Commercial Vehicle Solutions

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Scrip code: 533023

Listing Department
National Stock Exchange of India Ltd
Exchange Plaza, C-1, Block G
Bandra - Kurla Complex
Bandra (E), Mumbai 400 051

Trading Symbol: ZFCVINDIA

ISIN : INE342J01019

Dear Sir(s),

Sub: Transcript of the Investor Call for the quarter ended December 31, 2023

In continuation of our letters dated 23rd January, 2024 and 31st January, 2024 pursuant to intimation and recording of investor's call, we hereby inform that the transcript of the call has been uploaded on the website of the Company and the same can be accessed through the following link:

https://www.zf.com/mobile/en/company/investor_relations/zf_cv_india_investor_relations/zf_cv_india_ir.html#shareholderinvestormeeting_acc_656449_0

Request you to take the above information on record.

Thanking you,

Yours sincerely,
ZF Group

MANOHARAN MUTHULAKSHMI
Digitally signed by MANOHARAN MUTHULAKSHMI
Date: 2024.02.07 17:17:41 +05'30'

Muthulakshmi M
Company Secretary
ZF Commercial Vehicle Control Systems India Limited
(Formerly known as WABCO INDIA Limited)

"ZF Commercial Vehicle Control Systems India Limited Q3 FY2024 Earnings Conference Call"

January 31, 2024

MANAGEMENT: **MR. P KANIAPPAN – MANAGING DIRECTOR**
MS. SWETA AGARWAL – CHIEF FINANCIAL OFFICER
MS. M. MUTHULAKSHMI – COMPANY SECRETARY

MODERATOR: **MR. ANNAMALAI JAYARAJ – BATLIVALA & KARANI SECURITIES INDIA PRIVATE LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the ZF Commercial Vehicle Control Systems India Limited Q3 FY2024 Conference Call hosted by Batlivala & Karani Securities India Private Limited. 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. Annamalai Jayaraj from Batlivala & Karani Securities India Private Limited. Thank you and over to you, sir.

Annamalai Jayaraj: Good Morning. Thank you for joining us today and welcome to ZF Commercial Vehicle Control Systems India Limited quarterly earnings call. The third quarter earnings and nine-month results for FY2023-2024 will shortly be presented by the management team of ZF Commercial Vehicle Control Systems India Limited, formerly known as Wabco India Limited. Your hosts this afternoon from ZF Commercial Vehicle Control Systems India Limited are Mr. P. Kaniappan, Managing Director, Ms. Sweta Agarwal, Chief Financial Officer, as well as Ms. M Muthulakshmi, Company Secretary. I will now hand over the call to Mr. P. Kaniappan, who will provide you with further insights on the results. Over to you, sir.

P Kaniappan: Thank you, Mr. Jayaraj. I warmly welcome you all to ZF Commercial Vehicle Control Systems India Limited's third-quarter results and nine months' performance for FY 2023-24. Certain forward-looking statements that we'll make today are based on management's good faith expectations and beliefs concerning future developments. As you know, actual results may differ materially from these expectations because of many factors.

ZF Commercial Vehicle Control Systems India Limited's results for the quarter and period ending December 31, 2023, were published on January 30, 2024. They are available on the www.zf.com website within the ZF CV India investor relations section. We hope that you have had an opportunity to go through them. A transcript and recorded audio of this call will also be made available on www.zf.com under the ZF CV India investor relations section. Let me begin with the business update.

Industry and economic updates: I would like to share a few key macroeconomic aspects that are relevant to our industry and GDP growth.

India's economic growth (represented by GDP) is expected to grow by 7.3% for FY 2023-24, from the earlier projections of 6.5% according to the latest release by the National Statistical Office (NSO) (source RBI). With strong domestic demand conditions, India remains the fastest-growing major economy and is now the fifth-largest economy in the world. In purchasing power parity (PPP) terms, India is already the third-largest economy. The International Monetary Fund (IMF) has projected that India's contribution to global growth will rise from the current 16 percent to 18 percent by 2028. Strong domestic demand remains the main driver of growth, although there has been a significant increase in the Indian economy's global integration through trade and financial channels. Higher reliance on domestic demand has cushioned India from multiple external headwinds.

India's Consumer Price Index (CPI)-based inflation is in the range of 5.7%, edged up from Nov 2023 level, influenced by food inflation. The Index of Industrial Production (IIP) slowed sharply to 2.4% on-year in November 2023 from 11.6% in October 2023, a major drop in the manufacturing sector.

Future industrial performance trends will be influenced by:

- Government's strategic adjustment of capital expenditures to stimulate growth in the upcoming budget
- Rural demand may remain weak this fiscal with agriculture and allied growth estimated to have slowed sharply to 1.8% from 4.4% last fiscal. After the Kharif crop was impacted by an uneven monsoon, rabi sowing is also lagging owing to lower reservoir levels and delayed sowing.

Commercial vehicle production (> 6 Ton) in the third quarter of FY 2023-24 was 104,025 units, compared to 95,427 units in the same period of the previous year. This represented a growth of 9% and was largely driven by:

- Increased government spending, robust replacement demand, & strong end-user sectors, notably construction and mining
- The Growth is expected to continue in Q4, followed by Lok Sabha Elections which may have an impact on the CV industry due to restrictions in government spending.

OE sales performance: Against this vehicle production growth of 9%, we registered OE sales in Q3 of FY 2023-24 of INR 483.1 Cr compared with INR 405.8 Cr in the PY – this equates to growth of 19.1% with a market outperformance of 10.1%. Some of the key elements behind our growth story are:

- Penetration of Pneumatic & Hydraulic ESC in applicable bus platforms *(Regulation in place w.e.f April'23)*
- Increase in Penetration of Trailer Lift axle Control system.
- Increased EV bus Production by ~ 32% over CY 2022, the sale of EV aggregates like E Compressor & EBS.

Now turning to our Aftermarket performance, The Company achieved moderate growth of 10.2% in Q3 23-24 Vs Q3 22-23. Various initiatives driven by management are helping consolidate our position in the aftermarket, namely: -

- Introduction of 4 new ASCs & 4 new prime dealer accounts to provide better access to end customers.
- 20 Van campaigns and 18 Canopy campaigns conducted across the nation to improve secondary sales of hazardous focused products.
- Tire Pressure Monitoring System (TPMS) with trailer pulse successfully demonstrated to Key customer.
- Trailer segment has grown by 32% YTD with continuous engagement with major manufacturers who transport chemicals and goods.

Export of products: The Company had registered lower export sales in Q3 of FY 2023-24 of INR 204.2 Cr compared with INR 282.7 Cr in PY, a drop by 27.7% due to order book reduction of INR 127 Cr seen globally due to inventory challenges.

However, our export business is expected to gain its momentum of robust growth in Q4 (Jan – Mar 2024) due to the following:-

- Order Book Flow improved better vs Q2 2023 (Previous All time high)
- 4.0 Actuators: Product and line release audit by Volvo on 23rd Jan'24: additional business ~ €2.0M
- Key Customer Visits: DTAG SOP audit in Feb'24; Jost Trailers India Team to visit on 21st Feb'24 for discussions on future business opportunities.

However, ongoing geopolitical situations and various other disturbances at the Red Sea would increase the lead time by 3 weeks, which will in turn have an impact on the export of Goods.

Export of Services: With the continuous expansion of our capabilities and talent acquisition, our export of services registered a growth of 32.4% in Q3 of FY 24 compared with the same period in the previous FY.

Engineering: I am happy to share with you that the Company received the "ZF Excellence award" in the "ZF Way" category from the Group and was one amongst 56 projects that were submitted in that category, for our project delivered by a cross-functional team comprising of members from Engineering (R & D) function, purchasing, manufacturing, validation, etc. We were also the finalists at the CVS divisional level for the category of sustainability.

Our Engineering team launched advanced technology projects like ESC for Pneumatic and Hydraulics and has made them SOP-ready. Ecotronic mid-9 speed AMT is launched successfully. Significant progress has been made in promoting ADAS in the country and a Collision Mitigation system (CMS) has been launched for a leading OEM in India after extensive field testing and performance fine-tuning for the India market. EBS for the EV Bus segment is launched. Gen 2.0 e Compressor is applicated to all the Indian OEMs and field quality is improved for robustness. India's R&D Footprint is aligned with global engineering for significant growth and accountability shift for the India Team.

Manufacturing facilities at Oragadam: As we outlined in the previous earnings call, the construction of our factory at Oragadam is progressing as planned. Validation of the manufacturing lines are in progress. We will continue to update you on its progress in future calls.

CSR outreach: At ZF Commercial Vehicle Control Systems India Limited, we strive to be responsible corporate citizens and make a positive difference through our Corporate Social Responsibility initiatives. Our CSR initiatives are based on four tenets -- improving road safety, enhancing the quality of life of neighbouring communities, contributing towards environmental sustainability, and skill development.

Over the years, our contribution to society has touched thousands of lives in several ways and benefitted a wide range of stakeholders. The scope of our initiatives has now been expanded to make a positive difference to even more stakeholders.

Through our skill development & community support initiatives, the Company has contributed Computers, an advanced fitter and welding lab, and a soldering lab for Govt Govt Polytechnic, respectively, in the remote villages of Barabanki which will benefit 887 students. As part of our sustainability initiatives, the Company had installed 2 nos of Solar High Mast lights, 15 nos of Solar Street lights, and solar-based traffic lights in and around the Company's plant.

As part of our continued support to the Community, the Company has also installed solar power systems at the primary health centers in a few villages in and around our test track facility and contributed Medical equipment to one of the Primary health centers.

As a responsible corporate citizen, the company also contributed relief materials to the Greater Chennai Corporation for distribution to those affected by cyclone Michauang to the tune of Rs. 20 Lakhs.

Awards and recognition: The company has been recognized and received the "Gold Award" from Hensai Kaizen Institute for its ESG performance.

Our employees won 2 Gold Awards in the QCFI chapter level QCC Competition, a Platinum award in the AOTS National Level QCC Competition 2023, a Best Presentation Award in the NIQR QCC case study Competition, Platinum Awards & Gold Award in NIQR National Level Six Sigma Competition -2023, under various categories.

Also, the employees from Jamshedpur won First Prize each in the Safety & Delivery Category and one more second prize in Quality by participating in the ACMA Eastern Regional Kaizen Competition, and Employees of the MWC plant won First Prize in Delivery Category in the ACMA Southern Regional Kaizen Competition. Further, Employees of the Ambattur & Mahindra World City plant won 4 Gold Awards under various categories in the QCFI State Level SIT/CFT Competition.

Now moving on to our financial performance for the quarter. For your ease of reference, the results were made public at 4.27 PM on the 30th of January 2024. I hope you have had a chance to go through them.

Commercial vehicle production (>6 Ton) registered growth of 9% over the same quarter in the previous year. We outperformed by 10.1% this quarter. Our sales to OEMs in this quarter was INR 483.5 Crores; this is 19.1% higher than the prior corresponding quarter. Overall strength in demand ensured that our aftermarket sales were moderate 10.2% QoQ to 109.8 Crores.

Exports (goods) resulted in an income of 204.2 Crores in Q3 of FY 2023-24 with 27.7% lower than the prior corresponding quarter.

Our engineering and other services continue to provide very strong value to our customers across the group. The growth in service income is a very healthy 32.4% QoQ.

For the quarter ending 31st December 2023, we achieved a PBT of INR 135.4 Crores, which is 17% of sales. This is an improvement of 2.3% over the same quarter in the previous year. We have improved our profitability by 1% sequentially over previous quarter.

As we present the results, we see that the series of actions which were put in place by the company to mitigate the challenges posed by inflation and other aspects have yielded strong performance results. While the results have been aided to a small degree by the positive effect of foreign exchange fluctuations – a gain of INR 9.7 Crores - we still see the strength of performance is continuing to grow. Thank you. We now welcome your questions.

Moderator: Thank you very much. We will now begin with the question-and-answer session. We take the first question from the line of Mumuksh Mandlesha from Anand Rathi. Please go ahead, Sir.

Mumuksh Mandlesha: Thank you so much, Sir, for the opportunity. Starting on the fleet cost, I mean, the freight cost is about 2% of the revenue and we have exports about 30% of revenue and we also do some imports at 10% of revenue. So how do you see the impact of the freight cost on numbers? Will it be a pass through to the group companies or will we have to bear the impact?

P Kaniappan: Freight cost. Can you say it again.

Mumuksh Mandlesha: I will just repeat. I want to understand what are the exports we do? The increase in freight cost we would have to bear it or the group companies would bear it, and secondly, even the imports which we do, the impact would be on us or not.

P Kaniappan: Generally in the export-import area, the contract is on exports, and when we import we bear the freight cost and of course when we export, the concerned sites i.e. our intercompany plants, will pick up the material as per the contract largely, that could give you exceptions, but largely it is the same model. Now, normally we go through sea shipment, but then there are some possibilities, when the market fluctuates we also pick up some item by air and that only can marginally change. But then if it is because of the customers, if they have not projected or predicted the demand or highlighted it to us, then we go back to the customer for compensation. Right now we have some challenges because of the Red Sea impact. If it is going to lead to an additional time and we have to pick up by air, we decide to observe or depends on the strong case to go to the customers. This is the framework.

Mumuksh Mandlesha: Just on the export side globally the commentary from the OEM side, Volvo is talking about 15% to 20% fall in the Europe and North America CV market. So considering that there will be a fall next year what is your outlook based on the order book, what kind of outperformance you see or what kind of growth you can see considering the fall in the CV market?

P Kaniappan: We are right now seeing a market positive. For us at least next 3 months, we have got clear indications from our intercompany customers. In the last quarter, we faced one scenario which demanded the focus at the global level to reduce inventory for the many of our sites decided to reduce the pipeline stocks that led to a situation for us to reduce our production. That was the main major issue because of the company as a group we decided to focus on cash generation and reduce the inventory. So that get some impact, but that is for short term. So now orders are back and we are working to our full capacity now. I see the same situation to continue at least for the 4th Quarter. But then our sales from my earlier communications, we are actually so widely spread actually it is not to specifically one customer globally also we are supplying the trailer segments. Overall, globally there could be some challenges where I look at it, but then we are also working on projects, some of them will get launched as we move forward. Particularly this year in the middle of the year, we will start supplying compressors to Daimler Truck AG. Few actuators lines will get released. Right now the outlook is quite positive for the first quarter. Then we have to see how the situation evolves because you know there are lot of geopolitical crises that may have an impact on some of our demands, but we are closely monitoring that.

Mumuksh Mandlesha: Just a last question from my side. Sir in this quarter content per unit has increased to 46000 per unit in Q3 versus 44000 last quarter. Any reason for increase what we saw in this quarter any contain increases Sir?

P Kaniappan: There are few trends that are happening in the commercial vehicle industry now. One is transition to EV vehicles. Now more and more bus production are focused in electric vehicles and our content per vehicle is quite high there, because these electric buses uses brake system which is having electric compressor which increases the value per vehicle at least about 10 times of what we currently do with mechanical system. Then, we have electronic braking system. In this normal braking system, mechanical braking system content is Rs.15000. But now we are in these electric vehicles there is a delta component that comes by way of electronic braking system. This electronic braking system helps regeneration and energy efficiency in the braking circuit and that leads to vehicle efficiency improvement and increased safety system that can be covered etc. So most OEMs are fitting electronic braking system in all the EV vehicles. Also, there is a regulation which calls for electronic stability control for the bus segment. Again, adoption is quite high as of now, even though there are challenges in the beginning. So all these things add to increasing content, when the full-fledged market moves more of these vehicles. Even though it is much lower percentage electric vehicle, but as the market moves more and more to electric, this contemporary class will keep improving.

Mumuksh Mandlesha: Just follow up on this question. So who would be the major EV players for us, EV customers?

P Kaniappan: All bus producers. Right now what is happening in India, the buses are being produced based on the tender program from the government. So, the traditional OEMs, OEMs like Ashok Leyland actually using the switch mobility route, but we also have new players you have some O Electra Foton, PMI Foton, and JBM, these are all the new customers even Weka mobility. So some customers who have got the JV, some arrangement with China, they still source some of the parts from there, but for most other OEMs we supply from India supply chain.

Mumuksh Mandlesha: Got it, Sir. Thank you so much for this. Thank you.

Moderator: Thank you, Sir. The next question is from the line of Vimal Jamnadas Gohil from Alchemy Capital Management. Please go ahead, Sir.

Vimal Jamnadas Gohil: Thank you for the opportunity. My question on exports has been answered. Just on outlook for the aftermarket. So it has been 3 quarters since we have seen a sequential decline in revenues, with the kind of product lineup that we have, we would have certainly expected the aftermarket to do much better than what it has been reported. So what is the outlook there and may be what is hurting us over there?

P Kaniappan: See after market is a function of utilization of the vehicles and trucks in the field. Our general understanding is that while the diesel price is more or less stable, the freight rates are increasing steadily which means the profitability of the fleet and the utilization of the truck seems to be improving. Its overall source gives an indication that the demand for spares and other things will continue to improve. But there is another phenomena, which is the quality of products also keep increasing in the market because customers are all offering very large meaning the warranty period has been steadily increasing and suppliers are actually continuously improving the quality which will have a dampening effect. But eventually we are on the same pattern even in this quarter, we have increased about 10%. Understanding that this is sort of one trend is more opportunities on the spare sales, and the other trend is quality improvement. We need to look at new ways of managing our aftermarket growth. Now we are applying the analytics basically to understand the field vehicles that are available, and then probably about 30 lakhs vehicles are there on the road with ZF systems. We have a responsibility to make sure those vehicles are serviced and supported. For that, we are trying to calculate what should be our sales entitlement from each city for each type of vehicles and how much we are doing etc. I am trying to use this framework, try to keep improving as such there is still an opportunity. But at the same time, OEM's are also becoming very aggressive and many of them want to do the service themselves. The opportunity available to us are, one getting into digital area. You also know that we have got a digital solution that we do it for one of the OEMs Volvo Eicher, which means on the aftermarket side, we have an opportunity to really manage those vehicles for which we get a service revenue in the subscription route. We are trying to see opportunities to expand that to their fleet. In the trailer segment, we see some opportunities to introduce the digital solution. I also made a mention that we are launching this trailer pulse which is a digital solution to connect the trailers with the truck. Also, the trailer segment itself is growing well about 32% growth in the segment. Overall, in the industry now more and more trailers are getting applicate and in the trailers, we also see a technology adoption is happening. So, our opportunity to maintain those trailers in the field with the trailer customers also means lot of things are opening up. We also see some more opportunities but not yet realized but it is a retro fitment of some of the advanced technologies, in the advanced cyber assistance system type of area. So as such if you see we have been growing only and sequentially there has been some talk, but at a full year level we have been growing and we see we will be growing continuously but if not at a very at least 10% to 15% level we are planning to grow.

Vimal Jamnadas Gohil: Sir, your comments on the overall heavy commercial vehicle growth for FY2025, are we getting any sense right now? If you could just comment on that please?

P Kaniappan: See, if you see last year at the full year level the growth was in the range of about 16% in the calendar year. In this calendar year, we see in our estimate only a flat market. But then we would like to grow through outperformance with the technologies. In our planning we are only taking a flat market as such, but then again we have to keep monitoring, we believe that there could be some slackness due to the election, but we do not know. So as we move forward we can also constantly monitor as such in our planning we are taking more or less the flattish type of growth in the commercial vehicle.

Vimal Jamnadas Gohil: Just one data point I wanted. The engineering services, if you could just help me with the absolute revenue for nine months and Q3 for FY 2024? Absolute revenue. Thank you.

P Kaniappan: I will request Ms. Sweta Agarwal to share with us.

Sweta Agarwal: The absolute revenue for this quarter is 94 Crores and for the whole year is 280 Crores on the engineering services segment.

Vimal Jamnadas Gohil: 280 and 94 Crores. Thank you so much, ma'am. All the best.

Moderator: Thank you, Sir. The next question is from the line of Mukesh Saraf from Avendus Spark. Please go ahead, Sir.

Mukesh Saraf: Good morning and thank you for the opportunity. My first question is on the exports business. Obviously this quarter we have seen a decline and you did mentioned that you have visibility of about a quarter, but my question is slightly for the next year FY2025, I think last couple of quarters you have been mentioning about some new orders like the 564cc compressor for DAF and also exports to China where the lever for this brake etc. So these seem to be orders where we are substituting some existing manufacturing that is happening outside of India. So is it fair to still assume that even if the European and maybe the North American truck market is weak, we can still grow exports in this coming year because of our substituting some of the local manufacturing there.

P Kaniappan: Actually, we always secure our export business through our competitive positioning within the Group. For Compressors, some new customers getting added, we were starting with originally Volvo and we added DAF and now the Daimler is getting added and we will continue to strengthen, what at least conceptual frameworks when we keep increasing our volume, our advantage on the scale, and the cost improvement that we are able to offer, it helps us to really further improve our position when the quality and other things are remaining same or improving. So that is one aspect. Second is, now Oragadam site will be in operation. I think we are planning to inaugurate on 14th of next month. That will start performing and we are having some few products there also for export. Few products essentially currently we are sourcing the product from a supplier globally. So now the India team is able to demonstrate that it can be produced here more competitively. So, like that we are identifying new opportunities as well. Our growth will be driven by the current products whatever we are doing and attracting more customers for the same product range plus new opportunities. The team in India, we are trying to drive this growth continuously, of course there could be some headwinds occasionally here and there, but directionally we are quite positive on that.

Moderator: We move on to the next question from the line of Varun Arora from B&K Securities. Please go ahead, sir.

Varun Arora: Sir, can you share the revenue breakup for OEM replacement exports and others for the third quarter?

Sweta Agarwal: Do you want absolute number, Sir?

Varun Arora: Yes.

Sweta Agarwal: We have 483 Crores coming from the OEM. We have 109.8 Crores coming from the aftermarket and 204 Crores coming from export sales, giving us a total of 797 Crores of revenue from products in the current quarter.

Varun Arora: Just want to ask from the employee cost why it went up so significantly and on the other side other expenses came down. So any comment?

Sweta Agarwal: Yes absolutely. the employee cost increase that you see is due to the increase of headcount in our engineering services area. We have added a significant amount of employees over there, about 200 and that you would see also reflected into our engineering services income. So, it is not a pure increase in cost, it is due to the increase in the services business part of the company.

Varun Arora: And this percentage will be sustainable in coming projects.

Sweta Agarwal: I'm sorry, could you say it again?

Varun Arora: This 13%, so that will be sustainable in the next quarters also.

Sweta Agarwal: Yes, it would be.

Varun Arora: What is the reduction in the other expenses now?

Sweta Agarwal: The other expenses we have some reductions on data processing charges, rents, CSR and repairs and maintenance. We basically have been actively managing our costs over the period.

Varun Arora: Now your margins are near to 15% for the four or five quarters consistently. So can we assume that it would continue to be 15% margin in FY2025 or in the next quarter?

P Kaniappan: Yes, that is the direction we are working. I am also generally communicating in this call that we are basically a continuous improvement company. So we are looking at all opportunities to keep improving barring any untoward thing happen, but otherwise that is the direction.

Varun Arora: Okay. Thank you. I will fall back in the queue.

Moderator: Thank you, Sir. We will take the next question from the line of Mukesh Saraf from Avendus Spark. Please go ahead, Sir.

Mukesh Saraf: Thank you for the opportunity again. I got disconnected. On the exports question, so just as a continuation like you did mentioned that next month we are starting with the Oragadam facility and so we can see some growth. So any kind of target or any guidance you want to give like can we see a double digit kind of growth next year in exports? Any such indication that you can give.

P Kaniappan: Generally what is our logic is that 1/3rd of our sales will be from export and we have some pipeline of projects to continue to focus. So that is the direction we will be work.

Mukesh Saraf: I think our other expenses you said that there was some cost cutting measures, but we can still maintain this number of less than 100 Crores quarterly or this seems to be one time kind of reductions there.

P Kaniappan: There is no one time issue. We are just generally in all areas we are trying to maintain the cost.

Mukesh Saraf: We can maintain this numbers closer to 100 Crores number we can maintain, this would be other expenses we have done in this third quarter.

Sweta Agarwal: There are no one time impact in other expenses that you see. These are sustainable actions taken hopefully we able to maintain over the next quarter.

Mukesh Saraf: And lastly any update on the PLI scheme because I think we will be starting our production next month and any kind of update that we have there.

P Kaniappan: Actually the PLI call for certain quantum of Capex investment. They also demand a set of top line sales outcome. We are able to meet the sales number but we have not been investing so much on the Capex side. We have some challenges to get that benefit but then we are looking at all options to see how we will get into it, but the Oragadam site anyway will get the corporate tax benefit because the new site we will be invoicing before March 2024 so we will operate into 15% corporate income tax. But one thing straight away available, but PLI we have to still see what more we can invest because it also quite frugal in our investment so that is on the investment side.

Mukesh Saraf: Understood, sir. Alright. Thank you so much. I will get back in the queue.

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

Mumuksh Mandlesha: Thank you so much. Sir, I had one more question. What has been the Capex for nine months for this year and what is expected Capex for FY2024 and 2025?

Sweta Agarwal: Our Capex for nine months has been 138 Crores.

P Kaniappan: See nine months has been 138 Crores, if you see today out of that almost 40 Crores we have spent for the new site, you can roughly estimate it should be in that range for next year also this similar trend, because the new site will be operational, we are bringing many production lines there. So most of the focus will be the new site going forward plus of course engineering we are doing a lot of work and then we are investing.

Mumuksh Mandlesha: So if I get right Sir, 140 was nine months number another 40 Crores for Q4, right.

P Kaniappan: Yes, in this year that is what that number you can safely take. Right now our indication is more or less similar number will be there though there is a lot of pressure from initiative from global level to reduce our Capex not only for India but generally. So we are also looking at possibilities but our immediate indication is we can assume that it will be in the range of around 180 Crores per year.

Mumuksh Mandlesha: Got it, sir. Thank you so much for this.

Moderator: The next question is from the line of Viren Sameer Deshpande from Alphapeak Investments. Please go ahead, Sir.

Viren Sameer D: Good afternoon, Sir. Our growth has been very consistent over last one, one and half year and we continue to see good growth in sales and profit margins also. But this time it was weak I think you mentioned regarding inventories may be some were piled up etc., but structurally do we still expect the commercial vehicle industry to grow over the next one year they despite temporary aberrations due elections etc.

P Kaniappan: Yes. So what we are thinking see first is next three months, we have got some indication from all OEMs which indicates a decent growth meaning you see last year also January, February, March, the production has been quite good. My current view is this year it will be more or less flattish and the impact of elections, we do not know what type of impact, but there is some amount of uncertainties around that.

Viren Sameer D: Construction and mining I think are doing well.

P Kaniappan: Yes. The construction mining industry is strong, overall industry is strong. As I told you while the diesel price is more or less stable for more than a year, the freight rate is increasing, which means the profitability of the fleets are there and the utilization of trucks is there. One thing, another trend that is happening in the market is the movement towards using the trailer has become more profitable, usage of trailer-based transportation in the haulage also has been very aggressively increasing, previously 8% of the overall truck production used to be the tractor trailer combination, but now it is almost 17%. We see this will keep growing like any other global markets. That provides a lot of opportunities for us to grow because we can sell products for a truck, we can also produce and sell products for the trailer and globally our former Wabco, which is a part of this ZF CVCS now in India, we have highly advanced technologies for the trailer segment more than anybody else. We have the trailer electronic braking system, trailer ABS, lift axle control systems and many, many solutions and so our last quarter trailer segment growth is 32%. So that is why it is a very strong growth in that segment and that is something that we are also factoring. Also we have the digital business which is close to some 80-90 Crores which was built in the last 2-3 years. It was almost 0 in 2020 now we have come to say about 80 cross, but we are seeing almost 160000 vehicles are in our platform and there because we are connected with one of the OEMs more and more vehicles produced by them will go with our system and the number of vehicles in our platform keep increasing. Again there, if you offer many new solutions then there is a possibility to up-sell and we can improve the subscription, the capability also helps us to go to the fleet directly in the aftermarket side etc. So many areas we are working. The vehicle production itself could be in our planning we are only taking it flat and how it will move up or whatever we have to constantly monitor and the uncertainty here is the impact of election and other things and the government has to stop the investment for some time and all those things, but our growth will be driven by outperforming the market is at least we believe we will do about 10%.

Viren Sameer D: In this quarter also you mentioned we have outperformed the market despite the growth in sales being muted, only 2%-3%. But we still have outperformed the industry by 10%.

P Kaniappan: Yes, correct. We outperform the market by 10 % and the market grew about 9%, in the OE. So that opportunity is available because ZF our growth is largely driven by our technologies and the solution that we will be offering to the market. We are seeing the early signals on the AMC getting launched by OEMs and market is giving very positive signals. Again, we are well positioned to try grow through that route itself. There are multiple things happening which will help us to really manage certainties and growth in the market.

Viren Sameer D: We are actually increasing the content per vehicle etc. That is also going to help us going forward as well.

P Kaniappan: Absolutely true. Yes.

Viren Sameer D: And when is our new plant going to be on track for commercial production.

P Kaniappan: The new plant is already in place, we have moved, actually we are validating some of the lines, line will be released soon. On 14th of this month the plant formally gets inaugurated and that will start that also adding to our sales.

Viren Sameer D: Replacement market is not a big thing for us.

P Kaniappan: In the replacement market, in the last quarter we have done about 109 Crores out of 797 crores which is the kind of a 12%-13% of sales. But the opportunities are there, also there are some headwinds, essentially the OEMs are trying to take that part of the business. That is the challenge that we must manage. At the same time, we are also supplying through the OEMs on the OEs path route to them. But then they will try to more and more reach out to the customers and many customers wants the trucks to go to their dealer points. But beyond the warranty timeframe, we have an opportunity to work with them. We are launching some new products, we are working on the digital side also.

Viren Sameer D: Yes. Okay, sir. Thank you, Sir and all the best.

Moderator: Thank you, Sir. As there are no further questions from the participants, I would now like to hand the conference over to the management for closing remarks.

P Kaniappan: Thank you very much for the very good interaction. Thank you.

Moderator: Thank you. On behalf of Batlivala & Karani Securities, that concludes this conference. Thank you for joining us and you may now disconnect your lines.