SONA COMSTAR

Date: 6th May, 2025

BSE Ltd. Regd. Office: Floor - 25, Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai-400 001.	**National Stock Exchange of India Ltd.** Listing Deptt., Exchange Plaza, Bandra Kurla Complex, Bandra (East), Mumbai - 400 051
BSE Scrip Code: 543300	NSE Scrip: SONACOMS

Subject: - Transcript of Investor Call pertaining to Financial Results for quarter financial year ended on 31st March, 2025

Dear Sir / Madam,

Pursuant to Regulation 30 read with Schedule III of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed herewith the transcript of the Investor Call held on Wednesday, 30th April, 2025 on the financial result of the Company for the quarter and financial year ended on 31st March, 2025.

The transcript will also available on the website of the Company at
https://sonacomstar.com/investor/investor-presentations

This is for your information and further dissemination.

Thanking you,
For Sona BLW Precision Forgings Limited

Ajay Pratap Singh
Digitally signed by Ajay Pratap Singh
Date: 2025.05.06 14:15:55 +05'30'

Ajay Pratap Singh
Group General Counsel, Company Secretary and Compliance Officer

Enclosed as above;

SONA BLW Precision Forgings Ltd. (Sona Comstar)

Q4 FY25 Earnings Conference Call Transcript

April 30, 2025

The webcast recording and the presentation referred to in this transcript are available on the website of the Company and can be accessed through the following link:

https://sonacomstar.com/investor/investor-presentations

Moderator: Good afternoon, ladies and gentlemen. Thank you, and welcome to Sona Comstar's Q4 FY25 earnings group conference call. Please note that all participant lines are in the listen-only mode as of now. There will be an opportunity for you to ask questions after the presentation concludes. Please note that this call is being recorded. We request that you place your lines on mute except when asking a question.

Slide 2:

Some of the statements by the management team in today's conference call may be forward-looking in nature, and we request you to refer to the disclaimer in the earnings presentation for further details. The management will also not be taking any specific customer-related questions or confirming or denying any customer names or relationships due to confidentiality reasons. Please refrain from naming any customer in your questions.

Now, I'll hand over the floor to Mr. Kapil Singh, Head of Consumer and Digital Commerce Research, India, and Lead Autos Analyst at Nomura. Kapil, please go ahead.

Kapil Singh: Thanks, Linda. Good day, everyone. To take us through the Q4 FY25 results and to answer your questions, we have the management team of Sona Comstar with us. I will just introduce them quickly. We have Mr. Vivek Vikram Singh, MD & Group CEO; Mr. Vikram Verma, CEO of Driveline Business; Mr. Sat Mohan Gupta, CEO of Motor Business; Mr. Praveen Chakrapani Rao, Group CTO; Mr. Rohit Nanda, Group CFO; Mr. Amit Mishra, Head - Investor Relations; and Mr. Pratik Sachan, from Corporate Strategy and Investor Relations Team. Now, I hand over the call to Vivek for the opening remarks and the presentation. Over to you, Vivek.

Vivek Vikram Singh: Thank you, Kapil, and welcome, everyone, to the earnings call for Q4, in which we once again achieved our highest ever net profit, and this is despite the weakness in revenue. As we highlighted in the last call, one of our large customers transitioned a major model into an upgraded version in the last quarter. This change affected our supplies to this customer in Q4, and it did impact our revenue, particularly BEV revenue. The good news is that the new model production has been ramping up since March.

But now, as is always our policy when talking to our shareholders, we'll begin with the challenges.

So first, what's on top of mind for everyone, the tariffs announced by the U.S. administration, including on automobile and auto component imports, the details of which are obviously changing fairly dynamically. In our opinion, they will adversely impact the demand for cars and light trucks. Although we believe our competitive positioning will improve further if tariffs persist, because as a supplier to automakers globally, we may not be, we in fact are not immune to the demand and supply disruptions, but if you can look beyond the short term, I think there is also a lot of opportunity.

Second, global automotive production, and in this I include every market, may see disruptions due to supply chain complexities and high dependence on China, especially for rare earth materials.

In India, while we are working with the industry and the government and the Chinese Embassy to speed up the process of importing magnets from China, we're also evaluating alternate materials, including Ferrite, different grades of magnets, different technologies, as well as different supply sources. So to sum up, in a fairly confusing and uncertain time, we believe this trade war to be disruptive and adverse in the short term for the entire global auto industry.

However, in the medium to long term, we expect many opportunities to emerge from this chaos. We firmly believe that many weaker players may not survive this disruption. This should lead to further consolidation in the hands of companies with strong technology moats. Indian companies like ours that can provide world-class product performance and quality, and have robust margins and healthy cash balances, should emerge from this period much stronger than before. We've had this kind of disruption in COVID times also, and we enjoyed a period of very high growth and a lot of order book additions even in that time. And there is this ability, I think we have as a company, that when Brownian motion or random motion increases, we tend to benefit far more than our peers.

Now, as usual, we also have some good news. We ended this year with a few large order wins, which have taken our net order book to its highest ever. And in the last week of March after the announcement of proposed auto tariffs, we received a large order for an upcoming new electric car in the U.S. We also commercialized the new product, the steering bevel box which leverages on our strengths in forging and precision machining to develop the solution for a new application outside our traditional area of driveline.

We're also planning to enter a new area, which at this stage may be where EV was in 2016. So, as AI, 3D perception, and control technologies advance and compute costs keep going down, we expect a rapid adoption of humanoid robots over the next decade. These robots have potential applications in a lot of industries, services, as well as households, like all other mobility segments, motors, drives, gears, and reducers constitute more than 50% of the bill of materials for humanoids. So, we'll be leveraging our core capabilities to develop components for humanoid robots, which Praveen will explain later in more detail.

Slide 5:

Now, coming to the numbers, as we had explained last quarter, this was expected to be a weak quarter, and our revenue and EBITDA have declined by 2% and 5% respectively, because of that model transition at one of our larger customers that I spoke about. However, we did well on net profit, which increased 10% to our highest ever level of 164 Crores. Our BEV revenue, despite this drop in revenue from a large EV customer, grew by 8% in absolute terms, and the BEV revenue share for this quarter was 35%.

Slide 6:

For the full year, like every year, we'd like to report our performance scorecard as managers to you on our 5 KRAs - financials, electrification, business development, diversification, and new product development.

So I'll start with the financials. Our revenue, EBITDA, and PAT are up by 12%, 8%, and 16%, respectively, despite a lot of challenges this year. ROCE and ROE were around 18%, which is obviously lower than last year, but this is due to the capital raise or QIP that we did in September-24.

And on a side note, before we move forward. And please forgive me for a moment of self-indulgence, but I recently, in early April, completed 10 years at Sona. When I joined Sona BLW, standalone revenue for FY15 and its net profit were around 346 crores and 29 crores, respectively. So, in my first decade here, we've seen the company grow 10 times in revenue and over 20 times in profit, which is only and only due to the great work done by Vikram, Sat, Rohit, Balaji, Vaithy, and, you know, thousands of people who work in our team. I just want to express my deep gratitude to them for helping me have a fulfilling first 10 years, and as we look to 2035, I'm confident they'll help me deliver an even more amazing and transformative next decade.

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So strategic priorities, as you know, have been constant for the last 10 years, and you would have also seen us report on these 4 priorities each quarter. The first one of them is electrification. I'd say we remain as convinced as ever in its inevitability. There have been recent breakthroughs which may have been missed in all the noise around EVs. So, a couple of things worth noting are that the average battery charging speed has nearly doubled. And the fastest speeds have actually tripled in the last 5 years. If you look at BYD Super E platform, which has a charging speed of 1,000 kilowatt. It is possible to charge a battery for 400 kilometers of range in less than 5 minutes. These advancements in charging speed solve 3 critical challenges for EV adoption: affordability, range anxiety, and long charging times. At the same time, in a concurrent manner, battery pack prices have also been declining due to innovations in both battery chemistry as well as the economies of scale in manufacturing.

The global average battery pack price has decreased by 35% in the last 5 years and is expected to fall by a further 30% in the next 5 years. What that means is that faster charging times will allow the OEMs to use smaller battery packs in the cars. There is an example, the new Slate that is being talked about. This is very similar to the trend seen in ICE cars in the 1970s and 1980s, when smaller engines and fuel tanks came about, and that actually increased the size of the car market by a lot. Now this trend, if you combine it with the decline in battery pack prices, what it eventually means is battery electric vehicles should achieve price parity in all the key markets, China, Europe and the US by 2030.

Slide 10:

Coming to our electrification performance, our BEV revenue has increased from 29% in FY 24 to 36% at the end of last year, and BEV revenue in rupee terms has grown by 38% to over 12.2 billion rupees in FY25. For us, the growth in BEV revenue is actually more than 25 times the growth in non-BEV revenue. We continue to build on our EV order book also. In Q4, we added a new EV program to supply driveline components to an existing customer in North America. Overall, we added 4 new EV programs and 2 new EV customers during the year.

At the end of FY25, we have 31 EV programs in production, of which 15 are mature and completely ramped up, while 16 are in the ramp-up phase. The remaining 27 programs are not yet in production and will start during this or the following years.

Slide 11:

We got a new EV order from an existing customer, like I mentioned. It's a North American OEM of EVs. We will supply the rotor-embedded differential sub-assembly as well as the epicyclic gear train for an upcoming electric SUV. We received this order in the last week of March, which was after the announcement of automotive tariffs in the US, which should also tell you a lot.

The supplies for this program are expected to start in the last quarter of FY26. We also commercialized a new product, which was in white in our tech road map, it has come into blue now, the steering bevel box which has applications in commercial vehicle steering systems. We received this order from an existing customer, a global OEM of commercial vehicles. The supplies for this program will also start in the current financial year itself.

Slide 13:

Our next KRA, business development, we added 47 billion rupees worth of new orders during the year. This came from 37 new programs, which were won and 7 new customers, which were added. The year's revenue growth came primarily from the consumption of 31 billion rupees from the order book. Hence the net addition to the order book was 16 billion rupees.

Slide 14:

Which brings me neatly to a net order book which at the end of FY25 stands at 24.2 thousand crore rupees or $2.8 billion. The EV contribution to this order book remains high. It's at 77%.

Slide 16:

With that, we come to a fourth KRA, diversification. The trend of increasing electrification and decreasing ICE dependence continues unabated. And this year, we've seen the ICE-dependent revenue share shrink to only 9% of our revenue. The slower demand in Europe obviously meant that the revenue share from hybrid and micro-hybrid vehicles has been lower than in the previous year.

Slide 17:

Geographically, pretty much similar to last year, North America was our largest end market, contributing 41%. However, if we factored in the railway business that we announced the signing off on a pro forma basis, India is now the largest market with a revenue share of about 43%. Which will be followed by North America at 33%, Europe at 19%, and others at 5%.

The fastest-growing segments for us this year, from a product perspective, have been EV traction motors and EV differential assemblies. And this is reflected quite well in the product mix change. The weakness in commercial vehicles demand has resulted in the share of revenue from this segment declining from 14% last year to just 11% this year. And also, that you see if you look at it broadly, auto to non-auto today stands at 90% to 10%. But if you look at the pro forma basis, I think it's already 70%-30% as we stand today. With this, I turn to our group CTO, Praveen, to update us on technology. So, Praveen, over to you.

Praveen Rao: **Slide 19:**

Thank you, Vivek. Good evening, ladies and gentlemen. I'm very happy to present our latest technology roadmap and technology priorities. As you all know, our technology is at the core of what we do at Sona Comstar, and therefore, it's important to represent and communicate our evolving roadmap. So, in this representation, at the apex of this truncated pyramid is our strategic priority, that is EPIC Mobility - Electrified, Personalized, Intelligent, and Connected. As you would notice, we have expanded our market from automotive to drones, eVTOLs, AGVs, AMRs, industrial robots, and humanoids, which I will talk about.

The base of this pyramid is represented by our legacy products, shown in black. As the products scale the pyramid, they move from components to subassemblies to assemblies. In the process, continually adding value to the customer. The color representation, black, blue, white, indicates the journey from legacy to current to future products. As we continue to add new product lines, our goal is to play a larger role in the rapidly evolving EPIC mobility space, thereby growing our wallet share with the customers. An example here is the steering bevel box using our high precision bevel gears and low friction torque of the gearbox, providing exceptional steering accuracy, driving comfort, and ease of installation on the vehicle. This map also represents our vision to evolve from a component supplier to a full system supplier, encompassing our growing capabilities in materials, system engineering, embedded software and hardware, and functional safety. This roadmap has intentional wide-open spaces, and these are to be filled up by new product lines, which will be part of our future communication.

Slide 20:

From Star Wars to CS 2025, the excitement around humanoids was palpable. Names like Optimus, Walker, Digit, Atlas have become part of common lingo now. Humanoids in our day-to-day life is closer to reality than most people agree. From industrial and logistics to commercial applications and finally households, these all-pervasive humanoid robots are going to play a dominant role in our very lifetime. One estimate puts the total of 10 million humanoids by 2035. It's a very important megatrend not to be missed. Sona Comstar, with its strong capabilities in gears, sensors, motors, controllers, embedded hardware and software, is uniquely positioned to ride this wave. At the heart of these humanoids are actuators which control practically all aspects of motion, linear and rotary. They also contribute to over 50% of the US$ 35,000 to 50,000 bill of material cost. We have begun exploratory work in components and systems that will get us into this field faster. We will also leverage our capabilities across our driveline, motor, and sensor divisions to offer integrated products like rotary linear actuators and vision systems. On that note, I will hand it over to Rohit to cover the financial update. Thank you.

Rohit Nanda: Thank you, Praveen. A very good day to you all. It's my pleasure to share our 4th quarter and full year results for FY25 with you.

Slide 22:

First the 4th quarter results. This was a weaker quarter compared to the 4th quarter of last year. We've clocked a revenue of 868 crores, which is a drop of 2% from Q4 of last year, whereas the underlying markets in North America, India, and Europe grew by 1%.

Our BEV revenue grew by 8% to ₹294 crore, and it constituted 34% of our quarter's revenue. This quarter, we've also accounted for PLI income for the full year FY25, and going forward, we intend to do so on a quarterly basis. Our EBITDA adjusted for ESOP costs for the quarter was 240 crores, which is a drop of 6% from the last year. Adjusted EBITDA margin was 27.6%, which is a drop of 1.3% compared to fourth quarter of last year, and it's primarily on account of change in the product mix. Our profit after tax, adjusted for ESOP cost and exceptional expenses, was 170 crores, which is a growth of 10% over last year. Our PAT has grown despite lower EBITDA, and it was primarily because of the net interest income, which has come from the deployment of cash surplus and QIP proceeds.

Slide 23:

For the full financial year 2025, our revenue grew by 12% to 3,555 crores. Compared to this, the underlying light vehicle sales in our key markets of North America, India, and Europe grew by only 2%. Our BEV revenue for the full year grew by 38% to ₹1,224 crore and BEV share of revenue increased to 36%. At the EBITDA level adjusted for ESOP costs, the growth was 9% to 1,003 crores. This is the first time we've crossed the landmark of more than 1,000 crores in EBITDA in one year. Our adjusted EBITDA margin was 28.2%, which is 60 basis points lower than the last year. While we had positive impact on the margin from the lower input prices and operating leverage, this was more than offset by a change in the product mix. Our profit after tax, adjusted for ESOP cost and exceptional expenses, grew by 19% to ₹636 crore. Profit after tax growth was higher than EBITDA growth due to higher net finance income from cash surplus and QIP proceeds.

Slide 24:

This brings us to the cash flow slide, which we present every 6 months. So during the full year FY25, we've generated Rs. 775 crores of cash from operations, and we've deployed about Rs. 415 crores in Capex that has left us with Rs. 360 crores of free cash flows. We also raised QIP funds in September of 2024, so net off expenses, that amount is 2,370 crores. Besides this, the bigger items were dividend distribution of 190 crores, which is a cash outflow.

There was a reduction in the borrowings by 220 crores, and we invested about 60 crores in NOVELIC and Clear Motion Inc. At the end of the year, we had cash and investments balance of about 2,673 crores. Part of these funds, as you may know, would be used for the acquisition of railway business from EKL.

Slide 25:

This brings us to the last slide. So, in terms of the key ratios, I'll just go through the highlights. Our valuation to employee cost ratio continues to be strong at 5.8 times. It's slightly lower compared to the last year because of higher

ESOP cost. Net debt to EBITDA continues to be negative. Working capital turnover ratio has further improved to 5 times. On the other hand, fixed asset turnover ratio has declined to 3.4 times because we had a very high capitalization this year of around 400 crores. The operating results of this capitalization we'll see in the following years. Our return ratios have come down a bit compared to the last year. That's primarily because of the capital raise we did in the year.

With this, we've come to the end of our Q4 earnings presentation and I'll now hand the proceedings back to the Nomura team.

Moderator: Thank you so much. We will now open the floor for the Q&A session. If you wish to raise a question, use the raise hand function located at the bottom right of Webex. We will unmute your line and prompt you to speak up. Or you may submit your questions via Q&A chat box addressing all panelists. Please be reminded to keep your questions to a maximum of 2 questions. If you have more questions, please return to the queue. Thank you.

Kapil Singh: Hi Vivek, while the question queue builds, I'll just take one question. I would say not only me but a lot of investors have also been worried about or wanting to know that from, you know, because there's been a lot of uncertainty relating to tariffs, how are the customers reacting to this? What are you seeing in, you know, not only in terms of schedules, but also in terms of their long-term thinking. Is there a need for you to evaluate setting up facilities outside India in the US?

Vivek Vikram Singh: You know, I know there is a lot of uncertainty, but as they say, risk can be modeled, uncertainty is not modellable. But very interesting is in the last 1.5 months or so since this started, I've had 20 times the calls from investors and journalists than I have from customers. Actually, apart from one customer, nobody has really called us. So it also shows, I'd say, how much short-term events impact what kind of thinking. Most of our customers have been with us for, you know, greater than a decade. You do not and cannot uproot or change supply chains as quickly as people assume, it takes years. But anyway, I'll try to answer or try to bring some certainty, although I mean, it's not like we have any better information than anybody else. Last night we also found out what everybody else found. But it is this. So if you look at the announcement, last night and the 85% of MRSP, so which means everybody in a way gets 3.75% for next year and 2.5% for the year after that. For most of our customers, that's actually then we don't have much of an issue. Second, USMCA exemptions are also there in this circular. Net net we have 40% of our total revenue to US, in which we have identified 3% where there could be some risk of either revenue loss where they could look to somebody local, which somebody can come at a better price than us. That is the extent of the impact that we know of. Almost everything else seems to be, at least for the two-year period, nil to low risk. So that's the long and short of it. I actually believe this is a massive opportunity wave for people who know how to take this opportunity. Our competitors in both our major product categories tend to be from China. And in an event in which tariffs are imposed on every country, it is basically then your relative pricing that comes into place. And then the gap has actually widened much more. So if you look at 2018 and the first tariff cycle in which China was tariffed at 10%, I think at that time, that gave us a huge window to increase our market shares in the US. This one is far bigger than that.

Second, they are also closing, I think, back doors, like Southeast Asia, Mexico, etc. where people could just reroute goods. I think those have also effectively been closed because now they're talking about US content. Almost, not almost, actually all the customers we have in the US are doing the final assembly there, so we are in fact fairly well positioned. There is one thing that everyone should keep in mind, as I started in my opening comments itself, that regardless of where you are, who you supply to, so we may be relatively very well positioned, but there is going to be impact on demand. There is also going to be supply chain stuff, you have seen semiconductor chip shortage. You don't have a thing like a 99% car, right? Even 1% is blocked in some country, that has a demand impact. That we can't really model right now because it's not really known. The tariffs actually haven't yet kicked in, so we don't know what we don't know, but we are fairly agile. Tactical agility is, I would say, one of our greater strengths as a company. So, yeah, I hope I've shed more light, but 3% of our total revenue is what we would say is that medium risk in the next 12 to 18 months.

Kapil Singh: Yeah, so just wanted to also hear your thoughts on, is there a need to set up manufacturing in the US or that is ruled out.

Vivek Vikram Singh: You know, it's a tough question to answer, but in this one month there have been 3 or 4 changes already. We will wait for the dust to settle before we make any committed investments anywhere, but as you well know, we have a plant in Mexico. We have a plant in the US. We are actually in the process of another plant in Mexico. And yeah, if really required, we can put up a final assembly plant in the US. It's not like it's something we can't do. We, it is not something that will happen in the next 12 months, obviously it takes 12 to 18 months to do any of those, but we will wait for dust to settle more clarity to emerge around how this plays out. We have received zero requests from any customer to do anything.

Kapil Singh: Okay, I think the question is also built up, so I'll pass on to Linda to start taking the questions.

Vivek Vikram Singh: I know that you're utilizing your privilege of host by jumping the queue.

Moderator: Thank you. Okay. First question is from Gunjan. Hi Gunjan. Your line is open. Please go ahead.

Gunjan Prithyani: Hi, thanks team for taking my questions, just a couple of questions from my side. Firstly, could you clarify the PLI accrual for this quarter and full year, so that we can accordingly, look at the FY26 margin as well.

Vivek Vikram Singh: Sure, PLI is always Rohit Nanda's subject, so I'll let him comment on this.

Rohit Nanda: So Gunjan, we would not be disclosing the PLI numbers separately because of customer confidentiality and commercial reasons we've decided not to disclose it separately, but we've recognized the full year, PLI income in the 4th quarter. So if, let's say if we have to take out the first 3 quarters impact, that would be about 19 crores.

Gunjan Prithyani: Okay, so first 3 quarter impact would be 19 crores, so I mean that only that, yeah…

Vivek Vikram Singh: So I will add to it Gunjan, so basically, look, 8 motors have received certification and approval. The capex, etc. for all of those have been done, and the approvals came at various dates. So, if you net off the expenses which are associated with getting said approvals and the audits done, that number is for the 3 quarters is around 19 crores.

Gunjan Prithyani: Okay, got it. And while we are at this, you know Vivek if you can also talk about the whole traction motor opportunity, you know, while there's a lot of uncertainty in the other parts like you mentioned that, you know, India, is going to be big with railways, traction motors. Could you just talk about, you know, some of these segments as well?

Vivek Vikram Singh: So yeah, I mean, India opportunity as you know, is actually you know better than me, what the India automotive segment and opportunities are. We continue to have fairly…

Gunjan Prithyani: No, I mean more from traction motor perspective

Vivek Vikram Singh: So traction motor right now we are in two-wheeler and three wheeler. Of course we want to expand to light commercial vehicles, buses, passenger cars, but that will happen in due course. Nothing. We foresee at least for this year, it is growing quite rapidly on its own. We are developing high voltage traction motors because to approach the bigger weight segments or larger vehicle category at low voltage is not, not a sustainable way of doing it. So we want to get it first time right. So we want to go with high voltage. As you know from, well, grade 10 physics, power is voltage x current, so the higher the voltage, the lower the current, which means lower wires, lower wire harnessing, so lower the cost of doing that motor and inverter set. So that's where the efforts are right now.

Gunjan Prithyani: Okay and, you know, going to this humanoid opportunity that you talked about, is there any timelines to it? What stage of development we are at, and you know, if you could talk more in terms of, you know what is the competitive landscape here from my understanding a lot of this is China focused at the moment, so I'm just trying to understand, you know, how do we stand in terms of competitive positioning and what stage of product development we are at.

Vivek Vikram Singh: So, excellent question, Gunjan. In a way, the answer to your question is also there in your question. Currently, this supply chain is pretty much dominated out of China. Now if you look at what is happening in the world, we are, it is not a tariff and everybody looking at one segment. It is actually a global trade reset pretty much. Now that supply chain has to shift. When that supply chain shifts, people who are capable and who have the competence to develop parts around gears, reducers and motors have a far higher likelihood of success. However, as you know, in any technology readiness level, even if you go to level 7, which means you have the prototype ready, it can be installed in a vehicle, if the customer doesn't give you an order, it doesn't mean anything. So we are at a certain technology readiness level, but success, as you know, in these things is binary. When we get an order, we will make that white circle blue, and we will tell you what we have won, but till you win, it means nothing. If you have the greatest product in your lab and you can't sell a single unit, it doesn't have really any meaning, but we've been working on it for, let's say, almost a year now, so we are fairly confident, but commercial success is the only success that will matter and that remains as always binary.

Gunjan Prithyani: Okay. All right. I'll join back the queue.

Vivek Vikram Singh: Thank you, Gunjan.

Kapil Singh: Yeah, so Vivek we have a few questions from the question box. These are from Jinesh. So one is, how do you think about your ongoing investment in Mexico for compliance with USMCA? Would this plant be more of an assembly plant with a large part of value-added in India, and what is your investment in Mexico plant?

Vivek Vikram Singh: Wow, a lot of questions rolled up into one question. So we are going ahead with phase one. It is currently in progress. Our first few customers are actually Mexico companies producing there. So it isn't for USMCA, for us at least, if that customer re-exports to US, that would be their thing. The first customer is actually not in the HS codes in the auto tariffs. So, as you know, heavy trucks, off-highway vehicles, etc. not included in the auto tariffs. So that's the first set of customers. Investment, etc. Rohit, you can talk about.

Rohit Nanda: At this moment, we are looking to invest a number which is below $10 million. That's the first stage.

Kapil Singh: Okay. The second question is, are we largely done with the inventory restocking at the key customer? By when do you expect normalized sourcing from the customer?

Vivek Vikram Singh: Good question, but a little early to tell, as, Jinesh, I mean Jinesh is fairly well studied on this subject, so he will know it's only been a month since the new model launched. So how much time it will take to go to ramp up and go back to what the earlier model run rate was, we don't know, a little early. I think we will know by the end of this quarter, by the end of June, that how much time will it take to get to the run rate of previous production.

Kapil Singh: And third question is, how should we think about margins? FY25 adjusted for 19 crores is around 25%. Should this be back to over 26% as the key customer production normalizes.

Vivek Vikram Singh: So two things there, One, 19 crores is just one thing that has been taken. There were also one-time cost this quarter which were fairly significant also, that we have not netted off. If we net that off, Rohit, that would be even a smaller number, right.

Rohit Nanda: Yes. Not disclosing that number, but the thing is that I hope you are adjusting 19 crores both from revenue and profit. So, the margin is actually more closer to 26% if you were to do that, anyway, and yes, there are a few one-time costs which are in the P&L done in this quarter.

Vivek Vikram Singh: So, how it will go forward will depend on how each different geography does. Again, we are only at the end of the first month, and tariffs still haven't kicked in the US, so we don't know what demand outlook will become. Second, railways, as you know, will start adding from 1st June. Now the moment you add an 18% EBITDA business to a 27% EBITDA business, obviously the numbers will not stack up to the same 25-26. So end of next quarter we will give you a range, but if you just do the math that you take 27% is what we did 27%x80 and do 18x20, you will come to somewhere closer to between 24 to 25. So that's very logical and mathematics.

Kapil Singh: Okay, there are few more that have come in on the question box. This is from Ayan. Is there any impact of China's restriction on rare earth magnets on production of traction motors?

Vivek Vikram Singh: So I did cover that in the opening statement itself, but happy to do it again Ayan. We have inventory right now, so nothing yet. We are working with our suppliers to do get them the export licenses. Sat you can give more details on other efforts also we are trying to make.

Sat Mohan Gupta: We are also working on alternate raw material and the magnets both which are not having heavy earth. So, many front we are doing, I mean, we are working with the government officials, we are working with the suppliers, existing suppliers, new material, new grades, to ensure that's, I mean, we have the continuity of production in our lines.

Vivek Vikram Singh: Thanks, Sat, but just to give everybody context, magnetization can be also achieved with lower grade magnets. They can even be achieved by ferrite magnets, to be honest. It just makes the motor much heavier, so it's not very efficient. There are different grades. Some things, heavy rare earth may not be available, some are. So there could be compromise on the product bit that you let go of certain weight restrictions in which we are working with our customers. So this is not an unsolvable problem. It can have some short-term impact if we can solve it directly and get the supplies started in the next 4 or 5 weeks. The impact is pretty much nothing. If not, also we are working on, like I said, Plan B, Plan C, Plan D, all sorts of plans. We're also exploring other sources and other suppliers who are not in China.

Kapil Singh: Okay, then, another question we have from Rituraj. With respect to non-BEV business, our revenues have consistently declined for last 3 quarters on a YoY basis. Just wanted to understand the challenges the company is facing in this business. How do you expect this overall business to evolve in the next 18 to 24 months?

Vivek Vikram Singh: So non-BEV revenue, there is no challenge as such. Non-BEV revenue is basically starter motors, which, as you know, although a lot of people would tell you that EV is not growing and ICE is growing, ICE is actually declining, so starter motor revenue is on a natural decline path as EV penetration goes, starter motors will decline, especially the ones which are pure diesel and gasoline, which obviously we shared in our product distribution. In Driveline, it's actually not anything to do with our thing. We have a large market share. However, if the industry, the underlying industry does not grow, it is obviously challenging to grow when you already have high market shares, especially in India. It can be explained why last year was not so good for commercial vehicles and, off highway vehicles, and hence that bit is there. But there's nothing, I'd say at the company level.

Kapil Singh: Okay. Then this question is from Kartik. Who do you think is likely to absorb the tariffs?

Vivek Vikram Singh: Okay, so as tariffs are taxes on whoever imports it, right. We mostly do either Ex-works or DAP, so we are exporters. We are not the importers. So tariff is paid by whoever imports it. Now 25% tariff is not something that can be absorbed by anyone because nobody makes 25% net margin. Which is why eventually the consumer, the end consumer pays for it in the form of higher end product prices is what eventually happens. And again, there is no such thing as like 5% you take 5% I take. I saw some analyst who done a 25%, half the EBITDA and say 12.5% one person will take 12.5% other, which is the most simplistic way to look at it and the perhaps the wrongest way to look at it. It is going to be binary because what will happen when you have something that was, let's say ₹100, now it became 125. You can either ask the person who was at 100, that, hey, my price has become 125, You give me a 25% discount. To the answer of that is, of course not. What do you do then is try to find someone who is lower than 125, right. But if you have done this to every country in the world, effectively the new price is 125. And hence either you find someone, in which case you will switch to the next guy, which is why I said that in 3% of our total revenue there is medium risk, but the risk is not a margin dilution. It is actually that that business might just disappear. They will give it to whoever, even if it's 5% less, it will just go. So that's how it plays out in real life. There is no distribution. Unfortunately, as has been observed over the last 100 years, whenever tariffs have been done and tariffs have been done in many countries. Eventually, the consumer pays is what the net conclusion is. One example very close to home is if you ever bought expensive cars in India. I can guarantee you, BMW or BMW suppliers are not absorbing the tariff, you are. So you buy a car at double the price of what it would cost in Germany or UK because the Indian governments put those tariffs. Same thing. This is where it plays out, but yeah, of course, what is the impact that because the prices are high, far less numbers in volumes will be sold because the prices have become higher and demand is not completely elastic. It is inelastic. And how much inelasticity is there in the system, we will all together find out over the next 6 to 9 months.

You know, I'm being asked all these economics questions. I took one elective in my final year of engineering, and I had one semester in my business school, and my total knowledge of economics is just that.

Moderator: Okay, the next question is from Jay Kale. Hi Jay, your line is open. Please go ahead.

Jay Kale: Good evening. So my first question is, we have seen some of your US customers, you know, speak about past 2-3 months refocusing on some of their ICE projects given the you know, softness in EVs over there. So in that context, are you seeing any green shoots for your traditional ICE business in the coming years, which was expected to steadily decline?

Vivek Vikram Singh: Strangely, yes, so that's been one of the I'd say weird second order impact of all of this which is going on, that we are now suddenly getting starter motor RFQs which had kind of dried up, pretty much completely. Last couple of years we were not getting any starter motor RFQs. We have suddenly have a lot of starter motor RFQs. In fact, last quarter we won a couple of large starter motor orders, so different and again excellent question Jai, because what does it also speak because nobody will set up capacities, new capacities for a declining product it would mean people who are relatively better positioned which means they are outside China and maybe outside Europe, which pretty much means you have to be in India or US, you will get a lot of new orders, is what I think is a fairly visible second order impact.

Jay Kale: My second question is regarding your Clear Motion and your suspension motor. You had a order win and probably the supplies would have started. Any conversations on this technology with other customers in advanced stages? How is this technology getting adopted by other customers, and we had mentioned about very big TAM, how is that progress going on with new customers?

Vivek Vikram Singh: So, Sat do you want to update on the launch? This one is the one exception we'll make because it is disclosed. And the customer, end customer is Nio, so we can talk about that.

Sat Mohan Gupta: Yes Vivek, so CMI launch or the Nio launch happened, in the last quarter. The vehicle which is ET9 is doing pretty good. We are getting a good reviews from our customers as well as from CMI. So far it's looking very great, I would say and there is a lot of opportunities. We are in discussion with the customer on other vehicle applications. So it's a very nicely taken by the industry and it's doing a pretty good job, so.

Vivek Vikram Singh: Then Jay, if you can get some videos or any feedback from the Shanghai Auto Show, where this was displayed finally to the public in full, you'll see that it was quite well received.

Kapil Singh: Okay, Vivek, there are a few more questions in the queue. I'll just read those out. This one is from Ajay. Are there any plans to open offices or factories in China as they seem to be leading EV vehicles?

Vivek Vikram Singh: We have a plant in China, where we do these suspension motors, so we have a team there. So that's already there. Anything more, of course we are always exploring new opportunities, and I don't think if you want to succeed in automotive from a supply chain perspective or a market perspective, you can do it by ignoring China. I don't think ignoring China is a wise option. So we will continue to work. We are not political or ideological, we are a company. We will continue to work with our friends and customers in the US. We will continue to work with our friends and customers in China. And if there is opportunity, certainly. There is nothing concrete for a second plant, but if it happens, of course, we'll let you know.

Kapil Singh: Okay, and then there is a question from Jinesh, a clarification: the one-time cost that is significant and not disclosed, is it related to acquisition of railways or something else?

Vivek Vikram Singh: Rohit, would you like to take that?

Rohit Nanda: So, acquisition-related costs anyway are separately disclosed so that we've shown as an adjustment to PAT. So, this is some other one-time cost.

Kapil Singh: And did you indicate adjusted margins would have been 27% without this cost?

Rohit Nanda: So I think Vivek has broadly answered this. I think, the thing is that like I said in my commentary also there is a change in the product mix also. This quarter like we informed during our last quarter call also, because of certain model changes, there is one part of the business which was adversely impacted in this quarter. So suffice it to say I would add that basically the margins were lower in this quarter primarily because of the change in the product mix. So going forward, the margin obviously will be a function of how the product mix changes. I mean if it reverts back to the original product mix, yes, we revert back to the original, or earlier defined, you know, margin limits, which we say like 25 to 27% is the range which we give. So finally, that's the range it should be in. So we don't want to be pinned down to a specific number whether it is 27% or 28% or 25%.

Kapil Singh: Okay, and then there is a question from Rishi. Sona was planning to develop a Magnetless motor. The constraints on rare earths pushed them to accelerate this development?

Vivek Vikram Singh: I would say yes, that would be the wise thing to do, that we should accelerate, there are limits. I think we have updated on this before that it wasn't reaching the required efficiency. The technology is very sound. The efficiency wasn't coming to that. But we will continue to work on that. It's good to accelerate that for sure. That is on Magnetless, but as you also know, I think in 2021 itself, we had announced the development of a non-rare earth, or rare earth free motors. Those we already have and as I mentioned that we can do them even as of today, but that requires a customer acceptance. Like I said, it does increase the weight of the motor, so we need customer approvals for those. Maybe customers will have more urgency and hence they will approve. But net net, I have to say one conclusion we have to draw that if any material's supply can be used as a geo-strategic negotiating tool, we must find ways to counter that threat in the future. So it's a good wake up call that anything from anyone that you depend on totally, you should not. It is a less dependable world now.

Kapil Singh: Sure, Vivek I had a couple of questions on your products.

Vivek Vikram Singh: There's another question which is actually quite good from Shrivatsa. Let me just answer that because I can see the Q&A box. Does your software have adjacency for humanoid robots, because it is a really good one. See NOVELIC's specialty is in radar sensors. So as of today, not really, because the first wave of humanoid robots that are being developed, we've explored this a great length by the way, are not going to be used in situations that are very hazardous. Radar comes into play when cameras are not enough, like you are going in rain, snow, where visibility can be restricted. Currently that is not the case, so there is limited applicability of radar, which is why motor and drive line is what we are focusing on. Also as a part of the bomb, it is just much, much bigger.

Kapil Singh: Okay, thanks. Actually that is what even I was going to ask. So then one more question is on the other new products. So what will be the content per vehicles for these products if you can give some indication, and would it be fair to say that one of the reasons that you have also won these orders despite the tariffs changes is because there is, there's no competition for this type of products.

Vivek Vikram Singh: Less competition. There is never no competition, by the way. Competition is what keeps you good. Competition directly causes excellence. A lack of competition is actually a very sad state to live in. So, there is limited competition on that scale of precision and a top delivery capability. And as Praveen very nicely depicted in the technology road map, the goal is to continue going from component to subsystem to system to ensure our customers get what they want, and their pain points are addressed. We really do not, I know it might sound ideological or philosophical, but what we're trying to do is solve the customer's pain and give them that solution. Rather than say this is the value per vehicle that is… The customer doesn't decide because of what we want, the customer needs to get… so who do you put first? I know it's a philosophical point, but for us it's always going to be customer. What they want we should be able to do and give the best solution we can and not think of how much value do we get if your capabilities sets keep increasing and you solve bigger and bigger problem for your customer. The value you derive from that will obviously and naturally be higher and higher, so that's, our answer to this.

Kapil Singh: Any indication on the value per vehicle? For both of these actually.

Vivek Vikram Singh: No, there's no point. Why would I give out. I mean, you're asking me to give price while I'm saying it is competition sensitive, that'd be pretty self-goal type event.

Kapil Singh: Sure, I think we've run out of all the questions in the question queue. I do see one raised hand, so, Linda will you take that question from Jay?

Moderator: Yeah. Okay the next question from Jay. Hi Jay, your line is open. Please, please go ahead.

Jay Kale: Yeah, thanks for taking my question again, just one question, you know, now with EV two wheelers present in the market for quite some time, from an EV specific components like motors, you know, strategy of OEMs of insourcing versus outsourcing, probably now would have been more evolved. Are you seeing, you know, one way the OEMs are going that either, you know, incrementally they're thinking of more of insourcing or do you think that, most of the OEMs will continue to have outsourcing of EV specific components.

Vivek Vikram Singh: I think there'll be a mix, as it has been in every component, Jay, over the years. Some will insource, some will outsource. Whoever is outsourcing at some point will tnihink it is a great idea to insource and vice versa. The guys insourcing will realize that their technology is falling behind. They will then move to outsourcing. This is a wave that's been going on in automotive for a very, very long time. You know, when we started making differential gears at that time also, most people used to make their own, even now a lot of OEMs actually make their own. But there has been, most people shifted from make to buy, but there are people who are in the middle go back for some model they'll try to develop on their own, etc. so that continues. The total market is so big, which is the one good thing about working in a large industry that you will always have room to grow despite all of these ways.

Kapil Singh: Thank you team, I think we have run out of the questions, so I'll just pass it back to Vivek, for any choosing remarks.

Vivek Vikram Singh: No, nothing. Thank you so much for listening. I know uncertainty is a terrible feeling for most of you. Most of you might be feeling worried or not knowing what answers are. I think one comfort that we can give is, regardless of how much uncertainty there is, companies who do well are not the ones who sit in the middle of this fog and wait for this fog of uncertainty to pass, right. You have to try and move as close to the edge of the fog that whenever it starts dissipating, you're the first out. And we're fairly cognizant of that and try to move fast. So that's where we leave it. Amit is always there to answer your questions and please keep calling him. So that's all from us.

Kapil Singh: Ladies and gentlemen, on behalf of Nomura, I would like to thank you for joining this call and also thank the management of Sona Comstar for giving us the opportunity to host this one. Have a good day everyone.

Vivek Vikram Singh: Thank you, Kapil, thanks everyone, bye.

Moderator: Thank you everyone for your time. You may now drop off the line.

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