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By NEAPS	**By Listing Centre**
National Stock Exchange of India Limited "Exchange Plaza", Bandra–Kurla Complex, Bandra (E) Mumbai-400051	General Manager **BSE Limited** 1st Floor, P. J. Towers Dalal Street Mumbai – 400001
Security Code No.: STERTOOLS	**Security Code No.: 530759**

Date: 15th May 2023

Sub: Transcript of Analyst/ Investor Conference Call

Dear Sir/ Madam,

Pursuant to regulation 30 (6) and 46 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, we wish to inform you that a Conference Call for the analyst and investors to discuss the financial and operational performance of the Company for the Quarter and Year ended 31st March 2023 was held on May 09, 2023.

Following Management Attendees attended on behalf of the Company: -

1. Mr. Atul Aggarwal- Whole Time Director
2. Mr. Jaideep Wadhwa- Director
3. Mr. Pankaj Gupta- Group CFO

We further Confirmed that no unpublished price sensitive information was shared/discussed in the meeting / call.

Please find attached herewith the transcript of the aforesaid call. The same is being placed on the website of the Company i. e. www.stlfasteners.com.

This is for your information and records.

Sincerely,

For **Sterling Tools Limited**

PANKAJ GUPTA

Digitally signed by PANKAJ GUPTA
Date: 2023.05.15 17:48:21 +05'30'

Pankaj Gupta
Chief Financial Officer

"Sterling Tools Limited

Q4 FY23 Earnings Conference Call"

May 09, 2023

MANAGEMENT: MR. ATUL AGGARWAL – WHOLE TIME DIRECTOR
MR. JAIDEEP WADHWA – DIRECTOR
MR. PANKAJ GUPTA – GROUP CHIEF FINANCIAL OFFICER

Moderator: Ladies and gentlemen, good day and welcome to Sterling Tools Limited Q4 and FY23 Earnings Conference Call. This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions, and expectations of the company as on date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict.

As a reminder, all participant 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 star then zero on your touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Group CFO, Mr. Pankaj Gupta. Thank you and over to you, sir.

Pankaj Gupta: Good morning. Thank you. Good morning, everyone. On behalf of STL Group, I extend a very warm welcome to all of you for our Q4 and FY23 Earnings Calls. I am joined on this call by Mr. Atul Aggarwal, our whole-time director, Mr. Jaideep Wadhwa, Director and SGA, our Investor Relations Advisor. We have uploaded our results presentation on the exchanges, and I hope everyone had a chance to look at it.

I will now request Mr. Atul Aggarwal for his opening remarks.

Atul Aggarwal: Good morning, everybody. Good to connect with you guys after almost a three-to-four-month gap. Let me just start with a brief overview of the industry. Firstly, India surpasses Japan to become the third largest auto market globally, with a revenue of $222 billion and anticipated to reach $300 billion by 2026. Two-wheelers and passenger cars dominate the market, accounting for about 76% and 17.4% respectively of the market share. Passenger vehicles grew, we had a dramatic year, grew by 25% this year FY23 as compared to 19% in FY22.

So I think the numbers have been phenomenal. Improvement is largely driven by growth in utility vehicles, lowering of age group of buyers who prefer innovation, high safety, and technology. The PV industry segment is expected to grow by about 5% to 7% in FY24, and hopefully this will be on the back of improvement in the supply chain conditions for semiconductor products.

Commercial vehicle industry grew 29% in FY23, supported by increased activity in road construction, mining, improving infrastructure, and a lot of spending by the central and state governments on improving the e-commerce sector. Commercial vehicle segment is expected to sustain a growth momentum with scrapping policy likely to drive fleet replacement and encourage new truck purchases. The two-wheeler segment grew at a rate of 9% as compared to a degrowth of 3% in FY22. We have witnessed growth, but production is still below pre-COVID levels. The two-wheeler volumes are expected to rise within a range of low to single mid-digit in FY24, with steady improvement in rural economy on increasing MSPs for key crops. Premium bikes are expected to maintain growth momentum, while exports might continue to be affected in the near term due to macroeconomic issues.

Coming to business overview, the company forayed into EV component business with manufacturing motor control units. Currently, the EV space is a sunrise sector, and we firmly believe that it will be the next big thing in the Indian automobile industry. The overall EV sales crossed 1 million mark in FY23, and EV two-wheeler segment grew at a rapid pace. New launches in the EV two-wheeler are expected to pick up, and penetration is expected to improve significantly. Scooters will become a dominant form of two-wheelers. Amidst all this, OEMs need to strictly adhere to safety regulations. We foresee multiple tailwinds in the EV space that will enable STL Group to maintain its leadership position, coupled with a path towards achieving sustainable profitability in the future.

Our revenue from EV component business grew by 3.5x from last year. This business secures more than 15 contracts, and now we have initiated capacity expansion from 300,000 units to half a million units per annum. Revenue from EV component business increased to INR 171 crores in FY23, compared to INR 38 crores in FY22. We are optimistic about our growth plan, and we will continue to work towards achieving our vision to become a pioneer in the green energy space.

Now I am going to request Pankaj to take over and run through the financial highlights with you.

Pankaj Gupta: Thank you, sir. I will now give you the financial highlights for Q4 and for FY23, starting with the standalone numbers for Q4 of FY23 at a standalone level. Total income increased from INR 140 crores in Q4 FY22 to INR 159 crores, this is a growth of 14% Y-o-Y. EBITDA increased by 14% to INR 21 crores versus INR 19 crores. EBITDA margin was at 13.3% in Q4 FY23. PBT stood at INR 8 crores with a margin of 5.1%.

This was impacted due to exceptional items pertaining to liability of INR 3.29 crores we recognized on the foreclosure of our EPCG license. If the said exceptional items were not there, the PBT margin was 7% level. Our PAT stood at INR 5.3 crores.

FY23 complete year on a standalone level, the total income grew by 27% to INR 604 crores in FY23 up from INR 475 crores last year. EBITDA increased to INR 92 crores FY23 versus INR 73 crores which is about 26% growth in EBITDA. PBT and PAT grew by 43% and 39% respectively to reach to INR 57 crores and INR 41 crores in FY23.

Coming to the consolidated financials, equally good year or better, Q4 we had total income increase from INR 170 crores in Q4FY22 to INR 213 crores which is 25% increase in the quarter. EBITDA increased by 30% to INR 23 crores versus INR 18 crores previous Y-o-Y. EBITDA margin increased from 10.6% in Q4 to 11% in FY23. PBT increased by 10% to INR 10 crores in Q4. PBT margins were at 4.7%. PAT increased by 13% Y-o-Y to INR 8 crores over INR 7 crores.

The full year on a full(consolidated) level, total income increased from INR 513 crores to an all-time high number of INR 775 crores which is about 51% growth in the total revenue of the group. EBITDA has increased by 44% and we have touched INR 100 crores EBITDA absolute number first time in history in FY23, it was INR 70 crores last year. PBT also surged by 82% at INR 63 crores level up from INR 35 crores last year and the margin also increased to 8.2%. PAT increased by 87% to INR 48 crores in FY23 over INR 25 crores in FY22. PAT margin also improved from 5% to 6.2% in FY23.

Thank you very much. We will now begin the question-and-answer session. Thank you.

Moderator: Thank you very much, sir. The first question is from the line of Deepan Sankara Narayanan from Trustline PMS. Please go ahead.

Deepan S Narayanan: Good morning everyone and thanks a lot for the opportunity. So firstly from my side, so what will be the impact on FY24 EV volumes sold with this EV subsidy controversy of government and pending investigation on these players? So what kind of impact we are expecting and also what is the impact on our customers and is there a possibility of Ola gaining more market share from current levels?

Atul Aggarwal: Okay. Good morning. Guys, I am going to hand this over to Jaideep. Jaideep is the Director on Sterling Tools. He is also the Managing Director for our EV Business.

Jaideep Wadhwa: Okay. Good morning everyone. I think the first question that you asked was is Ola going to be able to gain more market share? I do not think we are the right people to answer that. Those are questions that would be best asked from Ola and the other OEs. We think it is a great company. They have got a lot of product, new product offerings in the pipeline and they have very ambitious plans and a lot of capacity and a lot of drive, but how it actually pans out in the market, I think I would leave that to the OEs to decide.

Regarding the FAME subsidy, people expect that the FAME subsidy at the current run rate could run out sometime by the end of October or November this year. The expectation is that maybe the government will extend it till the end of March. What we understand from most of our customers is that they are working very hard to offset some of the losses if the FAME subsidy is not extended further and these are again decisions for the government to take, but if the subsidy is not extended further, I believe the OEs will, their strategy will be around cost optimization to a large extent and there are some tailwinds there that will help them.

For instance, there is excess capacity for batteries in China right now, especially in the format that are currently used in two wheelers. So as compared to say a year ago when a company like Ola was air freighting batteries from China, you have a current position today where the cell manufacturers in China are willing to lock in prices for the next two to three years because of excess capacity that is available with them. So I think that is going to give our customers and the industry some benefit. They are also working very hard on cost optimization. Volumes are helping, but there may be still, even after all these optimizations, there may be a price increase that the customers, they may have to pass on to customers to maintain similar levels of margin.

We believe, as do our customers, that now that the young customers, the early adopters have seen the benefits of the EV, have seen the riding experience, have experienced all the user interfaces that EVs offer, the trend will continue. I think the government subsidy has done its job in that it has made EVs very popular and now it is not only, I think people understand the benefits of the electric vehicles and if we can continue to make the total cost of ownership attractive, I believe the industry will be able to do, the industry will continue to grow even without a subsidy if the subsidy is withdrawn.

Deepan S Narayanan: Okay, understood. So, what will be our revenue growth outlook for this EV business for next year? So, where will this growth driver coming from for us? Which is only from this first customer or we are extending our volumes to the second or third customer? So, that understanding will be helpful.

Jaideep Wadhwa: I think we have discussed this earlier that we have 15 customers who have given us confirmed contracts. Now, volumes on these customers fluctuate a little bit because of various reasons. Again, you have to understand that EV industry is nascent. You know, in the recent months, a lot of volumes have been impacted because of the fact that the government changed the battery standards and most companies, really had to scramble to comply with them. But as this is now all being settled, we expect that these customers that have given us orders which is across two-wheelers, three-wheelers cargo, three-wheelers passengers and LCVs, we will see volumes go across. Now, I do believe that the growth potential for our business is at least 2x from where we are today.

Deepan S Narayanan: Okay. And one more question on the EV side. So, you have seen a sharp jump in gross margin for EV business. Is that due to product mix changing or some RM price cut which has helped this quarter?

Jaideep Wadhwa: So, if you look at the overall EBITDA margin, that hasn't changed much. So, there's also a bit of, in the way we were reporting earlier, we were reporting a lot of the job work that we were doing in cost of sales. We've now restated that into other expenses. So, I think that's made a difference. So, you'll see that most of the jump in the gross margin, as you'll see, is a lot of it is offset by an increase in other expenses. So, net-net, the difference, there is not much difference between the two quarters. And the margins, as they are, are stable. We continue to work on further cost optimization. But it's not something that is going to give us a very big jump, from quarter-to-quarter. It's something that will be incremental and continue to work.

Deepan S Narayanan: Okay. So, lastly, from my side, what is the reason for a sharp increase in this consolidated other expenses to INR 64 crores?

Jaideep Wadhwa: So, I think, I'll let Pankaj answer the question of the sharp increase in consolidated other expenses. Obviously, there is some contribution in that from SGEM because of the factors that I just explained. But Pankaj will go into greater detail.

Pankaj Gupta: Yeah. So, I think Jaideep answered consol increase in other expenses on account of EV vertical only. So, nothing on the standalone, no change over there.

Moderator: Thank you, sir. The next question is from the line of Abhishek from Dolat Capital. Please go ahead.

Abhishek: Good morning, sir, and thanks for the opportunity. So, a few questions on the fasteners business. So, there is a sharp fall in the margin in fasteners business. Is it because of the old inventory or there are other constraints like that jump in the power cost and other things?

Pankaj Gupta: Yeah. Good morning. Abhishek, let me take this point. So, we're talking about the Q4, right? So, Q4 has one timer. So, there was the whole year (inaudible). There's annual volume discounts which we pass on to the customers. That has been provided in this time. And some year-end provisions also we have made. And the steel prices came down as a part of which the inventory valuation impact is there. So, there is no concerning item on the margin drop in Q4. We continue to, on a yearly basis if you see there is hardly any change. We are pretty stable. And these are one timers in the Q4 which has pulled the margin down.

Abhishek: So, given the lower steel prices scenario, your margin is always between 17% to 18% kind of the number in fasteners business. At this time, it has gone down to 11%. And as you are mentioning there are some inventory adjustment and other provisions. So, if we normalize all these things, what would be your margin in the first quarter FY24?

Pankaj Gupta: Just to correct the data. So, it's not dropped to 11 ever. Anyway, we can discuss that offline. But yes, our margin of EBITDA around 15.5% which is the yearly average is where we are today. And we think that's the number to consider.

Atul Aggarwal: If I can add to that, firstly, I don't know where the number of 11% EBITDA is coming from. I think there may be some communication gap. Or you can take it up with us offline and run the numbers with you. Secondly, to add on to what Pankaj said on Q4 numbers, let me just say, yes, it's down % or 2 points vis-a-vis Q3. And Pankaj explained what those one-time issues were. But I would rather focus on the full year EBITDA margins which are still healthy. Despite the fact there's a numerator-denominator effect, inflationary issues on the balance sheet in FY23.

Now, having said that, steel has softened. Steel has softened, but that does not mean steel has softened giving us dramatic savings. But the trend is on the lower side. There has been a marginal reduction in steel buying prices, but it's not dramatic enough to make a substantial margin impact for next year. Having said that, if I can just spend 10 seconds on next year, we believe our margin structure for FY24 will be better than FY23 on a full year basis. Quarter-on-quarter, we have issues on inventory valuation depending on RM or other inflationary issues. But on a full year basis, I think our guidance will be that margins improve over FY23.

Abhishek: So, sir, what is your margin guidance, revenue and margin guidance for FY24, sir?

Atul Aggarwal: For fasteners business?

Abhishek: Yes, sir, fasteners business.

Atul Aggarwal: So I think we are at 15% plus right now. I think we'll be close to 16% or so.

Abhishek: 16% and top line growth. And revenue growth?

Atul Aggarwal: So we are looking at top line growth. Let me just, I want to drive into a lot more data before I get into guidance. Let me just say that the industry going forward, like I said in my opening remarks, PV industry is expected to grow at 5% on a more aggressive side. That's our estimates, but most indications by SIAM or other industry bodies are looking at about 2% to 3% industry growth in PV segment. Farm equipment is expected to be flat. And two-wheeler industry is up maybe 9%, but that's also changing the mix, what's happening there. Two-wheeler is also not expected to grow to anything more than about 5% or so this year. So keeping in mind industry growth, I think we are looking at growing anywhere between 17% to 20% for next year.

Abhishek: So how is the mix for the fasteners revenue in terms of the two-wheelers, passengers, vehicles, PVs?

Atul Aggarwal: Can you say that again, please?

Abhishek: How was the mix for the fastener revenue in terms of the two-wheelers, passengers, vehicles, PVs and farm equipment in FY23, sir?

Atul Aggarwal: I don't have the numbers. Industry segment ratio.

Pankaj Gupta: Industry segment ratio.

Atul Aggarwal: I think just to give you a sense while Pankaj is opening the data for himself, we are at – in FY23, we are at about 20% in two-wheelers. In passengers, vehicles, we are about 24%, 25%. Commercial vehicles, we are at a similar number. Farm equipment is at about 11%. And aftermarket is at about 14%, 15%. Just to give you a sense where we are.

So I want to, dive into another data point out here, which is, A) The commercial vehicle industry grew 29%. But our revenue in the commercial vehicle segment has gone up by 62%. Two-wheeler industry grew 9% last year. We have grown 36%. Farm and tractor equipment has grown 12% last year. We are up 36%. Passenger vehicles were up 25% last year. We are up 35%. Overall, we are up 28% in revenue terms over the last financial year. I just wanted to put that data out there that Sterling has grown faster than the industry in all segments of the business. That is why we have grown 28% in revenue terms in FY23 over FY22.

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

Sonal Gupta: Hi. Good morning and thanks for taking my question. Just coming back to the margin side, a couple of quarters back, you had guided that the fasteners business margins would be in the range of 16% to 19%. I would imagine that these annual volume discounts seems like an annual practice. This should have already been worked into your estimate.

Now, you are talking about 16% EBITDA margin, which is the lower end of your guidance. I am just trying to understand what has changed here in terms of your cost structure, etc. You just mentioned that you are gaining market share. You are outperforming the industry in all segments. I am just trying to understand why this sort of downgrade on the margin expectation?

Atul Aggarwal: Good question, Sonal. Let me just say, yes, our guidance is always between 16% and 19%. We are giving a guidance of about 16% for FY24. To your question of a past guidance, there are two or three big factors. One is a mathematical issue. Steel has gone up by roughly about 23,000 to 24,000 metric tons, which is almost 35% from the base prices. Just because of that mathematical numerator-denominator effect, we have got full compensation from our customers for steel price moving up.

But just because of the mathematics, the way it plays out, the margin structures fall. For example, on a low base of steel, our margin is about 18% plus. If you keep a similar cost structure and the steel goes up, there is a numerator-denominator effect of about 2.5% to 3% on that. That is causing additional pressure mathematically more than anything else.

The second part of the equation which gets impacted is because of inflationary cost pressures where costs have gone up on other inputs, which would be chemicals, energy, people, etc. In FY23, we were working with a lot of customers to give us price increases. Those price increases were a long time for negotiation. We have been able to conclude a lot of the price increases with our customers, which are kicking in either on 1st April this year or which have kicked in just a couple of months ago without giving us a full year impact.

I think that those price increases on account of inflation cost increases, on top of steel price increases, are going to kick in for this full financial year. Having said that, I would still give a guidance of 16%. Once the steel prices soften more, I think this can go up to 17%-18% from a more normal range. From the current indications we have, steel prices are not expected to soften so much to give us that benefit.

Thirdly, what I would say is that this year the industry is only expected to grow in the commercial vehicle segment only. We do not see much growth coming in other areas. Having said that, we are still giving a guidance of 17%-18% revenue growth this financial year. The numbers you are hearing from me on 16%, I would not say it is a change in guidance. I would still say it is very much in line of 16%-19%. If that steel softens a bit, the numerator-denominator effect will automatically bump it up to 17%-18%. If you like, I will tell Pankaj to set up a separate call for you just to explain to you how this equation works.

Sonal Gupta: Great. Thanks a lot, Atul-ji. The second question I had was on the sequentially consolidated EV business. Revenues have also been flattish. It seems to indicate that the EV revenues have been also sequentially flattish. Despite the fact that we have seen one of your largest customers having a significantly increased shipment etc. Just trying to understand why we have not seen a benefit in terms of revenues.

Jaideep Wadhwa: We have grown between Q4 22 and Q4 23. We have grown 83%.

Sonal Gupta: I was talking Q3 to Q4?

Pankaj Gupta: I know that. I know that one of our large customers has grown in the low double digits between Q3 and Q4. We continue to have a 100% share. There is a difference. What is inverted by the customer, what their stocks were. There is some level of fluctuation that takes place. All that we are seeing there is that we had the stocks at the beginning of the third quarter at our customers' place was significantly higher than the stocks at our customers' at the end of the fourth quarter for a number of reasons.

Both customers and us are trying to get back up to a higher level. You will see that we will possibly have higher shipments to them in this quarter than they will have to their end customers. I think quarter over quarter there are some changes that take place. There are a number of factors for this. We continue to be 100% of the business. It is just a factor of their inventory movements and the way their productions have panned out versus how our productions have panned out.

Sonal Gupta: Got it. The last question I had was when do you see the three wheelers and LCVs customers that you want sort of ramping up? When do you see the launches happening?

Pankaj Gupta: Three wheelers have already started moving up fairly well. I think we have had a good quarter in the fourth quarter. LCVs, we don't see volumes really picking up till probably the third quarter of this year. What we are selling is in tens and low hundreds. It is not in the thousands.

Sonal Gupta: Got it. Great. Thanks a lot. I will join back the queue. Thank you.

Moderator: Thank you. The next question is from the line of Manish Ostwal from Nirmal Bang. Please go ahead.

Manish Ostwal: Yes, sir. Thank you for the opportunity. I have only one question because most of the questions have already been answered by the management team. For Q3 to Q4, the rise in the other expenses, what is the component of one-off in that rise of incremental numbers?

Pankaj Gupta: You are talking of EV, consol level or standalone?

Manish Ostwal: I am talking of consolidated other expenses line items, sir.

Pankaj Gupta: Sorry, can you repeat? You are talking of standalone or consol?

Manish Ostwal: I am talking of consolidated financials, sir. I am talking of other expenses movement from quarter three numbers to Q4 numbers. There is a substantial increase. What is the one-off component in that?

Pankaj Gupta: If you see the published results, I think other expenses this time is including power and fuel and consumption of store and spares. That is the presentation part. I hope you have factored that in. Besides that, as Jaideep just mentioned, in the EV business, there is an expense relating to which COGS have come down and other expenses have gone up. The nature of those expenses is like job work, selling and distribution expenses, labour cost and general administration expenses because there is a ramp-up in SGEM. So, these expenses are falling in other expenses and that is the reason it is going up. What we should also see is that the proportion overall, there is no impact.

Manish Ostwal: You were talking on the one-off cost. Is there any quantification of the number, sir? One-off cost and other expenses?

Pankaj Gupta: Details which are available. Broadly, as an item, these are the heads which I mentioned.

Manish Ostwal: Okay, sir. Thank you.

Pankaj Gupta: Just for your better understanding, as I said, it has job work, selling and distribution, labour cost and general administration expenses.

Manish Ostwal: Actually, I better understand. You clubbed many expenses this quarter. But if you take the operating margin movement from Q3 to Q4, there is a substantial drop...

Pankaj Gupta: My suggestion is to see the year as a total. It will be a better picture. And as I said, because of the volume increase in the electric vehicle segment, these expenses in absolute terms will go higher.

Manish Ostwal: Sure, sir. Thank you.

Moderator: Thank you. The next question is from the line of Viraj from SIMPL. Please go ahead.

Viraj: Just a couple of questions. First is on the fastener business. You talked about outperformance for us in FY23 versus various end segments. Is that value outperformance or you are talking in terms of volume?

Atul Aggarwal: Let me take that up, Atul here. We are up 28% in revenue FY23 in our fastener business. 21% has come through volume growth. 7-8% has come through a combination of price increases and product mix improvement. That is just to give you an overall company data point. Secondly, the values which I have shown increase, they are substantial increases. For example, I mentioned commercial vehicle is up 29% as its industry segment. We are up 62%. These outgrowing segment is substantially on account of volume increase we have been able to achieve because of new product development which kicked in, new negotiations we did for our customers, for share of business changes, etc. We are up across all four segments in the automotive industry because of the same reasons.

Viraj: When you say 17%-20% growth in FY24 despite the industry being muted, that is at the fasteners business level or you are talking more at the consol level?

Atul Aggarwal: I am talking on the fasteners business level.

Viraj: Again, that will be largely volume growth driven?

Atul Aggarwal: That will be largely driven through a combination of new product development, share of business changes in our favor from customers.

Viraj: If we can just provide a little more granularity in terms of various end segments, what will our share be now with major customers? How has that changed in the last one or two years? That will be very helpful.

Atul Aggarwal: Just to give you a sense, if I talk about two-wheeler segment to start with, there our share of business has marginally improved or we have been able to maintain with the largest customer which is Honda Motors and Scooters. We were able to acquire a lot of new business at Suzuki Motorcycles which is part of Suzuki Group. I think that business went up almost 50% for us over last year. That gave us a huge bump in our business. If you look at in the passenger vehicle space, we were up 35%. We have been able to grow marginally again with our main customer

Maruti Suzuki, but we were able to grow substantially in Mahindra and Mahindra's automotive division.

We have done a lot of product development work with Mahindra over the years which translated into substantial volume and value increase in this financial year as we all know Mahindra has done very well in this automotive division. Those are two reasons. In farm equipment, we were always a strong player with Mahindra. We have grown dramatically in Mahindra tractor division and we had acquired John Deere as a customer 2-3 years ago. Those values for new product development kicked in in FY23 which will improve in FY24. Those are the two big reasons where it went up.

Our business with off-highway with JCB has also gone up dramatically. We are up almost 100% with JCB. Again, on the back of new product development work we have done in the last 2-3 years. In commercial vehicles, the industry is up 29% and we are up 62%. Growth came on the back of Leyland where we have done a lot of new product development in the last 2-3 years where the values have gone up. I think we are up with Leyland almost 100% over the last financial year. We are up about 35% on Tata Motors and we are up about 40% in Volvo trucks as well.

In summary terms, all I can say is a lot of new product development work done in the last 2-3 years that has kicked in plus because we have been able to work with the customers to improve our share of business across the board.

Viraj: Just to go a little deeper on this and just two parts of this. One is, as you said, it takes a couple of years for the new product development to kick in and to materialize. Based on the efforts which we have been making in the last 2-3 years, even if the industry volume were to remain subdued, even in that environment, do we have enough pipeline in place which can keep us sustain this growth rate, not just in 2024, maybe even in 2025? A related question is also in the sense in terms of margin. So when we kind of bid for these new products which we are looking to commercialize, inherently, I mean in the past also we have been very conscious in terms of the profitability in the products which we bid for. So in that sense, there is no change in those margin thresholds which we traditionally looked at before when we look to bid for new products?

Atul Aggarwal: So let me answer your first part. Yes, you are right. It takes 2-3 years for a new product development to translate to value. The guidance we have given for FY24 on revenue growth is, despite the fact that the industry is not growing, and going forward for FY25-26, we are already working on product lines where we have visibility as to what is going to kick in in terms of value and bump up revenue for us. I think we will share with you as we go forward in the year. Some stuff I can't share with you right now because of competitive reasons, but I can only assure you that our revenue growth plan for FY25 and FY26 is also robust. Keeping in mind the activities we have going on.

On your second part of the question, can you refresh me again on the margin? Yes. As a company philosophy, we believe that margin retention is very critical in what we are trying to do. Our philosophy remains the same. We are not compromising margin structures to find this growth.

We are looking at more-and-more critical part development. It will help us not only in margin retention, but also improve our competitive position with our customers.

Viraj Kacharia: Okay, that's good to hear. Thank you.

Moderator: Thank you, sir. The next question is from the line of Alisha Mahawla from Envision Capital. Please go ahead.

Alisha Mahawla: Hi, sir. Good morning. Thank you for taking my question. My first question is that we are talking of 17%-18% growth on the fastener side. That means we will be anywhere between INR 700 crores to INR 750 crores, which I believe is the peak revenue we can do. Do we have any incremental capex plans on the fastener side?

Atul Aggarwal: I think we are investing about INR 30-odd crores incremental capex this year. I don't have the exact number, but the guidance would be between INR 25 crores and INR 30 crores. So, yes, we are adding incremental capacity for certain specific products and certain balancing equipment. So, that's an ongoing capex we are doing, which will supplement capacities. But I think our revenue, we had given a guidance sometime back of maybe, I think about INR 800 crores. We have not given a revenue guidance of INR 750 crores on a full basis. My sense, if I remember correctly, is more like INR 800 crores. And this may be before we had price increases kick in. So, this number may be north of INR 800 crores as well, including the capex we are doing this year. And going forward, we will do incrementally to support the growth of the business.

Alisha Mahawla: Sorry, just to clarify, this INR 800 crores is including the INR 30 crores capex that you are planning to do this year?

Atul Aggarwal: No, I think, INR 800 crores, capex is based on the old numbers. The INR 30 crores capex is on top of that, which will help us increase our capability to grow beyond INR 800 crores and do certain other products which are not currently, our equipment is not currently capable of manufacturing.

Alisha Mahawla: Understood. On the fastener side, we said that apart from the annual volume discount, we also had some amount of inventory loss because of reduction in steel prices. Is it possible to quantify what is the inventory loss for the quarter?

Atul Aggarwal: No, I think, Pankaj, Arun, you guys can agree with me, but my sense is that the inventory loss is not an inventory loss. It is more of a valuation exercise loss. Pankaj, do you want to explain that? Arun, do you want to take it over?

Pankaj Gupta: So, basically, whenever there are steel prices changes, it gets reflected in your closing inventory. We sit with a large inventory. The valuation change is what is captured in Q4. So, there is no loss per se on inventory. It is a valuation which is having an impact. And there are timing differences as you move forward, prices change. Again, these things will keep reflecting in the results.

Alisha Mahawla: Is it possible to quantify this amount?

Pankaj Gupta: I think it is bundled along. Right now, I don't have numbers to share with you. Maybe we can connect offline to discuss it.

Atul Aggarwal: If I can add on top of what Pankaj is saying, these are valuation exercises which are done quarter-to-quarter. So, you will find some quarters the cost of inventory goes down, some quarters it goes up, depending on the buying price we have done in the last quarter or the quarter before that. Because there is a large pile of inventory at finished goods level. There is inventory at our work in progress level which is revalued quarter-to-quarter depending on the buying prices and cost of production for that quarter. Yes, the quarter. At times, the quarter may look bad. At times, the quarter will look very good. What we are trying to do as business owners here in the business is that we like to focus on the annual numbers which are more representative of the true nature of the numbers.

Alisha Mahawla: While I understand that it will be different from quarter-to-quarter basis and it makes sense to look at the annual numbers, I am just trying to understand if this is the start of a new trend with reduction in steel prices, where the margins can be. My last question is on the consol data side, we have done about 10.5% kind of margins. And for fasteners, we have said that we are looking at doing 16% lower end of our band for '24. On consol, what is the kind of sustainable margins we can do?

Pankaj Gupta: So for the quarter, yes. If you see the blended for the complete year on a consol is around 13% EBITDA margin, right? Just to -- so as we advise on the fasteners business, margins should be in the range of around 16%, and for the EV business, we currently are at a 6.5% EBITDA margin for the last year, 6.5% to 7%. And as we move to the next year, our advisory earlier was also in the range of 8% to 10%. So there is going to be about 2% to 3% improvement in margin in EV, about 1% of margin in fasteners, blended, whatever comes will be an outcome of that. It will definitely be better than 13% by…

Atul Aggarwal: So I think, also if you look at the mathematics in the last quarter, the EV business did a revenue of probably close to INR 60 crores, which is almost 30% of our revenue of fastener business. In the fastener business, we did INR 150 crores, and 33% and EV did close to INR 60 crores. So about 35% revenue as a percentage came from the EV business. Now I just, that automatically, mathematically, the ratios change and that puts pressure on the consolidated margin structure.

Having said that, these margins are expected to go up. I just want to mention, since you're talking about margin structure, we got to keep in mind, the two separate businesses, fastener business and EV business, I think one data point we need to address would be return on capital employed. And I think the return on capital employed in the EV business is dramatically better, despite the lower margin structure in that business, that ROCE there in that business is about 35% in FY23. So I think we need to factor in and we need to keep an eye on ROCE as well as margin structures while looking at the business overall.

Alisha Mahawla: Okay, great. Thank you.

Atul Aggarwal: Thank you.

Pankaj Gupta: Thank you.

Moderator: Thank you. The next question is from the line of Chirag Setalvad from HDFC Mutual Fund. Please go ahead.

Chirag Setalvad: Yes, hi, good morning. Just a clarification on the growth numbers. So on one hand, you mentioned growth of 17% to 20% in fasteners and then subsequently, there was a number of INR 800 crores, and if I get this right, your fasteners revenue is roughly about INR 600-odd crores in FY23. So if you could help clarify that?

Atul Aggarwal: No, so I think the question by one of the members on this call was INR 800 crores is what the number that understanding on a full capacity basis, it was not for FY24.

Chirag Setalvad: Okay. So that's on full capacity, you can do INR 800 crores?

Atul Aggarwal: INR 800 crores-plus. Like I said, we are adding, we have done, we are doing incremental capex this financial year. So the guidance on the full capacity will be INR 800 crores-plus north, much north of INR 800 crores.

Chirag Setalvad: Sure. So the guidance for this year for this INR 600-odd crores revenue business to grow by 17% to 20%?

Atul Aggarwal: Correct.

Chirag Setalvad: Right. The second is on the EV business. Can you help explain the competitive advantages that the company has, because my extremely limited understanding, I'm not sure how value-added this product is, how much is -- what is the sort of value-add, the company is doing and how easy or difficult is it for competition to enter into this area?

Jaideep Wadhwa: Okay. So obviously, let me first start by just explaining, and I hope I'm not being too repetitive for all the members on the call. The motor control unit is a factor -- and I'm talking the architecture defers for different vehicles in different vehicle classes. But let's just talk about a high-speed scooter because that's where the bulk of the market is right now. In a high-speed scooter, the motor control unit basically interfaces with the battery pack and the BMS there. It interfaces with the vehicle control unit. It drives the motor and it interfaces through the vehicle control unit with the instrument cluster.

So the most important part of -- I mean any -- every part of our vehicle is important because without everything coming together, it doesn't work, but the motor control unit has a large software component to it, both which drives the performance and efficiency of the controller, but also the overall vehicle performance. So, and that's a differentiator in some ways. And that's why we also talked about the fact that there is a lot of stickiness, because while it is possible to replace a controller, there is a lot of software work that is required to do so, because of all the interfaces that are there with different aspects of it.

In terms of the value-add and what is our competitive advantage. We understand with the three years since we've started this company and five years since we've been working on this project, we understand the competitive landscape, we understand, sorry, the vehicle architecture is very, very well. We understand what is required to get the vehicle to do what the --our customer, which is the OE wants it to do. And our ability to provide that engineering support to the customers and to get the vehicles to where they want it to be, I think is a key factor, and there's a lot of experience has been built in.

We have developed an ecosystem of suppliers to allow us to ramp-up to the volumes. We've gone up pretty much from a standing start to 180,000 units and more, and we are continuing to expand. We locked in suppliers for DSPs, MOSFETs and other key components. So we built an ecosystem that enables us to be able to cater to our customer requirements. So at the end of it, we've got the engineering edge out there, and we've got the supply chain in the ecosystem in place. So yes, there will be competition, competition will increase, no doubt about that, but we will -- I think, we are well placed to be able to maintain our competitive advantage in this space.

Chirag Setalvad: And where do you see revenue, last question from my side, where do you see revenue in the EV business this year?

Pankaj Gupta: I had mentioned earlier that we are looking to at least double.

Chirag Setalvad: And this year was INR 170 crores, right?

Pankaj Gupta: Yes.

Chirag Setalvad: Great. Thank you very much.

Moderator: Thank you. The next question is from the line of Chirag Shah from White Pine Investment. Please go ahead.

Chirag Shah: Yes, thanks for the opportunity. Sir, I have, first, a few housekeeping questions out of that clarification. So, one, when I see your presentation, you include other income in your EBITDA calculation. Is it possible to indicate what exactly it is? Because when I look at the annual report, a large part of this appears to be treasury income, fixed deposits, interest and all those kind of things. So that is first question. Because if you exclude other income then the pressure on margin seems to be slightly higher, either annual or quarterly. So that is one. That is the first housekeeping question.

Pankaj Gupta: So, yes, other income is interest on treasury, scrap sale. And this time we had about INR 2.5 crores of dividend we received from Haryana Ispat, our subsidiary company. So this is not a substantial amount. I mean in terms of percent in margin, yes, you can compute with revenue from operation basis than total income, in fact, the margins will improve if you do that, the denominator is going to reduce, right?

Chirag Shah: Okay. Sir, second question is, you indicated that there was some mark-to-market valuation negative impact on inventory. So in the past, is it that we also had a positive impact on quarterly basis because when steel prices were going up?

Pankaj Gupta: Yes, that is true, because that is how the steel behaves and that there's, of course, there has been benefit in the past.

Chirag Shah: So as a request sir, is it possible if you can highlight that in presentation whether a gain or a loss, it will help us to understand the quarterly numbers also reasonably better? And sir, last question, if I can. This is more on the product side. So on the fastener side, you indicated that there had been market share gains. For example, in Ashok Leyland, you indicated, in M&M, you indicated because of product development. Can you indicate what these products were, what kind of products were you referring to?

Atul Aggarwal: So, same fasteners. See, if you look at any vehicle for that matter, there are about 300 different kind of part numbers, SKUs, which go into make, go into making a vehicle. So we have not developed or know the fasteners maker has developed the entire range of 300 fasteners. So that development activity is an ongoing one, but we try and focus on more, more critical parts to do that. I think that has given us. Our customers are already buying that from competition or maybe it is for a new product or a new model, they were launching to replace an old model, it's combination of those things.

Chirag Shah: Okay. So what I was referring to is, are there more engine-related fasteners or chassis-related fasteners, if you can indicate or are they very different in terms of the thickness of the fine-tuning that you do, are they far more that you are not making? So what exactly are these going ahead, what kind of development you are making, without going into the strategic information which you can't share?

Atul Aggarwal: Yes. These developments are more for transmission and for engine application.

Chirag Shah: For transmission and engine applications. And we assume that this process will continue, it's not a one-off thing, right?

Atul Aggarwal: Right. It's an ongoing process. That's how we are able to do what we do. It's an ongoing process.

Chirag Shah: And I'm referring to the pace, I was referring to the pace the way we have scaled over last two years in terms of market share, and I'm referring to volume market share in general, I'm more referring to that perspective. So that process continues.

Atul Aggarwal: Process continues, and in fact, our objective is to intensify it more and more going forward.

Chirag Shah: So the new SKUs that you introduced with the customers, does it have a negative impact on margins in year 1 when you introduce them? So suppose you introduce a new SKU or a new fastener, say with M&M, just as an example, does it have a negative impact?

Atul Aggarwal: The margin structures don't get impacted on account of that. The only thing when the volumes are being ramped-up and the first year, volume is slow is that -- the changeovers we need to do on our cold forging machines go up. But that's a marginal thing. That is not really margin, it doesn't impact our margin structures in any meaningful way.

Chirag Shah: Okay, sir. Thank you, and I'll come back for more questions.

Moderator: Thank you. The next question is from the line of Rohan from Multi-Act PMS. Please go ahead.

Rahul Picha: Yes, thank you. This is Rahul Picha from Multi-Act. Again, coming back to the standalone P&L. So sequentially, we see an increase of raw material costs from 42.8% to 47.5%. As you have explained, it seems that this increase is largely led by the inventory revaluation exercise that we have done. So firstly, wanted to understand that, is this understanding right that is largely led by the inventory revaluation? And secondly, the revaluation exercise is done on a quarterly basis or we do it every year in Q4? That is my question.

Atul Aggarwal: I think firstly, let me, if I can correct you, and Pankaj, you can back me up on that. Our raw material content has gone up from 40% to 42.15% on a Sterling standalone basis, Sterling fastener standalone basis.

Rahul Picha: Okay.

Atul Aggarwal: So I don't know what number you are referring to. But that's what, for the fastener business, it's currently at 42.15%, up from 40%.

Rahul Picha: Okay. The numbers that I have seems to suggest that it's gone up from 42.8% to 47.5%. Maybe I clarify it offline.

Atul Aggarwal: I think you're looking at only from a Q3, Q4 perspective. You're looking at Q3 FY23 and Q4 FY23, I think that's what you're looking at.

Rahul Picha: Correct.

Atul Aggarwal: It's gone up from 43% to 46.5%, 42.63% to 46.45%.

Rahul Picha: Okay.

Atul Aggarwal: But on a full year basis, it's gone up from 40% to 42.15%.

Rahul Picha: Okay. So this is largely due to the inventory revaluation that has been done?

Pankaj Gupta: No, see, and there are two factors, the inventory valuation is a very small part of the total year, it will be 2%. The denominator impact which we keep mentioning our call, please understand, Rahul, whenever the steel prices will go up, my percentage margins are bound to drop and vice versa. And unfortunately, we have not come across price reduction on a permanent basis on steel in last at least two and a half years to three years. So there is a downward trajectory of the margin in percentage term. So as you were mentioning about INR 24 a kg has been a increase in last 2.5 years on steel. So this really kills the percentage margins. However, we get our price increases and in absolute terms, we are intact, and that is why we are able to maintain our EBITDA margin and all.

Rahul Picha: Yes. So, Pankaj ji, actually my question was more from the movement that has happened from Q3 to Q4. So just wanted to understand that this inventory revaluation that you do, is it done every year in Q4 or is it done every quarter, because the impact in Q4 seems to be material and this was the same in last year as well. So that is why I'm asking?

Pankaj Gupta: Arun, do you want to take that?

Arun Agarwal: So actually, there are two components in it, okay. First one, the margin impact that Pankaj, sir, already told, it is very nominal. Second one is that the inventory gap, if you see our inventory has gone down. So what has happened because of reduction in inventory, my RM content is going up. I hope I'm able to clarify you.

Pankaj Gupta: It's a change in closing stock. We can, maybe discuss offline in detail. Yes.

Rahul Picha: Okay.

Moderator: Thank you. We have the next question from the line of Tanya Gupta from Green Portfolio. Please go ahead.

Tanya Gupta: Hello, good morning, everyone. Thank you for the opportunity. I just want to understand, I was going through the PPT, where the product mix for the EV segment, the three-wheelers and LCV stood at 1%, 1% each. I just wanted to understand who we are supplying in the three-wheelers and LCVs space? And subsequent to that are these products -- are these orders are in commercial scale orders? And what is the potential product mix and how can we grow, if we took for the long-term span, maybe FY28, FY29, it's very long-term. So how are we targeting in terms of product mix and EBITDA margins from these, particularly three-wheelers and LCV segments? This is my first question.

Jaideep Wadhwa: Okay. So the three-wheeler and LCV segments while they are relatively small right now are very important because these are segments that we see a very good penetration of electrification. This is where the TCO has been proven of -- at least in the case of three-wheelers has proven to be very favorable, and in the case of LCVs too, which is expected to be very favorable. So there are many expectations that a gasoline-powered three-wheeler will become a part of history sooner rather than later, and what you'll really have is either CNG or electric.

So the potential is very good. Yes, there has been -- we've got business from, I guess, the leading companies in this space. I'm just going to just take a minute to talk to my team here to figure out if I can share the names. So we've got, we are in production with companies like Euler, which is one of the leading companies in India, and we have contracts from companies like Mahindra. So there is, if you look at that case, we have business across the spectrum and there are a number of other small companies -- so I said, we've got business from established three-wheelers and as well as from, we call as, start-ups.

In the LCV space, except for -- I rather than giving out names, what I'll say is that except for Tata Motors with whom we continue to work, every single LCV manufacturer has given us a contract for at least one of their models. So it's just a matter of the models coming into the market and for their sales to ramp-up and you'll see our sales ramping-up also

Tanya Gupta: All right. If I could also the content in the product, is that increasing? I mean, how we are seeing the content in the product that we're supplying to three-wheelers and LCV parts, and what about the product mix? Since, currently, there is 98% two-wheelers and 1%, 1% is in minimal. So if we took a long-term, are we like looking for a balanced approach on this EV segment?

Jaideep Wadhwa: So I mean, I think the way to answer that, first of all, I'm not sure what you mean by content. Could you explain that to me, please?

Tanya Gupta: Since you have mentioned of fasteners, like we are doing and other peers are doing 300 fasteners, the product segment that we have in the fasteners, we are supplying almost 300 fasteners and more or less on that. So are we looking with the same perspective for the EV part, I mean the product that we updated, the MCU part, are we increasing the content, so that we can have higher wallet share from the suppliers?

Jaideep Wadhwa: Okay. So there is only one MCU and unless there is -- typically, there is one MCU per vehicle. I mean, I won't get into vehicle architecture here. But you can take that as a standard and that's what we -- and therefore, we can't increase the content with MCUs alone. But as we have stated in the earlier calls, it is the intent of the company to look for other EV, other parts of the EV powertrain. So that we'll become a more -- maybe become more significant partner to our customers.

So yes, expansion of the portfolio is definitely a part of our strategy, but it's not that the MCUs will become a bigger part of the-- now if I can just take a minute and looking at what we did, what happened in last year, the total sales of EV was 1.18 million, right? EV sales were 1.18 million, of which 63% was electric two-wheelers. Now e-buses was 0.06. Electric three-wheeler cargos or three-wheeler cargo was 4%, car (inaudible).

Now, passenger vehicles is 28%, but I have to say that that's not a pure number because that has some e-rickshaws in it. So our share of business from two-wheelers is not -- in some ways is not identical, but what's happening in the industry, yes, we would definitely like to have a greater, we like to have a greater participation from other segments as the segments grow.

Tanya Gupta: All right, understood, sir. Your voice was breaking, actually, I couldn't hear the last statement.

Jaideep Wadhwa: So what I said was that as of today, electric -- so the electric three-wheelers is 4% of the total EV market. LCVs are non-existent in electric vehicles today. Therefore, and 68% is from electric scooters. So therefore, while we have our share of electric scooters is higher, what I would say is that the -- it in some ways mirrors, our sales pattern mirrors what's happening in the industry as the industry matures and electric three-wheelers, LCVs, etc., as they become a bigger part of the overall electric vehicle sales in India, you will see that our sales will also grow.

Tanya Gupta: Thank you.

Moderator: Thank you. We have the next question from the line of Sonal Gupta from HSBC Mutual Fund. Please go ahead.

Sonal Gupta: Hi, thanks for taking my follow-up. Just one question, like what Atul ji mentioned, I mean in terms of, we seem to have grown faster than the industry in all segments by a substantial margin. And I think like you mentioned, CV, 62%, two-wheelers also, and everything is about 20% or more like 30%, but our overall growth is 27%, 28%, and like you mentioned 21% of that is volume. So price and mix has also been a positive contributor. So just trying to understand like what's the missing thing, right, like if everything is growing closer to 30% or higher, then why is the overall 27%, 28%?

Atul Aggarwal: So good question, Sonal. I think, the missing piece here, where we are underperforming could be our export segment. I think that has de-grown for us substantially. I think if I-- Arun, what was the number in FY22 on exports?

Arun Agarwal: INR 47 crores.

Atul Aggarwal: Yes. So we have de-grown in our export segments. I think that value was INR 40 crores-plus in FY22 is closer range at INR 10 crores, INR 12 crores. So we have lost, I think, or rather we say, I won't use we lost some customers, there has been a shift of buying philosophy, some of the customers we're working with. So I think that's the missing thing. That's domestically have grown dramatically as you've seen the numbers, but we lost growth opportunity or in fact, we didn't grow in that export segment.

Sonal Gupta: Got it, great. That's all my questions. Thank you so much.

Pankaj Gupta: Thank you.

Moderator: Thank you. The next question is from the line of Abhishek from Dolat Capital. Please go ahead.

Abhishek: Sir, how much revenue growth in the two-wheeler segment in fastener business, sir, in FY23?

Atul Aggarwal: In FY23, one second. So in the two-wheeler segment, we're up 36%.

Abhishek: So PVs is at 25%, CVs 62%, two-wheeler, 36%, and farm equipment is also 36%?

Atul Aggarwal: That's right.

Abhishek: And export, but earlier it is used to be the 2%, 3%, export used to be 2%, 3%. So is it the indirect export or direct export?

Atul Aggarwal: No, I think in FY22, our exports almost were about INR 45 crores to 10% of our revenue. I'm talking about specifically FY22. In FY23, we have done INR 11 crores. So there has been a de-growth, you can say about INR 35-odd crores we lost in export segment in FY23.

Abhishek: Okay, sir. And my last question is on the two-wheeler MCU segment. So you have -- as the Simple Energy has started production, how much share of business do you have and how much it will boost your revenue in the MCU segment?

Jaideep Wadhwa: We have 100% share of business.

Abhishek: What is that target revenue on the volume from the first quarter FY24 from Simple Energy?

Atul Aggarwal: I think we should, so they have given us some forecast. So I think that's a question you should ask Simple Energy.

Abhishek: Yes, sir.

Atul Aggarwal: We have 100% share of business.

Abhishek: Okay, sir. Thank you, sir.

Atul Aggarwal: Thanks. Michelle, we're running tight on time. I just want to make a couple of more comments on -- as follow-up to our last few investor calls we've had, just for the entire participants today that one of the concerns raised by the investor community was our contingent liability in terms of EPCG obligations.

Now we have addressed that dramatically this year in FY23, our obligations are down by almost 70%, for FY -- going forward, that's why if you see our as an extra line item we have before was a line, we have taken a provision of about INR 3-odd crores as EPCG obligation monies we've paid to the authorities. We were able to mitigate obligations, availing some government schemes by -- at the same time, we have to pay some penalties to do that. We have taken a proactive effort to reduce our obligations and minimizing dramatically the contingent liability on EPCG going forward. Pankaj, yes.

Pankaj Gupta: So as we shared last time, we did good progress on the EPCG side, you will see in our Annual Report, and in next three months' time to four months' time, this entire obligation on account of EPCG which has been a concern, we will stand cleared on that. This is from my side.

Atul Aggarwal: On a second thing, I think few meetings back, we had already for commercial paper on from the Board. We are not going to activate that product at all. And that much of time, commercial paper looked attractive vis-a-vis our current borrowing. Currently, we are borrowing short-term money, that's about 5.5%, 6% or maybe going up to 7%. But obligations for commercial paper and the tightness in scheduling for that, we will not be activating that.

I just want to put it on record, we would not be activating commercial paper product at all. So just to give you a sense, these two areas where -- from an investor perspective, contingent issues on cost, etc., and risks we have on EPCG, we have reduced that, on the commercial paper side, we are dropping it completely.

Last, just announcement, to give you a sense as to what we are doing in our EV business, yes, motor control unit business specifically, we have spent -- our engineering spend last year was close to couple of crores on engineering. Going forward, this engineering spend is going to go to between -- is going to go up to between INR 6 crores and INR 7 crores. We are upping the investment, building on engineering spend, both in terms of engineering headcount capabilities and also in terms of testing, validation, competence as well. So we are increasing our engineering spend by 3x more. Just to say that we want to strengthen that business. We want to be -- we want to maintain the head-start we have vis-a-vis competition. We want to maintain the advantage we have as a first mover and doing more-and-more investment going forward. We have also opened a Bangalore tech center, where our engineering reside, not only to upgrade the current product lines, also build new product lines going forward.

Lastly, we will be -- I think one of the questions which came off what on the spend per vehicle. We'll be strengthening our EV product portfolio beyond motor control units, somethings are in the pipeline. But my apologies, I will not be able to tell you more details of that. Hopefully, we'll have some more announcements in the near future telling you what we are trying to do in that. These are the things I wanted to update you guys as to what's happening.

Moderator: Thank you very much, sir. Sir, can we close the call now?

Atul Aggarwal: I'm good. Yes, go ahead.

Moderator: Thank you very much, sir.

Pankaj Gupta: Thank you everyone for joining the call. And I hope we were able to address all the queries you had. In case of any further clarification, please reach out to us or to SGA, we'll be happy to support you. Thank you very much.

Jaideep Wadhwa: Thank you.

Atul Aggarwal: Thank you.

Moderator: Thank you. On behalf of Sterling Tools Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines. Thank you.