



**“WABCO India Limited  
Q2 FY2022 Earnings Conference Call”**

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**Moderator:** Ladies and gentlemen, good day and welcome to the WABCO India Limited Q2 FY2022 Earnings Conference Call hosted by Batlivala & Karani Securities India Private Limited. As a reminder all participant lines would be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “\*” then “0” on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Annamalai Jayaraj from Batlivala & Karani Securities India Pvt Ltd. Thank you and over to you, sir.

**Annamalai Jayaraj:** Thank you Janice. Welcome to WABCO India Limited Q2 FY2022 Post Results Conference Call. From the management side we have with us today Mr. P. Kaniappan, Managing Director and Mr. R.S. Rajagopal Sastry, Chief Financial Officer. I will now hand over the call to Mr. Kaniappan for the opening remarks it will be followed by the question and answer session. Over to you Sir!

**P. Kaniappan:** Thank you. I warmly welcome you all to WABCO India Limited’s second quarter results for the financial year 2021-2022. 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. Despite the massive disruptions caused by the second COVID -19 wave, India’s CV industry showed resilience, making a gradual comeback in the second quarter of the year. While on one hand, we are seeing a revival in demand due to the easing of lockdown restrictions and phased resumption of operations and on the other hand availability and inflation in the key raw material inputs continues to pose a significant challenge. During the quarter the scarcity of material also resulted in the Company paying a premium to secure supplies in order to ensure nil customer line stoppages. The logistic imbalance continued with supply chain disruptions caused by container shortages and erratic shipping schedules. This resulted in additional costs incurred for expedited shipments. We continue monitoring the status of semi-conductor availability and its possible impact on the CV production. Sequential decline in the gross margins could be seen across the industry. We responded by taking significant steps to mitigate the impact at least partially which included price corrections and productivity improvements. Massive vaccination drives across the country is helping increase the pace of relaxing restrictions thereby pushing demand. This also gives rise to a hope of a less severe 3rd wave if it occurs. Against this backdrop the Domestic CV industry volumes grew strongly by ~87% year on year. Counter measures taken by companies to offset input price inflation would be the key as strong growth in demand on the back of improving freight availability and higher infrastructure spending is expected for the next quarter.

Integration and expansion: The Merger transaction between WABCO Holdings Inc., US with ZF Friedrichshafen AG (“ZF”), concluded in May 2020. Post acquisition by ZF, the WABCO Group has become ZF’s Commercial Vehicle Control Systems division better known as CVCS division and operates as a separate division until integration, which is expected to be complete by early

2022. Post conclusion of the transaction, as mandated by SEBI regulations, ZF International UK had acquired 18.11% of the shares from the public shareholders through an open offer taking the consolidated promoter shareholding to 93.11%. To comply with the listing regulations of minimum public shareholding of 25%, ZF International, UK had in three tranches in March, June and August 2021 sold the acquired 18.11% shares through offer for sales to the public shareholders. This was achieved within statutory timelines and as on date the consolidated promoter shareholding is 75%.

The establishment of our new Commercial Vehicle Solutions division on January 1st of next year is underway. It will be created from the Commercial Vehicle Technology division and the Commercial Vehicle Control systems Division – the former WABCO Group, which was acquired in May 2020. We are very satisfied with the progress - especially since many activities have been purely virtual. With the new division, ZF will become the largest supplier in the commercial vehicle industry. Our goal is to grow faster than the market. The resulting ability of offering more solutions for multiple applications from the same group offers a larger scope for WABCO India products.

In view of the Company's expansion plans and owing to strategic advantages, the Board of WABCO India had approved incorporating a wholly owned subsidiary which will set up a manufacturing facility at Phase II, SIPCOT Industrial Estate, Oragadam, in the vicinity of Chennai, Tamilnadu. The groundbreaking ceremony is planned in November 2021.

I would now take the next few minutes to explain the measures taken by the company through its CSR initiatives to aid the fight against COVID 19. As we are still amid the COVID-19 pandemic whose effects have not yet been fully quantified, we are continuing in our endeavor to offer our support during these critical times which would help towards improving capacities of community hospitals to tackle the pandemic. At WABCO India, 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. During the first & the second wave the foundation has provided key supplies to augment capacities of critical medical infrastructure. Given the acute shortage of oxygen faced by the country during the second wave of COVID, the foundation is setting up oxygen generation plants of 250 Litres per minute capacity at Peripheral Hospital, K.K. Nagar and at Barabanki, Lucknow, at a cost of Rs 1.2 Crores. The foundation is also supporting the free vaccination drive in the state of Tamil Nadu by working closely with the Greater Chennai Corporation and Kaveri Hospitals incurring a CSR spend of Rs. 50 Lakhs. Through this initiative, COVID vaccines are being procured to be administered free to public through private hospitals.

Almost all the company employees have been vaccinated for the 1st dose. The employee population with the second dose is steadily increasing since it is governed by government guidelines; we aim to cover all employees by the end of the year. In line with the relaxation in restrictions at various locations and the evolution of demand the company is progressively

scaling up production to match the demand as it evolves including increasing the work from office scenario following strict social distancing norms and with employee safety as top priority.

During the second quarter of the fiscal, our employees continued to demonstrate high levels of engagement and participated in various external TEI conclaves winning numerous awards across categories. I am happy to share that in this quarter our teams won a total of 13 awards both at national and regional awards in the various competitions organized by CII, ACMA and QCFL. I am glad to inform you that in August 2021 the Company secured favorable orders from the VAT Authorities relating to the VAT enforcement audit issue amounting to Rs. 187 crores (excluding an amount of Rs. 281 crores as penalty) resulting in this amount being removed from the contingent liabilities portion in the books of accounts.

In respect of certain instances of alleged irregularities in disbursement/ settlement of provident fund dues paid out of the Employees' Provident Fund Trust ('the Trust') and salary payments to fixed-tenure employees in the earlier years, the management initiated investigations have been concluded and the report of the independent expert has also been shared with the investors/stock exchange's through appropriate filings. Basis the above report, no additional outlay over and above the INR 500 lakh provision accrued in the previous year is deemed required. The auditors have issued an unmodified opinion for the current quarter and year to date financial results. The company is in the process of reviewing the report and taking legal advice on the implications and next steps. The company will continue to ensure compliance with all applicable laws, operate through rigorous controls environment and take corrective measures as may be required to protect its stakeholders.

Now moving into our financial performance of the quarter, for your ready reference the results have been made public at 5.30 pm on October 26, 2021. I am sure you had a chance to go through them. The revenue from operations of the Company for Q2 2021 is 616.53 crores, which is a 25.33% improvement over the quarter ended June 2021 and a 47.24% improvement over quarter ended September 2020. Sales to OEMs in quarter ended September 2021 is 226.6 Crores, which is 101.9% increase over quarter ended September 2020. Sales to Aftermarket in quarter ended September 2021 is 84.6 Crores, which is 39.3% increase over quarter ended September 2020. Export sales in quarter ended September 2021 are 247.6 Crores which is 27.9% increase over quarter ended September 2020. Other operating income for the quarter ended September 2021 is 57.7 Crores which is 10.5% increase over quarter ended September 2020. The company returned a profit before tax of 44.95 Crores which is 8% of revenue from operations. The profit is 45.7% higher than the quarter ending June 2021 against 25.33%. This is coming from better efficiencies and operations and from a partial offset achieved causing part of the commodity inflation to the customers. However, during the quarter, the inflation trends in all the commodities continued and further impacted the gross margin. The efforts to offset inflation by further price correction are in progress. Thank you. We now open to take your questions.

**Moderator:**

Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Vimal Gohil from Union AMC. Please go ahead.

- Vimal Gohil:** Sir my first question would be on your OEM sales. As you pointed out that on a year-on-year basis we have grown at almost 102% but just if I were to look at the M&HCV production for this particular quarter this domestic production that is in and around this level only and even last quarter our performance was sort of in line with the production so we have not been able to sort of outperform the industry versus our intention to sort of do so going forward so if you can just provide what has led to know that slight instead of outperforming the industry we have performed in line with the industry so what has led to that and your outlook on the same that is question number one and I have one more question after that?
- P. Kaniappan:** Actually, we are track air brake vehicle production within the M&HCV segment because WABCO plays mainly on the air brake segment. Air brake vehicle production growth is 86% for the quarter and our OE has grown 101% so about 15% we have outperformed the market and not only that this because of certain technologies and system that we have launched as part of BSVI plus some of them getting more applicability. So we have actually outgrown the market by about 15% and I expect that trend to continue as more and more technology adaptation takes place.
- Vimal Gohil:** If I understood your question correctly you are saying that out of the 98%, 100% growth in M&HCV there were such a lower number of CVs where there were air brakes that went into, but you sort of outperform them.
- P. Kaniappan:** Yes, actually we are tracking the air brake vehicles if you see the air brake vehicle in Q2 of 2020 it was 28,900 vehicles and the same air brake vehicles in this year the same quarter is 54,100 vehicles so it is a growth of 86% against that our OE sales growth of 101% so about 15% we have outgrown. Part of that has come from even the price increase we have also secured this year partially for the commodity inflation the rest is because of various technology adaptations.
- Vimal Gohil:** What about other components that we are looking to sort of penetrate be it on the safety side, be it ECUs, be it hill assist, etc., how are they progressing?
- P. Kaniappan:** Our growths are largely comes because of the value that we are providing to the customers in safety, efficiency and the connected solutions. So in case of safety it largely comes through regulations. The next regulatio that has been announced is on the electronic stability control which will start coming from April 2023, with the bus segment M3 busses. But what is really happening in the industry is some of the customers have already started applying the electronic stability control now itself. They are seeing value particularly those who are carrying the hazardous goods are trying to adopt those things. So, one of the customers in India has already started selling the vehicles with ESC feature. From this perspective we have already started moving in the direction, but full-fledged adaptation will take place when the regulation comes. Similarly, other solutions that we offer to the industry is Lift Axle Control System. Lift Axle Control System is one of the systems that is now adapted extensively by all the OEMs where one axle gets lifted when the vehicle is moving without much of a load so that the tyre life can be saved. A few customers will be launching AMT soon. In the case of connected solutions that we are offering to one of the customers, so far they have been applying it to light and medium duty it is now extended to heavy duty also so all these areas we are progressing steadily.

- Vimal Gohil:** So on an overall basis we do expect that our current content per vehicle which is at 600 odd we will sort of progress quite steadily going ahead and the second question would be that you mentioned that on the gross margin front you highlighted that you have taken several steps to mitigate the commodity impact if you can just highlight what exactly are the steps if you could give more detail on that, that will help? Thanks a lot.
- P. Kaniappan:** In the case of OE, our approach is working with our customers and making sure we get the commodity inflation offset by them through a price increase or price correction to the extent so largely we are in a position to get about 70% / 75% of the increase passed on. Up to April we have got the compensation secured and are now working with the customers for next quarters. We are also trying to look at how we can offset the inflation through our own productivity in our own supply chain and our own factories. Many productivity projects are ongoing, we have an organization to look at cost reduction called continuous cost improvement organization. Hence, there are multiple things essentially, we do not expect customer to come and compensate the full impact. On the aftermarket we have already passed on the increase to the channel both in April and July, but this is a one-year cycle and we will get the full increase. For export of course the same logic both of try to pass on to the customer and try to work on improving productivity. We have this very clear structured approach to handle this, but the challenges are high because the increase is steep, and we have probably not faced such increases in the last couple of decades.
- Vimal Gohil:** On the content per vehicle the outlook over there we are at \$600 currently how do we sort of expect to progress over there?
- P. Kaniappan:** If you look at we have been always taking a target of outperforming by at least double-digits every year and now we are in a much better position to drive this outperformance than ever because there are many more global advanced technologies that will be available to us to approach the market. Quite a few technologies are available with ZF and slowly this is being adopted in India. Production of busses have increased, though maybe COVID was a dampener but we see many customers started adopting new technologies. Our electronic braking systems to support the electric transition vehicle moving to electric will offer much higher content. Our have electric compressor will support air requirement for the braking systems in electric vehicle. There are few other global products from ZF that is available, we are trying to promote those in India. Further, in the connected space we are steadily improving our position moving into very higher levels of technology. We are launching our own unified platform with which we will be able to uniquely offer certain solutions that are available globally to Indian customers in the connected vehicles area space and with the fuel saving solutions, uptime centers etc., we can provide additional support. The technology pipeline is already available with us and with our footprint locally both in engineering and manufacturing we are confident of taking a strong position in all these areas, provided that the market must adopt these technologies either through regulation or through the electric transition. We have a clear roadmap on our outperformance as I had mentioned that we operate with a minimum target of double-digit outperformance every year.
- Vimal Gohil:** Fair enough Sir. Thank you so much and all the very best.

- Moderator:** Thank you. The next question is from the line of Priyaranjan from HDFC Mutual Fund. Please go ahead.
- Priyaranjan:** Sir my question is on air suspension side so have you seen any kind of adoption of air suspension in India and what is your outlook on that part and secondly so far we are seeing probably a 50 to 100 busses every month electric busses have sold so what kind of braking system or braking market share you are seeing in the current fleet of electric vehicle which is getting sold every month?
- P. Kaniappan:** Air suspension has become more or less a norm in certain intercity type busses and we believe this will come in a big way in the trailer segment largely because, if there is an air suspension the regulation provides that they can actually add 1 ton extra. So, this will drive adoption of air suspension quickly. WABCO is a control system company so we were having an electronic control for air suspension a proven global solution with very high market share for WABCO. In India, the customers wanted this along with the air suspensions itself. Hence, we released the solution for the air suspension busses typically the 9 meter bus segment and by then WABCO whether there is a much more relevant very proven in terms of less weight type of solution, very, very elegant solution is available so now we are in a position to really look at those solutions coupled with the electronic control system that WABCO has we have to really find a way to localize and offer to the market the price the market will accept that is actually a task that we need to do but as such the solutions are there as the industry evolves but in the trailer segment what we are doing it while we do not supply to the air suspension the mechanical system but we have control system we are already supplying to the trailer segment, but progressively we will also move into the mechanical system as well but it could take some time this is a part of our little long-term type of strategy as the market evolves we will also quickly move into that thing. This is on the air suspension because these things the advantage we have is the content per vehicle is very high and then of course we are in a position to offer a very unique solution because of the ECAS Electronically Controlled Air Suspension not many companies which globally are having so WABCO is very unique from that perspective so that is one.
- Priyaranjan:** So as of now is there any some adoption in the industry or still at a very initial stage of adoption?
- P. Kaniappan:** Of course, it is already adopted if you see some of the customers it is a standard thing. But now we have become a single entity and are in a much better position to offer those solutions. We are already playing role in the control system with the mechanical system that option is available to us we need to find a business to launch it which we will do.
- Priyaranjan:** My second question was based on the electric side the busses in terms of if I look at say every month we are at least seeing 50 to 100 busses going electric in some month more also so I mean what kind of content or what kind of solution we are offering in those busses?
- P. Kaniappan:** The first straightforward thing for us is the electronic braking system. For the electric busses which need to save the energy to ensure that the battery is protected anything that can save energy would be a preferred choice. So electronic braking system is an intelligent solution it very

optimally uses energy for brake because breaking itself is energy deflation so how efficiently you manage that electronically, intelligently would make a lot of difference. A few customers have already adopted the electronic braking system. In our view progressively all customers will adapt to electronic braking. The second is in the normal braking system we have a mechanical compressor so compressor provide air for breaking and so the air generation is now done with electronic e-compressor. We have already launched this in India the more advanced version will also be launched now. Breaking compressor is a part of the braking system but then in terms of content this is much higher content. Few customers have gone for a disc brake axle, so we are supplying the disc brake; this is a new product in our portfolio which comes from the global portfolio that we have now launched in India so far. Last year all the electric vehicles produced by one of the customers is with our disc brakes in the front axle. ZF has complete portfolio for this electric program including the drive central drive, axle drive, all those things we are looking at localization and partial localization, etc., to make sure we will be able to be competitive in the market so like that preferred a few products in the straight line for different segments for busses whatever is it largely for busses and other segments like light duty in India many customers are now looking at moving into light duty segment for the last mile connectivity sort of vehicles for that we have a product portfolio called electric vacuum pump, we are discussing with our OEMs to all these customers to get a business for that. Of course, the connectivity solution that we have launched in India is applicable for electric vehicles also, so we are also trying to look at partnering with customers on that area as well. So in terms of fund, even though there are few products the other product was same and actually there are brakes and then the entire breaking system is same it does not change except the electric version electronic braking and electric compressor that we said and we said disc brake is something that few customers are adopting.

**Priyaranjan:** In terms of electronic stability control what is the voluntary adoption you are seeing right now if I have to say in terms of percentage of industry?

**P. Kaniappan:** No, this is a very, very critical requirement for those trucks that are carrying dangerous goods, petroleum products, all those things which is very well recognized by the likes of total gas, prospects so they were always looking for this so long in India because we are also working with them it was not available it was not released by OEMs so far but now the major Indian customers area already launched it in all their platforms and the number one is taking up I would say it at the level of 50, 100 level today but my feeling is that this is rapidly once if you see the system being operational and the benefit of all that it will quickly catch up but still there is a time element involved for what it really fully experienced but that I think the regulation, any case for the busses it has announced as I said from April 2023 but the trucks we expect in the subsequent years then that is a major shift on the safety technologies in the vehicles.

**Priyaranjan:** The group structure as of now the commercial vehicle business is a separate entity or separate unit terms that ZF group globally and so how is the business divided between say if some part like say 8 speed transmission, etc. which ZF was doing earlier so how will it get divided between WABCO and ZF for whatever product they are already doing and what you are doing and what about the new product which probably come either from ZF or from WABCO side?



**P. Kaniappan:**

First of all the organization is now combined meaning there will be only one single agency driving the commercial vehicle business in India. Essentially I will be leading the business and then of course largely my team is more or less same. It is a combined team, but in India the WABCO India or WABCO India has been much more, the presence is much more and partnership with all customers are very strong, so structurally one face to the customer and this team will actually take all the technology to the customer so this business will go to the WABCO India listed entity what will be outside is essentially what makes sense to first of all to the customer there is certain thing very clear what is the portfolio or the pipe line of product that is wherein and WABCO India portfolio will continue to be with the rest of India. In addition to that what will come inside the listed entity is something this is largely a function of what make sense to reach out to the customer. As I said few products like advanced driver assistance system it is quite dealt by the WABCO India team. In addition when we will be driving the sales of the new product that is getting into the portfolio the commercial vehicle portfolio like as you get transmission, clutches, shock absorbers, like that now the complete electric pipe electrification portfolio all the things we will be driving in India. The competency of WABCO India is a very strong local footprint and in terms of manufacturing and engineering so wherever we feel it will make lot of sense to take the product through the WABCO India pipeline we will take it, wherever it is just importing or it is just localized and then sell it to the customer we may still keep it as part of the rest portfolio. So overall WABCO India pipeline, WABCO India business is actually the listed entity will absolutely in my view gained because of multiplications as I said one is the same portfolio whatever we are dealing we are continuing, some new portfolio getting added to the team, when we are selling more transmission now AMP from WABCO India will further itself will increase, now we are in a better position to offer our integrated solution to the customers that may drive growth for both FZ and WABCO. If it make sense for us to really use the current footprint to produce and sell them in parts that we will continue with WABCO India so overall I think both the business will grow and it is more like a synergy we are trying to synergize the capabilities and drive overall success.

**Priyaranjan:**

In terms of your margin in the last three quarters the margin profile has dramatically changed is it because of more of a mix of export or is it also to do with the localization and other parts which you are not able to do it currently because of lower volume?

**P. Kaniappan:**

I think the main issue is the recent commodity increase and the increase in the case of steel is almost 75% and aluminium increase is most recently it is almost 100% and there is a time lag when customer settles at least one quarter later than what we incurred so this is one aspect. The second aspect is which we are anyway we are continuing to work with customer and try to take it, it is difficult to get full compensation but partial compensation and the second one is we used to get export benefit from the government MEIS which from last year December onwards it is not there, the government has actually instead of MEIS they move to RODTEP scheme, RODTEP is actually they have also made an announcement that it is not applicable for SEZ special economic zones most of our export goes from SEZ so that is one gap and of course the earlier from January 2021 we have to set up the CSR the mandatory which was not the case last

year by this time but of course as I said we are working to significantly improve the situation progressively have to move forward and lot of actions are put in place.

**Priyaranjan:** Thank you Sir all the best.

**Moderator:** Thank you. The next question is from the line of Sonal Gupta from L&T Mutual Fund. Please go ahead.

**Sonal Gupta:** Sir just following up on that question and your response so there is a significant increase in other expenses also in this quarter and I think in the beginning also you have mentioned there has been some disruption and that is leading to additional cost so would you be able to quantify if some of these are one off and should we see some of these costs going away in the coming quarters?

**R.S. Rajagopal Sastry:** Some of the other expenses are volume driven like the freight cost, which are incurring and certain other maintenance and other expenses which are incurring are volume driven. There are certain costs which actually are professional services which we incur as a part of our services which we provide to the global entity which is the Software Development Services and also engineering services and that you would see is also reflected an increase in the income from services and correspondingly as royalty is directly related to sales you also would see that the other expenses have got royalty as a part of it. Other than that there is no one off items but largely this is in line with the volumes and it is some of them are also while they are not reflected in the revenue from sales of product they get reflected in the revenue from services.

**Sonal Gupta:** So royalty would be only on the India sales portion and that way it is growing?

**R.S. Rajagopal Sastry:** That is right and that is where you saw the growth also compared to last quarter previous year same quarter you see this increase only in aftermarket and OE sales significantly. Yes, so it is only on the domestic sales you are right.

**Sonal Gupta:** What is the average rate for that?

**P. Kaniappan:** We have made this quantity we pay 4.5% of domestic sales as royalty.

**Sonal Gupta:** So there is no item that you would, but why I was asking was because of as a percentage of sales this quarter other expenses look higher than what we have seen in the last three quarters so that is why what like you are saying that all these are more volume linked really speaking?

**R.S. Rajagopal Sastry:** You are right that is largely volume and they also support the increase in service so there are no extraordinary item they all are supporting revenue they have a direct access with the change in revenue.

**Sonal Gupta:** Would it be possible to give any sense on we continue to see healthy improvement in exports so should we see like further ramp up on the export side or how it should we think about the export side?

- P. Kaniappan:** Yes, export I will do some specific details of type of exports that we do one is, we are supplying in certain high technology product to BMW from Mahindra City plant it is for the high end BMW cars we supply the air supply unit electronic control for air supply unit say it as a product so global design but manufactured in India with the local supply chain, etc., so we are doing it, that business is growing more and more BMW vehicles are adopting they are adopting the new system so few projects we have that comes on stream coming weeks, coming months that business grows. Second is we are also making the compressors in Mahindra City and particularly they are compressors we have started with one customer Volvo, Volvo requirement we start making now the second customer is DAF compressor for DAF start of production is started that will also grow the next year Jan 2023 we will also be producing for Daimler from our plant here so the compressor business also we expect to grow. We have clear projects in the pipeline that will as and when the DAF compressor start now the small volume but it will pickup successfully then we supply actuator from India to normally US and European market for trailer shipments and some OE business, this is a product designed in India manufactured here mix product also gaining lot of traction in those markets and again we see additional demands coming in. So in all areas we feel the export will grow, we see growth in export so there are some challenges of recent times challenges of the container availability, uncertainty in the times going to reach the destination, etc., it is forced from air freights and all that of course largely it was picked up by our entities in other markets but then that is a challenge segment we say because even though they pay and pick it up but then the competitive we need to come to it at a landed cost level with anybody who wants to supply so that is a challenge right now we are facing but I am sure we hope this will get the results soon and on the other side from our side we are also trying to look at we can really position our self as a best cost location globally on this product.
- Sonal Gupta:** So these products that you sort of just highlighted what portion of the total exports is this like is this a small portion currently or is this meaningfully large?
- P. Kaniappan:** No roughly it is around 240 Crores, 250 Crores we are exporting per quarter each one and you can take each one see compressors itself will be about probably 20% the BMW part that this will get maybe another 20%, actuators maybe about 20% the rest there are many other items we have we are also producing slack adjuster for global markets from the plant we have launched it only recently one year ago we see a good amount of requirement for that item as well like that we are also supplying some one particular product lever for this trade manufactured in our Mahindra City plant but largely those three products I say it is in terms of the product range compressor electronics the air supplying unit for pickups and actuators and all.
- Sonal Gupta:** We should assume that the profitability on the export side is similar to the domestic side right?
- P. Kaniappan:** Export largely we are operating on the transfer price logic and also we are trying to again if you keep any improvement in productivity then we can improve versus even the transfer price but largely it is on a transfer price logic.
- Sonal Gupta:** Great sir thank you so much for taking my question.

**Moderator:** Thank you. The next question is from the line of Shyam Sundar Sriram from Sundaram Mutual Fund. Please go ahead.

**Shyam Sundar Sriram:** Sir just continuing on that export question last quarter you have said the visibility for exports on annualized basis is more than 1000 Crores per annum kind of a run rate this now you called out some air compressors is starting for DAF and later to Daimler as well but I just want to understand these are always supplying mechanical compressor per se is there any change in terms of the business model as earlier we use to supply to WABCO parent and then it use to go to the customer and now are we directly supplying to these customers any change there that is one question, secondly whether sourcing from India is there any visibility over the next one to two years of the products being sourced from WABCO India per se which is there the design is there and then manufactured by WABCO India there any such visibility from the ZF portfolio now, added question here this new Oragadam plant will continue to make our existing portfolio of products catering to higher demand or are there newer products also that we are adding in that Oragadam facility?

**P. Kaniappan:** To the first question where you asked whether we have a requirement at present only through WABCO entities to customers at least to some extent it is also customer choice we are already from Mahindra City we are supplying it to one customer directly a part of our sales to BMW goes directly to them because they have an arrangement in India to receive it to buy it here and then take it. Most of the customers get it through other entities because those customers are located in those regions we are not directly interacting with them the arrangement is that we are more like a manufacturing side for them. In terms of product range there is a mechanical compressor maybe that will also link to your last question also. My Oragadam site will also handle domestic requirement, export requirement but we are looking that recently government has announced its production linked incentives for some of the advanced products maybe electric vehicles, electronic systems, etc. We are looking at can we make of course India is a base for some of the advanced products it is a hub for global requirement it is too early right now for us to make any indication but that is an idea about our own the Oragadam site itself we are trying to really see how it can really position as apart from supporting for the current business growth and can it support to leverage the PLI scheme that is a work at very, very early stage but Oragadam plant right now we have purchased with an idea that it will support the additional demand that is there in Mahindra City for export the sales now available so that is the starting point, domestic volume is growing now the further growth in the domestic volume also will be supported there and of course third is with the electric India moving to electrification can really use India as a base for manufacturing some of those parts for electric vehicle so the volume for India alone cannot restrict for a localization so we are studying the whole thing.

**Shyam Sundar Sriram:** So we will be making an application under this scheme shortly once our study is done?

**P. Kaniappan:** Application for...

**Shyam Sundar Sriram:** Under the PLI scheme we have made the acquisition once we complete our study?

**P. Kaniappan:** Yes that is correct.

**Shyam Sundar Sriram:** From the last point what I asked on the WABCO sourcing so initially this PLI on the EV products is what we are now looking to source that product will also bring pooling their requirement to source from India is that fair understanding if it is feasible whatever is feasible?

**P. Kaniappan:** We have set up the sourcing from WABCO India that is the topic.

**Shyam Sundar Sriram:** Yes sir so just connecting that point with the PLI point what you mentioned so as of now this EV requirement for the trucks for example the electric compressors, etc. that is what has been looked at from ZF perspective also to source from WABCO India?

**P. Kaniappan:** No for example what we are looking at because right now I am not in a position to really tell on this topic but what I am looking at it like this I have a compressor for electric compressor for India market and that compressor if I localize in India and make it as a best cost kind of location then I become the source for any WABCO entity any ZF entity for that product that is something that strategic positioning I can make and that is what you are looking at because there is a need to localize we are localizing an electric compressor for example, in the current form I still need to import some of the electric motor type of thing from some other place another country but if we are able to really find a local supplier and develop that product in India at a competitive price then India will be a global source for that item. Right now what we in India team we need to do is to really find few products and make India as a hub for global manufacturing that is what we are trying we are looking at it now, it could be electric vacuum pump, it could be electric compressor those type of products where we have high possibility of we being the Indian supplier to many of the Indian customers.

**Shyam Sundar Sriram:** Understood Sir that is very helpful. Sir just other another question the service income like what our CFO also pointed out we used to do 47 Crores, 48 Crores service income which has now gone to 58 Crores this quarter and what I am trying to understand is there any increase in the software exports or the global engineering support that we provide is there any increase in a scope of work there some of our sectors of some ZF and scope of work increase for this global engineering that is what I am trying to understand?

**P. Kaniappan:** Yes, the scope will continue to increase because the software center has emerged as a very strong pillar of the global software development for WABCO almost 85% of the global requirement of the advance software written by the team here. Now the ZF coming onboard I strongly believe it will keep increasing and at a high level yes there will be a steady increase in the services that will be providing in the software and other engineering services from India to ZF globally and because in terms of competency, capability and the cost structure everything India is very attractive for global current. So I am sure that will definitely increase.

**Shyam Sundar Sriram:** Understood Sir. Wonderful to hear. Thank you very much Sir, I fall back in the queue. Thank you.

- Moderator:** Thank you. The next question is from the line of Pranav Mashruwala from Finvest Advisors. Please go ahead.
- Pranav Mashruwala:** Sir can you repeat the number which you had given in the beginning like OEM aftermarket vis-à-vis the reference we does not seem to be adding up to 616 Crores?
- P. Kaniappan:** The numbers are OEM is 247.6, and you have aftermarket of 84.6, and then exports of 247.6, and then you have service income at 57.7.
- Pranav Mashruwala:** I think that is the expense.
- P. Kaniappan:** See OEM is 226.6.
- Pranav Mashruwala:** 84.6 is after market, export is 247.3 and 57.7 is the other service.
- P. Kaniappan:** Yes.
- Pranav Mashruwala:** Sir I will request if you can just give this information by way of a press release before we begin the conference call it will help us to understand the result in the right perspective.
- P. Kaniappan:** We will study if it is possible Sir.
- Pranav Mashruwala:** Yes, Sir, please. Now my another question is how do we see the overall prospects of the CV industry looking at the several constraints which we are facing do you see the industry can continue to grow at a strong double digit growth for the portion and in the segment which is relevant for us. Sir how do you see the growth going ahead for our company which will come from the increase in the CV products it will also come from the increase in content per vehicle can you give us some idea about that?
- P. Kaniappan:** India actually the vehicle numbers we have a very low numbers and first of all what we need to understand is we are actually in the bottom, in 2020 the number of vehicles above 600 vehicles numbers if you look at only 156000 which is actually one third of the peak which is 479 in 2018 very steep production so here it is to only move up. The fundamental thing is from here it has only move up so it has come to 249 in 2021 this is an estimate so next year we expect at least another 20% it has to grow and there is nothing more serious problem like third wave or some serious problem. India will go through a multiyear growth in the M&HCV sector and probably I do not know at least next two, three years because you also must have hear from some of the CEOs of the OEMs and our own internal estimate our own planning source we are on to a multiyear growth trend so still even with the multiyear growth trend still it will take a long time to reach the peak that happened in 2018 so that is a very broad view, so the industry will grow for multiple reasons first is the economic development is also picking up, long call is tractor trailers now that for movement of e-commerce, e-commerce goods, construction material, ease of the mining activity, all the freight generation sector is growing into the low base we should understand the we are growing from a low base it has to grow. Second is there is some trend in

the market right now, because of the steep increase in the diesel price in the light and medium duty particularly in the ICV segment intermediate commercial vehicle segment below 16 ton there is a shift towards the CNG as a fuel recently very recently that is driving some good volume in that sector and definitely you also make that there is a lot of focus on board building then the kilometers per day is increasing, etc., and then in the short run one headwind is the diesel price keep on increasing but recently we realized last two, three months that the freight rate also increasing meaning the freights are able to get a better realization which is a positive signal meaning that utilizations are good, economic activities are increasing, freights are available so that is a positive thing so this will take us at least next two three years because from a low base we will grow only but then there is another very important driver of the future growth will be the scrappage policy, the scrappage policy is of course announced in three, four years we are going to launch April 2022 will be the first phase that the government has to scrap most of the vehicles that is owned by them which it is beyond the 15 years timeline for the truck sales purchase on trucks and thereafter we understand about 17 lakh vehicles have been scrapped over a period of time and whether that the scraps of the truck vehicle is a question but even if the scrap one third of that, that is I track about more than 500000 vehicles which is more than a one single year production even at the rate of 20% it will take five years for that to be scrapped so production has to start because I do not think these vehicles which is axle load efficiently and polluting can continue beyond 15 years. There are many drivers our own assessment internally shows we are into a chart of the new cycle of growth multiyear cycle of growth.

**Pranav Mashruwala:** I think by that time I think the clarity will also come between what will come to WABCO India Limited and what will go to the ZF and WABCO other entity right?

**P. Kaniappan:** Yes, that is correct.

**Pranav Mashruwala:** So sir just a culmination of this point I would like to say that we say that we want to reach €1 billion by FY2031 as per our last concall that is roughly say around 8800, 9000 Crores and WABCO India we wanted to be around 75% that is around say 6000 Crores can we reach that level much earlier than in FY2031 going by say if it is a multiyear growth profile for increasing content per vehicle and more goods coming to WABCO India Limited as a overall corporate policy of the ZF group so what will be the strong probabilities for that?

**P. Kaniappan:** Yes, there is a strong probability basically our current forecast is by 2030 the commercial vehicle business in India has touched €1 billion and in that of course the major growth will come for WABCO India because of the position already we have taken. Whether it will take earlier or now it is not sure and then this is a most recent plan that we have but we keep revising our plan as we move forward we will also keep you update it as and when our plans gets revised as things are becoming clearer, more technologies are coming to India, etc. we will keep updating.

**Pranav Mashruwala:** Thank you very much Sir wish you all the best.

**Moderator:** Thank you. Ladies and gentlemen that was the last question for today. I would now like to hand the conference back to Mr. Annamalai Jayaraj for closing comments.



*WABCO India Limited  
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**Annamalai Jayaraj:** We thank all the participants. We thank WABCO management for taking time out for the call. Have a good day. Thank you.

**Moderator:** Thank you. On behalf of Batlivala & Karani Securities India Private Limited we conclude today's conference. Thank you all for joining. You may now disconnect your lines.