"Sansera Engineering Limited
Q3 and 9M FY2022 Earnings Conference Call"

February 08, 2022

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Moderator: Ladies and gentlemen, good day, and welcome to Sansera Engineering Limited Q3 and nine months FY2022 earnings 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 future performances 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 pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. B.R Preetham – Group CEO – Sansera Engineering Limited. Thank you and over to you Sir!

B.R Preetham: Thank you Aman. Good morning, everyone. Happy New Year. This is the first call that we are doing after this New Year, so Happy New Year to all of you. Welcome and thanks for joining this call. I hope everyone is safe and healthy.

On this call, I am joined by our CFO, Mr. Vikas Goel who is with me here in our Bengaluru plant and I am also joined by our Head of operations - Mr. Praveen Chauhan who is dialing in from our Delhi office and we have our Investor Relations advisor, SGA team on the call.

The results and the presentations are uploaded on the stock exchange and company website. I hope everybody has had a chance to look at it. To begin this call, I will give you a quick snapshot of our company and then we will walk you through some of the recent developments and our operational and financial performance.

Sansera is an engineering-led integrated manufacturer of complex and critical precision engineered components. We cater to a large number of OEMs across 25 countries with various products in both auto and non-auto verticals. We have 17 manufacturing facilities equipped with high-end fungible machines, the majority of which are built in-house by our own team of experts, so, as of date, we have very close to 1,000 machines of our own. Our manufacturing operations are fully integrated across the product cycles with entire manufacturing processes being carried out in-house and coordinated through concurrent design, engineering, machine building and automation divisions.

We are one of the top ten global suppliers of connecting rods within the light vehicle segment and one of the top ten global suppliers of connecting rods within the commercial segment for calendar year 2020. Within India, we are one of the leading manufacturers of Connecting Rods, Crankshaft, Rocker Arm and Gear Shifter Forks for two-wheelers, Connecting Rods and Rocker Arms for passenger vehicles. Specifically, we are the largest supplier of Connecting Rods, Rocker Arms and Gear Shifter Forks for two-wheeler OEMs in India. We are the largest supplier of Connecting Rods and Rocker Arms for passenger vehicle OEMs in India.

On the EV front, Sansera caters to both traditional as well as new-age start-ups in India and internationally and as we speak, we are also expanding our presence in this EV segment in a much faster pace than what we had initially expected.

We are a single-source supplier in certain product categories of some of our key customers and enjoy longstanding relationship with several well-known Indian and global OEMs.

We have relationships spanning ten years or more with 12 of our top 20 customers. Within India, our customers include nine of the top ten two-wheeler OEMs and the leading passenger vehicle OEMs. Globally our customers include six out of the top 10 global light vehicle OEMs and 3 of the top 10 M&HCV OEMs. We have also now added five of the Indian two-wheeler OEMs in the EV space and another three of them are in the verge of finalization.

With this brief of the company overview, let me now move to some of the recent developments and our performance in the last quarter.

To begin with, I am thrilled to share that Sansera has been selected as "General Motors Overdrive Award" winner in General Motors' 30th Annual Supplier of the year awards. Sansera is receiving this Overdrive Award for Launch Excellence of development and support of 6.2 litres small block connecting rod for full size truck engines.

Just to give you some background about this component, this was being supplied by an America based supplier to General Motors to their US / North American operations, the supplier went into financial trouble and had to scale down or close their operations, so they were looking at some supplier who could quickly develop and ramp up for the full volumes and we were selected as the supplier for this connecting rod and within a very short span, we not only developed this connecting rod but also fully ramped the production, so in recognition of this effort GM has selected as one of the recipients of this year's award, this award ceremony will be held in Phoenix, Arizona on March 15-17. This is a global vendor conference of General Motors and our company will be represented by our Chairman and Managing Director, Mr. Sekhar Vasan and Mr. Singhvi – our Joint Managing Director.

This annual award highlights the global supplier that distinguish themselves by exceeding General Motors' requirements in turn providing GM customers with innovative technologies among the highest quality in the Automotive Industry. This award demonstrates the robust collaboration and valued partnership between Sansera and General Motors. This paves the way for further opportunities for us with General Motors both in the ICE as well as EV space.

Also, this is testament of our deep domain expertise, we shall be able to expand, with this we shall also be able to expand our global customers base and win more business. This will also give a boost to our plans of setting up a manufacturing facility in the US which is well as planned in the stages of doing site selection and then feasibility of the studies of various aspects.

Coming to some recent developments in the industry, the economic disruption of the pandemic and more recently, the severity of the semi-conductor shortage, rising commodity prices, and supply chain issues have been causing pressure on the automakers as well as auto component manufacturers.

Though still unpredictable, the chip situation is improving gradually. In fact, automobile wholesale continue to grow sequentially across the segments in January 2022 led by pent-up demand and relaxation of lockdown restrictions. We believe the medium-term outlook for the automotive sector remains positive despite near-term challenges, which I just mentioned.

The passenger segment, both for two-wheeler and four-wheelers is expected to remain strong amid COVID-19, as the preference for personal transport is increasing. A sequential improvement in M&HCV sales is expected to continue, driven by an expected rise in the e-commerce, agriculture, infrastructure, and mining activities. EV market, especially in two-wheeler, also continues to gain momentum. A slew of measures announced in the recent budget including battery swapping policy, creation of special mobility zones, will help enhance EV infrastructure and should propel the adoption of EVs in the country. We are very excited to be part of this journey where we are also gaining momentum.

Coming to our performance and some of our recent development, Sansera has delivered a better than industry performance with the revenue of Rs.4,868 million and an EBITDA margin of 15.6% despite multiple headwinds in the sector. Our performance in the quarter was supported by the new business. Our CFO, Vikas will talk about this in detail a bit later.

Now I will hand it over to our Head of Operations, Mr. Praveen Chauhan to continue this.

Praveen Chauhan: Good morning, everyone. Talking about the auto segment, our auto segment, which caters to global and domestic OEMs across two-wheeler, passenger vehicles and commercial vehicle space contributed to around 90% of the sales in Q3 FY2022. In terms of current sale mix if you want to talk about some of these, motorcycles which dominate domestic two-wheeler space contributed to 39% of our topline, scooters contributed to 10%, passenger vehicles around 26% of the topline, commercial vehicles accounted to 15%. We expect particularly commercial vehicle segment will benefit from this current CV upcycle in India and North America and Europe. Within our auto segment, Auto-Tech agnostic and EV products across all categories of two-wheeler, three-wheelers, passenger vehicles and commercial vehicles etc., contributed to around 6% of the total sales. These products are nascent yet very futuristic and hence strategic for our growth as also talked about by Preetham.

I would like to highlight that electrification of automobiles is leading to strong demand for the light-weighted aluminum coating having better strength in casting. We have already taken a big leap into it, and we see a lot of business coming through. Within the non-automotive segment, we manufacture a range of precision components for the aerospace, off-road, agriculture and other segments which improve in capital growths, bicycles, defense, etc. This segment contributed 10% of the sales in Q3. In our current sales mix which aerospace accounted for around 3% of the topline, this quarter was a bit dull due to continuing restrictions around to longhaul air travel; however, the outlook for this segment is positive as we are approved supplier to prominent aerospace OEMs and these OEMs are expected to ramp up their monthly production schedules considerably over the next two to three years. In fact, Aerospace is something which we keep hearing positive news from these OEMs on a regular basis. Off road accounted for 2% of the topline, there is a drop-in off-road contribution primarily due to chip shortage.

Agriculture accounted for 3% in the topline and the remaining 2% of the topline came from few other segments. Overall, our business pipeline for future growth is looking quite healthy with the addition of substantial new business in Q3 over and above INR 12.5 billion up to Q2 FY2022 which we have spoken about earlier in the last quarter. It is the multiple sectors in growth with client addition in both auto as well as non-auto segment.

Some of the highlights for Q3 business acquisitions are as follows: new business acquisition is in Q3 close to around Rs. 1950 million. These are matured annual volume whenever it happens over the next two years to three years. Exports, very interestingly contributed around 65% of this and domestic of 35%, so most of this business acquired is more oriented towards exports. xEV plus technology-agnostic plus non-auto which is a basket that we consider going forward would be important for our diversifications, contributed 49% of the business acquired in Q3.

With this, we have orders from five numbers of two-wheeler OEMs mix of both established and new-age ones. It is very important to say here that we have spoken about that over the next five years up to 2025-2026, we will be having around 40% overall coming out of xEV, Technology agnostic and non-auto. And this 49% acquisition is in line from the diversification and changes their business over a period of time. Very interestingly, aluminum forging which we have started three years back has been contributing big into our business diversification. In the last quarter, we acquired around Rs. 231 million worth of business from a European OEM. We continue to strengthen our share of business in Connecting Rods with the addition of close to around Rs. 80 million new business acquisition, which is very much in line with our global aspiration for this product category.

Now with this, I hand it over to Preetham for further details.

B R Preetham: Thank you Praveen. On the capex front, as we had announced during our IPO that our plans for this year would be about Rs. 250 Crores of capex and I would like to tell you that we are on track for this plan because none of our projects that was allocated or anything else, neither been delayed or not been cancelled, so we in fact are going ahead with this. The process of setting up at a dedicated facility for hybrid and electric components within our existing plant at Bengaluru has progressed well as planned. Few of the lines have already commissioned and the mass production of these have begun in Q4.

We have also filed an application under the PLI scheme for automobile and automotive component industry, the review of the same has already started. Further, as you are aware that we are constructing a Greenfield manufacturing facility in Bengaluru dedicated to Aerospace and Defense and government's initiative of opening of R&D defense for auto component manufacturer should benefit us in the long run.

Here, I would like to add that there is a lot of traction that we have got in the Defense sector, we have been able to add multiple customers and very, very critical components including the once for light-duty helicopter for components for HAL. I would like to mention here that our first Chairman Mr. S.S Vasan – Father of current CMD, who was also Radio Engineer at HAL so for our Chairman this Defense and working with HAL is very close to heart, so we have been very excited on this journey.

As a commitment towards the environment, we have further enhanced our tie up with CleanMax with 30 million units of renewable energy getting added to our Bengaluru plants from FY2023. Currently, excess of 50% of our energy requirement for our Karnataka plants is being met through renewable sources and with this addition, we will exceed 80%, ultimately our plan is to exceed 90% power purchase through renewable energy and on our lot of work is being done on ESG front also with multiple of our customers doing audits and also giving thumbs up for our efforts in this direction.

Now, I will hand it over to Vikas Goel, our CFO, to talk about the financial highlights.

Vikas Goel: Thank you Preetham. Good morning, everyone. Welcome to our Q3 and nine months performance in terms of financials. Our total revenues stood at Rs. 4,868 million for the quarter and which is 3% decline against the same period last year, which actually is a decline in the other operating income if we look at our revenue from the automotive sector, it was flat during this period as against last year.

Typically, we would have expected a growth in this but despite a reduction in the served markets, we have been able to keep this flat which is I think very, very encouraging for us. We also saw an increase and we have been seeing an increase in the raw material cost in the past few quarter, however, we were able to pass on these increases to the domestic customers immediately and in some cases these increases are being passed on with a lag to the OEMs approximately three month lag is what we are facing, so there may be some a bit of movement in those numbers.

If we talk about our gross margins, we had a decline of about 3.4% on a year-on-year basis for the quarter primarily three reasons for it; lag in the price increase as I mentioned earlier on domestic sale, numerator-denominator effect on the pass-through of the raw material prices also moved the needle to some extend because the cost and revenue both increase by the same values, so it impacts the margin percentage in an optical way. The decrease in operating income as I eluded earlier is the onetime effect for this quarter, the slight squeeze in the margin on the international revenues is due to higher raw material prices. In some of the cases, we use domestic raw material for our export customers, so we are not able to pass on, so this has a marginal impact on our margin for export business. Going forward, we expect this to correct over a period of time.

Our EBITDA stood at Rs. 759 million against Rs. 1043 million of the same period last year and the margin stood at 15.7%. The EBITDA margin drop was primarily guided by the fall in gross margin, as I mentioned earlier, and the employee cost increase due to salary increments given this year as well as provision for the ESOP costs that we accounted during Q3. This was partially offset by lower other expenses which we were able to optimize, and we believe going forward with the expansion in the volume, the operating leverage should kick in and we should be able to improve it.

The quarter also registered slightly higher finance cost due to an increase in the overall debt to fund some of the CAPEX. Though this was partially neutralized by lower interest rates which we have been able to negotiate from our existing lenders. Besides that, in case of the rupee-denominated export finance cost we had an increase due to the discontinuation of the interest equalization scheme by Reserve Bank of India during Q3 and we expect this to also get neutralized because now we are switching back to foreign currency denominated packing credit which basically will help us to neutralize this impact to a normal scenario as we move forward.

Profit after tax stood at Rs. 239 million against Rs. 506 million with the degrowth of 52% and it is primarily driven by the reasons which I mentioned earlier.

If we talk about the nine months performance, revenue stood at Rs. 14,237 million against Rs. 10,764 million which is a growth of 32% on a year-on-year basis and notably the automotive sector sales grew about 34% out of this.

The highest sales came from the passenger vehicle sector in this period, so basically on a longer period if we say, the more normalized period of nine months, the story credentials are intact as far as we see our served markets and our business. Our EBITDA also grew by 31% on a year-on-year basis for the nine months period and 17.5% versus 17.7% and we believe that going forward with the expansion in volumes and correction of some of the factors which impacted us during Q3 we should get back into normal range.

We incurred a CAPEX of about Rs. 180 Crores during this period of nine months which is in line with our commitments for growth plans to the customers, and we are on track to achieve or to establish capacities which we mentioned during the time of our IPO. In terms of the geographical sales mix, for the nine months period, India accounted for about 63%, customers in Europe at about 24%, customers in North American region about 10% which is a 3% increase against the same period last year which also indicates the growth of our business in that region, and it actually gives us immense confidence for the way forward.

On the debt front, total net debt stood at about Rs. 600 Crores and with the expansion of operating cash during Q4 and certain other measures that we are working on, we are confident that we will be able to reduce this very close to our year-end target that at the beginning of the year.

With that, we conclude our presentation and open the floor for questions-answers.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Nitin Arora from Axis Mutual Fund. Please go ahead.

Nitin Arora: The first question I wanted to ask you is on this new order inflows that has been very strong, can you throw some light because there are lot of orders we see on the presentation from the two-wheeler electric players, so is it largely domestic or is it more coming from the export market, if you can dwell that or little bit on that and the second part of the first question is if you also can dwell on the Defense side of the non-auto, how have been the order enquiries or order panning out there? That would be helpful, that is my first question.

B R Preetham: Good morning. To answer your first question, the new order inflows from the electric two-wheeler market has been primarily as of now with the domestic market but then when I say domestic market it includes both the new age start-ups as well as established two-wheeler OEMs, we have been now with five of the total OEMs with confirmed orders, this also includes joint venture between an Indian company and an European major and I guess these are for both domestic as well as export markets. We are also in the process of finalizing components with other three OEMs, so the traction in the electric vehicle segment, specially in the two-wheeler has been quite encouraging for us, this includes both steel as well as aluminum forged components, so this has been a quite a good journey. Now, I will leave on Praveen to answer the second question where non-auto and Defense, Praveen, can you take the second part of the question?

Praveen Chauhan: Yes, just to start with, I think we had included in our earlier presentation also, that in Q3, there was a big focus on to the business acquisition towards exports. 65% of business that we acquired was export and 35% was domestic and overall if you look at it, Auto ICE which is particularly something which we have been trying to diversify it from, Auto ICE contributed to only 51% and the rest 49% was a mix of EV tech agnostic and non-auto. Amongst this 49%, 34% is xEV and tech agnostic and 15% is non-auto. So, all put together if you see, 49% is a basket of area where we have been come to aggressively diversify and this is not only Q3, in fact if you look at the data of 12.5 billion that we had given earlier which is an acquisition in Q2, that also has incidentally at similar distribution 51% order wise and 49% of EV tech agnostic and non-auto. Incidentally, non-auto bear up to Rs. 12.5 billion was 22% and EV and tech agnostic was 27% but now you see there is a move towards EV and tech agnostic which has grown from 27% to 34%. This is all in line with what we had spoken about earlier, what we had been talking about our aggressively diversifying and our plans to reach 40%+ with a contribution of EV, tech agnostic and non-auto and one more thing you spoke about two-wheeler, two-wheeler content is regularly beneficial though we continue to strengthen our position in two-wheelers but then our business acquisition is more coming more out of other areas, so in Q3 two-wheeler was only 30%. I hope I answered your question.

B R Preetham: Just to give you some flavor on what we are working with different customers in different areas is that we are now doing parts for multi-surveillance radar, then we are doing parts for 30 meter telescope part for titanium wing, parts of titanium for hypersonic technology demonstrator vehicle, there is an also tail unit, components for tail unit, we are doing some Pilon beans for the fighter jets, it is also for light utility helicopters we have started machining conical housing, stiffener, frame, there is lot of movement in Defense, I am sure that you understand that the journey has just begun and it requires a lot of effort also coordination between different agencies but way that the things have progressed in the last few quarters after we decided that we will start looking at Defense as well, has been quite encouraging and the journey has been very, very encouraging.

Praveen Chauhan: Just one more highlight you have spoken earlier also over the aluminum forging which we started three years back and we knew that this is going to have a lot of traction because light-weighting in EVs is going to be very important and while aluminum castings had been there in the vehicles but then there is a limitation to the spin, and aluminum forging bridges the gap with light-weighting and the stint also been there. So in the last quarter itself there has been a big business acquisition Rs, of 231 million from the European OEM and we see a lot of traction, a lot of interest, a lot of RFPs of knowing in and we are quickly doubling our capacities in fact we will have to continue to keep on investing into this area, so that is interest on very inline with what we had expected market to reach in towards.

Nitin Arora: Got it Sir. Just dwelling one more thing here because last quarter we had new orders in our kitty was about Rs. 1,250 Crores, Rs. 200 Crores we have received in this quarter, so about Rs.1,450 Crores is apart from the base business is new platforms, new orders, electric part is there, given the inquiry in the momentum which you are talking about, is it possible to give some direction this momentum will continue a lot of bidding which is coming into the new platform both like the way you said in aluminum forging? I am asking this question more from two angles, one is I am assuming out of this total new order inflows of on accumulated side of Rs. 1450 Crores some would have gone into production I do not know how much would that have been 5% or 10% of that but just on the direction side, are there more bidding coming up in the electric two-wheeler plus the way you are saying forging which can keep us the momentum of the similar kind of order intake which you are seeing?

B R Preetham: Just to add to what you have said that aluminum and EV has been our new journey and we have added as I said whatever we have added in EV but then apart from that in aluminum segment itself now we have 7 customers with whom we are working - both international and domestic and journey just begun the way that things are looking and RFQs are flowing, as last time also I told that we are adding capacity into aluminum, we have orders for another 1,600 tonnes, we are finalizing one more fully automatic 1600 line from an European manufacturer and we are looking at adding another 4,000 tonnes press just for aluminum because the kind of momentum that we see in this component is significantly higher, just to give you on what kind of work that we are doing on this, we as of today currently we have about 255 components under various stages of development - this does not include aerospace components, it includes only auto and non-auto other than aerospace and we are also working on another close to another 300 components on various stages of RFQ, so there is significant increase in the number of RFQ flow in fact we are expanding our team because please understand that as we have entered different sectors of non-automotive and different product lines the number of components in the category of components have increased, so there lot of work is required to go in with estimation, engineering work and all that, so we are finding it and that is a big constraint as of today, there is a significant increase in the inflow of both RFQs and the order wins.

Nitin Arora: The question was on execution side because given what you are receiving every quarter, the order inflow looks very strong and I understand December was a very good month for a global OEMs whether it is in Europe or US, how one should build the execution going forward if you can throw some light on FY2023, I do not want the numbers but generally your sense of taking into account the chip issue for your clients how one should look at the FY2023 revenue and in terms of margins it is something we are near to the bottom or on the commodity price, the price lag should come in, so how one should look the margins part as well if you can throw some light I will be confident?

B R Preetham: Though we have said that lot of OEMs coming out and saying that largely the chip crisis is behind us and things are looking very positive especially if you have looked at General Motors, Suzuki even Toyota saying the same thing, so we believe that the way forward would be much, much better in terms of availability of the chip, at least this is what we hear from global customers but I would be cautious to say anything as of now regarding the FY2023 number, I would prefer that we go through this year and during our full year call which will happen sometime in Q1, so I would probably be more confident of talking that because the next three months would give us a significant I mean direction would be much clearer but having said that the March quarter would definitely be at least the if you look at January numbers of lot of OEMs there is that the things have been much better in terms of our export customers which we had a tough time on November and December where you said December but we also had November and December was very weak especially for passenger vehicle global customer so we had literally calculation of lot of schedule lines and order inflows but that has come back to mostly normalcy, considering this factor and I do not see any further restrictions because of the omicron we all hope that this is behind us, we should be able to this year we are expected to have a good quarter in the Q4 and looking at the overall year number, we will deliver better than 20% growth on a year-on-year basis on topline and in terms of EBITDA as we have always mentioned that it would be a range bound, we will still be for the full year anywhere between 17.5% and 19%, I would not like to really comment anything further on FY2023 numbers.

Moderator: Thank you. The next question is from the line of Siddhartha Bera from Nomura. Please go ahead.

Siddhartha Bera: Thanks for the opportunity and congrats on getting Supplier Award from General Motors. If we look at the order wins, we have seen a very traction from the export part of the business, so you also highlighted potential multiple new orders coming from new and probably sometime later has scaled up further, so if you can help us understand this slightly better how this potentially can we look at and when can that potentially come for us and in terms of margins also how we should look at some of the export orders?

B R Preetham: Thank you Siddhartha. Happy New Year to you as well. Working with all the global OEMs especially on precision engineer category and all these years powertrain involves supposed to be one of the toughest ones to crack because either it was done inhouse or they would prefer that very established players would only do that, so initially it was a big hiccup for us. We tried for almost a decade to get into major OEMs of North America, our first interaction with GM was almost a decade back and we were only able to get some orders, very small orders that too for couple of supplies for Europe and North America from GM couple of years back but this couple of orders wins last year which actually resulted in one of the OEMs I mean one of the Tier-I's going down and thing is really increased the confident of our customers on us we were able to deliver it within a very short time and not only that as I have been always maintaining that since we have a fully integrated facility and our machine building capability allows us to ramp it up much faster than ideally if you are buying it from outside, we were able to execute it much, much faster and this has helped us definitely not only to win this award but people are now much more confident of us as a supplier to this critical components, be it on power train on the regular components but also on non-power train components which goes into either breaking systems or on to drive line systems or a new electric vehicle, aluminum, so there has been a lot of traction, we are working on few of the very big RFQs from these things, I cannot really reveal what is the size and big but we are very confident that this would also propel our journey into setting up of this facility in US which we are talking about because we see a lot of traction for our work that we have done.

Siddhartha Bera: Understood Sir, and when we say about the facility, how does it mean for our capex earlier guided about say Rs. 750 Crores over the next three years and does this capex change some of these numbers or it will be inside this only when we talk about CAPEX?

B R Preetham: This is very much inclusive in the plan because we have had just plan for the next three years and we have already taken kind of number for this facility in the US but let me tell you if the kind of RFQs that we are working on of course if we win these things, it would increase the capex but it is too early to say, we have taken up a portion of this thing in our estimates already but not fully because it is very difficult to estimate when we say how much of this, so initial CAPEX has already been estimated.

Siddhartha Bera: My last question will be on the EV order which we had, would it be possible to understand what will be the on an average say content you will be supplying, models that you will be supplying to some of these new orders, new things which you have won, so just to understand volumes are high at how this can potential be?

B R Preetham: Actually, Siddhartha I think, there are two aspects to the journey into EV, one is winning the customers and then increasing the content per vehicle. Now the journey has already started. Totally we have now 5 two-wheeler EV customers into our portfolio but there are customers with two components as of now confirmed orders there are with three and one of the customers has got one, so there is one customer with eight so there is different, different content but I would be it is very premature to pull it across that whatever it is but we still maintain that addressable market for us in EV as of today what we understand is between Rs.5,000 and Rs.6,000 per vehicle and we are on the process of expanding those components with each of the customers that we have started working on or winning this, so please do understand that the journey has just begun and with a kind of work that we are putting in and the components that we are developing, we are quite confident of our content per vehicle surpassing the content for vehicle easily of the ICE scooters.

Siddhartha Bera: Okay Sir. Thanks a lot. I will come back.

Moderator: Thank you. The next question is from Joseph George from IIFL. Please go ahead.

Joseph George: Thank you for the opportunity. I just have two or three questions; The first question I had was in relation to the EV orders that you mentioned so as you mentioned that you have EV orders from 5 distinct OEMs, I wanted to understand how many of these OEMs have contributed to actual revenues in Q3?

B R Preetham: Except one, the others are under development so, nothing much has come from the other four, it is just an order win that we have now, we have confirmed orders from four customers where the revenue is yet to start, only one customer with whom we have been working the revenues contribution has been recorded in Q3.

Joseph George: Understood, thank you. The second question had was you mentioned something about sharp fall in other operating income, could you just give out the numbers for other operating income in Q3 this year, Q3 in the first year and may be Q4 of this year and Q2?

Vikas Goel: The other operating income items that we are referring to for this call is of Rs. 11 Crores last year, and it was Rs. 3 Crores this year, Rs. 8 Crores differential there.

Joseph George: How much was it in Q2?

Vikas Goel: Q2 it was about Rs. 11 Crores again.

Joseph George: Okay, and is there a reason why this is I mean going forward we expected a bounce back to Rs. 11 Crores or is this new normal?

Vikas Goel: Significant portion of this is on account of the tooling or development cost that we charge to the customers and this is not a regular thing but considering the kind of new business that we are signing up, we see a stream of these tooling invoicing to go up in future. The second element is regarding the export incentives, specially the MEIS scheme, for which the rate got slashed in the past from January 2021, and that is where it is a kind of permanent reduction that we will see going forward.

B R Preetham: Joseph, just to add to what Vikas said, we do not expect too much of change going forward, so the tooling cost there will be constant flow because this is just turned the tooling cost but this would include a lot of engineering costs, lot of proto development cost, so this will continue to be there, this is one of where lot of our OEMs were also closed so the inflow was also curtailed.

Joseph George: Thank you for that. The next question that I had was in relation to pass through where you mentioned that typically it happens automatically or with the three month lag, so what I wanted to understand is that you are seeing some stabilization in pricing of raw materials, do you expect this lag impact of the rise in RM and the resulted impacted of the account the gross margin and EBITDA margin to completely normalize next quarter or will it take couple of quarters before it normalizes?

B R Preetham: No, it would not completely normalize in the next quarter because there are still small amount I mean still one more rise is expected to which is actually not accounted for in this, so there would be some small impact, it would not be so significant but there would be some impact and post that I expect that things to get normalized.

Joseph George: Just squeezing one last question, you give us the revenue breakdown of Auto, ICE and EV plus, non-ICE, etc., would it be possible at least for this quarter to tell us how much is pure EV revenues in the quarter in terms of the percentage of revenue?

Praveen Chauhan: Joseph, you are talking about Q4, Preetham can help us, I do not have the numbers?

B R Preetham: Joseph I will come back to you before the end of this call or I will answer to you separately because I have these numbers, we will have to pick it out.

Joseph George: No problem. Thank you for your responses. I am done with my questions.

Moderator: Thank you. Our next question is from the line of Kapil Singh from Nomura. Please go ahead.

Kapil Singh: Good afternoon, Sir, firstly I just wanted to check on this order book we have talked about close to as was somewhere close to Rs. 1400 Crores kind of order book, over what period can we expect this to flow through the revenues?

B R Preetham: Kapil, as I said that these follow some five years to six years cycle and generally towards the end of the second year of the product start cycle, it will start peaking out, so I expect that two years to two and a half years from now we would see the full impact of this onto their revenue mix.

Kapil Singh: Would something go out of the revenue was done, is it net, or this is gross number?

B R Preetham: Yes, it would not go out of this but it would go out of our regular business because some of the models would discontinue, so what we will do is at the end of this year, we will put out a statement as to what is going to be the net off order wins after considering what business would go out for in the next say two years to three years period, we will mention in what period it would go out and then how much is the ramp so we will try and put that matrix towards the end so that is what we have like last time also I said we will reset this matrix everyone for year.

Praveen Chauhan: Kapil, just to add what Preetham said generally speaking we have not included the business which is a replacement business wherever we know that our digital is going to be replacing and existing model into a new model, but there could be some segmental change where we do not know what the replacement is going to be, there could become elimination which might happen and there could be some elimination which the business which is likely to have peaked out in this current financial year but not much on the buying of side of it because we have not considered replacement business into this new business.

Kapil Singh: Okay, just to understand this hypothetically, let us say model A goes to a new variant of that or a new model is launched that is an old Alto is replaced by a new Alto, would it come as new order, or you do not count that?

Praveen Chauhan: No, we do not because there has been a lot of commonization and standardization happening in the customers like for example Maruti we spoke about, so if one model connecting rod is getting converted into another connecting rod which we know or which we already doing, so we do not consider that incremental number from one to another as a new business.

Kapil Singh: Because then this order book like fairly strong, right and basis the current run rate even if it comes three years out, we are looking at 65% to 70% higher revenues than what we are doing today

B R Preetham: Kapil, just to give you an ideas to like today in the automotive apart from Aerospace component in Sansera India in the Auto and non-auto other than Aerospace, we have something like 750+ components which are active where it is generating revenue for us and about 255 components are under various stages of development which is not generating any revenue as of today and there is significant amount of RFQs that we are working on, so there is a very strong order book and business pipeline which is also dominated by the non-auto and HCV business as well as Praveen has explained, so there is a mix that is getting change but the optical impact of all these things will of course take time because the auto business is also growing and way that we are adding non-auto and xEV will take some time because the maturity of the business will also take some time.

Kapil Singh: Sure Sir and the question relating to these order wins only is if we look at your own capability in terms of when you look at aluminum forging and the number RFQs you are working on, how are you developing some of those capabilities, for example, I know you are lot focused on design and engineering kind of capabilities, right and I believe there will be lot of software requirement also to develop these components, so how you are developing those capabilities also if you can talk about how competitive you are when you look at the global scale, right, because now some of these areas you probably can be competitive on the global scale as well, so how are these applicable for winning global orders or potentially the kind of asset turns we could have if we were to, for example, do the same business say outside India, as that as an opportunity as well?

B R Preetham: Kapil, some of these new components especially on aluminum forged line where we have been working on and this order that we have received of overall over a ten years about a Rs. 250 Crore order which is consisting of about 13 parts for a European major and this thing is on extreme end of requirement – in terms of both aesthetics as well as performance, so while our capability on forging on special treatment, heat treatment all these things are getting packed with developed and added, this also as you rightly said would also require some more capabilities to be enhanced in our simulation and rapid prototyping division which we are working. We are also enhancing our teams capability, we have dedicated the teams now working on new-age materials not only aluminum but also on a high strength new steels and micro alloy steel, so there is a lot of work that is going on our engineering as well as on the facility side. We are working with one of the European suppliers for putting up a fully automatic 1600-ton aluminum forging line which should get finalized in a couple of months and as I said that we are also now on the verge of finalizing of 4000 tonne press, so we see a lot of opportunity. As far as the competitiveness is concerned, I guess that very fact that we have added now seven customers to this and a lot of RFQs are being worked out, we are probably cost competitive but it is a bit of initial momentum for us where we need to also digest a lot of cost and working on this, so we are quite hopeful that this would also be a very, very strong line of business for us in the years to come.

Moderator: Thank you. Our next question is from the line of Homeyar Irani, as an individual investor. Please go ahead.

Homeyar Irani: My first question is with regards to the new order pipeline, when you will start contributing to your revenues, within the next quarter and at what percentage will your revenues grow let us say next year basis the new order pipeline and the second question is how can you compete, how is your proficiency vis-à-vis MTAR Technology, they make those hot boxes for Bloom Energy, they make actuators for ISRO as well as for atomic power plant, I think BARC or some Nuclear Corporation of India they make few rods and actuators, so as you are also making these import facility which are the roller screws and ball screws, so how will your competitiveness, can you complete and match customers of MTAR Technology?

B R Preetham: Two portions I think, the first portion of the question was when it is going to start fully contributing to our revenue, I have already answered that fully realized order book that we have as what we have indicated today would take closer to about two years and more but then having said that out of these order books, there are various components which I have already either I have started or going to start in this like hybrid components for our Japanese OEM is going to start from Q1 of the next year, some EV components have already started, so there is an incremental revenue that is getting added into every quarter to quantify that at this point of time I may not be able to do it. As far as the capability to work with the other sectors like nuclear or you said high precision ball screws, every sector has got its own challenges as far as we are concerned, I am very, very confident that with the kind of expertise that we have on processing of various materials which includes but not limited to stainless steel, titanium, aluminum and with our capability of in-house fully capable heat treatment solutions that we have with various heat treatment processes inhouse and now we are setting up surface treatment as well, so we should be capable of doing these components but then we have not yet ventured out into any of the nuclear or related activities as of now, our focus has been now working on the Defense, we will slowly expand our work.

Homeyar Irani: What about the medical devices that you have mentioned on your website, what kind of medical device you will begin?

B R Preetham: No we actually have started working with one of the OEMs. We have developed certain components, but that work is going slow as I have already explained that there is a significant increase in the number of RFQs in our auto and non-auto field as well as our aerospace and Defense, so the resources are getting engaged into that, we have taken it slightly slowly, we have developed a component for this but not much of work has been done as of now because we need to really augment our resources into handling what we have getting now.

Homeyar Irani: Thank you. That is all from my side.

Moderator: Thank you. Ladies and gentlemen, this was the last question for today. I now hand the conference over to Mr. B R Preetham for closing comments. Thank you and over to you Sir!

B R Preetham: Thank you Aman. Diversification has been an integral part of Sansera's journey since the very beginning, and we endeavor to continue on this path by addressing select high growth business segments to expand our customer base and addressable markets and develop new business by leveraging our current capabilities with Capex fungibility. Some of our recent order wins in EVs, suspensions parts, aluminum parts etc., underscores our strength in these upcoming areas. We are very optimistic with the response that we have received in the EV space. We have already secured business from traditional OEM s and new age startups in the EV space. We are committed to broaden our revenue base in the long term with non-auto and technology agnostic components contributing a much bigger share of the revenue pie. In the long-term, I would like to reiterate the fact that the company is targeting and on an enhanced revenue base with an auto ice contributing about 60%, auto tech agnostic and XEV contributing about 15% and remaining 25% being non-auto. With this, I conclude the call and if you have any further queries, please contact SGA, our Investor Relations Advisors. Thank you everyone for joining us today on this earning call. Keep yourself and your family safe in this difficult time. Thank you very much.

Praveen Chauhan: Thank you everyone.

Moderator: Thank you. Ladies and gentlemen, on behalf of Sansera Engineering Limited that concludes this conference. Thank you all for joining us. You may now disconnect your lines.