



Sharda Motor Industries Ltd.

SMIL: BSE/NSE: 21-22/1702

February 17, 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, 5th Floor
Plot No. C/1, G Block
Bandra - Kurla Complex, Mumbai - 400 051
(Symbol - SHARDAMOTR) (Series - EQ)

Sub: Transcript of earning call held on February 10, 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:21-22/1102 dated February 11, 2022 regarding the submission of audio recording of earning call held on Thursday, February 10, 2022 from 5:00 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.

This is for your information and record.

Thanking You,

Your's Faithfully

Divyang Jain
Asst. Company Secretary &
Compliance Officer

Encl. as above

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“Sharda Motor Industries Limited Q3 FY22 Earnings Conference Call”

February 10, 2022

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

**MODERATOR: MR. APURVA SHAH – PHILLIP CAPITAL INDIA PRIVATE
LIMITED**



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Moderator: Ladies and gentlemen, good day and welcome to the Sharda Motor Industries Limited Q3 FY22 earnings conference call hosted by Phillip Capital India Private Limited. This conference call may contain forward looking statements about the company which are based on 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 participants' 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. Apurva Shah from Phillip Capital India Private Limited. Thank you and over to you, sir.

Apurva Shah: Thank you. On behalf of Phillip Capital India Private Limited, I welcome all of you to Q3 FY22 post earnings conference call of Sharda Motor Industries Limited. We have with us today, Mr. Aashim Relan – Chief Executive Officer and Mr. Srinivasan N – Chief Financial Officer of the company. I would request the management for their opening remarks and post that we will open the floor for Q&A. Thank you very much and over to you, sir.

Srinivasan N: Thank you and good evening to all of you and a very warm welcome to everyone present on this call and I hope you all are keeping safe. On this call, I have Mr. Aashim Relan, our Chief Executive Officer and we have our investor relations agency Strategic Growth Advisors. I am hoping you have all received our investor presentation by now. Those who haven't seen them yet, they can do so on the stock exchange or on the company's website.

Let me begin with the industries' highlights for the period. In spite of the pandemic affecting yet another fiscal year, there is growing optimism about the country's economic recovery. The auto industry has suffered as a result of pandemic and the semiconductor shortage, but it is now resuming its long-term growth trajectory. Demand is very strong, which can also be evidenced with a backlog of almost 700,000 cars to be delivered by the end of December 2021. In terms of auto industry performance during Q3 FY22, we saw sales of 7.9 lakh units in passenger vehicles, 3 lakh units of commercial vehicles, 1.9 lakh units in three-wheeler sales, and 40.1 lakh units in two-wheeler sales. However, Q3 FY22 sales, including those of the festive season actually fell short of expectations. When compared to Q3 of the previous two years, the HCVs have shown positive growth, whereas sales of passenger vehicles and two-wheelers have been subdued. We are expecting the CV segment to continue to grow and show a good double-digit growth.

The evolution of new emission norms in the form of CEV IV& V, and TREM IV& V will open up new opportunities for us and we are prepared with the capacities and technologies to address such a market. With the government implementing various PLI schemes for auto and auto components, advanced chemistry sales, and the recently announced semiconductor manufacturing scheme, the government's support to the industry is pretty much evident.



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The transition from fossil fuels to electric mobility is underway, in two-wheelers and three-wheelers currently. The government's proposal to implement a battery swapping policy for EVs with interoperability standards will benefit the electric two-wheeler and three-wheeler segments.

Now coming to the business performance, our Q3 FY22 revenue was marginally lower by 1% versus Q3 FY21, with the semiconductor shortage affecting the demand. However, our revenue for the 9 months FY22 grew by a solid 45% to INR 1,637 crores against INR 1,132 crores in the previous year's nine months. Further on a sequential basis compared to Q2 FY22, our revenue was marginally lower by 1.5%.

Our EBITDA, including other income, stood at INR 68 crores in Q3 FY22 as against INR 57 crores in Q3 FY21, a growth of 19%. Further EBITDA margins, including other income, were 11.7% in this quarter as compared to 9.7% in the Q3 of FY21. On a nine-month basis, our EBITDA was INR 185.4 crores as against INR 92.7 crores of FY21 9 months, a growth of almost hundred percent. EBITDA margins, including other income, was 11.3% in nine months, FY22 as compared to 8.2% in the nine months FY21. Our PBT margins rose to 9.9% in Q3 FY22 as against 7.6% in Q3 FY21. During the quarter, the share of loss of JV and Associates was INR 3.7 crores versus a loss of INR 2.5 crores in the Q3 of FY21, whereas, for the nine-month FY22, there was a loss of INR 10 crores versus a loss of INR 5 crores nine-month FY21. This was due to the severe impact on CV volumes during the year.

Our consolidated profit after tax, including the JV profit or loss for Q3 FY22 was INR 39 crores as compared to INR 31 crores of Q3 FY21. Similarly for the nine months FY22 it stood at INR 105 crores against INR 41 crores in the nine-month FY21. Further, we continue to remain debt-free with about INR 346 crores of surplus cash as on 31st, December 2021.

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

Moderator: Thank you, ladies and gentlemen, we will now begin with the question-and-answer session. The first question is from the line of Vishal Srivastav from Swan Investments. Please go ahead.

Vishal Srivastav: My question is what was your value-added contribution to the revenue for this quarter and the same thing during the quarter last year and Q2 FY22?

Aashim Relan: I will take this question. This is Aashim and wish you all a very good evening and thank you so much Vishal. While on the value-added side, right now, we do not disclose value-added sales only, due to our customer confidentiality agreements regarding catalyst pricing. But we are working along with our customers on value-added sale disclosures. As and when we get these confirmations, we will move to that set of value-added sales.

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- Vishal Srivastav:** Can I get a ballpark proportion, 40%, 45%?
- Aashim Relan:** Just to avoid any guesstimates as and when we get the confirmations, we will do that. We totally understand that this is something which will really improve the transparency and we are working on it very closely with the customers where we currently have confidentiality agreements. So, respecting those agreements at this point, I will not comment any further.
- Vishal Srivastav:** My second question is regarding the CAPEX requirement for the year FY22 and going forward in FY23?
- Srinivasan N:** As we had also informed in the previous calls, our CAPEX requirements are only incremental in nature because we already have the major facilities, ready. This year we are close to around INR 20 crores CAPEX and maybe another 20% more maybe required, but we have a provision for INR 10 crores and it depends upon the actual projects and the incremental CAPEX required during the year. For the subsequent years again, it depends upon the new projects that we are looking for and difficult to estimate at this stage.
- Vishal Srivastav:** My last question is any growth target you have in your mind for the next 2–3-year period and margin target you have in your mind in the next 2–3-year period? Any color you can throw on new order wins in the current quarter, as well as in last one year?
- Aashim Relan:** Sure. While we're not giving any specific guidance in terms of sales targets or growth targets, we remain to be very bullish on the next 2, 3, 4 years and we are confident to be outperforming the automobile industry by a good number. When it comes to order book right now, we don't have disclosures on the order book, but we are also working with our business development team to provide some kind of disclosure on order book. But just as of now, we don't disclose order book. But in a general statement, it is looking very strong and it is definitely one of our best performances by our business development team in the history of the company.
- Moderator:** The next question is from the line of Abhishek Tandon from Bowhead India, please go ahead.
- Abhishek Tandon:** My first question is regarding our JV with Kinetic Green, so it was supposed to be operational by Q3 FY22. So, what is the status there?
- Aashim Relan:** Yes, it is meant to be operational in Q3 of the next financial year. As of now, it looks to be on track. What we are doing is, we are making adjustments based on the new battery swapping policies etc. and we are hopeful to maintain that timeline.
- Abhishek Tandon:** Are we looking into the PLI schemes?

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- Aashim Relan:** Yes. We are looking into the PLI scheme and maybe Srinivasan, you can give an update.
- Srinivasan N:** Yes, sure. We definitely are looking at the PLI scheme. We have got some of our products included in that notification. We have also applied for the scheme through the required documentation and everything. We are now awaiting government's screening and approval process, which may take another couple of months and post that we can comment better on this.
- Abhishek Tandon:** Just what was the percentage contribution towards sales of components that we supply to any construction equipment manufacturers?
- Aashim Relan:** Sure. So, I will take that question. As of now, we are not supplying to construction equipment because construction equipment does not require our products, but as the legislations on CEV as well as TREM are coming in between 2022 and '24, the entire construction equipment market would also require our products. We are right now in touch with almost all construction equipment makers for future business development.
- Abhishek Tandon:** The move from CEV III to CEV IV which happened for some construction equipment from September '21, that didn't require any supply from our side?
- Aashim Relan:** Yes. It's a very marginal part right now for construction equipment that requires our part and most of that is being imported at this point of time because the volumes are so low that it does not make sense to localize it, but as the market expands, the localization efforts are on. Once the customers are localizing, we are talking to them as partners to do the same for them.
- Abhishek Tandon:** But when TREM IV comes this April '22 will that lead to any incremental sales for us?
- Aashim Relan:** Yes. That will be leading to incremental sales just because the tractor market or off-highway market will not be fully emissionised by these norms, but yes, the perception that is that would lead to some incremental sales for us. We do have good order booking there, but it would be relatively smaller than the TREM V which is coming. The big impact will be seen in TREM V but TREM IV will definitely have some additional business.
- Moderator:** The next question is in the line of Viraj from Securities Investment Management, please go ahead.
- Viraj:** Just have broadly two questions. First, is you said that you applied for another PLI for products. Are these existing products which you have applied for PLI or you're talking about new product categories?

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Srinivasan N: This is related to the products we are already supplying. I only meant by the notification, there are certain products that are covered. We are supplying more than that, but we have applied for the PLI considering the existing product portfolio only.

Viraj: That will largely be in the exhaust system?

Srinivasan N: Yes.

Viraj: And the second question is, if you look at our sales run rate in this particular quarter also, it is quarter where most of our major customers had some production challenges in terms of semiconductor but still our performance has been quite healthy. So, what is driving this outperformance, is there any new customer addition or any new model wins which is driving this, anything you can share on that?

Aashim Relan: In general, our market share in some customers has improved that has had a little bit of help in this plus as our products are stabilizing, it is giving us tailwinds and that's why there has been an improvement in our numbers versus the industry.

Viraj: On the cash part, the last one question, the cash balances keep on building up. Is there any thought on how we want to utilize it? Because we have ample opportunities through PLI, just want to get a prospect of it, is there any firm plans around that?

Aashim Relan: So, one that we are very conscious of the cash on our books, and as we expect good free cash flows in the coming years, we do have a very good opportunity to utilize this cash. One, we are exploring various M&A opportunities. As and when they materialize, we will update on the same and second, we have released a new dividend policy. There could be some utilization through that as well.

Moderator: Next question is from the line of Karthi Keyan from Suyash Advisors. Please go ahead.

Karthi Keyan: One is what is the current confidence in TREM IV being implemented, your perspective on that?

Aashim Relan: So, I will take that question. One that TREM IV will be implemented. We are quite confident of that. The OEMs have got their products ready. Everything is ready. Now, some marginal delays could be there but implementation will be there for TREM IV, in our perspective.

Karthi Keyan: And TREM V, is there any re-think on that, or do you believe that will also happen plus or minus along the indicated timelines?



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Aashim Relan: There is always room for slight changes because till it is not fully notified, but yes, we are confident the way the customers are working on the product development quite aggressively. There also a lot of good work that has already happened. We do see that TREM V will be implemented. Now timeline, there would always be marginal delays.

Karthi Keyan: What I am trying to understand from you is the kind of traction we are seeing in terms of your standalone volumes versus value. If you could give us a flavor of what would 1Q, 2Q, 3Q, and 4Q would be like. 4Q is an outlook thing, so if you had to index 4Q to one, two, and three, that will be a helpful indication of how things are evolving, a broad view is that generally 4Q is weak and there may be some pipeline inventory, there may be some amount of context?

Aashim Relan: We don't have any index as such off-hand, but we will try to revert back on that for you and share that with everyone. But regarding business we are looking at some challenges here and there which the OEMs are facing with semi-conductors, but it is definitely on an improving trend. And, generally, omicron wave is also subsiding, it generally looks good on the standalone side, but it is anyone's guess as we are going to do a dynamic environment especially with the semi-conductors and these waves of coronavirus that come in. But yes, it's generally looking good. As of now, it is looking strong and we'll work on some kind of an index maybe to share it. I don't have it off-hand right now.

Karthi Keyan: So, I appreciate that input. The third one is on the Kinetic Green joint venture partner, he has tied up with AIMA, would there be any follow-up of this with you either positively or negatively? Would you have a role to play there also?

Aashim Relan: Without commenting on anything specific to Kinetic Green and their partnership, in general, we were very happy with this news, as their partnerships have definitely enhanced their position and also make a good play for them in not just the three-wheeler EV market, but also the two-wheeler EV market and any volume benefit or any growth benefits that our partner OEM anchor partner gets, we would also be benefactors of that. But as this announcement is fairly recent, I won't comment any further apart from saying that definitely it is good news and we are excited and we wish Kinetic Green, the best on this venture.

Karthi Keyan: The last question is on this JV, you had also started supplying to Ashok Leyland, so one would have thought that there would have been some operating leverage, to offset the additional cost. So, you reported similar losses to the previous quarter. Some perspective on this JV performance would be interesting?

Aashim Relan: Sure. So, you know there without again naming the customer, but yes, we did, you know, start with an additional customer, but there are larger challenges that the customers are facing in a couple of engines in the CV market when it comes to semiconductors and those challenges are,

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you know, getting resolved slower than what we are seeing more in the other markets. In general, if you see that the sales have also been lower or equal, as soon as the sales pick up, we will see a very good rebound in that venture as well. It is just that engines that are linked to our products are facing the semiconductor issues quite largely as of now, but of course, that also creates pent-up demand. Whenever this dissolves it would be a good bounce back.

Moderator: The next question from the line of Sonaal Kohli from Bowhead, please go ahead.

Sonaal Kohli: I got two queries, is it possible for you to give a context of what be the impact of TREM IV, in terms of revenue or profitability, a broad context, not exact numbers is what we are looking at, assuming a stable market similar to FY22 or whatever is possible for you to give? The second part, these regulations regarding CV, which are expected to change. These are also RDE regulations and on the CV side, while you have talked cars the impact would be 10% to 15% in content per vehicle. What would be the impact on the CV side?

Aashim Relan: The first side of it regarding TREM IV, in the case of TREM IV that just because volumes on a relative scale to our business, there will definitely be an addition but nothing that which would be like big bang, which we expect from TREM V, so there would be some improvement. Definitely, that does help incrementally in terms of sales and performance, in terms of margins, we expect the margins to be similar to other industries, similar margins we have in our standalone business, we are also expecting in TREM IV products. Maybe there's an opportunity to be slightly better in the case of TREM V. Definitely TREM V is when we will see a very good impact and a very good tailwind for the company when it comes to sales profitability. That is on the TREM or the tractor business side. Now coming to CV, CV on our product in terms of value-added sales, this new regulation will not have any significant change on the content per vehicle, but it does kind of instill the OEMs to recalibrate their engine that they have to be recommissioned, then basically sent to ARAI, etc. It's basically another development activity that takes place. That creates an opening for us to gain market share. Otherwise, these products are very sticky because they require a lot of testing and it becomes tough to take any market share. It would be more like an opening to gain market share on the CV side, when we talk about RDE regulations that need to be implemented by April 2023.

Sonaal Kohli: So, they are also in April 2023, as far as CVs are concerned?

Aashim Relan: On-road is all together, in April 2023.

Sonaal Kohli: In terms of profitability either on passenger car side or CV side, both these lead to increase. While the content may go up 10% to 15%, would the EBITDA increase be on those lines, lesser lines, or higher lines?

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Aashim Relan: It would probably be on this same or a little bit better because generally as the product is becoming more technology-intensive, the profitability does go up, but let's say it will be slightly better. Also, just to clarify on the CV side, when I'm talking about content, I'm talking about the heavy commercial vehicles - the MHCV segment, but when we talk about the LCV segment, the LC segment will have an increase in content per car or content per truck to about similar to PV or even slightly better than PV.

Sonaal Kohli: Just for the sake of clarity. If I have understood you correctly, what you are saying is your content vehicle in LCVs and passengers will go up by broadly 10% to 15% and therefore, or the very broad level the EBITDA from these would also go by 10%, 15% per vehicle. Have I got it right?

Aashim Relan: Yes.

Sonaal Kohli: As on TREM IV is concerned, what do you say, including the cranes and the CVs, the impact for you would be less than 5% at the overall level, or could it be even more than that?

Aashim Relan: Tough to put a number on it right now, because there are a few variables in play I can't put a number on it, but yes, it will be incremental what I can say at this juncture. As we probably get to know further, I will be able to comment a little bit more in detail regarding that.

Sonaal Kohli: As far as your MHCV business is concerned, post the regulations change, is there any timeline where you think that you may be able to make a similar kind of profitability, in terms of margins at least on a value-added sale, similar to what you make currently in your standalone entity, so what kind of market share do you need to go over there and do you think that's a possibility over a five-year period?

Aashim Relan: Yes, so definitely it's a possibility to reach similar margins. As the business is designed it is by design a very similar profitability business. It's just not reached its full potential of sales, even with the existing orders that we have due to various issues by the pandemic and now the semiconductor shortage. Yes, definitely as the sales increase, we will start seeing improvements and we would definitely come to an EBITDA which is similar at full potential sales, even as we move forward in the next 5 years.

Sonaal Kohli: In terms of competitive intensity is the CV market similar to car at a broad level or very different and what would we expect on the tractor side?

Aashim Relan: I would say the tractor and CV market, and this also includes LCV, the competitor intensity is slightly lower. The reason for that is that the technology requirement is much more. So, we expect a lesser competitor intensive in these segments. And PV is just slightly more because

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there might be one or two more competitors in PV due to some Japanese joint ventures, etc. But largely it's a three-player market that way we look at it, especially on the emission side.

Sonaal Kohli: My last question, just wanted to understand, if I remember correctly and I may be at a broad level correct but may not be giving the exact numbers. I think ex Maruti, which you don't cater to there is a decline Q-on-Q of roughly 12% in terms of sale volumes for passenger cars. When do you think the industry ex Maruti would go back to the Q2 number from where it has declined? Would you expect that to be Q4FY22 or Q1FY23, when do you see the issues getting solved at a broad level?

Aashim Relan: At a broad level, that definitely the worst seems to be behind us when it comes to the semiconductor shortage. And as Srinivasan San said that there is a very good order backlog which all customers are seeing, so this more looks to be like a supply-side issue rather than a demand-side issue. So, we are confident as we move through the quarters, our customer's performance will be improving as well.

Sonaal Kohli: And you would expect the same in MHCV as well in addition to the passenger cars?

Aashim Relan: Yes, we would, but now the MHCV segment just has fewer engines, so if there is one impact on one engine that does have a higher proportional impact on sales. So, it is a bit harder to predict MHCV. It's easier to predict the LCVs, passenger cars, the smaller engine market.

Moderator: The next question is from the line of Aditya from Robo Capital.

Aditya: This question is regarding our Eberspaecher joint venture. It was supposed to come to breakeven soon. Do we have any updates on this?

Aashim Relan: We were expecting that the sales would reach breakeven points this year and especially in this quarter, next quarter, but due to the semiconductor issue that our customers are having, it has not yet reached its full potential of sales and sales look to be very similar to last year numbers. As soon as, the customer sales pick up on these engines, we do expect it to improve and reach the breakeven point. So, we are very hopeful that in the quarter or the coming quarters and there should be an improvement, but it's contingent to this semiconductor issue being resolved.

Aditya: Do we have any updates on the capacity utilization?

Srinivasan N: In terms of the Eberspaecher JV we are currently at 40% to 50% capacity utilization.

Aditya: And on a blended basis.

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- Aashim Relan:** By blended you mean standalone plus joint venture?
- Aditya:** Yes.
- Srinivasan N:** On the standalone entity we are already running at 85% capacity utilization. Whereas in the joint venture it's around 40% to 50%.
- Moderator:** The next question is from the line of Sriram Rajan, an investor.
- Sriram Rajan:** My name is Sriram. I am an individual investor. Just two questions. Congratulations on a great quarter. As we see this shift happening to electric vehicles as management do you see that the exhaust line of business could see some deceleration a few years from now? And if yes, do we have plans to bridge that gap? That's question one.
- Aashim Relan:** In general, as we look at the electrification journey, we are seeing that there will be a large impact on the two-wheeler, three-wheeler and the bus segment and that would electrify fairly fast. When we look at the PV segment, we would be entering more into powertrain scenario which would have multiple powertrains. And when we look at the CV and the tractor and off-highway segment, we are fairly comfortable that this will not electrify soon at all at least for the next 10 years and it would remain to be very stable. Now, just looking at our own strategy, our company is going through an exponential increase in its addressable market as a result of not just legislations, but also the technology and the intellectual property that we have developed in the last 2-3 years. So, the addressable market, in general, is going so high when we look at our emissions products. So, we see a very marginal impact when it comes to the electrification side. And second, we are largely going to be playing in the CV and off-highway segments. So, when we are looking at our projections going into 2024 and 2025, more than 80% of our revenues will be coming from the CV segment plus off-highway segment which includes LCV, heavy commercial vehicles, tractors, construction equipment, as well as the component business. But yes, it is definitely an attractive opportunity, and we feel that two-wheeler and three-wheeler would be a great place to play when it comes to electrification and that's why we are targeting this as a new market segment and that is why we have begun with this joint venture on the two-wheeler and three-wheeler side.
- Sriram Rajan:** On the EV side, just a few questions. I think there are a lot of people who are going to enter that. We have Exide, Amara Raja, Toshiba, Lucas, TVS, multiple people who have signed up for the PLI scheme. Would we have any differentiators in terms of our battery chemistry as to why would the OEMs look at as our kinetic energy-based lithium-ion battery versus others? That is one question.

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Aashim Relan: We, first of all, importantly have an anchor customer and in this industry, an anchor customer is very important as it will be going through various changes. And while you have mentioned some of the companies, these are all going into power cell manufacturing and we are going into the assembly business which is agnostic of chemistry and evolution, and technology. So, our mindset is that we want to be more on an asset-light level when it comes to the battery assembly business and utilize this opportunity with our anchor customer to develop various other products which our R&D system is preparing as we speak.

Sriram Rajan: Other than EV, if it can be disclosed, are there other products that you would be developing or you intend to participate in? Other than the EV batteries?

Aashim Relan: I think the strategy step one is to get this going. But step two is to be looking at subcomponents and looking at other places where we can play and cross-sell in the EV business as well as other components. But at this juncture, we are taking it one step at a time and step one is very important to get through and then we will of course, discuss in detail about the next phases.

Moderator: The next question is from the line of Chirag Shah from Edelweiss.

Chirag Shah: My question is first, when I look at your suspension products details in presentation that you have shared, your market share is only 10%. Why is it so and what is your thought process over there and what it will require for you to achieve a higher market share?

Aashim Relan: Regarding the suspension business, given that there was a big legislature tailwind that we had in our emissions business, our full focus from 2017 to 2020 was to make benefit of this BS6 which was implemented and hence the other business verticals there was not that much focus. But now that we have very stable emissions vertical, we are looking at our other products and building strategies on revamping each one of them. And as these strategies get formalized, we will keep updating. So definitely there is potential and there is definite potential to revamp every other business that we have.

Chirag Shah: Can you elaborate what exactly is that business, who are your key customers, key segments, etc., it would be helpful?

Aashim Relan: As of now it is passenger cars only and we don't name customers as a policy, but we have two to three customers in that segment.

Chirag Shah: And the customer would be the same between this and the exhaust system?

Aashim Relan: Maybe there is one customer which we have in this segment which we don't have in the exhaust system.



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- Chirag Shah:** The suspension market share if you want to bring it in par with your exhaust system, what will be required from your side, what kind of efforts, whether it is customer development, investments that is required. If you can elaborate what all things, we will have to do to scale up the market share?
- Aashim Relan:** Right now, we are working on the strategy. So, I won't comment on any specifics, but just like there is potential in the suspension segment as well as other products, but just because our strategy is underway, so for the purpose of this call, I won't comment further on that.
- Chirag Shah:** Related question, probably if you can elaborate now or maybe later on. See, when we look at a lot of ancillaries, your peers in terms of the size and structure, a lot of them are focusing on products which are a combination of mechanical electronics, or mechatronics in that sense. Is that kind of product on your radar when you look at your strategy over a longer period of time? And also, if you can elaborate on what kind of products you are evaluating internally or what line streams you are evaluating internally to expand your product basket?
- Aashim Relan:** One, we definitely recognize that there is very good potential that our company has to increase its content per vehicle and hence it would be lucrative to get into newer products. But as we are exploring multiple opportunities at this time, as things develop, we will keep updating regarding that.
- Chirag Shah:** If I can squeeze in two more questions. One is a clarification, so when you said OBD will have a significant impact on your passenger car content, the structure would be similar which is now like half of would-be bought out or and half would be manufactured, or the mix will change post that? Today if we look at our revenue everything is not manufactured. Half of them are bought out or traded or based on how the client is indicating to you as far as sourcing is concerned?
- Aashim Relan:** We expect that all new norms will have a similar trend. Now, the question about bought out is I think more the catalyst. And in the case of the catalyst even in our current revenues, some customers ask us to buy it, some customers give it to us free of cost, and that is likely to continue as we go future. Every customer has a different choice there. But there is no change in structure as such that the norms will bring about.
- Chirag Shah:** One last question on the export side, any talks on whether export is an opportunity for us in the current product portfolio and how are we looking at it?
- Aashim Relan:** Exports is definitely a big part of our growth strategy and where we are focusing on exports is the small engine customers and the off-highway segment plus the subcomponent segment. Both of these are very large global markets and do not have any formal market leader as of now. We have developed the technology to cater to all these markets and also showcased this technology



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in the Indian market. So, this is an exciting opportunity for us. The business development activity has already started with multiple customers, and as and when we get some good success in our endeavors, we will keep updating on the same.

Chirag Shah: It is more in the development stage as of now, so it will take some time for you to get the approvals and then start shipping out the initial trial products, etc.?

Aashim Relan: Here the business development cycle is a little bit faster than what we see in the traditional OEM segment because here there is a blend of aftermarket customers, Tier-1s as well as off-highway customers, which usually have a shorter business development cycle than what we see in the big OEMs of the CV and PV industry. And our focus for exports is going to be on these off-highway and Tier-1 companies and aftermarket companies, rather than just OEMs.

Moderator: The next question is from the line of Apurva Shah from PhillipCapital India. Private limited.

Apurva Shah: With respect to JV, I do understand that currently still we have not yet achieved the breakeven level, but is it possible to share maybe quarterly or nine months revenue for the JV?

Aashim Relan: I think the exact numbers we can share offline and definitely it would be possible to share the revenue numbers.

Apurva Shah: On a sustainable basis, if we look at 2024-2025, so would this JV resemble our operating metrics of the standalone business where we are doing almost 5x to 6x of asset turn and maybe a negligible working capital with a similar return ratio, etc., and maybe (+) 10% operating margins?

Aashim Relan: We are very hopeful for that. As the business dynamics are very similar in that market versus the markets we are playing in the standalone business.

Apurva Shah: One more thing on the JV part. I don't want to go into the name of the customer, but can we share the wallet share for each customer, so that would help us to understand how we are penetrating in two years of operations?

Aashim Relan: As of now we are not sharing the wallet share and there we also have the other partner, so we will have to look at what best we can do in terms of transparency and try to share whatever best indicators are possible.

Apurva Shah: One thing on the R&D part. I think historically we have been very consistent spending into R&D and developing new products and I think that has helped us in developing a future-ready portfolio. But sitting in this current situation, I think we are ready with TREM IV as well and

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CEV IV as well. So, do we need to do that R&D expenses in the near future? And if yes, then what would be the focus area which helps us to differentiate ourselves and to compete with the larger MNCs?

Aashim Relan: So, one that we have already got the technology, not just for CEV IV and TREM IV but also for Term V and CEV V. And this same emission legislation is now equivalent to what is there in the US market, the European market, and even Japan and Korea. So, in terms of technology, we are well-tuned with our multinational competitors now, and that is very visible in the Indian market also where we have a good market share. In terms of R&D as a company, we will, of course, continue our focus on innovation and utilize our R&D resources for deployment of this intellectual property which we have gained in the last 10 years. And also look at other products which will help us increase our content per vehicle and take us towards our powertrain agnostic journey.

Apurva Shah: So, that would be majorly focused on the exhaust system or the current product profile only, not any new products, etc.?

Aashim Relan: We are right now working on adjacency products and some other products in our R&D center non-related to exhaust systems also.

Apurva Shah: Just last one more question from my end. In the CEV segment, I think the legislation came in April 2021. So, obviously, that came with some sort of a relaxation. While sitting in December or January 2022, what is the current status in the CEV segment? Are we seeing any inquiries from the customers and if yes, how many customers have floated their inquiry to us?

Aashim Relan: You are talking about the CEV?

Apurva Shah: CEV yes, construction equipment vehicle.

Aashim Relan: Regarding CEV IV and TREM IV, TREM V, all these segments, we are in talks with a majority of the customers. Without giving a number, for construction equipment, off-highway tractors we are in touch with lots of customers.

Apurva Shah: Again, there we will be working with top three-four customers?

Aashim Relan: We are as of now we can almost say working with everyone. We are in dialogue with almost everyone.

Moderator: We will move on to the next question that is from the line of Vishal Srivastava from Swan Investments.

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- Vishal Srivastava:** There are a couple of questions from my side. Regarding the Eberspaecher JV, you said the current capacity utilization level is close to around 40% to 50% odd. What do you expect that what utilization levels would you be able to achieve the breakeven?
- Aashim Relan:** I think more than capacity utilization, we expect that Rs. 200 crores of value-added sales we will be breakeven, and more than capacity utilization it is more a figure that we have the calculation based on.
- Vishal Srivastava:** My second question is regarding kinetic green business. You said that it will commence operation from H2 of FY23. So, any guidance in that regard, how you see the business to grow by FY24-25 and going forward, what is your plan taking that business in 4-5 years ahead and in terms of margin profile, some guidance in that regard?
- Aashim Relan:** Right now, we are just fully focused on phase one, and on the completion of phase one we are parallelly talking about phase two and three, but once we have a firm strategy on that we will then disclose, as right now the full focus is on phase one, which is to get into it.
- Moderator:** The next question is from the line of Sonaal Kohli from Bowhead.
- Sonaal Kohli:** I have a couple of questions, so I will ask one by one. Firstly, when I look at the standalone business, what portion of your EBITDA at the broad level of profits comes from car exhaust systems? And if I look at all other business, whether it's your suspension, other products exports or LCV exhaust systems, what percent of profits comes from others. For the sake of clarity, I'll repeat the question. What portion of your profit broadly at the EBITDA level comes from standalone car exhaust systems and what comes from all other businesses, whether it's suspension, other products, exports, or LCV exhaust systems?
- Aashim Relan:** As of now, we are not able to disclose vertical-wise profitability or segment-wise profitability. But we could work on that. But in general, we can give a bifurcation on sales, and maybe Srinivasan you can give an indication on sales bifurcation.
- Srinivasan N:** In terms of the revenue, if you see 90% of our revenue comes from the exhaust business and about 6% is suspension and the rest are like procurement side or the canopy just about 1%, 2%, etc.
- Sonaal Kohli:** I wasn't asking for a bifurcation of exhaust versus non-exhaust because that will be fairly simple, considering 90% of your revenue is coming from it. I was trying to understand passenger car exhaust systems versus all others because some will have some element of threat over the next five years, the others would have broadly zero threat over the next five years?

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- Srinivasan N:** In terms of passenger vehicle versus LCV, that's almost equal, about 40% to 45% each.
- Sonaal Kohli:** The second query I had was you said your CV capacity utilization is about 40%-45%. What kind of CAPEX would it take to increase that capacity let's say by around another 100%? Do we have land and the ability to do that CAPEX? And how much time would it take to increase the capacity? I am asking you in the context of, if the CV cycle recovers then you gain market share what would be a situation 2-3 years hence?
- Aashim Relan:** Just like our current business, even that business has incremental CAPEX only. So, it totally depends on project to project, but it would be incremental in nature. And in this product, it's easy to augment capacity in general. So Yes, we could fairly increase capacity with less incremental CAPEX.
- Sonaal Kohli:** And is my understanding at a broad level correct that the value-add portion, whether in passenger cars or MHCVs would be similar?
- Aashim Relan:** In MHCV it is much higher, it would be much higher than passenger vehicles, just probably you can say 2.5x-3x also in heavy commercial.
- Sonaal Kohli:** I was asking in terms of percentage. Not per vehicle.
- Aashim Relan:** In terms of percentage as in?
- Sonaal Kohli:** So, let's say if the total MHCV revenue is 100 and if the total passenger revenue is 100, let's say in case passenger if its 50, would MHCV be 60 or would it be 40 or broadly 50?
- Aashim Relan:** I don't have this number offhand, but we will get back to you regarding this.
- Sonaal Kohli:** What is the EV CAPEX for phase one?
- Aashim Relan:** Its very marginal. Maybe Srinivasan you have the exact number.
- Srinivasan N:** It is close to about Rs. 10-15 crores.
- Sonaal Kohli:** You have mentioned about the land which is available for sale. At a broad level, is it possible to share the market value of it and would you be selling it over the next 2-3 years?
- Aashim Relan:** The market value, just because we are not sharing any numbers, but it is in three figures and it's two parcels of land that we have, and our thought is that at the right opportunity and right price to definitely utilize and sell off the land.



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- Moderator:** The next question is from the line of Kartikeyan from Suyash Advisors.
- Kartikeyan:** Again, I am going back to the Eberspaecher joint venture. More than the joint venture has there been any discussion with Eberspaecher itself in terms of working with them on some business opportunity, given the fact that Europe seems to be accelerating its move towards say electric or whatever. So, are there discussions you are having, are they seeing any pressures from their side which you can solve for them? Anything on this would be interesting. I suppose you have had lots of time in the last two years too
- Aashim Relan:** There are always opportunities in terms of synergizing and there are definitely conversations always going on in that regard. But as soon as something forms up, then only I would like to comment on it. But yes, definitely the strength in Europe would be a benefit to us in many ways beyond what you just mentioned, but as things firm up then only I'll be able to comment on it.
- Moderator:** Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to the management for the closing comments.
- Srinivasan N:** Thank you...We anticipate that infrastructure work, the development of clearer policies, and a vision for long-term and sustainable growth will provide us with numerous opportunities in the coming years. All of these opportunities are technologically and statistically ready for us to capitalize on. I would like to take this opportunity to express my gratitude to everyone who took part in this call. I hope we were able to address all of your concerns. Further, if you require any additional information, please contact me or strategic growth advisors, our investor relations teams. Thank you so much and wish you a lovely evening.
- Moderator:** Thank you. Ladies and gentlemen, on behalf of PhillipCapital India. Private Limited, that concludes this conference call. We thank you for joining us and you may now disconnect your lines. Thank you.