

Moderator: Ladies and gentlemen, Good day and welcome to WABCO India Limited (WABCO) 4Q FY '21 post results conference call hosted by B&K securities. At this point all participants lines would be in the listen only mode and there will be an opportunity for you to ask questions after the management's initial remarks. I would request all participants to look in the participant's icon, which is at the bottom right of your screens. Click and open it to view the panelists for today's call and to locate the virtual hand icon which we will be using during the Q&A session. The 4th quarter earnings results for this year will be presented by the management team of WABCO. Your host today from WABCO will be Mr. P. Kaniappan, Managing Director, Mr. R.S. Rajagopal Sastry, Chief Financial Officer, as well as Mr. M.C. Gokul, Company Secretary. WABCO results for the quarter ending March 31 2021 were published on May 17 2021 and is available on the website www.wabco-auto.com/India under the investor relations section, I hope that you have had an opportunity to go through them. Today's presentation has been published on the stock exchanges and is also available on the company's website. A transcript of this call will also be made available on the the website of WABCO www.wabco-auto.com/India under the investor relations section. I will now hand over the call to Mr. P. Kaniappan who will provide you with further insights on the results. Thank you and over to you, sir.

P. Kaniappan: Thank you. I warmly welcome you all to the earnings call on 4th quarter and annual results for FY 2021 of WABCO. Certain forward-looking statements that we will 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.

Let me start with the business update. To begin with, I would like to say that this was a mixed quarter. On one side we had strong revenues across all channels which was contributed through strong vehicle production which was up by 85.2% as against same quarter last year, our own domestic OE market out performance of ~25%, which generated a good revenue from OEMs. The aftermarket too performed well up by ~50% as against same quarter last year and our exports have been the doing well throughout the year. However, a sudden spurt in commodity prices, increase in freight costs and regulatory changes posed a challenge to the bottom line. I will explain this in detail as we progress. Now let us touch upon the performance of ZF Global in the year 2020. In March 2021, ZF Global announced its annual results. As you may recall, in May 2020, ZF Global announced the successful completion of its acquisition of WABCO Group. WABCO Group was integrated within ZF Friedrichshafen AG as its new division, the Commercial Vehicle Control Systems (CVCS) division. ZF Friedrichshafen AG declared an overall earning of Euro 32.6 billion and commercial vehicles, ZF's Division T and CVCS, contributed around 15% of the total revenues. I

am happy to share with you that the integration project is well on track and we are reaching targeted milestones as per plan.

Overall, we had a strong performance in FY 2021. WABCO outperformed the market by around 25% in Q4. While the commercial vehicle production went up by 85.2% our sales to the OEMs went up by 114%. This was by operating all levers of share of market, content increase, content improvement, pricing and a favorable vehicle model mix. I would like to share a few positive developments. We continued seeking new business opportunities with various OEMs to ensure content increase. We fully leveraged our Mahindra World City plant to cater to the growing demands from our American and European customers. During the pandemic, India stepped in to ensure the global business continuity. Our product engineering teams played a pivotal role in ensuring on time deliveries of global projects. Various initiatives were taken to extend digitalization in our aftermarket. We successfully launched our digital marketplace-WABCO Customer Center in addition to launching solution which would help improve the safety, efficiency and connectivity of fleets. Nevertheless, as conditions were challenging, we experienced headwinds in a very dynamic scenario.

I would like to briefly touch upon the macroeconomic indicators. There was a slight recovery in Q3 FY 2021 which was better than general expectations until February 2021. However, the manufacturing sector lost growth momentum from March 2021. Further with COVID-19 restrictions expanded & re-introduced in many states, Indian manufacturers are expected to experience a challenging upcoming quarter. The company is working with all the stakeholder to mitigate the impact of the 2nd wave of COVID-19. We witnessed strong growth in the OEM sector where the depleted pipelines were filled however, we also noticed an imbalance between the vehicle production and vehicle registration. As I just mentioned, there is a scaling down of growth expectations of the Indian economy due to the 2nd wave of COVID-19. We expect that while demand will take a pause during the lockdowns it will also bounce back once the country opens again.

As we grapple with the second and more devastating wave, the COVID-19 pandemic has shown us that we truly are one community. We are endeavoring to offer our support during these critical times which would help towards improving capacities of community hospitals to tackle the pandemic. At WABCO, CSR is viewed as a powerful opportunity to help create a positive impact for the future by working together with communities, Governments and local bodies to deliver qualitative social improvement. The WABCO Foundation, a not-for-profit organization has been set up to implement the CSR initiatives. In the first wave, WABCO facilitated immediate action to support medical, healthcare and frontline workers in the battle against Covid.

During the 1st wave, the company through its kitchens across all plant locations cooked and supplied 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, Aynavaram 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 High Flow Nasal Canula (HFNC) monitors, PPE equipment, Pulse Oximeters, gloves, masks, sanitizers among other aid. WABCO Foundation is currently aiding four major hospitals in Chennai viz. ESI Aynavaram, Stanley Medical College, Kings Hospital and Chengalpattu Government Hospital by providing them with consumables and other necessary medical equipment. Till date we have provided Digital BP apparatus, glucometers with the consumables, face shields, masks, nitrile gloves, nasal prongs, critical care monitors, adult diapers, disposable bed sheets and pillow covers, PPE gowns, of sanitizer, equipment to augment a capacity of 10 hospital beds like fowler cots and supporting aid amongst other hospital supplies. We have also placed an order for 50 oxygen concentrators of 5 L capacity which is likely be delivered by end of May. In addition, we will also be setting up oxygen generation plants at select community hospitals.

As we are seeing recovery, the global CV industry, did suffer due to setbacks caused by some unfortunate events, natural calamities and logistic imbalances which include the container and airfreight space shortage compounded by the SUEZ canal blockage. We at WABCO focused majority of our energies on task forces, war-rooms & execution of plans to ensure business continuity and assurance of the long-term future of the company. The quick recovery in demand, demonstrated the resilience of the economy. Our performance in achieving the highest sales in a quarter in recent times which was 85.2% higher than the same quarter last year, is encouraging. Also encouraging, is the fact that the growth was achieved in all channels including OEM up by 114% Aftermarket up by ~50% and specially exports up by 70.4%. However, the operating environment presented significant challenges, affording us little time to respond. The commodities went up very steeply for example the prices of Aluminum increased by over 33% in two quarters and some grades of steel increasing by over 60% and increase in the prices of copper was a whopping 50%. It was noted that air freight and sea freight charges doubled or at times even tripled in high density routes. With some key components suffering from shortages like the semiconductors and resins and also freight space availability being limited we had to incur additional costs as premium freight to ensure business continuity. While the results were impacted in the short term, we are quickly putting in place, actions and initiatives to recover.

Now, I would like to share a little cheer with all of you. Ambattur site of WABCO continues to be recognized for its prowess in manufacturing excellence. Kaizen

Hansei conducted its inaugural edition of the Integrated Manufacturing Excellence Initiative (IMexl) recently to recognize organizations for manufacturing & supply chain excellence. The Ambattur plant has secured the highest honor the Platinum award. This site also won 5-star rating for excellence in (Environment Health & Safety) EHS practices in the CII Southern Region EHS Excellence award 2020. The site has won 5-star rating for excellence in EHS practices now for two years in a row. It has also been recognized in the first place in the Auto & auto component sector. Continuing on that optimistic note, I would now like to share with all of you the expansion plans for WABCO. After due consideration, the Board of WABCO has approved our proposed expansion project in the vicinity of Chennai. We have evaluated this proposal carefully and we are preparing for our long-term growth plans. This expansion will help us scale up and cater to the growing export demand; while at the same time serving the requirements of domestic customers. We are currently in talks with the relevant authorities regarding land procurement at a location near Chennai. As we firm up the deal, we will be able to share more information.

And now moving onto our financial performance for the quarter and the year. For your ready reference, the results have been made public at 7 PM on 17th of May. I am sure you had a chance to go through them. The slide as you see now, will also be available on our website under the investor relation section. However, a quick summary would be, a 85.2% increase in revenue from sale of products, which came from OE sales of 323 crores (growth of 114%), Aftermarket sales of 93.8 crores (growth of 49.9%) and export sales of 247.3 crores (a growth of 70%). With that impressive growth, we also had to face severe head winds from commodity inflation, which negated all the good work in better absorption. The softening in interest rates did not help the cause either. With all that, I would like to present, that we earned a profit before tax of 67.25 cores, which is 10.1%. As far as the full year results are concerned, despite the impact of pandemic, a strong recovery was witnessed whereby the overall revenue from operations remained at the same levels with a marginal drop of 3.6%. Summary of the same is OE sales of 685 crores (reduction of 11%), Aftermarket sales of 259.8 crores (reduction of 0.1%) and export sales of 721.8 crores (a growth of 3%). Despite the V shaped rebound, we faced headwinds in the form of commodity inflation which climbed to new highs. With all that, I would like to present, that we earned a profit before tax of 152.3 cores, which is 9.14%.

Moderator:

Thank you so much for the detailed presentation. We can now open the Q&A session. Ladies and gentlemen at present you all are in a listen only mode. For participants who have logged in through weblink and wish to ask a question I request you to click on virtual hand icon at the bottom right corner on the participant's left. If you have a question, please click on this icon to raise your virtual hand which will turn blue on clicking. As the moderator will be able to see your virtual hand and will invite you

question and unmute you, alternately participants who have logged in to the weblink can also type their question in the Q&A box located at the right side of your screen which will open as a drop down on clicking. Please address question to all panelists. For participants who have dialed in to the event and have a question I request you to press * and 3 on your touchpad. As a moderator I shall be able to see your raised virtual hand and invite your question. For all participants whose question has been answered and wish to withdraw your request click on hand icon once again or press * and 3 to remove yourself from the question queue. We request all participants to limit their question to maximum two questions per participants as to allow everyone to ask a question. If time promise you can get back in the queue with the follow up question later. We will now wait for few moments as the questions queue assemble. The first question is from the line of Shyamsunder Sriram from Sundaram mutual fund.

Shyamsunder: Good morning. This is a Shyam from Sundaram mutual fund, wonderful performance on the revenue front. Many congratulations on that. Just couple of clarification on that on the export front, I think this is the highest ever export revenues we have ever delivered in a quarter. So, is this the peak utilization of all the export facilities, is this driven by new products or have we also started exporting to more geographies of the parent than before. So, if you can provide some clarity on that added to that under ZF, is there any rethinking on increasing the role of WABCO per se, within the overall ZF scheme of things per se, as in adding more product categories, how does this new plant that you have announced now work in that respect, is it for some new product category that we want to expand or is more of capacity expansion of the existing products for which we are doing this new plant expansion?

P. Kaniappan: Thank you, Mr. Shyam. Yes, this is the highest sales that we have delivered in a single quarter. There are two aspects, one is the that the US and Europe markets, which we supplying to are doing very well, there has been a continuous improvement in the demand and the situation is quite strong. Secondly, we have been continuously increasing the pipeline of products essentially new products in for exports. Despite the impact of the second wave on the supply chain, we have delivered. Our expansion plans are also driven by clear visibility of the order / project pipeline we have for the next few years. We have secured businesses from certain global OEM's of course, through global business units in which WABCO has the potential and advantage due to manufacturing locations, particularly in the area of cost and the local engineering footprint which will drive our growth. So, to meet that future project pipeline, an expansion is required, as the current plant at Mahindra world city is more or less working to full capacity. I hope that answers your question.

Shyamsunder: Yes sir, you mentioned some new products also, we have now started, and they are in the pipeline as well. So, traditionally, we used to export these mechanical products

like compressors, the higher CC compressors, actuators, so when you talk of new products, if you can highlight what are these products, is it something that was already there within the WABCO Global framework or are these anything coming from the ZF parent as well?

P. Kaniappan: As highlighted earlier, we're becoming a Centre of Excellence for manufacturing and export of compressors from India. The Mahindra World City plant has been expanding its customer base, thereby the increased volume plus new products, from an export perspective. We are also expanding the export markets for available products. All these things will support our growth in exports.

Shyamsunder: Wonderful sir, one other point is on the commodity inflation like you mentioned, you know, the RM costs have significantly gone up and we recognize that, but just trying to understand that between your domestic customers, export customers and maybe the aftermarket, how much has the recovery being in terms of the commodity inflation? Which segment of customers are compensating you for the increase and who are holding back? And added to that you spoke about the freight costs going up significantly, which is actually impacting a lot of the exporters. So, from WABCO perspective when we export to our parent or to directly to the customers per se, do we bear the freight costs? Typically, is that how it happens?

P. Kaniappan: We operate in three segments, by and large the RM Costs get absorbed by the customers and are compensated by the customers with a time lag of a quarter or so.

On the freight, there are two aspects one is incoming freight, the other one is export freight. Exports are operated by and large on exworks basis, thus by design we don't have to absorb the premium freight. Occasionally, due to the challenges in the supply chain and the increasing order books we end up bearing some premium freight costs. But our main issue is on the incoming freight because of the supply shortage like the semiconductor shortage, global supply chain challenges, availability of containers, very steep ramp up in India in Q4 etc., which put the supply chain under a lot of pressure. Many a times we ended up bringing materials through air freight to ensure the business continuity or ensure that we protect our customer lines. In a few exceptional cases, we managed to get the compensation for premium freight as well from the customer. Otherwise we had to absorb all the increase. Going forward, we're strengthening our planning framework, to bring in a clear visibility for next few months, with clear focus on reducing the freight. But that option was not available to us between Jan - March period because of the steep increase demand; and the global supply chain needs a lead time which we were not able to provide.

Shyamsunder: Understood, sir. Thank you very much, sir.

- Moderator:** The next question is from Mr. Priya Ranjan from HDFC mutual fund. Please go ahead.
- Priya Ranjan:** Thanks for taking my question. In terms of the export as you highlighted that you are looking for proposed expansion please throw some light on the expansion and quantum of investment you are looking in for the new expansion plan and has the margins for exports improved over a period of time for exports?
- P. Kaniappan:** The expansion footprint, is still the very early stages. I had shared with you what is likely investment and other details. WABCO & ZF Global boards have approved acquisition of land. We are in discussions with with the government of Tamil Nadu for a site in the vicinity of Chennai. We will probably share more details as this will progress. For your second question on the margin from exports, I request Mr. Rajagopal Sastry to address.
- Rajagopal Sastry:** The margin on export is based on a transfer pricing agreement based on contract manufacturing and more or less stays fixed. We get compensated on a fixed percentage basis as per the agreement, which addresses the transfer price requirements for a related party in both the countries we export. It will not have a significant impact on our profitability in terms of percentage, and it will remain stable. But the other two segments are very market driven and they do get impacted with the change in the cost structure.
- Priya Ranjan:** And just related to that, I mean, are we only dealing with the OEMs through the parent or we are also directly dealing with when we can directly approach to the OEM as well for the new business in export?
- P. Kaniappan:** The model is that the business units decide which product to sell and at which part of the world it should be made. Wherever India has a competitive edge, the region gets selected as the location for manufacturing.
- Priya Ranjan:** And lastly, I mean, there was some non-compete clause with the Sundaram group for disc brake etc., which has I think, has got expired long back. So, have you thought of entering that segment also, because now you are actually doing ABS and other things as well?
- P. Kaniappan:** We have a very good portfolio of air disk brakes; we have started selling to some Indian customers. The electric buses that are made by an OEM are fitted with WABCO air disk brake for different axles. We are working with other customers also and are in very advanced stage of getting the products released by them. We have also localized

one version of the air disk brake and we also do local assembly to make sure that remain competitive in the Indian market.

Priya Ranjan: In the new products, etc., what you are trying to get into I mean, the new electronics product for the braking system and all. So, where are we in terms of adoption for industry?

P. Kaniappan: In India, regulation is one of the routes through which all these technologies are getting adopted. After ABS, we have also launched RPAS (Rear Park Assist System) which was mandated through regulation. Another major regulation which is mandated in 2023 is the ESC (electronic stability control) for buses. It is expected that, it may be made mandatory for trucks as well. Further the autonomous emergency braking regulations, is expected further ahead. BS V, though not a safety regulation, but mainly for emission side, also helped us to provide some of our technologies in those vehicles, because most customers use that opportunity to introduce some of the ancillary / aiding technologies. and we were benefited by this. The BS VI vehicles also needed increased air requirements for the exhaust systems plus various other features were introduced in those vehicles. These are called value enhancing products. There are many products that got introduced as part of the BS VI transition. This also impacts the total cost of ownership and through this approach, customers see an opportunity to launch these products, where the overall fuel efficiency and safety is improved, and the buyer perceives value for money. Automatic Manual Transmissions, Air Disk Brakes and other technologies, fall into these categories. All these products are in the pipeline and at various stages with different customers. Customers were preoccupied with the BS VI till recently, are working to release some of them which will drive growth in the near term.

Priya Ranjan: Thank you. Best of luck.

Moderator Thank you. Next question from Mr. Sanjay from Canara Robeco Mutual Fund, please go ahead, sir.

Sanjay: The pricing lead outperformance in OEM category is quite encouraging. Could you please provide the details as to what is the current KPI value and how should we think about it directionally? Any targets which you may have for FY '22-'23? What has led to this good growth in the replacement vertical? Is it given by increasing distribution on any specific product? How should we think about that growth going ahead and will you please talk on the replacement category margins as well?

P. Kaniappan: We have been always looking at outperformance as a means to grow. We have lot of technologies globally and the value of the content per vehicle is at least three times

of what it is in India. There are many technologies that have been introduced in India. India is catching up and that is the way forward. Additionally, the technology ecosystem in India should be amenable to receive advanced technologies. For example, till BS IV many of our technologies were not relevant for India, which became relevant after the BS VI mandate. Further, many global products will also fit into this. The challenges being localization & adapting to the market etc. which is exactly our key focus with the local footprint in engineering. Historically we used to cater to safety & efficiency technologies. Now the industry is moving towards Autonomous, Connected and Electric domains, where we have a very good portfolio of technologies, particularly in braking systems. In the connected space, our partnership with Indian OEM's are becoming stronger, which will drive market outperformance. In the electric space, we have got a very good portfolio of products, but the size of the Indian market is still small. As it is expected that the industry will move into that space, we are well positioned to leverage the opportunity arising out of that transition. We have a clear roadmap of all technologies required for industry and with ZF as our parent, our position is reinforced in the market to support the Indian OEM's currently and in future thereby driving market outperformance. On the aftermarket, historically we used to focus on replacement market, repair kits etc. Since the product quality is steadily increasing, the replacement-based demand will come down at least in the first few years, we may see demand only after the warranty period. Moreover, the OEM's are also trying to control this part of the business. So, the challenge is to look at new opportunities. In this regard, one, there are more than 30 lakhs vehicles on Indian roads with the WABCO systems. We are now launching a Product Marketing organization to look at the entire gamut of vehicles that are on the road and apply analytics to gain insights into the replacement scenarios since they are safety critical parts. This has not only helped increase sales multiple times in that product group but also eliminated spurious parts resulting in better vehicle efficiency and safety. It has proven to be a win-win. The second part is Service orientation built around the service centers. We have a national level network of around 300 service centers. We are building a strong capability in the service centers including diagnostics. As the industry moves towards remote diagnostic predictive maintenance. With our ability on the telematics and the technologies that we're adding, we will be able to address many of the issues remotely, supplemented with greater possibilities. We are currently building our capability in this aspect. We see a steady growth in that segment. The third area is, moving into a new business model of subscription-based revenue which is applicable to the connected vehicle ecosystem. Currently we are working with OEM's and have more than 20,000 vehicles connected to us. We run our own service desk with a cloud-based hosting for the customers and with our national network of service teams, we are able to provide the best service to the customers for a subscription. This will slowly and steadily grow as we strengthen our position. The fourth area is e-commerce, which is called WABCO Customer center. It connects WABCO customer

center service to retailers to WABCO and then to our service partners and our distribution partners. All this happens digitally enabling real time information and product interface which will provide faster and quicker response to the complete ecosystem. In the aftermarket itself there are many initiatives as it is a key for our bottom line. This was also evident in the last quarter, where we grew 50%, despite challenging times, and I'm sure with these initiatives we will continue our growth path in the aftermarket as well.

Sanjay: The other operating income is quite volatile, what exactly goes into it? Will you please provide some details?

P. Kaniappan: Yeah, I will request Mr. Rajagopal Sastry to address.

Rajagopal Sastry: In the other operating income, we have this income from export of services and interest from investments. Due to the falling interest rate, we see some volatility. But in general, other things remaining constant export services is always a constant income.

Sanjay: Sure. Thank you.

Moderator: The next question is from Mr. Jinal Sheth from Awriga Capital. Please go ahead, sir.

Jinal: Good morning. I recall when we had started, when we were talking about ABS a few years back, the initial realizations that we were speaking about was around 15 to 20,000 bus you need obviously because of scale was low, and I presume we would have come down drastically Is that Is that a fair assumption?

P. Kaniappan: No. This a technology product and ABS is a base system, and we can build more functionalities on ABS. For example, the hill start aid, if we put some additional valves and certain system with delta costs, we will be able to activate this feature, which will be a great help to the driver. Customers have as part of the BS 6, launched these as value enhancers and promote this as a big differentiation. Like this there are many features in the ABS, which gets activated and customers will see opportunities to enhance and activate further functionalities, which will be like upselling the product.

Jinal: Okay, so the point I'm trying to drive is that this when we're talking about when you mentioned about electronic stability control in '23 are you referring to that being mandated in India? From your past history and experience do you think that can mean one thing that I'm going to understand is, unlike ABS, obviously, which was delayed as well, the usability of ESC today, and I mean, the realization of that product today, I'm just trying to get a feel of that.

- P. Kaniappan:** Yes. ESC in many countries has been a standard mandate long back and in India it has been mandated from 2023. First for the M3 busses and then thereafter in other CVs. But we expect that ESC will be adopted even before regulation, because of the safety value that it can provide the driver especially when vehicle speeds are increasing. One of the big customers in India has already homologated most of the platform and is getting ready to release it in a matter of few months. Many hazardous goods fleets are very particular to maintain a zero-road accident record, wherein, ESC will support them achieve that objective.
- Jinal:** Okay, then just lastly, on margins on a very broader level our past two EBITDA margin levels have been 16-17% of course, you've spoken about them that you know the way why because the reason for margins being lower. But directionally can we head back to those levels over the next few years?
- Rajagopal Sastry:** These are temporary setbacks, which we are facing in terms of the commodities and freight; both are temporary in nature, and we have put in place mechanisms to ensure that we come back to our profitability. We are working on coming back to those levels.
- P. Kaniappan:** Inherently that has been our strength and we have built the capability through our TPM, lean and our digitization framework. We continuously look at productivity in the supply chain and the factories. And of course, we have certain levels like localization of some of the products that are currently imported. One of our key strengths is in actively re-designing products to costs which is also one of the key levers for maintaining EBITDA margins.
- Jinal:** Great, thanks a lot and good luck to the team. Thank you.
- Moderator:** We take our next question from Mr. Pratik Podar from Nippon MF. Please go ahead.
- Pratik:** Yeah, hi. Thanks. One is you talked about outperformance as a lever, right? Could you just highlight like over a long period of time what kind of outperformance are you looking versus the industry rather than talk about kit value or content to vehicle maybe just to understand or appreciate this new product introduction strategy, which you explained very well. And second is you talked about the three long term drivers, right in terms of connectivity, autonomous and electric. I just wanted to ask you say globally, the content is x once all the three kick in, x becomes what is it 2x 3x.
- P. Kaniappan:** There are times wherein we have delivered 16% CAGR on the outperformance, but typically we used to operate at a range of 9 to 10 %. In the last few years, we've been delivering close to 15% market outperformance depending on timeframe you are

looking at. Over the, last two to three years there has been a downward trend in the market, whereas this year we are delivering 25% because of BS VI. Typically, we aim for at least double-digit outperformance, but it is subject to market conditions and there are factors outside our limit

Pratik: Understood and the second question on autonomous connected and electric x becomes what if say all the three get adopted globally?

P. Kaniappan: The autonomous, electric, and connected domains will be completely new opportunities as the market evolves, and the scope and opportunities are huge. On the electric domain, it will be based on market evolution, and ZF our parent, has a larger portfolio. We are preparing ourselves to work on that. Further we are working on connected programs and building our capability to play a key role.

Pratik: The outperformance will increase as we see trends moving towards electric / connected / autonomous, the outperformance will only increase versus what our historical base of say you target double digit because of these underlying big mega trends. You will actually see higher outperformance right, is that a fair Understand?

P. Kaniappan: Yes, that's a fair understanding. Only thing is that is not in the immediate near term.

Pratik: It's obviously over the next 5-10 years. But the scope is there that there will be blocks where there'll be material outperformance once these underlying currents play through in India. Okay, so thank you so much all the best.

Moderator: So, Mr. Viraj Kacharya, has the following question, within the commercial vehicles, what will be the severity of impact for purchase shortages. So, which segments? HCV, MCV, ICV or LCV are more impacted, and which are better placed?

P. Kaniappan: My focus is purely on commercial vehicle and products that use an ECU (electronic control units) have been affected. As ZF is a major buyer of all these products, so far, we have been able to protect our customers. We also had to sometimes resort to open market purchases or use air freight because we didn't have sufficient capacity to get it through sea. This is the current situation. But we have so far ensured that our customer lines are protected.

Moderator: Second question was pertaining to the second COVID wave. So what demand trend are we seeing across segments in CV? And how was the inventory situation versus normal currently? Any indications were getting from OEs in domestics and exports?

P. Kaniappan: Yes, we track the air brake vehicles. In March 31,000, air brake vehicles were produced in India. In April, there's a natural cyclic reduction and it was around 21,000 vehicles. This month, due to a lot of uncertainties we see a very steep reduction. It is very difficult for me to tell you what will happen next month. But after that, we feel that the market will rebound, because, unlike the earlier lockdown this time the government has permitted the transportation industry to work. However, these are very uncertain times to make any predictions.

Moderator: So, the next question is, if you could comment on the synergy between ZF and WABCO. And what exactly is a strategy where portfolios are overlapping?

P. Kaniappan: ZF has always found WABCO Group to be the perfect match for technology and industry practices both being complementary. There are many areas for technological synergy - we have AMT control systems and ZF has transmission. Together, we now have a control system so if you put together then you will be able to make a transmission which is AMT. Today the customer has to buy from two separate companies and has to do a lot of integration work; the total system responsibility is not taken by anyone which also may not result in best performance. But now there is a possibility to offer a combined product that is tuned and calibrated to the best performance standards. Likewise, there are many areas for synergy in the electric vehicle portfolio to deliver maximum value per vehicle to the customer.

Moderator: We have got a question, so why hesitate to get into the passenger segment and with coming disruption in mobility where are we seeing an opportunity?

P. Kaniappan: WABCO so far has been in the air brake technology. Passenger cars work on hydraulic systems and commercial vehicle work on pneumatic systems. WABCO has perfected the technologies in the pneumatic space and this is a fundamental reason. Moreover, there are strong established players in that space. Further, in terms of profitability, there's more opportunities to drive profitability in the commercial vehicle segment. There are multiple reasons but primarily technologically is different. Even in the car segment we have certain products like electronic control for air suspension, for the cars. It's a control system for the air, system for air suspension.

Moderator: Next question is from Mr. Mukesh S. Please go ahead, sir.

Mukesh: Thank you for this opportunity. First question is on the expansion activity, you did mention that, you're just starting to kind of get the land etc. But looking at the numbers, I mean, at FY '19 our domestic sales were at about 1,500 crores and now, we are you know, just half of that. So, we have enough capacity is what I would imagine. So, with so much capacity in hand we are going here with expansion. So, is this like a new

product that we are looking at and hence we need to put up the separate facility or is it like we just planning well ahead of the of the requirement?

P. Kaniappan: The first thing is for our exports; we are in requirement of space. You may be aware that, we had looked at land in Ranipet (SEZ) earlier, but now after ZF took over we are looking at a much bigger timeframe with more opportunities and hence we are preparing for the future. Additionally, we need to immediately expand our export capacity. So, we would like to now, combine all these facilities in a single place, so, that in terms of management bandwidth or in terms of bringing capabilities together, we combine everything in a single place. From a long-term perspective we also see good opportunities in the domestic market. Additionally, there is a lot of expansion taking place in the engineering where we see a need to release space. We are also looking at better utilization of the space in Jamshedpur and Lucknow. We are now able to see a bigger long-term view and see a big opportunity for growing in India to support the domestic market as well as the export opportunities from here.

Mukesh: My second question is, it was actually very good to hear that you're saying that ESC adoption by OEMs can happen well ahead of the timeline of the regulatory timeline. We haven't seen that similar phenomenon for air disk brakes (ADB) or AMT?

P. Kaniappan: Many changes are taking place in India - eg , AMT became relevant from April 2017 through BS IV when it changed to electronic engines, and within 3 years the country had to go for the BS VI, where everybody got preoccupied with getting ready for BS VI. The tuned for BS IV had to be recalibrated to BS VI. So, within a 3-year time frame for OEM's, the priority was only to get ready for the BS VI regulations. But after the BS VI, many of them are now releasing these products, because now they have time to focus on AMT and the volume will slowly pick up. In the case of AMT another challenge we faced was that we did not have the transmission which always challenged us to achieve best performance from the AMT System. We now have the solution as ZF has already localized the transmission in India. So together with our localized AMT we are trying to offer a complete solution for the nine-speed gearbox. We have already launched a six-speed gearbox. Further, customers have started seeing the advantage of air disk brakes. They're releasing on some of their vehicles particularly in the smaller size like light duty and medium duty segments. Going forward, ESC & electric vehicles themselves will facilitate the introduction of air disk brake as they will require very efficient braking which can be provided by air disk brakes.

Mukesh: So maybe for a lower volume initially but potentially the content per vehicle can be well more than 15000 rupees if I include the disk brake and AMT for various segment, even let's say the next 2-3 years.

P. Kaniappan: Yes, each technology individually is of high value in terms of content increase and this can add up significantly.

Mukesh: Thank you.

Moderator: Mr. Shashank Kanoria has asked what are the proportion of steel in the overall RM mix and what are the key materials used in manufacturing?

P. Kaniappan: I don't know the exact number as far as the steel percentage, but steel is a major part of our products, particularly mechanical systems like actuator, brake chambers etc. The other key material is aluminum and of course rubber and plastics. Mainly steel and aluminum are the key materials.

Moderator: Thank you.