Divgi TorqTransfer Systems

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Ref.: DTTS/Sec/23-24/86

November 06, 2023

To, **BSE Limited,** Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai - 400001 **BSE Scrip Code – 543812**	To, **National Stock Exchange of India Limited**, "Exchange Plaza" 5th Floor, Plot No. C-1, G Block, Bandra Kurla Complex, Bandra (East), Mumbai – 400051 **NSE Scrip Code - DIVGIITTS**

Sub: Transcript of Earnings Call held on November 01, 2023

Ref.: Regulations 30 of the SEBI LODR Regulations

Dear Sir / Madam,

Further to our letter reference no. DTTS/Sec/23-24/79 dated October 26, 2023, pursuant to Regulation 30 and other applicable provisions of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 ("LODR Regulations"), please find enclosed herewith the transcript of the Earnings Conference Call held on November 01, 2023, in respect of the Unaudited Financial Results of the Company for the quarter and half year ended September 30, 2023.

The transcript can also be accessed on the Company's website at the following link:

https://divgi-tts.com/earning-call-transcripts/

This is for your information and records.

Thanking you,

For Divgi TorqTransfer Systems Limited

SANIKA SURENDRA NIRGUDE
Digitally signed by SANIKA SURENDRA NIRGUDE
Date: 2023.11.06 12:04:10 +05'30'

Sanika Nirgude
Company Secretary and Compliance Officer
M. No: A71466

Enclosed: As above

Divgi TorqTransfer Systems Limited

Transcript of Earnings Call held on Wednesday, November 01, 2023.

Duration – 01:05:51

Mr. Jitendra Divgi, Managing Director (00:05): (Inaudible 00:06) need to move the slides.

Speaker1 (00:50): Yeah, good afternoon, everyone. On behalf of Equirus Securities, I welcome you all to the Q2FY24 Earnings Conference call of Divgi TorqTransfer Systems. Today, we have from the management side, Mr. Jitendra Divgi, Managing Director, Mr. Hirendra Divgi, Whole Time Director, Mr. Sudhir Mirijankar, Chief Financial Officer, and Mr. Deepak Vani, Chief Operating Officer. So, without further ado, I'll hand over the floor to the management for their opening remarks, post which we'll have our question-and-answer session. Over to you, Jitendra sir.

Mr. Jitendra Divgi, Managing Director (01:24): Yeah, a very warm welcome to all of you who have logged into this call. I would like to begin by making a quick introduction to our new member in our core team, Deepak Vani, who just recently has taken over as the Chief Operating Officer of our company. And this is an expression of our commitment to develop our sort of next generation of our management team as we gear up for growth in the coming years. So, welcome, Deepak. And I'm sure in time to come, he will be an active member of this earnings call. Let me move on to the main presentation. And I'd like to begin by first sketching the highlights of quarter two.

So, if those of you who were there for the last earnings call may recall that we started the year on a somewhat depressed note, given a little bit of a problem that was faced by one of our customers in their supply chain. And we had indicated that from Q2, we would be back on track and then gradually grow the business from there. So, I'm pleased to share with you that the revenue is now back at last year's level. And as we go through the presentation, there'll be updates on some of the new development. What is significant is that the niggles that we were facing in commissioning the new facility have all been overcome now. And our new facility at Shirwal near Pune is operational and is ramping up operations for EV transmission units. It wouldn't be out of place to say that this is right now, India's largest transmission plant for EV applications. It's extremely state of the art and I have some photographs later on the presentation to update all of you. It's noteworthy that this facility from, bare land to fully operational was done in about 18 months, and hopefully, is a reflection of the project management competence that we brought to the party. What is significant is that in Q2, our EV business, as it ramps up now, has recorded a revenue of about 10 crores, which accounted for about 15% of our revenue. It's noteworthy that this is a completely new vertical. And I'm very pleased to share with you that our quality performance at the customer OE plant has been practically zero PPM, which is a welcome, I think, trend from the occasional problem they used to face while importing units from China. So, not only has this given them 100% Atmanirbhar, but the overall quality assurance performance in terms of data sharing and actual performance has also gone up several notches. It's important to sort of contextualize this by remembering that the EV penetration in the overall Indian automotive industry is about 2% right now, 2 to 3% in quantity and revenue. And in our case, it's at 15%. I would like to just emphasize that when you talk of EVs, a lot of the products that people supply into EVs are common between ICE and EV. In our case, this transmission is unique for EV applications. It's part of the electrical powertrain driven by the motor and driving the wheels of the vehicle. So, it is truly uniquely EV and I think it's important to bear that in mind as we look at the penetration of the EV business in our total portfolio.

Next slide, please. So, the revenue compared to last quarter was up 19% and on an adjusted basis, for that increased sale, we brought in additional profitability of about 25% on an adjusted basis. We will explain this in a profit walk later on. As we ramp up at this new facility in which a significant amount of investment has been made, we'll discuss that as well. And as we go up the volume trajectory, you'd appreciate that the cost structure is impacted by a different product mix, startup costs, and increased depreciation. But over the next few several quarters, as we proceed with this year and the following year, this business will continue to mature and why it will mature is something that you will see later on in this presentation.

Next one. Yeah. So, a snapshot of our financial performance, you can see that Q2 was a significant improvement over Q1. It's sort of come in at where we were Q2 last year. And we have sort of brought the business back on track to where we were last year, as we sort of go up the volume and revenue trajectory in the coming quarters. So, because of the different mix and EVs taking a bigger share of the business, the gross margin was down a couple of percentage points. And with the additional fixed costs, you can see the EBITDA has come down then an additional percent, and we are off by about 2 or 3%. I'm sure you will have questions on this and we'll address this as we go along in the presentation. Next. Yeah. So, I just like to invite our CFO, Sudhir Mirjankar, to explain this price walk for your benefit.

Mr. Sudhir Mirjankar, Chief Financial Officer (09:02): Hello all. So, from Q1 to Q2, we have prepared a profit walk for the quarter. So, in unfavorable item, we had a price rise accounted in last quarter, which is the unfavorable item for the coming comparative quarter, Q2. Then we had an increased sale, we had a contribution of around 4.4 crores and with the new EV plant at Shirwal functioning, we had some fixed costs coming up. So, there's an increase in fixed costs over there. And definitely the depreciations because of capitalization of that plant. So, this is a walk from where Q1 of at 14 crores to 14.5 crores for Q2. On working capital management for the quarter, in defense business, there is a longer recovery cycle. So, we have outstanding amount of data, firm data there and return on invested capital is at 12.92% and mostly affected by the investment in the growth capex and inventory has for the quarter gone up due to a new program ramp up inventory interest. This is a snapshot of the cash reserve, what the company has at the end of H1 FY24 at 270 cr.

Mr. Jitendra Divgi, Managing Director (11:02): So, let me pick up the thread on our operations. So, I think what stands out here is the, you can see the surge in the e-gear drives, which is what we call the transmission for EV vehicles. And remember that we have capacitized for around 100,000 and we are currently doing about two and a half to 3000 units per month and going on an upward trend. We are currently on one model and we're looking at four other models over the next six to seven months and we'll talk about it a little bit later on. On the transfer case side, there's been a better realization and that's because of the defense sales, which have a higher per unit price point, per unit. And so you can see that overall, we have come back to last year's Q2 level on a quarterly basis. And if you go to the next slide, on the H1 basis, we have come sort of within handshaking distance of where we were last year.

I just like to, I think, show you a little bit of the background and context of what's going on in the business so that you have an appreciation on some of the comments I made earlier. So, this is a front view, aerial view, and just some inside shots of our new facility that is up and running at Shirwal near Pune. And this is where we build EV transmissions for Tata Motors.

Next, please. In order to support this slide, we have built a new facility at our SIRSI plant in Karnataka, where the additional components needed for this gearbox are manufactured. This is also where we will be manufacturing the components for our new export programs where development is underway quite successfully. And in a couple of months, we will be starting shipments to the United States. So, this is the new plant, and you can see photographs of the inauguration that was done at this facility. The town of SIRSI is near Hubli in North Karnataka, for those of you who are not completely familiar with the geography of this place.

So, a quick survey of the investments that were made in the last quarter. Remember that this is where the proceeds of the IPO are being applied to upgrade, modernize, and enhance our capability and capacity. This is state-of-the-art equipment from Germany, whether it's the gear hobbing or the gear grinding, and it is this capability that is strengthening our product leadership position globally, and also giving us the capacity to export. These are aluminium machining centers, both at our old grocery plant and also at the Shirwal plant. So, these machines manufacture the aluminium housings of the gearboxes that we make for Tata, and we will also now be introducing a new model for Mahindra as well. Precision parts require precision grinding, and also post-heat treatment that we do on components. If there's any distortion in the shafts, they need to be straightened out, and this is a computer-controlled straightening machine. Precision, the geometric quality is achieved in microns, so that's one millionth of a meter. So, this is some more equipment that's come in last quarter.

Next. Laser marking for traceability and tooth chamfering or tooth roofing, as we call it, is a feature that needs to be given to parts for precision shifting when gears shift inside a transmission. So, this is a Czechoslovakian CNC gear roll tester, and essentially, it is mated with a master gear, and in production quantities, you can inspect the quality of the parts that you have produced before they are shipped. So, you could call this like a pre-delivery, fast, productive inspection of parts that we do. This is particularly relevant for EV parts, where the precision standards are at least two to three classes of quality more precise compared to the older ICE applications. In order to get a better handle on the security of our heat treatment supplies that hitherto we were subcontracting, and also control our variable costs, we have elected to invest in in-house heat treatment, and this is the plant that has been installed at our facility in Sirsi. This will give us a significant variable cost reduction in the weeks and months to come, and also provide greater productivity overall, shortened throughput times in our mass production. This also brings a lot of assurance, especially to our export customers. As we go around the world, try to do a better job of developing our export business.

Next. Yeah. This is, I think, the most noteworthy achievement. It is India's first high-speed reliability testing equipment that's been installed, I think, in an Indian company. I'm proud to say that we have sort of pioneered this. Indian OEMs, in fact, no Indian OEM has this kind of equipment today. In time to come, I'm sure they will acquire something, but right now we are the only people with this kind of equipment. It's been imported from FEV in Germany, which is near Cologne in northwest Germany, and with this equipment we can validate manual transmissions, four-wheel drive transfer cases, dual-clutch automatics, and EV transmissions. So, currently, later on as I talk about some of our product development that's underway, all that testing is underway. In the video or the graphic on the right side, you can see next to the shaft, you can actually see the unit being tested there. And a whole array of tests can be conducted on this equipment. For this, we don't have to go now outside. It will save on costs of development and enable us to deepen our R&D, which is so essential to gain that additional edge and competitive advantage in our product development. So, this is certainly a feather in our cap, and I think this has been much appreciated by our customers here in India and overseas, I must say.

So, this is not the only state-of-the-art equipment. We have also pioneered in India the installation of what we call a noise vibration harshness inspection machine test equipment, which is installed at the end of the assembly line that builds the EV transmission. And what this unit does is it actually, much like a doctor would examine a patient with a stethoscope, it actually examines the quality of the gearbox with tactile sensors and records what it says up there, noise vibration and harshness. Because motors run very silently at very high speed, it's extremely important for gearboxes to run silently. Because if you were to encounter an objectionable whine, you wouldn't buy the car. And so OEMs are extremely sensitive to NVH. We are able to measure 100% NVH and generate a signature vibration, signature pattern on this machine for every unit that we test. And by having an acceptance standard programmed into the machine, we can then provide customers very reliable data on the NVH quality of the gearbox. If there is a problem for some reason, it gets weeded out immediately on our assembly line. We are able to then fix the problem, test it again, and make sure that only a perfect gearbox goes to our customer. This, I can tell you, ladies and gentlemen, has made a world of a difference to the supply chain at Tata Motors. And therefore, by extension, this will make a difference to other customers that we work with. I have no hesitation in saying that this is truly world class. Again, we have pioneered this in India. And I don't think any other, the fact that Tata Motors has 80% market share, and we are their only transmission supplier right now in India, should tell you what kind of a product leadership position we currently enjoy.

Next. So, your company has been investing, modernizing facilities. In our background, you may be aware that in 2016, we were a joint venture with an American company. And we took sort of that difficult decision to buy out the American partner and forge an Indian brand on our own. What needed to be done was our facilities needed to be modernized, upgraded, and capacity increased for growth. And over, you can see over this time period, we have made some pretty significant investments getting ready for growth. All that I've showed you so far, and that we'll be sharing with you every quarter, we will report out on the progress that we are making. And I'm very pleased to also share with you that we have stuck to the indication that was given in the prospectus. And we are 100% compliant in letter and spirit to the objects of our investment.

I want to take the sort of few moments in this concluding part, and brief you on what's happening on some important programs that we have won. We had posted this information with the exchange, because they were pretty significant. And we felt we should share this with. So, this this data is sort of in the public domain. And I just want to give an update for your information and benefit. Next. So, while the way to look at this is that we are working on four verticals. Three of them are shown here. Four-wheel drive, which is four-wheel drive applications, which is the second one torque transfer systems, torque couplers, manual transmission, synchronizers, electric vehicles. And the fourth vertical or quadrant is actually dual clutch automatics, where development work continues side by side. But we don't have a revenue program to report out on just yet. But these were the programs that we had reported in three of them. In other words, the promise we had given that we would activate, energize, vitalize, all four verticals in time to come, that work is proceeding apace. And I just want to take a moment and update you on what's happening here. So, this is a component which is called a reduction hub. We have orders to supply close to 40,000 a month on three different part numbers of this family. We will almost become exclusive supplier on the Ford F-150 platform in the United States through our old erstwhile collaborator, Bob Warner, which, if you have been following them, are now Fortune World's most admired company is the, I think, accolade that they have won. It's a pretty critical program because we, on this particular component, which is a part of the top transmission in this vehicle, we will be the only source globally. And so the dedicated line is being developed in a very careful, calibrated manner. We have finished a lot of the development work. We are awaiting the final indication to ramp up production. And as you can see, SOP is now scheduled for February. We might actually be able to start it even earlier. But that's the schedule that we are working with the customer. So, this is very much under control. And I think our customer is also looking forward to this. This is extremely important because it represents Bob Warner's effort to de-risk their supply chains in China. And it's an example of what India is capable of doing in the world of global supply chains.

Next. Yeah. So, many of you might be aware that Mahindra is launching the four-door THAR, and this transfer case has been developed for that particular application. The four-door THAR, or five-door, I think they call it, is expected to run at much higher speeds. It has sort of better cruising capability. So, the NVH, noise, vibration, harshness standards, are of a higher standard. And therefore, a significant amount of development had to be done to meet those conditions. I'm quite thrilled to inform you that we have met the customer's expectations. And production, as you can see now, SOP is sometime in the last, we've said January, so it's expected to happen in the first quarter, or last quarter of this financial year, first quarter of next year. So, again, things are going well. And this will add to the top line in our four-wheel drive business. It will also make our transfer case business more resilient. Because in addition to the three-door THAR, now they have the five-door, and we have the four-wheel drive. The four-wheel drive feature on a vehicle like the THAR, you can imagine, sort of makes the THAR what it is. A very unique, distinctive, off-road kind of vehicle.

Next. Yeah. In the area of manual transmissions, because of the OEMs have a lot of capacity in-house. In this instance, this is actually parts that go into Mahindra's very popular models, the Scorpio N, and the Bolero vehicle pickups. So, a lot of these parts were being sourced from China. And as part of the whole Atmanirbhar initiative, we have taken on the load of developing and supplying this. So, production has started. And on the part on the left, I'm pleased to say that we have already reached a level of 8,000 per month. And over the next three to four months, we are expected to go to around 12,000 a month. Next. Okay, this is sort of the extension of our EV program into Mahindra. They're both on commercial vehicles. You can see that on the right there. But also on the electric version of that popular XUV300, that version is called the XUV400. We have the contract to develop components as a full kit. And you can see photographs of those parts that have been developed for that application. So, just a minute. Again, you can see SOP is next quarter. And all the capacity and equipment now is in place.

Next. Okay, at Tata Motors, the work that we are doing, I had remarked earlier that so in addition to the Tiago, we are looking at the T-Core sedan and the Punch compact SUV. I'm pleased to share that the production readiness has been completed. And initial pilot lots will be going actually later this month into December. And then thereafter, picking up production. So, we'll have more to report on at the end of this quarter and next quarter as this program unfolds.

So, that concludes the update for this quarter. And I just would like to conclude by re-emphasizing the message with which we had come into the markets that you people have supported us on. And just sort of to personally reassure you that we are focused on what we think are the on what we think are the highlights of our company, what distinguishes us in India's automotive supplier base, in fact, not just India, but globally. And I think I've given you a flavour of the achievements. Continuous innovation and invention is something that our work business starts with. It has, of course, to be supported by world-class manufacturing, development and manufacturing, because without that, we cannot make a difference at customers. And so I think you brought a flavour of the achievements of last quarter. And I'd like to conclude my remarks with this slide. Thank you very much for your time, patient time, attention. And we'll be happy to take any questions that you have.

Speaker1 (33:47): Thank you, Jitendra sir, for the detailed opening remarks. Anyone who wants to ask a question can use the raise your hand option. And once you're done asking the question, please use the lower your hand option. Please limit your questions to two per participant. If you have any follow up question, please join back the queue. We have our first question from Mr. Mahesh. Please unmute your line and ask your question.

Mr. Mahesh (34:12): Hi, sir. Am I audible?

Mr. Jitendra Divgi, Managing Director (34:15): Yes, yes, very much. Thank you.

Mr. Mahesh (34:18): Sir, fine. I think EV business had kicked off really well in this quarter. But our core business has not still recovered. I mean, still we are reporting de-growth on a y-y basis on quarter for this quarter, even for first half.

Mr. Jitendra Divgi, Managing Director (34:34): Yes.

Mr. Mahesh (34:35): When do you think it will happen, sir?

Mr. Jitendra Divgi, Managing Director (34:38): I think one of the reasons we didn't see the expected numbers is because, one of our critical customers is MG, which, has the China connection. There has been a little bit of turbulence in the geopolitics. So, the numbers there have not come up to what we, were expecting. But I think at Mahindra, what has happened in this quarter is they have launched a 4x2 version, which I think has taken some of the share in the business. But we expect this to recover with the launch of this 4 or 5 Door THAR and also the global initiative of Mahindra with the Scorpio N, which actually has our most sophisticated electronically controlled transfer case. And going further, we are also working on Mahindra's new global pickup. So, I'm reasonably confident that, because these programs are kind of the lifeblood of Mahindra's growth. So, and a lot of work has gone into that in the last three years. So, I'm reasonably confident that these numbers will come back. In fact, there'll be a growth as Mahindra goes overseas with these models.

Mr. Mahesh (36:32): No, but sir, I mean, Mahindra's volumes are going up. I mean, we have been today also we have witnessed the growth in the segment. But our business on a y-y basis has declined significantly in case of transfer case. So, I'm not able to understand what exactly has happened.

Mr. Jitendra Divgi, Managing Director (36:49): As I mentioned, some of the new models that we are working on, the overseas markets are just about starting up. And in the Thar line, they have introduced, we are on the four-wheel drive system. They have introduced a four by two that does not need a transfer case. So, that, to some extent has dented our volume.

Mr. Mahesh (37:26): Okay, sure. So, I will come back to you. Thank you.

Mr. Jitendra Divgi, Managing Director (37:29): Yeah.

Speaker1 (37:33): Yeah, so we have our next question from Mr. Hrithvik. Please unmute your line and ask your question.

Mr. Hrithvik (37:40): Hello. Yeah, so a couple of questions. Firstly, on the EV where we are supplying to Tata Motors.

Mr. Jitendra Divgi, Managing Director (37:53): Yes.

Mr. Hrithvik (37:54): Sir, how is the ramp up shaping up? And if you can give us, over the next six months, where this can be?

Mr. Jitendra Divgi, Managing Director (38:03): Yes. So, I think the ramp up is going well. And I say that because usually in the automotive industry, when you bring in a completely new product, and a new customer location, new line, they can be, spills in delivery or quality. I'm pleased to say that we are sort of in lockstep with their schedules. We are 100% on time on delivery. And practically, you could say we are zero PPM, which is quite an incredible record to have. So, this is at the Sun and Plant. The numbers, of course, are that we are on an upward trajectory. Right now, the capacity utilization is only about 30%. We have capacity for over 100,000. And across, as I said, different models. The interesting update is that on this line, we will also now be building applications for commercial last mile delivery of vehicles, which I think sort of makes our overall business model more resilient. So, our goal is to get to that 100,000 mark. And that's the direction we are working in.

Mr. Hrithvik (39:41): Okay. Okay. And so just to clarify this 30% is capacity utilization of the Shirwal plant, right?

Mr. Jitendra Divgi, Managing Director (39:50): Correct. Correct. Correct.

Mr. Hrithvik (39:52): Okay. And this 100,000 pieces per year would be completely taken up by Tata Motors. Is that a fair understanding?

Mr. Jitendra Divgi, Managing Director (39:59): In reality, I think it will be a mix between Tata, Mahindra and also other customers.

Mr. Hrithvik (40:09): Okay. Okay.

Mr. Jitendra Divgi, Managing Director (40:10): Because what is going to happen is, let's be honest, there is a lot of competition in the market. And we don't want to, it's important that we sort of diversify our business from a customer standpoint. So, to that extent, the growth of the EV business is good, because it sort of de-risks our otherwise, you could have said a little bit of asymmetry vis-a-vis Mahindra.

Mr. Hrithvik (40:40): Right. And, sir, Tata has three to four, three models in EV currently, the Nexon, Tigor and Tiago. So, in this, are there any specific models that we are currently not part of supplying or we are supplying to all these three models?

Mr. Jitendra Divgi, Managing Director (41:00): We are currently the, we are not on Nexon right now, that model continues to be imported. Tata wanted us to prioritize, because, these are lower end vehicles, the cost pressure at the lower end of the spectrum is always more. So, it was important for Tata to have the gearbox localized on these mass, you could say, market cars. So, what we have now done has given Tata 100% localization on the Tiago, the Tigor and the Punch. And our next phase will be the development of the Nexon. I wouldn't be out of place if I said that, we hold the letter of business award for the Nexon as well. It's in a document, but Tata wanted these three developments prioritized over Nexon.

Mr. Hrithvik (42:04): Okay, okay, so the approval has been completed by us for the Nexon as well. But once we...

Mr. Jitendra Divgi, Managing Director (42:11): No, no, no, what I meant was, we are not on the Nexon yet. We have fully productionized a Tiago and Tigor, the validation for Punch has been completed. And production is starting actually later this month, pilot production. And by January, it will be in full-fledged production for the Punch. And thereafter, we will be taking up the Nexon development.

Mr. Hrithvik (42:44): Okay, so after this, you will be going for the approval of the Nexon company?

Mr. Jitendra Divgi, Managing Director (42:48): Correct, correct.

Mr. Hrithvik (42:50): Okay, and how long would that take?

Mr. Jitendra Divgi, Managing Director (42:52): No, I think now, compared to, previous months, let me say last two years, we did not have much of the infrastructure that we now have. Typically, with the CAE and the most important of all, the validation is in-house. So, if we get the right program management support from customers, we can go into production in six to eight months. The longest lead time for these developments is the aluminium, high-pressure die casting development. But I think between the advanced computer-aided simulation, and the experience that we have, and the fact that we have now our own machining in-house, and the testing validation in-house, we can collapse these lead times significantly. If you don't have all the kind of infrastructure we do, it can take you 18 months to 20 months to do this sort of thing. But we are able to do it within, I think, eight months. In fact, on the Mahindra E-Jeeto, from award to SOP, I think will be an industry record. I don't mind saying that.

Mr. Hrithvik (44:10): Okay, okay. Okay, and sir, coming to Mahindra, the electric business that we have run, this is regarding this particular three-wheeler, right, E-Jeeto, which you mentioned?

Mr. Jitendra Divgi, Managing Director (44:20): No, no, E-Jeeto is a four-wheeler. E-Jeeto is a four-wheeler, yeah. It is the equivalent of the Tata Ace, you might say.

Mr. Hrithvik (44:29): Okay, okay, okay. Sir, I have...

Speaker1 (44:30): Hrithvik, there are other people waiting.

Mr. Hrithvik (44:35): Thank you, sir.

Mr. Jitendra Divgi, Managing Director (44:37): You're welcome.

Speaker1 (44:38): We have our next question from Mr. Parin. Please unmute your line and ask your question.

Mr. Parin (44:45): Yes, sir, am I audible?

Mr. Jitendra Divgi, Managing Director (44:47): Yes, Parin, please go ahead.

Mr. Parin (44:48): Hi, Jeetu sir. Sir, only one question. I vaguely remember that we were in talks with Hyundai also for supply of some equipment. Can you throw some colour on that or anything, update?

Mr. Jitendra Divgi, Managing Director (45:03): Yes, actually, we have an office in Seoul, Korea. We are in talks with both Hyundai Motor and their tier one supplier, but it would be a little premature right now to give you any commitment. We have quoted on a lot of business, and we continue to work with them quite closely.

Mr. Parin (45:30): Okay, so we already have an office and representatives there who are following up?

Mr. Jitendra Divgi, Managing Director (45:35): Yes, yes, yes, yes.

Mr. Parin (45:36): Okay, great.

Mr. Jitendra Divgi, Managing Director (45:37): Yeah, yeah.

Mr. Parin (45:39): Thank you, thank you, sir. I'll come back.

Speaker1 (45:03): We have our next question from Himanshu. Please unmute your line and ask your question.

Mr. Himanshu (45:50): Hi, sir, can you hear me?

Mr. Jitendra Divgi, Managing Director (45:53): Yes, Himanshu, please go ahead.

Mr. Himanshu (45:56): Thank you for giving me the opportunity and just wanted to understand, when do you plan to reach the full capacity utilization for the EVs? And how do you plan to increase the capacity after that? Like, when do you plan to increase the capacity after that?

Mr. Jitendra Divgi, Managing Director (46:13): Yeah, you are challenging me on crystal ball gazing. But let me just say that, we are keeping all options open. We continue to talk to customers overseas, within India, and not just relying on, the word of just one customer. Let me just say that, in the interest of building resilience in the business, we seek out sort of product application diversity, and we look at customer and geographic diversity. The advantage we have is that we have our own designs. So, the IP for these products is owned by us. And therefore, we are in a position to quickly bring our proven designs to bear on solving problems at customers. And actually, this was exactly what happened, in some instances with Mahindra, that they were able to take advantage of the development that we had done, the de-risking of the supply chains that we had done. And they were able to sort of connect the dots and see how everything was coming together. And so the risk to the timeline, they felt was the lowest working with us. And so the answer to your question is, it is this kind of capability, we think, that will draw more customers. But having said that, we have a close, sort of working relationship with Tata Motors. They are, I think, quite pleased with that we, if I can quote what Mr. Tata had said, that a promise is a promise. And this is what the promise we had given them in December of 2021. At that time, we didn't have a facility, but we had given them a vision of how this facility would come about. And in about 18 months from January of 2022 to July of 23, we designed the product, we developed the product, we built the factory, we put in the equipment and delivered. So, I must also say that Tata's technology, powertrain technology currently, which is delivered through TACO, their component group, is actually the technology is from China, from Shanghai Electric Drive. And we recently had senior corporate officials of SED visiting us to, they were curious to know who the company was that had done so much localization. And I think they were pretty impressed with what they saw. So, this feedback has sort of gone back to Tata Tough Management. And, we stay in close touch with them. So, as that market grows at Tata, I think we are in that sort of enviable position to pick up new business and on the existing business, sort of rise with the tide of volumes. So, if I were to put a number, I think I would leave it to your judgment. Many of you are analysing the industry, that the Punch model is somewhere number four or number five, like that number six, maybe now, in the top 20 models of the Indian automotive industry. And it's a very unique product. And the electric version of the Punch, if I may say so, is punchier than the ICE version. And, it moves like a slingshot. I've driven the car, and it's truly magnificent. So, my feedback to Tata Motors is that they should pay attention to capacity mobilization with suppliers on and maybe they are underestimating the volume on that. But time will tell, time will tell. And I'm sure in the next earnings call, we will have an update to report to you.

Mr. Himanshu (50:47): Okay, thank you. Thank you so much. So, another question from me, actually, we have seen the margins coming down sharply over the last two quarters. So, can you just throw some light on that? And why we have seen the other expenses going up substantially?

Mr. Jitendra Divgi, Managing Director (51:04): Yeah, see, firstly, we're building a brand-new plant, we have made a huge amount of investment there for our future. If you, many of you may have visited our facilities, our older facilities, were very old going back 25 years or more. And for the new market that is dawning on India, we needed to be equipped with the right resources. These investments mean there is significant depreciation, and there are some amount of startup and initial fixed costs that needs to be in place to make these plants operational. So, you can see, I mentioned to you that the EBITDA is affected by a couple of points. And mind you, this has happened with just 30% utilization. So, as we gain on the utilization, we also have the potential to improve margin realization, because it was important that we win this business in a highly competitive environment, where multinationals were looming large in the Indian market. There are at least five or six extremely noteworthy multinationals already on the ground in India, and we have won this business in the face of this competition. So, if after all of that, in its infancy, with this kind of thing, we have been able to give you and give ourselves, all of us, we are part of this company, and EBITDA with 30% utilization of 26 to 27%, I think you will see improvement as we go along. I think what has also happened is the surge we were expecting, as I mentioned, at MG Motors, our volumes at this stage are at about one third what we had planned for. And to some extent, see, these are natural things that are going to happen in the market. The question is, how does one anticipate, plan, and build resilience in the business? And we are happy that the bet we took on EVs is paying off. Our business development register in terms of inquiries is pretty full. And as we go forward, I'm pretty optimistic and confident that as we win big chunks of business, we will be posting those awards with the exchange, and you will be able to see that. And we will be reporting on progress of what we have accomplished. You are aware that given the constraints, I can't make forward-looking statements. But within those limitations, I think we will share legitimately what information can be shared. But rest assured, we are on the job. And there will be good news as we go ahead. Now, in summary, I can tell you one thing. We have new four-wheel drive business. We have new EV business. Our exports are perking up. And on the manual transmission, which is our old, very old legacy business, we have incredible volumes. And we are working on the DCT. It will take some time. I cannot make any statements right now, but a lot of work is going on. And it is still the cornerstone of the kind of growth we promised in our annual report.

Speaker1 (55:05): Himanshu, could you please join back the queue? We have our next question from Harini. Please unmute your line and ask your question.

Ms. Harini (55:12): Hello, sir. So, I have a couple of questions. So, one was, as you were just mentioning on the other expenses front, so there's an initial setup cost with the new plant coming up. Could you quantify if this is a one-off or is this expected to continue? Any guidance on that, sir?

Mr. Jitendra Divgi, Managing Director (55:30): Yeah, I think, and I'll let Sudhir also amplify on this answer. There are two types of costs. One is startup, which is a one-time. And then there is also overhead associated with that plant. That overhead, I think, is a fixed cost. It will get defrayed as the volume goes up. And that will stay. So, I think I've answered your question.

Mr. Sudhir Mirjankar, Chief Financial Officer (56:00): Harini, I remember hosting you at the Shirwal plant.

Ms. Harini (56:06): Yes, yeah, yeah.

Mr. Sudhir Mirjankar, Chief Financial Officer (56:08): The only point I want to add here is, and it also feeds back into the earlier question asked by Himanshu, is that what this investment has enabled us to do is reduce product development time and reduce time to market, which is extremely critical for a lot of our customers in the EV business. And that puts us in a holding position to acquire new businesses. So, a little patience have to be, you have to see a little patience of how this investment gets translated into new business acquisition.

Ms. Harini (56:53): Understood, sir. Understood, sure.

Mr. Jitendra Divgi, Managing Director (56:55): Just another comment to give you a little more clarity. When a program is starting up, and we had several new programs, we had the MG program, we had the defense, we had the Scorpio N, we had EV, we have exports, we have the new component business. These were all simultaneously ramping up. And it is in the nature of a ramp up that, in some cases, the OEM wins in the market. In other cases, the numbers don't come as expected. And so the scheduling in the infancy, let's say the first six months to first year of such programs can be a little bit of a hit and miss in terms of the volumes. Eventually, if you have sort of enough balls you're juggling with, you can then sort of figure out which of your programs is going to be a steady state winner. So, I think a little bit of that turbulence is also going on. But I think it will settle down. We pretty much went through that in the early years of our four-wheel drive business. But in the last three years, we have seen the enormous benefits then of having stayed the course. So, that would be my to what (overlapping 58:26) just said.

Ms. Harini (58:26): Sure, sure.

Speaker1 (58:29): Harini, could you please join back the queue? Yeah, we have our next question from Sakshat. Please unmute your line and ask your question.

Mr. Sakshat (58:37): Yeah. Hi, sir. Thanks for the detailed presentation. So, just one question. The gross margins have reduced on a quarterly basis. Any particular reason for the over (inaudible 58:49) gross margins?

Mr. Jitendra Divgi, Managing Director (58:50): Yeah, thank you for that question. As I think remarked that our product mix is changing in order to sort of make up for the headwinds that we were seeing in the transfer case business. We have supplemented our portfolio with transmission components and the EV business. The transmission component business was sort of redirected business from China. I think I made that comment earlier. And the EV business had to be won against some pretty tough competition. So, in the first instance, the gross margin on these businesses was a little lower to win this business. But the business is more mainstream. So, eventually, with a slightly lower gross margin, maybe even a slightly lower contribution margin, the volume is much bigger. So, the whole idea is to get greater buoyancy on the top line and then make a difference to the fixed cost as it comes on the component. That was sort of the strategy with which we were playing. Remember one thing that our four-wheel drive business is niche. And to that extent, we could be criticized that it's a little vulnerable. And therefore, to build the resilience, we've been pushing in the other three quadrants where the business is more mainstream. And what I mean by mainstream versus niche, it's your mainstream when every vehicle that gets produced needs your product. The four-wheel drive is optional. And to that extent, it remains a niche. But because it's niche, we have the ability to build a sort of preeminent, I won't say monopolistic, but a preeminent kind of position of product leadership in that area. And as many of our customers go global, I think we have quite an enviable position there. Maybe Hiren would like to remark something about the global nature of our business because that has a bearing on this whole discussion of margins.

Mr. Hirendra Divgi, Whole Time Director (01:01:28): A lot of the investor mates who have visited us have been sharing this idea that the Indian engineering, or I would say, drivetrain automotive supply chain is at a point of inflection. And sometimes you need a global event to give that immediate buoyancy. And we are at the cusp of such an event, just like what Y2K was for the Indian IT industry. It's a combination of both the technology transition that is happening because of EVs. And remember that the EV is the biggest disruption that has happened in the automotive industry since its inception. Because architecturally, IC engines and gearboxes have principally remained the same since the start of this industry. And EV is disrupting that, along with the reset button that is being set in global supply chains. So, I think a combination of these two positions us very strongly in how we can exploit interstices of how the market changes globally. And of course, we will keep you updated as and when new businesses really acquire.

Mr. Jitendra Divgi, Managing Director (01:03:00): Yeah. And just to the corollary to what Hiren said, was remember that as you sort of play on the stage, growth is going to come only to those people who can actually demonstrate the depth of capacity. And you have to go beyond words and PowerPoint presentations to show the infrastructure strength you have to take on new businesses. So, if the China plus one model is to work in India, then Indian companies have to be a little proactive in infrastructure and capacity building. And it is with this recognition that we actually built a department in the company called Growth and Launch with focus on infrastructure and modernization. We are sort of extending that and saying, we also need to be working on advanced manufacturing technology, because without that, you cannot realize product leadership. And our sense is, to come back to your question, that it is this kind of, I think, working that will give us that cutting edge to generate margins and more importantly, sustain them going forward.

Mr. Sakshat (01:04:21): Got it. Thanks, sir.

Speaker1 (01:04:25): So, due to paucity of time, this was the last question. I hand over the floor to the management for closing remarks. Thank you.

Mr. Jitendra Divgi, Managing Director (01:04:34): Yeah, I just want to, it's a great honour to be, for many years, our business was a family run, private limited. It's been six months since we went public. And I consider it, I'm quite humbled by the support and response we've got. And I consider it our deepest obligation to continue to secure your confidence. So, I think this, the earnings call gives us an opportunity to very efficiently exchange views and share where we are. And I look forward to, in the future to continuing this. We've always been very open about hosting people, investors who want to come and see facilities, learn more about our business. And that, of course, will continue. So, in conclusion, again, my deepest thanks to all of you for this valuable time you've given us. And for all the questions you've asked. And I think we always learn from this exchange. So, again, thank you very much. And with that, I will close this session.