, we're, we continue to build up our software and hardware capabilities in India to be able to do modifications, nearly every customer requires some level of modification. I mean there's a lot of software modification that takes place, which is even if a customer says lmph home, which is a feature that many companies offer, every customer has a different meaning of limp home.

Some means that you can ride the scooter home, some means you can walk along with the scooter. Some kick-in 20% of battery capacity less some kicking at 10% of battery capacity. Whatever, I mean, I'm just throwing out numbers. So all of that is done by us. And as we mentioned, we continue to develop our capability to do our own designs in the future to be able to meet the requirements that our partners may not be able to meet, which made more India-specific or whatever else. So there is a plan to be very self-sufficient in both technology and capabilities within the limitations of what is available in the ecosystem in India in terms of components.

I hope that addresses the localization question. As far as competition, yes, there is competition. But I'd like to always mention one thing that the interesting thing about a new industry is that everyone is new, right? Maybe some of our competitors have 100 years of experience in the auto industry. But guess what? They have 3 years of experience in EVs for 4 years of experience in EVs. Our partners have 10 years of experience in EVs. We have 3 years of experience EV. So I mean we don't get overall by some of our competitors, though they have incredible linage as it may be.

Also, Atul mentioned in the beginning that we are at about 50% market share in the high-speed scooter segment. We are at about 30% market share overall in the scooter segment. Now we're not going to be able to maintain those numbers. That's for sure. our market shares will drop. But look what's happening to the market. If the Indian 2-wheeler market, and I'm just let's just talk to whether that's not one getting to 3-wheelers and LCVs and new products and all of that. If you just look at the 2-wheeler market and you assume that the 2-wheeler market goes up to 25 million in, say, three years, which I think is a fairly reasonable assumption.

Even a 20% penetration, which I think is not which is not outlandish at all considering how things are going right now is a 5 million piece market, 5 million EV market in India. Look at the numbers today, it's not outlandish at all. even if we can get 10% of that market share, 15% of that market, should be talking 500,000, 750,000 units, 500,000 units is basically INR 500 crores on numbers. 750,000 units is INR 750 crores.

So the potential is there. I mean it's about, yes, we've got to compete, yes, we got to do a good job, but that's what we are here for. So the competition will come. Yes, we will lose market share. That's a part of the evolution of the industry. But I think that our first mover advantage is huge. The investments that we are making put us into a very strong position and the market -- the overall macro trends are very positive.

Management: If I can add to that Jaideep, Yes, the competition we are getting a lot of wins in terms of customer acquisition, where we are currently single source. That also means that we are also not getting some wins in some customers. As the industry evolves and as there is second sourcing, so we'll have opportunities coming from those customers where we haven't got success today. So all that will open new doors for us. We'll have a lot more experience. But the biggest takeaway like Jaideep said, is we have the first-mover advantage. We were out there the first in the market. We understood the market better.

We have made the investments required to do that. And more importantly, we are making huge investments in our engineering capabilities, which is both substantially people and testing and validation facilities. I think that gives us a lot of old advantage in terms of -- I think we are a little ahead of competition where we are and that also enables us to offer certain products and services and pricing where our competition may be struggling right now. So we believe that we have a tremendous amount of growth coming up way in multiples of top line growth.

Moderator: The next question is from the line of Manish Ostwal from Nirmal Bang Securities.

Manish Ostwal: Yes, Sir, I have a question on the fastener business. So in terms of price action, we have done completely and the reflection of that thing in profitability fully reflect in the profitability or the quarter 3 will see further impact?

Management: Can you repeat that question? I didn't understand that, any...

Manish Ostwal: I'm saying, sir, in fasteners business, we have taken certain price action, right? So the impact of that in the profitability has been completely reflected in this quarter or quarter 3 will have some impact on?

Management: There's always a certain lag. We have taken whatever we'll be able to conclude with customers. So I think there is still some benefits yet to be translated to the numbers you have seen.

Manish Ostwal: The second point has recently launched the electric 2-wheeler in Jaipur. So any conversation anything where we can supply something on that best time?

Management: Jaideep, you want to take that?

Management: Sorry, I couldn't understand that. Could you repeat that, please?

Manish Ostwal: Sir, recently, Hero MotoCorp launched -- let's take 2-wheelers in Jaipur. So they plan to increase the volume over the period of time. So any business we can expect from that or how things -- what is your position on that?

Management: So Hero MotoCorp is not a part of our customer list right now, but obviously, we are in discussion with them to be a source for future models or a supplier for future models. Future models and inventory second sourcing also.

Moderator: The next question is from the line of Rajat Setiya from ithought PMS.

Rajat Setiya Sir, what would be our current market share in the fastener segment?

Management: So we play in one segment of fasteners industry only. Just to give you just stepping back for a moment, we are segments are industrial fasteners, automotive fasteners. And we are just working in the automotive fasteners segment with automotive applications across passenger vehicles, 2-wheelers, commercial vehicles, farm equipment, off-road, etcetera. We believe in that fastener segment, on the automotive space, our market share is close to about 30%.

Rajat Setiya: And sir, we mentioned that we will target to grow faster than the industry. So in this segment. So is it like we are launching new products, so there is still some scope left to garner market share. How will that happen?

Management: There is still scope to garner market share on the back of our product and engineering capabilities and capacity availabilities. And I made that statement keeping in mind the pipeline of new product development and programs we are currently finalizing and negotiating with customers across the board.

Rajat Setiya: All right. And sir, the next question is on the growth outlook that we are giving for this segment. So is it like we get advanced schedules from the clients that we have the visibility for the next year as well?

Management: See, I think when this ties into the question where we were asked as to what's the order value like order book like we have -- our order book in our fastener business. I can't -- I would say, close to INR 2,000 crores because let's say customers like Maruti or Tata or Mahindra Honda, etc. They give us purchase orders which are open in value. This means they're all dependent on the kind of production levels would have that for that -- for a particular model for that month. And we have -- we know what's our share of business for that product range, for that model range. And based on that, we are able -- we plan our production, our supply systems, etc.

So next year is too far out to talk about, but we have visibility for the next couple of months. If the market changes dramatically, if the numbers ramp up, suddenly, there's a huge uptick in the 2-wheeler consumption. Customers are buying 2-wheelers off the shelves. All these customers will ramp up their production volumes and automatically where you're able to grow at the same time. So principally, our endeavor is to meet customers' needs as per the production, but at the same time, grow faster through increasing our share of business and developing more products as we go forward.

Rajat Setiya: So Sir, is this also possible to replace an existing supplier in any of the products that we operate in or that's nearly impossible?

Management: No, that's an on-going procedure. That's an ongoing process. But it takes -- it's not easy to dislodge a competitive player completely, it takes months and years or when we do that. But we work -- at each customer like Maruti, we will do close to 200 SKUs. We try and focus on a particular set of SKUs to increase our share of business or add more SKUs. So taking our entire competition out, it's a very difficult thing to do. And that's not our endeavour either. Our endeavour is to more grow faster than the industry, increase our share of business incrementally and add new products in the portfolio incrementally. We don't look at radical solutions to grow our business by adding a large sum of value of business because then you become -- and the customer pushes you on pricing. So we are also margin sensitive. So we want to grow a healthy basis, grow our revenue on a healthy basis with sustainable margin structures, not bump up revenue for the sake of revenue itself.

Rajat Setiya: Sure. And Sir, in the fasteners segment, 30% of our fasteners are engine-related fasteners. Is that understanding correct?

Management: No, I would say 30% to 40% would be in the range of engine transmission. Those are the two critical categories of components being used in automotive industry. And you have chassis in other standard parts coming. So criticality is more in engines and transmission.

Rajat Setiya: And sir, just one last question on the EV side. So right now, we also have products for CV. Earlier, we were making products for 2-wheelers. Now we have -- we have also CV, right?

Management: No, [Technical Difficulty] 40 years. We'll be working with commercial mix. Are you talking on a faster perspective, EV perspective?

Rajat Setiya: EV segment.

Management: Jaideep, you want to take that?

Jaideep Wadhwa: Yes. So like I said a little while earlier, our partners have a complete product portfolio. Earlier, we had only localized and we were only promoting the ones in the two and three-wheeler segment. Now we have got business promoting in the Commercial Vehicle segment also, and we are now starting the localization work. So yes, this is a new development where [inaudible] essentially, mostly the light commercial vehicle segment, which is very exciting for electrification.

Rajat Setiya: And we will be launching in the PV side as well? I mean we'll be looking to add that also in the near future?

Jaideep Wadhwa: Right now, we don't have a plan on that. It's something, it's one of those future opportunities we look at, but it's not a part of our current focus.

Rajat Setiya: And the reason for that would be a smaller market size right now or something else?

Jaideep Wadhwa: I mean they are a smaller market size, there's a dynamic. I mean, if you look at the Indian auto space, PV, you've got you-- this market is dominated by Maruti, Hyundai & Kia. These companies do have a preference for suppliers from Japan and Korea. So while we've had engagement with them, we recognize that the development is going to be done in China, in Japan or in Korea. And at least for the first few years, they will really lie on their suppliers from their own, from their family companies or group companies. As far as the Indian players go, Tata Motors. Tata Motors have their own subsidiary, which has a motor control unit platform.

Mahindra, we are in touch with, but that's a fairly small part of their business. So I think it's more to do with the market dynamics and the constituents of the market than anything else.

Management: If I can add to that, Jaideep, if you look at the Japan then -- we need to break the PV industry into two segments, Japanese and non-Japanese. I think the Japanese between Suzuki, Honda, Toyota, Nissan, etc, put together they probably have a market share close to 60% to 65%. And I think the Japanese are going, if you see the product launches also during the hybrid route. They are not following a full battery electric vehicle route. I think that's the route they want to follow, and that's what they're doing internationally also. It's only the Koreans or the Chinese are launching a full battery electric vehicle.

So passenger vehicle segment is a lot more complex because the use case is very complex. It's not a simple segment to look into. It needs a lot of work at the customers have a lot of work, the infrastructure has to do, work and do a lot of work. And more importantly, the government pricing -- government policies have to change to make passenger vehicles are more price competitive or viable for the consumer to use them. So having said that, I think full electric vehicles in the passenger vehicle space, with the trends we see right now are still four years off, you'll have successes coming in small numbers from Kia, Hyundai or BYD or MG. But the dominant players are going hybrid route.

We are working on products for these customers as well. They are under development right now. But in an early stage. I think we still have time to go out of the market to do that. But we have so much in our kitty right now in terms of the segments we are addressing, which is the E2-wheeler, three-wheelers, last-mile delivery, public transport, commercial vehicles. We want to capitalize on the opportunities in the short term and keep an eye as to what's happening on the passenger vehicle side.

Moderator: Thank you. As there are no further questions, I would now like to hand the conference over to the management for closing comments.

Management: Thank you, once again, everybody, thank you for your time. I think we have started this investor call initiative this financial year itself. We hope to be communicating more and more with you in the coming months and years. And hopefully, we'll be able to share with you good news each time we speak, but I can only reinforce saying that we are on a good wicket. Both our fastener business is doing very well, as you've seen.

But I think more importantly, our electric vehicle initiative is extremely well. It's given us a platform, not only to grow with the product we have, but also look at another product as we go forward. And we believe in the next two years, three years, our revenues from that segment will be very large enough, very large, maybe over time, coming very close to our fastener business. So we have exciting times coming in, and we look forward to your support. And if you have any questions, you please feel free to reach out to me or Pankaj or Jaideep any point of time. Thank you.

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