

AUTOMOTIVE AXLES LIMITED

09th August 2025

The BSE Limited
Phiroze Jeejeebhoy Towers
Dalal Street
Mumbai - 400 001
Scrip Code: 505010

National Stock Exchange of India Limited
Exchange Plaza, Plot No. C/1, G- Block
Bandra (E)
Mumbai - 400 051
Scrip Code: AUTOAXLES

Attn: Listing Department

Dear Sir/Madam,

Sub: Analyst / Investor Conference Call Transcript.

In continuation to our earlier intimation dated 04th August 2025 regarding Intimation of Analyst / Investor Conference Call and with reference to Regulation 30 read with Schedule III, Part A, Para 15 (b)(ii) of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 enclosed herewith Transcript of Analyst/Investor Conference Call conducted to discuss on the **Automotive Axles Limited 1QFY26 Financial Performance**” held on **Thursday, 07th August 2025 at 10:00 AM (IST)**.

The Transcription and Audio Recordings of the same is available on the website of the Company.

This is for your information and record.

Thanking you,

Yours Truly,

For Automotive Axles Limited

Debadas Panda
Company Secretary & Compliance Officer

Encl: as above



Regd. Office & Mysuru Unit :

Hootagalli Industrial Area, Off Hunsur Road, Mysuru – 570 018, Karnataka, India

Telephone : 91-821-719 7500, Fax : 91-821-2402451

Email : sec@autoaxle.com, Website : www.autoaxle.com

CIN : L51909KA1981PLC004198

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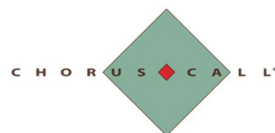


Automotive Axles Limited

**“Automotive Axles Limited
Q1 FY '26 Earnings Conference Call”
August 07, 2025**

Automotive Axles Limited

B&K



**MANAGEMENT: MR. NAGARAJA GARGESHWARI – PRESIDENT AND
WHOLE TIME DIRECTOR – AUTOMOTIVE AXLES
LIMITED
MR. RANGANATHAN S. – CHIEF FINANCIAL OFFICER –
AUTOMOTIVE AXLES LIMITED
MR. KISHAN KUMAR UDUPI – GENERAL MANAGER,
MERITOR HVS (INDIA) LIMITED**

**MODERATOR: MR. SAILESH RAJA – BATLIVALA & KARANI
SECURITIES INDIA PRIVATE LIMITED**

Moderator: Ladies and gentlemen, good day, and welcome to Automotive Axles Limited Q1 FY '26 Earnings Conference Call hosted by Batlivala & Karani Securities India Private Limited. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Sailesh Raja from Batlivala & Karani Securities Private Limited. Thank you, and over to you, sir.

Sailesh Raja: Thanks, Shubam. Good morning, and thanks to everyone who have logged into Automotive Axles 1Q FY '26 Earnings Conference Call. From the management side, we have with us Mr. Nagaraja, President and Whole-Time Director, Automotive Axles; Mr. Ranganathan S, CFO, Automotive Axles; and Mr. Kishan Kumar, GM, Meritor India.

I would now like to turn the call to Mr. Nagaraja for the opening remarks followed by Q&A. Sir, you may begin now.

Nagaraja Gargeshwari: Yes. Thank you, Shailesh. Good morning, everyone. Once again, welcome to this Automotive Axles quarter 1 FY '26 earnings call. I have, again, with me Mr. Ranganath, CFO, who will be able to take up any of your questions related to the finance. And then I also have my colleague, Kishan Kumar Udupi, President and Whole-Time Director, MHVSIL, who can bring in more information to the end markets. Despite the soft market, we are able to put up a very strong performance and then we continue to improve our EBITDA and cash flow for the quarter.

So with that, Ranga, could you please take us through the results and followed by the question and answer.

Sankaran Ranganathan: Sure. Thank you, Nagaraj. Very good morning to all of you. I'm Ranganathan, CFO, Automotive Axles Limited. The revenue for the first -- I'll just do a quick highlights of the financial performance. And overall, revenue for this quarter is close to about INR498 crores. If you see the overall revenue of the last year, more or less, the revenue is in the same level. And the revenue from operations was slightly lower, that is 1% compared to last year. But if you take the overall total income is we are at the same level of the last year.

As far as the profitability is concerned, the EBITDA for the quarter is about 11.7% as per the published results. And compared to the last year for the same quarter is 11.2%. At the EBITDA level, we are able to improve 0.5%. And as far as the PAT is concerned, we are at 7.3% compared to 6.9% last year, still better than 0.4% to 0.5%.

So the highlight and overall strong working capital performance for the quarter. The cash has significantly improved and good cash flow performance too for this quarter. And overall, the key contributors, as all of you know that we have adopted the new business model as per the arrangements with the return. So the first quarter, we are reporting under that.

And overall, as Nagaraj said, the market is still -- this quarter is going a little slow and we are - and probably in terms of the initiatives towards new product development and production and

improvement on the cost reduction and automations, all continue to be on the same pace. And this is definitely yielding slowly the improvement in the profitability perspective. That's one of the things I just want to highlight. Overall the profitability has improved compared to the last year.

With this note, I'll probably end here and we will continue with question-and-answer. Thank you.

Moderator: The first question comes from the line of Viraj from SiMPL.

Viraj: A couple of questions. First, can you explain a little bit more in detail how the new model would work both in terms of impact on top line EBITDA? And also how is the arrangement now with regards to the service fee, which we will be paying to the private entity?

Sankaran Ranganathan: Yes. So I'll take this question. By and large, the earlier model versus this model, more or less about 75% of the sales were referred to MHVSIL, which has also been consolidated currently with end customer. In terms of revenue, earlier also we are operating with very strong operating -- the transfer pricing as to the arm's length. The improvement on the revenue may not be very significant in terms of the top line and it is less than the double digit in terms of the increase on the top line.

Viraj: Sorry, increase in top line is?

Sankaran Ranganathan: It will be in the single digit. It may not be a significant improvement as compared to the earlier transfer pricing, which is the direct sales to the end customer. And because it varies between the product mix, that's why I'm saying.

Second is about from the overall profitability as an arrangement, we have a very scientific and arm's length assessment towards the fee what we need to pay as the Meritor continue to support Automotive Axles on the marketing, product development and engineering support. So we have made an arrangement as per the arm's length and that's been arranged.

In terms of the overall profitability, your question is you can see the effect for the full year because the first quarter since we have -- there are two factors I just want to bring about. The revenue recognition is one of the factors which will affect especially for the export this year -- this quarter and that will get normalized in the coming quarter.

And definitely, all the efforts on the new product as well as on the cost improvement programs will continue to repeat. And you'll definitely find a margin improvement. But since the arrangement is also to pay the fee for the support and marketing and engineering and product development.

Viraj: So just a follow-up on this only, because sorry, it's not clear to me. First, if I look at the sales model earlier versus now, right, as you said, close to 80% of the sales were routed through Meritor HVS. And if you look at that entity, they typically have a gross margin of 10%. So there was a markup of 10% further on the sales purchase from us and sold to OE. Now that piece is basically now sold by us to OE.

So naturally, one would think that there will be at least a 10% or so kind of a bump up in our top line starting from Q1. And if I look at our key customers, be it Ashok Leyland and others, ex of bus also, the production largely being for the quarter being flat or marginally positive. So starting Q1, the thinking we had and I think in our earlier discussions also, you indicated the top line growth being faster irrespective of the market cycle. That has not really played out starting Q1.

Sankaran Ranganathan: That's why I mentioned there are two things to it. The 10%, I don't know where you reference is from and also...

Viraj: If you look at their own financials from RFC.

Sankaran Ranganathan: No, that's not right. That's we have mentioned this earlier also, sorry to intervene. Their financial is not only selling through AAL. They have their own aftermarket division, which they have a separate setup, which has nothing to do with Automotive Axles, okay? So you can't compare the entire other entity what the entire margin the consolidation going to bring in. That's a wrong assumption and that may not be appropriate, I'll assess.

So the sales what we are selling to OEs, which is -- now it's been consolidated at AAL level, okay? And whatever the MHVSIL has got their own initiative of aftermarket, which continuously with other units. That's -- Automotive Axles has no role to play there.

Secondly, about -- I know you talked about it, the revenue. Yes, there will be definitely there will be an upside on the revenue with the consolidation is concerned, but may not be 10% for sure because that's not appropriate to consider.

Point number two is about -- I mentioned that during the first quarter, the revenue -- some of the revenues we have to follow as per accounting standard, the Incoterms and the revenue could not be recognized, especially of the exports. That will get normalized. That will show a little bit up on the top line.

And again, when you look at it in the shareholder outside, is a holistic revenue, what you see. It also has an effect of the domestic market. And it's a combination of both. So if the domestic market comes to normalcy and probably the spoke on the top line, you will definitely see a little much more as compared to what you see today.

Viraj: Okay. Second question on this only. Can you get more detailed perspective of how the service fee would work? It's an absolute fee which we'll be paying every quarter or if it's percentage of sales and if it's portion of sales or is that fee structure now which we'll be having to pay to the private entity?

Sankaran Ranganathan: Yes, that's what I'm saying. This is basically scientifically done with assessment of the 2 professionals to see what is the fee to be paid and it has been assessed at an arm's length, this has been determined. And it is a percentage of the revenue.

It's a percentage on the revenue, what we pay outside the sales outside our group entities. Means that most of the sales, what is the Indian OEs, what we do, basically, it's what the fee is

applicable. So overall basis, this is basically an announcement and probably that's how the arrangement has been made at this moment.

Viraj: So net effect post this fee structure and post full consolidation of export, I'm assuming export, we would have not recognized any revenue this quarter, correct me on that. So post consolidation of that and post now the new fee structure, the net effect to Automotive Axles at the EBITDA, should we see a material margin improvement also assuming the market stays where it is?

Sankaran Ranganathan: I probably -- there will be an improvement in the margin, which is actually may not be material. I don't know what is material, but there will be definitely an improvement. It's a marginal improvement, I'll put it this way because we have to be true to the arm's length assessment. So there will be definitely an improvement. There will be an improvement in the top line.

You see -- if you look at the whole financial year, you'll see the overall effect you will see because there are a lot more combinations you need to look at it. The market is so fluctuating. This quarter, we are looking a little more softening on the market. I think Kishan can explain that. So the point is that, that effect will also come in.

We can't stand-alone pull out, I'm saying that it's difficult because when you do that. So the point is that definitely, there will be -- per se, the consolidation will definitely give the margin improvement, no doubt about that. But to the next, I don't know what the material means, but what I mean is there will be definitely a margin improvement will be there.

Viraj: Okay. Just two more questions, I'll come back in queue. We have been working in filling the product gaps pertaining to the bus segment. And any update you can give whether that has been commercialized, either the 13.5 or the 15-meter or the 9-meter segments, which we were working on. Any update on these new product...

Sankaran Ranganathan: Kishan can address

Kishan Kumar: Yes, I can -- thank you for the question. So I'll start with the 13.5 and 15 meters. So these 2 are already supplying in proto batches and we'll be going into production soon, which is as per our plan. And coming to the other one, which is the -- we have discussed in the past, the new development, the business discussions and commercials are going on with the customer. So we have finalized the specification and design and we are hoping to close the commercials first in this quarter, which is the Q2 of this year.

The other 2, 13.5 and 15-meter coach, as I mentioned, the proto trials are going on, and we have received good feedback on that. There are some tweaking required as we expect after the trials, which also we are planning to complete in the Q2 and early Q3 of this year.

Viraj: Okay. Last question. So you said service fee would primarily be on the domestic OE business and not on the export, which is done to group entities, correct me. So in terms of export, how should one now look at the margin compared to the domestic piece?

And a related question is, if you look at the private entity, I understand they also have aftermarket. But if I remove the sales which are supplied by us to them and then eventually they

are supplying to OE, that 20% of sales and the margins we earn would imply the gross margin they will be earning on that 20% sales after would be in excess of 40%, 50%, which is quite abnormal for an aftermarket business to be in. Hence, the assumption what I was alluding earlier.

Kishan Kumar:

So I don't know, I have not reviewed their financials to see what margins they are making in terms of that. And as far as the Automotive Axles is concerned, it's fairly consolidated. And we have made an arm's length assessment. Based on the assessment we fixed fee purchase payable to them.

You are right, this is basically for the -- largely for the domestic OE supplies. And for intercompany exports, this is not applicable. And -- but there will be a marginal improvement in the margin for the -- per se for this consolidation. And the effect of this, you can see holistically as a couple of quarters is good season, you can see the normalcy over there.

Moderator:

The next question comes from the line of Arjun from ARJ Securities.

Gaurav Agrawal:

Sir, my name is Gaurav Agrawal from Nine One Capital. Sir, your assumption, the previous participant when you said that most of the revenue at Meritor, it is coming from automotive. I also did some work. And sorry to say his assumption holds right because if you see direct purchase in that entity for the last 5 years, right?

And you see it in your related party as a percentage of that, it comes to 100%. So 100% of the RM is basically equal to whatever you supply to them as a related party. And also, they have only what fixed assets of INR10 crores, other expenses, operating expense of 2.5% of sales. So you can choose to be ignorant about it or handle it honestly what you are going to do in this arrangement.

Nagaraja Gargeshwari:

So what's your question?

Gaurav Agrawal:

The question is that 10% gross margin which Meritor is making, now that entire sale has to be routed by you, will we see any benefit at the EBITDA level? Or will you see the zero benefit? And in some of the other...

Nagaraja Gargeshwari:

You're putting very aggressive statement. See, what I'm saying is I very clearly mentioned there will be a marginal improvement on the EBITDA, okay? So...

Gaurav Agrawal:

I'm not able to understand that unless you say that service fee and R&D fees, all of that put together is around INR200 crores. If you believe that, then it's okay. If there is a reason to believe that they should get INR200 crores for providing these kind of services, then I totally agree. There should be -- there should be only marginal difference to the EBITDA. But if that service fee is, let's say, even INR100 crores, then we should get INR100 crores kind of a benefit to our P&L. So that's what I'm trying to understand.

Nagaraja Gargeshwari:

That's what I said. This arrangement is done on an arm's length. So there will be -- because of the model change, there will be an improvement in the EBITDA margin, okay? I can't say a number at this moment of time. We're also going through this. The point number 2 is about the...

- Gaurav Agrawal:** Sir, arrangement was supposed to happen from Q1, right, from 1st April 2025, right? And it is still 4 months into the financial year. So still the arrangement is being decided upon or we'll get to know later part of the year or when will it be?
- Nagaraja Gargeshwari:** No, no. You see the -- as an investor, you see the effect of the -- we need the season I mentioned that the first quarter, we have the revenue recognition point, which is as we change the model. That will get seasoned out in 3 to 4 months' time depends on the incur terms what we agreed.
- And definitely, as a stand-alone, if you look at it under the new model, this will have a benefit to the P&L, but the previous participant also mentioned it will be a material. I said material is a relative term. I mentioned very clearly that...
- Gaurav Agrawal:** It is not a material term. We are -- INR200 crores of gross margin. It's very material, right?
- Nagaraja Gargeshwari:** Just I think, one thing. I think you need to -- I think you are...
- Gaurav Agrawal:** We are at a INR200 crores profit pool. Just even if INR50 crores comes to our account, right? So it is 2.5% of your revenue or as a percentage of your EBITDA, it is like 25%, 30%. Last year, INR220 crores EBITDA you made. If you add INR50 crores, it's like 25% addition to your EBITDA. So it can be quite material. And the profit pool is large enough, right? And the other entity, they have only INR10 crores of fixed assets. So I don't understand with INR10 crores of fixed asset, what kind of manufacturing are they doing.
- Nagaraja Gargeshwari:** Just hold on a second. I think Ranga already mentioned. They not only have this business and they also have an aftermarket business, okay? So I think we don't have the complete details of what their margins are.
- Gaurav Agrawal:** If you want I have calculated everything. You can give you your e-mail, I'll send you everything. I think it's fairly easy to conclude that most of the...
- Nagaraja Gargeshwari:** What we have concluded is with our visibility like what Ranga has mentioned, there is going to be an improvement. At this point of time, because the soft market and then product mix and everything, it may not be visible. Over the whole year or 6 months, you will have a very clear visibility of what improvements we are going to see. It will be marginal. It will not be big, but you are going to see it more on the -- rather than on the percentage, you are going to see it on the numbers. That's what we think. Next question, please.
- Moderator:** The next question comes from the line of Radha.
- Radha:** Sir, my question was in buses. So with the 13.5 and 15-meter buses that you mentioned that you'll be supplying from 3Q onwards. So currently, who is supplying to Ashok Leyland? And what is the expected share of business gain with this customer that you expect from the bus segment in the next 2 years?
- Kishan Kumar:** Okay. I can take that question. So first of all, I did not say Ashok Leyland, I said customer, but anyways, let's keep it that way. So these -- both these are new launches for the customer. So currently, there is no one supplying it. It's a new platform that is coming up. And like I

mentioned, we did some tweaking to our -- one of the products so that it is suitable for the application.

So the volumes are pretty low as it is a launch program and it may not impact our overall share of business significantly with this customer. And over a period of time, the customer has an aggressive launch plan, but that has to be realized only after the market acceptance of the product. But overall, it looks like a big growing market and the customer has the right strategy and we are present 100% with them. So I can leave it there.

Radha: Sir, in the other model of the existing customers, who was the current supplier.

Kishan Kumar: The other one is our competition, you can guess. There are -- one of them is the competition there.

Radha: Okay. Sir secondly, is there an opportunity to make axles for the bus segment for other customers also other than Ashok Leyland?

Kishan Kumar: In the coach, probably the chances are few because the other customers, for example, Volvo, if you see they're already using our axles, which are imported directly through them. And then it's a very niche segment, not many OEMs are present, not other OEMs are present. Coming to the smaller one, yes, there are opportunities, but I think our focus is right now to get the product out and then we will pursue with other OEMs.

Radha: Sir, for Tata, any [inaudible 0:23:03]. Do they have in-house manufacturing for the buses and also for the e-buses also?

Kishan Kumar: They have in-house capability, but this product range, the 13.5 and 15-meter, that's a niche segment. As I mentioned, that's something apart from Volvo, nobody is present today. And everybody has tried in the past, but it's a very different market. So I will leave it there.

Radha: Okay. Sir, on the export market, other than non-Meritor, we have added only Volvo as a customer in last 5 years. So what are the initiatives that we are taking to add more customers there?

Nagaraja Gargeshwari: Kishan?

Kishan Kumar: Sorry, can you repeat the last part?

Radha: So in the exports market, other than non-Meritor, we have added only Volvo as a customer in last 5 years. So what are the initiatives that we are taking to add more customers?

Kishan Kumar: Okay. So like you said, the first part is right. We always supply to our own entities elsewhere. And we don't typically do a direct sales because the application, the business model and the legal requirements are very different in the regions. Volvo or currently UD, that is a different case because that is a division that is sitting in India and the discussions and the techno commercial closes here. It's only a supply that goes to the other plant outside India.

But everywhere else, we have our own presence. And like I said, the application, techno commercial terms, legal requirement, that's all handled by the regional teams. And that's why we supply to our own entities and they interface with the end customer. And also there is a lot of value-add that happens at the region. So it's -- we only supply the subcomponents, but the value-add, final value-add specific to the region happens at those locations. And that's been the strategy and I don't see that changing in the near future.

Radha: Okay. So in previous calls, you have mentioned that you were in discussion with a few OEMs to add customers in the export market. So what is the update on that?

Kishan Kumar: So you're talking about deemed exports. So let's say, if one of the customers in India, they want to do an export. We always have the right to approach and that's our right. That's our business. So it is a deemed export. That is possible. But going to the location where the -- sorry.

Radha: Direct export, sir. Not indirect.

Kishan Kumar: Direct export is only through to the sites of Cummins or the entities of Cummins, not directly to the end customer.

Moderator: The next question comes from the line of from Purva Jhaveri from One Up Financial.

Purva Jhaveri: So I just wanted to -- I had a few questions, sir. So firstly, sir, on the overall outlook for FY '26, will it be -- will the demand -- do you see the demand softening or you see the flattish year?

Nagaraja Gargeshwari: Kishan, can you take it?

Kishan Kumar: Yes. So let me step back. So what we are seeing -- okay, let me start with the overall industry, what's going on. So typically, if you go back 10 years or 12 years, the historical cyclicity of the industry, we see that after, let's say, 2 stable years with good volumes, we see a dip. And usually, the dip is pretty severe, like we have seen 15%, 20% dip. But last 3 years, if you see, the market is hovering around 400, pretty stable. And we are not seeing a steep dip even this year, even though we have projected 4% lower than the last year overall production. That's still a very strong market for us.

But what we do see is a couple of things which may be only temporary. The Q1 due to this AC cabin change, most OEMs have built on their inventory, I think in surplus of what they usually plan for. So that is going to impact us in Q2. And then the second one is monsoon. Typically, we see that when there is a good monsoon, the freight movement is low. And this year looks like it's above average monsoon and also it started a little bit early in the country.

So both these will -- probably the Q2 will be much lower than what we initially anticipated. But we do think that Q3, Q4, that's where we start seeing the other programs that the government is doing, for example, infra, the industrial activities are very low, even though there's so many infra programs launched, but those will start kicking in after the monsoon. Hopefully, Q3 and Q4, we will see the market coming back we are very optimistic that it will be at that INR400 crores or plus/minus 3%, 4% level.

- Purva Jhaveri:** Okay, sir. And sir, another question to CFO, sir. Sir, I wanted to ask about the other expenses, which came in around INR75 crores. So we must have classified the fees paid to the Meritor in the other expenses. So can you just quantify how much fees have we paid to Meritor?
- Sankaran Ranganathan:** At this moment, I don't have the detail with me, but it is grouped under the other expenses at this moment of time.
- Purva Jhaveri:** So sir, going forward, we can expect other expenses to be in the range of 15%, 15%, 15.5%?
- Sankaran Ranganathan:** May not be. I don't think so. Probably -- yes, it depends on, again, the product mix again, I think. So yes, it will be around 12%, 13%.
- Purva Jhaveri:** All right, sir. From Q2 onwards or for the whole year to 12%, 13%?
- Sankaran Ranganathan:** Yes, we need to see, the first quarter, we have just moved to the new model, okay? So we may have to have a little bit of things settled down next couple of quarters. Maybe Q3 onwards, you can see a reasonable normalcy in the overall financials.
- Purva Jhaveri:** Okay. And the incremental revenue from the direct sales buyers won't be having -- will be below 10%, right? The growth in axles.
- Sankaran Ranganathan:** Yes.
- Purva Jhaveri:** All right.
- Sankaran Ranganathan:** Because see, for example, I don't know, there are a lot of calculations going outside. are much more informed information with them. The point is that our transfer pricing for the financial year last year also is well made and no compromise on the transfer pricing is concerned. This is as per the arm's length, and it's been certified by the people.
- So this model is basically in response to the shareholders' decision and probably a lot of expectations, all of you have, I completely respect that. And -- but we also need to be -- when we adopt a model, the change of 44 years, we have to gradually adopt into the new system. Expectations are fine. We respect that. But we may have to take the business in a gradual way because there are some values which other entities that we get we need to respect.
- We need to have an arm's length model being a listed entity, we need to align the compliance is a very critical aspect for Automotive Axles. So we've gone ahead with the right process in terms of setting this. It's probably the intention is very straightforward, and we want to be very honest to the shareholders. I just wanted to place it across the board.
- Purva Jhaveri:** Sir, can I just squeeze in one question, sir?
- Sankaran Ranganathan:** Yes.
- Purva Jhaveri:** Sir, you have seen gross margin improvement in this quarter. So what would be the reason behind? Would it be product mix?

Sankaran Ranganathan: Probably this quarter is concerned, overall basis is basically -- yes, a couple of things, probably Nagaraj can add. One is about the new product, which we have introduced called [18TG 0:31:43], which is probably the volumes have slightly picked up this quarter. This was one of the reasons that the mix definitely has a benefit. And secondly, we also have other side -- flip side of the mix is about export revenue is not recognized.

But very important point is about very consistently for several years, we have a very focused approach as far as the cost improvement programs are concerned. And all of you know the last 1, 1.5 years, we are very seriously considering automating our manufacturing lines. We have recently certified last year certified by TPM, and we are adopting Industry 4.0 for all the value by one.

Automotive Axles is investing though the market is slow, we are investing on this automation to improve the productivity. And we want to be up and ready for the upside of the market one in terms of the capacity and the efficiency. So that is also happening. So all these programs of cost reduction and automation is paying up this year. And you can be evident you will see in the coming quarters, too.

Moderator: The next question comes from the line of Viraj from SiMPL.

Viraj: Just a few more questions. Just wanted to understand why -- what are the reasons behind not consolidating -- us not able to consolidate exports in Q1? And whether any expenses incurred pertaining to the same P&L in Q1?

Nagaraja Gargeshwari: No, no. Export is being made from Automotive Axles. Only these Incoterms for all these exports are different. So based on the Incoterms, we are not able to recognize the revenue in the books. And as we meet the Incoterms, the revenue will be recognized from this quarter onwards, that is Q2 onwards, the revenue will be recognized as per the revenue recognition policy.

Viraj: So the expenses -- sorry, I'm not able to understand.

Nagaraja Gargeshwari: It is only the timing. It is just the timing because it depends on whether you are having a CIF, you have exports or landed, depending upon what agreement is there with the customer, the revenue recognition is done. So it is just the timing. And like what Ranga mentioned, going forward from the Q2 onwards, it will get normalized.

Viraj: And the expenses have been recognized pertaining to the same or that is still yet to be...

Nagaraja Gargeshwari: The revenue is not recognized. Automatically, the COGS relevant to the export is also not recognized. So it goes hand in hand.

Viraj: Okay. Second question is, in terms of export, what is that you are hearing from your key group entities across the globe. So I think for this year, we were also looking at a sizable capex to modernize the Mysore plant. So any color you can give in terms of what is that you're hearing from key markets in terms of export? And any update on the capex?

- Nagaraja Gargeshwari:** I will take the first portion of it and Kishan, you can add. So as you can see that North America with all the tariff discussions going on, the end markets are very, very low. So we have always been very competitive when it comes to certain specific models, which we manufacture only in India, which is required in the rest of the part of the world. And at the same time, also when they have peak demands where we can act as a layered capacity.
- So the investment what we are doing is not only for the export, but also for the domestic, as Kishan mentioned, the end market is changing, new products are coming. There is a lot of requirement in terms of product performance. Obviously, along with that, this will also drive our productivity improvement and reduction in operational cost.
- So this is -- when we started investing, we thought that the end market, especially in North America and Europe is going to hold. Unfortunately, it is not the case. So we are expecting there will be a potential increase in our export to these regions in next couple of years.
- Viraj:** And given the way the tariff rates are playing out, how does that place us vis-a-vis other entities in the parent must be sourcing from in terms of competitiveness?
- Nagaraja Gargeshwari:** Yes, that is some strategy. Obviously, we need to be competitive when compared to the landed cost or in-house cost. Obviously, we also look at the same thing. We don't know if the tariffs are temporary or they are permanent. I'm sure that Cummins on their side, they are also working on the strategy in terms of, they have a manufacturing centers here in India, Asia Pac, Europe and everywhere.
- So I think they're probably also working on that, and then we work on our strategy and see where our strategy is going to sync with them. But again, at this point of time, it is too early to comment on this.
- Viraj:** Okay. Just 2 more questions. So you said that the fee that you'll be paying is purely on domestic. So would it be right to think that whatever exports we will now be making directly to group entities, that would carry a much higher margin structure than what we have historically been earning?
- Nagaraja Gargeshwari:** Theoretically, yes. The agreement is the fees are payable only for the sales that is done outside Cummins businesses. So essentially, any exports to Cummins entities will not carry any of these fees.
- Viraj:** Okay. So traditionally, we have maintained that assuming a market is stable or marginally growing, given the kind of cost initiatives and we have been taking, as an entity, we can easily comfortably earn somewhere around, say, 12.5% to 13.5% operating margin. So given the fee structure is not applicable on exports, would it be right to think that we can have even possibly on mid-teen margins on exports?
- Nagaraja Gargeshwari:** Yes, theoretically, yes.
- Viraj:** Okay. Last question. See, I assume -- I understand there's a lot of volatility in the market in terms of demand and product mix and other calculations. But if I take 2025 as a base, right, for you,

and on that base, if you take into factor the new model we have, there will be some working we would have done in terms of the absolute increase in EBITDA we would see, assuming 2025 as a base.

So where I'm coming from as investors, we would also probably get some perspective of how much of that value addition is now coming to the listed entity as against what it was flowing through the private entity. So can you give some more perspective on this?

Nagaraja Gargeshwari: Ranga you want to take that?

Sankaran Ranganathan: As I mentioned before, at this moment, I can't be able to quantify and tell you, much sorry for it. But you definitely see a marginal improvement of that benefit coming through. And it is not appropriate for me -- we've not looked at it whether how much the other entity you are making money. I like that approach most of the investors having is quite genuine.

We respect, as I mentioned that, but that's not the way we can structure the arm's length transaction between the 2 entities and the value addition of the other entity is quite significant. So survival of Automotive Axles basically depends on the engineering value addition. So the engineering is the brain behind this product. So obviously...

Viraj: Sorry to interrupt. I think nowhere either me or any of those other investors are questioning the IP or the value-add the private entity is bringing to the table. I think the idea that you need to pay is fully justifiable. What I think me and others are just trying to get more clarity is how much -- as per the new arrangement, how much of the value addition would now be coming to the listed entity?

And if you go back, say, in October, November, the whole reason why shareholders may be rejected the proposal is because there was not a clarity of how much value addition will be flowing to the listed entity. So while we appreciate that you have corrected this structure and it's now flowing through only to the listed entity, there's still some degree of ambiguity of whether the value addition will at all be coming to the listed entity or not.

And I think we have Mr. Kishan also on the call, who is representing Meritor HVS. So I think some more clarity as long-term investors and co-owners, we would also appreciate having to have because we also want to be part of this new ownership when the Cummins. So...

Nagaraja Gargeshwari: Yes, we appreciate you bringing it up. And I think we owe you an answer. As we clearly mentioned, if you compare base to base, there is an improvement. There is improvement you are going to see in terms of margin, also in terms of absolute numbers. The challenge for us is putting it up because of the various product mix and then the mix between the exports and domestic sales, which is changing so drastically quarter-on-quarter.

We are not able to put an absolute number. And that's why we are asking you to have a patience in just the first quarter. And probably by Q3, we will have a very clear visibility of what those margin improvements that we are going to see because of the new arrangement.

Viraj: Just one last question for Mr. Kishan. See Meritor HVS as Mr. Nagaraj has also talked about, other than the sales through which they source -- traditionally been sourcing from Automotive Axles, they have roughly somewhere around INR300 crores to INR400 crores of sales outside.

Now in the past, we have talked about aftermarket also being a sizable growth driver in our ambition to double sales in the listed entity. So can you just give some perspective what this INR300 crores, INR350 crores of sales, what does this pertain? And what role automotive axle will play in the aftermarket play in India?

And just one request to the management. Maybe not immediately, but maybe you can just put it out in a press release laying out a scenario that if we were to assume 2025 operations as a base and with the caveat, obviously, mix changes and markets are dynamic, what kind of a change one would see as per the new model? I think this will go in alleviating a lot of concerns of minority investors. So over to you, Mr. Kishan.

Kishan Kumar: My respect to all of you that let's have -- this is investor call for Automotive Axles. And let's restrict to the question with only with respect to Automotive Axles because going beyond, it's not very appropriate. It's not compliant is also my opinion. So it's not -- just purely let's restrict to Automotive Axles performance as far as the call is concerned. I appreciate your understanding.

Nagaraja Gargeshwari: Yes. Just to tell about Automotive Axles, any of the product that we sell into the domestic OEs or that we manufacture it here, all those parts are MHVSIL will be our sourcing from AAL only. So that means they cannot buy it from anybody else. They are buying it from Automotive axles. So whatever they sell in the aftermarket, it will be Automotive Axles product. But other than that, they also sell other makes and other than axles and brakes, they sell so many other parts. So I think we'll leave it at that place.

Moderator: The next question comes from the line of Samarth from Janak Merchant Securities.

Samarth: So American Axles, which got taken over by Bharat Forge, who is where Kalyani Group is also a partner in our own company. So they have been also trying to -- like when it was American Axles, they were also trying to get in Ashok Leyland. So do you see any pricing pressure in the axle category going forward or already is it visible because of which we had to take price decrease?

Nagaraja Gargeshwari: No, I don't think so because, in fact, we also supply some brakes to American Axles for another OE through the American Axles. So essentially, what we see is American Axles and as we continue to be competitors. We continue to compete for the share of business. That has been happening for the last several years, if I'm right, at least for the last 10 years. I think it will continue to happen.

And then we are very confident in terms of the products that we are developing, in terms of the manufacturing capability and capacity what we are having. So we hope -- and then we continue to put efforts in winning as much as share of business with the customer as possible. So this -- whatever the recent transaction has happened, it is not going to change the way Automotive axles is going to operate or pursue potential businesses.

- Samarth:** We haven't seen any pricing pressure.
- Sankaran Ranganathan:** No, no. See I just add to Nagaraj. See, in automotive industry, as far as OE is concerned, we consistently faced pricing pressure, okay, in terms of the value additions and crossing on. It continuous to be there, not with us with respect to any Tier 1 or Tier 2 suppliers are concerned. That continues.
- What Naga is trying to say is, not that, American Axles presence is not invalid. They already preexisting before us also, before this acquisition also. So I don't think that's going to add anything special at this moment of time. The business got normal. There will be continuous pressure from the OEs as far as the price reductions are concerned. That we'll manage it. We have been managing for several years. We'll be continuous to manage it.
- We have specific programs with the OEs where we have an arrangement to share some benefits. There are some internal value- addition that will definitely accrue to us. So that arrangement continue will continue in the future also.
- Samarth:** Sir, another two questions from my side. One is the heavy axles that we have for the 50 and 55-ton vehicle. So from what we understand is Tata Motors captively doesn't have these products. So can you win more business with Tata Motors for the very heavy axle category?
- Nagaraja Gargeshwari:** Let me just try to answer, Kishan, can add to that. No, we continuously explore opportunities with the OEs. There are new OEs other than to whom we are already supplying. They have approached us inquiring about certain -- not just this particular product, the potential other products that we have developed. So continuously, we are looking at the opportunity. If the business makes sense, if it works out, why not? Yes, we would like to supply to Tata, not just Tata, any other OEMs as well. Kishan, you wantâ€¦
- Kishan Kumar:** I agree with Nagaraj, but I also want to clarify our strategy with Tata. It's definitely we want to strengthen our relationship on brakes, right? That's where our current business holds. And then anything add-on, and I don't know where you're getting this data that Tata is looking for or may not have the right product.
- They already have a product, which is in the market. And we're always pitching our product when we launch it, but it's purely the gap they see in their product line in terms of whether it is cost, performance, reliability, durability, quality, that is what is the pull. Otherwise, it's purely an interaction with Tata on brakes alone today.
- Samarth:** Sir, on the brake side, so in brakes, like 30%, 35% cost is a casting cost and we don't do our own castings. So as we gain scale, do you have any plans of getting castings for captive purpose or you can even export it out of India since you will be able to build the scale?
- Nagaraja Gargeshwari:** Right now, we are looking at multiple -- we have been looking at potential opportunities to increase the value-add within our manufacturing footprint. So I don't know whether it is going to be just a casting or it is more automation and then increasing the capacity. So we -- time and again, whenever there is an opportunity, we'll explore it.

Casting is a totally different animal. If it makes sense, yes, we might look into this. But right now, our focus is looking at automating our current processes, bringing in new technology rather than adding some commodities, which we can buy more economically and more efficiently from the current suppliers.

Moderator: The next question comes from the line of Saket Kapoor from Kapoor & Co.

Saket Kapoor: Sir, firstly, if you -- I joined late. So firstly, if you could just give us some understanding how the current year is shaping up with the exit of the first quarter in terms of our deliverables that is scheduled going ahead in terms of the incremental tonnage that we may expect?

And in the other expenses line item, we see that line item increasing disproportionate to the case. So what -- any one-off item that is incubated in the other expense line item of INR75 crores for this quarter?

Sankaran Ranganathan: So I'll just answer the second one, I'm and Ranganathan here. So I think we have explained it earlier. So the technical fee what we pay to MHVSIL under the new model, which has been -- which has been coming under the other expenses. And as far as the market is concerned, Kishan can able to answer it.

Kishan Kumar: Yes. So this year, specifically, a couple of things are happening. One is I explained earlier to the audience, historical cyclicity has actually changed now. So we are having a constant volume around 400,000. This year, we do see a dip of around 4%, which is primarily coming from some of the inventories that has been built in addition to what OEMs typically plan.

And second one is even though the volumes are around 400,000, the mix is changing. So one, in the truck segment, we are seeing higher heavy-duty engines coming into play, whether it is a 4x2 tractor trailer, where we already have a product launched and then the tipper segment. So again, we have a product there.

The other change which we are seeing consistently last 3, 4 years is the bus volume in this entire product mix. That is changing. That has increased. Typically, we see around 40,000 buses on an average last 10 years, if I take an average of bus sales. But last 3, 4 years, we see consistently 70,000, 80,000. This may be the deficit that caused by the COVID and then there was a continuous push to improve the overall bus from the state transport units as well. So overall market will still be 400,000.

We do see this product mix mainly in the buses where we have already launched 2 products. One product is in the pipeline. And the heavy segment, what you mentioned, the tonnage carrying capacity in terms of tonnage carrying capacity of the vehicles, we have for 50 to 55 ton range, the axle already in production.

Saket Kapoor: Sir, so that is all alluding to our business volumes and the margins going up, which is what the commission part should be especially for the higher tonnages and the contribution also moving ahead?

- Kishan Kumar:** The per axle realization in terms of pricing, yes, it is definitely more because there is more metal, more content, more technology, yes.
- Saket Kapoor:** And sir, for this other expense, which you mentioned for the -- I think the Meritor part, so this is going to be directly proportional to the sales? Or what should be the number we should see in going ahead? Just to understand what should be the percentage.
- Sankaran Ranganathan:** No. The point is the arrangement, I mentioned earlier, the arrangement for the support of engineering and product development and the marketing. They are based on arm's length, we have fixed base, which is a percentage to the sales to the domestic OEs. So that has been -- will be payable through MHVSIL for the valuation what we are bringing in. So I mentioned it earlier, just wait for a couple of quarters. Third quarter onwards, you can see kind of the normal view about this transaction.
- Saket Kapoor:** Sir, last two lines, I completely missed. If you could just repeat fourth quarter or what you were trying to say.
- Sankaran Ranganathan:** No, no. We want to see -- we want to have some holistic view. I said at least 3 quarters we need to go through. So I just requested that you hold it until the third quarter and see. Then if you still have any points, then we can discuss that.
- Saket Kapoor:** Okay. No, if you could just elaborate the component for it, out of the INR75 crores, how much is attributable to the commission part for the special expenses which we have paid for the technology and the sales promotion?
- Sankaran Ranganathan:** No, no, that's what I said, hold it for a couple of quarters. At this moment of time, I'm not -- I said the percentage is based on the sales what we made to the domestic OEs. And hold your question for the next couple of quarters, my request is that.
- Saket Kapoor:** Okay. But will our margins be protected, sir, when we...
- Sankaran Ranganathan:** 100%. 100% margin is protected. I mentioned earlier also and Nagaraj also reinstated that. This new arrangement, definitely there will be a marginal improvement on the margins. And the market expectation is high. That's what we have given a very clear communication in the earlier part of the call that there will be a marginal improvement on the margin as far as the model is concerned.
- See, the margin on a holistic way when you look at it, there are various other elements too. One element is about the product mix. Other element is basically the market fluctuations. So definitely, we are doing our best to make sure that Automotive Axles margins are well protected. Under the new model per se, there will be -- there will not be any deterioration in the margins. There will be a marginal improvement on the margins.
- Saket Kapoor:** Okay. And sir, last point is for this quarter, how are the programs for the deliverable scheduled if we compare it with first quarter or with the last year, what are the current sentiment? And this tariff part of the story, sir, I joined late. So what would be the impact from us, if any, on the same, if these 2 points you can explain?

Sankaran Ranganathan: Could you repeat the question, please?

Saket Kapoor: Sir, firstly is how are the quarter 2 deliverables currently ongoing with respect to the programs which we have from the OEM, the current ensuing quarter? And how are these comparables with the first quarter of the last year similar quarter? I just wanted to understand the business sentiment. And secondly, the impact of tariff, if any, I think so from the U.S. part, how are we prepared for the same.

Kishan Kumar: Yes. I'll take the first part. So this quarter is -- compared to last year's quarter, it's about 5% down. And there are many reasons like we were discussing in the past, the AC cabin changeover that has actually created a lot of additional inventory with OEMs. So we are seeing that impact coming into this quarter, which will subside going forward.

And then the monsoon is also playing a role, which is typical. We see that from Q2 onwards. This year, only thing is the impact is slightly longer than what it was earlier because of the early monsoon and also higher than above average monsoon. Coming to the tariff, I think every day morning, we wake up with something new. I think anybody's guess right now, 50%, that's just impossible for anybody to navigate. I'll put it that way.

Saket Kapoor: And what percentage of our business is directly affected because of the tariffs to our U.S. counterparts?

Kishan Kumar: Our export to North America is pretty small. So it's not a big concern for us. And also, as you know, North America market is already 50% down. And they have -- like Nagaraj was telling earlier, only where we are 100% present, only that is where we may see this impact. But otherwise, it's insignificant right now.

Saket Kapoor: Okay. And two small points. Firstly, sir, about the capex, how much are we going to spend for the capex, especially for capacity augmentation and further product introduction? And secondly, on our path to double our revenue, I think with the 5-year program, which was outlined last year, how well are we progressing? And what milestones are we expected to reach this year and next year? If you could just elaborate these 2 points.

Nagaraja Gargeshwari: Yes. So I'll take that. Right now, the Board has already approved about INR120 crores that we are spending on the capex, including our capacity capability and then equipment replacement and also automation. So all those projects put together. So what we see is

I can split it into, let's say, Phase 1 and then Phase 1a. The Phase 1, we will be completing it by end of this financial year. So we're going to start seeing those benefits improvements coming in during the later part of first quarter of FY '27. And then coming to the Phase 1a, we should be able to complete those upgrades and investment and commission all the equipments by December 2026. So that's third quarter of 2027.

So essentially, what I call is this -- the first initial investment will be completed in the next 18 months or so. And in the meantime, we'll be -- we are already developing on working for to meet our FY 2030 goals at all the other additional investments that we need to do, including our product strategy, including our manufacturing strategy, we are working on that. So that we

should be able to complete kind of finalize by end of this year and go to the Board to seek their guidance and approval.

Saket Kapoor:

Okay. So INR120 crores is what we spent this year. This is what we have outlined.

Nagaraja Gargeshwari:

This year and next year put together, mainly on the specific capacity enhancement -- capacity and capability enhancement projects. This is other than sustenance capex.

Saket Kapoor:

Okay. Yes. And for the product introduction, sir, you mentioned some new products launch would be there for the second half.

Nagaraja Gargeshwari:

Yes. Towards the end of second half. We are kind of looking at this point of time, we are kind of fine-tuning the product specification to meet the ever-changing customer applications and demands. So we'll be having a properly prototype ready by end of this year. And then we need to see when the actual start of production happens with the OEs.

Saket Kapoor:

Okay. And just lastly, sir, taking all these factors into account and the business modeling which we have done, does the quarter 1 business environment gives us an understanding that we will have a better year in terms of higher tonnages and thereby improvement in margins and profitability for the year as a whole? Or we should have to -- we need to wait for another quarter to get that understanding clear. How are we seeing the landscape for us for this financial year?

Nagaraja Gargeshwari:

I would say that we need to wait for at least another quarter to clear all the confusion with the tariffs and everything. And then also, we need to see like Kishan was mentioning, how the post monsoon scenario is going to develop. We think that it will be slightly -- it will be flat or slightly lower compared to last year. But unless something goes drastically wrong, we should be putting in a good performance.

Sailesh Raja:

Can we close the call because we already exceeded the time.

Moderator:

Ladies and gentlemen, that was the last question for the day. I now hand the conference over to Mr. Sailesh Raja: for closing comments. Thank you, and over to you, sir.

Sailesh Raja:

Sir, would you like to make any closing comments, Nagaraja sir?

Nagaraja Gargeshwari:

Again, thank you very much for calling into this earnings call. Really appreciate it. I know that there are a lot of questions out there with regards to the new models that we have put in there. What I would like to assure every investor is that the Automotive Axles interest have been always taken care of. That is the highest priority. And at the same time, we also want to ensure that we kind of respect the legal requirements like arm's length deal with the related party and everything.

So we have a very strong legal team. We take their advice before we make any of these decisions. So whatever the investment we are doing, it is going to really help us to improve our position, improve our share of business at the end of the day, improve our profitability and net worth of our company. So please have -- continue to have our confidence in us. We will continue to do our best to meet your expectations. Thank you.

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