May 30, 2023

BSE Limited Phiroze Jeejeebhoy Towers Dalal Street, Mumbai – 400 001 **Scrip Code: 543689**	**National Stock Exchange of India Limited** Exchange Plaza, C-1, Block G Bandra Kurla Complex Bandra (E), Mumbai – 400 051 **Symbol: UNIPARTS**

Subject: Regulation 30: Transcript of Earning Call pertaining to the Audited Financial Results for the quarter and year ended March 31, 2023

Dear Sir/Madam,

Please find enclosed transcript of the investors and earning call on the Audited financial results of the Company for the quarter and year ended March 31, 2023, which was held on Friday, May 26, 2023.

The same is also being uploaded on website of the Company at https://www.unipartsgroup.com/home/quarterly_financial_results .

You are requested to take the above on record.

Thanking You,

Yours faithfully,

For Uniparts India Limited

JATIN MAHAJAN

Digitally signed by JATIN MAHAJAN
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Jatin Mahajan
Company Secretary and Compliance Officer

Encl: As above

"Uniparts India Limited
Q4 FY'23 Earnings Conference Call"
May 26, 2023

MANAGEMENT: **MR. GURDEEP SONI – CHAIRMAN AND MANAGING DIRECTOR – UNIPARTS INDIA LIMITED**
MR. PARAMJIT SINGH SONI – VICE CHAIRMAN AND EXECUTIVE DIRECTOR – UNIPARTS INDIA LIMITED
MR. ROHIT MAHESHWARI – GROUP CHIEF FINANCIAL OFFICER – UNIPARTS INDIA LIMITED
MR. VIVEK MAHESHWARI – VICE PRESIDENT, FINANCIAL PLANNING AND ANALYSIS AND INVESTOR RELATIONS – UNIPARTS INDIA LIMITED

MODERATOR: **MS. SAMADRITA SAHA – GO INDIA ADVISORS.**

Moderator: Ladies and gentlemen, good day and welcome to the Q4 FY23 Earnings Conference Call of Uniparts India Limited hosted by Go India Advisors. 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 then zero on a touchstone phone. Please note that this conference is being recorded. I now hand over the conference over to Ms. Samadrita Saha from Go India Advisors. Thank you and over to you, ma'am.

Samadrita Saha: Thank you, Cleavent. Good afternoon, everyone, and welcome to the Q4 and FY23 Earnings Call of Uniparts India Limited. We have on the call with us Mr. Gurdeep Soni, Chairman and Managing Director, Mr. Paramjit Singh Soni, Vice Chairman and Executive Director, Mr. Rohit Maheshwari, Group Chief Financial Officer, and Mr. Vivek Maheshwari, Vice President, Financial Planning and Analysis and Investor Relations. We must remind you that the discussion on today's call may include certain forward-looking statements and must, therefore, be viewed in conjunction with the risks that the company may face.

I will now request the management to take us through the financials and the business outlooks, subsequent to which we will open the floor for questions and answers. Thank you and I will now hand over to Mr. Gurdeep Soni.

Gurdeep Soni: Thank you and good evening, ladies, and gentlemen, and welcome to the Q4 and FY23 Earnings Call of Uniparts India Limited. We are very pleased to be here with you as we conclude Fiscal Year 2022-23, which in many ways has been a milestone year for Uniparts. We truly appreciate and are thankful for the continued support and interest from investors, analysts, and capital market participants. Before we get into the details of the quarter, as well as for the full year that has gone by, I would like to reiterate a few foundational thoughts.

At the core of our organizational functioning are the guiding principles of passion, innovation, integrity, excellence, and teamwork. We have worked diligently and with passion over the years to establish ourselves as a preferred supplier to the global off-highway vehicle market. We at Uniparts believe that it is our key strength that will drive us forward and these strengths are one, we are a leading market presence in off-highway system segment. Two, we have a global business model. Three, our engineering and design capabilities. Four, very robust financial performance metrics and five, experienced and very passionate team.

The off-highway industry, which is the core focus for us at Uniparts, is estimated to be over $200 billion in size and our two core product verticals of three-point linkage and precision machined parts have a market size of over $1 billion. Uniparts has a leading market share in both of these globally. In addition, the adjacent product systems of power take off, hydraulic cylinders and fabrication assemblies have an estimated market size of over $10 billion. Uniparts is present both in the OEM and aftermarket segment with strong global business model and marquee customer base.

With the above foundational thoughts, let me spend the next few minutes sharing my thoughts with respect to the current operating environment and business highlights for the quarter four and the full year FY23. The calendar year 2022 has set a very high base for the global off-highway industry with most leading OEM and aftermarket players reporting multi-year high revenues and profitability. North America's large agriculture and construction equipment market is expected to remain strong with healthy end-user demand. North America's small ag is witnessing some short-term softness. Demand from Europe-based OEM customers remains stable to positive.

The aftermarket segment in both Europe and USA continues to witness certain softness which is further impacted by the transient inventory levels rebalancing being done by our customers due to the improving logistics. The monsoon performance in year 23 in India and its impact on Indian domestic market for tractors remains to be seen. The new inquiries, engagements and conversions owing to the China Plus One team continue to be very robust.

The progress on new initiatives that we briefly discussed during previous quarterly conferences which is number one, the three-point linkage systems for UTVs or utility terrain vehicles and two, Uniparts acquired a new customer which is the second largest retail store group in the United States for farm equipment and accessories. Both of them are proceeding on the expected lines. We added another OEM customer in South Korea.

South Korea holds potential to be a meaningful geography in Asia-Pacific region along with Japan in the coming years. And lastly, the production operations have partially commenced in our new greenfield facility in Ludhiana and will ramp up gradually as we progress into the fiscal year 23-24. Before moving on to the financial performance of the reported period, I would like to briefly reflect on the outlook.

While the operating environment to immediate short term remains mixed with pockets of strength as well as softness, in the medium to long term, as large global players are increasingly looking beyond China, India's manufacturing sector is expected to benefit significantly from this, and we continue to witness favourable impacts on new inquiries. Further, the global push for infrastructure both fresh and rebuilding including the U.S. one trillion infra bill and robust income levels of global agricultural industry are expected to keep demand for new equipment at healthy levels.

We at Uniparts continue to stay focused on our operational endeavours, leverage our deep customer relationships, our global business model and strong financial profile to optimize the opportunities emerging in the rapidly changing and evolving operating environment. With this, I would like to hand over to Vivek Maheshwari to discuss the details of our financial performance. Thanks. Over to you, Vivek.

Vivek Maheshwari: Thank you, sir. Good evening, all. It has been a very exciting year for all of us at Uniparts and we are pleased to share the following financial and business highlights of the fourth quarter and full year ending 31st March 2023. Revenue from operations for Q4 came in at INR328 crores which is a year-on-year change of minus 5.3% and for full year FY23 came in at INR1,366 crores which is an increase of 11.3% over last year. Reported EBITDA for Q4 was INR70.1 crores which is nearly unchanged year-on-year and reported EBITDA for full year was INR313 crores which grew year-on-year by 15.3% while EBITDA margins reported at 21.4% for Q4 and 22.9% for full year FY23, respectively.

PAT for Q4 came in at INR45.3 crores which is nearly unchanged year-on-year while for full year reported PAT came in at INR204.8 crores which is an increase of 21.3%. Operating cash flow generation for full year FY23 was INR252 crores which is the highest ever in the history of the company. This is a result of strong PAT as well as improved working capital performance. The net working capital comprising of the big three elements of inventory, AR and AP as number of days of revenue from operations improved by nearly 2.5 weeks during the year.

As a result of above, Uniparts balance sheet is net debt free at the end of FY23 with group net cash position at approximately INR46 crores. Basic earnings per share for full year has been INR46.30 per share and board has declared second interim dividend of INR6 per share. This is in addition to the interim dividend of INR8.25 per share declared and paid earlier in FY23. As a result, the cumulative dividend pay out to shareholders will be approximately 31% of full year PAT.

Full year capex spend has been approximately INR31.5 crores. Full year other income of INR16.2 crores included approximately INR13.4 crores as benefit received towards employee retention credit in our US subsidiaries under the ERC scheme established under the CARES Act. No further benefits or credits are expected on this account going forward. Commodity prices like steel have come off historical highs and continue to be range bound. Ocean freight prices have come down significantly from historical highs witnessed in late FY22 and early FY23 and are currently nearly back to the pre-COVID level.

Upward pressure on operating costs could continue in medium term to be partially mitigated through operating efficiencies. The prevailing macro concerns over possible global economic slowdown or recession continues to remain a key monitorable over coming quarters. With this summary, I would like to hand the conference back to the moderator for question-and-answer session. Thanks everyone. Back to the operator please.

Moderator: Thank you very much. We have our first question from Saurabh Jain from Sunidhi. Over to you.

Saurabh Jain: Thanks for the opportunity. I have a few questions. To begin with, last quarter we were talking about inventory destocking. So how much of the top line growth was impacted due to inventory destocking during the quarter and what is the current status and how do you see that going forward?

Paramjit Soni: So this is Paramjit Soni. I estimate that the inventory destocking that is occurring has probably cost us between INR25 crores to INR30 crores in just the last quarter. But I do see the inventory cycling through the system for one or two more quarters because the aftermarket has predominantly done it and now, we're seeing it in the small agricultural side. In the US we're seeing certain inventory corrections over there. But most of the logistics have actually improved quite a bit.

Part of the reason when Vivek talked about a situation to say, the working capital cycle is improving, some of the logistics have improved and hence the transit time that we are taking on container shipping from India to Europe or the US has come down and this has frankly come down for our customers as well and hence all this is still continuing. So do expect Q1 of this year and Q2 to have more of it. By Q2 I think it should reduce quite a bit.

Saurabh Jain: Okay, thanks. The second question is operating margins showcased a shrinkage on a sequential basis also, so largely due to lower gross margins. So we were expecting a higher contribution from warehouse sales to drive profitability but that doesn't appear to be the case during the quarter. So what was the reason behind the fall in this profitability and how do we see that trending for FY24 and FY25? Also, if you could provide us the contribution of warehouse sales during the quarter as well as the full year.

Rohit Maheshwari: So the contribution is majorly affected by the inventory pass-through which is transitory in nature and will be ultimately recovered from the customer with the time lag. So that we, the correction is continuing as we recently briefed in the first quarter and some portion might trickle down to the next quarter.

The warehouse margins are at about, gross margins are at about 45%. We are still maintaining the same margins at the warehouse level and the trend is going to be improved as more sales are routed to the warehouse over the next two years as such. So we expect an improvement of about 100 bps to 150 bps in the margin going forward in the next two years.

Saurabh Jain: 100 to 150 bps. And sir, what was the contribution of warehouse sales during the quarter and FY23?

Rohit Maheshwari: No, come again, can you repeat the question?

Saurabh Jain: If you could provide us with the contribution of warehouse sales in the total sales during the quarter as well as FY23.

Rohit Maheshwari: The FY23, the warehouse sales proportion, 44% was the warehouse sales proportion.

Saurabh Jain: Sorry, I didn't get your, get the number.

Rohit Maheshwari: 44% was the warehouse sales proportion as such, out of the total sales of the year.

Saurabh Jain: Sorry, I missed out on the number.

Paramjit Soni: Sir, the warehouse sales proportion was 44% approximately.

Saurabh Jain: Okay, okay. And so one concern is more than 50% of the revenue comes from U.S. and another 20% to 23% comes from Europe. So now since last quarter everyone is talking about slowdown, some of the European countries are officially entering into recession. So I wanted to know if there is any change in our views or we think of toning down our earlier guidance of 10% to 12% kind of volume growth for next couple of years?

Paramjit Soni: As far as Europe is concerned, we have seen a little, the European business for us has also come down from used to be about 29% of our business down to maybe 26% of our business. So yes, you do see a little softness there. Having said that, it has come predominantly from the aftermarket side of our business. It hasn't really come from the agricultural equipment, the OEM side of our business.

That still seems to be going robust. In fact, if you look at most of our major customers there, they are still projecting Europe to be flat to 5% up. So that part of the business remains intact. There is the aftermarket which again is getting more driven so much from the, partly driven from the inventories cycling, partly driven from the market softness. So overall is Europe going to be a little bit lesser? The answer is yes.

Overall, we still believe that the new efforts that we are seeing in terms of all the China plus one and the new RFQs coming in and the speed at which they are coming in, I think we still see the second half to be pretty interesting. So let's see how the recycling goes through of the, of this inventory and everything correction that happens in Q1 and Q2. Other than that, the market like Gurdeep mentioned up front, the U.S. market on the below 70 horsepower is kind of slow, but it's severely compensated by the construction equipment market being really, really strong.

And Europe and U.S. aftermarket is slower, but Europe, you know, large ag and medium ag is fine for us. And India, like I said, is still, let's see what happens in the monsoon and we'll take it from there.

Saurabh Jain: So, sir, maintaining 10%-12% kind of growth, do you see any problem for next couple of years that might be challenging?

Paramjit Soni: In the 2–3-year period, frankly, we're talking about a 16% growth. So that in my secular 3–4-year period, I think year on year, CAGR, I don't see a challenge. Short term with this inventory correction and all that, yes, could we be in high single digits this year?

That could be possible. But medium term, I think the run rate at which we are getting new RFQs, that has actually significantly gone up and not just the RFQs, but also the awards. So that I think that we are very pleased to see that happen, which bodes well as we go forward. But definitely expect Q1 and Q2 to have impacts of certain slowdown of the U.S. small ag market and the aftermarket as well as the inventory correction. But overall for the year, I still believe we'll be in high single digits.

Saurabh Jain: Okay, that was helpful. Sir, we had also mentioned about tying up the TSC for aftermarket segment. Also, we are scheduled to launch 3PL for ATVs, UTVs in U.S. this quarter. So what's the status now on both these fronts?

Management: So we've had good progress on that. If you remember, what we had done was we were offering the system earlier and when we had gone to the customer, they wanted the full solution along with the implement. And so then we developed all of that. And in fact, I was with the customer till last week and we have agreed for all the commercials and the pilot launch now.

So we are actually going to do the pilot launch and actually in Q4 of this fiscal year. That's where the pilot launch will happen. So while it got delayed a little bit with all the addition of a bigger solution, the good news out of that is the total addressable market for us has actually increased now.

So earlier our thought process was that we would only sell the complete 3-Point linkage system to them, but now with the implement added, the value that we believe we will sell per customer is actually almost doubling. And so people are really excited about it. It will take a little bit of time, but having said that, I think it's on the right track and the excitement that I see with customers on this is actually palpitable. We're really excited to see this.

Moderator: The next call question in queue is from Mr. Chetan Gindodia from AlfAccurate Advisors.

Chetan Gindodia: Hello team and congratulations for a very good year post the IPO. So just wanted to understand, so margins this quarter have tended downwards, especially the gross margin side. So is it related to change of mix with respect to Agri to off highway or is it related to warehousing mix change or any geographical change? So any sort of indication if you can give and you know, going ahead, should we see the gross margin improving immediately or could this take some more time for us?

Rohit Maheshwari : No, the mix is more or less same only for the quarter also. And going forward, expect for the inventory transitory effect, which we have already highlighted as that's going to remain in the Q1 and might be some portion of it in the Q2. The gross margin should reduce to a stabilization level of about 36% as we have highlighted earlier in the table.

Chetan Gindodia: Okay. Got it. Got it. And lastly, so our absolute revenue since the September quarter has been, you know, kind of as you alluded has been impacted by inventory destocking. So when you say Q1 and Q2 are likely to also be impacted, do you mean that we can see even further sharp fall on the revenue, absolute revenue side?

Rohit Maheshwari : Some part of it will be a transitory part of the thing. Okay. So mainly it is a pass-through with a lag effect. It should be covering up a good thing.

Chetan Gindodia: Okay. Got it. And so we had around INR120 crores of new orders for this year, including the UTV and some new orders as well. So if you can share status of, you know, how, what is the timeline and what kind of revenue generation can we see from these orders in the coming year?

Paramjit Soni: So already I think from an implementation perspective, quite a few have been put in. So out of that, let me just give you the numbers. Just give me a second. So we do see about 90 odd crores, which has already been put into production and more. And I think the rest are getting into the sampling stages and going into production. So you should see a portion of these revenues come in the second half of it.

But you know what's really, really interesting is the trend line that we are seeing. You know, the number of awards we had, let's say in the fiscal year '21- '22 was a run rate of 200 odd crores, whereas that run rate in last year in '22- '23 for the full year actually went up to 300 crores. So about a 50% jump happened in that. But more interestingly, if you, and a lot of people, you know, coming out of COVID, getting into all this China plus one story, the run rate that I would see quarterly going forward in the last three quarters, the pace at which I'm seeing, I'm seeing a pace of almost 90 crores a quarter.

So the annual run rate at which new awards are coming has actually significantly increased. And so the key will now be in all the execution and getting this through. So frankly, I think, you know, whatever we speak about China plus one, I think go forward, we can actually see that on the ground now and actually people getting to doing something about it. And so this looks good as we, that's why I'm comfortable when I say, hey, go forward, we will maintain our medium-term numbers.

Chetan Gindodia: Got it. That's great. Just a follow up to this. So when you see we are getting a lot of inquiries on this run, so has any material order, you know, fructified and if you can share any details, then also are most of these orders on the agriculture side or most of these are on the construction equipment side?

Paramjit Soni: Actually, it's on both. So most of the China plus one is actually playing on the construction equipment side because, you know, on three-point linkages, frankly, we were already leaders and I don't think China was that much of a competition to us. So the China plus one is playing more on the construction equipment side.

On the ag equipment side, like Vivek mentioned earlier in the call, we've opened up a new account in South Korea. So our geographical expansion continues there. Also on the three-point linkage side on the agriculture, one of our focus areas was to go off to the larger horsepower tractors. So we've taken some new accounts there. So that portion of the business continues to rise. We've seen recently interest from Case New Holland and to the U.S. on this. So we continue to see that.

So it’s it coming from both sides? Yes. The answer is yes. It's coming for different reasons. One is coming from China plus one, the other is geographical and the other is new products that we said we would launch. But the most exciting of it is actually going to come from the UTV, which I think is going to be significant.

My current estimate of this, as I'm talking more to customers, is that the total market size that we could be addressing on UTV three-point linkage in North America could be as large as the entire turf and utility below 70 horsepower tractor three-point linkage size of our business. So that opportunity is really, really interesting.

Moderator: The next question comes from Mr. Himanshu Upadhyay from O3 PMS.

Himanshu Upadhyay: So my first question was in last call, you stated that China faces almost 25% import duty in USA. For how long has this import duty been continuing and any risk of this getting reduced or going away?

Paramjit Soni: Okay, for how long? I won't be able to give you the exact time, but I know it started with the Trump tariffs and so it's got to be at least three to four years. And it was not 25% on everything. Some products at 10%, some 15, some 20, some 25. So there was a bit of a variation over there. But they frankly, since whenever they started from the Trump tariffs, they've continued.

And even the Biden administration has frankly been more tougher on China than anything else. And the way I see this is I don't see this going away anytime soon because, you know, while we see the U.S. divided on almost everything and we can't agree on anything over here, but the one thing everybody agrees upon is that China decoupling has to happen.

And I think the political risk with China remains high. So most U.S. corporations are figuring out some way or the other of doing this. So I don't see this frankly going away. But, you know, with politics, what can you say? But having said that, I don't see it. I don't see this going away. I only see the rift between U.S. and China further strengthening as far as I'm concerned.

Himanshu Upadhyay: Okay. And secondly, again, this is from the last call, con call only. We stated that we have low market share in bigger tractors. Okay. And with patent for our products, we expect to gain market share in this segment. Will our market share with our largest customer in tractors also be low in high horsepower? And can we expect that market share with our largest customer itself to grow because of this patent, what we have for larger tractors and more equipment if we can supply to them?

And how big is this opportunity of large tractors, which we were not catering to earlier? And one more thing you stated was that most of our competition is from European players in this high horsepower. Won't our costing be significantly lower than these European competition because they manufacture most of the things in Europe? So this was on high horsepower tractors, what we were doing last quarter, what we stated last quarter.

Paramjit Soni: Sure. So to give you a situation on this, let's separate the high horsepower into further two segments. And that's the way we see it. You see a segment which is, let's say, the 100 to 200 horsepower. Actually, internally, we look at 110 to 180 horsepower tractors. This is primarily the serious farming tractor in Western Europe. And so this product will find a lot of application in that.

The other tractor, which is sitting on high horsepower is frankly lot of 200 horsepower, which is sold a lot in the US and a lot of the large farming is actually done with those tractors.

So with one of the largest customers that we have and the largest Ag company in the world, the three-point linkage for the 200 horsepower plus is actually done in-house with them. So till such time as they actually don't decide to take that as an outsource, that's not going to be available. So the key market for us is actually between the 100 to 200 horsepower.

Now we continue to make progress there. We are seeing in this, and frankly on that new product, we are also seeing some applications in this 70, 80 horsepower tractors as well, which is interesting because that is where, for example, the Korean business is even seeing that.

Having said that, we are making progress. Now we were earlier doing it with AGCO. Now we've actually got another project with Case New Holland in the US to do this. So it continues to grow over there. And but with to talk about the potential, the total large, above 70 horsepower tractor market from a value perspective formed 50% of the total market in any case, and the product that we were missing on that, was at least 40% of that. So, clearly there's a segment which we were not addressing. 60% we were addressing, but 40% of that, we were not addressing. So that leaves us open to that sort of growth.

And from a cost perspective, to answer your question, yes, India is more competitive. But in these products, because these are high-value products and high, the validation process of these customers takes longer, they will not make changes as quickly as possible, but more and more people are doing so. So will it continue to grow? The answer is yes. Is it going to happen overnight? The answer is no.

Himanshu Upadhyay: Okay, thanks. And besides financials, you stated that, volume is not the right matrix to track. And internally also the volume is not the matrix what we look at. As an investor, besides financial, what should be the matrix should I track to understand, how the operations of the company are doing? Because financials are generally lagging indicator. But what should be the right things, we need to ask you to understand the business better and the matrix to look at?

Paramjit Soni: I actually look at the bottom line. I drive the organization focused basically on bottom line. And if you look what we've done, if you go back to four years or five years ago, we were a 14%-15% EBITDA company. Now, we came up to this 20%-21% levels and we are driving further with these warehousing, high margin growth on the warehouse model.

If you look at it, what I used to say earlier, I said, hey, five years ago, we were at 33%. When we went to the markets, we were more closer to the 40%. I said, we will grow it to 47%, 48%. We are today sitting this year, as Rohit just told you, we are already sitting at 44%. So we continue to track into that side.

A lot of the other products, frankly, we are going after is the more high-value product. For example, let's look at the UTV, ATV business. This is going to be a significantly higher margin business. It is all our own designs. So here, because we own the design and because we have also taken a patent on some of these things over there, I believe, we will be able to drive a significantly better margin.

So our focus has always been to go towards this kind of a product mix. Even the adjacent field that, we are looking at on the hydraulic side, for example, again, we are making some progress over there. All that is high-value product. So clearly, we are trying to position ourselves on the more higher realization product.

Himanshu Upadhyay: One last question on this, which is follow-up only. What would be the revenue from these new SKUs or products, we would have introduced in the last five years as a percentage of FY '23s revenue, which was not there, let's say, in FY '17 or '18?

Paramjit Soni: I don't have that off the top of my head. Vivek, if either you have it or you will have to come back on that one.

Vivek Maheshwarit: Yes, we will have to come back.

Himanshu Upadhyay: Okay, thanks and best of luck for future. I will join back in the queue for further queries.

Paramjit Soni: All right.

Moderator: The next question comes from Anuj Sharma from M3 Investment.

Anuj Sharma: Yes, thank you for this opportunity. A couple of questions on my side. See, one of the key strategies in the past few years was introduction of the warehouse channel, and that gave us a strong margin boost. But as and when the supply chain normalizes, just in time is not so important because you can ship across efficiently. Do you believe that high margins by the warehousing channel can sustain?

Paramjit Soni: On the contrary, the need for the warehousing is going to be even more higher. So even as we look at our shift in our business, when I said, we moved from, let's say, 41% to 44% of our sales to the warehouse model, well, guess what? The direct export business, which used to be 32% of it, has gone down to 29%. So the impact is coming from more direct export from India actually converting to warehouse rather than, what I produce and sell in India or what I produce and sell in the US, right.

So if you look at what happened in the two years of COVID, where all the supply chain risk became such a crazy word, and yes, you think it will go away, but you will be surprised, how much global corporations are focused on taking the risk out of global sourcing. So everything that you heard on near-shoring and on-shoring, and frankly, our evolution of that, also moved towards a model called dual-shoring, where we said, hey, we will produce a portion in the US, a portion in India, and oh, by the way, if one geography doesn't give you a problem, the other geography will catch up.

So the premium customers are willing to pay for our product in terms of mitigating risk, I believe is fairly high. Customers clearly know that they can buy from India directly at a lower price, and when they go to the warehouse, they pay a higher price, but they willingly choose that. So I don't buy the theory that, you are leading to that, hey, just because logistics and all this will improve, that this will go away. I actually think, it's going the other way because these customers don't want to manage this problem. They want their supply chain to manage this.

At least in my industry, that's what I see. The automobile industry may be different. In my industry, where there's high complexity, large number of SKUs, mid-level of volume, the complexity is very high. They don't want to manage it. They want us to manage it. So I don't see that.

Anuj Sharma: That's interesting. That's helpful. My second question is, you did allude to having more designs of your product. So currently, if I look at what percentage of product design are dictated by customer and how much is from our side, and how do you see this changing over the next three years, five years?

Paramjit Soni: When we went to, let's segment this clearly. See, when we go into the below 70 horsepower tractors, and customers are launching new tractor models, as they launch new tractor models, lean on us to design it completely for them. In the construction equipment side of our business, on the PMP side of our business, since it's at a part level, we are not designing anything. We are producing off a print, they give us. So that model will also continue to happen. And that's, with all the China Plus One happening, we're just getting product resource to us. There's no design involved.

When you look at, let's say, what we are trying to do for the UTVs and ATVs, we've created a completely new product line from our own design. And I expect this itself to be, over the next five years, it could be a run rate of between INR125 crores to INR150 crores standalone on its year, year-on-year. So the portion of the product that came from our own design, is increasing year-on-year as we go forward. Will this become the dominant portion of it? I don't think so, because there's a large portion of business, which we still continue to do otherwise as well.

Anuj Sharma: Okay. And one more question, since we've been listed for a short period of time, if you could just tell us what are the key differentiator or entry barriers into a three-pillar business? And how long does it take for a new vendor development for a company or for a customer that will be helpful for us?

Paramjit Soni: So, let's look at it with, for example, let's say the largest Ag equipment company in the world and they are our largest customers. Look at the complexity. I sell more than 8,000 different part numbers to them. The ability for them to change us as a supplier, which require the kind of engineering and sourcing kind of resources, which I don't think any company possesses. So I think, and we are supplying them in 20 different locations. We're supplying them across the construction division, the Ag division, whether the large tractor, small tractor, whether it's the small construction equipment, large construction equipment, whether it's the turf vehicles, whether it's the seeding equipment. So our spread amongst all these is very-very high.

So the ability to dislodge something like this is very difficult. Let's go on to, I've always said, we have competition all over the world. All right? I have competition in India. We produce in India, sell in India. We have competition there. Well, I sell in Japan. I have local competition in Japan. I sell in the US. In the US, frankly, there is no three-point linkage production here. So pretty much the US, there's no local competition. But Europe, clearly there is, for the large horsepower tractor, there is local competition there.

Similar, there's local competition in, let's say, markets like Brazil as well. But if you look at all our competition all across, none of them have this global footprint that we've created. And our ability to service customers across geography seamlessly with that one theme that, we've continuously been taking, and that is take the risk out of global sourcing.

To get a low price from a low-cost country, you don't need to be a rocket scientist for that. The key is how will you take the risk out of it. And I think, Uniparts does a phenomenal job of it. It started with this model of the warehouse. I just answered that question earlier to say, hey, despite the lower price, they want to pay the higher price and take this because we do an amazing job of it. Oh, by the way, when they wanted a solution to say, hey, instead of just low-cost country sourcing and warehousing, we want a dual-shore model. Well, who do you think would implement it? I can't think of any of my competition implementing a dual-shore manufacturing model.

So people are talking about near-shoring or on-shoring, but who's talking about dual-shoring? As you go forward, see, for us in our product, bear in mind the total value of our product into the vehicles is maybe 1.5%, 2% of the value of the vehicle. So it's not as if it's a massive amount of numbers. It's a niche market. And within that, it's critical for them that, the risk and supply chain robustness should be there.

Uniparts did a phenomenal job during COVID. We were within the top five percentile of their suppliers, who managed to run their lines through all of this. I guarantee you in those two years, a lot of lines shut down because people could not supply. Uniparts was not one of those, despite sourcing from long distances. So that itself is such a unique thing that, we've built that nobody else has it.

Let's look at competition in India. Can they compete with me locally over there on component basis? Yes. Do I see any competition in India, which has design competence? The answer is no. Do I see any competition in India even today, which has the ability to manufacture for these 150, 200, 300 horsepower tractors? The answer is no. I don't think, those quality levels... Look at India, look at Mahindra, or look at anybody else. If you look at the export tractors from India, well, most of the export tractor guys, who do they go to? They only go to Uniparts for this. They don't trust anybody else for it.

So compared to the foreign Fork, I have a cost advantage. Compared to the Indian Fork, I have a quality and design and other advantage. And by the way, we have a global source. Take the risk out of this global chain as a key factor, which we've really, let's say, perfected our standard operating procedures and stuff like that, inside on that. I hope that answers your question.

Anuj Sharma: Yes, Mr. Soni. In fact, with a lot of clarity and a lot of detail. Thank you so much and wish you all the best.

Moderator: The next question comes from Saurabh Jain from Sunidhi.

Saurabh Jain: Yes, thanks again. Just a follow up to my last question. What size are we looking at in this ATVs and UTVs market over the next two years? Or what we are targeting? What kind of market share are we looking at?

Paramjit Soni: Saurabh, I don't want to say two years. I want to give you a perspective of at least four years to five years. Okay. Because this will continue to evolve for me. I think we will, I've internally targeted ourselves to at least have 20% of this market in the US, though I've recently been with one of the largest players, to do this and they are telling me to my face that I'm underestimating and that they can do more.

But since it's a new product, I want to be a little careful. I do believe that, like I mentioned some time ago, that the size of this could be as large as my entire below 70 horsepower three-point linkage market in the US. So do I believe I can get about INR150 crores in sales in three to four years annually from this? The answer is yes.

Saurabh Jain: Okay. And in 3PL, we have a market share of 16% approximately. So if it is possible for you to quantify our market share in less than 70 HP segment and above 70 HP? And also, if you can comment upon any inorganic opportunities that we are looking at, considering the lean balance sheet and robust cash flows?

Paramjit Soni: Yes. Okay. I haven't done this market share numbers very recently. For a recall from my history, we were 26% of the market in the below 70 horsepower. And Vivek, was it 9% or 10% on the below above 70 horsepower? Vivek, you'll have to remind me of that one, please.

Vivek Maheshwari: Yes, close to 8%, sir.

Paramjit Soni: Close to 8%. What was the other question?

Saurabh Jain: Is there any comments on inorganic opportunities we are considering?

Paramjit Soni: Yes, we continuously look at it. I've always said, historically, we've done two, we were successful with one, that gave us the PMP platform with Olsen, and I think it's a significant part of our business, gave us the dual shore manufacturing. So we made that successful. We did have one in Europe on the hydraulic side, which didn't work. And, but the reality is when it didn't work, frankly, I got rid of it in two years, so that I don't want to hang on with something which doesn't work.

But currently, yes, I am continuing to look at it. The areas are defined for me, the sweet spot is defined for me as to what size I'm looking for, where it has to come. The balance sheet, as you can say, has become completely robust. I was -- the way we managed our working capital and our situation, I was actually expecting to be debt free. By the end of first quarter of this fiscal, we are actually plus already by the end of the last fiscal. And so clearly, I think we are armed with the ability to do this and we continue to look at it and it's in those defined areas where I want to grow, what is the hydraulics or the PTO side of the business, just as we said, we will go in our adjacent products.

Saurabh Jain: Are we anywhere near to advanced stages of discussion?

Paramjit Soni: I am not -- okay, I'm in multiple discussions. I'm not going to say how advanced they are, but I'm in multiple discussions.

Saurabh Jain: Okay, thanks. That's all from my side, sir. All the best.

Moderator: Thank you. The next question comes from Mr. Hiten Boricha from Sequent Investments.

Hiten Boricha: Thank you for the opportunity. So, so my question is on the growth guidance which you have given for let's say, let's next three years you have guided for 15% to 16% CAGRs. Just wanted to understand, sir, are we guiding a conservative side or what just gave you the guidance of 15%-16% because we are like looking to enter into new products with high margin business. For example, you have just told about UTV, ATV, we have a very good market. So just wanted to understand that's why we are guiding so conservatively. Can we grow more than 20%, let's say, for next three, five years?

Paramjit Soni: At this stage, I don't want to change my guidance. What was the guidance based on the total market that we expect as the market growth per se we believe is in the 5% to 6% region. With China Plus One and some of the new initiatives we're doing, we said that will drive us with some more market share and some additional stuff. And that would have driven another about 11% to 12%. So I guided about a 16% based on that.

My medium-term guidance, I'm not changing. Short term, frankly, with the small ag market coming down and the aftermarket coming down and inventory cycling, this year you will see even a lower number. So I'm not even guiding a double-digit number for this year. But for my three-to-four-year guidance, I'm not changing it. I'm still maintaining I'm running my business plan the way it is. The run rate at which new RFQs are getting done is encouraging for me. Let me watch this for some more time before I decide to change the guidance, because it's easy to change guidance. It's a lot to implement.

Hiten Boricha: Understood, sir. And the question was on the margin as you mentioned, we will be continuing to see the pressure on the inventory for at least next two quarters. So can you assume our margin can again decline by 100 bps or 100 bps and 100 bps, 200 bps because of this inventory, or this is the margin of Q4?

Paramjit Soni: No, the pace margin of Q4 may remain. I think, the -- my overall guidance for the full year margin you should take as my full year of this year because everything else is transitory. See, if there is a freight and material thing cycling through the system event, fundamentally, I'm recovering everything from the customers, right? So it's only a question of time differences over there, right?

So fundamentally, it's not as if I paid more freight in the inventory, then it's not as if I'm not recovering it, I will recover it eventually. The question is the timing situation is with the material side, because at best, it can be a quarter lag, but it's coming, right? Okay. So I don't see that that so I'm not going to change my annual you can you see quarterly differences? The answer is yes. But will you see my fundamental annual things? I think the variation there will be significant lesser.

Hiten Boricha: Okay. Yes. Thanks for the opportunity.

Moderator: Thank you. The next question comes from Apurva Sharma from Helios.

Apurva Sharma: Yes, thank you for the opportunity. I had a few questions. You are touched upon it a bit. This is regarding the $10 billion market size that we are planning to cater to in the PTO, hydraulic, cylinder and fabrication. So your take on this in terms of what are the factors that will be driving this, from our 4% of revenue to maybe double-digit revenue. And maybe from a little longer-term perspective to say, five to seven years, is it China Plus One strategy or product design, patenting? I mean, what is the sense? I mean, in terms of ramping up this business, where are we focusing on? So that was one.

Paramjit Soni: So for the PTO and hydraulic, I'm going to talk about these two segments and fabrication separately. PTO and hydraulic to get to these double-digit levels are going to need an acquisition. Organically, I can grow them a bit. But if you're asking me to take it to a beyond double digit, which is what I want to do, I think we will do an acquisition. Fundamentally, the acquisition has to qualify a certain checkboxes for me in terms of what the market is, what the product is. And the biggest one for me is what is the biggest thing Uniparts has? Uniparts has a global delivery model and its ability to leverage India as a manufacturing base. So clearly, whatever acquisition I do, I have to have a situation where I can take product which is produced in these North America, Europe, and can I take it to India and get an incremental EBITDA on that. Because otherwise, you're running a business, you're running a business, everybody else is also running their business just now, right? So we are going to make a difference. And I think that's how we will do it. We will also leverage it by taking it to our customer bases and stuff like that.

So literally on PTO and hydraulic, while the smaller numbers are coming, the larger numbers will come as a shock to the arm only with the acquisitions. Fabrications, I'm not going to do an acquisition, it makes no sense to do fabrications as an acquisition. That in any case is growing pretty nicely for us organically. We've gone into customers, like for example, what we call a short liners.

You have the main producers of equipment like, whether it's a John Deere or a Case New Holland or a Kubota or whatever, but there is a whole bunch of people who produce, some tillage machines, some other machines for the agricultural side or some attachments for the construction equipment, which requires a lot of fabrication. And it's again, synergetic with our product because we said, hey, anything that attaches things to a tractor or to a construction equipment, I think we want to be in that space. So from there, we have access to all the short liners and we are growing our business there.

Look at that business also on the side when I've gone into the UTV, ATV side, when I've done the three-point linkage, the customer asked me for a full solution, including implements. The part of getting the implements done, there's a significant amount of fabrication involved over there. So all these synergies actually come together for us over there. So fabrications will be organic. PTO and hydraulic, to get to double digits will actually require an acquisition. Okay.

Apurva Sharma: Thanks for that. So a follow-up on this and with this, the answer that you gave in background. So this $10 billion market, it's an estimate. So what from after an acquisition from there, what would be the step where you make a serious dent in this $10 billion as a market share, not as a percentage of our revenues, but as a percentage of the market? So I was trying to get there with this.

Paramjit Soni: I think it will be the -- my goal is to actually get the acquisition and actually improve the EBITDA of the acquisition by using my India level manufacturing base.

Apurva Sharma: Okay. So the cost part of it that we are addressing right now, and right now we're not going after the market share per se, initially.

Paramjit Soni: No, I think with PTOs, what is going to happen is you do that. It depends on what happens. If I take a PTO business in Europe, let's say for example, and that business has no, let's say presence in India or Japan or the US, then I will be able to geographically grow that business as well. Right? Or if a business that I'm taking in the US has no presence in Europe or Japan or India, then I can grow that because we are present in these markets, we have customers in these markets. So our ability to leverage our customer relationships will grow that business as well.

At the same time, we believe that if we are going to take businesses in Western Europe or the United States, then the cost structures there are different and we can use our India cost structure to provide another boost to the earnings. Okay?

Apurva Sharma: Sure. And -- just sorry, last one. So the margin profile once we ship these businesses, are we looking at the similar kind of company level margin profiles for these businesses as well, or I mean, how do we look at it?

Paramjit Soni: Typically, the US European manufacturing of well-run business, maybe 8% to 10% EBITDA businesses, they're not higher than that, typically. Okay? But frankly, if our experience is if you take product from there, and you can move it into India and run it through the warehouse model and stuff like that, our margins on that business on the warehouse model, like I said, it's close to about 28% just now.

So if you take, let's say a business with whatever, I'm just choosing a number with this worth, let's say $1, because I am not going to give you values, and you take $0.30 out of it, and let's say you take it to India, right? And you can convert that $0.30 to a 28% business rather than just an 8% business. I think you will see the margin growth of that business standalone. You follow me?

Apurva Sharma: Yes. Okay. So sort of we are talking about the similar numbers on the margin profile also.

Paramjit Soni: Absolutely. It will eventually come to that. It will start with the lower one over there. And eventually, it will cycle through as more-and-more percentage of the business, you move away from these, you reduce your US or European manufacturing content, you increase your warehousing content. And I think it will cycle back to that 17%-18% level back for those kind of businesses as well. Right? So I think that's how it will run. It won't start like that because the day you bought it, it's lower, but then you're not paying those high multiples for it also.

Apurva Sharma: So I'll join back in the queue. Thanks for the response.

Moderator: Thank you. The next question comes from Anirudh Shetty, Solidarity Investment Managers.

Anirudh Shetty: Yes. Hi. Thanks for taking my question. So I just wanted to understand how to interpret the last 10 years financial data that we have. So when I look at it, historically, there have been periods where we've grown quite well, FY ‘11, FY ‘12. And then, we've seen almost no growth for like four, five years before growing for another two, three years and another slowdown. So there has been a bit of cyclicality in the past. So I just want to understand, why does this, what causes this cyclicality and is this something that is inherent in the business or going forward, our earnings can be more predictable.

And you also mentioned that this is, there are entry barriers in this business. And we are a well-positioned player. But when I look at your long-term numbers, I see that the return on invested capital barring the last two years, has been quite has been at low double digit, mid double-digit kind of number, because while our margins have expanded, our gross, our working capital also has gone up. So just want to understand what how has the business evolved for us? And what is a sustainable return on capital to kind of work with for our business?

Paramjit Soni: Okay, so let's start, I mean, 10 years, obviously, it's a longer period. And to answer your question on cyclicality, are these businesses cyclical? The answer is yes. As I looked at the business, let's go historically, and you kind of de-risk the business from cyclicality as much as you can. If I go back 20 years ago, even back to 2005, I didn't have a construction equipment business, we were only in the ag space.

Then we got into the construction space, because ag is cyclical, construction is also cyclical, and you kind of hope that the one cycle, both cycles will not coincide. And typically, they don't. So you kind of reduce the impact a little bit. So you de-risk the business model, we de-risk the business model, even from a geographical perspective, you do so much in the US, so much in Europe, so much in Asia, I think you kind of make your business withstand cyclicality.

Off late I have been saying cyclicality is something we understand and we can manage. I'm more concerned about volatility, because the way it kind of moves, and how businesses have to react quickly. I think we're more focused on that, frankly, our current strategies are more focused on that. Because if you saw what happens with currencies, or exchanges, or steel prices, or logistics and freight, I think businesses need to be completely agile to be able to deal with all this. And I think Uniparts has done a phenomenal job in all of these things.

But to answer the question of cyclicality, absolutely, yes. If I look at let's let's take a separate view on a 10-year perspective. Let's say the market grows by x percent. Through those 10 years, Uniparts tends to beat the market. So will we beat the market compared to what it is? I think Uniparts tends to do that. And that's how you need to plan it. Whether you get through these tools of whether these global sourcing and today.

Today, there's a wave of China Plus One, we will ride it that will increase our market share. So that will happen. Even when you happened. The big dip, frankly, that we saw and all this change for us is the old 2008- '09 Lehman crisis that we came down before that I never saw downturn in my life. That's the first downturn we saw. And then we figured out how to deal with it, how to de-risk the business from cyclicality. So that has happened. What was your other question on this?

Anirudh Shetty: My second question was, over time, what you've seen is the gross profit margin has improved and so has the EBITDA margin.

Paramjit Soni Absolutely. And that's my favorite story to tell.

Anirudh Shetty: I would like to link it with, we also have seen that the working capital base has gone up for us.

Management: And I will talk about that as well. So let me answer both of those. So about five, six years ago, we went on this journey to say we -- I said, I don't want to be a top line driven company. I want to be a bottom-line driven company. Let's look at everything where we're doing things and we don't make money and how are we going to do this. And that journey I started frankly in 2017- '16- '17 and I figured at that stage when we were at 12%-13% EBITDA levels that I could go to 18%-19% EBITDA level. We're doing all this and we started executing that plan. I ended up with actually a 21% level and I'll tell you why that occurred.

When I had done my original plan, we had thought, hey, we will look at product and we'll improve margins here. We do more warehouse business. And so all those things were kind of settled in. There was a portion on it where we were losing money. I mean, as you have a product portfolio and you were losing money, what I hadn't figured at that time was that products that I'm losing money and despite my best effort to try and make more money at it, I can't. I am not going to be in that business. So I actually in that period actually shared a business which didn't make money. And that even took me from the 18% to 21%. That actually made us financially even more-stronger.

So now you had good cash accruals happening. And when I was on the road doing this, I said we are a 21%-14%-7% company. 21% EBITDA, 14% PAT, 7% free cash flow. And look at the cash flow this year. Cash flow this year is significantly higher because we improved the working capital cycle. Where did it come from? The working capital actually goes up because if you are going to take a warehouse business model, inherently you are going to have more inventory. I own the inventory on the water. I own the inventory on the warehouse. So is it going to need more working capital as you go down that cycle? Absolutely yes. But then that's my highest margin business.

So when you do the return on capital employed, I think we've raised that significantly. We used to be in the 16%-17% return on capital employed. Now I am sitting at 35%. So despite high working capital, despite everything, I think we've significantly become a very focused bottom line company. We've also very significantly focused on this working capital cycle. If you look at the working capital cycle, this year alone we've dropped it by about 25-odd days. So clearly, you are seeing that reduction come in.

And some of that will come in during COVID. In any case, in logistics, I am taking longer. There is more inventory sitting on the water. That is cycling through the system. And some of that will, like I said, hey, part of it you are seeing customers buying less because of inventory cycling. Well, part of it is because there was more inventory sitting on the water which is not needed anymore. It's also happening to us.

So I see that cycling through. I have a goal. Inventory will, frankly with the warehouse model going up, the inventory goes up. And I've actually seen when I move from the 41%-42% to 48% on my warehouse model, maybe I need another 2 days, 3 days, 4 more days of inventory average. Having said this, we are very focused on our receivables and payables. And I think we still have room to improve that from there. And so we will improve our working capital cycle. We've done part of it this year. So the cash flow this year is over INR250 crores. So even though the profit after taxes are about INR205 crores, the cash flow is INR252 crores, which is significantly higher than what I said I would do. And the return on capital is 35%, which is again higher than what I said I would do.

Anirudh Shetty: So just one final question. What do you think is a sustainable ROCE for our type of business?

Management: My internal goals have been always north of 30%. And frankly, I'm running way ahead of my goals just now.

Anirudh Shetty: Got it. Fair enough. Thank you.

Moderator: Thank you. Due to paucity of time, that was the last question. I now hand over the conference to the management for closing comments.

Gurdeep Soni: Thank you. Thank you, everybody, for attending this call. Really do appreciate the wide questions that we've received from people. And if there is any more information that is required, we are freely open. Vivek Maheshwari is approachable, or we can even do it through Go India. And we welcome any more queries or whatever needs to be answered. Thank you once again all for taking out your time and joining our call. And look forward to a good, sound, long-term relationship with all of you. Thank you.

Paramjit Soni: All right. Bye now.

Moderator: On behalf of Go India Advisors, that concludes this conference. Thank you for joining us. And you may now disconnect your lines.