



*Batlivala & Karani Securities India Private Limited
February 12, 2021*

Moderator:

Ladies and gentlemen good day and welcome to WABCO India Limited 3Q FY '21 post results conference call hosted by B and K securities. At this moment, all participants' line would be in the listen only mode, and there will be an opportunity for you to ask questions after the management initial remarks. I would request all the participants to locate the participant's icon, which is at the bottom right of your screen. Click and open it to view the panelists for today's call, and also to locate the virtual hand icon, which we will be using during the q&a session. The third quarter earnings results for this year will be presented by the management team of WABCO India Limited. Your host today from WABCO India Limited will be Mr. P. Kaniappan, Managing Director, Mr. R.S Raja Gopal Sastry CFO, as well as Mr. M C Gokul Company Secretary. WABCO India Limited results for the quarter ending December 31 2020 were published on February 10 2021, and are available on the website www.wabco-auto.com/India under the investor relations section, I hope that you have an opportunity to go through it. Today's presentation has been published on the stock exchanges and it's also available on the company's website. A transcript of this call will also be made available on the WABCO India Website www.wabco-auto.com/India under the investor relations section. I will now hand over the call to Mr. Kaniappan, who will provide you with further insights on the results. Over to you sir,

P. Kaniappan:

Thank you. I warmly welcome you all to WABCO India's third quarter of the financial year 2021 results. Certain forward-looking statements that we may make today are based on management's good faith expectations and beliefs concerning future developments. As you know, the actual results may differ materially from these expectations as a result of many factors. Before I go into our performance, I would like to share with you a little bit about ZF, the rationale for its acquisition of WABCO, WABCO India's journey thus far, and our future roadmap with you.

Let me begin by sharing some insights about our current company the ZF Group. Many of you may already know about the ZF Friedrichshafen. It's not publicly listed. It may have been less well known to some of you. So please allow me to give you some background. The parent company ZF Friedrichshafen AG belongs to two foundations, the Zeppelin Foundation and the Ulderup Foundation. The main shareholder the Zeppelin foundation is administered by the city of Friedrichshafen, and it finances charitable and social projects.

ZF is a leading global technology company that supplies systems and solutions for passenger cars and commercial vehicles as well as industrial technology. ZF is one of the largest automotive suppliers worldwide and offers advanced integrated transport and mobility solutions and it ranks in Top 3 alongside Bosch and Continental In the passenger car segment, ZF supplies drivetrains and chassis technology, as well as active and passive safety systems. It's Electronics and ADAS division is responsible for advanced driver assistance systems, sensor technologies and safety electronics. ZF's E-Mobility division electrifies the drive train with components for our hybrid transmissions as well as all-electric solutions. ZF's existing Commercial Vehicle Technology division is responsible for supporting vehicles over 3.5 tons, supplying mainly driveline and chassis technologies The new Commercial Vehicle Control Systems division of which WABCO India is a part of was created from the acquisition of WABCO. It provides integrated braking and stability systems as well as solutions for suspension controls, advanced driver assistance systems, Transmission automation solutions, air management, fleet telematics and connectivity solutions to name but a few of the areas it supports. In the Industrial Technology division ZF combines off-road applications such as agricultural and construction machinery as well as ship, aviation and wind power technology. Last but by no means least, ZF Aftermarket combines the brands ZF, LEMFÖRDER, SACHS, TRW and BOGE to deliver ZF's global offering in the areas of retail, services and customer support. With over 154,000 employees and 271 locations in 42 countries, ZF is a global player with a strong presence in all important markets. ZF is strongly aligned with its customer footprint, locally and globally, for manufacturing, development, production, sales and customer service.

In May 2020, ZF announced the successful completion of its acquisition of WABCO. WABCO was integrated within ZF as its new 10th division, the Commercial Vehicle Control Systems (CVCS) division. This brought together two global technology leaders serving OEMs and fleets in the automotive and commercial vehicle industry, combining the expertise and product portfolios of WABCO and ZF. WABCO has a history of successful collaboration with ZF, including prototyping industry-first technologies and the strategic fit between the two companies – particularly in the critical domain of vehicle dynamics control-is compelling. Following the acquisition of WABCO, ZF further strengthened its manufacturing footprint, R&D capabilities, employee base and aftermarket network in India. WABCO India’s position as a technology leader in India adds significant value to the ZF brand in the country. WABCO India currently operates under the ZF WABCO brand, which is a unique value proposition, that brings the best of both businesses to customers and will also further establish the value of ZF’s offering in the CV space. In terms of serving the full commercial vehicle sector value chain, WABCO India has extensive and expanding market coverage nationally that is second to none.

In the second part of this slide, I will be taking you through the ZF group strategy. The goal of our strategy, “Next Generation Mobility” is to provide clean and safe mobility that is automated, comfortable and, above all, affordable. And all this is for the benefit of everyone, everywhere in the world. Let me give you some further detail on our strategy. Our strategy focuses on Passenger Cars as well as Commercial Vehicles, Public Transportation and Industrial Applications. The technology areas ZF focuses on, are Automated Driving, Vehicle Motion Control, Integrated Safety; and Electric Mobility. One of our key USPs is our mastery of systems integration in these four areas like no other supplier in the industry, with a clear focus on both emerging markets as well as continuing to serve mature markets world-wide. A further cornerstone of our strategy is to ensure financial independence for which a stable Investment Grade Rating is one of the key indicators we use to assess this. I would now like to share with you some of the rationale for the ZF and WABCO merger. As mentioned before, the core of our strategy focuses on the PassCar Segment, Commercial Vehicles, Public Transportation and Industrial Applications. On this slide you can see how we apply our strategy in the in 4 Technology domains of Automated driving, Electric mobility, Vehicle motion control and Integrated safety for commercial vehicles. Digitalization is being fully leveraged to shape the future of mobility. As a global leader, ZF has particularly strong expertise in the passenger car segment. Alongside transmission systems, units and components, the company also produces chassis systems and components as well as safety technology, electronics and sensors for the automotive sector. ZF’s extensive portfolio includes chassis and driveline technology for conventional, hybrid and electric vehicles as well as active and passive safety systems. With the acquisition of WABCO, ZF is now strongly positioned to provide integrated systems and solutions in the commercial vehicle space. In the commercial vehicle segment, together we offer the most comprehensive and unique product portfolio as the leading integrated systems supplier, WABCO’s technologies and products such as braking control systems, driver assistance systems, fleet management solutions as well as transmission automation systems for CVs, perfectly complement ZF’s existing portfolio. Together with WABCO, ZF now forms the world’s leading integrated systems provider for commercial vehicle technology, creating long-term value and security for its customers, employees and owners. For ZF, the acquisition of a leading specialist for commercial vehicle braking control systems means adding a stable and growing business segment and enabling our existing commercial vehicle division to expand its expertise in vehicle dynamics control. This creates the foundation for ZF to offer its customers comprehensive systems for safe and automated mobility solutions for passengers and goods. Moreover, the acquisition perfectly fits with ZF’s Next Generation Mobility Strategy. It expands the company’s expertise to include commercial vehicle braking solutions for the first time. This plays a central role for the control of automated driving functions – including emergency braking maneuvers of trucks and trailers. Together, we have a particularly strong footprint in R&D as well as high quality production capabilities in India and China. Following the acquisition, our customers have a partner in ZF who offers a fully integrated systems approach, including new drive systems and functions to support E-Mobility, autonomous driving, enhanced vehicular and fleet efficiency.

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Let's now take a look at how WABCO is being integrated within ZF. WABCO is now the "Commercial Vehicle Control Systems" division or CVCS division of ZF. This brings together two global technology leaders, with strong heritages and market presence serving the commercial vehicle sector. By combining our complementary product portfolios, rich talent pools, ZF now offers commercial vehicle OEMs and fleets unrivalled access to innovative products and services that will help shape the future of the commercial vehicle industry. We expect the integration to be completed by early 2022. There are many compelling reasons for this merger Advanced Technology. WABCO now CVCS, is a company driven by engineering and technology excellence – one that is at the forefront of innovation. With many world firsts, WABCO has demonstrated technology leadership across its portfolio. Industry Leader, Like ZF, WABCO is an industry leader in the CV space, utilizing the most advanced processes and setting the benchmark on industry standards. With a global manufacturing footprint, best-in-class supply chain and the ability to effectively (and efficiently) serve customers, this perfectly matches ZF's approach. Broad Customer Base - An existing broad and very well-established customer base. Customers appreciate WABCO as a trusted partner they can rely on in terms of quality, flexibility and reliability. Customer highly value CVCS as a strategic development partner who supports them in delivering one-stop solutions for different types of technologies, from modular systems to end-to-end offerings. This customer-centric approach perfectly fits with ZF's ethos. A Strong Culture - And finally, CVCS has a strong and enduring culture built on passion, collaboration, flexibility and diversity.

I would like to give you some insight into the CV business at ZF. Uniting WABCO and ZF has created a customer-focused powerhouse for advanced vehicle control technologies and digital services to support the industry's increasing adoption of autonomous, connected and electric commercial vehicles. Customers in India and across the globe now have access to one of the industry's most comprehensive portfolios of advanced technologies including advanced driver assistance and vehicle dynamic control systems, fuel-efficiency technologies and leading fleet management solutions. The business uniquely serves Truck, Bus and Trailer OEM's in this space. The contribution of the CV business will likely expand to around 20%. Many of you are already familiar with WABCO India as you have been following our progress very closely. However, for those of you who are not as well acquainted with us, I would like to provide a quick overview. WABCO India has been a market leader for over 5 decades. Our roots lie in the TVS group, as the Brakes Division of Sundaram Clayton, before WABCO took majority control. We are now, of course, part of the ZF Group. WABCO India is uniquely positioned to offer its customers industry-leading solutions and advanced technologies. WABCO India has a strong customer centric culture which is based on the principles of TQM. A strong and stable leadership focus on Quality, Cost and Delivery and a well-established market footprint, makes WABCO India a valued partner of choice for OEMs and fleets. WABCO India caters to varied market segments both locally and globally. The company is a preferred partner of choice to leading OEMs both in India and around the world. WABCO India believes in co-creating with the customers and partners with them through their product's lifecycle with technologies that helps differentiate themselves in the marketplace.

WABCO India is a leading player for improving the safety, efficiency and connectivity of commercial vehicles in India. The company has the distinction of being the first in the country to win the Deming Prize and the Japan Quality Medal when it was erstwhile Sundaram Clayton Limited. WABCO India was ranked amongst the Top 50 companies consecutively by Forbes India in 2017 and 2018 ; with the leadership having received several accolades and recognitions from the industry including BT Top CEO of 2016 in 2017 and the Life Time Achievement Award from Frost and Sullivan in 2018 for Manufacturing Excellence The industry has lauded WABCO India not only for its forte in manufacturing and supply chain management but for its TQM culture of continuous improvement. Employees from WABCO India across all plants, have participated and won leading accolades in national and international competitions. WABCO India continues to be regularly recognized by customers for its commitment to QCD excellence, technology innovation, business partnership and for supporting customers with the successful launch of their new initiatives. As I explained earlier, WABCO India is a trusted innovation partner to leading CV OEMs in India. We have launched



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several industries first solutions that are tailored for the Indian market. The Indian CV market is undergoing major regulatory and technological changes, which has helped drive opportunities for our business particularly in the domains of safety, efficiency and connectivity. We have been chosen as a strategic partner by all leading OEMs in the country to support them in successfully transitioning to BSVI technologies and beyond. Frugal innovation is deeply ingrained in our DNA at WABCO India. This coupled with the agility, flexibility and ability to understand local market needs for technological adaptation is our key competitive advantage. We bring advanced global technology to India and the process that we follow to introduce it to the Indian market is particularly novel. The technologies are adapted and, in most cases, redesigned to meet local application needs ensuring we offer the best value proposition to customers. We also leverage our fully owned test track and technology center to adapt and support these applications.

WABCO India, has been steadily growing from a component supplier to a trusted system solution provider for our export customers. Our ambition is to evolve as a Center of Excellence for Manufacturing and frugal engineering delivering value through shared services center to our export customers. We have been recognized by the Govt. of India for our contribution toward export excellence. We are confident to further strengthen our export business in the future. What's also interesting to note is the fact that close to 90% of the software for WABCO products globally is written in India. Additionally, we also have a well-established global business services center which acts as a driver of digitalization. WABCO India offers a portfolio of Fleet Solutions which powerfully combine both advanced digital solutions, and operating functions, and best-in-class services under one roof. Beyond spare parts and services, our digital portfolio is a key focus, including the rapid extension of the Internet of Things (IoT) and cloud-based technologies for commercial vehicle fleets. We are developing and delivering several of these innovations today, including solutions for fuel efficiency, downtime reduction, regulatory compliance and load optimization, thanks to our advanced Fleet Management Solutions (FMS). We seek to further extend our offerings to better connect the many players right across the ecosystem in transport, including parts distributors, maintenance workshops, goods owners, rental companies, payment service providers and vehicle component providers, to mention but a few. The company's high value per vehicle content able to provide access to real time operating data and ever-expanding FMS offerings will enable fleet operators to continuously improve their connectivity across the ecosystem enabling these to operate in an increasingly efficient and safer manner.

To increase agility and customer satisfaction, we are focusing on transforming our approach in the aftermarket. We are following a three-pronged strategy to leverage digitalization for order fulfilment, strengthen the distribution network to improve customer reach, and be partners in uptime for fleets. We have rolled out an e-commerce portal to enable efficient ordering and delivery of parts to distributors and retailers. Our campaigns targeted at fleets are coming to fruition and we are seeing the first successes demonstrated with hazardous cargo carriers. And for the world of trailers, WABCO India has been steadily introducing advanced technologies into the market, to make the trailers safer and more efficient. The key drivers for the technology shift and market adoption are - Legislation (Trailer ABS mandate in India), Safety & Driver Comfort (ADB / EBS), Intelligent trailer Program (most important driver for technology shift!) and T-EBS, the fulcrum and brain of the Intelligent Trailer Program. We have observed post the announcement of the increased axle load norms and B6 emission regulation, the trailer industry has speeded up its technology adoption. Now let me share with you our value creation model and proposed plans for growth. In line with the IMF reports, India is projected to grow at 11.5% in 2021 and this is also reflected in the growth trajectory of the CV segment. It is expected to take a 75% jump over 2020. A healthy growth rate is projected over the next 5 years, surpassing the level of 2019 by over 130%, more than in any other major region. As you can see these numbers are as of November 2020. In light of the recent union budget and the scrappage policy, we feel that this will have a positive impact on the CV industry. Additionally, with legislation driving content per vehicle expansion and customers seeking differentiation through advanced technology adoption we expect an uptrend in the coming few years.

Our value creation model in India is to continuously improve customer satisfaction and deliver the very best products and solutions they need and want. Understanding market requirements and evolving market trends towards the adoption of advanced technologies particularly in the Autonomous, Connected and Electrified domains, the deeply ingrained frugal innovation mindset in India is being optimally leveraged. Advanced technologies are adapted to market requirements with the help of strong application engineering support. Bearing in mind the price sensitiveness of the market, these products are typically re-engineered to bring down cost levels through our lean local supply chain and manufacturing processes. This, coupled with our agility and flexibility, will continue to drive our key competitive advantage in the region. This re-engineering, which is typically Design to Cost or Re-Design to cost in some cases, is carried out in India. It goes a long way in terms of helping us secure business and increase our market share, amongst other advantages particularly in export markets. These solutions, once applied by the OEMs, are also launched in the aftermarket as retrofit kits in tandem with customized solutions. Our fleet management solutions help fleets improve their total cost of ownership along with vehicle uptimes thus making us a natural choice for fleet customers. A rapidly changing transport industry where global mega-trends such as population growth, the Internet of Things, higher customer expectations and a push towards sustaining a greener world, combined with increasingly demanding customer requirements for flexibility, speed and safety are putting further pressure on supply chains and fleet profitability. As the commercial vehicle industry moves decisively towards increasingly autonomous, connected and electric vehicles to meet these challenges, WABCO India will drive the technological advancement that will continue to enable smarter operations across the commercial road transport ecosystem. Speaking of the impact of legislation in our space, with the shift to BSVI, we are now almost on par with the global players. This will provide the industry an impetus to introduce more advanced technologies in line with global standards in the autonomous, connected and electrification domains. Additionally, the Government recently announced the scrappage policy. This coupled the increasing regulation push on safer and greener vehicles, will only help to catalyze the introduction of advanced technologies in India. WABCO India will benefit greatly from this as we are ready with a portfolio of technologies and solutions to cater to the future requirements of the industry. The shift toward ACE (Autonomous, Connected and Electric) is gaining momentum and Indian OEMs are moving steadily in this direction. WABCO India continues to remain the preferred technology partner for these OEMs throughout the technological shift. The ZF group is continuously innovating and investing to deliver key enabling technologies that fully leverage the 'increasing intelligence' of commercial vehicles. Mobilizing Commercial Vehicle Intelligence communicates our mission on the road to ACE (Autonomous, Connected, Electric) vehicles. It's how we will continue to demonstrate our technology leadership and add value for our stakeholders. WABCO India is continuously innovating and investing to deliver the key enabling technologies that will fully leverage the 'increasing intelligence' of commercial vehicles, creating a safer environment for all road users and providing ever-more productive fleet applications. WABCO India has partnered with Escorts India, a leading Tractor OEM to introduce India's first Autonomous Tractor. The company was also the first in the Industry to launch Advanced Emergency Braking System (AEBS) and Lane Departure Warning System (LDWS) for commercial vehicles in partnership with Tata Motors. We have well established plans to introduce advanced technologies for higher levels of Autonomous Driving in the future. WABCO India is continuously driving technological advancements across the commercial vehicle transport ecosystem, including continuous innovation in Telematics, the internet of things and cloud-based solutions. WABCO Fleet Management Solution (FMS) offers end-to-end solutions that help to improve fleet logistical efficiency and the safety of passengers and drivers. This includes advanced fuel management, uptime monitoring, trip monitoring and route management, vehicle diagnostics, track & trace, among a range of key functions. WABCO India is also empaneled across major states in India and is compliant with the state-level regulation standards. WABCO India recently launched India's first full Connected Commercial vehicle in partnership with a leading OEM. We are also working closely with other OEMs to provide end to end connectivity solutions. Given our expertise in Software development and digital capabilities, ZF recently inaugurated the Digital Solutions Center in Bengaluru. This center will serve the global markets with software and digital services.

WABCO India offers braking technologies including anti-lock braking systems (ABS) and electronic braking systems (EBS). required for Electric vehicles and we have a complete portfolio of advance braking systems to support electric vehicles. WABCO India is a strong technology player in compressors and has e-compressors as part of the portfolio. We also offer electronic stability controls among other products. Additionally, ZF is a global leader in advanced driver systems (ADAS) and has products such as e-motor, electric drives and, DC/AC converter, among others in its portfolio. All these products can be offered to the Indian EV customers. We have already partnered with most of Indian OEMs who are manufacturing Electric vehicles. A leading OEM in India has adapted our PAN range of air disc brake for the electric buses as well.

Having discussed at length the strengths of the company, it is time to look at how it translated into performance. In this slide, the aspect which one would notice is the different markets and sales channels of the company, namely the Indian CV OEMs, the after-market and export of products and services. Such varied portfolio does insulate the company against economic and market swings. Another important aspect which I would like highlight here is the CV production cycle. From the financial year 2014 till financial year 2019, we did see a growth cycle. This growth cycle, if you would remember lasted close to 7 years, post which due to various reasons which we may quote in hindsight, we saw a drop, till it hit all-time lows in Q1 FY 2021. Now we see a strong revival, which is very likely to be the next phase of growth. In all these years, I again would like to highlight the aspect that WABCO India outperformed the market, which I would like to draw your attention to in the blue boxes above the bars. In summary, I would say, the market revival and growth phase and all the investment which the company has made in building a technology offering pipeline augurs well for the future. I would now turn our attention to the profitability of the company. The picture is self-explanatory, the high volumes and high profitability of Financial year 2019, followed by significant drops in volumes in Financial year 2020 would have resulted in significant reduction in profitability. But the company did focus strongly in flexing costs actively and hence ensured that the profitability is not substantially impacted. However, we see that the actions initiated by the company are bearing fruit and we are well poised to benefit as the rebound in the commercial vehicle volumes gain traction.

Again, this is profitability at an after-tax level. The story is similar, and also the revival as we witness now is strong and of high quality. Obviously, the earnings per share would be positively impacted too. The company's ability to generate strong and consistent cash profits, is evident in this graph. As the volumes grow, we should see better absorption and continued strength in our EBITDA performance. Now I draw your attention to the historical performance of the company as a strong performer, giving multiple times appreciation in the shareholder value. This comes from multiple aspects of the company. Largely from an active management of the technology pipeline, focus on multiple revenue streams, a strong vigil on costs and investments and in no small measure the strong management and governance standards of the company. Now with an enhanced pipeline of products we are much better placed to continue value creation for our shareholders. As a responsible business, we engage in several social responsibility and community development activities. This year activities were conducted through the internal engagement of employees and resources. WABCO India has established a trust - WABCO Foundation to deliver its CSR programs, which identifies appropriate CSR projects in line with the Company's CSR policy and implements them. The company has identified four primary areas to focus its CSR activities: - Promoting road safety across India, Employability & skill enhancement through partnerships with educational Institutions, Community Development of the areas around our plant locations and Environmental sustainability.

The Government of India is taking concerted efforts to reduce accidents through safety education, safety engineering as well as creating safer environments and the use of enforcement. The WABCO foundation has been conducting safety awareness training programs for commercial vehicle drivers, and vehicle maintenance technicians combined with health checkups for both vehicles and drivers. Over 8000 drivers and mechanics from Tamilnadu, Kerala and Andhra Pradesh, Telangana,

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Maharashtra and Orissa have been trained on road safety to create greater awareness of vehicle safety and safe driving practices as well as advanced braking systems, for example. As part of this important road safety objective, we are continuing our partnership with Praxair India, one of the world's largest Industrial Gas companies and State Transport authorities, to provide advanced driver training for drivers of hazardous cargo carriers, fuel carriers, etc. Over 500 of such drivers have been trained since its inception through various modules conducted in classrooms and practical sessions to promote safer driving practices. These programs have been well received and have helped attendees to maintain zero accident levels. The drivers receive a certification on successful completion of this course. WABCO India facilitated immediate action to support medical, healthcare and frontline workers in the battle against Covid. The company through its kitchens across all plant locations cooked and supplied over 31,000 food packages and drinking water to the local administration., The foundation also helped to set up a complete 50 bed Covid care ward at the ESI Hospital, Ayanavaram from beds to critical care equipment. We also pro-actively supported the community hospitals, treating numerous COVID-19 cases – Stanley Medical College and Chengalpattu Medical College with equipment including HFNC monitors, PPE equipment, Pulse Oximeters, gloves, masks, sanitizers among other aid.

We will now take you through the financial results of the third quarter of the financial year 2021. For your ready reference the results have been made public at 7 p.m. on 10th of February, I'm sure you've had a chance to go through them. The slide as you see now will also be available on our website under the investor relations section. However, a quick summary would be at 34.8% increase in revenue from sale of products, which came from OE sales of 219 crores, growth of 39.9%. Aftermarket sales of 73.8 crores, growth of 1.7%, export sales of 226.7 crores a growth of 45%. With that impressive growth we also had to face severe headwinds from commodity inflation which negated all the good work in better absorption. The softening interest rates did not help the cause either. With all that I would like to present that we earned a profit before tax of 73 crores which is 14.1%. That completes my presentation. So now questions about any points.

Moderator:

Thank you, Mr. Kaniappan we shall now begin the q&a session. Ladies and gentlemen, at present, you are all in the listen only mode. For participants who have logged into the web link and wish to ask a question, I request you to please locate the virtual hand icon at the bottom right corner on the participants list. If you have a question, please use this icon to raise your virtual hand which will turn you on clicking as your moderator I shall be able to see your raised virtual hand and we'll invite your questions in turn. Alternatively, participants who have logged in through the web link can also type in their questions into the q&a box located on the right side of your screen, which will open up as a drop down on clicking. Please address your question to all panelists. For participants who have dialed in into this event and wish to ask a question, I request you to press star and three on your touchpad. As your moderator, I should be able to see your raised virtual hand and invite your questions in turn for all participants. If your question has been answered and you wish to withdraw your request, please click the hand icon once again and press star and to remove yourself from the question queue. We request all participants to limit their questions to maximum two per participants, so as to allow everyone to ask questions. If time permits, you can get back into the queue to request a follow up question later. We will not wait for the question. We'll take our first question from Mr. Vijay Sati.

Vijay:

Good afternoon, Mr. Kaniappan, and other panelists. I have a couple of questions one. So given that as ZF is already present in India in different product applications, and that what are the product applications map that we can expect that WABCO India will benefit by virtue ZF being on board? Apart from whatever they have in India. That's my first question. Second question WABCO India has been exporting to WABCO Global which inturn goes to the respective markets be it replacement or OEM, primary replacement, how does the export story change post ZF's entry? And you know, one housekeeping question if you can help me out with the revenue mix between commercial vehicles and

cars and others know if you can share that part of the segment bifurcation for nine months. That's it for my side, thank you.

P. Kaniappan:

For your first question, at the global level the commercial division of ZF and CVCS are getting merged as one commercial vehicle entity. That provides an opportunity for us in India to reach out to all customers and offer those technologies to the customers. If you see the rationale, it's a perfect match in terms of the portfolio of products. I would like to give you an example of AMT. Historically for AMT, we used to supply the AMT kits, the mechatronics the control system, but it needs to be fitted in a transmission. ZF has a nine-speed transmission in India which is localized by them in India. So, the control system is with CVCS. Today, we are in a much better position to calibrate the systems to make it in the right way and then offer to the customers. This is just one example. Likewise, we can make a very big impact in the market space because in completely a different scale. Like this are many areas where we see opportunities to create value for customers as a system solution, what otherwise would have been two separate technologies. Same is the case with air suspension. ZF has an excellent air suspension technology & CVCS has ECAS electronically controlled Air suspension, then you can today offer a smart solution combining both. Hence, opportunities are unlimited. So, this is on your first question, second exporting from India. WABCO India has been emerging as a Centre of Excellence for manufacturing and frugal innovation, supply chain, productivity etc. This is the value that we are offering to our parent, that I'm sure will continue because India in the last 10 years WABCO India has evolved from a component supplier to a system solution supplier. In some cases, we are designing the product in India and offering the products, in some cases we are offering the subsystems taking support from some of the Indian supply chain. So, this is the value that we are offering to the parent, this will continue. We see again a huge opportunity to play in that role in the ZF world as well. The 3rd question, on revenue on our passenger car. Our portfolio in the CVCS for the passenger car is very limited. We are currently delivering only the vacuum pump, in India. It's a very small number. So, we are a largely a commercial vehicle player here.

Vijay:

Thank you. Can I just can I have an opportunity to do a follow up question if that is possible? Some of the applications that could come, you could possibly have a BS system supplier post ZF's entry, does that mean that the current \$600 of content per vehicle can progress to say 1000-1100 I am just trying to ask directionally Is that the right way to look at it or is it going to be much beyond that, you know, and therefore, there is going to be imponderable growth. Thank you.

P. Kaniappan:

Yes, at CVCS itself we have a large pipeline of products that is lined up. Indian market is still at very-low levels of technology adoption in the Safety area, even the ESC (Electronic Stability Control) which has been mandated everywhere in the world, in India, we are only looking at this happening in 2023. Then, you have AEBS (autonomous emergency braking system), and there are ADAS (advanced driver assistance systems), but the good thing is government is quite serious about doing all those regulations at a faster pace. Similar, is the case on the emission side. But then there are opportunities in the electric vehicle space, connected vehicle space etc. In the graph for Content per vehicle which I had presented; Europe is at \$3,200. Indian customers don't pay at the same price for the technology as elsewhere. India today is at \$600. Directionally I would say it's a positive story.

Moderator:

The next question is from Mr. Shyam Sunder.

Shyamsunder:

Hi sir, good afternoon, this is Shyam Sunder Sriram from Sundaram mutual fund. Thanks very much for taking my question. So, my first question is you mentioned as under ZF, both WABCO and existing ZF portfolio will be will function as one entity. Does that mean from a go to market strategy in India, whatever your sales to commercial vehicle OEMs happen in India will all happen through WABCO India. So, is that how it will be from a go to market strategy?

- P. Kaniappan:** Thanks, Shyam Sunder, that's not what I meant. As a ZF entity we are in a position to offer the customers with the entire solutions and address concerns like how it will be offered to, which route to be offered, what helps the customer, how we are able to really appreciate the support etc. But the key point is that we are in that position today. with the capabilities of these two companies put together. We are still a listed entity. I'm sure the parent will decide how these things should be routed keeping mainly, the customers interest.
- Shyamsunder:** Understood sir. One additional question on the Export front we are seeing quite strong traction. Firstly, is this from the new Mahindra World City plan that has started functioning and therefore our validation is all done and we have now begun supplying those additional parts or is this underlying market that is you know pulling up the demand per se. And secondly under ZF we have been a very valued supplier earlier under the WABCO parent entity from a low-cost manufacturing perspective specifically for these mechanical costs like compressors etc. under ZF will the same arrangement continue? Does ZF also see us as a low-cost entity for the global sourcing of these mechanical parts?
- P. Kaniappan:** Actually, growth in Mahindra World City is due to multiple reasons. One is, in any case, we were having pipeline of projects and they are getting launched one by one. Number two, global markets are doing very well. The backorder during the lockdown time, has been cleared but still order inflow is positive. The second question you asked about what will happen in the ZF regime, I think, as I said earlier, we are emerging as a center of excellence, we are a competitive location for quite a few mechanical systems from India. My view is that the new parent also will try to use the capability.
- Shyamsunder:** About these new projects that you spoke about, are these any from the ZF after the merger announcement, or these were the earlier planned projects or any visibility of new projects coming from ZF or the from an export perspective?
- P. Kaniappan:** We are still a part of, CVCS Division within ZF. The integration process is still going on and will be completed by 2022. There are some more projects also in the pipeline. It's a continuous growth driven by various new opportunities that CVCS global division is providing to India. This growth is purely from the CVCS global.
- Shyamsunder:** Thank you very much.
- Moderator:** Thank you. Next question is from Mr. Jinal Sheth
- Jinal:** Good afternoon, Mr. Kaniappan and team and I would like to the presentation has been quite great and elaborative, it gives us a good picture of things to come. So just to carry on questions, if I look at your margins, and if I'm looking at the EBITDA margins, historically, post 13 obviously, they were higher, but from 2013 onwards, they've been quite, I mean, consistent, I mean, little range bound but more or so around 15-15.5% or so. And obviously, we have achieved scale as well to that extent. Would it be fair to assume that this range can be maintained going forward?
- P. Kaniappan:** Yes. We can assume to continue but I will request our CFO to answer.
- R.S Rajagopal:** Yes, we have been range bound in that region and we are looking at the same strong performance going forward also. During the lockdown period, we have taken a lot of actions to look at our costs and the good news should continue, and we don't see a reason for not weakening that position in any way.
- Jinal:** With the kind of technology breakthrough and I don't know how low the margins are, but is there a possibility that positive surprises on the margin front?

- R.S Rajagopal:** As multiple things evolve, a lot of it is depending on the way the mix evolves and the way the commodity market evolves. So, we will not be able to very accurately project how things would go, but our efforts as a minimum will be to to maintain the current strength.
- Jinal:** Okay, great. And my last question. I have been tracking WABCO India for almost a decade and the question that is that initially seven-eight years back when you had come up with export strategy initially and you executed quite well on that, where today we are, you know, we soon will be touching that 1000 crore mark. The point being that obviously, with earlier questions, and now, instead of coming in, the same level of optimism can perturb in the next five to seven years, where the growth can continue you know, in a in a strong manner.
- P. Kaniappan:** Yeah. In few products, for example, compressors in India, we are supplying close to 4,00,000 compressors to Indian market. We have created an excellent low-cost supply chain here because we have been in this business for so many years from Sundaram Clayton or later WABCO. So, when there was a need for us to take manufacturing for global requirement, the supply chain very much supported to provide the same cost advantage to global requirements. Plus, we have now perfected the art of managing these things to the global standards of performance. So, for compressors progressively India will become the place to manufacture for CVCS globally. Similarly, if you look at actuators, we have a strong design capability for the products in India and India is even the center of excellence for design for actuators. We develop product for global markets which are designed here like DDSBA (Double Diaphragm Spring Break Actuator). This is gaining market share globally. Of course, for the trailer other segments globally. Then there are products like car compressors, we make the air supply unit for the high-end cars where we have secured major position of supplying a subsystem. In each area, we are strengthening the position when we move forward. This is the way we are actually growing. Finally, it's a matter of what value we provide to our parent. As long as the parent believes that using Mahindra World City we're able to gain global market share, whether it is actuator or compressors, I see there's no reason why our success story cannot continue. We are very positive about our export position, because in India, we will use our manufacturing footprint and the manufacturing strength that we have built over so many years to support ZF's growth not only in India, but also export from here for their requirement. That's our intent.
- Jinal:** Great thanks. And just lastly the mix over time between OE, aftermarket and export. Currently where exports would be roughly around 44-45% do we expect this trend to continue? Obviously, there will be some cyclicity based on OE market picking up. But broadly speaking?
- P. Kaniappan:** The challenge is that India market is very cyclical. Whereas in global market we are steadily growing in the export front. The cyclicity will have some impact on the mix. But at least I'm seeing now with the post pandemic recovery being steady and now gaining momentum and we are witnessing the next cycle of commercial vehicle recovery and probably we are an inflection point of next growth cycle. So again, domestic market also will grow so as much as export grows. Our intent is to have at least 35-40% from exports, subject to various factors.
- Moderator:** Thank you. Next question is from Mr. Mukesh.
- Mukesh:** Thank you for the opportunity. So, my first question is, you know, again, with respect to a lot of these new products, you mentioned where, you know, it will be kind of complementing some of the other products that ZF already has. So, you know, one is obviously, you know, if ZF has already localized that product in India? And second is if, you know, there will be some products that, you know, it's not yet localized in India, but you can, you know, provide it as a group. So, would it mean that, you know, those products, we will import it initially and supply along with some of our products? Or will we also look to localize those new products, you know, it might not be part of our, you know, our current product portfolio in terms of, say, pneumatics, or safety systems, but, you know, like, the

examples you gave with respect to transmission or air suspension technology, will it mean that we will manufacture it here, or we'll just import those and supply that along with the product here?

- P. Kaniappan:** One of the challenges of the Indian market is that it does not accept anything which is just imported and supplied, because of the market's price sensitivity. So, normal logic is to provide from a local footprint, which is also dependent on the scale and the volume to justify an investment. So, invariably, if the technology comes through regulation, and with a potential for huge volume, the strategy would be to straightaway localize like what was done in the case of ABS, but certain other technologies like air disk brakes etc., we initially started importing and supplying to the market. As the market evolved, we went for localization. So that approach would continue.
- Mukesh:** Okay, but if there is a localization you know, that is feasible, it will be done at WABCO India or will it be done, if you know, the other entities of ZF which are already there into the CV space.
- P. Kaniappan:** Again, the same thing depends on what suits the customer and from a ZF logic what is the right approach. But I would like to highlight the competencies and capabilities that WABCO India has created in India in terms of its manufacturing footprint, engineering footprint, application engineering capability, strong customer centric customer partnership, all these things, would have an influence in deciding which is the best channel for the product etc.
- Mukesh:** Right. And my second question is more regarding, say what has happened in this quarter or rather this nine months so far, especially this quarter, if you see the OEM segment growth for us is, you know, close to 40% YOY, whereas the underlying industries clearly haven't seen that kind of a strong production. So, like you mentioned, that is an outperformance. If you could give a sense, you know, is that outperformance entirely because of say BS VI related, you know, increase in value of some of the products we are supplying or is there anything else to this outperformance?
- P. Kaniappan:** Outperformance is largely driven by certain aspects. Number one, the system has been adopted in most cases. Second aspect is that in the last two three years the model mix went to more and more linear towards light duty segment, the buses etc. particularly last year by this time. So, because of the increased axle load, the multi axle, tractor trailer production started coming down where our content is very high. But now the tipper segment is picking up and E-commerce is driving the tractor trailer segment to some extent. And we also see some pickup in the heavy duty also. Also last year, particularly, before the BS VI, customers focused on liquidating the stock rather than production. And virtually more than 1,00,000 vehicles were removed from the system. And now customers do not have vehicles in the pipeline, they were not taking action to fill it up because the mood was very gloomy till probably September, October. But now at least some of the customers are also building to fill up the pipeline. Further, last three or four years, no replacement took place because the industry was not in a good shape. And now, with more and more positive sentiment and mood, I see that also will happen. For us in this quarter particularly the increases, and the outperformances is not only because of the BS VI, but also because of some improvement in the model mix. But I see that growing stronger and stronger going forward.
- Mukesh:** Thank you so much.
- Moderator:** Thank you. We're going to take the next question from Mr. Raja Kumar.
- Rajakumar:** Sir, I have two questions. So, the first question is relating your service business, you did mention about the telematics and the ADAS solution that the WABCO India team is working on. So, I just want to know how big your service team is given that you know, there are a lot of software companies also working in this field. So, just want to know what is the opportunity that WABCO India has on this and in

how much you can leverage on ZF, given that ZF also has the Technology Centre in Hyderabad. If you could please clarify on that.

P. Kaniappan:

The services business is related to the connected vehicle program. Most customers after the BSVI are launching the telematics system which is more advanced and not just the track and trace version. In the BSVI regime, many of them are launching intelligent vehicles where everything is connected and the connected vehicle programs reach out to all the systems and we can develop solutions based on collecting the data on safety, improving safety, efficiency and anything and everything. Also, there are possibilities for remote diagnostics, predictive maintenance etc. So, to your question, many software companies are there in this field, we also have taken support from some software companies. The differentiation for a company like WABCO India is, one, we have a global support system in building the solutions which is much more robust, proven and tested in other parts of the world. Two, we are now developing a unified portal which can be reached globally. So, anybody can plug in and then use the systems, we will bring many more solutions from what is developed in Europe for Indian market, particularly in the areas related to fuel efficiency or telematics, remote diagnostics, predictive maintenance etc. This robustness of a global engineering and support system is difficult for the small software company to replicate because of the vehicle engineering involved. Today we have close to 15,000 vehicles which is connected to us and it will keep increasing because one of the Indian OEM's have applied our system in their applications. Every month, about 5000 vehicles are coming to the market. The value we provide is the backend support and the field support through our aftermarket network. Further, we are also nationally empaneled for AIS regulation. Further, we also have a company named Assettrackr which we are trying to leverage on what they had developed. With all these we are developing this business. It's a subscription model, it's a new business model, every truck that is in our portal, we get them a subscription. It will be a perpetual income, which will keep increasing and as and when you bring in a new solution, then you upsell, you increase your subscription. So that is the model. It is in very early stage of evolution, as it is formally launched by many customers only in April and we see huge opportunities. There are many players and I'm sure at some stage WABCO & ZF combination will emerge as one of the major player in this area because of our advantage in terms of a robust solution that we can offer. But it's an evolution and right now I'm not in a position to give you an exact number on the size, maybe I'll ask my CFO to address this

R.S Rajagopal:

From the connected vehicle perspective, we have seen steady growth in revenues and even subscription income has started kicking in, it is still pretty small in the overall scheme of things, but it is already reaching the numbers, which is in the range of three to four crores in terms of just subscription and other few crores in terms of sale of devices. But it is small in the early stage, but it's a foundation for this.

Rajakumar:

Okay, so I hope that there's a lot of potential here. And, it's a high margin business. It will improve your EBITDA you know, as and when you scale this side of the business, right?

P. Kaniappan:

Yeah, as and when we offer unique solutions. Today it is very competitive, there are many players, but I'm sure we will emerge very successful in this.

Rajakumar:

So, the second question is, I think currently WABCO India is listed with the parent holding close to 94% stake in the company. So, I just want to know whether the intent of the management is to remain keep the company listed or you want to kind of deal is given that there are too many ZF subsidiaries listed globally.

R.S Rajagopal:

Because of the mandatory open offer ZF globally has now along with all its subsidiaries is holding right now 93.11% but as per, existing regulations they must go to the minimum public shareholding of 25% and the entire process will go as prescribed by law. So, that is one part of the question and for

the the second part on will the company stay listed or not? That again is a very long drawn question. As of now we are not aware of any intentions of being delisted in the Indian stock market.

- Rajakumar:** Okay, so, thank you.
- Moderator:** Thank you. We have got few questions in the chat box. Number one is, being a big exporter will there be benefit due to PLI scheme?
- P. Kaniappan:** Yes, we are. Of course, the government must really publish the contours of the PLI scheme for the automotive industry. But we are preparing to connect with stakeholders at the government level and we're also working with certain industry associations to see how to be the beneficiary of the scheme. Right now, I don't know much because the contours of the program itself is not announced by the government, but we are awaiting.
- Moderator:** The next question, can you please explain the impact of EV proliferation as EV spreads in India will it be positive or negative for WABCO India?
- P. Kaniappan:** It will be positive from the perspective that we have a value for vehicle which is much higher than what we currently offer to the conventional trucks or buses. In India the EV has only started with the bus application not in big numbers, but we are partnered with all the customers who are making buses, electric buses and we are offering quite a few products already. The industry evolution may take some time, but we are well positioned to capture the opportunities arising out of that, first as a CVCS entity further, ZF also has a lot of portfolios including the drive axles and many others. So, when the industry moves towards electric, it will be only beneficial for ZF and WABCO India.
- Moderator:** Okay, so, the next question is, Is WABCO India planning to come into passenger segment?
- P. Kaniappan:** No, there is no such plans. Our technology is based on air brakes, air brakes largely applied for the commercial vehicles.
- Moderator:** Okay, so, the next question is when they can see bus demand back?
- P. Kaniappan:** In the budget the government has announced 20,000 buses will be purchased from the private public partnership arrangement etc. About 18,000 crores or so has been announced. The bus segment is dependent on the school season as well. which is currently closed. Many of the bus OEMs are manufacturing largely for the school's first and then state transport undertakings. State transport undertakings are up and running now. It will probably take a few months. Some production has slowly started in some of the OEMs in a small way. But the government announcement will give a push for improvement, but it may take some more time because all these things must materialize as production. Right now, it's in a subdued level which will slowly pick up.
- Moderator:** Okay. So, another question is, what is the plan for trademark and royalty fees as a percentage of revenue?
- R.S Rajagopal:** So, as of now, we are paying 4% as royalty on our sales to the Indian customers, net of imports to the Indian customers. So that is that will continue.
- Moderator:** Okay, for now you got a last question. Can ZF launch steering in India through WABCO India? And what are the revenues that ZF already does through its non WABCO subsidiaries in India?



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- P. Kaniappan:** Unfortunately, I'm may not be able to answer this question. Because, ZF has a JV with RANE Group, which is making steering.
- R.S Rajagopal:** Because ZF is not listed and it's a private limited entity, they do not disclose this information in any public domain. So we will not be able to comment on that.
- P. Kaniappan:** We don't have any plans to make steering within WABCO India.
- Moderator:** Okay, so, ladies and gentlemen, we are out of time and must end this session here. If anyone has unanswered questions, please email us and we will get the answers to you. Thank you all for attending this session. We especially thank Mr. P. Kaniappan, and Mr. R.S Rajagopal Sastry for his time and most informative contribution. In return, we will welcome your feedback on the conference including the format and technology in due course, Mr. P. Kanniappan, and Mr. Sastry thank you again, for you and your team's time. We really appreciate your support. Please do follow up later with any suggestions for how we can improve such interactions in future.