



“WABCO India Limited Q3 FY22 Post Results Conference Call”

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MODERATOR: **MR. ANNAMALAI JAYARAJ – BATLIVALA & KARANI
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Moderator: Ladies and gentlemen, good day and welcome to the WABCO India Limited Q3 FY22 post results conference call hosted by Batlivala & Karani Securities India Pvt. Ltd. As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I 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. Good afternoon. Thank you for joining us today and welcome to WABCO India's call to brief on the quarterly earnings. Today the third quarter earnings for FY2021-2022 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. Rajagopal Sastry, CFO, as well as Ms. M. Muthulakshmi – Company Secretary. Certain forward-looking statements that we 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. WABCO India's results for the quarter ending December 31, 2021 are published in January 27, 2022 and is available on the website www.zf.com under the investor relations section. We hope that you have had an opportunity to go through that. A transcript of this call will also be made available on the website, www.zf.com under the investor relations section. I now hand over the call to Mr. P. Kaniappan who will provide you with further insights on the results. Over to you, sir.

P. Kaniappan: Thank you Mr. Jayaraj. I warmly welcome you all to WABCO India Limited's 3rd Quarter results for financial year 2021-2022. Let me begin the business update the industry and economic update. I would like to start with the macroeconomic aspects of relevant to our industries the GDP growth. As you will be aware there are many estimates of India's GDP growth. The consensus appears to be a growth of 9.5% for the financial year 2021-22, additionally there are positive trends in the index of industrial production, particularly driven by mining and a moderate increase in highway construction, freight rate showed steady average increase of close to 7% every month during the quarter, where diesel prices remained flat. The improved uptake in bank credit is also at the highest level seen over the last two years which provides room for optimism. This should augur well for our industry in terms of both demand and sales.

Despite the challenges posed by the continued semiconductor shortages, increasing material and logistics costs, we will continue to protect our customers and business and strive to deliver value to our stakeholders.

Our customers produced almost 66,000 air brake vehicles in this quarter, a growth of 14.2%. This is the corresponding quarter of the previous financial year. The base effect of the earlier quarters is now wearing off. This combined with our own out performance has generated sales growth in OE which I will cover in more detail in the financial part.

We have been working consistently to increase our content per vehicle and in the quarter under review, we were able to extend our telematics business further with a leading OEM for their HDD platform in addition to the light and medium duty segments on which we had already supplied. We were also able to increase our share of business OEM products, including the lift axle control system and increase the penetration of our hill start aid feature with more and more vehicle platforms being equipped with this technology. In the aftermarket segments, we were able to provide retrofitment segments solution for advanced connectivity solutions like trailer pulse, trailer pulse is an excellent solution that makes the most of the enhanced connectivity functionality. It monitors the health of the trailer and transmits crucial information through different multifunctional and dynamic web-based platforms that by allowing fleet operators to make informed decisions about their trailer more quickly. Designed to capture maximum data on trailers with limited electronics trailer pulse is a robot in the telematics solution that supplies real time location and rich electronic braking system data. We were also successful in expanding of the distribution networks with the appointment of 13 new wholesale distributors with over 100 additional branches, improving our pan India reach.

Taking the digital initiatives for the aftermarket a step further, we also launched a dealer and mechanic reward program on the customer center, which is our own e-commerce platform.

The export growth is muted in the quarter due to the non-availability of semi-conductor components. We commenced the delivery of compressors to Duff and the levers for air disc brake from our Mahindra World City Plant. We have secured additional businesses for double dare from spring break actuator and automatic slack adjuster from the North American market. The greatest single impact on the industry and our company has been the commodity price inflation, between the same quarter of the previous year and the current quarter aluminum became 72% more expensive, hot rolled steel by 46%, cold rolled steel by 44%, CapChain by 70% and copper by 42%. This had a significant impact on our material cost although we worked very closely with our customers and secured partially compensation to help offset this impact partially.

We are taking multiple initiatives, which include seeking further compensation from customers and also driving productivity initiatives in the supply chain on factory, localization of the imported components and also redesigning the product to cost of some of the products where there are opportunities.

The company has significant export content, and our standard exporting currency is Euros. The quarter began with strong Euro-INR 88.34 per Euro on the 1st of July to 84.65 on 31st of December 2021. That had an impact on our results because of the mark to market of Forex denominated assets, and liabilities. The global commercial vehicle market continues to feel the impact of semiconductor shortages. We are working with our global supply chains, more carefully with agility to protect interest of our customers here in India.

Now, I am moving to another topic, integration and expansion of ZF business in India. ZF announced the successful launch of its new commercial vehicle solution PVS division with effect from 1st of January 2022, new divisions combined there are expertise in the commercial vehicle industry and significantly advanced solution, for phase sustainable and digitized transportation. The new division unites that has former commercial vehicle technology and commercial vehicle control systems division the letter of which was formed from May 2020 acquisition of WABCO. At TVS India our mission is to help shape the future of how commercial transportation systems in India by leveraging synergies across the growth. We are uniquely positioned to offer the next generation of solutions and services for commercial vehicles and fleet in India and worldwide. Our support will play a key role in making them more efficient, safer, connected, intelligent and automated. Under the umbrella of strategic mission for next generation mobility, we will leverage our capability to innovate, integrate, and advance PV, vehicle control systems and set the pace to address the challenges of the commercial transportation industry in India. By mobilizing commercial vehicle intelligence, we powerfully contribute to the next generation mobility corporate strategies.

As a logical step, the company sought the approval of shareholders to change its name to ZF Commercial Vehicles Controls Systems India Limited. Shareholders have consented the majority voting in favor, and we have initiated the follow-up actions which includes such story and other brand promotion exercises to further strengthen the ZF brand in India. Our expansion project at Oragadam is progressing well and currently we are in the preparatory phase for our plants and obtaining the required approvals. In line with our plans construction is expected to commence in the latter half of March 2022. We will invest about 150 crores within the next two years including plant and machinery. sometime machinery. Additionally, the company successfully incorporated its own subsidiary named ZF CV Control Systems Manufacturing India Private Limited. This company is focused on manufacturing the products, plan for future India market introduction. The company also filed an application to be considered as a recipient for the production linked incentive for the manufacturer and sale of automobiles and auto component industry products. We await the outcome of this application.

Now I am moving on to the Corporate Social Responsibility outreach. As the COVID-19 pandemic is ongoing, we are continuing to offer our support during these critical times to help improve the capabilities and capacities of community hospitals fighting 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 the communities, governments and local bodies to deliver qualitative social improvement. The SABCO foundation are not for profit. The organization has been set up to implement our CSR initiatives. During the 3rd Quarter of the financial year 2021-2022, we supported the Assam State Transport Corporation with some 45 sanitizer machines. As previously communicated, we supported the government of Tamil Nadu pre-vaccination initiative. I am happy to share with you that of the 8000 doses we have committed. We have now reached the half year mark. Additionally, we conducted a blood donation camp at our Jamshedpur site and 82 of our employees came forward to take part in this important event.

Continuing to make progress on our road safety initiative. In this quarter, we conducted 5 road safety interventions. A total of approximately 320 vehicles were checked and health checkups were done for 280 drivers, and they were supported through the CSR Foundation. Almost all company employees have been vaccinated with the first dose. The company population, the second dose is steadily increasing and was at 81% at December 2021. In line with the relaxation in restrictions at various locations and the evolution of the demand, the company is progressively scaling up production as it evolves. This includes increasing office-based working, following strict social distancing norms and protocol and our employees' safely remaining at top priority.

Awards and recognition. WABCO India Limited, won the best supplier award for the category of technology innovation from Volvo Eicher commercial vehicles. Our Mahindra World City plant has been chosen for export excellence award for our export performances in financial year 2016-2017, second position and financial year 2017-2018, third position. Our employees continued to demonstrate high levels of engagement and participated in various external portal employee involvement. Competition winning numerous awards across several categories in the 3rd Quarter of this fiscal. I am happy to share that in this quarter our teams won a total of 12 awards, both at national and regional level in the various competitions organized by the CII, ACMA and QCFI, Quality Control Forum of India and Automotive Component Manufacturers Association of India.

And now moving on to our financial performance for the quarter. For your ease of reference, the results were made public at 6 PM on 27th of January. I hope you have had a chance to go through them. Aided by an increase in vehicle production of 16% and our own market outperformance of 11%, our sales to OEMs is 275.9 crores. This is 26% better than the previous year. The overall strength in demand ensures that our aftermarket sales too jumped by 19.2% to 87.4 crores this quarter. Exports was a strong performer last year, helping us manage a very difficult time and it remains almost flat this quarter at 229.34. For engineering and other services continued to provide very strong value to our customers in the group. A growth in service income is very healthy 29.6%.

Well, I have a lot of good news which I shared with you on the top line. I should say the current period is very challenging from a profitability perspective. Overall, we have achieved a profit before tax of 43.2 crores which is 7.3% of the products head. Our EBITDA for the quarter is 11.4%. We continue to carefully review the environment and our performance to consider further opportunities for actions to mitigate the commodity inflation and gain traction. This is important as we also see softening up the commodity prices going forward. Thank you. We are now open to take your questions.

Moderator:

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

- Vimal Gohil:** I am not sure if you have mentioned this, I joined the call a bit late, so I am sorry if I am making a repeat. If you could just highlight the OEM domestic aftermarket and export business for me, please?
- P. Kaniappan:** Actually, the performance in the OEM has been, of course, driven by two factors, the vehicle growth itself has grown versus the previous year quarter, 14.2%. And we did an outperformance of about 11%. So, our growth is around 26% in the OE. In aftermarket, we grew 19.2%, again this quarter versus the previous year same quarter. Export more or less is flat because our growth in the previous year itself is very good in export. So, we had certain challenges. Even though the orders are there, we were not able to deliver because we needed certain semiconductors to be fitted and export in few of the parts, plus also sell certain sensors. These items are to be imported, fitted in our products and then dispatch. Challenges are getting that semiconductor component so our aftermarket sales, our exports sales, it was somewhat muted. Plus, also globally there are a lot of challenges due to semiconductor in our other sites which are actually importing the products from us. Their growth has also been muted. So, exports is more or less flat at, say, 229 crores.
- Vimal Gohil:** Just wanted to get a sense on the domestic piece, you said that piece had grown by 26%. And you said that your market with air brake system grew by about 14%. Would it be fair to make a comparison if we just compare the 16 tonner and above good carriers' vehicle segment in order to gauge your performance also, we sort of gauge that?
- P. Kaniappan:** We have a comparison of largely air brake vehicles. Air brake is essentially above 16 all are air brake but even there are vehicles above 7 tonnes also. Quite a number of vehicles are in the air brake segment. As I said the industry in that segment has grown in that quarter at about 14.2%. And we have outgrown the market by about 11%. So, this is same. So, largely our play is in the above 16 tonne but we also have a certain sale we make above 7 tonne as well. In this sector the growth is largely driven by the e-commerce sector, tippers. Most recently there is a traction on the haulage also. So, the industry, of course, if you see compared to the previous year there is a growth of 14.2%, but within the quarter it started well in October but then slowly it started moderating November and December. Again, because probably the new model year with all the scrappage policy that is going to come, after 15 year you have to scrap the vehicle, so there was some muted growth within the quarter itself from the beginning to end October to December. But January onwards we see little more positive news for that.
- Vimal Gohil:** I was just looking at the 16 tonne and above good carrier vehicle production. It comes to around 45,000. But I will take that clarification offline. My next question was on margin, you said that the raw material cost is the one because of which we got impacted. Just wanted to get a sense, have we started passing that on to customers now because we are way off our normal gross margins at this point in time. That's point number one on margins. The second point is the overheads that is other expenses this quarter have been pretty high at about 89 crores which is almost a 46% YoY growth. What has contributed to that? These are my two questions on margin.

- P. Kaniappan:** To the first question, we have been regularly interacting with customers to get that price compensated, we have got almost four times in the year, at every quarter, the logic we work with that we will absorb for a quarter and end of the quarter they compensate. So, in the OE but the challenge was the maximum increase happened in October-December quarter main in the aluminum. Aluminum very steeply increased in that quarter. So, the sum of that will get compensated in this year. Typically, I would say to give a number to you in the OE business you have got about 70% compensated. Actually, we are working with them to get the rest as well. On the aftermarket on the other hand, we have affected. We made two increases, one in March, other one in July, but still as of now we have got about 46% of the inflation and pass on, the rest we would like to do it in the coming quarters. There's a time lag, but in principle there is some amount of indexing. Even though we don't get 100% but then a certain amount of indexation we are actually during the course of the year we want to pass on and then make sure that is accepted. So, that's on the compensation. On the overheads I would request our CFO to throw some light on that.
- R.S. Rajagopal Sastry:** On the other expenses straightaway, we spoke about the foreign exchange. So, foreign exchange loss definitely was one of the elements. And because of some amount of increase in volume, the volume also explains the additional variable expenses which we have incurred. And few other topics which we had was CSR was not a topic last year. So, CSR is giving us the impact this year, Corporate Social Responsibility. And we did have a certain amount of tailwinds last year because some of the assets which we had impaired, we found alternate uses to them and we wrote them back into the books and they are working right now, but that particular tailwind is not available today. And we also have benefited by the MEIS last year. And you know that MEIS has been replaced with RoDTEP and RoDTEP is not available for special economic zones. So, some of these are the elements which actually caused an increase in the other expenses and a couple of other topics were that there are some expenses which we are incurring to manage the business for export of services, and we would also say that it is compensated by the significant increase in the export of services revenue, other income also you see there is an increase. So, that's the total story for the major elements in the other expenses.
- Vimal Gohil:** Mr. Shastri, how much would be the Forex loss? Could you quantify that for us this quarter?
- R.S. Rajagopal Sastry:** We have incurred a loss of close to 4.5 crores.
- Vimal Gohil:** Do you still maintain our long-term aspiration of significantly improving our profitability? This company has had a history of operating at nearly 16% margin in the past where the volumes were good. Of course, the business momentum was pretty good in FY18-19. But given the fact that once the momentum for MSCV OEM volumes returns, export volumes get better. Do you expect to get to that 15% odd margin going forward in the next couple of years at least?
- P. Kaniappan:** 16% versus now there are some tailwinds that were available, no longer available. We used to get about 2% improvement on the export incentives which is not there plus probably some CSR. These are the two things I would say, certain tailwinds available not there now. See, there are a

few things I would like to highlight. One is the industry volume itself still is much lower than what we have invested in terms of capacity because it used to be per quarter, per quarter we used to do a peak of almost 120,000 vehicles. If you see in this quarter, because I always compare the air brake vehicles. In this quarter under review, it was 66,000 vehicles. But then the positive news is that we are seeing improvement and we believe the market will continue to grow. Still not clear when it hits the peak, but at least next 2-3 years there will be a growth in the vehicle number with the economic growth that is being predicted. That is one. So, it will definitely improve our margins. Because you are comparing to the earlier one. The second is we have been doing a very strong focus on our aftermarket. And even in the OE now we are building a new business on the digital side which we did certain work earlier, but now it has reached some level and we will see that also moving into positives in terms of profitability. We have started getting some subscription revenues, close to 50,000 trucks in our account and this is from the OE route. Plus, we are also now working in the aftermarket to put some of the digital solutions. So, we are more and more trying to get the vehicles connected to our subscription revenue. The initial investment that we made; all those things have been paid back. So, this will also drive the growth, the bottom line. And the aftermarket as a business itself as a percentage of sales, percentage of overall sales we are trying to drive better as I said, very fundamental improvements we have done in terms of launching 13 new distributors with 109 new branches increasing the reach in the market, applying some of the analytics tools and techniques to see each product, how much we are selling, how much we should sell, what is our entitlement, etc. So, we are driving that growth. With all that not so good economic situation, we are growing in the aftermarket about 20% in the quarter. This will drive our bottom line significantly because it's a very profitable business. Of course, we are fundamentally looking at one side, we are working with OEMs to get the compensation at the same time we are also looking at internally how to manage to offset inflation to the extent that whatever customer is not compensating, we are trying to do it from many other initiatives. We have been a company pioneering in the Lean and TPM type of technique applied in the supply chain. We are driving that, plus also a few of the products where we are not that profitable, we are redesigning to the cast to make sure that the design capability that we have, we are redesigning some of that. So, all that we are trying to do to make sure that we are back to our profitability level. If not 16%, but as I said, there are certain tailwinds which were earlier, it is not that much available right now, but we are driving the basic profitability moving forward.

Vimal Gohil:

Just one last question on the content per vehicle. You have highlighted previously that our entities content per vehicle versus our own sister concern across US and Europe, if you look at the content per vehicle it is still very-very low, somewhere near \$600 per vehicle and the Western geographies, I mean your sister entities in US and Europe, the content per vehicle is as high as maybe \$1,500 to \$1,600. So, do we still maintain our positive view on the content per vehicle improving going forward? Where are we in terms of, if you can just give us some update on your new products and the launches, which are the new products that you are going to launch and what are we doing in order to increase our content per vehicles going forward? That was my last question, sir. Thank you so much.

P. Kaniappan:

We still hold the same view because India follows a global trend, and we are always from two years designed our trends. So, there are a few products that will drive our growth. Of course, I have been highlighting AMT for quite some time, but probably now the time has come for AMTs to pick up and we are already there in the right speed gearbox we are launching AMT with a few customers. And that will significantly drive overgrowth. If you see you, US and Europe they were like the current situation as far as AMT adaptability is concerned few years ago but today in this market this is one of the very fast-growing technologies. Similarly, Disc Brake also we have localized now, a few of the customers particularly in the electric vehicle they have adopted. We see this is another important product that will drive our growth very significant and then similarly the electronics stability control slowly started picking up even before regulations. Regulations will come in 2023. And in the near term there are certain regulation like the preceptor connector has been mandated. It is a small, around Rs. 2000, etc., but some of this will come in the near term. And of course, now in the electrification now it is very rapidly getting adopted, at least in the bus section. And we are present with our electric compressors. So again, a very high content. So, we will be driving our outperformance through these products and many new. I also talked about digital business, something that we have started. So, all these things will drive our growth. We will more and more move into the autonomous connected electric domain and this portfolio of products that we have already readily having it, this will progressively take off.

Moderator:

The next question is from the line of Jinal Sheth from Awriga Capital. Please go ahead.

Jinal Sheth:

In the last few calls you have been highlighting about the global business and exports in that sense where at some stage that would come to WABCO India. If I were to look at the trend in the last few quarters, we are in that 220-crore run rate. When do you see that kind of where that run rate kind of starts picking up? Would that be near term or there's some time to go?

P. Kaniappan:

If you see, we have been in the range of about 60 crore per month, if it is 2019-2020, 2020-2021 even previous year. Previous year around 65-66-67 crores. Today we are in the range of about 75 crores. So, that's the growth despite all this COVID and all that. But the challenge we have is the export plant is full now. Mahindra City plant is full. Some of the growth to be very incremental right now and the Oragadam plant, the construction is starting the end of March. By end of this year, we will start the SOP. That's the way we are moving. And that will drive our next jump in the growth. And that also will be handling some of the new demand from our new parent. So, step increase is expected only when we have the new plant. Right now, the next one year it is largely incremental.

Jinal Sheth:

My second question is do you expect any regulatory changes in the near term which can kind of help us?

P. Kaniappan:

Of course, we say in the topline the regulatory changes are, in the very near term from April there is going to be a regulation which calls for some of our products to be fitted with preceptor connector. A connector that will help the fleet and the customers to check the pressure in the

system. Many of our products have to be fitted in that projected connector, from April, I think it comes into force. So, it's a small delta. Then the major thing is that electronic stability control which there is a mandate already available for the M3 buses from April 2023. We have already homologated the technology with most of the OEMs. Some of the OEMs already started selling even before the regulation, because this product some customers particularly those who are carrying that sort of goods, they need it even now. So, that's already started. Few of the customers the next one-year time frame they will homologate and adopt. So, we are getting ready for that regulation in April 2023. These are the two things I am able to see.

- Jinal Sheth:** The depressor connector which you mentioned, is that a small component of our sales?
- P. Kaniappan:** The overall delta could be in the range of Rs. 2000. Because many of our products, I won't say it's not a big change, but still in terms of timeline and export rates will come into force and we are all getting ready for that.
- Moderator:** The next question is from the line of Mukesh Saraf from Spark Capital. Please go ahead.
- Mukesh Saraf:** Firstly, on this new subsidiary that we are setting up, just wanted to understand, would we be separately catering to some specific products some of these that you mentioned, or it would do the same products that we have been doing in the standalone business.
- P. Kaniappan:** Actually, right now in the domestic business in Chennai Ambattur plant is full now so we need a space. Also, Mahindra City Plant for export also, so we are (39.34) support the increasing domestic demand and the export demand through that new subsidiary. And you know we are starting a new subsidiary because we get the tax benefit, the corporate tax, if we are able to invoice before March 2023, then will be operating at 15% level. Also, the new subsidiary can support any new business that is needed to be localized in India for ourselves. It will have that advantage. Number one. Plus, the PLI opportunities of localizing some of the advanced technologies in India. We have listed quite a few in our publication, so that also will be done through that subsidiary.
- Mukesh Saraf:** And we also give the MEAI benefit in that from the export that we do from there? Not MEAI.
- R.S. Rajagopal Sastry:** We are not designating that as a special economic zone. We are going to operate it as a custom bonded warehouse, so that will be eligible. And adding to what MD sir just said, it will be typically new investments and it will be distinguished by having new business. We will not transfer business from existing entities into the new entities. It will be an expansion in terms of new products or new business having new customers and it will be supported by new investments in terms of Plant and Machinery.
- Mukesh Saraf:** So that subsidiary will directly export or directly supply to the customers. It wouldn't be like a related party way.

R.S. Rajagopal Sastry: Yes, Mukesh

Mukesh Saraf: Just my second question is on these new products what we are looking at. On the domestic side have we seen any competition that is also looking to kind of get it because obviously the market opportunity goes up significantly in these new products. So any of these other players are we seeing OEMs also kind of looking to source these products from more suppliers? WABCO's very high 90% market share in its current products?

P. Kaniappan: Actually, in the OE space, it takes any time for any competition to step in because it is a braking system, homologation and so many things that takes quite some time. The industry is actually quite competitive. So, for the new players to take the competitive position, it could be a little challenging. But I feel the challenge could be in the aftermarket. Aftermarket, there is no big entry barrier, so there could be some players who can try and come into the aftermarket. But, of course at the same time, the way we are evolving is moving into digital space now. Like in the aftermarket itself we are trying to move in the high-end also, while we are catering to the repair kits and other products. We are also moving into advanced telematics, etc., in the aftermarket to of course offset any possible impact. In the OE, this electric portfolio of ZF and, of course, earlier WABCO has a good opportunity now, as the bus segment is more and more adapting to electric vehicles, and we see a good opportunity to really again grow. There the content would be much higher because those products the value is much higher whether it is electric compressor or electronic braking system or disc brake, all those things are high content products, and most industries are adapting to those things. Those in my view is actually a requirement there to efficiently use that energy. We see, of course, a good traction going forward. I think it won't be overnight but this year itself we see some good number of electric buses and few of the customers, have already secured or in the final stages of securing the businesses. And of course, the digital side also I think it will slowly move forward.

Mukesh Saraf: So, we can broadly expect that our market share remains at similar levels with those new products that will kind of enter into?

P. Kaniappan: Yes, by and large in the near term.

Moderator: The next question is from the line of from Chetan Gindodia from AlfAccurate. Advisors. Please go ahead.

Chetan Gindodia: I have two questions. Firstly, on the gross margin side, we have seen quite a sharp dip in this quarter also and since last four quarters. So, when do we see passing of the entire pricing to the customer and when can we get normalized gross margin levels?

P. Kaniappan: In the last four quarters the actual commodity increase started sometime last year. I would say from January onwards, almost all the four quarters we had to face this challenge. That's one of the main reasons for the erosion of the gross margin. Now, I see that it's moderating. Number one, the general expectation is at least one or two quarters still some commodities may

marginally increase, but it won't be at the steeped level at which it was going. Number one. That is one. The second is as I said some of the two actions which we are taking for the domestic business perspective that in the aftermarket we are going to now announce the offset or perform this increase in the market. At least to the extent that the commodity inflation has happened which is an action plan. And OE as I said we are working with customers, so maybe within a quarter we might be able to secure at least 80% of the cost that we have incurred. Parallely, we are also initiating many actions. Of course, we have been continuously doing to offset this, but now we are also accelerating some of those specific actions to really offset the impact. I am not in a position to exactly tell when, but that's the direction we are moving. Probably in my view the worst is over.

Chetan Gindodia: Secondly, you said our plant will not be eligible for MEIS schemes and so 16% kind of margins that we did historically will not be very possible. So, is it not possible for us to pass on the difference, the shortfall due to MEIS to our customers?

R.S. Rajagopal Sastry: We can try. Again, because it is an incentive that is available here, normally this export business is based on certain contracts that we have with customers. But more actions I would say should be given internally to see how we can offset it. I am not sure whether it's a straightforward topic to just pass on because we are not getting it. On the other end, as I was saying that whatever we will be producing from the new site Oragadam we will get that incentive through the RoDTEP route because we are not positioning the site as a SEZ.

Chetan Gindodia: Just a clarification, our Oragadam plant, the construction of the same will start from March 2022 and commercial production will start from which what time period?

P. Kaniappan: Our target is to do by December.

Chetan Gindodia: December 2022?

P. Kaniappan: Yes, this year.

Moderator: The next question is from the line of Basudeb Banerjee from ICICI Securities. Please go ahead.

Basudeb Banerjee: I just wanted to understand, as you said 66,000 units versus the highs 1 lakh units, so will that be right to assume that broadly you are operating at 60%-65% of utilization?

P. Kaniappan: Even though number is less, but the content is slightly different from those, so I would say we are in the range of about 75% utilization right now.

Basudeb Banerjee: And including the Oragadam plant which you said, so what is the CAPEX outlook you have for fiscal 2023 and 2024?

- P. Kaniappan:** Including the land building, plant machinery, everything we are expecting to be that next two years we will be spending about 150 crores.
- Basudeb Banerjee:** Each?
- P. Kaniappan:** Not each, combined.
- Basudeb Banerjee:** Including maintenance and other CAPEX. So, 150 crores is only on this new plan you mean?
- P. Kaniappan:** Only for the Oragadam plant.
- Basudeb Banerjee:** Overall CAPEX how you are looking at?
- P. Kaniappan:** Our general run rate is about 100 crores a year. That will continue. And what we are now saying is this 150 crores is exclusively for the land building and a bit of machinery in the new plant in the next two years.
- Basudeb Banerjee:** And you initially also commented a bit, how do you see this semiconductor shortage resolving gradually both in India and your target export markets, so your comments.
- P. Kaniappan:** Let's give a little more detailed answer here. But domestic market we are currently only there are two products which we rely on that semiconductor. One is the ABS ECU. This ECU there are certain components for that ECU, it's critical, microcontroller, etc. But then we have protected all the customers in this year. 2021 we are fully protected. Next year also at least in the near term we are clear, we have protected the customer, we have visibility of the stock. And the other one is on the telematics ECU. We have certain challenges, but we are working with the supply chain to see how we can protect the customer. This is for India. We don't see a big challenge impacting the topline. But exports is a different story because exports many of our global plants, their customer production is affected because they are not able to produce the vehicle itself because of the semiconductor shortage. So, that is still continuing. Even in this quarter many parts of the world, they have challenges. To that extent the impact on our export it will be there. But at least what I see is maybe we are not able to grow significantly because of that challenge. But otherwise, we are more or less protecting at the similar levels, a similar marginal growth still will be there. We have some good back up for of spending. Few products that we are exporting from Mahindra it has to be fitted with a certain electronic control unit which have to be supplied by our parent organization, there we have some challenges. But as I said, in the domestic business from our side, we may still protect our customer lines, but customer themselves if they are not able to produce vehicles because of shortage of semiconductor, because semiconductor shortage is expected to be there for at least another 2-3 quarters. It's not yet over. It is not going to be over at least next one quarter, but there is a general indication that the challenge may be there for at least the whole of 2022 or at least next 2-3 quarters. So, there is still uncertainty in the topline. Export while we have certain challenges but at least the growth could be muted but the basic levels could be at the current levels. Just to give

you a broad idea, but there is a lot of uncertainty in this particular aspect but based on the current my understanding at this time I would like to give that information to you.

Basudeb Banerjee: I think you mentioned in the earlier part of the call that you have taken almost 70% of the cost escalation for OEMs and around 45% for replacement, am I right?

P. Kaniappan: That's correct. 45% for the aftermarket.

Basudeb Banerjee: So, what is the timeline you were looking for each of the segment next leg of height?

P. Kaniappan: Aftermarket, our plan is to make an impact, but the point is normally that gets accrued over a period of one year. So, when we increase it, we pass on the increase in the manner that in the case of aftermarket, at least now what we are planning is last year March and July we increased. So, this year when we increased but before at least July we would like to cover that one year, accrual, within a year that we have we completely pass on. That's the way we are planning. On the OE side, it's a matter of I would say another quarter or so we should be at least at a level of (+) 80%.

Management: We are not sure whether we will be able to get the full compensation because it's still a negotiation. But we will go to (+) 80% plus.

Basudeb Banerjee: Are you witnessing any signs of raw mat basket costing reversing downwards?

P. Kaniappan: See, there are indications that the number is moderating. If you see the aluminum, it's a very steep increase in October to December quarter and that is slowly somewhat moderating. Steel, the rate of increase is coming down, but increase is still there. So, the general expectation is that it may stay at that level, it may not come down. If at all it comes down, probably after April we have to watch but right now not in a position to give any specific indication, but what we are able to see is that rate of increase has been moderating.

Moderator: The next question is from the line of Vimal Gohil from Union AMC. Please go ahead.

Vimal Gohil: Just one clarification, any idea as to the new plant that you are putting up the assumption is correct that that is the one which we are applying for which we will be going into for the PLI as well in Oragadam?

P. Kaniappan: We have included both the holding company that is WABCO India and also the subsidiary in our PLI application.

Vimal Gohil: But the PLI entails fresh investment into CAPEX, so can we assume that there is another round of CAPEX coming up in the parent entity WABCO India as well?

- P. Kaniappan:** See, the investment should be the threshold investment is 250 crores as a minimum on the products which are listed within the AAT listing. So, we will have to invest for those products, a total of 250 as a threshold. And then we also should be having a 10% growth year-on-year over the base year. So, these are the requirements and that definitely we are planning.
- Vimal Gohil:** Could you just help us with one data point, if you can just highlight for FY21, how much was our intake in MEIS and going forward that our new Oragadam plant is not going to be eligible for RoDTEP or MEIS, what could be the total loss and thus the loss in margin?
- P. Kaniappan:** We used to get about 2% of our export sales as MEIS and that today is not there from the special economic zone. Even if you take a 700-750 crore exports, we are talking about close to 15 crores we have missed over the entire year.
- Vimal Gohil:** So that won't be there at all now for any of your plants or will it be there for the new plant and the old plant, I am just sort of confused.
- P. Kaniappan:** Oragadam will be eligible for RoDTEP. RoDTEP is at a much lower rate compared to the 2% of MEIS, RoDTEP is about 0.9% for our chapter, but at least that will be eligible for from RoDTEP for whatever we export out of that plant.
- Moderator:** Thank you. Ladies and gentlemen, that was the last question for today. I would now like to hand the conference over to the management for closing comments.
- P. Kaniappan:** I would like to thank everyone; it was quite a good opportunity for us also to share the details as expected in this call. Thank you very much.
- Moderator:** Thank you very much. On behalf of Batlivala & Karani Securities, we conclude today's conference. Thank you all for joining. You may now disconnect your lines.