Transcript of
WABCO India Limited
Q2 FY2021 Post Results Conference Call

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Moderator: Ladies and gentlemen, good day, and welcome to the WABCO India Limited Q2 FY2021 Post Results Conference Call hosted by B&K 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 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 B&K Securities. Thank you, and over to you, Sir!

Annamalai Jayaraj: Good afternoon. Thank you all for joining us and welcome to WABCO India's quarterly earnings call today. The 2nd quarter earnings results for this year will be presented by the management of WABCO India Limited. This morning we have Mr. P. Kaniappan, Managing Director of WABCO India Limited and Mr. R.S. Rajagopal Sastry, CFO of WABCO India Limited as well as Mr. M.C. Gokul, Company Secretary, WABCO India Limited.

WABCO India Limited's results for the quarter ending September 30, 2020 were published on October 23, 2020 and is available on the website www.wabco-auto.com/india under the investor relation section. We hope that you had an opportunity to go through them.

A transcript of this call will also be made available on the WABCO India website www.wabco-auto.com/india under the investor relations section.

I will now hand over the call to Mr. P. Kaniappan who will provide us further insights into the results. Over to you Sir!

P. Kaniappan: Good afternoon to all of you. Welcome to WABCO India Limited's Second quarter 2020 result. Certain forward-looking statements that we will make today are based on management's good faith expectations and beliefs concerning future developments. As you know, the actual results may differ materially from these expectations as the result of many factors.

Before I talk about our performance, I would like to share some of the key macroeconomic and policy highlight impacting our business. As you all will be aware be

India's economy has been slowing down for more than seven consecutive quarters - long before the impact of the COVID-19 global pandemic. The pandemic further negatively impacted India's economy resulting in negative growth of about 23.9% in the first quarter.

The automotive industry was impacted by this as well as a mix of demand slowdown and the switch over to new emission norms.

After a sharp year-on-year drop of approximately 43% in H1 2020-2021 compared to H1 2019-2020 for the auto industry, we saw domestic sales of commercial vehicles fall by 85% in the first quarter and by 20% in the second quarter of 2020-2021. The segment continues to be severely challenged by a broad range of issues, these include overcapacity, global economic disruption due to COVID-19, financing constraints, lower GDP growth subdued freight availability, reduced spend on infrastructure and revised axle load norms

On the positive side; however, the industry's long-term drivers remain robust and the market is witnessing a steady recovery. India's E-commerce, agriculture, construction and mining sectors are seeing an encouraging revival, which is in turn generating demand for commercial vehicles. With the steady opening up of the economy and increasing economic activity across key sector the commercial vehicle industry is forecast to return to pre-COVID level in the near term.

There are also further positive signs of recovery of the Indian economy led by rural markets. A bountiful monsoon is producing a sharp rise in pre-kharif and kharif crops sowing. This in turn is leading to a rise in rural expenditure including the purchase of agriculture related products and tractors. The IMF has also projected GDP growth of about 8.8% in 2021. The general activity indicators, which include e-way bills, electricity demand, employment is already in a pre-COVID levels. Further, the various measures of the Government and a heightened savings trend by the public indicate better liquidity. Thus, we feel the industry is generally well positioned to benefit from a recovery in demand, which may agar well for investments in commercial vehicles.

Before we turn specifically to WABCO India's performance I would like to touch upon the ZF WABCO merger ad what it means for WABCO India

As you may be aware on May 29, 2020, ZF announced the successful conclusion of the process to acquire WABCO. This deal brings together two global technology leaders, with a strong heritage and presence serving the commercial vehicle sector. WABCO now operates under the ZF brand as its new Commercial Vehicle Control Systems division. By combining the complementary product portfolios, and rich talent pools of ZF and WABCO, ZF now offers commercial vehicle OEMs and fleets unrivalled access to innovative products and services that will help shape the future of the commercial vehicle industry.

Uniting WABCO and ZF has created a customer-focused the powerhouse to advanced vehicle control technologies and digital services to support the industry's increasing adoption of autonomous connected and electric commercial vehicles. Customers in India and across the globe now have access to one of the industry's most comprehensive portfolios of advanced technologies including advanced driver assistance system and vehicle dynamic control, fuel-efficiency technologies and leading fleet management systems.

ZF is the ultimate affording company of WABCO India Limited. And WABCO India will continue to operate just as it has previously as part of ZF's Enterprise. WABCO India will continue to build on its success story while leveraging ZF's extensive global network and capabilities to continue to pipeline new technology innovations and offer first-class solutions and services to Indian OEMs, fleet and aftermarket customers.

The WABCO brand will continue to have market coverage on a product level and serving our commercial vehicle aftermarket offering.

Now turning to our Q2 FY 2021 results, I would like to take you through our financial performance.

The revenue from operations was Rs.418.71 Crores, which is a decrease of Rs.27.28 Crores (-6.1%) when compared to the corresponding period in the previous year. Domestic sales for the second quarter were Rs.172.94 Crores versus Rs.213.36 Crores a drop of 19% and compared to the prior corresponding period. Other operating income (OOI) was at Rs.52.21 Crores when compared to Rs.53.49 Crores in the previous year. The other operating income figure includes service income both export and domestic and merchandise exports incentive scheme (MEIS). Material costs as a percentage of total revenue from operations decreased by 1% mainly due to improved pricing from our external and ICO customers.

Exports in quarter were at Rs.193.56 Crores up from Rs.179.15 Crores over the corresponding period in FY2020 - an increase of 8%. The company will continue to focus on maintaining its growth trajectory in the export segment through its project pipeline.

Aftermarket performance was at Rs.60.71 Crores between July and September 2020, a growth of 0.6%. The aftermarket is showing a positive trend and, with the launch of new products such as Diesel Exhaust Fluid and connected vehicle solutions, we expect this segment to grow.

In the quarter ended September 2020 Company posted a profit before tax of Rs.50.92 Crores compared to Rs.45.80 Crores in the same quarter of 2019 and increase of 11.2%. As a percentage of total income PBT stood at 11.8% in the second quarter compared to 9.9% in the corresponding quarter of 2019. Profit after tax before exceptional items is Rs.35.11 Crores. As you would have seen from the published results this strong performance was achieved through continuously driving productivity in material cost, manufacturing cost and overheads.

Employee costs were reduced from Rs.66.19 Crores to Rs.64.17 Crores between July and September 2020. During the period, there was a marginal decrease of Rs.2.03 Crores as a result of employee resource optimization.

Depreciation increased by Rs.1.5 Crores in July to September quarter, when compared with the corresponding period due to addition to fixed assets towards various purposes including capacity augmentation, new programs and quality improvements. Other expenses stood at Rs.52.63 Crores in July to September quarter compared to Rs.68.47 Crores during the same period last year, a decrease of 23.1%. This is due to decrease in sales volume cost rationalization and productivity.

Other income reduced from Rs.14.61 Crores in July to September 2019 to Rs.11.08 Crores in July to September 2020. This is due to a reduced rate of returns from investment in fixed deposits and mutual funds (from 6.3% to 3.8% per annum).

Now, I would like to spend a few minutes providing you with some further insights into the micro and macro trends, as well as outline the key business highlights.

The Indian automotive market is undergoing major regulatory technological and market changes, which has helped drive opportunities for our business particularly in safety, efficiency and digitalization. We have established relationships with all key OEMs as a strategic partner and have supported them in successfully transitioning to BS6 technologies. This involved upgrading all our air management and advanced braking system.

We are also successfully partnering with the leading OEMs to build on our systems integration expertise and the rich resources of operating data, our onboard systems generate to offer our range of connectivity solutions to their fleet customers. WABCO FMS is a comprehensive end-to-end portfolio of solution designed to enhance safety and operational efficiency. This includes advanced fuel management, uptime monitoring, trip monitoring and route management, vehicle diagnostics, track and trace of fleets as well as helping improve fleet logistical efficiency and the safety and comfort of passengers and drivers.

In addition, we are also introducing a Reverse Parking Assistance System (RPAS) solution to enhance the safety of the commercial vehicles and support AIS 145 regulatory requirement for all new commercial vehicles in India produced after April 2020. The rear blind spot detection system helps to make reversing commercial vehicle safer and easier.

The OEMs that initially focus on the BS6 introduction are now considering the introduction further advanced technologies including AMT, Air disc Brakes and Electronic Stability Control systems under BS6 platform. We have an extensive capability and proven technologies in all these domains.

As the government increases its focus on electrification, WABCO India along with the wider ZF Group is well positioned to support Indian OEMs with our strong portfolio of advanced technologies for electric vehicles.

With the impact of the pandemic still dampening the pace of economic recovery, the markets are expected to remain muted for a while as was the case even before the onslaught of the pandemic. We continue to closely monitor the situation and are taking proactive measures to manage costs and sustain flexibility while building on our key strength to support the customers.

ZF WABCO is deeply committed to future growth and development of the business here in India and to continue introducing global technologies to address Indian customer needs.

Thank you for joining us today for our quarterly call. We greatly appreciate your interest in WABCO India.

We would now like to address any questions that you may have. Thank you.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Shyam Sundar Sriram from Sundaram Mutual Fund. Please go ahead.

Shyam Sundar Sriram: Thanks for taking my question Sir. Firstly, from the revenue perspective we do understand the OEM revenue we have added more content post the BS6. So other than the air management and the braking systems for BS6, have you added other new products and how has that increased our content per vehicle per se. If you can please give some perspective on that?

P. Kaniappan: Thank you for the question. First of all increased axle load demand led to improvement in the braking system, but then all the OEMs used the opportunity to launch the BS6 vehicles not only to address the emission aspects, but in improve advancing braking system to meet the requirements of the increased axle load, that is one dimension. We had to upgrade all our braking system products to support the customers. This involved upsizing the compressors or optimizing or increasing the size of the compressors, upgrading the air management system products and in some cases changing the actuators and other elements of the braking system to handle the higher axle load requirement. This is one dimension of the content increase.

The other dimension is the driver comfort. We have launched integral pedal unit earlier on a few platforms for some customers, but then a few OEMs decided to use this opportunity to extend it to the entire platform. So, this is an additional content. Third is BS6 regulation, which also demanded certain auxiliary braking systems like exhaust brake, so we had a portfolio of products, for upgrade and then this extended to most of the vehicle platforms in the country.

Also, there are certain value enhancers. We have launched ABS in 2015, certain features of ABS, customers decided to activate along with the BS6 transition like hill start aid, automatic traction control etc. These are in the braking domain. Customers also decided to launch their connected vehicles program. We have partnered with a few of the customers and are powering their connected vehicle solutions. So, these are some of the highlights which contribute to the content increase.

Shyam Sundar Sriram: Understood Sir. Sir how much the content increase between BS4 and BS6, if you can just give some perspective?

P. Kaniappan: I will not be able to share the details because of certain reasons. There are multiple reasons - changes versus customer versus platform versus mix etc. Also, this is competitively sensitive information, so I am not in position to share the information with you. I am sure you can make an estimate of that.

Shyam Sundar Sriram: The driver pedal that you are talking about I could not understand that properly and exhaust brake is the engine needs to be cut off at the same time, the brake is applied that is the exhaust brake system?

P. Kaniappan: In terms of the integrated pedal unit, the brakes, accelerator, clutch, are independent of each other. This is not an ergonomic environment for the driver to operate, The Integrated Pedal Unit (IPU) solutions combines., clutch accelerator and , brake pedals., in an ergonomic manner, along with some sensors - This is one of the new trends in the industry, which provides comfort to the driver. Second it also makes sure that wear and tear of the systems are as per the design. This is a new technology, that some of the customers have decided to extend across all their platforms. On the exhaust brake what you suggest is right, instead of applying the full-service brake, the exhaust brake kicks in first in certain applications and reduce the braking load on the service brakes.

Shyam Sundar Sriram: All vehicles will have the enhanced compressor, upgraded air management and the exhaust brakes and some customers are adopting the driver pedal and enhanced ABS solution, and that is how the configuration between different customers and products will be.

P. Kaniappan: If we look at compressor trends 10 years ago, we used to have only a 160cc compressor. The air requirement was low but then steadily it has increased. From 160cc to 230 cc and 318cc; as the air requirement increases in the vehicles because they have many systems that need air apart from the braking systems. It depends on the vehicle platform. If you go to high-end platforms let us say 49 tonner, 55 tonners, you may be in the range of 318cc and when you go down it maybe to 230cc etc. Essentially the trend globally is to transition to higher capacity compressors, 160cc to 230cc, 230cc to 318cc, and India is moving towards that.

Moderator: Thank you. The next question is from the line of Bhagyesh Kagalkar from HDFC Asset Management. Please go ahead.

Bhagyesh Kagalkar: Good afternoon Sir. This is regarding exports. Can you throw more light on exports for next three to five years? You have some software exports and product exports. Can you quantify the exports for this year what is the target if possible?

P. Kaniappan: I may not be able to give you a quantified forecast but what I can suggest is that you might have been tracking our exports trends so far. Our exports are largely driven by two dimensions; one is product export, other is service exports.

In the area of product exports over the years India is emerging as the best cost location, for products like compressor. Compressors we have been in India for many years and we have built a good supply chain and very decent volumes in India for compressors. Using that opportunity ZF CVCS decided to source from India the compressor for certain global customers because of the competitive advantage in terms of manufacturing cost and engineering capability for similar products like compressors, actuators etc. We are leveraging that competitive advantage and then extending the same to many customers. Some of these projects are already in the pipeline.

Similarly, we have designed products in India for global market, particularly in areas such as actuator, and India has emerged as a best cost location for such products. We see more opportunities and as ZF expands its market share with similar customers, we would like to become a supplier of certain products from India to ZF CVCS division. This will continue because an increase in scale further provides us opportunity to become more competitive etc. In few cases, we have also partnered with Indian suppliers and are supplying subsystems to ZF CVCS from our Mahindra City. I can share with you that there is a pipeline of projects which is will continue to grow our export business.

Similarly, on the service exports, many of our colleagues in India, they are a part of global engineering network based out of India and working for them. We also have a global business services centre established here, and they service the global teams and is billed as service export. We believe this trend will continue to grow because of the value, the team here is able to bring to the CVCS Division globally.

Bhagyesh Kagalkar: Sir one more question on electrification along with ZF, what are we offering Sir, in India, it will take some time in distribution of EBS what are the products or services that we offer combined with ZF, ZF and WABCO?

P. Kaniappan: Right now, for electric vehicles, we have technologies in the areas of braking such as electronic braking system (EBS) or ABS, largely EBS as electronic braking system is needed for Electric vehicles. We have the complete portfolio of advance braking system with us for electric vehicles. WABCO is strong technology player in compressors and, have also e-compressors as we are a leading supplier of compressor in this country. We also offer electronic stability controls, which we call ECAS. Additionally, ZF is a very strong player in the area of advanced driver system (ADAS) and has products such as e-motor, electric drives and, DC/AC converter, among other products in the portfolio, all these products can be offered to the Indian EV customers. We have already partnered with most of Indian OEMs who are manufacturing Electric vehicles. For example, one of the OEMs in India has adapted our air disc brake for the electric buses. So, we have good portfolio of products for the electric vehicle together with ZF.

Bhagyesh Kagalkar: Which entity will supply, will be decided later on, because the market is too small, electric motors and all you have to supply, which comes from there then who will supply? ZF will do it in India or WABCO India?

P. Kaniappan: That is again matter of strategic fit and we must take into consideration which division of ZF the products belong to and what will help the customer. In addition, WABCO India's strong presence in the CV Industry in India and partnership with Indian OEMs, our local footprint will be taken into consideration in deciding what will help the customer to succeed.

Bhagyesh Kagalkar: Thank Sir and all the best.

Moderator: Thank you. The next question is from the line of Jinal Sheth from Awriga. Please go ahead.

Jinal Sheth: Good afternoon Sir. You have answered quite of few things in the past couple of questions, just to add we have also discussed content for retail, we always quote this is the last history out here and we look at other countries as well, look at the contents of vehicle in different country. The question is that if our plan prior to ZF coming in and now that the ZF has come in. Is there a jump in expectation that we can further get content per vehicle is that a fair assumption?

P. Kaniappan: Definitely, if these products are launched through the WABCO India platform it will further enhance our portfolio. WABCO India has its own technology roadmap which was prepared after connecting with all OEMs. Post ZFs acquisition of WABCO, provides further opportunity for us to bring technologies from the ZF portfolio and offer the same to Indian customers by leveraging our own footprint both in engineering and manufacturing and our strong partnership with the customers here. There are a lot of opportunities.

Jinal Sheth: If I am mistaken until now there was one listed entity as ZF carrying India and then there is a private company as well so do we need know that we can flow through the different entities, any idea that we would have?

P. Kaniappan: Right now, maybe it is too early for me to answer that question. WABCO India is in a very strong position to bring those products to Indian market for Indian customers if these products are part of our domain.

Jinal Sheth: Thank you so much.

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

Mukesh Saraf: Thank you for the opportunity. Sir the first thing is if you could give us a sense of your current CY2020 or a normalized revenue mix right now, how much would be coming from the conventional braking systems and probably how much from ABS and disc brakes, the lift axle controls, which is a very broad mix if you could provide?

P. Kaniappan: Sorry, these are all competitive or sensitive information. However, I can tell you post BS6 we have further strengthened our position with all the OEMs in India and as I said earlier applicated many of the products, particularly in areas that further enhance safety efficiency, comfort. One new dimension of our business segment is the connected vehicles program. The Indian commercial vehicle market is moving towards autonomous, connected and electric technology. Autonomous vehicles, electronic stability control and these products will come through the regulatory route the government has announced that M3 vehicles will have to have - ESC electronic stability control systems as a mandatory requirement from 2023. In the area of connected vehicles, we see a huge opportunity, so we have already partnering with two OEMS for their connected vehicle programs - by providing them end-to -end solutions from hardware, firmware and software. In the front end we are partnering with them for their fleets and jointly work with them to see how we can enhance their fuel management, driver management, trip management etc. This is a new capability that have built, a new growth / revenue stream that will be generating revenue going forward.

Mukesh Saraf: Thanks and Sir my second question is if I remember right when the ABS was getting implemented initially we had to import ECU because WABCO India was not really strong on the electronically recorded related components like the ECU while we were able to kind of localize the mechanical components very quickly. Now with a lot of these new product which you are mentioning it seems like the electronic components will also go up significantly have we kind of upgraded capabilities so as to probably be in to localize even non-mechanical kind of components in our short-time or do you think those will remain imported even in these new components that are coming in?

P. Kaniappan: After the Government mandated ABS through the regulatory route we have gone for full localization of ABS and the electronic components. With the advanced connected vehicle program now, all the electronics are developed in India starting from the hardware, firmware, software and customer portal. The solutions must be developed here to meet the local customer's requirement. ZF CVCS division is now building India as a potential location to build all these capabilities. So, we have a cultivated a strong local supplier base, of course with the strong support of the global teams.

Mukesh Saraf: My last question is on exports. In the past we have seen that the WABCO parent company, erstwhile WABCO parent company was quite vocal in talking about their increased sourcing from their low-cost countries. India was obviously one of the keys, so they had targets in mind, they used to publish in their presentation, they used to publish targets on sourcing from best cost countries, so does that methodology still stay under the new ZF Group as well. Do they continue to focus on sourcing from best cost and now ZF being so much larger does that increase the export potential for us?

P. Kaniappan: Absolutely, as I said, we are providing very strong capabilities, manufacturing footprint and the best cost location, best cost opportunities also in our ability to design and redesign products in India. This is valued by our parent organization very well and that is helping is secure new businesses from OEMs. I believe this will be further get enhanced and we see more opportunities to grow our exports.

Mukesh Saraf: Sure, Great Sir I think this is very helpful. Thank you so much.

Moderator: Thank you. The next question is from Aditya Birla Capital. Please go ahead.

Unknown Speaker: Thank you for the opportunity. I just have one question post the open offer the promoter stake now stands at 93.1% and with respect to regulatory perspective is there any timeline by which we need to bring down the stake to 75% and if yes then would the same be via OFS or what could be the approximate timeline for the same?

P. Kaniappan: I will request our CFO to answer this question.

Rajagopal Sastry: Like you said 93.1% is with ZF right now and this is purely governed by law and the law states as of now that one year is the timeline. As you know ZF is a very strong company as far as compliance is concerned and ZF will do all that is required as required by law and they will be announcing in due course their actions as and when appropriate.

Unknown Speaker: Thank you and all the best.

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

Chirag Shah: Thanks for the opportunity. Sir coming back to the revenue opportunity is it possible to indicate what kind of content increase that we see in the BS6 arena or the related part of the business and also directionally some of the voluntary products that we are offering assuming the acceptance increases what kind of content increase, can we see us, it is difficult to take a gauge as some of the products are very exciting but how big they can be for us, I am just trying to understand that?

P. Kaniappan: As I mentioned earlier, I will not be in the position to provide specific product level detail of the content increase, as there are two dimensions, first one is adaptability of these technologies or application of this technology by customers. I would like to tell you we are very well positioned to reap all the benefit that is arising out of braking systems and of course areas of efficiency. and the connected vehicle program, which is a new program that we have launched.

OEMs are now going for the BS6 environment and this provides us with the opportunity to provide all these technologies. I am not in a position to tell you how long will it take for this to evolve, but I can tell you that we are very well placed to drive outperformance the way we used to do earlier and in terms of exact numbers I am sure you will be able to calculate the sales number that is related to the vehicle production numbers.

Chirag Shah: Sir just for clarity, what is the regulatory compulsory enhancement of your company and what are the discretionary units, if you can help us understand?

P. Kaniappan: All vehicles produced after April 1, 2020 must be compliant to the BS6 standards. compliant So most of the BS-VI vehicle are equipped with advanced braking systems largely because the of the increase axle load regulation that was introduced one to one and a half years earlier. Which was addressed more on a short-term; However, the OEMS have decided to upgrade all their braking system along with BS6 irrespective of the size of the compressors, air management system and all. Additionally, OEMs have added value enhancers as standard features to increase driver comfort like the integral pedal unit and hill start aid. There are some products which will come more as an optional feature.

Customers were busy with BS6 launches, however as this has been streamlined, the focus will be on introducing advanced products like electronic stability control, AMTs, air disc brake, as optional features. The OEMs will leave the choice to their customers / fleets to add those additional features requirements in their specification.

Chirag Shah: This is a followup, would it be a right statement that the adaptability of this new technology is improving or increasing versus the past trend because over the years you would have been adaptability is improving or it is just staying same?

P. Kaniappan: Adaptability, I did not understand that question. Can you just say it again?

Chirag Shah: Some of the discretionary technologies that you are offering are consumer or the OEMs willing to adapt now at a much faster pace or there is still reluctance which is there. Is the trend of adoption faster versus say what we saw last decade? Can we expect that there will change?

P. Kaniappan: I think that is a very good question. Most of the safety technologies are being introduced through the regulatory route. It is now mandatory for the OEMs to fit these in the factory itself. Starting from ABS, the government now has a roadmap to bring specific safety technologies. At the same time, now India is comparable to some global standards after the introduction of BS6. The BS6 platform provides now many opportunities to OEMs to offer their end customer many new features. For example, Electronic Stability control - ESC is required for certain fleets, which transport hazardous goods in India. Companies such as Total Gas or Truck Share, opted to have these technologies on their platforms. Fleets will create a pull for these technologies as they provide an exceptional value to the fleet. A small accident can become a major issue for global fleets operating in India as their standards are different. Now these technologies have become the differentiator for the OEMs for providing value to their customers.

Our connected vehicle program that one of the customers has released is a big differentiation for them. It has been released as a standard feature in all their vehicles, even though it did not come through the regulatory route. As the customer or the fleet demand greater value from the OEMs, the offerings, which are optional to begin with, will become standard over a period

Chirag Shah: Thank you Sir. This was helpful. Thank you. All the best.

Moderator: Thank you. The next question is from the line of Gokul Maheswari from Awriga Capital Advisors. Please go ahead.

Gokul Maheswari: Thank you for taking my question. So, my question is on the penetration of the AMTs. So, today if 100 trucks are being sold how many numbers of trucks are being fitted with the AMT and secondly if we could also comment on the aftermarket opportunity of AMT whether this has been adopted on a YTD basis? Thank you.

P. Kaniappan: AMT in India initially was launched for only buses because the government JNNURM program mandated that as one of the requirements - either automated manual transmission or automatic transmission. Some customers chose to make the standard feature in some in their vehicle sold to the government bus fleet as a standard requirement. This is how it started. So, in terms of number possibly around 2000 systems. But after the new government took over, the JNNURM program got diluted because the funding to State Governments for STUs was lower. As a result, the specifications also got diluted there after it was left to the OEMs to decide to offer AMT for fleets based on TCO model because AMT provided a fuel saving of at least 3%.

After BS4 was introduced in 2017, it facilitated the application of AMT. A few customers launched in the truck segment but within three years government decided to shift to BS6, and most OEMS started focusing on BS6 launches. We are recalibrating AMT for BS6 and will launch it. Post the Launch of BS6, many OEMs are focusing on AMT as a possible optional feature. So, in terms of aftermarket this product is quite an advanced product and cannot be handled with the aftermarket. It must be handled at the OEM and every stake holder must join and then launch it. The technology is heavily dependent on software / firmware, hence we decided not to pursue this in the aftermarket.

Gokul Maheswari: With respect to your aftermarket business are there any other changes which the aftermarket business is seeing because you already have a fairly well established distribution network so are you launching more products for the aftermarket to accelerate given that would be the most profitable segment?

P. Kaniappan: Yes. About a year ago, we launched the diesel exhaust fluid, the equivalent of AdBlue as an aftermarket product. This is doing well now. We are now focusing on and expanding the network sales opportunity, etc. This demand has increased with the BS6 launch. The opportunity has only become larger with only Selective Catalytic Reduction (SCR) systems.

Another major area that we have launched is the fleet management solutions or Connected Vehicle program. Globally the Connected Vehicle Solutions has a strong base after the acquisition of Transics. Using our global knowledge and capabilities, we developed a solution in India for India market. Also, you might have heard WABCO acquired a company called AssetTrackr and they are basically in the aftermarket side of the business. Asset Trackr is essentially a WABCO System with global capabilities, but with the value proposition for the India market. We are now leveraging our aftermarket and using our aftermarket network, service centres etc., to promote Asset Trackr as another major new revenue stream.

There are few more products we are launching particularly in the area of hydraulic segment, like clutch master cylinders, tandem master cylinders such products, where the light duty segment of the vehicles can be covered. We have clear plans to drive the growth in aftermarket with new technologies and products. We are in the process of improving the reach and depth of the aftermarket.

Gokul Maheswari: Great. Lastly on the product range, which you had till now has been largely catering to the heavy commercial vehicles. Is there a plan to expand this product range to light commercial vehicles or other segments in the automotive market with the passenger cars etc?

P. Kaniappan: No, not for India. our core competency is only in the airbrake related technologies. So, we will continue to expand only in that area. We have a small presence in the light duty segment, but our focus will only be the air and air assisted areas, the airbrake technology related area.

Gokul Maheswari: Thank you so much. Stay safe and all the best.

Moderator: Thank you. The next question is from the line of Nishant Vyas from ICICI Securities. Please go ahead.

Nishant Vyas: Thank you for the opportunity. Sir, first question is more on the financial side. Just to understand what actions would you have done over let us say the first half of this quarter or probably last year to look at breakeven, and fixed cost reductions, if you can highlight some of the initiatives and what numbers would you be thinking in terms of the benefits that you would have accrued. That would be my first question.

P. Kaniappan: Thank you for your question. Essentially, we have been a company focusing on total employee engagement and continuous improvement and we continuously looking at opportunities to see how we can reduce costs in our space. Over the last one and a half years or so when the market went down, we focused on flexing the cost to the sales. Our direct workforce is largely flexed resources and in the indirect areas we try to largely flex even to the extent of reducing the number of working to four days, to make sure we try to match with the sales to a large extent.

We also took up several productivity improvement initiatives in material productivity, conversion cost productivity, it is an area that we are focussing on continuously. In the area of services, we have maintained the growth of services exports. Income from the merchandise export incentive scheme etc., have temporarily helped, our CFO can add any further.

R.S. Rajagopal Sastry: Like you would know the industry had been on a slowdown mode for almost seven quarters now. So, our initiative is towards ensuring that the costs are in line with sales, flexing them started quite some time ago. From the overhead perspective, we have been looking at treating every cost as discretionary in nature and every cost goes through a rigor of understanding the return on investment however small. This is helping us, and it has created a base and a culture within the organisation of being very sensitive to what we spend on, how we spend on and to ensure that there are adequate returns.

This is helping us even during downturns with a low operating leverage which we have and are able to manage even when the times are not good. When the revenues are down, we do not allow the profit to be too largely affected. This is a lesson that the pandemic and the slowdown is teaching us.

Nishant Vyas: You might not be wanting to quantify it, just to from a directional perspective vis-à-vis the previous stock market upcycle would you be considering yourself to be significantly leaner as an organisation when the next upcycle hits up in a couple of years?

P. Kaniappan: Directionally yes, qualitatively absolutely.

Nishant Vyas: Sir, I know it might be a little irritant, but I am just trying my luck again in a different way because I think it is very important for investors to understand content per vehicle increase, Sir, if I had to just ask you from a qualitative basis between the transition of BS6, BS3 to BS4 and BS6 transition, qualitatively would you think that the change in terms of the absolute like you said that the product that are getting added now largely in every vehicle not the optional ones would you say the change in terms of how the content moved at BS4 level and BS6 is similar or is it not very, very comparable, just from a qualitative basis?

P. Kaniappan: It is possibly comparable. The technologies are different, but then as far as BS6 is concerned, it was more an opportunity for us because the OEMs had to upgrade their braking systems, which was not the case for BS4.

Nishant Vyas: I do not know if I missed this. We have heard about you introducing new products in the steering system side as well, need some of those product initiatives in the initial part of the call did you mention any of those?

P. Kaniappan: We started selling steering in India from the WABCO entity that we have acquired in the US, Sheppard. At that time India market was rapidly growing, Indian OEMs were short of capacity, so they approached us to quickly respond. We responded by importing steering systems from Sheppard and supplying to the Indian customers to start with; then we had clear plans to develop it here locally, redesign to India market and manufacture here.

In case you are referring to ZF acquiring WABCO, WABCO had to divest Sheppard from an anti-trust perspective. This meant that we were not permitted to continue that operations here. So, we had stopped it.

Nishant Vyas: Thanks for that clarification. Sir, last question you obviously have a dominant position in the market, but anything that you are seeing on the competitive intensity side that is kind of little different from the earlier transition here or nothing much has changed on that side?

P. Kaniappan: As a matter of policy, we do not speak about competition, but I would like to tell you is we are well positioned to support the Indian OEMs or strengthen our presence here because of ZF acquiring WABCO. This acquisition brings opportunities for new technologies, new capabilities, new possibilities for WABCO India and Indian customers.

Nishant Vyas: Thank you so much Sir. Good luck.

Moderator: Thank you. The next question is from the line of Shyam Sundar Sriram from Sundaram Mutual Fund. Please go ahead.

Shyam Sundar Sriram: Thanks for taking my question again. Sir, my first question is from an export perspective post the pandemic is there any increasing thrust or realignment of global supply chain from the parent WABCO perspective that is giving us a little more visibility in terms of new RFQs. I understand that we are very strong on the mechanical side, compressors etc., but is there any thrust towards shifting supply chains per se from a global perspective that is on the first point of that. And from a new plant ramp up in the Mahindra World City how is the status there, we had applied for some product validations from there. Is it approved? That is the other part of the question.

P. Kaniappan: Any new product productionized in India takes a few years from a global supply chain and customer acceptability point of view. The pandemic is a short-term topic in the export supply chain right now. As we have back orders, post the lock down we are ramping up quickly to close that part, and this does not make an immediate change.

However, for our long-term export strategy, we have a good order pipeline built right now and there are a few areas that we are also working on. We are catering to the car industry - the air supply unit for BMW and all the high-end cars from India which is quite an advanced product with an electric motor. India is emerging as the best cost location and wherever we can offer some value to our parent, we see a strong growth possibility. Our growth momentum is quite robust from our export business and Mahindra City plant is now full of all projects are the pipeline.

Shyam Sundar Sriram: Sir one other question Sir from the ZF portfolio, ZF does have a wide portfolio for trucks ranging from drive lines, suspension components and if you leave aside the more advanced of advanced ADAS technology if we leave aside that there is still other components on the driveline and suspension so from the global portfolio, are there any specific product segments that may come into WABCO India any early discussions that are on from that perspective?

P. Kaniappan: Right now, there is no such indication. I can share with you that ZF has a transmission technology and WABCO (ZF CVCS division) has the AMT technology. There is a big synergy here. We have a transmission and transmission automation, then we are very well positioned to offer this product as a total system solution for all Indian OEMs and accelerate the pace of the AMT transition particularly now after the BS6 as it becomes much more relevant. AMT is much more relevant as the industry is moving towards 9-speed gear boxes, When the industry scales up to 9-speed and above, AMT will play a crucial role as manual gearshift becomes cumbersome for the drivers.

There is complementary portfolio of technologies between WABCO and ZF in many areas. An example that I mentioned is ZF's transmission and WABCO AMT and we can now approach OEMs with a single product, which is fully tuned and validated.

The same applies for a suspension system. WABCO has electronic control for air suspension and ZF has suspension system, which we can now supply as a total electronically control air system solution. This is the synergy, that we can offer, for the benefit of our customer. We will supply all these global proven products as a total system solution.

Shyam Sundar Sriram: You mean from a technology transfer we may get the technology and manufacture here and supply air suspension. That is how it works.

P. Kaniappan: How the solution will be structured and given to the customer is a point of discussion. I will not be able to comment as the integration process is going on. Let us assume that the transmission with the AMT becomes a success, WABCO India will be able to sell more AMTs to customers through ZF. Whichever route we take it will benefit the overall sales. The subject of which product will be sold by whom is to be discussed at the global level considering what is good for the customers. This also depends on the products, how strategically they fit into the, overall plan. This will however put WABCO India and ZF in a much better position to drive the sales thus benefiting both entities.

Shyam Sundar Sriram: Thank you very much Sir. So, one last question on the connected vehicle that were talking about so will this be a new subscription or an annuity type of a revenue stream that can get added, so even as we talk today is it meaningful part of our revenues or it is building up Sir?

P. Kaniappan: What you stated is true. There are two components – the sale of both system hardware and software which is a onetime sale. The next phase depends on your partnership and agreements with the customers. The company then takes the responsibility to leverage the aftermarket network and partner with fleets in the aftermarket and to make sure that the systems are working correctly.

We then collect the data and give feedback to the customer / fleets, perform analytics and then provide feedback in terms of driver management, fuel management etc., thus providing a stream for subscription revenue. WABCO India offers both options.

Some customers opt for the subscription model. In aftermarket it is both you sell it initially and then go into a subscription model fully because we drive the product with the fleet.

Moderator: Thank you. The next question is from the line of Shashank Kanodia from ICICI Direct. Please go ahead.

Shashank Kanodia: Good afternoon Sir. Congratulations for a good set of numbers. Sir, this quarter we clocked some 15% as operating margins and given that the CV cycle is kind of bottoming out, so do you have any medium term or long-term decision that led to share on the margin profile?

R.S. Rajagopal Sastry: We normally do not give guidance in terms of how our margins will pan out going forward. We are also looking at the markets opening up and are looking at using our efficiencies to make the best of an opening market. Thank you.

Shashank Kanodia: One possible case if you are going to realize more operating margins can we believe that 15% is the base case now going forward further efficiencies driving another expansion, or it will not be the case?

P. Kaniappan: No, I think the number is not 15% we may have to check.

R.S. Rajagopal Sastry: We had PBT of 13.9% this quarter.

Shashank Kanodia: I was talking more about EBITDA margins?

R.S. Rajagopal Sastry: We have been consistent with that so far and I do not reason as to why we will not be going forward.

Shashank Kanodia: What will be our capex plans in terms of, are there any expansion plans, what would be sustenance capex that we will be incurring for the next two to three years?

P. Kaniappan: As you have seen our capex normally over the last few years, is in order of Rs.100 Crores every year and we feel it should be around that number.

Shashank Kanodia: Sir lastly if I share on FY2020 basis what we will be the share the revenues between OEM and replacement market?

P. Kaniappan: We can only give you the details for Q2, but we normally do not give the future forecast. We are not in a position to share that.

Shashank Kanodia: Last year basis FY2020 basis, so is it the same proportion, 85%, 15% which you have this quarter or anything else?

R.S. Rajagopal Sastry: So far, we have that kind of a ratio and if you look at Q2, it has been in line with last year.

Shashank Kanodia: Lastly on the dividend payout we have good amount of surplus cash on our balance sheet given that the capex is limited and we do need given the cash flows any thought process from the parent group increasing the dividend payouts or is it going to be the same similar absolute quantum numbers?

P. Kaniappan: The decision will be taken by the board and communicated at an appropriate time

Shashank Kanodia: Fine Sir. That is all from my side.

Moderator: Thank you. I would now like to hand the conference over to the management for closing comments.

P. Kaniappan: I would like to thank all of you for taking the time to be here, for your interest and a very useful interaction. Thank you very much.

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.