



# Sharda Motor Industries Ltd.

**SMIL: BSE/NSE: 22-23/2111/1**

**21<sup>st</sup> November, 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 16<sup>th</sup> November, 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. BSE/NSE: 22-23/1611/3 dated 16<sup>th</sup> November, 2022 regarding the submission of audio recording of earning call held on Wednesday, 16<sup>th</sup> November, 2022 at 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](http://www.shardamotor.com).

This is for your information and record.

**Thanking You,**

**Your's Faithfully**

**Iti Goyal**

**Asst. Company Secretary &**

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# “Sharda Motor Industries Limited Q2 FY2023 Earnings Conference Call”

November 16, 2022

Disclaimer: E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on 16<sup>th</sup> November 2022 will prevail



**MANAGEMENT: MR. AASHIM RELAN – CHIEF EXECUTIVE OFFICER -  
SHARDA MOTOR INDUSTRIES LIMITED  
MR. PURU AGGARWAL – PRESIDENT AND GROUP CHIEF  
FINANCIAL OFFICER - SHARDA MOTOR INDUSTRIES  
LIMITED**



*Sharda Motor Industries Limited*  
*November 16, 2022*

**Moderator:**

Ladies and gentlemen, good day and welcome to Sharda Motor Industries Limited Q2 FY2022 Earnings Conference Call. This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions, and expectations of the company as on date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict. As a reminder, all participant lines will be in the listen only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during 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. Puru Aggarwal – President and Group CFO from Sharda Motor Industries Limited. Thank you, and over to you Sir!

**Puru Aggarwal:**

Thank you. Good evening to all. A very warm welcome to all the participants on this call. I hope you have had a safe and happy Diwali and wish that the New Year brings prosperity into everybody’s life. This evening I am joined by Mr. Aashim Relan, our CEO and our Investor Relations Advisor SGA. I am hoping that you have seen our results and have received our investor presentation by now. The presentation is also uploaded on Stock Exchanges as well as company’s website for reference. Before discussing the company’s performance for the quarter, I would like to shed some lights on the industry.

The recent festive season has brought some cheer to the auto industry, which is touted as one of the best festive period in the last few years. Also, with commodity price is moderating and other issues like semiconductor shortage and supply chain disruption easing out the auto industry is looking forward to better performance in the near to mid-term. This is also substantiated with the growth outlook of the OEMs and new model launches planned in near future.

On the segment front we are seeing sustained uptrend in CV volumes due to which it is a good sign as it reflects the overall economic buoyancy. The volumes for YTD FY2023 that is April to October period has been positive with Y-o-Y growth of 53% in CV. PV volumes also registered a strong growth of 37% during the same period. Another key segment tractors registered 11% growth largely driven by festive demand and recent government announcement for higher realization for rabi crops. The two-wheeler and three-wheeler also registered for the period 14% and 19% respectively. In fact the data suggest that all the segments in EV that is two-wheeler, three-wheeler, passenger car and bus have surpassed the FY2022 sales in April to August period of the current financial year. Having shared my thoughts on the industry, I will now move to operation and financial performance of the company. We registered revenue of Rs. 698 Crores, which is a growth of 19% as compared

to Q2 FY2022 and 11% on sequential basis. Our EBITDA for the quarter is Rs.76 Crores as compared to Rs. 61 Crores in Q2 FY2022 and Q1 FY2023. It grew in excess of 20% on Y-o-Y basis as well as on Q-o-Q basis. We improved our EBITDA margin to 10.8% in Q2 FY2023 as compared to 9.7% in Q1 FY2023 whereas our margin on Y-o-Y basis improved by approximately 40 basis points as compared to Q2 FY2022. Our PBT for the quarter was Rs. 74 Crores after accounting for share in profit in JV and associates. The PBT grew by 29% and 22% as compared to Q2 FY2022 and Q1 2023 respectively. The PAT for the Q2 2023 was Rs.55 Crores which is a growth of 31% and 21% as compared to Q2 FY2022 and Q1 FY2023 respectively. On the first half year basis our revenue, EBITDA and PAT grew by 25%, 35% and 51% to Rs.1,326 Crores, Rs.136 Crores, and Rs. 100 Crores respectively. The EBITDA margin grew by 70 basis points to 10.3% as compared to 9.6% in H1 FY2022. On the balance sheet front we continue to maintain healthy liquidity position and cash surplus as on September 30, 2022. With this we can open the floor for Q&A.

**Moderator:** Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Ankur Shah from Quasar Capital. Please go ahead.

**Ankur Shah:** Hi, congrats on a good set of numbers. Sir, couple of questions first is on the business side, from next year onwards the RDE norms will kick in right is that true?

**Aashim Relan:** Hi, this is Aashim this side, good evening. RDE norms will kick in from April 1, 2023.

**Ankur Shah:** In the RDE norms the diesel engine will have 25% increase in content and petrol will have 10%, is that right?

**Aashim Relan:** Yes.

**Ankur Shah:** So has the inquiry and the order formation started or will that take time?

**Aashim Relan:** Yes. All our orders are already nominated and now we have already underway doing capex etc., and we will be starting production probably in the end of Q4 of this financial year for RDE norm products.

**Ankur Shah:** From the viewpoint of RDE and TREM V what will be the total capex outlay is there a figure which you all have planned for it?

**Aashim Relan:** It is all incremental in nature, so we expect our capex run rate to be at historic levels so there would be no substantial increase for these products, but of course that just as we have gone historically we would have the similar trajectory.

- Ankur Shah:** So in the range of Rs. 50-70 Crores per year?
- Aashim Relan:** Not to get a specific number, but yes by that range you can say.
- Ankur Shah:** So this actually brings you to the question of capital allocation, you see considering the cash generation which we have been doing it has been spectacular and at the same time the level of capex intensity which our business require and the cash balance which we have and the kind of valuation the company trades at, sir aren't you considering a serious buyback option because your cash position is now almost 20% of the market cap?
- Aashim Relan:** We are definitely looking to utilize the cash surplus in the best possible manner. Our first preference is utilizing the cash for an M&A opportunity in powertrain agnostic products and always few deals that we are looking at, but we do not have a fixed timeline and we want to be very careful with the valuation plus deal that we go ahead with, but of course we also want to return back the cash in a tax friendly manner and all kinds of options we are looking at in terms of how to do that apart from M&A activity as well.
- Ankur Shah:** Okay, great. Thank you so much.
- Moderator:** Thank you. The next question is from the line of Karthi Keyan from Suyash Advisors. Please go ahead.
- Karthi Keyan:** Thanks for the opportunity. Couple of questions one can you talk about the outlook for the next second half in terms of the momentum on the standalone side and also some thoughts on what is happening on the joint venture level I am talking of the CV joint venture?
- Aashim Relan:** On the H2 side we maintain to have good order book and if our customers do well we will do as well in H2, but of course things are dynamic given the global environment and all what we read in the news, but we will in general as a trend it looks good. Coming to the joint venture in specific you are referring to the Eberspaecher joint venture or...
- Karthi Keyan:** Yes. I mean the Eberspaecher joint venture because I see again another quarter of this Rs. 50 lakhs so I am assuming we are still in that breakeven revenue level of maybe Rs. 45-50 Crores?
- Aashim Relan:** Yes. So, full focus right now for that joint venture is stabilization and bringing it to profitability. So I think we have come up very good ways this financial year to at least come to green and that is showcased I think in last quarter and this quarter. But some issues remain there in terms of the engines that they are selling to are not performing as well as the market is performing, so lot of business development activity and other initiatives are

underway also to further improve the performance, but I think still focus is to stabilize and really maintain and probably increase the profitability.

**Karthi Keyan:** What would drive the growth impact part of the business we have referred to the models for quite often so I am just wondering whether it is such a prolonged problem?

**Aashim Relan:** Yes. So these are newer engines which we are supplying for and as the Indian market has grown they are still preferring the older engine so we are working towards initiatives on how these products in the cross use between old and new as well as some other opportunities that have opened up in the market. But just given that first phase the full attention is on stabilizing and really maintaining our green position and of course parallelly looking at these initiatives on how we can also improve sales performance.

**Karthi Keyan:** Any update on the Eberspaecher's export initiative either on the component side or any other initiatives on that side?

**Aashim Relan:** Right now there is no material update because our full focus is to bring this part to success and I think already a lot of good work has been done but we want to remain focus on really stabilizing before we look at the next initiative.

**Karthi Keyan:** I was asking you on the standalone side can you sustain the growth that you have achieved in the first half?

**Aashim Relan:** It will totally depend on our customers if our customers' numbers remain good..

**Karthi Keyan:** The schedule.

**Aashim Relan:** The schedules which we have are only one to two months firm but in general the trend looks good but it is totally contingent on market and macro environment and all our customers in general right, so we are totally linked to how the customers will do, but in general it looks good.

**Karthi Keyan:** I will get back in the queue. Thank you so much.

**Moderator:** Thank you. The next question is from the line of Tarun Sancheti from Sanchay Nidhi Ltd. Please go ahead.

**Tarun Sancheti:** Hi, good evening management team. My question is very specific to your M&HCV segment so in this segment from a capability perspective we have partnered with one of the very strong industry player which is Eberspaecher; however, till last quarter our market

share used to be close to 10% to 15% in that context I have got two questions, one is that based on previous interaction management have indicated that we are working on one, one engine platform for both of the large CV OEMs the question I would have one part is that what is the percentage of CV market share those engine platforms account for?

**Aashim Relan:** That is dynamic and because the M&HCV segment is so concentrated in terms of engine I think maybe just five or six engines drive 90% of the market so it is very difficult I do not have the latest quarterly numbers for how the engine performance has come, but we get back to you on the specific share but it is quite dynamic in the M&HCV segment when it comes to market share just because of the concentration of value that is there in this couple of engines in the entire market.

**Tarun Sancheti:** So, what I understand is that it is kind of very concentrated and then there is a long trial so the one, one engine that we are working on is that part of those five to six engine models that you alluded about?

**Aashim Relan:** Yes, we have the newer formation of those where the new generation of those six engines so there is always some of the customers who are working on new generation engines so we are on the new generation engines within those six.

**Tarun Sancheti:** Is it right to infer that being a new engine platform it may take some bit of a time and even within being part of that 90% bucket it may not be contributing substantially to the market share is that the way to read it?

**Aashim Relan:** I think it is dependent on two things, one how the new engines perform in the medium term and that is totally based on market response and few other factors and probably second is how we can standardize across engines and how we can modularize and how well we do on that and these are initiatives that they are medium-term initiatives so hard to put a timeline on that, but yes these would be the two factors when we are talking of those engines in specific but once we modularize the cost application really increases.

**Tarun Sancheti:** Follow up to that would be I think in the last meeting you mentioned about a new RFP opportunity coming up in calendar year 2023 so if we have a visibility at this point of time how big the market share would be for those engine platforms wherein you have spoken about the possible RFP?

**Aashim Relan:** Yes, so as of now there is no clear visibility as such, but if we win one engine also that could lead to a substantial increase because of the concentration of value over few engines. But there is no visibility so I would not like to comment till we do not have something concrete.

**Tarun Sancheti:** Sure, and just to clarify that and maybe I can put it this way are those new RFPs part of that five to six engine that you spoke about in the previous answer?

**Aashim Relan:** Yes, they are a mix of new generation and old generation. as the years go and the market trends in M&HCV are changing customers are looking at newer generation engines but the response of older generation so far seems to be better but that of course there are tweaks that are happening in the market so it is market response so that is more towards the end customer so we have limitation there but strategy is definitely to look at standardization across applications in this industry.

**Tarun Sancheti:** Sure, this was very helpful. Another question related to this JV itself is that based on some of the public available information what we understand is that Eberspaecher also have partnership in India for PV segment keeping that context in mind our partnership on PV space is that a exclusive one with Eberspaecher or is there a possibility wherein Eberspaecher may perhaps work with another Tier-2, Tier-3 vendor in the CV space?

**Aashim Relan:** Are you talking CV or PV, the commercial vehicle or passenger vehicle?

**Tarun Sancheti:** Our partnership is on commercial vehicle space and even for that matter in PV they have partnered with someone else so drawing a parallel to that is there a possibility that within the CV space itself our partnership is exclusive one or is there a possibility that they may partner within the CV space with another vendor as well?

**Aashim Relan:** I think the previous partnership is some technical agreement or something which is maybe a decade or two decades kind of a relationship and that is for the passenger vehicle space and ours is for commercial vehicle and we are above the engine threshold and with some exceptions we are exclusively working on that but of course it is based on segments so passenger vehicle both companies are free to do with other partners and that is the old partnership they have and in the case of passenger vehicle we are standalone sufficient company and we have our own technology so we play in the passenger vehicle and M&HCV segment as a standalone company and we do not require any technology there.

**Tarun Sancheti:** Final bit of question and maybe I can join back in the queue again. At least directionally what is the future plan of the JV and how long of an agreement Sharda have with Eberspaecher at present is there a general cutoff date to that?

**Aashim Relan:** Sure so I think full focus is on stabilizing so the joint venture because of the pandemic last two years did not make good results so our full focus right now is to stabilize, bring it to profitability which we have been successful on and we want to first finish that phase and then we want to move forward in terms of next phase of the joint venture. In terms of terms

and conditions like this specific there is nothing material that we can share today in terms of the annual or whatever there is nothing material like that.

**Tarun Sancheti:** Thank you very much and all the very best.

**Moderator:** Thank you. The next question is from the line of Chirag Shah from Nuvama. Please go ahead.

**Chirag Shah:** Thanks for the opportunity. First I will continue with the Eberspaecher question actually just wanted to understand what is the key issue with the engines that we are working on, is it the cost sheet or is it the performance because industry should be willing to accept a new gen engine right or a new gen technology in that sense?

**Aashim Relan:** So that is something that the end customer really has to articulate because that is not our core competency on looking at engine response to the market for the truck and bus makers really to gauge but they are of course working on various initiatives to improve market response to new generation engines.

**Chirag Shah:** If you can indicate this refers to which tonnage category is it in the 2 to 3.5 ton category you are referring to?

**Aashim Relan:** I am not aware of the tonnage that these go in to and what my understanding is that there is cross application between tonnages so this being an engine focus company we look at the literage and I think these are like above 4.5 liter engines.

**Chirag Shah:** Who supplies them for the older version and we were supplying for the newer engines and still you are also a supplier for the older engine or there is somebody else?

**Aashim Relan:** Competitors are, we are suppliers for the newer ones.

**Chirag Shah:** Second question is again if you just step back on Eberspaecher JV till the time we have done the JV it appears to be lagging versus what were the initial expectation or the vision that was set aside and including the potential outsourcing opportunity also in it, what are the key reasons and how are you addressing the challenges which gives you confidence that from here on next two years things will improve drastically?

**Aashim Relan:** Yes. I think the joint venture was done in 2019 and really it has been a pandemic joint venture in terms of that COVID came one year after, so I think April 1, 2020 was the launch of BS VI and the products that we had and we have really suffered due to pandemic and the CV market was of course hit very hard as well as travel restrictions, etc. So, our full focus is

first again to just be on phase I right now I think stabilization is very important for us and we are laser focused on that and the first one to go ahead with phase I and then only even discuss our phase II at this juncture.

**Chirag Shah:** Because CV volumes are kind of almost there to 2019 levels?

**Aashim Relan:** That is right.

**Chirag Shah:** Yes our profitability is still not moving up the curve that is the reason I was asking it is it driving this higher import content or anything else?

**Aashim Relan:** Just this what I just mentioned regarding the new and older engines and then because the focus being a new company and right after the pandemic came in so definitely it is challenging to manage a new company in the pandemic so that is how stabilization is very important and we have been very successful on the stabilization if you look from losses last year it is at least now in green so I think it is a great first step and we want to continue on the stabilization effort because the foundation has to be strong and then the growth of course.

**Chirag Shah:** Second question was on the RDE norms you indicate 25% increase in diesel and 10% in petrol I presume the combination between own manufacturing and bought out would stay the way it is or you see a change?

**Aashim Relan:** It has no change as such apart from just that the norms have additional content that come in, the rest there is no big change.

**Chirag Shah:** You would be able to enjoy mark up on this cost escalation that OEMs will have, so if 25% is the increase in diesel content and your average margins are say 8%, 9% or 10% you will be able to make those margins on it or it is only initial since this will be just a cost pass through and markup may not happen given the jump that is being seen?

**Aashim Relan:** Not clearly I am able to understand but yes it is just the general so we expect to have similar margins in the new products also.

**Chirag Shah:** Yes, that was the question.

**Aashim Relan:** So we expect to have a very similar structure.

**Chirag Shah:** My worry was that 100 becoming 125 you may not be able to mark up on the incremental 25 so our reported margins would go down.

- Aashim Relan:** Yes, we are expecting similar profile.
- Chirag Shah:** Sir any thought process on two potential opportunities the one which is exports how are we looking at this especially on PV side or on tractor side is there an opportunity available that is the first question and if yes then are you looking at it and how are you looking at it?
- Aashim Relan:** So there is a really big opportunity available when we look at the export market and we are looking at two segments, one is the off-road or small engine segment where we can supply exhaust systems we already do little bit to one or two customers in America but we really want to double down on that and add customers on the small engine exhaust systems side which is exportable product and second is on the subcomponent. So one very good thing about our company is that we are a backward integrated and now one or two components which are proprietary in nature also we have just initiated now actually that the production has started. We have started manufacturing in-house also and we also have a huge export market and we are working towards building on export front and definitely as things materialized we will keep sharing. At this juncture we do have good amount of RFQs, etc., and as we get success in the market we will keep sharing.
- Chirag Shah:** How should we look at the timeframe for this because generally it is a three to five year cycle before we are able to make an inroad, is it right to look at it or it could be shorter timeframes and then we get the initial trial order and then second round of order comes through so is it the understanding right that it could be a lengthy process from here on?
- Aashim Relan:** So we are hoping for a shorter timeframe and the reason for that is few, one on the small engine side the customers profile is different, it is not big OEMs and their cycle of business development is traditionally shorter. On the subcomponent side also the customers are not the big OEMs or the target customers they are Tier ones and in the case of Tier ones also the business development cycle is shorter and then third there is a mega trend of China +1 where global supply chains are really looking for an alternative to China and they are also a little bit enthusiastic and of course India and few other countries play as a very good alternative so that mega trend also may help us short in the cycle. But again we are new to the export market as of now about 4% - 5% of our revenues is only coming from exports so we will have to wait and see that we expect very good results under shorter timeframe than what you have mentioned.
- Chirag Shah:** So are you only focusing on US as of now or even Europe is under consideration?
- Aashim Relan:** US and Europe.

**Chirag Shah:** Last if I can just squeeze in one more and this Kinetic Green any updates on that and on the EV side in general how are you looking at and share about it?

**Aashim Relan:** Sure. On the Kinetic side one good news to share that we have our first prototype ready and the first prototypes are under testing. We of course want to be 200% sure of the designs and test them extensively on the field before the manufacturing process given in the industry, we have heard of various things. And in addition to that now the government has shared the AIS Amendment 3 and we want these batteries to be compliant to that. So, within that the prototypes are under testing and if things go well some gradual very minimal production should begin at end of Q3, Q4 based on how the testing performance goes so that is on the side of the Kinetic JV. In the side of electric vehicles our strategy right now is to develop powertrain agnostic parts and to play in the EV field more on the two-wheeler and three-wheeler side and try to utilize the cross experience that we gained from this Kinetic JV and look for other businesses. But again EV side we want to first focus on phase I which are these battery assemblies for the JV which are under testing and on the powertrain agnostic front there are definitely lot of discussions are going on, on other potential products that we can add within our same customer base as well as looking to revamp some of our existing verticals like the suspension vertical with possible technology tie-ups etc., but as things get more material we will keep sharing.

**Chirag Shah:** If I can ask this on Kinetic Green itself that how are they pursuing the opportunity for themselves. Are they looking to become a most effective producer across OEM platform or it is only for in-house because this is an evolving space and a lot of things are happening over there so is there anything that you can share or how they are thinking?

**Aashim Relan:** Sure, so in EV and especially this two-wheeler, three-wheeler segment it is ever evolving so the change is almost everyday happening and I think Kinetic is positioning itself to really play in the two-wheeler and three-wheeler market as well and in terms of specific strategy of that, that is something that I would not be the right person to share but I think they are really excited about this segment and they are enjoying good growth also what we see in the market but they are doing very well in the last few months this really does well.

**Chirag Shah:** Okay great thank you very much and all the best.

**Moderator:** Thank you. The next question is from the line of Amar Kant Gaur from PhillipCapital. Please go ahead.

**Amar Kant Gaur:** Sir my question is on RDE norms, so in terms of its application is it based on the production of vehicles by 1st April or on the retail sales do you have any clarity on that?

**Aashim Relan:** There still remains to be ambiguity there and I think the customers are seeking clarity also there is some ambiguity whether it would be retail or production and we are working on both scenarios since there is no clarity by the government.

**Amar Kant Gaur:** On the RDE itself could you help us with what is the potential change and what would be the quantum of cost increases for that.

**Aashim Relan:** Cost increase for the entire vehicle that is something I do not have the data for, I have the data only for our product and our side of it. I am not very sure about what will be the overall impact on a vehicle and for our side diesel we are expecting a 25% increase in our content and for gasoline 10%.

**Amar Kant Gaur:** So would that be in the range of Rs.15000, Rs.20000 or more than that or any ballpark figure if you can give?

**Aashim Relan:** Just very broadly that this is a percentage because we do not share content per car anyways so we are just giving a guidance percentage but for car makers themselves I do not know that is something that is not our core competence and the OEMs would better be aware of that.

**Amar Kant Gaur:** Because I was asking this because different OEMs are getting numbers that are quite different some are in the range of like Rs. 10,000, Rs. 15,000 so I just wanted to get a better understanding of that.

**Aashim Relan:** Sure, that is something that there are other products also and there are other changes that they need to make that is why they will have a much better view on the overall picture.

**Amar Kant Gaur:** Understood. That is it from me. Thank you for taking my questions. Thank you Sir, all the best.

**Moderator:** Thank you. The next question is from the line of Ronak Sarada from Systematix Group. Please go ahead.

**Ronak Sarada:** Hi, thanks for the opportunity. Sir, first question, so assuming let us say the industry volumes or the production volumes in FY2023 remain as same as FY2022 we should see a 10% to 15% kind of a revenue growth already driven by content is that the way we should see this?

**Aashim Relan:** If you can just repeat your question you mean FY2024 maybe right or calendar year 2024?

- Ronak Sarda:** Yes, right FY2024.
- Aashim Relan:** Sure. So if all things equal yes but it is not so easy to measure our growth against traditional industry growth when we look at PV and CV because as we are engine linked, then yes if the same number of engines and the same mix get produced then it would be based on the gasoline and diesel mix 10% and 25% keeping all other things equal.
- Ronak Sarda:** Is there a big part which product mix also plays when we look at our products this SUV proportion increasing in a big way does that also have a very large part in our topline growth has been for the last two years?
- Aashim Relan:** Our products are not so much linked to what we see in the market in terms of SUVs or Passenger cars and things like that our products are really engine linked and then it is a little bit technical but different customers have different strategies to meet the norms right then the choices of technology, etc., so that does have a mix play in it and it is very technical to go through the varied strategy that customers can take to meet these requirements. So that does have a mix play but not what we see on the market like an SUV or a Passenger car about other segments so it is not segmented in that way.
- Ronak Sarda:** Thanks for that. The other question was on the technical partnership with Bestop for manufacturing of roof systems if you can just help us understand what are the plans we have, sun roofs are becoming a large part of the industry now and like we understand still a lot of them are still being imported or maybe coming in as a CKD kit, so maybe can you just help us understand maybe what are we doing over the next two years?
- Aashim Relan:** Sure. So Bestop is a company that does convertible canopies and soft top canopies, so it is not a company that does sun roofs and the strategy that the Bestop is already good work has been done on one model in India and we are looking at other applications of these kind of convertible canopies and soft top canopies in the Indian market but they were niche segment this is not like sunroofs or...
- Ronak Sarda:** So this would not have any application where we have a sunroof system.
- Aashim Relan:** Not this venture no.
- Ronak Sarda:** Finally on the battery manufacturing JV with Kinetic so is it fair to understand maybe in the next three to five years we intent to be 50% captive for Kinetic Green and 50% would be other OEMs or this would majorly be a captive production for Kinetic?

**Aashim Relan:** Yes, so the intention of the joint venture is definitely to build products for beyond Kinetic but the EV space is ever evolving and that is why we have to take it step-by-step and the first step is to get going on at least some volumes and start really putting these batteries on the field and then once there is stabilization then we will go to step two and just because the space is so vast then the intention is to look at other customers also and not just Kinetic so the JV was signed with that intention.

**Ronak Sarda:** So when you say phase I does that include BMS scalabilities as well are we designing it and plan to have a manufacturing line for that as well or that would come in phase II?

**Aashim Relan:** Sure. So now we want to be very asset light so it is to assemble everything together and buying the BMS and buying the cells, etc., and just the overall designing and the assembly is the step one is.

**Ronak Sarda:** You touched upon the exports part right so is there a market size in the small ranges what you are targeting how large is that market and exports any numbers if you can share and in terms of capabilities these units would be largely similar to what we manufactured in India or given the emission norms are almost similar now in India and globally or does that need much higher content or value addition?

**Aashim Relan:** On the small engine exhaust system side this is very good news and the big asset that we have is that we have all the intellectual property design R&D available to supply to the global market. We are one of the smallest companies in the world with such technology so we do have the capability to really now go towards the whole world and supply this product because the norms are largely same in America, Europe everywhere they are very similar now to Indian norms. And we want to as just dabbling in the international market want to focus on this segment which is exportable and we already export so if you see about 4%, 5% does come from this segment right now and we want to double down or triple on this segment itself. And in terms of market size it is exponential it is just that it is right now the Indian market is a very small percentage from a value perspective of the overall market so the addressable market is literally exponential and even a small percentage or few percentage that we can take will really support our growth journey but we want to again go step-by-step and the first step is to start building more customers on the small engine side. Now coming to the component export as we are backward integrated, we do already make a lot of these components in-house but we do it for internal consumption right now for our internal front but now we want to utilize this core competency and utilize it for the export market as well and there also the market size is very large because American and European market is of course much larger.

- Ronak Sarda:** So just a followup here when we say small engine what do we in terms of global parallel is that two-liter engine or smaller than that or a three liter engines now I think because lot of market is now getting consolidated in that two liter engine markets so is that what we are talking about or even smaller than that?
- Aashim Relan:** Yes, so I do not have a literage available with me but just to give you a flavor of the segments it is the small tractors, generators, construction equipments and other cross usage of these engines, so there is no threshold per se as the literage or the horse power but more on the exportable nature of the product so some are more compact than others in terms of the configuration but just to give a flavor these are the segments that we are looking at.
- Ronak Sarda:** So passenger vehicle would be a long time away in that sense that they are not the addressable market right now?
- Aashim Relan:** Yes, passenger vehicles are something we are not looking directly because the product has really big the exhaust system and cannot really be exported but within that we can look at subcomponents because those are exportable.
- Ronak Sarda:** Great thanks for answering the questions.
- Moderator:** Thank you. The next question is from the line of Apurva from Phillip Capital Private Client Group. Please go ahead.
- Apurva:** Thanks for the opportunity. I want revenue breakup for commercial vehicle or maybe LCV, passenger vehicle and as well as CEV because CEV IV is already implemented so are we getting any traction over there?
- Aashim Relan:** I think you mean CEV IV right that did I here right?
- Apurva:** That is an Construction equipment vehicle.
- Aashim Relan:** CEV is kind of small so I do not have that number in front of me but roughly for PV and CV the breakup is that PV is approximately 44% and CV is 55%, 56% around that range and for CEV I do not have the breakup.
- Apurva:** How do you measure market share because in our earlier conversation what we used to say we have almost 30% market share in PV and almost 15% to 20% in CV so is that the number remains the same and how do you exactly measure your market share?

**Aashim Relan:** Sure so because engines are cross used between passenger vehicles and light commercial vehicles so it is a bit challenging to have exact market share numbers but broadly our market share remains the same in both the segments and when we say CV it also includes LCV.

**Apurva:** Anything you would like to highlight on the regulation part because even it is implemented but the revenue is not flowing into our P&L so I think because of some leeway given by the government because few companies were already started that product but still that is not reflecting on numbers so when can we expect significant revenue contribution for us?

**Aashim Relan:** So as I guided before the TREM IV or CEV IV is always going to be marginal TREM IV is not the big revenue side but on the tractor segment that the government has now postponed to the date of January 1, 2023 so it was originally meant to be October now it is January so I guess that is why the marginal revenues have not started flowing in and based on the new date we will be able to get incremental revenue. The big one is TREM V and TREM V as of now is scheduled for April 1, 2024, but even TREM IV has been delayed slightly there could be a slight delay in TREM V but no notification but that will be the big bang where all the tractors will require a product for TREM IV it is a niche and maybe 1st January the revenues incrementally could show some from TREM IV.

**Apurva:** If I want to assess the revenue potential for FY2024 so apart from this organic growth in the industry and then because of RDE there won't be any material revenue coming from new regulators is it fair understanding?

**Aashim Relan:** The new regulations are RDE right so that comes in April 1, 2023, and then TREM IV but then BS VI RDE is of course more significant TREM IV is not as big as it is not really a big segment at all that will be January 1, 2023, these are the two regulations coming in, in the next year.

**Apurva:** For this Kinetic Green JV if everything goes as per the plan so what can be the revenue maybe if you are expecting anything in FY2024 maybe some initial guidance?

**Aashim Relan:** No initial guidance we are going to go really step-by-step and first is just to get going now it is under testing it is under field testing, so we want to go step-by-step. So as of now there is no guidance that we can give but if all goes well then we would have at least some revenue coming in from that. One thing I also addressing that the CPCB IV plus also that will come July 1, 2023 that is another regulation it is again a niche regulation for gensets but it could have some marginal increase as well for our content.

**Apurva:** Okay Sir thank you so much and all the best.

**Moderator:** Thank you. The next question is from the line of Nirvana Laha an Individual Investor. Please go ahead.

**Nirvana Laha:** Good evening Aashim and the management team. So my question is regarding the BMS so you said that you are taking it really slow I wanted to understand on the technological expertise for batteries and BMS where exactly is it coming from for the JV so is it through industry hiring or is it through existing all the way between Sharda and Kinetic assembly might be less technically intensive correct me if I am wrong, but BMS would require some expertise right so where is it exactly flowing into the JV from?

**Aashim Relan:** First just a clarification we are doing BMS selection right now so we will select the kind of BMS and how it fits well into our design we are not making the BMS right now but the overall competency it is a combination of three so Kinetic of course has good competency given the experience of producing two-wheelers, three-wheelers and they have lot of partnerships that also bring that forward. Second is definitely we are doing industry hiring as part of the kinetic team and a little bit in terms of the joint venture team and then third Sharda has a very good competency of managing complex products as well as bind in scale and program management so it is a combination of all three is being utilized for bringing these products.

**Nirvana Laha:** So BMS design I mean the JV was launched with a view of making BMS as well so like I understand you are taking it slow step-by-step this is the right way but in terms of the roadmap internally when do you think if everything goes right will you be in a position to manufacture BMS and do you already have the capability to do that in the JV or will it have to be build?

**Aashim Relan:** So in terms of the timeline for making the BMS we do not have any guidance that we can give in terms of the timeline. In terms of capability definitely partnership would be required and there is a partnership that we already have and there are various conversations around that the joint venture is having in terms of BMS partnerships but again there is nothing material so full focus is on the first phase again to really get started with the assembly and no firm guidance right now in terms of BMS manufacturing, etc.

**Nirvana Laha:** As far as I understand in a two-wheeler battery along with BMS, etc., contributes say around 40% of the sale value of the vehicle will you be in a position to help us understand the BMS system plus the assembly part of it not the manufacturing of the cells, etc., but the assembly and the BMS how much value addition would that be doing if the vehicles has 100%?



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**Aashim Relan:** I do not have that data with me, but I could seek that data and get back to you but I do not have this data handy.

**Nirvana Laha:** Alright. I think last year in one of the calls you had mentioned that if everything goes well beyond the supply to kinetic you would look at easing subcomponent supply EV battery and BMS subcomponent supply to others could you tell us what subcomponents these are exactly?

**Aashim Relan:** Yes, so these are just parts which go within the assembly and there are various small, small parts that goes within the assembly one of the parts which is most interesting is battery cases but again there is nothing that has move forward on that front but there are various components that the battery is build with.

**Nirvana Laha:** Final question on BMS. So you must be scanning the space I am sure you are aware that an extrusion company setup a JV in the BMS space about I think three years back and they are posting good numbers and they claim to have 15% two-wheeler domestic market share in BMS right now. So given that rapid scale up and coming from a company which did not have previous expertise that they supposedly gained it via JV from the European supplier so how do you see this market evolving and like do you feel that the JV needs to move fast and it is a game of who moves fast or do you see that there is enough runway do with the right way to even take it slow?

**Aashim Relan:** We are fully focused to first get going and step one is where our eyes are, in general there are lot of good opportunities the way we read the market is that the adaptability and flexibility will win in the long-term because it is an ever changing market and technology shifts quite often, so the more adaptable and flexible our manufacturing as well as team is I think that will be the strategy that we are taking rather than it being a race towards the existing technology and that is where we want to for the time be be asset light and really look at it and learn more about it before we take the next step.

**Nirvana Laha:** That approach seems to signal that you are really beginning for the long-term and trying to build capability so towards that end would hiring really happening of that quality or of that aggressiveness in order to build those capabilities. We have been scanning in the market to see we have seen some signs of it on Kinetic end but could you comment on that our capability building are we also taking it slow there?

**Aashim Relan:** For the joint venture or for Kinetic.

**Nirvana Laha:** In order for the joint venture to deliver value whatever the hiring needs to happen either in the joint venture or at Kinetic is that happening satisfactorily because the strategy you

mentioned seems to be hinting towards building a deep capability and then moving big when everything is in place?

**Aashim Relan:** I cannot comment on kinetic front because that is their business, on our own front we are building the team required for step one and also as part of our strategy we are lining up the right resources and that is where we are it is I think initial and as we have some material information we will keep sharing.

**Nirvana Laha:** So final question this is not related to BMS but this is related to adjacencies to our current emissions business that we have for PV and CV so first question is that I understand that sensors the knock sensor, oxygen sensor, or even the adblue dispenser etc., the component that are come in in BS VI those are not manufactured by Sharda those are provided by multinational third parties am I right?

**Aashim Relan:** Yes, so that is for few products what you mentioned those are manufactured by suppliers and we do not manufacture any of the products that you mentioned.

**Nirvana Laha:** Even for the catalytic converter can you help us understand what is the value addition that we do is it only the canning part and the remaining thing comes from a third party supplier?

**Aashim Relan:** So we do the complete integration and the catalytic converter has a thing called the catalyst that is the third party supplier and we do the complete integration and designing of the entire system and that is on the hot end side, there is also cold end side which deals with NVH and that is the muffler etc., and that is something that we do in addition to that. So it is all the way from the engine till the tail pipe which has both the emission as well as the NVH part. So on the emission part we do the integration like canning as well as the full designing and supply to the OEM and on the NVH side we do the muffler making, the pipes, etc., and we supplied to the OEM.

**Nirvana Laha:** So my question is that we seem to be on the mechanical which provide dynamic side of the emission system and vibrations, etc., what is the possibility of moving into the adjacency of electronics or even adblue dispensing to sort of provide a complete package to customers that would be very valuable I assume but is it practical to hope that Sharda could move into that space?

**Aashim Relan:** Sure. So I think the subject that you are referring to is extremely technical and just for this particular call I would just say that in general we are looking at further adjacencies, etc., and as full integrators right now there is no intention but if ever an opportunity presents itself we would always look at it and there are lot of other technicalities which I would not go into of what you are referring to.

- Nirvana Laha:** Okay, so I would write to the investor relations team hope I can get a response there and thank you so much for patiently answering the questions. Wish you all the best.
- Moderator:** Thank you. The next question is from the line of Manprit Aurora from Aurora Wealth Advisors. Please go ahead.
- Manprit Aurora:** Thank you for taking my question. So on the TREM IV, TREM V or rather on the TREM V the question, so we understand that there have been some concerns or push back by the tractors manufacturing bodies with respect to TREM V not only because that will raise the cost of the tractors and the election year coming in a couple of years but also because of the typical Indian agri conditions where farmers also use unclean fuel and stuff like that. So how do you assess the government's willingness to push through this legislation do you see the TREM V will see the light of the day because of the cost increases or do you see it going delayed further just a color if you can give on that?
- Aashim Relan:** One thing about the government that it is definitely very, very much for the clean air initiative so we are quite sure that they will go ahead with all cleaner initiatives. In terms of the timelines right now the first is TREM IV that is something not just because of the challenges you mentioned but also COVID and few things took place but they have taken the day to January 1, 2023 for TREM IV and for TREM V as of now it is April 1, 2024 but whether a few months they push back that is very hard to predict. But in general I can tell you that all customers are prepared for TREM IV and they are preparing full swing for TREM V products as well. So that can be a good signal because the end customers are also fully preparing for the legislation so that gives us a very positive feeling that this will definitely come to light.
- Manprit Aurora:** Just a follow up on that so we understand that there are several steps when we do a TREM V rollout will start from a prototype to calibration to do a field validation of it and then only kind of final launch so do you know at which stage are we with respect to TREM V are we already in the field validation stage, are the OEMs in the field validation stage?
- Aashim Relan:** So all OEMs are progressing well now different OEMs will be at different stages but all are progressing well and working towards TREM V and in terms of specific customer stages, etc., that of course we cannot disclose but as a general trend all are progressing well and preparing for these norms.
- Manprit Aurora:** On the legislation side potentially let us say TREM V gets delayed do you see that potentially maybe CEV V gets implemented before TREM V the CEV V is more on the construction equipment vehicle side and does not impact farmers that much and is there a possibility that CEV V comes before TREM V?

- Aashim Relan:** I would not be the right person to tell about the chronology, we can do as per what are the notifications and guidance given by the customer as well as the government, but in general CEV is a much smaller market than TREM reason for that is just in numbers construction vehicle industry on a number basis much smaller than the agri tractor market in India, so I am not sure on the chronology of it and of course the focus is more on TREM than CEV. In addition to that there is the CPCB norms which are also norms which will go into gensets and they also have a different cycle but on all fronts we are seeing very positive momentum and very strong preparation by all the customers so that is a good signal I think for us that all the customers are taking this full swing.
- Manprit Aurora:** So just a followup on the CEV side because it is potentially a smaller market and so do we already have relationships with the CEV OEMs I know we have for TREM on the tractor side we do have that, on the CEV side also we have relationships?
- Aashim Relan:** So even there is a lot of cross relation between engine usage in CEV and tractors and the way the engines are cross used a good percentage of them are used by the different engine makers and the different final applicers of those engines. So we have good relations with either people who will be supplying engines to the CEV market and some CEV makers also.
- Manprit Aurora:** Thanks that was very helpful. One final question on the subcomponent export side just to understand the subcomponent a little better on the exhaust system with mufflers, resonators would they qualify as subcomponents or subcomponents even at much more granular level than that?
- Aashim Relan:** It is more granular one level granular to that.
- Manprit Aurora:** Thanks a lot. I will get back in the queue.
- Moderator:** Thank you. The next question is from the line of Ankur Shah from Quasar Capital. Please go ahead.
- Ankur Shah:** Thanks for the opportunity again. Sir one broad question on your strategic front considering sort of a clear understanding that we are a engine based company and the kind of growth which is visible for two years the products will grow, but we have been a proprietary product company so apart from the exhaust system part which is eventually going to phased out how are we thinking as a company like from a company angle what are we trying to develop and how are we trying to develop the company itself for the future?

**Aashim Relan:** Sure, and one just to share that our core competency or success factor has been customers we are very customer focused as a company and these relationships have only helped us evolve to where we are in to a proprietary company because we were very closely with our customers. But I will give you a flavor of our strategy for the next five years and how we are looking at the market so first we see that the tractor segment and the CV segment will grow and it will grow substantially in the next five years, in addition to that also we see with content increasing even few other PV segment also, so we want to maintain our increased market share in domestic LCV and PV for exhaust systems hence focus on RDE and future norms. We want to gain market leadership in the domestic tractor market which is going to be of course TREM IV but more importantly TREM V as well and we really want to build focus on the export of the subcomponents as well as these emission systems for the smaller tractor gensets etc., that I mentioned which is a really big increase in our addressable market. In addition to that we want to utilize the build buy approach for powertrain agnostic products so we are looking at possibilities to revamp our suspension vertical and of course look at tie-ups and or acquire companies with powertrain agnostic products so that we continue to play in all power trains and then of course we want to dip our toes into the EV field but focus more on the two-wheeler and three-wheeler segment and then as we are dipping our toes there also with more partnerships tie-ups as well as growing on a capex light model so that is really our advantage point in terms of the next five years.

**Ankur Shah:** Like you mentioned that you will be focusing on powertrain agnostic products so just from a competitor angle now let us say all the companies where we try to talk to they are having a similar strategy so like do we have a base plan in our mind that which kind of products we want to focus and where your capabilities lie, where can we have a proprietary product base where we can have some research and development strengths so that more ROE profile which the company has been maintaining since the last so many years because if let us say by any chance it is going to a normal commodity product it is not going to allow you to make the ROE which will make an exhaust systems, so from that angle have you thought of it on a very specific basis because yes obviously the future is for the non-power train products, but on a specific basis if you can throw some light on that?

**Aashim Relan:** Sure. So one that we are actually done a very similar exercise to what you are just saying and that we have short list of products and that is where our discussions on M&A, JV, etc., centered on the powertrain agnostic side, but just we would not like to disclose till there is something material but very similar to the flow of logic that you just mentioned is what we have done this exercise.

**Ankur Shah:** Wish you all the very best. Thanks.

- Moderator:** Thank you. The next question is from the line of Tarun Sancheti from Sanchay Nidhi Ltd. Please go ahead.
- Tarun Sancheti:** Thank you for taking up my question again. A followup question and I think perhaps I asked this last time also what we understand is that some of the key CV OEM got their own JV or part of a technical partnership or a subsidiary working into exhaust system itself keeping that in context our partnership on CV space will it not be very challenging for us to scale up and increase the market share given the fact that those CVs already have their own captive capabilities and even if we are able to do some bit of cross selling how significant that is going to be?
- Aashim Relan:** Sure. So the CV space the joint ventures that you are referring to are on the broader emission systems and they are usually engine plus emissions and it is not our product the same companies also outsource this product that we are doing. So in the entire market there is full opening for us to build the canning aspect of it. When the joint ventures are more on the engine front and the engine linkage front are not so much on the after-treatment systems what we are doing the content we have there are no JVs right now that these people have and they have no intension also.
- Tarun Sancheti:** Is it right to conclude that upstream processing happens at the JV level or the subsidiary level and from thereon we take up canning work or the assembly work is that the right assumption?
- Aashim Relan:** Exactly. So our point of the value chain that is completely open for our resourcing, upstream there are on the engine and engine linkage front I think two of the commercial vehicle makers have JVs for that.
- Tarun Sancheti:** That is right. Another to put to that again more broadly from an industry landscape perspective if you can help with who would be the key Tier-1 or 2 supplier to CV OEM apart from us?
- Aashim Relan:** So we have two competitors broadly on the CV and will be the same in the tractor market and very few people in general have this technology in the whole world and we do not name competitors on this call but again that there is an American large company who is in this market as well as the French large company who is in this market and there are our two competitors and maybe there are some very small emergent this things but there is minor share I would say 95% of the business that is not with us would be with these companies.
- Tarun Sancheti:** So the multinational sectors are doing pretty much the canning and the assembly work that we do?

**Aashim Relan:** Yes, exactly the same what we do.

**Tarun Sancheti:** Okay fair enough and again directionally at least from an internal budgeting perspective what is the sort of market share that we are looking at for ourselves in next two years timeframe and extending that horizon over a period of three to four years timeframe what is the market share that we are looking for ourselves in the CV exhaust system?

**Aashim Relan:** Sure nothing that we can share as of now as guidance but of course we are always looking to increase market share but nothing that we can share as per guidance with the number.

**Tarun Sancheti:** Fair enough thank you.

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

**Sonaal:** Hi, congratulations on your best quarter ever. Sir firstly wanted to understand if you would have the data for your growth in exports in Q2 and who heads the initiative and any new senior hire that have done in last one, two years either in India or with onsite presence?

**Aashim Relan:** So exports we are maintaining status quo as in terms of sales in Q2 right now because anything that develop takes couple of quarters to come, in terms of the network we would say newly creating a international sales team and there is no person as such that we have earmarked from outside it is an internal person which we promoted to this position and he is building an international sales team for the export side.

**Sonaal:** In terms of capability would you say that we are in the early stage of it and it will get built over a period of time or would be in a late stage of it?

**Aashim Relan:** The sales team or the capability side in terms of getting it this is an initiative which we started a year ago so I would say that we are in the middle of it, we have had quite a few people join in to this team and we expect to get some more people in this field who has good competency in international business development and this is one of our prime areas from a team building perspective also.

**Sonaal:** If I heard you correctly did you say that your LCV market share is 15% to 20%?

**Aashim Relan:** No, we did not speak about the LCV in the call today I think there is a question on CV or something like that did not say LCV, LCV would be a higher market share.

- Sonaal:** So, can I say when we say 30% because we do not have the breakup of LCV and car market we have 30% combined market share because we are looking at the total volume in this considering we do not have the breakup is that a fair understanding?
- Aashim Relan:** In a broad level yes.
- Sonaal:** Secondly between your diesel and petrol mix in terms of volume and value whatever is possible for you to share at a very rough level what would that be?
- Aashim Relan:** I do not have that mix breakup right now between petrol and diesel but we can look internally and get back on that.
- Sonaal:** Would you expect the diesel mix to deteriorate considering the price hikes on the diesel side would be very higher than the petrol side, are you preparing for it already?
- Aashim Relan:** Sure. So I think anyways mostly diesel is used on the LCV side and on this what you call the CV side it is not so much used in Passenger cars I think Passenger cars is anyways less and on LCV as well as CV it is really between diesel and CNG and both the prices are up because CNG prices have also substantially gone up because of this geopolitical situation that we are in. So, yes I think diesel would be largely more towards the LCV and CV segment.
- Sonaal:** Just to reiterate that one of the early participants had asked just want to get it confirmed so let us say we sell a vehicle at 100 bucks there is a 25% price hike so the price of our part of the product, which we supplying the exhaust system becomes 125 so if you are making an EBITDA of 10 let us say on this 100 our EBITDA would become 12.5 at a rough level so that the EBITDA margin in both cases is 10, in first you sell 10 there was a 100 in second you sell 12.5 divided by 125 or is my understanding incorrect?
- Aashim Relan:** Just because on a call it is tough to articulate the exact thing that you are asking but yes that is the profile gets maintained so if there is a value addition then we maintain that profile on the value addition as well in terms of content increase.
- Sonaal:** Great that is nice to hear. Secondly I also wanted to understand so the TREM IV was originally meant for September 2021 and now it is coming in January 2023 and COVID is over now for sometime. So what were the reasons at least for the last leg to go up and is it also possible the TREM V could be postponed by a year or so one of the participants said that if elections are scheduled in April 2024 or May 2024 it is highly unlikely that at least on April 2024 this is going to happen?

**Aashim Relan:** Sure. So I am not very good in terms of giving guidance on what will be the thought in the government but what I can say is that the signal is very strong from our customers and preparation is very strong. Now there is a slight delay three months, six months whatever it does not have a very big impact and I think that is very visible in the case of TREM IV also even if there was a delay there is no visible impact in terms of the delay because we are generally capex light only. So, it is difficult to predict at this juncture and I think we have to take it as per the government notification, that the government notification as of now has come into TREM IV and the future the customers already preparing so there can always be a slight delay.

**Sonaal:** But you are not building your base case of one year or two-year delay?

**Aashim Relan:** There is nothing as such that we have guided towards but there could always be based on the TREM IV delay to January 1, 2023.

**Sonaal:** So if I have to just see the drivers for growth from next 24 months perspective the first one the larger drivers would be basically our RDE norms right and then at a later stage TREM IV and on our medium-term as and when we get traction in your exports or M&HCV market share gains and then EV etc., is my understanding in terms of order I am not talking about small numbers which could change volume or revenue by 2 to 3% I am talking in the larger picture if you look it from 3,4,5 year perspective?

**Aashim Relan:** So I think the immediate definitely is BS6 RDE which is the big one which is coming in shortly and therefore the preparation everything is there for April 1, 2023. Some very marginal growth will come CPCB IV plus which will come in July 1, 2023 as well as TREM IV which will be January 1, 2023. In the horizon after that that the norms that come in are definitely TREM V, CEV V and expansion onto the BSVI norms or there could even be BSVII but as of now BSVI norms and of course the growth drivers from the export side of the business as well as the subcomponent business which would start yielding results towards that time horizon. In addition to that we are parallelly actively looking at M&A opportunities on the powertrain agnostic space and deployment of that could also be a growth driver and even on the build approach we are in discussion with customers for powertrain agnostic products and there are a few that have been identified but around that time horizon there would be another growth driver then of course the beginnings would be right now but we hope that we can play a much more significant role in the medium term on the two wheeler, three wheeler side of the EV, so this is in a nutshell the growth track.

**Sonaal:** Thank you. I think this is very helpful. My last question as far as your standalone business is concerned you have reckoned that your Q2 would be your peak quarter because of the volumes overall for the car industry or do you see a possibility of this repeating in Q3 and

Q4 also? Because what we understand is that the car makers are replacing inventory for various models and that part is more or less over so based on order book I understand you would not know what will happen in Q4 or Q1 next year because we have not that much visibility but you think there is a possibility that in Q3 also we can see this kind of performance?

**Aashim Relan:**

It totally depends on the market environment right and how the markets perform and the OEMs perform. Right now there is no guidance that I can give. The momentum is there, but it totally depends in the absolute short term on how the customers are doing and their plans really in terms of production because we really are linked to production more than even sales so it totally depends. It is hard to give guidance, but the momentum so far is good but given the macroeconomic environment it is very hard to predict that there is a lot of volatility in the world of course.

**Sonaal:**

Thank you Aashim so much for answering my questions and congratulations once again for a great quarter and wish you luck for the subsequent quarters as well. Thank you.

**Moderator:**

Thank you. The next question is from the line of Karthi Keyan from Suyash Advisors. Please go ahead.

**Karthi Keyan:**

It is fairly long call and I am sure you are bored so I will try and make it interesting just one thing if you can share with us I was asking you with the kind of pain that Eberspaecher is facing in Europe given all the challenge is over there and therefore are you seeing specific opportunities emerging in a more time bound manner versus open ended manner?

**Aashim Relan:**

So I would not share specific to any company right even this thing but I can just talk little bit about the broader things what we are seeing in Europe and what I think company is experiencing. Of course last two to three years have been lot of pain in Europe given that there was COVID and then there was semiconductor issue and then there is this geopolitical crisis which had led to energy crisis and so on plus Europe is really dependent on the China supply chain also so this trend of looking at alternatives to China and this China plus one strategy I think European as well as American companies are fully engaged in this mega trend and that brings an opportunity for companies like us who can increase our export market.

**Karthi Keyan:**

Given what you say how soon can we expect some kind of announcement I know it is not fair to pin you down but I am just wondering this conversation has been happening for reasonable amount of time so are there any near term?

- Aashim Relan:** There is no timeline as such because these kind of things we can only do as we have something material to offer. It is totally dependent on the success of our business development team and the efforts are on, opportunity is there and when there is something material only we could share.
- Karthi Keyan:** One last detail I know this has been asked in three different places but in very obvious term so the RDE increase in content for the diesel side with 25% would be share of manufacturing the substantial part of it or would outsource component be substantial part of it?
- Aashim Relan:** Gasoline is 10%, diesel is 25% and that would be on our value added side.
- Karthi Keyan:** So the entire 25 accrues to the manufacturing side?
- Aashim Relan:** Yes 20 to 25% would accrue to the manufacturing.
- Karthi Keyan:** Okay so this does not have any component or catalyst sourcing or any of those things that is bit more valuable than what you suggested earlier?
- Aashim Relan:** When I am giving this kind of guidance we are giving out value added number right so we are not including the catalyst and the base also and neither in the denominator, neither in the numerator so just to neutralize for it and the guidance is based on that.
- Karthi Keyan:** Very, very helpful and thanks for the extremely patient answers, much obliged. Thank you.
- Moderator:** Thank you. Ladies and gentlemen we will take the last question from the line of Manprit Arora from Aurora Wealth Advisors. Please go ahead.
- Manprit Arora:** Thank you again for the followup. Just one book keeping question first on the inventory side we see that there has been substantial increase from Rs. 131 Crores to Rs. 190 Crores of inventory so if you can provide any colour on why this significant increase is, is it because of increased scale of operations, if you can provide more colour?
- Aashim Relan:** I think inventory better to measure in terms of number of days right and because of course as our sales grow so will inventories grow so it is only a few days that inventory is up and we are keeping more inventory just to secure ourselves from all the supply chain issues but it is couple of days it is not as much because if you neutralize it for the sales growth also it is not a very high number.

**Manprit Arora:** Okay thanks for that and then question on how the industry operates so let us say there is a new engine programme and we will get some RFQ for our team for that and will respond to that so what differentiate Sharda when we get into engine programme is it the price or is it the technology, what differentiates us and also a followup to that is when OEM decides on a vendor like Sharda is it like one vendor per engine one supplier or today we will have two of them and one engine programme can have multiple vendors if you can give more insight to that?

**Aashim Relan:** Sure so first I will take the second question that in the case of one engine usually it is one supplier some time it is two suppliers right so it really depends but usually they tend going towards one supplier only but there are exceptions to that right and there are exceptions but I would say most of the time just because the effort to develop a supplier in this product is a lot from the OEM front also. Now what is the key differentiator or competitive advantage that we have number one is the R&D right so we have extremely good setup of an R&D in Chennai where we have 100-150 engineers who have extensive experience and we have also been doing R&D in this product since 2009 now, so 14 years of Indian experience on these products which no other Indian companies has and even a lot of the global companies they also really appreciate the facilities that we have in place where we have an end-to-end R&D center with very good technology available for these products and only our multinational competitors and largely only two or three companies have a similar technology so we are actually the smallest company in the world with this kind of technology so that is something for all us to be proud about. Second these products which are BSVI plus these are extremely technical and complicated products and all the customers are looking at product experience in the field, so let us say if there is a new supplier who does not supply these products wants to enter this domain, they would not been able to enter it because OEMs require past experience right and we have now developed very successful products onto the market and that gives us further competitive advantage. In addition to that we are quite backward integrated and we make a lot of our proprietary stampings as well as key components which gives us cost advantage as well as a supply reliability advantage vis-à-vis the competitors and lastly the manufacturing technology also for these products is very proprietary and that is also something with lot of experience over the years that we have developed and which gives us a further boost and competitive advantage.

**Manprit Arora:** Going at your first point to understand you correctly if there is usually a one supplier to a engine programme so it means that for the entire life of engine that vendor is locked in till the time that engine is in the market the business is with the approved supplier is that correct way to understand?

- Aashim Relan:** Again there are exceptions. I am saying the tendency is there and then engine go through regeneration and then there are new norms that kick in like now BS VI RDE is kicking in so they will go in for recalibration and all so up to the next emission norm generally that is the case but there are always exceptions, so I am just giving you a directional tendency.
- Manprit Arora:** On the CV side you have been basically answering a lot of questions from the field what we have realized obviously a lot of fleet operators are not happy I would say but with BS VI engines you have this additional requirement of DEF and they are not very happy with the new change and actually some OEMs also talking about moving to CNG CV. In the CV space if there is some shift towards the CNG side are we also in that space and will it come from a standalone entity or will it still be through a joint venture?
- Aashim Relan:** We saw a good shift towards CNG or we saw lot of traction I would say in CNG probably pre-Ukraine war right but I think after CNG prices have also come up we have seen a slowdown in the market regarding CNG, but in general I think all customers are looking at being agnostic to changes so they are preparing on all fronts and in terms of the application of these products that would determine whether it would be on the standalone entity or whether it would be in the joint venture. It depends on the application, engine size, etc., so it will depend on that.
- Manprit Arora:** Okay thanks a lot. I appreciate all your answers and all the best.
- Moderator:** Thank you. As there are no further questions from the participants I now hand the conference over to Mr. Puru Aggarwal for closing comments.
- Puru Aggarwal:** We thank you for your participation in our earnings call today. We hope we have been able to address all your queries; however, if you have any further questions you can get in touch with our IR advisors, strategic growth advisors. Thank you and have a good evening.
- Moderator:** Thank you Sir. Ladies and gentlemen on behalf of Sharda Motor Industries Limited that concludes this conference call. Thank you for joining us. You may now disconnect your lines.