STERLING TOOLS LIMITED
CIN : L29222DL1979PLC009668

WORKS : 5-A DLF Industrial Estate
Faridabad - 121 003 Haryana India
Tel : 91-129-227 0621 to 25/225 5551 to 53
Fax : 91-129-227 7359
E-mail : sterling@stlfasteners.com
website : stlfasteners.com

By NEAPS	**By Listing Centre**
National Stock Exchange of India Limited "Exchange Plaza", Bandra–Kurla Complex, Bandra (E) Mumbai-400051	General Manager **BSE Limited** 1st Floor, P. J. Towers Dalal Street Mumbai – 400001
Security Code No.: STERTOOLS	**Security Code No.: 530759**

Date: 17th May 2024

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 for the Fourth Quarter and financial Year ended 31st March 2024 was held on 13th May 2024 at 11:30 a.m.

Following Management Attendees attended on behalf of the Company: -

1. Mr. Atul Aggarwal- Managing Director
2. Mr. Jaideep Wadhwa- Director
3. Mr. Anish Agarwal- Director
4. Mr. Pankaj Gupta- Group CFO

We further Confirmed that no unpublished price sensitive information was shared/discussed in the meeting / call.

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

This is for your information and records.

Sincerely,

For **Sterling Tools Limited**

NEW DELHI
STERLING TOOLS LIMITED

ABHISHEK CHAWLA

Digitally signed by ABHISHEK CHAWLA
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cn=ABHISHEK CHAWLA
Date: 2024.05.17 17:08:33 +05'30'

Abhishek Chawla
Company Secretary & Compliance Officer
M. No. A34399

Encl: As above

REGD. OFFICE : 515, DLF Tower-A,
Jasola District Centre, New Delhi - 110025
Email :csec@stlfasteners.com

"Sterling Tools Limited
Q4 FY '24 Earnings Conference Call"
May 13, 2024

Disclaimer: E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on 13th May 2024 will prevail.

MANAGEMENT: **MR. ATUL AGGARWAL – MANAGING DIRECTOR**
MR. PANKAJ GUPTA –GROUP CHIEF FINANCIAL OFFICER
MR. JAIDEEP WADHWA – DIRECTOR
MR. ANISH AGARWAL - DIRECTOR

Moderator: Ladies and gentlemen, good day, and welcome to Sterling Tools Limited Q4 and FY '24 Earnings Conference Call. This conference call may contain forward-looking statements about the company which are based on the beliefs, opinions, and expectations of the company as on date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict.

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 this conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Pankaj Gupta, Group CFO. Thank you, and over to you, sir.

Pankaj Gupta: Thank you. Good morning, everyone. Thanks for joining this morning. On behalf of STL Group, I extend a warm welcome to our Quarter 4 FY '24 earnings call. I'm joined on this call by Mr. Atul Aggarwal, our Managing Director; Mr. Jaideep Wadhwa, Director; Mr. Anish Agarwal, Director; and SGA, our Investor Relations advisors. We have uploaded our results presentation on the exchanges, and I hope everyone had a chance to go through the same. I will now request Mr. Atul Aggarwal for his opening remarks.

Atul Aggarwal: Thank you, Pankaj. Good morning to everybody. I welcome you all for Q4 and FY '24 earnings call. Let me start with a brief overview of the industry. The Indian automobile industry demonstrated resilience and recorded a satisfactory performance in FY '24 amidst the backdrop of robust economic growth. According to CM, the industry showcase a growth of 12.5% in domestic sales compared to the previous fiscal year.

The passenger vehicle segment led this growth trajectory. With overall sales touching nearly 5 million units, including INR4.2 million in the domestic market. During the year gone by, we have reported top line of INR613 crores at a standalone level while our 100% owned subsidiary Sterling Gtake E-Mobility which is the largest motor control unit manufacturer in India reported remarkable performance.

The revenue generated by SGEM grew from INR174 crores in FY '23 to INR323 crores in FY '24, a substantial increase of 86%. SGEM now accounts for 35% of our consolidated revenue up from 23% in FY '23. Furthermore, we are excited to announce that Sterling Tools has entered into an MOU with South Korea's Yongin Electronics to establish and EV components facility in India. The strategic partnership is anticipated to generate business of around INR200 crores per annum in the next 5 years. This venture marks a significant stride towards advancing the production of electronic components in the country.

Against this backdrop the Board has approved investments in two companies namely Sterling E-Mobility Private Limited and Sterling Tech Mobility Limited transforming them into wholly owned subsidiaries of Sterling Tools Limited. We have announced segregation of Chairman and Managing Director roles in order to provide greater focus for two electric vehicles and other green city verticals.

In line with our succession strategy, we have also initiated role transitions elevating members of the next generation to assume expanded roles and responsibilities within the company. We are optimistic about the future of our company and our industry. We believe that our focus on innovation, customer service and operational excellence will continue to drive growth and profitability in FY '25. I request Pankaj to give brief insights on the financial performance.

Pankaj Gupta: Thank you, sir. I will now give the financial highlights of quarter 4 and FY '24. We'll start with standalone numbers. Total income for quarter 4 FY '24, witnessed a growth of 5.2% year-over-year and 17% quarter-over-quarter and it stood at INR167 crores whereas for FY '24, total income increased to INR614 crores. EBITDA for the quarter stood at INR25.6 crores which is a growth of 21.3% year-over-year and 20% quarter-over-quarter.

EBITDA for FY '24 stood at INR90.6 crores. EBITDA margin has improved from 13.3% in quarter 4 FY '23 to 15.3% in Quarter 4 FY '24 and overall year EBITDA stood at 14.8%. Profit before tax before exceptional items witnessed a growth of 41% year-on-year 37.6% quarter-over-quarter and stood at INR16.1 crores in quarter 4 by '24.

For FY '24, profit before tax before exceptional items was INR52 crores. Profit after tax came in at INR12 crores in quarter 4 a rise of 126% year-over-year from INR5 crores in the corresponding period last year. For FY '24, profit after tax stood at INR39 crores compared to INR41 crores in FY '23, and exceptional item was INR3.4 crores in FY '23.

Coming to the consolidated financials. Total income of -- at the consolidated level increase to INR270 crores in quarter 4 FY '24 compared to INR212 crores in quarter 4 FY '23. This is a growth of 27% year-over-year. For full FY '24 we have reported a growth of 21% reaching to a turnover of INR938 crores compared to INR775 crores in FY '23.

At quarter 4 FY '24, adjusted EBITDA stood at INR33.8 crores versus INR23.4 crores in quarter 4 FY '23, a growth of 44%. For FY '24, we have registered 15.8% growth year-over-year to INR116 crores versus INR100 crores in FY '23. The adjustment is on account of ESOP expenses worth INR2 crores. Adjusted EBITDA margin stood at 12.5% for quarter 4 FY '24 compared to 11% in the similar quarter last year. For FY '24, adjusted EBITDA margin stood at 12.4%. Profit before tax, before exceptional items increased by 60% year-over-year and stood at INR21 crores in quarter 4 FY '24 compared to INR13 crores in quarter 4 FY '23.

For FY '24, we have witnessed 20% year-over-year growth to INR71.8 crores versus INR60 crores in FY '23. Profit after tax for the quarter increased to INR16.3 crores compared to INR7.8 crores in quarter 4 FY '23. For FY '24, we reported profit after tax of INR55.4 crores versus INR47.9 crores in FY '23. Please note that there was an exceptional item of INR3.4 crores in FY '23. Thank you, everyone. We may now begin with question-and-answer session.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Deepan Sankara Narayanan from Trustline PMS. Please go ahead.

Deepan Narayanan: Good morning, everyone, and thanks a lot for the opportunity and congratulations for a strong set of numbers. So firstly, from my side, so what is the kind of investment we are planning for this new MOU? And what kind of margin profile these products can reach at full utilization?

Atul Aggarwal: Anish, will you take that? Are you there?

Anish Agarwal: I think the kind of investment we're looking at is of the magnitude of INR20 crores, INR25 crores in the first phase.

Jaideep Wadhwa: I'd just like to clarify that's the plant and equipment, not including land and building.

Anish Agarwal: Correct. Yes. So without land and building just plant and equipment and machinery, that's around INR20 crores, INR25 crores in sales now. With regards to the margin profile, we're still doing our feasibility studies by talking to various customers. And once we have completed that, we'll get a better picture of what kind of margin structures this business will entail here in India.

Deepan Narayanan: And this MOU should this help us in achieving new clients for MCU products in the PV space. As well as do we have any scope for potential future addition or expansion of new products from this MOU?

Anish Agarwal: Yes. So this SKU is not in the MCU space per se. It's a different product, product category called magnetic. It will only add to our kitty of EV components and subcomponents. It will definitely increase our tech price and our value with various customers, both OEMs and Tier 1s.

Deepan Narayanan: Okay. On the EV business overall, so we initially targeted 8% to 10% kind of EBITDA margins. Full year, we are around 7%. But for the past 2 quarters, we are around 5% to 5.5% only. So what are the challenges we are facing in maintaining this run rate and when we can expect this to reach 8% to 10% level?

Jaideep Wadhwa: So I'll take that question. I think the number that we talked about for the last quarter are really adjusted EBITDA numbers. And this is due to ESOP costs that got loaded at an operating level, there is no degradation in the margins. We will definitely see an improvement in margins in the coming year, and we continue to make progress towards our stated goal of 10% to 12% EBITDA margins in this business in a steady state.

Deepan Narayanan: Okay. And also on the MCU side, what is the visibility and capacity expansion side, since our revenue run rate already crossed INR400 crores on a Q4 basis. And also, what is the plan on fastener side, that's also around 80% kind of utilization.

Jaideep Wadhwa: So I'll answer the question on the motor control units and then request Atul, to address the question on fastener. So we have been able to ramp up volumes to meet our customer environment. So as of today, we are consistently producing more than 2,000 units a day. This is not -- but that takes us to about 600,000-unit capacity for the full year.

And we actually hope to be able to debottleneck and improve process flows further to be able to optimize output. So the expansion is largely in place, but there is still some, I would say, finishing touches that need to be executed on that plan.

Atul Aggarwal: Let me take it up for the fastener business. As you've seen, we had a very muted growth in our fastener business, we're probably up only 2% in our revenue numbers in FY '24 with '23. I think we are -- so we see with the capacities we have in place, including our Bangalore facility and some maintenance capex and capacity enhancements happening to balance of the equipment we don't need substantial capex in the fastener verticals.

Having said that in earlier calls as well, I think we can reach a revenue of between INR750 crores to INR800 crores with the capacities and the maintenance capex coming through at Bangalore plant. So in the short term, we don't see any huge capex needs or any capacity issues. We just need to ramp up Bangalore and balance that plant. So I hope that answers your question.

Deepan Narayanan: Yes. And lastly, from my side, in the press release, you have mentioned that the change of roles to provide greater focus on electric vehicles and other green technology verticals. Can you please throw more light on this facilities?

Atul Aggarwal: What we -- as you have seen, our EV component of our business was 23% of our revenue, of our consolidated revenue in FY '23 has gone up to 35%. We're going to put -- our intention is to strengthen our fastener business going forward. We want to strengthen our fastener business, keeping in mind our margin expectations we have for ourselves.

And we want to focus on high-value parts only. We want to put a lot more capital, both in terms of financial resources and human capital into our new initiatives in EV ecosystem and new energy systems and green energy system. So that's our focus. And I think if you see post our SGEM success. We are -- we have announced our first thing in magnetics with the Korean company.

There are some other projects in the pipeline. We are doing some market studies technology identifications. And hopefully, in the next 6 to 12 months, we'll probably get more visibility into specific products and technologies we are focusing on. So broadly, capital allocation and human resource allocation will substantially go into new businesses in the areas I mentioned.

Moderator: Thank you. The next question is from the line of Mumuksh Mandlesha from Anand Rathi Institutional Equities. Please go ahead.

Mumuksh Mandlesha: Thank you so much for opportunity and congratulations on the new partnership. So firstly, on this new partnership, can you help understand in more on the product side? What is it magnetic basically used for and what are the application areas in autos and non-autos. And what kind of content is there in the sector, sir?

Jaideep Wadhwa: Anish, are you able to address that? You want me to do it if you are not up to it.

Anish Agarwal: No, I'll do it. So magnetics is essentially components like transformers, common mode chokes, EMI filters, inductors. So basically, wherever you are transforming current either you're reducing the voltage from a higher voltage to a lower voltage when you're reusing a transformer. So these are components which are used in automotive as well as non-automotive industries.

Our partnership will predominantly be for the automotive space to begin and specifically in the EV space for components like chargers, both onboard and off-board chargers, battery management systems. So these are the building blocks which form these subcomponents that go inside an electric vehicle, I mean with regards to pack price, we're still doing our study, and we won't be in a position to comment on the pack price per store vehicle in this components.

Mumuksh Mandlesha: And just to understand, how would be the localization scenario for this kind of product in India? Were you one of the first in this space?

Anish Agarwal: So some company -- there are very small companies which are doing trading in this business. Some companies are manufacturing also, but at a very small scale because the core raw materials here in India are not available, just like in MCU, semiconductors, et cetera, are not really localized in India.

There are certain components in these magnetics which are not available in India, for which we will have to depend from overseas suppliers to get to the certain products.

Mumuksh Mandlesha: Okay. Sir, how would be the partnership between the Yongin and us would be JV formation or it would be a technology?

Anish Agarwal: Yes. So it will be a JV structure post our feasibility studies are completed, yes.

Mumuksh Mandlesha: And since we are talking about the INR20 crores investment, any timeline by which the plant will be ready?

Anish Agarwal: I think it will be 2025 calendar year sometime there, sometime towards the second half of 2025.

Mumuksh Mandlesha: And sir, since Yongin is -- have a very strong base with Korean customers. Do we have any sense of order visibility from them?

Anish Agarwal: Yes. So I think the anchor customer for them is the Korean OEM. And we have some visibility on the orders for the Korean, we are taking off from 2025 second half and they're still the latter half of this decade. On top of the Korean OEMs, we are trying to add new customers, which would be the Indian OEMs, the Indian Tier 1s, their MNC is present in India.

Mumuksh Mandlesha: So then you mentioned about INR200 crores potential, basically that kind of order visibility we have for the Korean customers.

Anish Agarwal: No. So that's factoring in not just the Korean ecosystem, but also the market sizing we have done from the Indian OEMs.

Mumuksh Mandlesha: And sir, lastly, on the fastener side, this year, the growth has been lower than the industry growth versus underlying industry growth. Any reason for the slight underperformance versus the industry?

Atul Aggarwal: So if you look at our customer portfolio, and you look at the automotive industry, bulk of the growth in the automobile industry has come in from passenger vehicle segment. If you look at the segments of commercial vehicles have been flat or probably slightly negative. Farm equipment has been negative.

Second, which was a 2-wheeler segment. I think that 2-wheeler segment is roughly up 7%, 8% in volume itself. We have done in both segments of passenger vehicles and 2-wheelers, we are able to give market leaders like Maruti Suzuki primarily and Mahindra automotive division. We have signed some business now last year with Hyundai, but that to get any material revenue will probably be more like calendar year FY '25 or a financial year FY '26.

And same thing in our 2-wheeler business where bulk of our revenue in our 2-wheeler business comes from HMSI and we added Hero MotoCorp as a customer again about 18 months ago which is bearing good results. And we are finding growth in that.

So I think it's a question of customer portfolio profile. We need to strengthen that in PV and the 2-wheeler segment, which is what we are working on. On the CV side, we work with all the customers in India. And there has been, like I said, CV segment did not really grow. We had a lot of business we did with Mahindra tractor division and John Deere.

John Deere is roughly 30% negative in revenue and Mahindra itself is about more than 11% negative in volumes as well. So it's a combination of things. Some aspects where our customer portfolio needs some strengthening, at the same time, weakening in some of the customer segments in FY '24.

Mumuksh Mandlesha: Okay, sir. Just on the -- based on the -- across the segment diversification, how are you seeing the outlook for next year by the OEMs, what kind of growth you are talking also?

Atul Aggarwal: So our sense is Two-wheelers should again have a healthy growth this year. I think it'll probably surpass the peak number of financial years '18, '19, where the industry saw all time high numbers. We expect 2-wheelers to be strong this year, and we also expect passenger vehicles to be strong again this year, riding on that SUV growth in India.

So I think these two segments will continue to grow vis-a-vis tractors, farm equipment and commercial vehicles. Our sense is not going to be -- it won't be a strong year either. It will be very much on lines of last year. Farm equipment may not degrow to the extent of 10%. It will be flat or marginally negative. Commercial vehicles will again be range bound within flat or within a couple of percent, plus or minus.

Mumuksh Mandlesha: And how growth should be outperforming the industry?

Atul Aggarwal: Well, like I said, we have said we are addressing a couple of portfolio issues. Overall growth, yes, we'll be in line with industry within that. If you add up all the industry out -- all the segments, put together. But we may lag something in passenger vehicle side because we only work with Maruti, like I said, substantially.

And our 2-wheeler side, where we substantially work at HMSI. So those two segments will grow much faster in the total volume industry. And we will grow, but I think our overall numbers will be very much within industry growth numbers on a gross basis.

Mumuksh Mandlesha: Thank you so much for opportunity.

Moderator: Thank you. The next question is from of line of Apurva from Buglerock. Please go ahead.

Apurva: Thank you for the opportunity. Just wanted a couple of questions. Can you help with the volume growth in the fastener segment and also segment-wise if you can for FY'24?

Atul Aggarwal: So I think -- like I said we have -- our growth has been marginal this year 1% or 2%. Our volume growth is also similar. So what you see in value growth and volume growth is very similar lines. There were raw materials have stabilized. So the factoring in of steel movement is not there. So volume and value growth are pretty much on similar lines.

Apurva: So broadly similar. Okay. And segment-wise if you can just share some numbers in terms of volume growth for FY '24?

Atul Aggarwal: So I think in 2-wheelers, we were up 7%.

Apurva: You said volumes growth for FY '24?

Atul Aggarwal: ~~In 2-wheelers, we are up 7% in FY '24 over FY '23. In passenger vehicles, we were negative 10% over in FY -- sorry, I'm making the wrong number~~. Sorry. Yes, once again, let me go from the beginning. In passenger vehicles, we are up 7% in revenue. In 2-wheelers, we are up 21% in revenue over FY '23.

Apurva: Sir, just sorry to interrupt just wanted volume growth?

Atul Aggarwal: So similar. Like I said, there has been no price increase impact on these values. Very similar with rebound or maybe 1% plus minus.

Apurva: Okay. So you can please carry on then, 7% in PV, right?

Atul Aggarwal: 7% in PV, 21% in 2-wheelers. In commercial vehicles, we were negative 11% and farm equipment we were negative 17%.

Apurva: Also if we -- what are you doing sort of to increase our market share further in the fastener segment side, what's some of the steps you've taken here?

Atul Aggarwal: I think keeping in mind our strengths and keeping in mind our customer profile, we want to focus on growth where we want to focus on healthy growth, growing beyond, growing at a very fast step will make us for some -- take some commercial decisions on pricing, which we are very averse to. So we want to focus healthily.

We want to focus on our margin structures which we have. And we're -- keeping that all that in mind, we'll probably be growing at the rate of industry growth, say, 10%, 12% a year on an average.

Apurva: Okay. So right now, market share would stabilize around from current levels because...

Atul Aggarwal: Correct. I think, yes.

Apurva: Okay. And one last question from my side. So in a way, you've addressed Yongin has Korean OEMs as anchor customers. So there is visibility over there. So will we be supplying these components to like Hyundai and Kia. the bigger ones out there? And any royalty that will be paid to Yongin just in a -- just trying to understand here.

Atul Aggarwal: Anish?

Anish Agarwal: Yes. So we will be looking to supply not only to the Korean OEMs in India, but also the Indian OEMs whether Tata, Mahindra, would be other Japanese OEM also in the future and their Tier 1 supply chain also. That's what we intend to do. What was your second question again?

Apurva: Sir, so Yongin, I mean, any royalty for this?

Anish Agarwal: Yes. So there should be a JV agreement, it will not be a technical licensing agreement with equity from both partners.

Apurva: Okay. So there's nothing on that side then?

Anish Agarwal: Yes.

Moderator: Thank you. The next question is from Ayush Agarwal from MAPL Value Investing Fund. Please go ahead.

Ayush Agarwal: So sir, my first question is on the MCU business, if you can give us the volume numbers for FY '24?

Jaideep Wadhwa: So about nearly 400,000 units for the year.

Ayush Agarwal: Sir, continuing on this question, I was checking the EV 2-wheeler number for FY '24, and we have grown around like on a pan India basis around 25%, 38%, while our MCU business has grown more than 80%. So if you can help us understand how we have been able to gain such a high market share and what led to this?

Jaideep Wadhwa: So a part of it is the fact that the customers that we have been nominated by are the ones that have the highest market share. So as our customers have grown, we have grown with them. And even in the newer markets of 3-wheeler and LCV, we have a strong presence through the nominations or the volumes there are not as significant. So that's the key driver for volumes for us.

Ayush Agarwal: And on the top 3 2-wheeler customers that we have, what will be our wallet share roughly?

Jaideep Wadhwa: - On the 2-wheeler side, you said, right?

Ayush Agarwal: Yes. EV 2-wheelers side for the MCU business.

Jaideep Wadhwa: So the wallet share on EV 2-wheelers is about 8% to 10% or 8% to 12% on average. And then when you get into 3-wheelers, it becomes lower and when you get into light commercial vehicles or heavy commercial vehicles, then it goes lower still. So the highest number is for the EV 2-wheelers, and it is 8% to 12%.

Ayush Agarwal: I'm not asking you the margins, but like our market share with our customers for the MCU business?

Jaideep Wadhwa: That's what I'm saying. I'm talking -- you ask me what is the share of wallet. That was your question. So what I am saying is that if a vehicle is being sold for a lakh of rupees...

Ayush Agarwal: I get your answer. But for my question is that is if customers are buying 100 MCU, how much are we supplying to them our top 2 customers?

Jaideep Wadhwa: As of today, all of our customers we are 100% single source. Across -- so for a given model, I mean, and I'm talking not about one specific customer, I'm talking all of our customers across all product categories and across all segments of the market. As of today, everyone that we're selling to for that model, we are the single source.

Ayush Agarwal: Sir, second question on the MCU business is -- what are our gross margins for this business, like along the EBITDA margins which you want to target, but what are the gross margins?

Jaideep Wadhwa: I think we've discussed this in the past. We averaged about 30% gross margin.

Ayush Agarwal: Okay. Sir, my final question is on the fastener business, I'm new to the company, so pardon my ignorance. But when I look at our capex investments in the stand-alone entity, which is the fastener business, we have invested about INR450-odd crores in the last 6 years. There would be, of course, some maintenance capex.

And yet incrementally in FY '18, we did a INR90 crores EBITDA on a standalone basis. And last year, we did INR85 crores EBITDA. So incrementally, whatever you have invested has not yielded us anything yet. So what are your thoughts to, one, growth in business and two, go back to a margin level that where our ROCE justifies the investments that we have made in the past.

Atul Aggarwal: Good question. So I think it all boils down to revenue growth. We have done substantial investments in the last few years in setting up a new facility in Bangalore, and I think when you set up a Greenfield facility, there's a lot of infrastructure you need to build from scratch, which takes a lot more capital and time to do it. Yes, there's a lot of capital behind this in the last few years and we have to optimize that capital investment into revenue, which we'll see in the next couple of years coming through. And automatically when that revenue kicks in, it will help our ROCE numbers as well.

You're right in every way that we need to optimize growth in our fastener business, which is what we are trying to work on right now. And we expect to see growth this year as well as next year, which will change our cost structures, our margin structures and return on capital.

On the last point, you touched about margin structure, I think our margin structures are hovering around 15%, give or take a few. And I think we keep talking about numerator-denominator effect over the last few years. Our basic cost structures, what we had in the last 4, 5 years are on very controlled lines.

The margins have substantially shown a decrease mathematically on account of steel price increase, which we have got from our customers, but we have not been able to get any price increase on account of value addition or conversions we do on top of the raw materials. So it's a simple mathematic calculation. I'll request Pankaj, the CFO, to reach out to you and explain that in more detail on a one-to-one basis.

Ayush Agarwal: That was a helpful answer. So I hope you achieved that growth and our targets services, then our numbers will start showing up very well. Sir, final question is on -- in the fastener business itself. You gave us a growth in each of the segments, if you can also give us a split of these segments of how much was 2-wheeler and passenger vehicle, commercial vehicle, and farm in the fastener business?

Atul Aggarwal: I didn't get your question. You want to repeat that question? You were slightly muffled.

Ayush Agarwal: Sure. So in the fastener business, if you can give us the split between the different passenger vehicle, segments, 2-wheeler, and commercial vehicle segment of our fastener business?

Atul Aggarwal: Revenue-wise. Pankaj, you want to say that?

Pankaj Gupta: Yes. Passenger vehicle for FY '24 was 27% of the total, 2-wheelers 24%, commercial vehicles 22%, farm 13%, the retail and aftermarkets 12% and 2% export. That's from revenue.

Moderator: Thank you. The next question is from the line of Sonal Gupta from HSBC Asset Management, India. Please go ahead.

Sonal Gupta: So just wanted to understand what's the outlook for the -- I mean, like the EV business for next year? I mean, like given that you are -- you've seen a substantial growth this year, how do you see on this base next year panning out?

Jaideep Wadhwa: Good morning, good afternoon. I think we -- so I think maybe I can start by talking about the EV industry as a whole first. Despite the challenges that we have and the changes in government policy and regulations have thrown up a lot of challenges for this industry. But regardless of that, we still hope to see about 30% market, 30% growth in this industry in the coming year. Having said that, I will say that April numbers are very muted for the industry as a whole. But one is hopeful that things will correct and being privy to some of the strategies that our customers are deploying to try and circumvent some of the regulatory challenges that are there.

So one hopes that 30% is a reasonable target for the industry as a whole. And as a leading player in the market today, we hope to have our growth, which is, I won't necessarily say in line with this number, but at least close to this number.

Sonal Gupta: And any -- because we -- like you mentioned also in some of the comments today also, like we are there on the 3-wheelers, on the LCVs as well. So anything you see -- I mean, when do you see these -- are you seeing some traction in these segments? And are they starting to become more material in terms of their contribution? I don't think as per the presentation has yet -- not yet, right?

Jaideep Wadhwa: I feel bad that we keep talking about this traction. So for let's first actually break it up into two. The 3-wheeler industry -- or the 3-wheeler segment has seen great traction, and we've grown very well within that. We have gained market share within that area, and we've got some plans to further increase our market share there.

The LCV segment where we have been nominated by nearly all of the major players is one that we keep waiting for the take off and for various reasons, it hasn't happened. The reasons aren't necessarily in the control -- in our control or that our customers. So we keep hoping that it's the next quarter. And unfortunately, that's the only answer I can give you even now.

Sonal Gupta: Okay. But on the 3-wheelers, are we there with some of the...

Jaideep Wadhwa: Yes, with some of them, I mean I won't be able to name all of them, but we are there with some of the big -- we've got agreements that forbid us from giving out names like this, but we are there with some of the big cargo and passenger vehicle companies.

Sonal Gupta: And just lastly, on the ESOP cost, could you just -- I mean, full year, sorry, I missed that number. What was the full year number?

Jaideep Wadhwa: We didn't declare the full year number. We just said that there is an adjustment. This is -- we've announced ESOP plan, and as per accounting standards, the charge needs to be made, which is front-end loaded. I can't get into additional details on this right now. It's basically -- it will basically be -- the big chunk of it will be in FY '24 and '25. And then it'll taper down but that as per accounting standards, but we won't get into further details on that at this stage.

Sonal Gupta: But I mean like you've given the adjusted number. So I mean it's roughly like point 80, 90 bps impact. So is that the sort of impact that we should expect next year as well in FY '25?

Jaideep Wadhwa: FY '25 will be higher.

Atul Aggarwal: It also depends on the vesting of the employees as per that. It's a combination of that, and it's below the line number and as per accounting standards.

Sonal Gupta: I mean that's fine. I was just saying that if you could just quantify it then everybody would be sort of aware of that impact, right?

Pankaj Gupta: Pankaj here. So this is a vested in 4 years. And as per the accounting standards, it's all accounting provision has to be done front ended, which is about -- in first 2 years will go around 60%, 65% of the total cost. And it tapers down as we move to the third and fourth tier I mean, so the INR2 crores is the impact of FY '24 is only for the last 2 months because we only -- this is 2 months impact, and the next impact will be the biggest one in the entire platform. So -- and just around -- it should be around INR10 crores to INR11 crores.

It will sit in the salary cost, in particular, that's why we show adjusted EBITDA because it is not -- I mean, just for a like-to-like comparison, we're showing adjusted answer in this.

Sonal Gupta: So over the 4-year period it will be about INR25 crores, INR30 crores impact.

Pankaj Gupta: INR22 crores to INR23 crores impact. That's as of today, and it could obviously change in the future, as the ESOP plan changes or other changes. But that's what where we are today and that's what we can share today.

Moderator: Thank you. The next question is from the line of Alisha Mahawla from Envision Capital. Please go ahead.

Alisha Mahawla: As you were mentioning to the earlier participant that the pickup in the non-2-wheeler EV has been slower than anticipation. So what is the current contribution from our top client in the MCU business?

Jaideep Wadhwa: So our top client would be what, I guess, 70%, 80%. Top -- is that your question?

Atul Aggarwal: Can you repeat your question? It wasn't very clear, a little louder and clearer, please?

Alisha Mahawla: I hope I'm audible now. The question is the contribution of the top client to the MCU business.

Atul Aggarwal: Top client about 70%.

Alisha Mahawla: Sir, second question, the JV that we're doing for EV components, is it possible to quantify what will be the total capex outlay, you did mention INR20 crores to INR25 crores in Phase I, but this is our share. So what is the contribution maybe the JV partner will make and including land and building because it is a greenfield? What will be the total capex?

Jaideep Wadhwa: So Alisha, I just -- I mean, I'll just help Alisha our here. Just we are at early stages right now. We're working through the business plans, etc. So we don't want to give some details that may not -- that may change in the future.

And that's why we're also keeping land and building out of it because that's -- that becomes that kind of clouds the overall investment. So we'll get greater clarity in the coming quarters. I mean it will take a couple of quarters for this market study and project detail to get sorted out.

Alisha Mahawla: Okay got. Thank you.

Moderator: Thank you. The next question is from the line of Viraj from SIMPL. Please go ahead.

Viraj: Couple of questions. First is on the JV which we announced. So in one of the comments you said that the key raw material is imported into India. So just from a differentiation of point of view. What will drive differentiation for payers in the market? And in that sense, how are we looking to approach properly in this product category?

Atul Aggarwal: Anish, are you there?

Anish Agarwal: Yes, I'm here. Yes, I think, firstly, it's an MOU. It's not a JV at this point in time. And then from a differentiation perspective, because this is the leading supplier for these components in Korea. And for the Korean OEM, they have over 35 years of history, making magnetics, wherein they started from not the auto industry. They started from the consumer appliance industry and then they move into the EV ecosystem only 5 years, 7 years ago.

I think the knowledge base that they have and the quality that they have for magnetics is substantially better than what is being offered here in the country or what is being localized at this point in time in the country. So when I said localization, I meant certain key top components of these magnetics-like raw materials, which are not available in India will continue to be imported for the foreseeable future because they inherently don't exist in India.

So in terms of competitiveness, I think we definitely have some advantage over any local Indian makers who are very small in size at this point in time or overseas makers who have not really set up any shops. It's not going to be a product quality advantage but also a first mover advantage that we see by entering this partnership.

Viraj: My question was actually on the product tech, right? I mean if also look at a global level, right? What drives some differentiation for one company vis-a-vis and who would be the major competitor for that?

Anish Agarwal: So the competitors for them are from Japanese Tier 1 who are fairly large, but who don't really manufacture in India, they only manufacturer in Japan or in the United States. So globally, competitors for them are Japanese Tier 1 companies or electronic companies or German Swiss electronics and electrical companies. But these companies are not really localized in India at this point in time.

I think there will definitely be a cost advantage keeping in mind these two geographies vis-a-vis an Indian Korean partnership. And on a -- from a technology perspective, I think it's a validated technology vis-a-vis the Korean OEMs and consumer appliance industry. So I think -- that should also give us some, what you call, something better than probably the other overseas makers will have too.

Jaideep Wadhwa: Maybe Viraj, I can also just add to what Anish said that if I understood your question correctly, the differentiation globally on this product category comes from two areas. One is design, which comes from expertise of the applications and expertise in the market. And Anish is explaining the lineage of Yongin and their pedigree in this area. And the second part of it comes from process control. And that also putting in automation, putting in the right processes is what makes a differentiation in this. That's how different companies within this space compete against each other. Anish, have I captured that correctly.

Anish Agarwal: Yes, you're totally correct. I think if you were thinking about differentiation from a software perspective, that's not going to exist because it's not a software component. So it's pretty much the quality of the raw materials and the operational excellence practices that you put in place in that factory.

Viraj: Okay. Just a related question, since we will be looking at a JV structure, what would be the JV stake structure we'll be looking at? Is it 50-50 or any thoughts we have in mind on that?

Anish Agarwal: No. I think we still have to crystallize that. The JV equity split between both the partners. We're still working on those agreements as we speak. So we'll be only able to comment on them towards the latter half of this year.

Viraj: Okay. So one more question. This pertains both to the fastener and the MCU business. These is more on the customer concentration, right? So if you look at the stand-alone fastener business. I think a year back, when we started the year, we were looking at new orders to come in. And we were at -- even if the market were to be subdued in some of the segments, we would outperform the industry by heavy margin. So what really went wrong? And how are we looking at customer diversification further in fastener and similarly MCU. I understand the pickup from a market perspective. But even in 3-, 2-wheelers, the customer concentration is still very high. So how are we going about that?

Atul Aggarwal: Let me take it up on fastener, like I said earlier to your questions, we're looking to grow as very similar number at the rate of automobile industry. We have some weakness in our customer portfolio in terms of more spread and in PV and 2-wheelers, we work with the market leaders, but we realize we also need to have a larger stake with the #2 and #3 players in that segment and which is what we are currently working on.

But this will take 12 months to 24 months to crystallize into any material revenues, but that's our strategy going forward. And our other segments of commercial vehicles and tractors, we have a very strong customer profile. I think both segments showed negative and not very good numbers. And as and when they turn around, they'll obviously supplement our revenue growth.

So key is we are not looking to grow very dramatically at a very large cap in our fastener business. We want to grow within the automotive industry range we want to optimize the investment we have done, make them generate more revenue and improve our margin structure. So that's our focus going forward in the fastener business. Jaideep?

Jaideep Wadhwa: Yes. Regarding the motor control unit business, actually, I'd like to think of ourselves as not only -- I mean, as we move forward, you'll see other initiatives also coming into place. But overall, we want -- we are looking at both customer and product diversification as an integral part of our strategy.

Our largest customers, part of the issue was why we grew in other -- we grew with other customers, the growth that the leading companies demonstrated in 2024 -- or FY '24, sorry, was such that even despite the fact that we gained a lot of other businesses, the growth from some of the larger customers was even higher. So that's why we weren't able to move the needle the way we would have liked to, but I'm quite confident that this year will be different.

Moderator: Thank you. The next question is from the line of Rahil Shah from Crown Capital. Please go ahead.

Rahil Shah: On this strategic partnership with the South Korean company. You've mentioned INR200 crores per annum in the next 5 years. But when will it start? The INR200 crores or something like that?

Anish Agarwal: INR200 crores is the target, which is set basis our estimation by FY '30. And as I said, we hope to get into SOP in the latter half of 2025, beginning of 2026.

Rahil Shah: So it'll start reflecting by FY '26 then?

Anish Agarwal: No, not the complete INR200 crores. We will start operations. And post SOP after 4 years to 5 years. We're expecting to be down low revenue of INR200 crores.

Jaideep Wadhwa: Okay. Rahil, I'll just like to clarify that in the auto industry, the validation process is very long, as you're very well aware. So even once you start production, it takes a long time for customers to start buying in volume and do all the validations that they need to do. So the ramp-up, as Anish said, we -- in FY '26, we definitely expect to see revenue coming in, but the ramp-up will be slow in the initial years. And only once the validations are done and the adoptions are in place, will we see this improve significantly.

Rahil Shah: And with the consolidated level EBITDA margins, do you have any outlook there? And year-on-year, we've been seeing a gradual fall. So what steps you have been taking to improve them and when will we see a significant jump ahead?

Pankaj Gupta: So I think the gradual fall, maybe not the right choice of words, if the product mix is changing between fasteners, and between a stand-alone business and our subsidiary business, I think it's a mathematical issue. But I think overall, we are becoming more capital efficient because our new businesses are providing us a very high rate of -- on our investments. So on a consolidated level from the -- in the short to medium term, we see this rebound from what you see right now at 12%, 13%.

Rahil Shah: And when you say across all businesses, you expect to grow at par with the industry growth rate. So do you have any ballpark number we can like expect or review? What is this growth rate?

Atul Aggarwal: Can you repeat the number again, please -- the question again, please?

Rahil Shah: So when you say overall revenue growth for the company, you expect to get par with the industry growth rate. What is this?

Atul Aggarwal: That's for the standalone business. At the consolidated level, we hope to grow definitely much faster than the industry.

Rahil Shah: Okay got it. Thank you and all the best.

Atul Aggarwal: Thank you.

Moderator: Thank you. The next question is from the line of Abhishek Gaoshinde from Sharekhan Limited. Please go ahead.

Abhishek Gaoshinde: Sir, first what kind of capex -- overall capex we are planning for FY '25?

Atul aggarwal: Sorry, could you repeat that, please?

Abhishek Gaoshinde: What kind of capex we are planning for FY '25, total capex?

Jaideep Wadhwa: So overall, we'll be investing around to the tune of about INR60 crores next year. And that's without the -- any investment in the magnetics business. This is only for existing businesses. That's fasteners and motor control units.

Abhishek Gaoshinde: Is it a major chunk of what is required for the MCU business as our capacities already reached to 6 lakh units I suppose?

Jaideep Wadhwa: Yes. We continue to invest a lot in tech. We are upgrading -- just to give you an idea, we have as of today four dynos for testing and validation. We are increasing that to 7 which also we have -- today that dynos are around lower power ratings. We are now bringing in some -- as the commercial vehicle business picks up, and other businesses come online, we are adding high power dynos.

So there is a lot of investment in technology. Also some of the -- as I mentioned, some of the finishing touches -- on the finishing things on the capex haven't come through -- haven't been done yet. So while the actual output has increased already, we won't -- we haven't completed the capitalization. So you'll see more capitalization in this year.

Abhishek Gaoshinde: Okay. And sometimes...

Jaideep Wadhwa: Tech is the biggest driver.

Abhishek Gaoshinde: And sometimes will you be in discussion with some large players in this EV business for our MCU supply in the 2-wheeler space. Any update on the same?

Jaideep Wadhwa: I have nothing right now to report. We continue to engage with customers and work with them on their future programs.

Abhishek Gaoshinde: Okay. And just one final question, what kind of difference in the content per vehicle or the value of the kit for 2-wheelers and 3-wheelers?

Jaideep Wadhwa: So typically, 3-wheelers are slight, I mean in terms of just average -- so let me first explain it in terms of technical. So the 2-wheelers -- and I'm talking -- not talking about the low speed 2-wheelers but the 2-wheelers that are being launched today are basically using a motor control unit in motor, which is between 3 to 6-kilowatt rated.

And that segmentation is moving towards the lower end more. That means 3 and 4-kilowatt is going to become the predominant driver because with a smaller motor and smaller controller, you have lower battery requirement and therefore, a lower cost.

The 3-wheeler requirements start typically from 5 kilowatts and goes up to, say, about 8-kilowatt. So the pricing also changes accordingly. So the average pack price for 2-wheelers will be, say -- average would we say INR8,000 to INR10,000 and the price for 3-wheelers will INR10,000 to INR12,000.

Abhishek Gaoshinde: Okay sir. Thank you, sir. That's all from me.

Moderator: Thank you. The next question is from the line of Rahul [inaudible 1:02:07] from Multi-Act Equity Consultants. Please go ahead.

Rahul Picha: This is Rahul Picha here. My question was on the MCU business. So in the presentation, we have mentioned that for the subsidiary 98% revenue comes from the 2-wheeler industry. And you also said that the largest customer now accounts for 70%. So -- and you also, in the previous question said that the -- we currently don't have any business with any of the top four companies, excluding the largest customers. So the 28% share that is coming in the 2-wheeler business, that seems pretty large for the smaller companies. So can you please elaborate like where is it coming from?

Jaideep Wadhwa: So we've listed out our customers including Ampere, Torque, Simple Energy, Oben EV, etc. And the other thing, which I think I had clarified once earlier is that we also sell to integrators who sell further, so therefore, there are some sales that are recorded as -- when they go out to -- let's say, we sell to motor company who then sells as a complete kit or to an axle company. Those are typically going to 3-wheeler companies, but those are -- those don't get reflected in the a 3-wheeler segment directly, we need to correct that data.

Rahul Picha: Okay. So in terms of classification, that is being classified under the 2-wheeler segment, right?

Jaideep Wadhwa: Currently, yes. I am just making a note that we need to improve this classification in future presentations.

Rahul Picha: Okay. So within the overall business, like what would be the pure play 2-wheeler revenue share?

Jaideep Wadhwa: I will say -- I don't have the exact number, but I would say about 90.

Rahul Picha: 90, so sale is coming from 3-wheeler.

Jaideep Wadhwa: Yes.

Rahul Picha: And on the LCV customers that you were saying that we are expecting some business, but there have been delays and it's not yet commence. So whenever that commences, like what kind of revenue contribution are we expecting? Can it be meaningful in terms of the current size of the business?

Jaideep Wadhwa: Look, if you -- the LCV business and different ways of segregating this, but if you look at the overall LCV business, including pickup trucks, right? That is a 700,000-unit market, overall, in total category. It's also one of the markets that is expected to see the highest level of penetration. If you leave out some of the pickups and you focus on the 1 to 3.5 ton, that's still more than 250,000-unit category.

And then if you look at, let's say, even initially, even at 10% penetration, you're talking of 250,000 units to be sold. And each pack price would be, say, INR60,000. So it is a significant market that we are seeing, a market potential that we see just that the market hasn't taken off.

You've seen some really good products being launched by Switch Mobility. Tata announced recently a new product, Volvo Eicher has been talking about a new product. It's just that these products haven't got the desired traction yet, but I'm very confident that this will be a significant contributor to our revenues.

Rahul Picha: And the customer wins that we have in this segment, are they more broad-based than what it is in the 2-wheeler segment?

Jaideep Wadhwa: Yes, it is.

Rahul Picha: All right. Thank you.

Moderator: Thank you. As there are no further questions from the participants, I now hand the conference over to the management for closing comments. Over to you, sir.

Atul Aggarwal: Thank you everybody, for joining the call today. I hope we were able to address all your queries. In case you have any further clarifications, please reach out to us directly, Pankaj Gupta, the CFO or you can reach out to the SGA team, and we will be happy to address all of them for you. Thank you very much.

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