

Sansera Engineering Limited: Earnings Call – Q2/ H1FY22 **November 11, 2021**

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Host: Good Afternoon and Welcome everyone, thank you for joining today's Sansera Engineering Limited Group conference call. 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 the future performance and involve risks and uncertainties that are difficult to predict. Kind reminder that your line is mute throughout this presentation. If you wish to raise a question at the end, during Q and A session, you can either submit your questions in the Q and A Chatbox to the host and presenter or use the raise hand function on the Webex page. I will unmute your line and prompt you to speak. I will now hand over to our moderator, Kapil Singh: Nomura, Head of Consumer and Digital Commerce Research India and Lead Auto Analyst. Hi Kapil, please go ahead.

Kapil Singh: Hi Good Afternoon everyone. Thank you for joining this call today. From the management team, we have Mr. B R Preetham, CEO, Mr. Vikas Goel, CFO and Mr Praveen Chauhan, VP Operations. Sir, welcome and I hand over to you for starting the presentation.

B R Preetham: Thank you Kapil. Good Afternoon everyone. Just to introduce myself, I'm the Group CEO for Sansera, my name is Preetham.

B R Preetham: Happy Diwali and Prosperous New Year to all of you. We welcome and thank all of you for joining our first earning call post our listing. On this call, we are joined by our CFO Mr Vikas Goel, our Vice President Operation Mr Praveen Chauhan and team from SGA our investor relations advisor. We are happy at the overwhelming response to our IPO. We thank all our shareholders for reposing their faith in us. We welcome our new shareholders and congratulate every stakeholder of the company that is employees, customers, business partners, bankers, lawyers who made our IPO listing successful. Since this is our first earning call, I would like to give some background on our journey and how we got here. Can we put our presentation? Can we get the sharing rights?

So can you see the presentation?

Host: Yes Sir, presentation on screen. Thank you.

B R Preetham: Thank you. Sansera is an engineering-led integrated manufacturer of complex and critical precision engineered components. Diversification has been an integral part of our journey since the very beginning and today we cater to a large number of OEM customers across

25 countries with various products in Auto and Non-Auto verticals. We have 17 manufacturing facilities, which are equipped with high end machines, majority of which are built in house by our expert team. Our highly experienced and professional management team provides us with a key competitive advantage. We are further supported by an experienced Board of Directors with diversified expertise. Despite various challenges that Auto and Auto-comp companies faced during FY21, our company has been very resilient, and we were able to deploy our fungible facilities in the areas where we saw higher demand and delivered revenues of Rs. 15,724 million with an EBITDA margin of 18.8%. Our H1 FY22 performance has been very strong, and we recorded a revenue of Rs. 9,369 million with an EBITDA margin of 18.5%. Looking ahead, we have a very healthy pipeline in hand.

As a company, our vision is to continue to improve our market share and diversify segmentally with greater participation in customer value chain, competency enhancement through internal collaboration, partnership alliance and facility expansion. Today, Auto-ICE, Non-Auto and xEV Plus tech agnostic segments contribute 83%, 12% and 5% of our revenue, respectively. We are developing new business by leveraging current capabilities and with capex fungible. We intend to develop multiple technology driven systems and components to cater to growing opportunities in electrification of vehicles. Over the next five years, the company is targeting an enhanced revenue base with Auto-ICE contributing about 60%, Auto tech agnostic and xEV growing to about 15% and Non-Auto growing to about 25%.

We are one of the top 10 global suppliers for Connecting Rods within the light vehicle segment as well as there are commercial vehicle segments. For the year 2020, within India we are one of the leading manufacturers of Connecting Rods, Crankshaft, Rocker Arm and Gear Shifter Forks for Two-Wheelers and Connecting Rods and Rocker Arm for their passenger vehicle segment. Specifically, we are the largest supplier of Connecting Rods, Rocker Arm and Gear Shifter Forks for Two-Wheeler OEMs in India with the largest supplier of Connecting Rods and Rocker Arm to passenger vehicles OEM in India. We are a single source supplier in certain product categories for some of our key customers and for the remaining a majority source and we enjoy a long-standing relationship with several well-known Indian and Global OEMs.

Our promoter Chairman and Managing Director – Mr. S. Shekhar Vasan founded this company in 1981. We commenced our commercial production of passenger vehicle components in 1986 with supply of Rocker Arms to Maruti Suzuki. We then grew by commencing supplies to the Two-Wheeler Industry which turned into four stroke in around 1993 and then to Off Road vehicle segment in 2009. We set up a manufacturing facility dedicated to the commissioning of Aluminum and Titanium components for the Aerospace Industry in 2013. In 2017, in order to expand geographically, we bought a stake of about 100% in a company called Mape in Sweden which is now Sansera Sweden, which established a presence in Heavy Commercial Industrial and Marine Engine production as well. Further, we set up our aluminum forging alliance in the fiscal 2020, in order to cater to the growing opportunities in the light weighting of our vehicles. In our journey of four decades there has been a huge emphasis on diversification and going ahead we will continue on this path.

Coming to our product offering, in the Auto segment we cater to Global as well as Domestic OEMs across the Two-Wheelers, Passenger Vehicles and Commercial Vehicle space. In terms of current revenue mix, Motorcycles which dominate the two-wheeler space contributed about 37% to our top line in the first half of the year, Scooters accounted for about 10% of our top line, Passenger Vehicle grew to 28% of the top line and Commercial Vehicles accounted for 13% of the top line.

Within the Non-Automotive sector, we manufacture a range of crucial components for Aerospace, Off-Road, Agriculture and other segments like High-End Bicycles which also include engineering and capital goods. In our current mix of revenue, though Aerospace is seeing a very muted industrial activity, it is actually reduced from 4% to 3% in the first half, Off-Road has accounted for 4%, Agriculture has accounted for 3% and the remaining 2% is coming from Bicycles, Industrial Engines and also Stationary Engines.

Praveen Chauhan (VP – Operations): Our advanced capabilities in design and engineering, machine building and automation result in continuous new product development playing a strong foundation for our future growth. Last three years, if you see, have seen much more action with addition of a number of key product families in Non-Auto segment, EV and Technology Agnostic categories such as in Two-Wheeler EV parts have been developed, Aluminium Chassis parts and Suspension parts. Similarly in passenger vehicles, we have added Hybrid parts, Steering parts, Braking System parts and a lot of Drive Train parts. Our varied product offerings have enabled us to cater to multiple sectors and customers, enhanced our ability to attract new customers. We have relationships spanning 10 years or more with 12 of our top 20 customers. Within India, our customers include buying out of top 10, Two-Wheeler OEMs and leading Passenger Vehicle OEMs. Globally, our customers include six out of top 10 Global Light Vehicle OEMs and three of the top 10 Global Medium and Heavy Commercial Vehicle OEMs.

B R Preetham: Engineering has always been in the DNA of the company. So, if we have to divide our engineering activities into three verticals, the first one will be Product Engineering, second one will be Machine Building and the third one will be Automation. As the component industries evolved, we've also evolved in our capabilities. Initially we used to only make components for print, now we have evolved into a position where we are co designing the component along with our customers. So generally, how this works is, now for the competent suppliers, the customers actually give a statement of requirements which actually only indicates critical dimensions, functional dimensions, so the responsibility of designing the whole component, keeping the manufacturability to focus is on us. We do that and along with that, after that we also validate our designs through a film analysis.

Now we have actually put up a facility for actually validating or testing our components through Fatigue Testing Machines. This not only enhances our capability to co-design the components with our customers for catering to their increased demands and then, also participate in localization of or validation of the new age materials, which are used more and more to reduce the weight and increase the strength. This is one of the key strengths of Sansera, where we are

being able to get a heads up on the new projects where we are participating in the design at the earlier stages of the design itself.

The second and very important aspect of our engineering is the Machine Design capability. There are three distinct advantages of this machine building capability. We have built more than 900 CNC machines, which are working across our 17 plants. These are not standard machines, these are highly modular and fungible and highly capable machines including transfer lines.

There are three distinct advantages in our machine building activities. First and foremost is **cost competitiveness**. In most of the cases our machines are less expensive compared to any of the comparative domestic or imported machines that are available, Second, they are **lean**, which means that we have an advantage in our operations and third and the most important aspect is that we can actually **build it much faster** than what we can procure. So, in this time of uncertainty is when the opportunities come to cater to a new requirement in a very short time or enhance the share of business or enhance the products to our customers. In fact, it gives us a significant advantage in having such machine building capabilities. Coming to automation, in the last few years as the technology is moving up, the precision levels of the components are also going up. So this actually demands for us to increase the repeatability and reproducibility and also added to this, is also the lack of availability of the skilled manpower. So, keeping this in mind, we have started an automation division a couple of years back and our in-house automation teams have actually now deployed more than 130 automation systems across our plants, which has been helping immensely in our journey into the future.

Praveen Chauhan: We have leveraged our design engineering machine building and automation capabilities in our existing product facilities to optimize cycle times to plan our personal needs and enhance productivity at the same time. For example, in the case of our Fracture Split Connecting Rod lines which happens to be the flagship production in our product categories, we are able to utilize our automation capabilities to reduce the number of manual operators per shift per line from 23 way back in 2010 to 8 in 2019. Over this period, we have developed six mass production lines on the connecting rods. So, this is an improvement of almost around 65%. Productivity of these lines at the same time has increased from 4,200 per day way back in 2010 into today's standard 5,200 which is close to around 25% improvements. So, both productivity and manpower reductions have been possible by virtue of our strong engineering and automation teams. Further, we have developed similar manufacturing lines for our newly developed suspension products, reaping similar benefits in manpower and productivity.

Sansera today has 16 plants under operations across India, one in Sweden and one under construction in India. All our facilities are located in close proximity to the client production facilities to the extent possible. Our manufacturing operations are integrated across the product cycle with the entire manufacturing process being carried out in-house and coordinated through concurrent design and, machine building and automation divisions. These facilities are equipped with fungible production lines, fungibility is a very important aspect and we have been making sure that it has been there throughout. Besides that, there is an interchangeability in the capacity and these are capable of catering the product mix across all categories whether Auto or Non-Auto.

B R Preetham: We believe that we are very well placed to take advantage of some of the key trends the industry is witnessing. From the last few years, we have been focusing on technology agnostic and Non-Auto sector aggressively. We will continue to strengthen our product portfolio with technology agnostic products within auto and non-auto space. The company has a vision to broaden its revenue base in the long term with technology agnostic components including xEVs, contributing a much larger share of the revenue pie.

Towards this, we are following a multi-pronged strategy. We are aiming to unlock new market segments and develop multiple technology driven systems and components to cater to the growing opportunities in the EV segment. We are in the process of setting up a dedicated facility for both hybrid and electric components in one of our current plants and we expect this facility to be commissioned during fiscal 2022. While we say this, most of our components or most of our capacity is fungible, a cultural change is required for producing this new age technological components like EV and Hybrid components. The reason for us to set up a new dedicated facility is to inculcate this culture into the new facility which requires higher precision as well as cleanliness.

Sansera has also identified select high growth business segments to diversify our addressable markets and develop new business by leveraging current capabilities and with Capex Fungibility. We have focused on making products which require high material performance and special material properties and technological expertise for various segments, like the new age components that are coming up in high-end bicycles that require low weight and high strength materials.

Similarly, we have opportunities in Aerospace in this field as well. So, we have an active pipeline of products and the development including the components for all these segments. We plan to construct a Greenfield manufacturing facility in Bangalore, dedicated to Aerospace and Defense and we expect the construction of which has already started, and we expect this facility to be commissioned during the next financial year. This will also cater to the growing need of the defense component with the defense sector being privatized in India, there's a lot of opportunities that are coming our way. So, we expect that by the time we complete this facility and get ready to the production, we would have substantial orders from the defense sector as well.

Sansera focuses on providing high-end value added and technology driven components to capture shifts in customer preferences as well as evolving regulatory requirements, such as heightened emission control standards. Further this would increase the opportunities for us to become a preferred supplier to our customers and consolidate our position. To enhance our capabilities, we have undertaken a number of initiatives, few of which have already been said, we have recently secured business for multiple Drive Train components specifically for Hybrid Evs from a leading global passenger vehicle OEM. We expect to commence the supply of these components in the next financial year. We have commissioned a new Fatigue Testing Machine as I said it enhances our ability to analyze and enhance the product reliability, durability and performance. We have added 5-axis Machining Capabilities in our Aerospace for large

components which is used for machining large structural components for both Aerospace and Defense, Commercial Aerospace and Defense, both in Aluminum and in other precious metals like Titanium.

We have recently started machining engine casing for a LEAP engine component for one of our customers in this facility. We have also commissioned Aluminium Forging Lines complementing our existing Steel Forging and machining capability, which we believe will make us well positioned to capitalize the growing demand and increasing need of components that are lighter in weight and environment friendly as OEMs try to reduce their ecological footprint of their vehicles.

Praveen Chauhan: Going forward, we have a very strong diverse business pipeline with 213 Letter of Intents / purchase orders in hand from 43 customers in the Auto segment and 25 customers in the Non-Auto sector. There have been significant order wins across Auto EV, Auto Tech Agnostic and Non-Auto Sectors besides the legacy parts. This slide showcases a few key order wins in three focus areas, as I said xEV, Tech Agnostic and Non-Auto. Just to talk about a few critical ones out of these in auto EV section, which has been a very focused area, an emerging area, we have been able to, in two wheelers section, win orders for suspension and Drive Train parts for new age e2W Scooter OEM, Drive Train parts for e2W for European OEM, the Rotor parts for new age e2W Motorcycle OEM. Similarly, the passenger vehicle category, Drive Train components for Hybrid Passenger Vehicle for big Japanese OEMs, Power Train components for Hybrid Passenger Vehicle for European OEMs and Commercial Vehicles. Similarly, Drive Train components for leading BEV OEM. In the Auto Tech Agnostic areas, we have been able to get a huge traction in Aluminium forged components from the European 2W OEMs, Suspension Parts, Braking System components for Passenger Vehicles, Chassis components for Japanese OEMs, Steering components, Wheel-Hub components for Commercial Vehicles and so on and so forth. Similarly, in the Non-Auto sector, we could have traction from Aerospace, Defense, Agriculture, very importantly high-end bicycles and a lot of industrial components.

Vikas Goel (CFO): I would now like to take you through the Operational and Financial highlights of the company's performance during H1 of FY22. Turning to the business performance, this has been a very eventful year as we all know, starting with the second wave of COVID in the first quarter, though our production was not much impacted during this phase with our facilities running at optimal capacity levels. We registered a strong revenue growth of 63% in the first half of FY22 over a lower revenue base as compared to the same period last year. These very positive business trends have also reflected in the financial performance for our company.

The total revenues of the company stood at Rs. 5,418 million for Q2 FY22, as against Rs. 4,339 million for Q2 FY21, a growth of 25% year on year basis. On a half yearly basis, total revenues stood at Rs. 9,369 million as against Rs. 5,757 million in the H1 FY21, a growth of 63% on a year-on-year basis. In Q1, Domestic revenues were impacted with the second wave of COVID. This was supplemented by a continuous flow of export revenue, which actually improved the sales mix in favor of exports. In Q2 the domestic volume witnessed partial recovery, however, further recovery was muted due to chip shortage. Overall, in this half year, the growth was primarily led

by a shift towards exports along with the increasing number of products and applications, addition of new customers and an increase in share of business for existing customers.

EBITDA stood at Rs. 1,088 million for Q2 FY22 as against Rs. 984 million for Q2 FY21, a growth of 11% on a year on year basis. EBITDA stood at Rs. 1,732 million for H1 F22 as against Rs. 865 million for H1 FY21, a growth of 100% year on year. Higher raw material prices in the current period along with the reversal of salary cuts that we had during the previous year led to a small uptick in the operational expenses in the H1 FY22. EBITDA margin for Q2 FY22 stood at 20.1%.

EBITDA margin for H1 FY22 stood at 18.5%, primarily owing to the impact that we had in the first quarter. Our Q2 EBITDA margin reflects a performance during the relative stable period with further scope for operating leverage as we move forward.

The company reported Profit After Tax (PAT) of Rs. 518 million in Q2 FY22 as against Rs. 468 million in Q2 FY21, a growth of 11% year on year. In H1 FY22 the company reported Profit After Tax of Rs. 706 million as against Rs.120 million in H1 FY21, a growth of 487% on a year-on-year basis. During this period, we also incurred Capex of Rs. 1,238 million to augment our capacities and get ready for growth in line with the order book that we have in hand.

In terms of operational highlights, geographical spread of H1 FY22 stood as follows: Sales to customers in India stood at 62%, Europe 24%, in North American markets 11%, and other foreign countries at 3% of the total revenue.

In terms of segment mix for H1 FY22, Auto-ICE contributed 83% of total sales, Auto Tech Agnostic and HCV contributed 6% and the remaining 11% came from the Non-Auto segment.

With this we conclude our presentation, and I would like to hand it back to Mr. Kapil Singh of Nomura for further proceedings. Thank you.

Host: Thank you very much to the management for the detailed presentation. We are now starting the Q & A. To raise the question, it is a reminder, please submit your questions in the chat box or you can use the raise hand function in your bottom right Webex page. I will unmute your line accordingly. Please note that we would like you to request to keep the question to a maximum of two questions for each participant. If you have more questions you may return to the queue. Thank you.

I will now start asking the first question from Nitin Arora. Nitin your line is unmute, please go ahead with your two questions.

Nitin Arora: Hi team, thanks for taking my question. My first question is on the new order win or the new peak revenue, what you talked about. So, if you can throw some light, how long does this peak order take to achieve? Is this all incremental? And the other part of the first question is you

know what kind of a margin profile of these new orders and the ROCE. That's my first question and then I'll have another question after that.

B R Preetham: Thank you Nitin. Just to tell you this, we have taken all orders LOIs and purchase orders that we have received since April 2020 for computing this number. Now, most of these are, a very very few of them have just started some production, but the revenue contribution is very insignificant. This is the first thing, and none of these components would be of any replacement components. So, this would only mean that all this would be the incremental revenues to our existing business. Now coming to when we say Peak Annual Revenue, generally in our kind of business, the business lasts for about 6 to 7 years in a normal program, the first two years would see a ramp up phase generally 30% in the first year, 60 to 70% in the second year, and from the third year onwards, this is a general cycle, there could be exceptions. The 3rd, 4th, 5th and 6th years generally run at the peak order position. So, when I say peak order revenue for a particular year which would really mean from 3rd to 4th, 5th and 6th year, this will generate this kind of revenue. And most of these are peaking out at a different period starting from last year. Some of them would have just started now and going up to the next year. So, this would be a rolling mix. So once the products get into full production, we would remove it from the list and add the new LOIs and POs.

Nitin: Sir, what kind of a margin profiling on these orders and the ROCE Profile.

B R Preetham: Generally, Sansera from the beginning there has been three specific requirements for selecting our products. One is it should have engineering value addition to the component, second one is it should be scalable and the third one is that we look at a ROCE mix of between 18 and 20%. Any of our selections generally falls into this category of margin be it EV components or Technology Agnostic components or our own Traditional components. Of course, there are some exceptions where strategically we would take components even up to about 15% ROCE, but then generally this is how we follow. So, most of our components would fall into this category of.

Nitin: Thank you, got it, helpful. My second question has three parts. One, if you can throw some light on the chip shortage, how much shortage you had in Q2 and how much we do expect in Q3? And the second part of the second question is that you know we are seeing you know what I've been following with a lot of industrial companies globally, they're really falling short of machines in the capital good space when we look at to Cummins global or companies like Siemens globally. We make machines, do you see any competitive advantage here in terms of getting any business opportunity? That's the second part of the question. And the third, if you can throw some light on what's driving this growth of 50% in exports, you think it's kind of sustainable going forward given the backlog we have. Sorry for asking three and then the 2nd part.

B R Preetham: Nitin, yes of course like everybody in the market we were also impacted by the chip shortage. One of our major Passenger Vehicle customers - Domestic customer, had an issue of chip shortage. So were the premium vehicles in the Two-Wheeler Vehicle as well. We had a little, not a significant effect, but a small effect even in our export orders during the Q2. So, if I

have to quantify what was the quantifiable order that we thought we would have lost due to chip shortage in Q2 would have been, roughly around 8 to 10%. So, we could have probably done about 8-10% more on our revenues in the whole quarter if the chip shortage would not have been there in Q2, but the effect on Q3 seems to be slightly more because we are seeing at least in this month and the next month, there are some export orders getting shifted. So, there is some uncertainty on that. Though the domestic position has been slightly improving. So, we still see that there would be an effect on Q3 as well. So, that is the question. I mean the first question. The 2nd part of your question was pertaining to machine building. Now, these are very specific machines, the infrastructure that we have created for machine building and automation is to support our own facilities and there's a lot of technology also built into this. As you rightly said, you know, the machine building industry today, if you really look at the order positioning. So, we have been getting orders for the Aerospace, in Defense, where we also buy a lot of imported machines which are high-end. Today, the demand for the machines is such that people are talking about 10 to 12 months of delivery for a standard machine, not even a tooled-up machine. So going forward though, the auto industry chip shortage may ease up and pent-up demand will catch up and there would be a lot of pressure, the machine and the capacity enhancement could become a challenge if companies are not cautious and forward looking. So, we have not actually done anything to slow down and neither our machine building activity nor our procurement plans, because we strongly believe that once this chip shortage is over, the demand will come back much more strongly, where in case, in our capacities are not in place because we are a single source or a majority source for most of our customers, we would be actually in trouble. So, we are going ahead with our plans, but catering to the outside requirement as of today, our infrastructure is built for catering to our own demands, where our order position for our machine building division goes up to almost one year to one year two months. So, I don't think we have any immediate plans. But of course, as a capability, there is a possibility that we could look at it.

Nitin: Thank you very much sir, I will come back in the queue.

Host: Thank you. I'll now hand over to Sid Bera. Please go ahead with your question.

Siddharth Bera: Thanks Deanna, and Congrats to the team for a good set of results in the quarter. Sir, my first question again, I will start from the order book. First, wanted to understand generally how does the amount of order wins, in a year we get? Because why am I asking, this is because, EV is sort of a new opportunity and some of the new orders can be lumpy in nature. So I just wanted to first understand generally based on experience how much order wins do we generally get in a year and the second part of the question is again on the EV side. What will be the kit value for a model in the Two-Wheeler side we can supply as of now. And based on the parts we are doing or do you think that can increase further going ahead?

B R Preetham: I'll let my colleague Praveen answer this question.

Praveen: Thanks Sidharth for asking the question. On the order win we had given a figure of Rs. 12.5 billion, as of now which is going to be the annual peaked out matured volumes which as B R Preetham said this can happen from next year or a couple of years later. This is a cyclic thing.

On the new order wins quantifying is quite difficult but then I would rather say that we have been having very aggressive plans in the past also. We have proved that we have grown quite well and much higher than the industry. And we continue to have those aggressive plans to grow. So, beyond whatever is the industrial growth, we know what the industrial growth had been, domestically and internationally. All that growth difference has been coming out of the new wins only. So that's a very strong new win acquisition trend that we have and going forward with all these new emerging technologies, that is one part of the electrification part and our diversification plan into Technology Agnostic parts and Non-Auto segment. I think our new order win would be much more aggressive. On the kit value, just to put some numbers, talking specifically of a scooter which is more imminent adoption we'll see over there. Our first one single win, one single model, If you talk about versus the ICE engine, we have been able to acquire around 10% higher than the ICE engine content that we have currently in the best customer category. So, EV had been much more promising, and I think on the addressable market, we feel that it would be another 3-4 times what we have already acquired. Since traction continues, we have been having a lot of inquiries and a lot of interest out of customers both domestically and internationally. So, I think going forward we have a very interesting journey.

Siddharth Bera: Okay Sir, thanks.

Host: We have a question in the chat box from Abhishek. The question is, it would be great if you can provide revenue and EBITDA margin guidance for FY 2022. Also, your Capex guidance for 2022 and FY 2023. Thank you.

B R Preetham: Thank you, Abhishek. We would refrain from giving any specific forward-looking guidance both in terms of revenue as well as in terms of EBITDA, but what we can say is we have a very strong order book and a good traction to ensure that our growth will be higher than the industrial growth. And as far as the Capex is concerned, what I would like to say is, this year as declared in the prospectus, we have plans to spend close to about Rs. 250 crores for the capacity expansion. In the next 3 years including this year, our distribution of Capex, I would put it across that, about 25% of the Capex, it would follow a similar trend in the next 2 years as well to the current year and the distribution if you consolidate the next 3 years Capex would be, 25% of this Capex would be targeted towards existing legacy components. About 60% of the Capex will go towards xEV and Non-Auto Technology Agnostic and Non-Auto business. About 15% of this Capex will go towards enhancement, technology enhancement and maintenance Capex.

Host: Thank you. We now go to the last question from Nishant. Nishant, your line is unmute. Please go ahead, two questions.

Nishant: Thanks for the opportunity. So, hi everybody. Good day. My first question is again back on the order book and it's interesting to see that the breakdown of the incremental order book that you're saying is significantly different to your current mix. Obviously, there is a much higher share of the agnostic EV portion as well as Non-Automotive. So can you throw some more light into what is driving this significant change and is this more from a concerted strategy pivot that you guys are making or you're basically seeing some kind of export tailwinds becoming much stronger,

some China plus themes becoming much stronger. So, can you shed some more light into this mix change?

B R Preetham: Yes, Nishant, I'll take the first half of the question then probably Praveen can continue the answer. Yes, of course. This has been from the last 2-3 years, as we have also said that we have been focused more on diversifying into technology agnostic components as the industry is growing, progressing towards changing technology and none of the technologies are still yet to be, nobody is certain which technology will be prominently used. So we still believe that all technologies will have an equal role to play in the future. So, we have focused on Technology Agnostic components. Here you know, earlier the kind of components that we were in and we were focused on, was mostly in the engine and transmission category of components. This was a conscious effort and decision that we had. Last 3-4 years, we have made a company-wide strategy has been to look at beyond engine and transmission and to our benefit as the technology is also changing because more and more safety requirement, progressing towards higher emission norms controlled engines, so our opportunity to participate in other than engine and transmission components, which falls into precision engineering category has also been enhanced. So there's a lot of components which are now being thought, which were earlier being looked at more proprietary or now are falling into a more precision category. Just to give you an example, one of the components that we have taken up in the last few years have been on the suspension of the, say Two-Wheelers when the scooters were mandated because of the change in crash test to have a similar suspension to the motorcycle, so we started making stem comp steering. This was also strategically important because going forward, we see there's a lot of these that will get converted into Aluminium Forging. So, our choice of components has been very specific. So in order to say, how this has helped us to increase, I think I'll hand it over to Praveen, who can probably throw more light on why the mix is getting changed.

Praveen Chauhan: Nishant, I think as B R Preetham said that and in one of the slides we also talked about is that this diversification journey had started about three years back and I think every year that has passed through the aggression on the diversification has been giving us fruits. In that slide we talked about how from 83% right now which is pure ICE, we will be reducing that dependence to close to less than 60%. So that aggressive change alongside our aggressive growth plans I think the numbers would be huge and this is exactly visible in our order book right now. We are talking about close to 48% coming out of the basket of xEV, Technology Agnostic and Non-Auto. So, there are a couple of things which are happening. One is of course there is a strategic change and our approach towards, Non-Auto and Technology Agnostic. Now the EV segment by virtue of emission norms, stringent emission norms, emerging emission norms, China Plus and all those things are opening up newer segments which we're certainly trying to acquire. At the same time, we see the precision content into all sectors whether it is Non-Auto segment or Technology Agnostic, is increasing. And there it opens up an opportunity for us to enter and we are very cautious and careful to not let go of any such opportunities. But, as we said that we will have to look at every product that we take out, in the prism of three things, one is, it has to be pure engineering good value addition part, it has to be scalable going forward and we will not compromise on our ROCE level in that. Nishant, is it answered?

Nishant: Thanks for the detailed answer. Well my second question is obviously a continuation of this strategy. So obviously you've done capital investments over the last few years since FY19 and some of that obviously asset sweating is likely to come in. However, it is quite interesting to see that your presentation slide deck refers to the first half Return on Capital actually already higher than FY19 Return of Capital which was potentially a sales drop year. So, is it fair to assume as asset efficiency improves that the threshold of Return on Capital should comfortably surpass 20%, as you start asset sweating over the next 2 years. So, what are your thoughts around the return on capital trajectory being materially higher than your previous cycle peak?

B R Preetham: Yeah, Nishant. It is not fair to compare the last full year ROCE, because the ROCE, that has represented for the last year, it was actually a result of only about 9.5 months of production. So, if you realistically look, it would be in similar lines to what we have done in H1. But as a company, as you rightly said that, because the kind of components that we are in and our positioning in the industry where we are almost a single source or a majority source for most of our customers, some portion of our Capex will always have underutilization depending on the sector like, last year Aerospace and Scooter sector was not doing very well, so their utilization in those two. But our advantage is that since our capacities are fungible and within a short-time we can redeploy it with a very minimum cost or absolutely no cost at all. So that gives us an advantage to cater to any of the sluggishness in any of the sectors as well as cover for an increased demand in whichever sector is doing well. So, in the last three quarters we have been able to deploy our assets which have been underutilized in Aerospace and Defense to auto components. Yes, as a company we have a target that we should surpass the our peak ROCE in number in this year as well as the years to come.

Nishant: Thank you.

Host: Thank you for your question. We have the next one from the chat box from Praful Kumar. The question is, can you comment on EV focus capability and a few customers, prospective customer. Thank you.

B R Preetham: Yes, prospects of EV, we are very excited. As you are aware that we have been fairly awarded with a lot of awards from both international and domestic customers in the segments in which we operate including the Aerospace sectors. So, there is a lot of goodwill for Sansera among all our customers, so we leverage that we work with our customers to get into newer components which includes their EV platforms. Now I would refrain from taking any customer's name. We've already acquired in the space of e2W, we have been working and acquired orders from 3 EV Manufacturers, Two-wheeler manufacturers. We are also in very active discussion with a few more, which in the subsequent months, we are very confident of closing this. As far as the Passenger Vehicle is concerned, we are already, as we have shared in our presentation, we have secured orders for Pure Hybrid components including Rotor and Motor shafts for a very prominent Japanese Global OEM as well as a few other Global OEMs, with whom we are working on Hybrid platforms. Our component, as Praveen has explained during the presentation, is the most prominent EV company in the world, components are under some evaluation on one of their platforms. So, we expect that there will be a lot of traction in the coming

period to get into more and more components with our existing as well as new age customers for EV as well as pure battery EV as well as Hybrid vehicles.

Kapil Singh: Sir, this is Kapil, just on this EV aspect one thing I wanted to understand when we are looking at these global orders for EVs or Hybrid parts, what is the level of complexity, how much stringent tests do they undergo? How difficult is it to make these parts so that we understand your capabilities in terms of delivering these. How do you see yourself when you are lined for these orders?

B R Preetham: Kapil, as such, that technology is evolving so much faster and precision is taking to the newer level, even including in the Bharat stage 6 and Euro 6 components as well. The newer materials, very high strength materials are being used. This is no different in Hybrid and Electric components where higher torque is transmitted, so there is a requirement for higher strength material. And another thing is that at least in a very limited way, we have experienced that due to the lower noise levels that are expected out of this, there are more stringent geometrical tolerances that are given. And of course, the cleanliness standards are more, so all this is, that's why I said that we are putting up a new facility for Hybrid and EV components where you know the manufacturing facility per se or the machine per se are not very different to what we are. Ours is a fungible manufacturing system. But then culturally we want to build this. Similar thing we did, when we set up a facility for Aerospace because there again culturally it is different to the Auto components. So, this also we want to follow a similar strategy where we want to set up a separate culture for EV the Hybrid components which actually get us to the growing precision requirement of these components. So, it's not very different to anything that we're doing but requires much more disciplined and tighter tolerances as such.

Kapil Singh: Okay, and how different is the material science requirement? Is it changing or is it the same?

B R Preetham: It is changing a lot because newer and newer materials are getting. So, there is a pressure to reduce weight in every engine, whether it is ICE, whether it is EV engine, there is a very focused approach from all the OEMs to reduce. This also includes reducing the weight of the components used in IC engines as well. So, this is calling for the introduction of new and toughened materials which are much more difficult to forge as well as machine. So, our state of art forging facilities are very well equipped to handle such things. We have been exposed to newer and newer material almost on a regular basis with the customers, both domestic as well as international customers and one thing is significant advantages with our design validation capabilities and also testing capability. We have put up this Fatigue Testing Machine. We do Fatigue Testing for a lot of components for our customers to both validate the new designs as well as validate the introduction of new materials. So this will play a significant role in the years.

Host: Thank you. Thank you so much. We'll go now to the last question from Joseph George, Joseph your line is unmute please go ahead with your two questions.

Joseph: Thank you for the opportunity and congratulations on excellent numbers. I have two sets of questions. One is in relation to the new order that you have in your PPT where you refer to a number of Rs. 12.5 billion. Just wanted to confirm, Is any part of it included in the 540 odd crores that you reported for the second quarter? Because when I look at the notes, it says that the production may have started or may not have started. So, I just wanted to get clarification

B R Preetham: Joseph you're right. There are very few, very very small. It would have just started as a first batch and second batch the production would have just started but, a very insignificant number if you have to really quantify it.

Joseph: Sure, thank you. And the second thing I wanted to know was based on the existing Gross Block that you have, what level of revenues can be supported using that, I mean what level of annual revenues can be supported using that Gross Block.

B R Preetham: So, if we have to take our last year's closing Gross block, we believe that with an optimum utilization of 80-85% of OE, we should be able to easily cross about between Rs. 625 and 650 crores per quarter. This is a moving piece because you know continuously there is a Capex addition and the enhancement of capacity as well. So, if I have to refer to a Gross Block closure, that is why I said that keeping the last Gross Block as a benchmark.

Joseph: Absolutely, thank you B R Preetham. And just one suggestion, so in your PPT you have given the breakdown of revenues, split into Non-Auto and within Autos into Two-wheelers, Motorcycles, Passenger cars etc., for the first half. Would it be possible to share it on a quarterly basis and maybe going into the third quarter, if you can similarly give quarterly numbers instead of YTD if possible, if you can share for 2Q on this call, it would be great.

B R Preetham: In future start trying to accommodate it in our presentations quarterly.

Joseph: Possible for you to share it for Q2?

B R Preetham: Yes, probably we will try. So, your question is on the Q2 numbers, how much was it for technology agnostic?

Joseph: So basically, would you be able to give it now on the call?

B R Preetham: Yes, I'll give it. Give us a couple of minutes probably before we end the call, I'll give you.

Joseph: Perfect, thank you. B R Preetham. That's all from my side.

Host: Thank you. We'll now go to Anirban Sadhu. Anirban are you able to speak up for your question?

Anirban: Yeah, good afternoon everyone. I would like to thank the management for this wonderful stellar performance in the last quarter. I have basically three questions for the management. The very first question is that, as far as I understood from the financial numbers and the projections, we are expecting 15% of the revenues in the future to come from the EV segment, right? From the xEV segment. So for that like are you expecting some higher margin percentage? Maybe the profit margins should be quite higher than the normal figures now with the current portfolio products.

And the second question is whether like the components which would be there in the EV segment, those are mainly similar to the current components, like the transmission components and all or whether they would be completely new portfolio of products. And the third would be whether you are looking to bundle some other products, like smaller products from the local OEMs, Non-China OEMs and export them at premium prices along with your products.

B R Preetham: Thank you, Anirban. So, just to correct you, the 15% is not only coming from xEV, it would be xEV plus Tech Agnostics. So I think that is where we're coming from, where our expectations and what we have considered the growth trajectory. If it is anything different and it's going to be much more aggressive, that will be slightly different otherwise, on the normal projected by all the industry experts and this thing we have considered that and it would be xEV plus Tech Agnostics will be about 15%. So, while we say that the margin profile would not be very different to what we are already there because this is a highly competitive industry. So, everybody competes for space in this. With limited paths that are available, So, we have to be competitive, we don't see any premium margins, but we will maintain our margins and try and, grow it by whatever range that we have been focusing on. So that is on the margins.

Second one is that our technology in the Two-Wheeler space, especially in the Electric Two-Wheeler space, is very evolving as of now, it's not that, unlike in the Passenger Vehicle where Hybrid and Electric Vehicles have been present with this thing, that technology in the powerful Two-Wheeler EV is still evolving. So, there's a lot of design iterations that are taking place in this. So, it would not be very, to say how different it will be from the existing component. We are adapting ourselves to the changing needs of this thing and it's not been a very long time since we are there, also the industry. So, I expect a lot of optimization in design and things to happen in the next couple of years. This is where we have a lot of advantage because you know the product development cycle for evolving technology actually is very very short.

So generally, when you get a normal production, you know product development cycle of say 14 to 16 weeks in any of the ICE components or Two-Wheeler or a Passenger Vehicle, here because of the evolving design, you know the time is very short and the ramp up phase is going to be very very fast. So these two are the areas where we think that we can have an advantage and we are well positioned because one is our facility is fully integrated right from tool designed to tool manufacturing, forging, machining special treatment, all these are done and controlled in-house. So we could deliver it much faster as per the customer's expectations. Second one is also ramping up can be much faster because a lot of machines are our own in-house. So these two will give us an advantage to position ourselves well in this industry.

Anirban: Thank you. So that was great to hear.

B R Preetham: Joseph, if I have to say that for the Q2, ICE was 82%, Technology Agnostic was 7% and Non-Auto was 11%.

Host: Thank you sir. I will now take the last question on the chat box from Priya Rajan. The question is what is the commodity cost inflation benefit in 2Q revenue growth. Thank you.

B R Preetham: Benefit of commodity growth in Q2 revenue. See generally for us with our product mix 10% increase in steel prices would amount to about 1% increase in our reduction in our Gross margin, similarly 1% increase in our topline revenue.

Vikas Goel: So, approximately since the steel prices have undergone a drastic change in the past four quarters and we have a pass-through arrangement with our domestic customers. Yes it has an inflation impact in our revenue about 3 to 4% would be the impact of this inflation in the revenue which is non volume related. Was I able to address your question?

Host: Thank you. We are at the end of the session right now. I think we overrun for five minutes. I would like to invite the management for a quick closing remark.

B R Preetham: Thank you. So at Sansera we aim to diversify our business to the direction where the economy is moving to. We are expanding our customer base and product portfolio side by side, maintaining long standing relationship with our existing clients. We have been recognized with numerous awards by our customers for the quality of our products. We are developing new business by leveraging current capabilities and with capex fungibility. We expect to yield a benefit of the PLI scheme announced by the government, especially for our new EV facility at our plant in Bangalore. We are confident about our journey into the EV space as we have already secured orders from the new age startups as well as traditional OEMs who are venturing into the EV space as well. We are committed to build a well insulated business and in the mid to long term, our Non-Auto and Technology Agnostic segments are expected to grow at a much faster pace as compared to our Auto Segment as indicated in that presentation. So with this, I conclude this call. If you have any further queries, please contact SGA, who are our investor relationship advisor.

We thank the Nomura team for organizing this call. Thank you everyone for joining us today on this Earning Call.

Kapil Singh: Thank you. Thank you sir. And I thank all the participants for joining this. Deanna, we can close the call now.

Host: Thank you management for joining the session. Thank you so much. Thanks