



# Sharda Motor Industries Ltd.

**SMIL: BSE/NSE: 22-23/2208**

**August 22, 2022**

**BSE Limited**

Department of Corporate Services

Pheroze Jeejeebhoy Towers

Dalal Street, Mumbai - 400 001

**(SCRIP CODE - 535602)**

**National Stock Exchange of India Limited**

Exchange Plaza, 5<sup>th</sup> Floor

Plot No. C/1, G Block

Bandra - Kurla Complex, Mumbai - 400 051

**(Symbol - SHARDAMOTR) (Series - EQ)**

**Sub: Transcript of earning call held on August 12, 2022**

Dear Sir / Madam,

In pursuant to the applicable provisions of the SEBI (Listing Obligations & Disclosure Requirements) Regulations 2015 and in furtherance to our letter no. SMIL: BSE/NSE:22-23/1308 dated August 13, 2022 regarding the submission of audio recording of earning call held on Friday, August 12, 2022 from 3:00 P.M. (IST) onwards, in this regard please find enclosed herewith the transcript of the earning call.

Further the same is also being available on the website of the Company at [www.shardamotor.com](http://www.shardamotor.com).

This is for your information and record.

**Thanking You,**

**Your's Faithfully**

**Divyang Jain**

**Asst. Company Secretary &**

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# “Sharda Motor Industries Limited Q1 FY2023 Earnings Conference Call”

August 12, 2022

Disclaimer: E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on 13<sup>th</sup> August 2022 will prevail.



**MANAGEMENT: MR. SRINIVASAN N - CHIEF FINANCIAL OFFICER -  
SHARDA MOTOR INDUSTRIES LIMITED  
MR. AASHIM RELAN - CHIEF EXECUTIVE OFFICER -  
SHARDA MOTOR INDUSTRIES LIMITED**

**Moderator:** Ladies and gentlemen, good day and welcome to the Sharda Motor Industries Limited Q1 FY2023 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 the 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 the conference call, please signal an operator by pressing “\*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Srinivasan N -Chief Financial Officer of Sharda Motor Industries Limited. Thank you and over to you Sir!

**Srinivasan N:** Thank you. I am the CFO, Srinivasan thank you so much. Good afternoon to all of you a very warm welcome to all the participants on this call. Today I am joined by Mr. Aashim Relan our CEO and our investor relations advisors SGA. I am hoping that you have seen our results, have received our investor presentation by now. The presentation is also uploaded on stock exchanges as well as company website for reference.

Before discussing the company's performance for the quarter, I would like to shed some light on the industry. As we all know the auto industry has been struggling for the last four to six quarters due to semiconductor shortage, rising commodity prices due to an inflationary environment and supply chain disruptions due to geopolitical tensions. As the economy is stabilizing India has been witnessing growth across all the sectors including the two wheelers and three wheelers and PV segments.

We have also been seeing surge in demand for CVs which gives us confidence that the worst is behind us now and the overall economy and the mobility industry is on a revival and in fact on a good trajectory. Rising demand, improving customer confidence in rural, areas, easing semiconductor supply issues, as well as correction in commodity prices will provide further boost to the industry success. From April to June 2022 auto sales improved across the board The recent automaker sales figures continue to show an upward trend which is expected to continue in the second quarter. Indeed, our most important customers anticipate growth this year. In terms of auto industry performance during the Q1 FY2023, we saw sales of 7.9 Lakh units in passenger vehicles a year-on-year growth of 64%, 2.1 lakh units of commercial vehicles more than 100% growth year-on-year and 1.3 lakh units 3 Wheeler sales up by 212% year-on-year and 35.4 lakh units of two-wheeler sales up by 60% year-on-year. The auto industry expects car sales to accelerate this holiday season as a result of new

launches and improved production but is cautiously optimistic about the road ahead once the festivities end.

The CV recovery is on track as the freight rates improve and freight operators gain financial strengths. Demand in the entire CV segment remains strong which benefits component suppliers like us. We expect Indian CV market to achieve a good growth in the coming years. As the monsoon is progressing well, we see good rural demand for tractors in the country. We are optimistic about the demand scenario from both PV, CV and tractor segment. With our ongoing R&D efforts we are ready to capitalize on the new opportunities in the automotive segment.

Now I come to the business performance for the quarter. Our Q1 FY2023 revenue stood at Rs.628 Crores and was higher by 33% versus Q1 of FY2022, further on a sequential basis compared to Q4 FY2022 our revenue was higher by 2%. Our EBITDA including other incomes stood at Rs.69 Crores in Q1 FY2023 as against Rs.46 Crores in Q1 FY2022 a growth of 48%. Further EBITDA margins including other income were at 11% in this quarter as compared to 9.8% in Q1 FY2022. Our PBT stood at Rs.60 Crores up by 64% on a year-on-year basis our PBT margin also rose to 9.5% in Q1 FY2023 as against 7.7% in Q1 FY2022. Our consolidated profit after tax for Q1 FY2023 was Rs.45 Crores as compared to Rs.27 Crores of Q1 FY2022 which is an increase of 66%. I am happy to mention here that we were able to achieve our target of making our JV profitable, though for the quarter it is marginal at Rs.50 lakhs, we are hoping to improve our profitability from here on.

With this I would like to open the floor for questions. Thank you so much.

**Moderator:** Thank you very much. We will now begin the question and answer session. The first question is from the line of Abhishek from Bowhead India. Please go ahead.

**Abhishek:** Thank you for opportunity. Sir what was the turnover of our JV Eberspaecher for this quarter?

**Aashim Relan:** Hi Abhishek this is Aashim this side and good afternoon to everyone, it is a pleasure being here. So now answering the question in terms of turnover may be Srinivasan you can share the value added sales turn over for the quarter.

**Srinivasan N:** For the quarter the value added revenue for Eberspaecher JV was Rs.44.3 Crores.

**Abhishek:** Sir is there any update on the subcomponent export that we talked about in last couple of quarters. has there been any progress in that area?

- Aashim Relan:** So we made good progress in terms of business inquiries and right now we are quoting for multiple RFQs so our teams are busy working on it. In terms of any material business nomination, we have not received any so far but we will continue to update as we move forward in the next couple of quarters and years.
- Abhishek:** Okay Sir I just one last question on TREM IV what traction have we seen till now, has it been encouraging?
- Aashim Relan:** Yes TREM IV traction is very good and it is scheduled to come in to October 2022 so in fact in the next one or two months but of course TREM IV is a very small market as of now for us because only very select tractors require the product but at TREM V which is scheduled for April 2024, that is where the big market comes in and there as well we are seeing very, very strong traction and we expect a very good performance in terms of business development.
- Abhishek:** Sir would it be fair to assume that since let us say in OEM X who is present in both tractors above 50 and also below that so if we make including TREM IV then it would also help us in the next regulation change?
- Aashim Relan:** Yes absolutely so we expect all the top 4 or 5 customers to be there. Already for TREM IV we have most of the tractor customers and as well as the products which exports from India and we expect the similar trend to be in TREM V also. So in terms of customer acquisition, we have already concluded as a result of TREM IV and the export opportunity which is indirect exports when the tractor company exports their tractor to Europe and America.
- Abhishek:** Okay Sir that is it for my side.
- Moderator:** Thank you. The next question is from the line of Vishal from Svan Investments. Please go ahead.
- Vishal:** Thank you for taking my question Sir. Sir my question is regarding the value addition contribution to the revenue for this quarter and similar number for the last year same quarter?
- Aashim Relan:** Sure so value added sales for the standalone company we do not provide due to a customer restrictions, but we are working towards and we have made already progress with one customer in terms of the ability to provide that and I think just two or three more customers to go where we will be fully able to provide the value added sales number but as of now we do not provide for this standalone company.

**Vishal:** Okay Sir. Is this same thing the indexation that you were working on which you have shared last quarter right Sir?

**Aashim Relan:** Yes absolutely and we have made progress, with one customer actually we have able to manage to showcase as well as manage the catalyst. Now we have only two or maybe third customer now which is a new customer remaining. So, we are making progress and we are quite hopeful that in this year we would be able to provide good value added sales data for the standalone business.

**Vishal:** Okay Sir my next question is regarding the topline growth which has been, so if you consider ex of Maruti volume it has been significantly lower during the last two quarters, the delta number compared to what has been the volume growth ex of Maruti quarter-on-quarter so is it because of some sort of erosion we have seen in the market share or is it because of the lower sales of models where we are present?

**Aashim Relan:** Sure so one that our products are engine based right so what we see probably in terms of sales data would not be the accurate measure but it would in the long term also matter but our products are engine based and the engine production data could be a better guide them in fact we are working on something where we could even showcase that in the next couple of quarters. And in engines what happens is that there is engine inventory which then goes into a vehicle then there is vehicle inventory so this is a long chain and hence quarterly measurements may not be the correct way of looking at it but if you look at it on an annualized basis, we have outperformed and we expect to continue to outperform. In addition to that engines in the industry are cross used between passenger vehicles LCV, sometimes domestic production sometimes they are exported so that also adds another variable to it and then there is also general product mix right that sometimes in a quarter or two quarters the OEM will sell one engine more than the other based on various reasons so that also plays an impact. But as a solution to having better linkage one is to look at annual trends because it is not possible to look at quarter-by-quarter or even two quarters and second is to link more towards engine production and then of course as we start showcasing value added sales which I mentioned that already one customer is down two or three remaining that would bring for the clarity onto it. But in a general trend there is no change as such in terms of reason for outperforming or underperforming we remain to be the same so it is more just quarterly variability and it could probably be adjusted by the end of the year.

**Vishal:** Okay Sir so you need to say there is no erosion as such in the market share number in terms of totality?

**Aashim Relan:** No there is no erosion and it just requires to look at annual trend and whenever you look at annual trends you will see outperformance only vis-à-vis will be market and then definitely focus should be more on engine production and this whole long chain of engine production versus engine inventory versus vehicle inventory and then vehicle sales takes time and it is skewed because of lot of these issues that have been happening in terms of supply chain industry. But I think on an annual basis we are very optimistic and we hopefully will outperform the industry in the longer term.

**Vishal:** Great Sir any new orders wins you have got if you can share that information for Q1 FY2023 any new models?

**Aashim Relan:** So all the models that you see on the market generally have a product on it anything that you hear has a product because our products are engine linked right, so often the engines are carryover only, so let us say a car X has launched on the market, the car will be new but you usually the engine is carried forward only. So I think for most of the products we have won the order de facto this is just because the engine is the same and of course we are doing very well in terms of the BS6 RDE which will come in next year first April 2023 so we have won a very good amount of business there and we could maintain or slightly increase market share also as a result of the RDE norms coming in to India.

**Vishal:** Great Sir. Sir my last question is regarding the Eberspaecher JV you said the value addition number was Rs. 44.3 Crores, can we provide the similar number for Q1 FY2022 and Q4 FY2022?

**Aashim Relan:** So we do not have it of hand but we will share that but I think in general the value added sales for financial year 2022 last year was approximately Rs. 110 to Rs. 120 Crores around that range and the first so this is a good performance for this quarter in terms of sales growth.

**Vishal:** Thanks for answering the question. Thank you and all the best.

**Moderator:** Thank you. The next question is from the line of Apurva from Phillip Capital. Please go ahead.

**Apurva:** Thanks for the opportunity. So my first question is on the industry so if you look at a commentary by most of the PV manufacturers so I think this year it could be one of the finest year for the Indian domestic market would be some media number of 36-37 lakh so that would be roughly 20% growth. So are we seeing such kind of buoyancy in terms of order group because we are dealing with I think most of the leading players who are gaining the market share so I think you would be the first indication that with industries is poised for

these kind of numbers. I am not considering the China Taiwan scenario which can again disturb the semiconductor issue but considering the normal scenario, are you seeing such kind of buoyancy and whether that is reflected in your order book as well?

**Aashim Relan:** In general the scenario looks optimistic and the first cautiously optimistic because of geopolitical situations and other things but yet it is optimistic. And if we generally look at the trend in the industry the waiting periods only so high right now for cars and also there is a lot of pent up demand and in general numbers are looking good so far and we expect the good year for all passenger cars, LCV all these segments it is looking good as of now.

**Apurva:** But my point is case are we seeing similar scenario in your order book because if they are so confident of financial year FY2023 I think being a component supplier that should be reflected in your order book as well right?

**Aashim Relan:** Absolutely and the way our thing goes order book is that they give us schedules right whatever they are producing so they are going to sell more than automatically the schedules go up and the schedules keep adjusting on a month-on-month basis but yes as a general trend the visibility is good and there is optimism in terms of the numbers which is being reflected in the industry.

**Apurva:** Sir is it fair to say if industry is growing at may be 20% so if the scenario remains similar so our groups would be higher than the industry so that has been the trend so if that fact remains for the current year as well?

**Aashim Relan:** That is what we are hoping that we would be able to outperform the industry and that is where our hope is yes.

**Apurva:** Great Sir and Sir the same thing applies for CV industry as well because in the initial remarks what Srini Sir said maybe for PV you are cautiously optimistic but you are more confident on the CV, so again CV our growth rate would be higher than industry right?

**Aashim Relan:** When I say CV I define it more as LCV because of the standalone company they are playing in a segment which is lower than three liters so 2.51 or 1.5 liters kind of segment that segment yes, also looks optimistic and there looks to be good demand there as well. And general CV also there is good demand but as a company we would benefit much more from the LCV demand.

**Apurva:** Great understood and one question on this margin side, so if I look at your gross margin or EBITDA margin so maybe on a year-on-year basis there has been some improvement but on

a quarterly basis the margins are coming down because of this change in the gross margin. So is the function of the commodity inflation or changes in the value add or revenue mix means value or non value add because till the time you do not share value added versus non-value added, it is very difficult for us to understand the maybe numbers or margins so if you can help us in a broader way what is the major reason for slightly margin reduction in the current quarter?

**Aashim Relan:** Sure so as you noted Y-o-Y it is much better and on a sequential basis it is a little bit down and that is just general mix variance that happens because it is not too much also that it counts in this general mix variance that is a major contributor to this change and Y-o-Y anyways it is a much better performance so there is nothing as such media like that we see.

**Apurva:** Sir would you like to guide us for any maybe two to three years down the line what could be the sustainable numbers in terms of margins?

**Aashim Relan:** So margins we are expected to maintain or slightly improve also so in terms of margins it looks good because as the new norms come in the products become even more proprietary in nature and that definitely has a benefit to margin so we expect to have a good margin profile going forward as well.

**Apurva:** Sir excluding the other income can it be 12%-13% maybe two years or three years down the line?

**Aashim Relan:** Sure so I think rather than putting a number on it because we look at it on a value added basis and that would be a better guide so when we are able to share the value added numbers more specifics can be given. But in general it looks good that I can just anyway the guide in general it looks good but as these products are coming in new norms are coming in, margins we should be able to maintain and from let us say 2025-2026 we look at a good trend.

**Apurva:** Perfect Sir if just final thing on this JV so can you help me with exit number either revenue or and maybe PBT or EBIT level for the quarter?

**Aashim Relan:** So I think what we will do is that maybe we will just share the numbers offline because on the value-added basis it is more broad that they just want to share regarding the JV but the numbers maybe Srinivasan can share offline

**Apurva:** Great Sir understood thank you very much and all the best.

- Moderator:** Thank you. The next question is from the line of Agastya Dave from CAO Capital. Please go ahead.
- Agastya Dave:** Thank you for the opportunity and Sir just a clarification so TREM V will be scheduled for a start in April 2024 right?
- Aashim Relan:** Yes.
- Agastya Dave:** Sir I am just trying to understand that this is basically a combination of all the questions that everyone else is have asked, just to get a sense how will the ramp up in sales happen, so TREM IV is coming up later this year right so will we see in the next quarter you guys will be building up some inventories right, I understand TREM IV is minimal for you but will we see one quarter before some changes are scheduled, will we see bump up in revenues happening and then subsequently how will the ramp up happen once the thing has been notified and production has started? I am just trying to understand is it just a quantum step which happens immediately or it is a steady increase over period of time?
- Aashim Relan:** Sure so in the case of TREM IV as you noted is very marginal so there could be some increase but nothing significant in the case of TREM IV but in the case of TREM V as well as BS VI RDE what generally happens and it depends on the notification, if the notification says that it is as per sales, the cut off right or is it as per the production. So far the trend has been that it is as per sales the cut off, so when it is as per sales the cut off generally about two months before and there is a gradual ramp up of production that happens so maybe a quarter before there would be a little bit of ramp up and then from the date it becomes effective it becomes a let us say fully come into production and usually it is let us say some ramp up challenges would be there so over one to two quarters it would be fully stabilized. So, the quarter before and the quarter where it is applicable there would be a ramp up. In case of BS VI RDE it would also mean that there is a ramp down of the products which were in BS VI right so it could maybe nullify of have some slight this thing in the case of TREM V it would be all fresh right so that would show up in the numbers quite a lot.
- Agastya Dave:** So TREM V would be purely incremental right this is you will not be losing anything you will be just gaining and BS VI RDE would be a net effect?
- Aashim Relan:** Yes but net positive because we have done well, net positive but that ramp down and ramp up period would be there from the quarter before and quarter after. And in the case of TREM V also there would be no ramp down because it is incremental coming into the company so that could be all fresh phases that will come. And this is totally on the government whether

they choose the cut off to be sales or production link. So far the trend for BS IV and BS6 has been sales link notification so we check the same thing to come.

**Agastya Dave:** So the transition for BS VI RDE when will we see that in your numbers not the cut off date but the transition the first bumper?

**Aashim Relan:** Hopefully a little bit in Q4 financial year 2023-24 so I think that January to March period we would see something and then of course quarter after that it would be applicable.

**Agastya Dave:** Right and Sir for you the biggest benefit will flow in from TREM V if I look at the three transitions separately on a standalone basis the most important one is TREM V right and not BS VI RDE?

**Aashim Relan:** Yes if I was to rank it TREM V is #1 BS VI RDE is #2 and then TREM IV is very minimal so I would not say much.

**Agastya Dave:** Right Sir one final question, one of the previous participants pointed out how everyone is very positive on CV side and people are indeed expecting a 20% increase so given the commentary that you guys have given on capacities that we have and capacity utilizations do we have enough to cater to this demand, would you require certain more probably debottlenecking before we can start producing at this higher level, how is the capacity as of now spare capacity?

**Aashim Relan:** Capacity can be augmented fairly easily but yes it would require some incremental capex and some debottlenecking but nothing significant because this is fairly asset light to augment capacity so in some cases there could be where we need to enhance our capacity as we are running on high number side.

**Agastya Dave:** Great Sir. Thank you very much Sir and all the best for the next quarter.

**Moderator:** Thank you. The next question is from the line of Sonal from Bowhead India. Please go ahead.

**Sonal:** Thank you Sir for this opportunity. I had couple of questions firstly on TREM IV is there any out of the top 4-5 tractor manufacturers, is there any manufacturer where you are the only supplier and so far have you seen all the three players participating in that market or it has been a one player or two player market?

**Aashim Relan:** Sure so in all the customers we generally have another competitor but not on the same platform but on like another one so usually it is never that the 100% businesses given to one person. So generally there is always a second but in terms of competition there are all three that are participating and of course it is that probably two will be much more significant and the third will get some marginal sales as well.

**Sonal:** Sir when you look at the market share of the car or LCV market versus the tractor market, is there a reason for you to believe that the market share in your case could be significantly bigger because the pie gets largely be divided in top 2 players or 3 players in terms of totality or even the car market and the top 2 players are very significant and the third is marginal and relative market share in tractors vs Cars & LCV?

**Aashim Relan:** So in general the number one thing is the tractors there is no situation like Maruti where we do not play which is roughly 40%-50% so with that definitely that benefit will come into the tractor market that tractor has the full market open and then given that this is also a little bit more proprietary of our technology very similar to LCV and CV there are only three players where it is likely to be going towards and hence we could do a better market share as an overall but and again it is all it has to be seen but we are optimistic about this market.

**Sonal:** Is it also true that the third player is also a large player in the car market but would not be that dominant in the tractor market?

**Aashim Relan:** That is what we are hoping towards but is dynamic because of the global situations and lot of these companies the other two competitors we have both international and there is a lot of restructuring and ownership changes happening that globally so it is very hard to predict what their take would be on these markets but we are hoping for some a good market share when it comes to business.

**Sonal:** Actually there is a lot of questions pertaining to the fact that you are growing less than the car market I think from Q4 and Q1 compared to quarterly run rate but when the car market had declined or CV market was not growing the sales never failed so could it be that the larger reason is that the people building taking part from you in advance storing the inventory so that as in when they will have the parts which we have been shorter in supply, they could immediately use one then therefore you never saw a dip and therefore you are not seeing the rise in retail sales are rising; could that explain your performance in last four quarters must be significant outperformance and then compared to retail sales or wholesale sales?

**Aashim Relan:** So our product is not clearly linked to the sales number of Pas-cars so if we go to the engine based products so if we look at engine production data the picture would be different but

anyways what you are saying is correct. As I mentioned that this is a long value chain that we are talking about that we produce a part then it goes to the OEM then the OEM keeps inventory of that then they produce an engine then they will take inventory of the engine then they produce the vehicle then the vehicle has inventory and then of course it gets sold. So there is large chain and quarter-on-quarter kind of thing will be very tough but in general what you're saying is correct the idea that these anomaly in numbers which are coming up would be a little bit because of what you also said in there is a long chain and if you look at the longer term trend that we have outperformed and I think that is going to be there so once the data gets normalized you will find that we are outperforming and doing better and of course then quarter-on-quarter basis general product mix variance also played a lot.

**Sonal:** Sir if I looked at that in general car industry or the industry is supposed to do better this quarter as compared to even the normalized quarters of last two quarters and so forth and therefore would you now from this current quarterly run rate expect some topline increase because whatever inventory extra data built up six months is a long time for all those things to play out and would you expect this run rate to continue or would you expect some further topline increase because the industry would see significant growth in the festival season?

**Aashim Relan:** Yes I think it is best not to look at the car sales numbers as such or LCV sales numbers it is best to focus for engine production annual trends in our case right and that we are optimistic about and in general we are more optimistic on the sales picture it is very tough to comment on one quarter or two quarters based on these sales numbers alone but yes we do expect to grow at industry or better.

**Sonal:** . On a nine month basis, there is no way the car sales would be different than the engine production, one quarter here and there is definitely understandable, it is normal in any business so what I was trying to understand where from your word that maybe there was a inventory built up by a company that you mentioned in the past and therefore your sales never dipped when the entire auto industry was showing bad numbers you have massively outperformed compared to almost all auto ancillaries in India but at the same time last six months for the same reason you will see an increase in sales but now the sale numbers are going to be significantly higher than what anybody would have expected may be 6-9 months back and therefore why don't you expect that the run rate at least from Q2 should be higher than the run rate of let us say Q3-Q4 Q1 because it is not possible to that car sales and engine production would be materially different.

**Aashim Relan:** Sure so I think that is what I am saying I cannot guide on a quarterly basis or based on sale so we can only guide on longer term trends not like this and definitely offline we can connect to understand the data and we can share guidance on it but like this I do not have available any

guidance to give on next one quarter, two quarter or three quarters, it just more focused on the longer term and in terms of the longer term parameters we do not see any change whatsoever in business performance but we can definitely connect and just understand the data as well and in general guidance we can provide as part of this as of now.

**Sonal:** We can definitely connect with you offline and one just two last questions what has been the progress on PLI scheme in EV ventures?

**Aashim Relan:** Sure our PLI scheme is linked to our existing products only and we are still awaiting further clarity and we are working on it and we will share as soon as we have more data on the PLI side because there is a lot of ambiguity on the government front also but we have been selected for the PLI scheme and we have been selected for our existing some products which we wanted to localize and enhance but we share as soon as this ambiguity gets cleared off on the PLI.

**Sonal:** So would you be allowed to claim the benefits of PLI of TREM V do you have that kind of clarity? You said you have got PLI scheme for your existing products what existing products also include the products which are meant for practice?

**Aashim Relan:** Some products could be applicable to in general the products across used between the LCV, tractors etc., but there is a part within the conduct where we will focus on PLI so as we get more clarity it will be beneficial to everything I would still not any specific market segment but we are waiting for more clarity as there is a lot of ambiguity right now from the government.

**Sonal:** But Sir as of now there is no reason for you to believe that TREM V products would not be eligible for PLIs as of now based on whatever knowledge you have?

**Aashim Relan:** I mean I cannot comment based on a particular this thing I honestly do not know as of now so I cannot comment beyond because it is quite ambiguous right but as soon as we get to know more we can definitely on the PLI scheme then we will have a separate presentation as of now we just know that we have been selected now what the exact mechanism of how could what would be applicable what would not get remains to be ambiguous and we are working on getting more clarity and then having a firmer plan on PLI so as of now we just know we have been collected and we would of course love to be part of it but exactly how the mechanism will work I think till you do not have clarity would not be right for me to comment.

- Sonal:** Sir lastly on the EV businesses sales where then would you expect the production to commence and what all stages and what kind of topline could we generate out of that?
- Aashim Relan:** On EV side we have Kinetic Green JV, we have already now have our revised and advanced prototypes under manufacturing and they should be completing the manufacturing process any day and we will start testing them soon on vehicles as well as on test benches and if the test go well we are quite optimistic to start some kind of pilot production towards the end of Q3/Q4 of this financial year. But it would of course be contingent on how we test as of now we are just about completing the manufacturing of the new and advanced prototypes which have taken into account all the various concerns which we had seen in the Indian market on battery packs for two wheeler and three wheeler.
- Sonal:** Thank you so much.
- Moderator:** Thank you. The next question is from the line of Pritesh Chheda from Lucky Investment Managers Private Limited. Please go ahead.
- Pritesh Chheda:** Sir just wanted to check on are we packing the mirroring the volume growth of our key OEM in the quarter gone by or there is any deviation versus volume growth of the key OEM, now I am not basing this question on your revenues because of the fact that if there is any catalyst which is now directly provided by the client then revenue is not the number to be tracked by your name so the better way to track probably is spread the operating profit growth number so just wanted to check if you are mirroring or lagging the OEM growth rate your key OEM which is Tata, Mahindra and Hyundai?
- Aashim Relan:** One we do not discuss specific customers but in general.
- Pritesh Chheda:** I am not discussing any customers.
- Aashim Relan:** So we do not measure our quarterly performance based on the sales data of any OEMs or aggregate OEMs also, because of the things I just mentioned in the previous questions due to the engine linkage etc., but what we do is in terms of business performance we do not see any change and all the businesses that we are working on those who remain and there could be some enhancements only in terms of that and we look at a slightly longer term data for that reason and we do not see any changes whatsoever.
- Pritesh Chheda:** So Sir if that is the case then your three OEMs have grown Q-o-Q in volume I do not see it happening in your case so is there something for us to understand?

- Aashim Relan:** Absolutely so again our products are engine based and they are not based on the sales number of OEM. The engine production data will be a much better guide than the data point here. Engine inventory begins when the part is taken then it goes into vehicle and then this leads to a long chain all the way to the dealers end. So on a quarterly basis or two quarter basis, there is going to be a lot of variability. Then we have seen engines are used between passenger cars, light commercial vehicles, some domestic production, some exports sale then within OEMs and within our own this thing as well there is general product mix variance also that there could be some products which are sold more there have been some products which are sold less and then for all these reasons it is better to look at annual trends and it is better to focus more on engine production and rather than looking Q-o-Q specifics we look at longer term engine production. So those are the few reasons and then of course the challenge of value added sales that definitely something that we are working on and as I said we made progress from one customer and two to three are in progress and any other way of utilizing operating profit etc. as a mechanism may not be correct and we can go into the details for the offline in terms of why that would not be in barrow meter because that would include other aspects.
- Pritesh Chheda:** Okay thank you I will come back for more questions.
- Moderator:** Thank you. The next question is from the line of Nirvana from an individual investor. Please go ahead.
- Nirvana:** Thanks for the opportunity in the presentation I notice that you have written that TREM V may be postponed by a year so are we now expecting TREM V in April 2025?
- Aashim Relan:** No we are not expecting April 2025 we are just saying that there can be some delay based on October 2022 TREM IV but as of now there is no notification.
- Nirvana:** TREM V I am not talking about TREM IV you have written in the presentation that TREM V likely to be postponed by a year?
- Aashim Relan:** No so that is what I am saying like based on TREM IV as its is linked to TREM V that TREM IV got delayed from April to October in 2022 so based on that trend it is only a this thing I am not sure if it is in the presentation but as of now there is no notification.
- Nirvana:** How long before the notification finally comes in will you gear up for production or you will start receiving orders?

- Aashim Relan:** So we have actually already started receiving orders and we have almost completed the design activity for a lot of OEMs so OEMs are fully gearing up for TREM V and we receive orders lag period for sure because this part has to be designed from scratch for the OEM's perspective and we have already the work has started here and probably production as I said it is much closer to the time.
- Nirvana:** Okay great and the orders are in line with the kind of market share that you just described to a previous participant they were hoping to take?
- Aashim Relan:** Yes right now it is too soon to comment on exact orders and also we are not giving orders customer wise because we receive it. But yes the trend looks good and we are under the business development cycle with most of the customers already and we are in good stage and a lot of work is going on in our R&D regarding this product.
- Nirvana:** Okay that is great but secondly on the Eberspaecher JV earlier I remember Mr. Srinivasan said that Rs. 200 Crores value added sale was the break even number now it seems like we have broken even this quarter at 44 Crores so can I assume that there have been some cost efficiencies?
- Aashim Relan:** So it is like basically on an annualized basis let us say 45 but it is almost like it is not always exact 200 so and there is of course that variability but there has been some a bit of optimization which goes on as sales were low for quite a lot of time and in general that little bit in terms of break even there could be shifts here and it should be a commercial vehicle industry so there is all lot of cyclicalities also which is there.
- Nirvana:** Okay and can you give us some color on the number of engine programs that you managed to enter with these two, I think you have two customers there right so can you give us some color on how many engine programs they have and in how many are you present now?
- Aashim Relan:** Sure I do not have the number of engines that they have off hand but we are present in two engines one each with them but I do not have it maybe we can scan and provide you that offline.
- Nirvana:** Based on ballpark like would it be one third or one-fifth or 1/10th I am just trying to estimate the kind of ballpark?
- Aashim Relan:** I do not have that data in front of me right now so I would not be able to comment but I will definitely I think we will get in touch and we will provide you to the best of our ability.

**Nirvana:** Could you help me understand the barrier to entry that Sharda has on its standalone business in terms of IT or like what is it that is making us the only Indian company along with two foreign competitors having such a large market share in the PV and LCV segment because in Eberspaecher JV I can understand that Eberspaecher technology gives us that edge if you could help me understand in standalone business what is that edge that Sharda has and why it will persist?

**Aashim Relan:** Thanks for the question. First thing in terms of R&D that we have so invested in research and development almost 12-13 years ago while a lot of these products work which we are seeing today BS VI, TREM V we are talking about were no where in the horizon and hence from that time only we have been able to we were still started working on these technologies and now after many years of research and development we were able to successfully develop these technologies. And we are R&D facility that we invested in 12 years ago that is equivalent R&D facility which any of our large competitors have even globally right so a large competitors would have it in America, France etc., The facility that we have in Chennai is off global standards and it is equivalent to their mother facilities also right but it is of course available in India and the cost etc. is much more competitive. So I would say our R&D is the number one strength that we have and it is very hard to get the same R&D now for any other Indian company because it would take 10 plus years plus a lot of experience and transitioning from BS4 to BS6 to RDE etc., etc so it is very hard to duplicate. Second we also as a result of our tailwind in investing in R&D much before it was required these technologies we gained a lot of experience in actual execution and building these products from scratch and putting them on field and now these have been running on the field very successfully. So that in itself it is huge moot because any customer now always asks for infield experience and given that BS6 is so new to India as well as BS4 was only there for three years so infield experience is something no other Indian company actually as apart from us. And then again this is very good competitive advantage because a new competitor would take time may be decade or same kind of experience. Third we are fully backward integrated and lot of proprietary parts that go in to this product we have facilities for that and we do thing like proprietary stampings and tubes inhouse which is very different from what even our international competitors are doing and lastly to produce this product also on the manufacturing angle a lot of technologies are required such as calibrated canning which take again multiple years of development which is something that we were successfully able to do. So as a package of all these this gives us a strong moot for our exhaust system business in India and now this same experience and the same competitive advantage is what we want to utilize for the global market from an export frontier.

**Nirvana:** Got it. Thank you that sounds really exciting my last question is on the Kinetic Green JV so is the JV also for captive supply to the three-wheeler production or is it only 2-wheeler?

- Aashim Relan:** It is for both so they are more into three wheelers right now but they signed up for the Chinese two-wheeler company so it is for both and we will look forward to supply to both the segments on the captive side. So we will start of course incrementally right because we want to be very, very careful this is something new to us so we want to be very, very careful and we want to keep learning so we will start gradually this is not going to be a big bang approach but applicability is on both ends.
- Nirvana:** The plan is that Kinetic will replace the existing vendor for DMS for three wheelers with Sharda right with the JV?
- Aashim Relan:** No it is not necessarily a replace I would say it could also be supplement there is no thing like that but there are many new vehicles also that they are working on.
- Nirvana:** Okay and their two-wheeler production do you have any sense which quarter they are going to start they announced the tie-up I think in January any idea on when they are going to start the first production?
- Aashim Relan:** It is quite dynamic and I think there is no firm production date as of now but they are also taking it incrementally of course this is good news that they now have a technology partner but I do not have any SOP that they have in mind as of now.
- Nirvana:** Okay alright thank you for patiently answering the questions and wish you all the best.
- Moderator:** Thank you. The next question is from the line of Akshat Mehta from Sameeksha Capital. Please go ahead.
- Akshat Mehta:** Sir couple of questions one is that in your Q4 call you said that in the JV with Eberspaecher had around Rs. 100 Crores revenue you did last year and Rs. 200 Crores is breakeven and last year we were around 50% capacity utilization so if you take the number to Rs. 200 Crores you will be essentially utilizing your entire capacity so on that front as well as on new TREM V opportunity which is coming can you give up some color on the amount of addition keeping that will be requiring to see these opportunities?
- Aashim Relan:** Sure, on TREM V standalone right it is not a part of any JV and second on the capacity and in general this business we can augment capacity very easily with incremental capex so it is not a very big point like it is in other industries or components in terms of adding capacity and it generally would not flow with the exact match that you did but just as a TREM question I will answer that we would not require much in terms of capex to meet any further requirement.

- Akshat Mehta:** Okay but do you have any broad ballpark number in mind?
- Aashim Relan:** For TREM V or the JV?
- Akshat Mehta:** Both of them I mean I just need some ball park so I would like to know more over the next 3-4 years.
- Aashim Relan:** It would be incremental and it would be matching our past strength only immediate number I do not have offhand but it would be meeting roughly our past trends only there is nothing major that we see in front of us when it comes to these industries.
- Akshat Mehta:** Okay thank you Sir. Thank you for answering.
- Moderator:** Thank you. The next question is from the line of Utkarsh Somaiyaa an Individual Investor. Please go ahead.
- Utkarsh Somaiyaa:** Thank you for the opportunity. In each of the segments can you please tell me your capacity utilization for FY2022 and Q1 FY2023?
- Aashim Relan:** Sure so we do not give out segment wise capacity utilization and not on a quarterly basis that is something that is not on the public domain but just in general as a standalone company we are in the high 80s of capacity utilization.
- Utkarsh Somaiyaa:** And can we expect this to go to 100% for the year?
- Aashim Relan:** It is very tough to predict whether it would go 100% and by slight debottlenecking often we can take care also but we will see as it goes and as I mentioned that even some cases some debottlenecking or some augmented capacity could be required and we could manage that with some incremental cost.
- Utkarsh Somaiyaa:** Sir any growth that comes going forward will be from debottlenecking? Can you speak a little more about debottlenecking as to how long does it take from when you decide to debottleneck and how much does it cost what is the asset turnover because all our growth depends like an idea if you can please that would be very helpful?
- Aashim Relan:** Sure it depends on which aspect we want to de-bottleneck but it can happen fairly shortly within three months and in terms of asset turnover there is no number that we can give but it is incremental in nature so it is not anything significant so whatever growth that we have spoken about and whatever we see in the future we only expect incremental capex this business is not a very capex heavy business.

- Utkarsh Somaiyaa:** Historically you have done asset turn upwards of 2-2.5 times so we can expect that to remain if not surpass
- Aashim Relan:** I would just give my answer as a general trend I would not want to go into any specific numbers regarding this just as a general trend I think we would continue similarly and we expect incremental capex only going forward for the business that you are talking about.
- Utkarsh Somaiyaa:** If you were to build your current capacity all over again as of today and how much would cost another company or yourself to?
- Aashim Relan:** I do not have a number for that and I think it is as I said that it is not just about capacity and one of the questions before regarding competitive advantage I think the company, much more is about R&D about its in-field experience in these proprietary products with backward integration and it is manufacturing technology so I think it would be very tough to replicate that and many companies globally who have this have spent many, many billion dollars to achieve that so I think from that angle it would be very difficult to replicate but on just manufacturing capacity I do not know in terms of cost.
- Utkarsh Somaiyaa:** Sir who are your peers in the domestic market?
- Aashim Relan:** So we do not name competitors as part of this call but we largely have two competitors both are international companies one with French origin and one with American origin.
- Utkarsh Somaiyaa:** One is French and the other one?
- Company Speaker:** American origin.
- Utkarsh Somaiyaa:** One last question on your cash you have 500 odd Crores of cash on your books any plans as to how you would like to utilize it?
- Aashim Relan:** So our first preference is to utilize it for an M&A for powertrain agnostic products and there of course various conversations and deals that we are in discussion with but there is nothing that is material that we can comment on as of now but we are scanning the market for M&A and as things update only M&A front we will definitely keep everyone posted but that is definitely the preference we have. But of course we have also established a dividend policy and we will also be looking at other policies in which we can also start returning back lot of the cash flows to shareholders not just the cash flow plus that we have right now but we also expect that we will generate some good free cash from the next couple of years given that other capex is incremental for the growth that we are talking about.

- Utkarsh Somaiyaa:** Okay and when you mean powertrain agnostic products is this for CV?
- Aashim Relan:** When I say powertrain agnostic I mean a new product that is not linked to the powertrain so powertrain is either a gasoline engine, diesel engine, hybrid engine, electric vehicle, CNG vehicle or the hydrogen vehicles or something other than that so good example is our suspension vertical but suspension vertical is totally powertrain agnostic as it goes in all vehicle types when it comes to powertrain and our M&A will be more focused towards strengthening back or building some similar products.
- Utkarsh Somaiyaa:** Great thank you so much and good luck and just one more question is there any change in market dynamics as of now over Q1 or just qualitatively how the market is as of now market, the demand on ground and inquiries they are facing?
- Company Speaker:** In general demand looks good and things have normalized the semiconductor crisis has eased up and on all segments demand looks good and there is a lot of pent up demand I think also so we see a lot of waiting periods on the market so generally it is optimistic but definitely there is a lot of caution given geopolitical situation ongoing but it looks good.
- Utkarsh Somaiyaa:** Thank you so much and best of luck.
- Moderator:** Thank you. The next question is from the line of Sonal from Bowhead India. It is a follow up question. Please go ahead.
- Sonal:** Some of the new launches have seen bookings with a large share from hybrid products so I was wondering whether your share in the hybrid product versus a normal product IC engine product how does it vary, is it same does your share increase does your share decrease? what I was asking was the difference between the sales for your like-to-like products or hybrid versus a non-hybrid product does it really change significantly?
- Aashim Relan:** Sure so in India we are seeing only a trend of micro hybrid, in the case of micro hybrid or minor hybrid cars there the content remains the same but in case India wants to go in to some of the global trends of hybrid whether fully hybrid cars then there would be another product required in addition to our product which also can be produced by us, so the content increases substantially but as of now we do not see fully hybrid development in India to the extent that we see it in other countries like Japan etc., but if it was to come then our content per car would increase.
- Sonal:** Sir what would be the impact RDE norms for us in terms of value added sales increase?

- Aashim Relan:** RDE norms we expecting in diesel vehicles about 20% to 25% increase in content per car and for gasoline vehicles approximately 10%.
- Sonal:** And the same thing what would be the impact on MHCVs?
- Aashim Relan:** You mean heavy commercial vehicle?
- Sonal:** Yes
- Aashim Relan:** There is not much change in terms of RDE.
- Sonal:** There will not be much change in terms of value but would it be to change in terms of market share for you due to new technology?
- Aashim Relan:** Possibly but right now there is nothing firm in front of us so I would not comment on it but therefore there is possibility in terms of market share but nothing is firm as of now so there would not be anything significant that I would comment .
- Sonal:** And one last question if I may in case you have this data if you are starting sales I do not want any actual numbers I understand it is confidential but if it is starting sales point in Q3 in terms of value added 100 what would that number be in Q4 and what would that number be in Q1?
- Aashim Relan:** Okay I do not have the number in front of me right but I think we are making good progress in terms of having value added sales so I am hopeful that as long as now the balance customer's we can reach some agreement and their different conversations then it would be much simpler to look at as of now I do not have this kind of Indexation.
- Sonal:** Okay let me ask this question in a different way have you seen Q-o-Q or over two quarters significant decline in the raw materials which you use?
- Aashim Relan:** I am not sure what significant decline in....
- Sonal:** The raw materials you use internally?
- Aashim Relan:** I do not have the raw material price data but it has been very volatile and generally all our raw materials are indexed with the customer so it does not have much of a business impact and raw materials have been very volatile through this whole COVID period and rather with an inflationary trend but individual raw materials like this so we do not even look at it that much as it is a pass on most of the time.

**Sonal:** Since you don't share value added sales portion I was trying to understand because we can deduce that on our own if you were to share with us if we have that information obviously that in general there was Q-o-Q declining raw materials like to like basis?

**Aashim Relan:** We do not have that data and we will see just revert internally if we could even share that data generally we do not like to this thing about raw material but let me check if we can also then I will definitely we will put something out of its permissible in terms of that but I do not have it as of now.

**Sonal:** No worries thank you so much.

**Moderator:** Thank you. Ladies and gentlemen, this will be the last question for today which would be from the line of Arun Sancheti, an Individual Investor. Please go ahead.

**Arun Sancheti:** My question is very specific to your CV side of the business. My question would be in general how big the market would be in terms of the value and volume terms another follow up to that would be I understand that our market share used to be around 10% to 20% a year back so is there any movement to that and third question connected to that would be that what is the roadmap that we envision to extend the market share on CV side of the business?

**Aashim Relan:** Sure so the first question roughly the market share would be equivalent to what we are looking at in pas-cars and by commercial vehicles we mean heavy commercial vehicles or do you mean?

**Arun Sancheti:** Heavy commercial vehicles?

**Aashim Relan:** Right it would be roughly be the same and probably exact numbers we can share offline. In terms of market share we have not seen much change here only thing that happens is that there are only few engines in the entire market, we are on two engines and within that engine production and how each player engine is performed by the customers there is much more variability that happens in the commercial vehicle market. And in terms of point #3 we are looking at RDE definitely as an opportunity where they can be in some market share and we are also doing multiple other exercises to gain market share on the CV side of the business heavy commercial like where it is low as from 10% to 20% as of now.

**Arun Sancheti:** In general, the CV market broadly would be captured by two big players out of that I understand that one of the players caught a captive subsidy which is providing them the emission solution we would be left with that another player on the right in that case when we are providing them the parts?

- Aashim Relan:** We already so I think the captive player also outsourcing this component right so the captive player does not produce our component they produce the entire system altogether including the engine so definitely that opportunity and we do work with them so the opportunity to gain further share there it is actually quite big so that is one. And second as you noted with other dominant player they hold most of the business apart from this captive business which you mentioned and that is also an opportunity.
- Arun Sancheti:** If I am allowed to have a clarification on that talking about first player, there is a captive subsidiary out there you mentioned that there is an opportunity to increase or rather garner some market share from their captive business, can you elaborate on that please because if it is their own subsidiary they would prefer to work with the subsidiary itself?
- Aashim Relan:** No so I think that is a big this thing that there is a company that produces the engine then they produce within the subsidiary and entire system also and the scanning aspect of the system is something that they outsource they do not do it fully in house maybe a very small percentage would be done in house and within that outsourcing of that business there is an opportunity gain.
- Arun Sancheti:** Okay talking about the second player I do understand that the second player in PV side of the business got different vendor if that be the case how likely is that the same vendor will not get extended to the CV business as well?
- Aashim Relan:** I do not know I actually cannot reference what you are saying but usually I can tell you that in case there is a customer who has the PV segment and CV segment within this product definitely the sourcing is done differently because commercial vehicle emission systems require much more proprietary technology and passenger vehicles also require proprietary but not as much so sourcing is generally indifferent I could not infer in terms of which customer etc. but in general this is trend.
- Arun Sancheti:** In a way that answers and thank you for that. Now only submission I would have is that it has been close to a year and we are still talking about let us say a ballpark 10% to 15% of kind of market share how we really envision it let us say 2 year out, is it something which can be extended to let us say 30% to 40% of the market share within two years timeframe?
- Aashim Relan:** Sure this is done more, the commercial vehicle aspect is done more through our joint venture and in that joint venture we do not have managerial control right and the entire full focus was on stability of the joint venture and profitability as last one or two years it did not make a profit and that is where the full focus was because very important to stabilize and then



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definitely to develop from here. So we of course want to gain market share but it is a lot of effort is going it but nothing material that I could comment on that.

**Arun Sancheti:** Okay appreciate that. Thank you very much.

**Moderator:** Thank you as that was the last question for today I would now like to hand the conference over to the management for closing comments.

**Srinivasan N:** Thank you. We thank you all for your participation in our earnings call today we hope we have been able to address most of your queries and also we will get back wherever we can and you can also get in touch with our IR advisors for any further questions. Wish you a lovely evening and also advance happy Independence Day. Thank you so much.

**Moderator:** Thank you. On behalf of Sharda Motor Industries Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.