



“Fiem Industries Limited
Q2FY23 Earnings Conference Call”
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Hosted by Monarch Network Capital Limited



MANAGEMENT: **MR. J.K JAIN – CHAIRMAN AND MANAGING DIRECTOR**
 MR. RAHUL JAIN – DIRECTOR
 MR. RAJESH SHARMA – DIRECTOR
 MR. ARVIND CHAUHAN-CS, MR. SANJEEV KUMAR-SR. VP
 (FINANCE) AND OTHER FINANCE TEAM MEMBERS

MODERATOR: **MR. SAHIL SANGHVI – MONARCH NETWORK CAPITAL**

Moderator: Ladies and gentlemen, good afternoon, and welcome to FIEM Industries Limited Q2 FY '23 Earnings Conference Call hosted by Monarch Network Capital. This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions and expectations of the company as on date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by press star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand over the conference over to Mr. Sahil Sanghvi from Monarch Network Capital. Thank you, and over to you, Mr. Sanghvi.

Sahil Sanghvi: Good afternoon to everyone. Thank you, Tanvi. On behalf of Monarch Network Capital, I welcome you all to the Q2 FY '23 Conference Call of FIEM Industries Limited. We will start the call with the initial comment about the results and the future outlook of the company, and then we will open the floor for question and answers. So without much delay, I now hand over the call to Mr. J.K. Jain, Chairman and MD of the company. Over to you, Jain, sir.

J.K. Jain: Thank you. Good evening, everybody. I welcome you all to the Q2 FY '23 earnings call of the FIEM Industries Limited. Joining me on today's call are Rahul Jain, Director; Rajesh Sharma, Director; Sanjeev Kumar, Senior VP, Finance; Arvind Chauhan, Company Secretary and other member of the finance team. Results and the investor presentation for Q2 FY '23 have been uploaded on the stock exchange and the company website. I hope you all have gone through the same. I am pleased to report that the company has delivered a strong performance in Q2 FY '23 with revenues growing by 25% year-on-year and profit growth of over 42%.

Now I would like to talk a little bit about the 2-wheeler industry's performance. The 2-wheeler industry in Q2 FY '23 recorded production volumes of 5.6 million units, which is an 8% growth on a year-on-year basis and 17% on a sequential basis. This growth has been driven by good monsoon and encouraging farm activities and positive consumer sentiment.

The festive season has also contributed to the positive momentum. Other key drivers for our industry growth in the electric vehicle space for H1 FY '23, the EV volume has grown by 550% to 2.77 lakhs. We continue to strengthen our position in this segment and the increased penetration of the EV should help to grow volumes going forward.

Now let me talk about the performance of your company in Q2 FY '23. We continue to outperform the industry and have achieved a total income of INR 527 crores, which is a growth of over 25% over the same quarter last year. Sequentially, the revenue have grown 18%, EBITDA and PAT has also grown to INR 70 crore and INR 39 crores, respectively, reflecting the strong operational performance of the company. LED share as percentage of the total automotive lighting has touched 47% this quarter, reflecting the trend towards the faster adoption of the technology.

We have maintained that this is heading towards 60% and higher. Our key customer like Honda, TVS, Yamaha and Suzuki continue to grow, and we are closely working with them on several new projects, including face lift of the existing model. Overall, as we move forward, I feel optimistic about the industry's trend. The easing of commodity prices and also the semiconductor availability should help the industry to achieve good growth in the future.

With this, I hand over to Mr. Sanjeev Kumar and the finance team to update on operational performance.

Sanjeev Kumar:

Thank you, sir, and good evening to everyone. I will present the quarter two number for FY '23. The company registered a total sales of INR 521.32 crores in Q2 of current financial year. against rupees 416.26 crore in corresponding quarter of FY '22 and reassuring a growth of 25.24% on a year-on-year basis. On a quarter-on-quarter basis, this is an increase of 17.95% from a base of rupees 441.98 crore. The EBITDA was INR 70.46 crores, translating into an EBITDA margin of 13.52% as compared to an EBITDA of INR 51.95 crores that is 12.48% in Q2 of the previous financial year.

EBITDA margin reflect by strong operational performance of the company. PAT increased by 42.51% to INR 39.12 crores as compared to INR 27.45 crores in corresponding quarter of FY '22. on quarter-on-quarter basis, PAT is higher by 28.47%. During the quarter, the company has made a capex of INR 10.32 crores. We continue to be a net zero debt company.

With this, I end the financial brief, and now the floor is open for question and answer. Thank you very much.

Moderator:

The first question is from the line of Aashin from Equirus Capital.

Aashin:

Sir my first question is that you are seeing a very strong sequential growth in plastic product and rear view mirror revenue. So could you please highlight that what has led to that growth?

Arvind Chauhan:

Actually, the increase in overall sales, and accordingly, this growth is also reflecting in the plastic as well as in rear view mirrors.

Aashin:

So actually, they have grown 30% sequential. So is there something which is there apart from our normal sales?

Arvind Chauhan:

No, this is a little bit increase in the plastic products item. Yes, this is because of addition of some parts.

Aashin:

Which OEM?

Rajesh Sharma:

This is mainly for Honda. Honda and Suzuki.

Aashin:

And sir, you talked about that you're working with our existing customers for the new facelift versions and new models. So firstly, talking about Yamaha. So we are the last time we said that we have 10 models for them. So if you could tell us how is the launch pipeline is Yamaha especially business to exports?

- Rajesh Sharma:** Yes. These new models will be launching by next financial year and for export as well as for domestic, both.
- Aashin:** So what sort of revenue can we expect and how many models can you expect in the next one, two years?
- Rajesh Sharma:** On those volumes, we are still expecting from our customers. It will be a ramp up, but how much production will be there next year, that will be definitely be given in the next quarter only.
- Aashin:** And sir, thirdly, the Hero, we have said that we've launched with them from FY '24. If you could give us an update on how is that progressing ahead?
- Rajesh Sharma:** Yes. This development is in progress right now. So next year, few models will be launched and it will be continued respectively.
- Moderator:** The next question is from the line of Suruchi Parmar from NX Wealth Management.
- Suruchi Parmar:** Congratulations sir, for the blockbuster result. I want to know two, three things. What is our EV contribution for this quarter?
- Finance Team Member:** What is our EV? So EV is still in that range of 4% to 5%. I think what is critical to see is how many new customers are being added and how much development is happening. Volumes are still small. So I think our, in terms of percentage sale, it will not exceed 5%.
- Suruchi Parmar:** And can you give a fair bit of idea maybe in a two year time period? What can be the share in EV we can see?
- Finance Team Member:** It will really depend on a number of factors, including government policies. EV Sector is going through a lot of dynamic changes in terms of the regulation around battery, the FAME subsidy. So while I think the consensus view is clearly there that EV will become very strong but what percentage of the total market, it will take, and consequently, our share will really depend on a number of moving parts. But I think over two to three years, if you see till 2025, a penetration of 15-odd percent, 20% that is completely possible.
- Suruchi Parmar:** And Harley Davidson, how much sales we are doing, Harley Davidson? Because we see this H1, there is a 3%, 4% of export is there.
- Arvind Chauhan:** No, this is – actually the export dip is because of the lower sales in the European region. Otherwise, the Harley Davidson sales has increased. And you know Harley Davison, we are exporting to Thailand as well as to USA.
- Suruchi Parmar:** US, okay. So that sales for H1 was strong, correct?
- Arvind Chauhan:** Yes. Correct.

- Suruchi Parmar:** Sir can you give this quarter-wise volume as well as realization bifurcations. What is the volume growth we achieved and realization?
- Arvind Chauhan:** This is the mix of the value and the volume. So it is difficult to give you the exact volume increase for this thing.
- Suruchi Parmar:** But can we say that there were volume growth also during the quarter, can we say that?
- Arvind Chauhan:** Yes.
- Suruchi Parmar:** Sir, two things. We are not having a presence in replacement market. It is a specific strategy something that maybe other – maybe other smaller players are doing it, but we are not doing it because of some specific reason of the management or we have any plan to penetrate the replacement market?
- J.K. Jain:** Basically, as you know, in our case, we are supplying to the OEM, and we are restricted by the OEMs not to supply in the aftermarket. So that is one of the reasons, and moreover, we are not doing the trading like other people are doing. Whatever we are manufacturing, we are selling. We are not doing trading like other people are doing. So that is a difference.
- Suruchi Parmar:** And any other plans to move from two-wheeler cycle to four-wheeler or EV or we will stick to two-wheeler only?
- Rajesh Sharma:** We are open, and we are working on the same
- Moderator:** Next question is from the line of Ashutosh Tiwari from Equirus Securities.
- Ashutosh Tiwari:** Yes, hi sir. Congratulation on very good numbers. Firstly, on this Hero models from next year. Are these existing models of Hero or new order launches that we are going to supply item?
- Rajesh Sharma:** These are all new model launches.
- Ashutosh Tiwari:** And obviously in a combination of LED and halogen both?
- Rajesh Sharma:** These are all LEDs.
- Ashutosh Tiwari:** And basically, in terms of, we probably have heard in the earlier calls as well. Can you provide some perspective on whatever models are in development right now on lighting side, what proportion of that would be LED is of now?
- Arvind Chauhan:** Total, you are talking about the total number of the projects and how much is the percentage of the LED in there?
- Ashutosh Tiwari:** Yes.
- J.K. Jain:** I think it's almost 100% the new projects are there with LED, because most of them are EVs and EVs are all LEDs.

- Ashutosh Tiwari:** But let's say, existing OEM like Honda Motor cycle1 or TVS or Suzuki and all, then there must be a mix of halogen and LED, right?
- J.K. Jain:** Yes. Nowadays, the trend is towards LED only.
- Rajesh Sharma:** So as we have shown this year, by next year, we are expecting more than 60% converting to LED.
- Ashutosh Tiwari:** And when you say that this is probably is always in terms of revenue in terms of volumes, will still be much lower, right? As of now broadly I'm asking what would be the content increase when you go from the headlamp halogen to LED in most of the models that we're applying to?
- Moderator:** Ladies and gentlemen, we have the management members reconnected.
- Ashutosh Tiwari:** I was asking that like broadly when move from halogen to LED headlamp, as in most of the models, you said high-end model. What is the content increase in terms of value?
- Rajesh Sharma:** This will be around 60%.. .
- Ashutosh Tiwari:** Sorry. It will be around? Sorry, what you said?
- Moderator:** Ladies and gentlemen, we have the management members reconnected. Sir, you may continue now.
- Finance Team Member:** Yes. Sorry, apologies some technology issue. Please go ahead with the question again, please.
- Moderator:** The participators not in the queue. We'll move to the next question. The next question is from the line of Jatin from RTL Investments.
- Jatin:** A couple of questions. So one, if I look at your margins over the last few years, we've been very close to -- been very consistent at around 12%. Now this quarter with the volumes moving up in what is I assume a seasonally strong quarter, we have seen margins move to 13.5%. Now are the margins can we sustain here? Or as this a seasonally strong quarter and for the full year, we should expect around 12% every?
- Finance Team Member:** So you're right. We've always guided to 12.5 odd percent to 13%. This quarter, significantly beaten that number and we hit more like 13 and half. Now that is obviously clearly driven by the significant volume jump that you see in the overall sales volume, which actually helps in adoption of the full operating cost. So I think for us, we will continue to guide around 13-odd percent range going forward. But you've seen our intent quarter-over-quarter, I think operationally, we like to do the best and get the best out of the whole margin. But I think from overall guidance, it still remains around 13-odd percent with minor fluctuations every quarter.
- Jatin:** Sure. So if the 2-wheeler industry, which now seems to be on a recovery path, if we continue to see strong volume traction, then there is no reason why costs will go significantly higher. You will maintain a control on costs and then volumes will decide margins.

Finance Team Member: Absolutely. What I mean the controllable, which are with us, they will be well within the range. The uncontrollable, which is the overall industry as you highlight, if the industry goes well, then there's no reason why we are not able to sustain these higher margin. So it could be that we could beat this margin, yes.

Jatin: Sure, sure. And I know this is the OEMs kind of decide. And -- but your sense on where -- when the 2-wheeler industry could hit its previous peak of FY '19 from what you speak with your OEM customers?

Finance Team Member: So what you've seen this year is an encouraging trend. The first -- at least the signs whether sequential growth or Y-on-Y growth, you're seeing that industry recovery because of all the onslaught that were there. And as you rightly mentioned, it at peak just before COVID. So it will take a while to get back to that peak level. But I think we are firmly on that path to get to that level. So there is no reason why we should not get there.

Jatin: And could you share the share of business numbers with different customers like you share usually on your calls?

Arvind Chauhan: Yes, so we are giving the share of business with our four top customers. HMSI, headlamps, this is same 40%, because this is on the full year basis. And tail lamps is 76%. Winkers 85%. The rear view mirror is 100%, we are sole supplier. Even for RR and position lamp, we are 100% with HMSI. For TVS, the headlamp is 73%, tail lamp is 69%, Winker is 82% and rearview mirror is 55%. For DRL - we are 100% with TVS and licence lamp share is 50%. Yamaha for headlamp, it is 91%, taillamp 64% and Winker 5%, rearview mirror is 32%. Yamaha position lamp is 50%. For Suzuki, our headlamp share is 80%. Taillamp is also 80% and winker is 23%. Rearview mirror is 100%. We are sole supplier. And same is RR- reflex reflector, 100%.

Moderator: The next question is from the line of Saurabh Savla from Multi Act.

Saurabh Savla: Sir, I wanted to ask on the LED mix, we have been guiding that the LED mix will gradually improve. So based on the current interactions with your customers and the order pipeline that you have, the 50-odd models which are working plus the EV customers. So two years down the line, what could be the level of LED mix in our total lighting revenue?

Rajesh Sharma: Yes, around 60%, we are expecting in the next 2 years.

Saurabh Savla: And so this is based on the existing models, which we are working? Or this is a ballpark number that you are...

Rajesh Sharma: Overall.

Saurabh Savla: And sir, when we say that LED mix would increase to 60%, does that mean that absolute level, the non-LED lighting will see a degrowth from this level or even that will grow but at a slower rate?

- J.K. Jain:** Yes. Basically, you see the trend is going towards EV and more and more EV will for LED lighting. And similarly, the higher model itself is there for LED. So the growth is going towards LED. So there will be more and more users of LED in future.
- Saurabh Savla:** So sir, my question was whether the existing revenues that you are getting from non-LED, will that sustain or even that will go down on an absolute basis? .
- Arvind Chauhan:** On absolute basis.. see you have to see the percentage, when the overall lighting is 100%, with the increase in LED, the conventional will go down, it is not only with our company side, but industry we are talking..
- Rajesh Sharma:** Even not only the conventional. Conventional is also been shifting in the near future, and those will be converted into LED. LED, yes.
- Saurabh Savla:** And sir second question was on Yamaha. In previous two quarters, you had indicated that there will be some slowdown in Yamaha because of the export revenue. So, any outlook on that? Like is there anything changed on that or whether we'll see a further decline in Yamaha revenues? Or have you won any new models for the current year?
- Rajesh Sharma:** Yes. This year, we don't see any drop in the overall volume and revenue, wherein new models will be launched by the first quarter of next year.
- Saurabh Savla:** And sir, lastly, on Honda. When I compare last two quarters, Honda's production growth versus our revenue growth with respect to Honda. So there is some -- we are lagging somewhat the production growth. So is that because of a particular model or particular segment as scooters or bikes where we are not present because of which our growth is lagging Honda's production growth?
- J.K. Jain:** Overall, if you see it is in line with the Honda growth.
- Arvind Chauhan:** You see the current quarter, our major contribution in growth is from Honda. And even you see the volume growth Honda, we are growing very good with the Honda.
- Saurabh Savla:** And lastly, on the current interaction with customers, how do you see like after the festive season is done? Like how do you see the numbers panning out in say, October, November, are you being able to kind of sustain some of the numbers or what's your outlook on that?
- Arvind Chauhan:** See, these are the industry thing, and we don't disclose about our interaction with the OEM customers.
- Moderator:** The next question is from the line of Akash Narnolia from Narnolia.
- Akash Narnolia:** Just I wanted to get a clarification on the product numbers, a very good October, fifteen lac fifty thousand - odd 2-wheeler vehicles sold out. Sir, I wanted to know because most of the supplies of these October months were done in prior to the months. So in Q2, that they got reflected in your sales jump. We wanted to know what -- how sustainable is the current run rate of the actual ground reality of 2-wheeler sales because somewhere other places we are

hearing the rural prices is stretched. So I wanted to get a sense about what is in the coming months or how we see the 2-wheeler sales happening because once the festive season gets over, what is the scenario you think?

Finance Team Member: I think you will have to see the commentary of the OEMs who are actually tracking at the dealer level. From our perspective, we are guided by how their production schedule be looked. And obviously, the festive season quarter 2 is generally better. So that is always the case that post-festive season, Q3 is slightly lower, but it remains to be seen how it plays out over the next couple of months.

Akash Narnolia: So I wanted to know what your diversification was the 4-wheeler side because still you have majority of the revenue coming from the 2-wheeler side. So by when can you see significant revenue coming from the 4-four wheeler side because you know and you have been talking to a lot of players. When do we see something coming out of 4-wheeler side in good perspective.

Rajesh Sharma: We are very closely working with the customer, which is totally dependent on that this, what order will we get. So we are hopeful and will very soon will inform once we'll get the business.

Akash Narnolia: That's the last question. Sir, hypothetical question , in case of raw material pricing issues, do you pass on to the players on an absolute basis of keeping the margin impact is pass on? Like I want to know when you pass on the increase on an absolute basis or you do you see the margin intact and then pass on that revenue?

Finance Team Member: We see it that way, which is why if you see our margins have been stable. So I think there have been quarter-by-quarter things change. I think we look at the overall 12-24 month outlook..

Moderator: The next question is from the line of Anubhav from Prescient Capital.

Anubhav: Sir, firstly, like in EV 2-wheeler space, what market share will be, like have like, do we have a sense of that?

Management: I think if you look at the overall number of EV, we just highlighted the first H1 number. It's still very, very small. I think the overall EV market itself is so small. So it is kind of at this point of time to calculate market share may not be something that will achieve much. But what we do want to tell you is that, I think it's been highlighted in the past that there are more than 20 EV OEMs that we are working with in terms of development, in terms of actual supply. So that is a significant number.

And if you -- even if you look at the top 10 EV players right now, we will be present in a majority of them. So we are -- we have significant amount of traction in this space. But I think for overall market share, allow us couple of quarters or perhaps another year before this market matures for us to be able to point a certain number.

Anubhav: And sir with the 2-wheeler volumes like moving up, have you seen any like new competitor coming in or the OEMs themselves trying to diversify the vendor, so how has the competitive landscape be?

Finance Team Member: Lighting is a fairly technology-intensive industry. And this is not an industry where if the market expands or it is more attractive new players can get into easily and this is why you see the landscape is limited to a handful of players, and we are the leader in this segment. So we don't think anybody can break through. It requires lot of technology, a lot of investment, a lot of number of years before you can actually break through. So no, answer is no competition we are seeing right now.

Anubhav: Sir but my question was, from the point of view of existing competitors, like Lumax. So from an incremental point of view, have you seen like the like any competitor getting more market share or? And sir, the EV 2-wheeler, you mentioned that it's on LED lighting. And so like-to-like product comparison will the realization be better in EV 2-wheelers or compared to your conventional OEMs?

Rajesh Sharma: LED lighting, all customer are paying the tooling cost. So the overall development cost is not being paid by company. And realization will also be, because it is totally dependent on the volume and that will definitely prices there.

Finance Team Member: And on your previous question on competition, clearly, there will be existing players who would continue to fight. I mean, the names you mentioned, there is competitive -- and we continue that leadership position that we are going to.

Anubhav: Sir, last question is that what has been the trend of realization in like the LED auto lighting? Has there been a form of realization? And like in general lighting, I think like the realization over the year has like fallen significantly. So do you see that kind of a trend where like realization in auto LED, I think can also fall significantly over the years or that -- yes.

Arvind Chauhan: So to answer about your question, actually, there is no comparison between the luminaries and this thing that the realization is increasing because of the new technology and the improvement in the opticals and so on.

Anubhav: And that has been the trend also historically?

Arvind Chauhan: Even the more complex product like the headlamp for the big models, the realization is even higher.

J.K. Jain: So your question, the trend is towards LED.

Moderator: The next question is from the line of Sahil Sanghvi from Monarch Network Capital.

Sahil Sanghvi: Sir, one of the line items in the financials, the employee benefit costs has been higher Q-on-Q also and from the trends that we are seeing for the past few quarters. So, anything one-off over there or this trend will be continued, if you can explain on this?

Arvind Chauhan: See, if you see our employee cost is 12.08% in this quarter. And as the sales volume has grown, so definitely that will increase. So it depends on the sales. Otherwise, there is no one-off kind of thing in this employee cost.

- Sahil Sanghvi:** And on the trend of the raw material costs and the realization, if you can explain anything, I mean how are they moving?
- Arvind Chauhan:** You're asking about the price hike of what?
- Sahil Sanghvi:** Yes. So raw material cost trends and the realization?
- Arvind Chauhan:** See, there is softening in raw material prices. As this is always pass through. It is not a problem for us. There may be a lag of 1 or 2 quarters, but it is always pass through.
- Sahil Sanghvi:** And is Ather customer for us now?
- Rajesh Sharma:** No, we are not with Ather. We are not with Ather.
- Moderator:** The next question is from the line of Vinayak Mohta from Stallion Asset.
- Vinayak Mohta:** Sir, congrats on a great set of numbers. I had majorly two, three questions. So could you give me an update on what kind of capacity utilization we are running on currently? And what kind of additional capacities are we looking to put maybe in the next 1 year, 1, 1.5, 2 years?
- Arvind Chauhan:** See, currently, almost 80% plus capacity working in this quarter. And -- So what we are saying that we are adding the capacities in our south factories because we are feeling a little bit more business opportunity over there. And so depending upon the situation, we are increasing the capacity.
- Moderator:** We'll move on to the next question, which is from the line of Suruchi Parmar from NX Wealth Management.
- Suruchi Parmar:** Sir, in is quarter, cash balance around INR 150-odd crores, something. So do we have any plan to use for this? Because we are doing some INR 50 crores capex. So has this capex been done expense out?
- Finance Team Member:** Yes. So total capex is in the range of INR 50 crores to INR 75 crores. That is ongoing that we've already announced to South India and some of the other. We are supplementing with the machinery. But no opportunities on within...
- Moderator:** This is the operator here. Members of the management your audio is a little unstable. Now we can hear you yes. Yes, sir, we can hear you. Please proceed.
- Finance Team Member:** Yes. So we've -- I don't know if you got the full sense of what we said. What we said was that beyond the organic capex that we've talked about, there are other opportunities which we are looking at. And if those materialize, they will involve an outlay from the cash that we have. So we are in the process of evaluating a number of opportunities.
- Suruchi Parmar:** And sir what would be our gross margin this quarter in H1?
- Arvind Chauhan:** The EBITDA margin is already reflected this is 13.52% .

- Suruchi Parmar:** Yes, that is already mentioned. Gross margin, do we keep the gross margin?
- Arvind Chauhan:** Based on the EBITDA margin, this is our main benchmark actually.
- Suruchi Parmar:** Okay. Sir, what was the ROE for this H1, ROCE, return on capital employed?
- Arvind Chauhan:** Sir, ROCE given on the yearly basis, this is in 20% range, already given in the presentation.
- Suruchi Parmar:** For '22, correct, not for H1?
- Arvind Chauhan:** Yes, FY '22, yes.
- Moderator:** The next question is from the line of Varun Arora from Safe Enterprises.
- Varun Arora:** So you break the shares of your other like core customers Yamaha, Suzuki. Could you do the same for Royal Enfield also?
- Arvind Chauhan:** See, we share this wallet share on a full year basis and we give only for top four customers.
- Varun Arora:** Sorry, would you be able to share that later?
- Arvind Chauhan:** Yes. We can share.
- Varun Arora:** And the second question is regarding -- I just wanted to understand how the margin profile of new products like rear view mirrors is different from our conventional lighting and LED lighting, how would the margins be different in new products?
- Arvind Chauhan:** See, please understand, even the rear view mirror is our old product line. And all the products goes to the similar -- I mean the same customers. So our margins are on the broad level is what we were 12% to 13%. And now this quarter 13.5%. It is on the overall. So we can say on all products, it is in the same range.
- Moderator:** The next question is from the line of Vinayak Mohta from Stallion Asset.
- Vinayak Mohta:** Yes. I guess I got dropped off. So I was just continuing on the capex question. I wanted to ask how much of the total capex that you're adding in south as a percentage of your total capacity right now?.
- Arvind Chauhan:** It is -- in South, we are having four factories. So it is -- we are not giving in the factory-wide capacity is giving on the overall company is and there is always an addition in the every factory. So it is very difficult to give factory-wise.
- Vinayak Mohta:** And as and when your LED share will be increasing, like you said, in the next two years, we will go to 60%. Do we expect a margin expansion on the back of LED as well? Does LED have a higher margin relative to other products?
- Arvind Chauhan:** See, as you know, the LED has the higher realization in comparison to the conventional, almost start from 2x and even go to higher. So higher sales will definitely give an overall

improved margin. But as far as the product wise you are saying, it will remain in the same range.

Vinayak Mohta: But your company level margin will continue to move higher because the realizations are much higher in LED, right?

Arvind Chauhan: We will -- yes, we will definitely try to maintain a higher level.

Vinayak Mohta: Understood. And 1 last question. Can you give any growth guidance for the next 2 to 3 years about given how we are looking, given your order book and how you given you're expecting that 2019 levels to be on the 2-wheeler volume and EV penetration is the reason as well, so any internal targets that management has set for itself with regards to growth outlook for the next 2 to 3 years?

Finance Team Member: We don't give specific guidance. However, we've said that in the past, and we have the track record, but we've always outperformed the industry. And given where the industry and for EV cycle is, we feel confident that I think a 15%, 20% growth is the growth target that we should set across for us.

Vinayak Mohta: So 15%, 20% is like you're expecting the industry to grow by. So given you are saying that we might...

Finance Team Member: From a Company -- we're saying at the company level, we believe 15% to 20% growth is something that we should really get to.

Moderator: Next question is from the line of Amarnath Bhakat from Ministry of Finance of Oman.

Amarnath Bhakat: That is the railway business is all about and at the moment, how big it is as a percentage of your total revenue?

Moderator: Members of the management, please confirm if you able to hear us? Ladies and gentlemen, we have the management line reconnected.

Arvind Chauhan: Yes, our apologies we're getting some -- please go ahead.

Amarnath Bhakat: Yes. I just wanted to do 1 division of your business is just supplying LED display panel to railways and buses and all those things. At the moment, how big it is? And what is the percentage of your total revenue coming from this side of the business?

Arvind Chauhan: See, our major business is coming from 2-wheeler segment, and we are -- yes, this -- all other segments are quite lower at this stage.

Amarnath Bhakat: But do see the prospect on this? Because we are hearing that the ministry of railways are now very aggressive in giving and modernizing different kind of stations and everything where your lights would use. So are you getting the same trend?

- Finance Team Member:** The company has always been an automotive-focused company. So while we did get into this segment, but we didn't make much headway in terms of winning significant order. So I think our focus will remain automotive for the foreseeable future. And right now, the numbers on this segment are quite miniscule, probably under 1% type in terms of where we are on the total revenue. So we will remain a completely automotive-focused company.
- Amarnath Bhakat:** Okay. Now, since now we are focusing on more on the EV side. Can you give us a sense that out of your total revenue, how much we are get in totality from the EV and EV 2-wheeler or 4-wheeler manufacturing side, how much is the percentage in the total revenue?
- Finance Team Member:** Yes. So the percentages are still low. We are working with a whole lot of OEMs. But in terms of percentage, it will be around 4%.
- Amarnath Bhakat:** So at the moment it is 4% approximately?
- Finance Team Member:** That's true.
- Amarnath Bhakat:** And that segment is growing faster than your regular segment, right, in terms of growth?
- Finance Team Member:** Yes. On a very small base, it's growing like -- I mean it's grown 500% in H1. But that base is very, very small. What remains to be seen is how quickly it can go to a significant base and then grow from there.
- Amarnath Bhakat:** Yes. The purpose was of asking the question is I'm sure the margin of those sides of the business probably is higher than your regular side of the business. So the more proportion of that business increased to your total revenue, hopefully, it can contribute to our overall margin as well, right, not necessarily now, maybe 2, 3 years down the line?
- Finance Team Member:** I mean as of now at least, the margin is not higher. It is probably a similar range. But for us, whether it is EV or ICE, our product line is kind of at a similar margin level across.
- Amarnath Bhakat:** Okay. And sir, can you tell me with how many EV suppliers, you are the sole supplier? We know Ola, you are a sole supplier. Is there any other EV where you are the sole supplier? .
- Rajesh Sharma:** Yes. We are, as of now supplying to Okinawa. We are supplying to Revolt, Bounce 22. These are all sole suppliers.
- Amarnath Bhakat:** Okay. So 3, 4 suppliers you have, you are the sole supplier?
- Rajesh Sharma:** Yes.
- Amarnath Bhakat:** Okay. Sir, 1 more side on of export. Now as of now, I think the export is very miniscule or mainly negligible. Now those OEMs who are present in India. Do they ask you to supply to their production in other countries as well? And how much it is now?

- Rajesh Sharma:** Of course, we -- every OEM customers have their own CKD warehouses and departments. So all the products which they are exporting to other countries are buying directly by them, to their warehousing, they are exporting directly to their subjective companies.
- Amarnath Bhakat:** Yes. But do you also have some share?
- Arvind Chauhan:** It is difficult to give. But on some estimation basis Yamaha's share of the export is quite significant...
- Amarnath Bhakat:** Yamaha, TVS -- Suzuki.
- Rajesh Sharma:** Every company is exporting right now, but they are taking the material from us in their own names. And thereafter, they are exporting to their subjective companies.
- Amarnath Bhakat:** Okay. And just in previous participant question, you said that the capacity utilization is already at 80%. And if I see your capex incurring almost in the last 6, 7 years, we incurred a heavy capex, and your gross block reached to INR 941 crores. Now if as 15%, 20% growth, what you are estimating for the next few years, that means very quickly which you have more gross block and capex to be added. So can you get a sense that what kind of capex you're planning for the future, expect that INR 20 crores, INR 30 crores generally you spend, any major capex planning considering the growth outlook you are providing?
- Finance Team Member:** Yes. So we've already guided that INR 50 crores to INR 75 crores capex has been kind of already earmarked, there is work happening on that. That will definitely happen. Over and above that also, there are several opportunities, which we are exploring, which are more related to adjacent product lines or within our product line or within our customer base, what else can we do.
- Any of these that come up will involve a significant capex because there's a new factory and building all of it to be set up. So besides the INR 50 crores, INR 75 crores, there could be a large number. I think the situation will become clear by the end of this financial year on the full capex plan....
- Amarnath Bhakat:** So this INR 50 crores, INR 70 crores, I'm sure you are planning to fund through your internal accruals, right? You have that much of cash?
- Finance Team Member:** That's right.
- Amarnath Bhakat:** And anything bigger come, probably that is the time you think about some kind of a debt if the cash is not sufficient?
- Finance Team Member:** I mean, we can look at that. But as of now, our cash flows are such that we can fund those bigger plans as well. But I think it's important to be crystalized first in terms of the quantum before we make that call.
- Amarnath Bhakat:** I understand pricing is simply pass-through mechanism that whatever cost increase or decrease is happening till eventually it is passed on to the OEM. So I'm just trying to understand that in

case you guys are becoming effective or very efficient and you reduce the cost side compared to your competitors, how the OEM is going to recognize that fact? And if it is a cost-plus model. So if you're reducing the cost, they will always consider the reduced cost and plus your -- maybe some kind of an agreed margin and according to the sell price is fixed. I'm trying to understand how your efficiency in your organization is being recognized and as well as it is getting in terms of extra sales price from your OEM?

Rajesh Sharma: See, major point is because the raw material is well settle and raw material prices are being controlled for all the supplies by the customer only. Process costs because since we are working since long within this industry and product ranges, which are injection molding or other processes, which are being closely related with the lighting industries and our product industry are being well validated by the customer. And we have to focus on the customer specification, which is most important and prices are being converted based on that only.

Amarnath Bhakat: So if you're efficient for example, efficient on your labor side, you are efficient on your productivity side, I'm not talking about the raw material side. I'm only talking about the profit side. So if you become efficient compared to the market, and I'm sure you will, as you grow and your capex to increase how that will be coming to the revenue side? Because the customers generally very sticky in terms of giving the price at a fixed margin over a cost.

Finance Team Member: I think that efficiency is exactly what differentiates us, which is why we have industry-leading margins even for the product because that's not because we are getting anything different from the customer, but because we are able to manage our operations better.

Amarnath Bhakat: So that is how probably your margin are better than other that is reflecting that?

Management: Yes.

Amarnath Bhakat: Okay. And last one, probably. Inorganic opportunity, are you guys serious about looking into some of the inorganic opportunities available in the market or you are quite silent about it?

Finance Team Member: I think for us, the levers of growth are....

Moderator: Hello. Management is reconnected now.

Finance Team Member: Yes. Yes. Sorry, again, the line got disconnected. Please go ahead. You were asking.

Amarnath Bhakat: Yes, I was asking about this inorganic opportunity, you were saying something?

Finance Team Member: That's right. So on the inorganic, I mean, clearly, we are open. There are a lot of opportunities which we are seeing evaluating. But what will result into a deal, it's difficult to say. But I think clearly, we are completely open to what is happening in the market. And beyond that, the organic start also is good. However, I think we are in a position where if the market presents something interesting, we'll be happy to take it.

- Amarnath Bhakat:** You have a concept of kind of content per vehicle. I mean like other suppliers, they always have a kind of content per vehicle that whether that has been in an increasing trend, do you have some kind of a calculation like that?
- Finance Team Member:** So I think what you have to see is that we have kind of restricted ourselves in our -- this journey over the years around 2-wheeler there because we wanted to make sure that we are a leader in this segment, which we are. Now within this, opportunities, as you rightly pointed out, weather content per vehicle, which is what we said product efficiency or other areas, those are some things which we are looking at.
- Amarnath Bhakat:** Yes. But sorry, sir, this part is not very clear to me means I'm trying to understand the fact that as the industry grows as you grow to more and more customers, the product you manufacture and supply to them is that for each vehicle, if your product is going, change is going higher or it is stagnant or is going lower in terms of the per vehicle is supply. So for example, if you go to Yamaha or take anybody. So per vehicle year after year, what is supply for per vehicle that content value is increasing?
- Rajesh Sharma:** Yes, of course, if we see some conversion to LED and the technology, which is being implemented in Yamaha is, of course, increasing the overall value.
- Amarnath Bhakat:** So as it is growing, your content is also increasing. That is revenue per vehicle, what you're supplying to us, that is also increasing?
- Rajesh Sharma:** Yes, it's also increasing. Revenue per vehicle is also increasing because the revenue is increasing, the volume is increasing, it has increased on that area.
- Moderator:** That was the last question for today. I now hand the conference over to management for closing comments.
- J.K. Jain:** Thank you, everyone, for participating in the con call. I do hope that we have been able to reply all your queries adequately. We are available for any additional questions you may have. Thanks and good day.
- Moderator:** Thank you. On behalf of Monarch Network Capital, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.

Note: During the call, disruptions happened multiple times because of network connectivity issues. For sake of clarity, transcript has been corrected as per audio, post receipt from Chorus Call.