"Sterling Tools Limited Q4 FY22 Earnings Conference Call"

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MODERATOR: **MR. VIJAY GYANCHANDANI – S-ANCIAL**

Moderator: Ladies and Gentlemen, Good day and welcome to the Q4 FY22 Earnings Conference Call of Sterling Tools Limited. 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 '*' and then '0' on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Vijay Gyanchandani. Thank you and over to you, Sir.

Vijay Gyanchandani: Good morning everyone. Welcome to Sterling Tools Limited Q4 FY22 Earnings Conference Call. From the management today we have Mr. Atul Aggarwal – Whole Time Director, Mr. Jaideep Wadhwa – Director and Mr. Pankaj Gupta – CFO.

Now I request Mr. Pankaj Gupta to take us through the key numbers after that we can open the floor for Q&A session.

Pankaj Gupta: Good morning everyone. Thank you for joining our Quarter 4 and full year analyst call. May I request Atul Aggarwal – Promoter, Director of Sterling Tools to give the opening remarks.

Atul Aggarwal: Good morning everybody. It is good to meet all of you, albeit it is an audio call I wish we could do a video call which we will try and do going forward.

For Sterling this is a new beginning for us this is a new initiative we have started and something we have set up this new investor communication format and hopefully we hope to reinforce that and make it more consistent going forward.

Let me just dive into the agenda for the call. I think Sterling everybody must have seen the Results which we announced yesterday. We have a (+30%) on top line revenue. I believe our growth has been probably faster than the industry grew across all segments and I think I would attribute that to the very hard and diligent work the team did across all functions from sales to operations and we hope to maintain that vigor and that enthusiasm and that aggression with our customers in this financial year as well.

Despite the headwinds we had last year, one main was lack of semiconductor availability which impacted our customer production lines namely all the key customer we work with. There was an opportunity from a market growth perspective for sales we hire for all our customers, but they were all impacted in their production capacities for lack of semiconductors.

Having said that there were also two-wheeler industry did not do very well last year I think since 18, 19 has been a negative trend and it is being impacted for various reasons. One is economic I think COVID had a huge impact and also there is a certain bit of latency wherein the customer are probably looking to buy more EV vehicles, e-scooters or e-motorcycles moving away from what they do currently. I think Jaideep will talk about that more in the later part of the discussion.

So, we have an initiative which we had launched few years ago on e-vehicles where do motor control units, we have some good news which we had last year and we see a lot of momentum going forward in this business.

I think commercial vehicle industry had a positive growth last year which is a good sign because that is a major contributor for our sales. We work with all the key customers there and we hope that momentum for CVs will continue to sell.

Couple of concerns I think Pankaj – our CFO will get into more details with you on hard numbers, but we grew 33% roughly a top line on a standalone basis for our fasteners business, but our margins are under pressure I think margins were under pressure for bulk of it I would say for reasons beyond our control. We are able to get full compensation of steel price increase from a customers, but we were not able to pass on the conversion cost increases because of inflation.

I think energy, chemicals, all conversion material went up dramatically and we have not been able to pass on the cost to our customer where we have not been able to get increases on account of that. So, that is why there is a drop in our margin structure at EBITDA levels and second also there is a numerator, denominator effect which Pankaj will explain to you because if we are getting full compensation on steel prices just to your mathematics which impacts the way the numbers look.

But I am not unduly worried on the fall of margin numbers. We have seen this in the past also I believe and things start softening up, margins will go back dramatically up again and secondly we are expecting a huge growth this year.

We have launched some strong cost control measures in-house, some efficiency measure in-house so despite even if things stay constant from a cost perspective we hope to deliver better margins going forward this year on the same cost structure itself.

I am not going to take too much of a time. We have a healthy balance sheet and I think we declare a 50% dividend for FY22 in continuation of what we have done in the last couple of years. We believe that we have a strong balance sheet that we want to have cash on the books, COVID is still not played out fully and Ukraine war and another inflationary measure have not played out fully. So, we rather have the strong company balance sheet we have lot of cash on the books, our net debt position is almost zero so we are basically a cash positive company.

So, we would like to work with that strength and so that we are able to address any uncertainties which may come going forward. I am going to hand over to Pankaj for little more details number what he wants to get into with you guys. Thank you, over to you.

Pankaj Gupta: Thank you Atul. So, once again welcome and short commentary on the results for this quarter you can refer the Investor Presentation available on the stock exchange site.

So, just to sum up the year I think in FY22 has been a very strong year we will say. A good revival after uncertainties of COVID unlike in FY21 so I will say a good year to bounce back.

We had 33% revenue growth with about 9% growth in EBITDA and 22% growth in the PAT. So, in spite of all challenges with Mr. Atul shared just now. Yes, margins have come under pressure mainly because of two reasons. One is more mathematical which is a pass through of the steel with percentage margins get affected but, however, commodities have like power, fuel, chemicals and because of freight for that matter have really eaten away a portion of margins which we are working as Mr. Atul said there is a plan to go back. We are confident that we should go back to the margin level which it used to be a couple of years back.

We have very low debt and we keep cash in books for the rainy days, all the leverage ratio of the company yes we have 3 current ratio 2.2. A very strong balance sheet A1+ weighted on short term and AA Stable for the long-term by ICRA.

We generated about 57 crores of cash. We have almost done with our capital expenditure on fastener side and we see in the balance sheet becoming healthier in the years ahead.

And I am very happy to share a very important event which management vision I will say was to see that there is a limitation to fasteners can grow to a level and we saw changes in industry shifting to electric vehicles and that is where three years back with the small vision in mind formed Sterling Gtake company in technical collaboration with a Chinese major players.

I am happy to share with you in FY22 when we close we did a first time a sale of 38 crores that also in last three months only and for the high-speed two-wheelers for major player in the country. So, a very good diversification, good addition of topline in this year and very exciting order book positions year ahead.

I am very happy to share that and Mr. Jaideep Wadhwa – the CEO of this division is with us. I will write back to Mr. Jaideep sir to give us more insights on this business.

Jaideep Wadhwa: Good morning everyone. The electric vehicle business as we talked about is something that the company Sterling Gtake was formed in 2020. We had been looking, however, at this space for at least two years before that and had done a lot of work on identifying areas that we wanted to participate in. We had some criteria on how we wanted to play in the space. One of the filters that we employed for instance was that we wanted to play in areas that involved both firmware and hardware because we feel there is a differentiation that the firmware component brings. On the hardware side it may be electronics, but it is still a commoditized and therefore through a lot of waiting and through a lot of discussions and going back and forth with potential customers we picked up as one of our first product to start in the electric vehicle space as motor control units which as you are probably all aware is the heart of the vehicle it controls the motor. It involves power electronics expertise and obviously firmware expertise because there it is about managing the switching, between from the DC current to the AC current, but more importantly the interface with all the other **(Inaudible) 11.08** components in an electric vehicle.

We secured our first order last year this was an order for Rs. 60 crores we have since then got confirmed orders from 10 customers. Our total order book today is Rs. 175 crores as mentioned in the presentation and we continue to be engage with close to 30 customers in across a variety of automobile products. So, the bulk of the traction that we are getting is in the high-speed scooter space, but we do have programs in the low-speed scooter space. More interesting our programs in the three-wheeler space both in cargo as well as passenger vehicles and we have also now had some success in light commercial vehicles.

So, in terms of power ratings for those of who are interested our current activities are from 1 kilowatt to 50 kilowatt though our portfolio goes up to 200, but where we have customer traction is between 1 kilowatt and 50 kilowatt and again the bulk of the products that we are working on today play in the low voltage space below 60 volt, but we are doing 336 volt which is the platform that is used in passenger vehicles and light commercial vehicles.

So, it is an interesting space we hope to stabilize this business looking at very good growth in the coming year. Definitely to give you some idea what we are hoping to do, we finish last year at about 10% of group turnover we expect that to reach about 30% to 35% of group turnover. So, that 30% to 35% of the group turnover will come from electronic products for the electric vehicle space.

Our revenue numbers we are looking at 4x and more growth potential right now. We continue to look for additional products to add to our portfolio and as we get more traction with existing and new customers we are looking at the possibility of introducing additional product so that we can be a full-service provider to the electric vehicle industry that is a very quick update on where we are and will be very happy to take questions on the fasteners business as well as the motor control unit business.

Moderator: Thank you very much. Ladies and gentlemen we will now begin with the question and answer session. Our first question is from the line of Viraj Mehta from Equirus PMS. Please go ahead.

Viraj Mehta: My question was a little bit more basic so pardon me if they sound little less knowledgeable sir first thing I wanted to ask was out of the current portfolio and you have given a breakup in your presentation, if I understand correctly 22% come from PV, so the majority of the revenue that you talked today which directly comes only from two-wheelers and nothing else from anywhere else?

Jaideep Wadhwa: Let me clarify I think let us say we are talking about the fasteners space we are working with customers at all segments starting from two-wheelers market leaders like HSMI in passenger vehicle we work with customers like Maruti Suzuki, in commercial vehicles we work with customer at Tata, Mahindra, Ashok Leyland, Daimler, Volvo, etc., and in the tractor business we work with Mahindra and John Deere along with the last segment being singular customer called JCB off-highway vehicles. So, we have presence across all highway. Pankaj you want to tell the numbers for different business segment we have in percentages.

Pankaj Gupta: Yes a fairly diversified portfolio we have two-wheeler which accounts for roughly 18% passenger vehicles, we have another 22% coming, 19% is attributing to commercial vehicles. We also have presence in the farm equipment size which takes care of 17% roughly and then another two markets retail and export total store is 25. So, two-wheeler is only 18% not the major.

Viraj Mehta: And sir if I look at the commentary of some of the CV guys they are talking about a number which is higher than 2019 and they are seeing that kind of traction for the first time in three years at least for 6 months of this financial year, are we also seeing similar kind of traction?

Pankaj Gupta: I think we are seeing similar traction. We are talking about matching their numbers of 18-19 which was the biggest ever year in the CV industry. For our sake and their sake, we hope it comes true and that is why we believe we have our numbers we are looking at next year are very strong. If currently our CV business is about 20% we have huge capacities in place to address the opportunity which CV business represent going forward and we are looking forward that segment of the business going up substantially. In fact, if we are looking at growth a large part of the growth will come from the CV segment itself. So, we also in sink for 18-19 numbers I think is a tough ask from a CV industry perspective, but even if come close to that will be a big jump from where we are right now.

Viraj Mehta: Sir can you guide a little bit in terms of overall revenue perspective we ended the year with 475 crores, are we looking at 20%, 25% growth here and if that happens how much operating leverage do you think there is in the system if that kind of growth does come through?

Pankaj Gupta: In terms of top line if you see yes in pass through we have done 475 crores of turnover of course we are ready for much bigger numbers in fact this year had challenge of semiconductor so we miss the target by couple of percentages but going forward yes we are ready and in terms of operating leverage what we are saying definitely after a certain threshold whatever increases you know will definitely increase my margins and bottomline I think that is what your question is.

Viraj Mehta: Because see we are looking at a 5-year low EBITDA margins for 21% EBITDA margin in FY18 has been like 15.5%, so is it fair to assume that these are like bottom margins now?

Pankaj Gupta: I will answer it is a good question for the benefit of the audience. Very important in our business is to see the steel is a pass through we get the increase from the customer with some time lag. However, in my financial year if you see like four-year, five-year trend it gives the concern that there is a 3%, 4% drop or maybe 5% drop in the margins, but trust me more than 3% on this is on account of mathematics only. So, just to give you perspective suppose the steel price goes up by Rs. 17,000 a ton just add that to the top line and bottom line that just transfer 3% drop in the margin. So, vice-versa if there is a softening on the prices my margins will go up and you will say company has done fantastically well, but the fact is fundamentally nothing has changed. So, this is first point to take a note of. Second the increase in the commodities because of war situation, because of various micro economic reasons every industry is suffering gives us something which we do not get a easy compensation from OEM. It takes lot of efforts and time and many times it does not happen. So, it is left to the company to be more lean, more efficient and curtail cost wherever waste elimination and recovery these margins through your efficiencies which I think as a ecosystem of Sterling we are very much on track, very much aligned and confident as I was saying in my opening remarks that we feel that with all our efforts maybe not immediately we should go back to 17%, 18% margin which we used to have earlier.

Viraj Mehta: And sir my last question will be from your non-fasteners business in this year was around Rs. 40 odd crores, but even order book of Rs. 170 odd crores, so of it is that is executable this year or that is over a slightly longer period of time?

Pankaj Gupta: That is all executable in FY23.

Viraj Mehta: So, this 40 crore itself should ideally become at least Rs. 175 crores, is that the fair way to think about it?

Pankaj Gupta: I would say so I mean that is what we have been the business we actually hope to do more than that business which is all for this current year it is not long-term business. So, as I mentioned in my opening remarks we are looking at a 4x plus revenue growth.

Viraj Mehta: Our FOREX in this part of the business this year is what you are saying?

Pankaj Gupta: That is correct.

Moderator: Thank you. The next question is from the line of Viraj Kacharia from Securities Investment Management. Please go ahead.

Viraj Kacharia: Basically, my first question is just want to understand what will be the current level of localization and how is the ecosystem currently develop for the MCU business?

Jaideep Wadhwa: So, obviously we have different frames when I say frames these are different model families. Three of them have been fully localize that means that all components that can be sourced in

India are sourced in India which is essentially all the mechanical parts and the assembly of the PCBA. As you are aware the active and passive components are not really available in India. So, it is not possible to buy MOSFET or IGBTs or microprocessors or CAN ICs or stuff like that. In India they are not manufactured here right now. So, those continue to be imported, but all of the value addition on the PCBA is currently done in India and the mechanical parts are all localize. The next three frames are scheduled for localization later this year and early next year.

Viraj Kacharia: So, one were to kind of look at more for two to three year period and understand the part to profitability especially localization because the fame itself also requires an increase in localization over a period of time ex of battery, so how should one understand one the localization and the part to profitability and related question is what kind of investment either we or our supply chain will be doing to achieve that?

Jaideep Wadhwa: So, couple of things on the three frames that we have talked about we have already done whatever we could do unless the ecosystem you also asked about the ecosystem as you know the government is pushing very hard for bringing in microprocessor and other electronic component manufacturing into India, but these are not things that happen overnight. These are multiyear programs I mean these will be easily four, five years before we will see the ecosystem change. So, until that period we will have to continue to import these from Europe to US and partly from China. In terms of profitability, we will definitely be profitable this year itself I mean last year we were if we were to look at if we hit the revenue numbers that we would wanted to hit we would have been profitable last year itself because our biggest cost obviously in a technical field like this is we have other than material cost is manpower especially engineering manpower and when you spread over a larger volume obviously you get a lot of efficiency is there.

Viraj Kacharia: Basically, what I was trying to understand is how does the profitability or the margin structure evolve and this particular product category for us I mean not say over next one or two quarters, but I am more talking about two to three years and the investment we will require to kind of achieve those market structure so that was one. Second is on the order book you talked about order book being say close to Rs. 200 crore so the initial order we got from a large OE was around Rs. 60 crores and we talked about a follow up order of around Rs. 100 crores. So, this customer seems to be accounting for bulk of our order book, so who is this customer if you can share and how are we looking at diversification in our customer base more from a sustainability point of view?

Atul Aggarwal: So, let me just give you a sense A we are in a startup slash ramp up phase right now and I think despite that for first full year of operation last financial year FY22 for the last quarter of real operations where there was absorption of e-vehicles for our customer which also meant that we did well along with them. Now for the first full year of operation in FY23 first 12 months of operations we will be profitable. I would not like to hit a number, but I can assure you we will be profitable or be it on a low margin perspective. Now as and when two three things will impact the margin structure going forward and we see tremendous amount of visibility for that. One the volume is going up which means when the volume goes up in this business our buying cost will also we will be able to negotiate better price on a components and also work with our vendor on assembly etcetera those cost will become more normalized currently we are in a ramp up phase. We want to look at customer satisfaction and customer acquisition so certain costs are not really optimize, but we will do that going forward. Our investments what we have done are going to play out over a much larger volume maybe one can look at a 400 crore for a margin and investment we have done, we have some CAPEX plan this year also in that business. So, we are not worried about profitability I think we have a good visibility and we are very confident that we will be profitable in FY23 and going forward these margin structures will only be more and more profitable and this business is more tech intensive. We believe that we are single source to most of these customers we are working with and it is a high spent product in the EV power train of any vehicle at high spent products. So, the value we create in the vehicle is very large which also means that the revenue we are able to generate is also very large. I did not want to talk about customer names and all that because we have some issues in confidentiality.

Jaideep Wadhwa: It is not we have all of our customer require us to sign a confidentiality agreements that forbid us from sharing names, but I think let me address the question that you had on customer concentration. Last year we were pretty much most of the business was from one customer. As I mentioned we have now got orders from 10 customers and therefore as these customers ramp up our customer diversification becomes much broader and we are also in discussion with other like I said in another 30 odd customers for additional programs. So, yes last year was pretty much one customer this year that one customer will still be the largest customer and will be more than 50% of our revenues, but as we go down the road we will see that plan out and the customer concentration will be much less.

Viraj Kacharia: Just two questions I had one is any arrangement on any clarity you can give on the status of the JV which we were planning to have the Chinese partner. So, if the FDI approval does not come through any arrangement we have reached either in terms of royalty or technical fee payout and related to this what further areas or applications in the MCU tech would we need support of the JV partner or is the technology fully absorb and incrementally there is not much to build up any perspective we can share?

Jaideep Wadhwa: To answer the first part if the FDI approval does not come through we have an understanding with our partners to convert our agreements into technical licensing agreement. So, that we have a clear understand there and that something that if we do reach that stage we will be able to execute the documents accordingly. Regarding where are we on the technology absorption I think we have done a fairly good job on technology absorption and if you think about it a company that basically started not even two years ago or two years ago now. We have not only got orders, we have not only executed them, but we have also localize I mean that is the tremendous amount of activity and progress that has been done in two years through COVID where we have had shutdowns, we have not been able to travel and all of that. So, there is a tremendous absorption that has been done, but I will say that a good partnership and in terms of how also how we worked with our partner, we have been successful because we developed the right product for the Indian market. We had the products ready and that was a joint effort between the Indian partner and the Chinese partners. We surveyed the market, gave the specifications of the products that we wanted and ask the Chinese partners to develop the product and they develop them for us. Going forward we may find additional application that we want to go for, we may need to drive VAVE, we may need to bring in additional functionality. So, we do not look at this is being a static business, this is the very dynamic business and while whatever we are doing right now I think you have got a lot of knowledge, but we do not intend to stand still we intend to work with our partners as well as in India on our own to constantly upgrade the technology and constantly bring out better products that a customers would find differentiated and better than that of competitors.

Viraj Kacharia: Is it becomes a technical agreement; will it be exclusive?

Jaideep Wadhwa: It is 100% exclusive.

Atul Aggarwal: I just want to make another comment of what we are trying to do with our motor control unit business there is a lot of talk about EV components, our motor control unit is a pure play EV component. It is not a sheep body, it is not a stamping part, it is not a plastic part, it is not a tire or a wheel going into e-scooter or e-vehicle. We are doing products for the EV power train which gives us a tremendous amount of customer strength and competitive capabilities and growth potential going forward. So, it is a very highly tech part and since Jaideep said we have had we have been working on this. This business is two years old and we did a lot of survey and came up with a product which was ready for the market, but I think the work on that started maybe even two years before that. So, we will manage for four years which has been able to allow to us to get where we are. So, once again we are a pure play power train component maker. We are not doing seats, we are not doing headlight for an e-scooter or e-vehicle, we are doing a pure play component for that.

Viraj Kacharia: It is really heartening to see the scale up and especially if you keep them in background competitors like Bosch and other who also compete in similar space and have a much more comprehensive field of offerings. So, in that respect just trying to understand the differentiation and the capabilities which we have built how do those differ versus the guys who have been in the power train space for decades?

Jaideep Wadhwa: I will say one thing and I hope I do not come across being arrogant on this, but when people talk about experience there is no experience in the EV business. Who has experience in the EV business everyone is new it is a level playing field. I mean yes we have got the competition in the space is I mean we have got some really good companies with excellent pedigree and they have the background and electronics and in software and so on and so forth, but please believe me they have been selling products to the EV industry for two years or three year as if we. The EV industry in China is 10 years old not even that. So, I mean Bosch does not have 30 years or experience or 20 years of experience in EV industry or neither there is anyone else. There experience in the EV industry is limited absolutely fantastic company I mean it is a company that we admire and respect tremendously, but I just say I genuinely believe that in the EV space it is a very level playing field everyone is new.

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

Sonal Gupta: So, just carrying on with the previous conservation I mean in your opening remarks also mentioned about that you want to have a firmware component because electronic whatever it is sort of going to get commoditized, so just I mean in terms of your strategy what are you doing to internalize or improve on the software side if you could also talk about you mentioned that you will have some CAPEX plans also on the EV side so if you can just talk about that as well?

Jaideep Wadhwa: Right now the firmware is essentially built in China, but what we have already started this year is that the customization is being done in India that means while the basic algorithm and the basic heart of the program is what we got from our partners. The customization of that to meet individual customer requirement is being done by us as is the integration the vehicle integration bit which is the CAN communication bit. So, those activities are being taken up in India this year itself. We also have a program to develop our own software and that is an investment that we are making and so the idea is that and I do not want to get into too much detail and bore you with that, but the same product can be used in let us say a performance motorcycle or scooter and can be used in say passenger three wheeler, but the drive characteristics are very different and that customization is what we do that is customization is what I am doing about to say okay what is the acceleration, what is the range, what are the safety features built in for instance a scooter will have a feature that if the side stand is down you cannot start the vehicle and many other things like that, that is totally relevant in a three wheeler. So, those kind of customization of making sure that the product fit the customer requirement is what we will be doing in India and then obviously the integration and then down the road we are looking at developing our own software too. So, it is a big part of our program and in addition to our facility in NCR we have also open an engineering center in Bangalore because as you are aware that the heart of the industry because of the whole software and electronic industry for us in India. One of the questions which came up earlier and I am sorry I was not able to get to that adequately. In terms of investment, we have obviously got investments in assembly lines and so on. We also believe that if volumes and today our capacity they are 300,000 units and obviously these are equivalent unit. So, we have taken a 1 MCU made that a base and then we basically compute capacity in equivalent unit. So, our capacity is about 3,000 right now we want to increase that a little bit more by the end of this year and we believe that once we get not if but when we get to a volume about 500,000 units then we will also bring SMT capability in house. So, we will be putting in lines to do pick and place and reefer lines to do the PCB assembly in the in-house.

Sonal Gupta: As of now the SMT is outsourced?

Jaideep Wadhwa: We work with EMF partners.

Sonal Gupta: I mean presentation also has a slide on EV vision so could you talk about like are you looking to get into other components as well?

Jaideep Wadhwa: Yes definitely we feel that motor is something we should look at. We do have partnerships with motor companies today, but we want to keep the option of motors open, but we just do not want to do what I would call a plain vanilla type of motor because obviously the competition there is very high. So, our motor evaluations are around technologies because there are little bit more differentiated where the motor has a little bit of it is not a permanent magnet motor, but maybe magnet less motor or something like that. So, we are looking at certain technologies there, but in the meanwhile we continue to work with motor partners very closely. We are looking at also at on board charges and also BMS as potential of products to get into, being able to travel and being able to work on will obviously help us to do that, but yes we definitely looking at additional products.

Sonal Gupta: Just last point on this like you mentioned you are working with 10 OEMs already so would be fair to assume that you are working with some of the incumbent two-wheeler players as well not just the startups or is it primarily the startups?

Jaideep Wadhwa: We are working with both incumbents and startups across two-wheelers, three wheelers and LCDs.

Sonal Gupta: For the fastener business like you are saying that your aspiration is to get back to the 17%, 18% EBITDA margin that you have done previous, but given the numerator, denominator effect I just want to understand with the current steel prices what does that 17, 18 translate do in today steel price terms?

Alok Aggarwal: If I am able to understand your question so steel is a full pass through I think it has gone up in the last 18 months or 15 months it has gone up 4x and there is fifth price increase it has come effective 1st of May. We have been able to get full compensation from a customer for steel prices increases so that numerator, denominator will be an issue to be able to resolve that and that can only happen if the steel price is falling everything remaining constant. Let me assume for a minute we are able to get some convergence cost or inflationary cost increases from a customer then obviously that will change that numerator, denominator factor again positively in our favor. So, we believe that we have a path to go backing to 18% over the next year or two it could be it will probably take us 12 to 24 months to get there for one which we talked about. Second is we have very aggressive cost control A, B also an efficient **(Inaudible) 44:55** program in our operations. So, we are looking at various ways how we can optimize and everything we do and that is the constant thing we do and I think we have identified some more opportunities for this financial year also. So, all these three factors will help us take us back to 18%.

Sonal Shah: What I am trying to clarify is that 18% holds even if the steel prices remain at current levels?

Alok Aggarwal: Yes like I said even if prices remain at same levels in the next 12 to 24 months we will be back at 18% yes.

Sonal Shah: And just could you talk about like clearly what sort of like you mentioned that commercial vehicles is one area where you see strong growth similarly I mean like on the passenger vehicle side I mean we had signed up some new OEMs as well I do not want if you want to talk about that or and how the ramp up is happening and what are your CAPEX plans for the full year?

Alok Aggarwal: Our CAPEX plans are very small this year about Rs. 20 odd and not very large, but from a customer there is a growth coming from yes a lot of growth will come this year on commercial vehicle business. We have not only from existing customers for products we have developed for them in the last couple of years which is going to give us a full year revenue. Second we are expecting a lot of growth to come from a passenger vehicle customers primarily Maruti. There is lot of momentum there A their own number momentum secondly we have been able to develop more component for them which were not part of our kitty earlier so that would bring us additional revenue. Lastly we feel we will get a lot of growth coming in from attractive business. We acquired John Deere as a customer about two and half years ago so I think there is a lot of headroom to grow and that customer plus we are growing very strongly with Mahindra and Mahindra tractor divisions. Lastly I think we always try and forget it our aftermarket business is very strong. We had a 20% jump in revenue last year on top of another 20% the year before that. So, we have a lot of tailwinds on aftermarket business also we expect substantial growth to come in that segment as well.

Sonal Shah: And just the CAPEX for the EV business side could you sort of?

Alok Aggarwal: It is marginal it is not differentiated crossing the segments it is a common CAPEX a lot of it this year the CAPEX what I mentioned is a maintenance CAPEX more it is not really huge amount of capacity build up CAPEX more maintenance CAPEX.

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

Abhishek Jain: Sir in fastener segment what is your current capacity and capacity utilization and how much was revenue versus volume growth in FY22?

Alok Aggarwal: So, I think in FY22 we are at 33% top line growth I think we have about 20% volume growth in FY22 as part of that. So, it is not a growth because of inflationary reasons only it has been a growth on volume as well and I think the volume number was very heartening to know what we are able to achieve. To answer your question on capacity in fact it is a long discussion, but I do not want to give you text of the whole things but let me assure you with our forth plant in Bangalore live and the CAPEX we have done in that facility in FY22 all our plants are pretty much equal capacity so we have the capability to bump up our revenue on current price structures maybe we can even touch 750 crore with that revenue on current price point and current flow. I think we have a lot of opportunity within the system if the market allows us and we are able to do good job in sales, we can capitalize on the opportunities give to us. The capacity conversation is much longer I am sure we will setup another call and take it with you.

Abhishek Jain: As I know that your capacity is around 60,000, 65,000 including our Bangalore plant so how much volume was in the last year in FY22?

Alok Aggarwal: Can you repeat that last part of the question?

Abhishek Jain: Current capacity is around 60,000, 65,000 metric ton including our Bangalore plant so just wanted to know that how much volume was in FY22 and how was the mix special versus standard fastener?

Alok Aggarwal: I do not have hard data on that right now we will prepare the data what you need I will tell Pankaj to take it up in a separate call with you, but I have already show you a product mix for more specially components as a percentage has only gone up in the last one year and that is why we are able to do in terms of selling prices and customer acquisition consumable. Like I said Pankaj can do hard numbers with you on a separate call.

Abhishek Jain: So, how is the mix is changing special versus standard fastener right now?

Alok Aggarwal: Special is going up vis-a-vis standards I do not have the exact data with me right now. Pankaj can you prepare that data?

Pankaj Gupta: Sure, Abhishek we will circle back with you.

Abhishek Jain: Sir as you mentioned that we have order book around Rs. 170 crores of the MCU segment so how much revenue you are targeting in FY23 and what would be the breakeven point?

Alok Aggarwal: We are expecting anywhere from on a conservative basis we are expecting a 3x to 4x growth over FY22 be it at 32 odd crores last year. We hope to be profitable this year. The breakeven point are too early to look into that business because like I said earlier we are customer acquisition phase; we are in a customer satisfaction phase and a rampup phase. So, these numbers are normalized for us to have a breakeven points, but I can assure you we are already as per our understanding and as per what we know business right now we will be profitable in FY23 with the numbers we have like Jaideep said it earlier it is a very dynamic business in terms of tech capabilities, assembly capabilities, Fame II rules etcetera, but despite all these things we will be profitable, but finally to arrive at a constant breakeven number is early days for that.

Abhishek Jain: As you mentioned that you have a current capacity of MCU is around 300,000 vehicles, so what would be the peak revenue and what is the content per vehicle right now?

Alok Aggarwal: Can you repeat the last part again.

Abhishek Jain: What is the content per vehicle in MCU right now?

Alok Aggarwal: Your content of the vehicle can vary from Rs. 9,000 to anywhere like an half or two per vehicle depending on what segment of the industry we are talking about. Two-wheeler starting from 9, 000 going to a bus public transport vehicle about 2 lakh roughly. So, it depends on what customers we are working with.

Abhishek Jain: I was talking about the average realization of the MCU?

Alok Aggarwal: Just to give you a sense currently if you see what is happening in EV industry in India bulk of the absorption of E vehicles is happening in the two-wheeler space. So, bulk of our revenue is coming on two-wheeler space. We have customers in the three wheeler space also and the public transport space and the LCV space, but their volumes are very small. So, revenue per product may be high, but the units are very small. So, we have not done any thumb ruling on that like I said currently in a rampup phase we are not looking in a basket. We are not looking at building technical slash customer acquisition capability, but having said that FY23 bulk of the revenue will come from the two-wheeler and three wheeler space.

Abhishek Jain: My last question is related with the margin side as you mentioned that mix will improve in the commercial vehicle segment in FY23 so will it help in the margin expansion because historically we have seen that you had achieved the margin of around 18% to 20% when the contribution was CV was quite high?

Alok Aggarwal: CVs will definitely help the good thing about the CV business in the fastener category is they bring a lot of topline growth, they buy large volumes and large values. So, obviously that helps us amortize a cost across the larger buy in terms of volume and values. So, if the CV picks up definitely it will help our margin structures going forward.

Abhishek Jain: What is the impact of the increase in the power cost right now?

Pankaj Gupta: I will say the inflation as a bundle total has impacted adversely about 2.5% power is a part of it. So, I will get around should be about a percent and half because that is the major contribution of inflation role power and fuel.

Alok Aggarwal: If there is a power the numbers will go up in case there is a dramatic power availability of power shortage through the grid then we have to rely on our diesel gensets where the cost has gone up dramatically, but we are hoping that power availability will stay healthy as we have seen last year.

Abhishek Jain: So, there was impact of around 250 bps quarter-on-quarter because of increase in the power cost?

Pankaj Gupta: That is included in that it is a bundled inflation on commodities and power fuel, chemicals it is a combined impact.

Moderator: Thank you. The next question is from the line of Nitin Dharmavat from Aurum Capital. Please go ahead.

Nitin Dharmavat: Couple of questions so what is the current capacity utilization that we are having both in fasteners as well as EV?

Alok Aggarwal: Like I said in the call earlier with other members on this call the capacity utilization is a long conversation. We need to understand the product mixes, capacities, customers, customer segments. So, I suggest maybe we can setup separate calls to get into that. On the EV side capacity like Jaideep said it is 300,000 units right now.

Nitin Dharmavat: And second question is about the inventories which have gone up last year so you mentioned that you will be having a better management on this so what was the reason why it has gone up, any specific reason?

Pankaj Gupta: Nitin I am bit surprised with the question though that because if you are talking about fastener business of course there have been reduction in the inventory overall we can get into the numbers maybe on a one-to-one call.

Nitin Dharmavat: I am not referring only to March 22 number, but March 21, 22 number so from 60 crores it has gone to almost double so that is the number I was talking about, that delta I was talking about and it remained over there. So, it has come down last year marginally, but overall, in last two years it remained almost Rs. 100 crores plus kind of number so that is what I was referring?

Pankaj Gupta: I think it will require to relook because we like to see number of days of holding of inventory maybe that could because we had to see the volumes revenue top line also.

Nitin Dharmavat: Third and final question is about who are our leading competitors in EV space I am talking about?

Jaideep Wadhwa: Right now, the only companies in India I mean there is a wide range, but the only companies that I actually selling large production volumes would be MAHLE and maybe Hella and Bosch may be little bit. So, I mean these three companies most of the companies have not been able to industrialize the products yet.

Alok Aggarwal: I want to add what Jaideep is saying on top. I think compared to MAHLE and Hella. I think we have a larger volume we have clock in because of the customers we are customers we are attaching. See there is a lot of large segment of business which is there in the low-speed scooter range which is not a market we are addressing, but that is a very commodity market, the low price points etcetera and I think future is not low-speed scooters which is only the high speed scooter or high speed two-wheeler let me rephrase that. So, in the sense with the customers we have acquired incumbent and startups I think we probably currently we believe we are in the largest market share.

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

Chetan Gindodia: Two questions from my side number one this JV the EV JV what is our stake in this JV?

Atul Aggarwal: This JV was supposed to be a 56-44 in our favor, but this JV was signed pre COVID March 2020 and then post COVID March 20 before the JV could actually crystallize into former shareholder patterns, government of India put the FDI rules in place wherein every investment by Chinese company had to go through FDI process and FDI process is running very slow. It is a very difficult process there is no clarity as to what is happening on that. So, currently long and short is Sterling Tools owned 100% of this company it is a 100% subsidiary of Sterling Tools.

Chetan Gindodia: So, let us say if this structure remains so you have to pay some royalty to the Chinese company?

Atul Aggarwal: Like we said earlier our effort is if the status contained remains long term we would probably move this our relationship with our partners to a tech relationship. So, yes that is our endeavor because we want to keep both the parties motivated and they have been a great support to us I want to put it on record for all our investors that our partners have been a great support to us despite the fact that FDI did not go through despite the fact there is no travel between India and China and despite the fact that everything happened on video calls and phone calls and tech transfers happened through video and phone call and email etcetera. So, we want to keep this current level of healthy relationship and build on it which is mutually beneficial for us.

Chetan Gindodia: And secondly sir like you know the content per vehicle which like you know when I met long time back it was something different so now the cost and all has increase, so content per vehicle for we would be like what currently like earlier it used to be 10,000 so after the cost inflation it would be something around 14,000?

Atul Aggarwal: The content per vehicle I would still do a thumb ruling in the two-wheeler space at about 10,000 odd.

Chetan Gindodia: Two-wheeler you are saying 10,000?

Atul Aggarwal: So, depending on the product specs the customer wants to build and user experience the customers wants to give their consumer. It can range from anywhere from Rs. 9,000 to Rs. 15,000 in the two-wheeler space.

Chetan Gindodia: Sir I am little confused because earlier if I am not wrong the content per vehicle for two-wheeler used to be around Rs. 1,800 to Rs. 2,000 so you are saying it has gone up?

Atul Aggarwal: Are you talking about the fastener business or the motor control unit business.

Chetan Gindodia: I am saying other than fastener business?

Atul Aggarwal: So, fastener business content still remains the same see value may have changed because of steel price increases, but the volume etcetera remains constant.

Chetan Gindodia: So, thumb rule like you know in a CV content per vehicle would be like 14,000, 15,000 odd?

Atul Aggarwal: More than that 15,000 plus.

Chetan Gindodia: And let us say for two-wheeler it would be what 2,500?

Atul Aggarwal: Two-wheeler our sense would be about Rs.500 to Rs. 600.

Chetan Gindodia: And PV around 4,000?

Atul Aggarwal: Passenger vehicle depending again the kind of customer or the kind of vehicle you have anywhere from Rs. 5,000 to Rs. 7,000.

Chetan Gindodia: And the tractor would be what 7,000 to 8,000?

Atul Aggarwal: Yes about Rs. 7,000 to 12,000.

Chetan Gindodia: And now you are saying that for EV particularly you are saying that the content per vehicle for this product would be around Rs. 20,000?

Atul Aggarwal: No, I did not say that. I said for E two-wheeler the content for the motor control unit can anyway range from 9,000 to 15,000 depending on the product specs.

Chetan Gindodia: 9,000 to 15,000?And it can go as high as Rs. 2 lakh crore for an electric bus?

Atul Aggarwal: And it can go as high as Rs. 2 lakh crore for an electric bus.

Chetan Gindodia: And sir out of the total fastener business how much would be the engine fastener today?

Atul Aggarwal: I think I would say close to 30 odd percent comes from engine fastener business 25% to 30%.

Chetan Gindodia: And sir about the margins recovery like you indicated that something around 4% of the margin got impacted because you were not able to pass on the price and all those things so at least going into the Q1 we should expect some margin improvement let us say 400 basis point because ultimately we will be able to pass on prices and global steel prices start coming down?

Atul Aggarwal: We did not say that because we have not able to recover we have lost 4% margins what we meant to say was what we said was we have been able to get full compensation from our customers for steel price increase because of the numerator denominator effect which I will tell Pankaj to explain to you in a separate call he set up at least 3% odd. So, if you are selling for everybody interest if my current selling prices for Rs. 100 and my raw material content was say Rs. 40 steel or Rs. 50 out of that steel may goes up by Rs. 15 my selling price has become 115, my mind price has become 55. So, earlier RM content was 40% now when my steel has gone to Rs. 55 and my selling price are Rs. 115, my RM content goes to 47%. So, it is pure mathematics which is impacting the so-called margin numbers. Now having said let me park this for a moment maybe I have lost maybe a percent or two is we have lost margins because we were not able to get convergence cost increases during stationary pressures on chemicals on, on energy, on phosphating chemicals, on sink etcetera other value addition we do on the shop floor that inflationary impact we were not able to get competition from the customer. So, there are two separate parts of the thing.

Moderator: Thank you. The next question is from the line of Karthikeyan from Suyash Advisors. Please go ahead.

Karthikeyan: Couple of questions one would be can you talk about the outlook for exports in the standalone business or the parent entity business and the role Meidoh and the second question would be the parted for indigenization you spoke qualitatively about this what is the current improved content in your MCU business and how do you see that evolving over a period of time?

Alok Aggarwal: Let me take the question for the fastener business and I will hand over for Jaideep. So, we have a relationship with Meidoh which is about four to five years now. See we have grown the customers like Maruti and Honda overtime because we have to develop some products for these two Japanese customers and how the Japanese system works. So, we were able to optimize our Meidoh relationship to build our product line for this Japanese OEMs. So, that is where we have the benefit on that. To answer your export question, I think that is we did about I think I do not know exact numbers but percentage we did I think my sense is about 10% odd revenue last year and our visibility going forward is similar are on that only. So, we are keeping in mind everything and headwinds in Europe right now we are not looking at substantial growth in this area because of our customers were European based.

Jaideep Wadhwa: I already addressed the localization that different frames have different levels of localization, but the ones that are selling well are localized to the extent that they can be localized, all mechanical components are localized and PCBA assembly is localized. As you are aware active and passive components are not available in India and have to be imported.

Karthikeyan: Can you quantify that for context in value terms?

Jaideep Wadhwa: Again, depends little bit on the product portfolio etcetera, but I mean I would not have that exact number and I had to look at that maybe we can get back to you on that looking at one or two of the better selling models.

Karthikeyan: One quick question on the order backlog breakup of 176 crores that you have indicated what would be the split between two-wheelers and other categories of vehicles?

Jaideep Wadhwa: I would say 80% if more than 80% would be two-wheelers maybe 10% would be three wheelers and 5% would be others.

Karthikeyan: I am asking you this question because if I take average numbers volume seemed to be in the range of 175,000 two-wheeler unit broadly speaking, is that a reasonable estimate or do you think I am getting some numbers wrong?

Jaideep Wadhwa: I did not understand the context of 172,000.

Karthikeyan: I said if I assume in average price per you for the MCU and your outstanding order backlog it seems like you would be supplying the substantial number of high speed vehicle sold so I am just trying to understand?

Jaideep Wadhwa: It is 80%, 85% for sure.

Moderator: Thank you. The next question is from the line of Shreyansh Gattani from HG Securities.

Shreyansh Gattani: My question was around CAPEX so with a strong traction coming per year EV business, are you looking as you mentioned it is only 20 crores of CAPEX this year, so if you are able to do 170 crore in revenues next year would the capacities be utilized and pre planning for any CAPEX for the denial that will come from the 30 odd customers that might convert into customers so just around that and the second question was around the current royalty sharing with your channel partner?

Alok Aggarwal: The number I mentioned 20 crore odd CAPEX is mostly for the fastener business that does not include the CAPEX for our MCU business. Having said that we have a CAPEX plan of 10 odd crores in that business for this year, but like I said it is very dynamic business it is under constant reviewed, constant we get we are getting new successive on a regular basis and this numbers are revised accordingly as we go forward, but like Jaideep said earlier we will do more CAPEX in our MCU business depending on the customers action, depending on the Fame II rules and finally to build adequate competencies both on firmware and hardware side. We might look at putting SMT lines in future which will require additional CAPEX as we go along, but that is early days as yet, but I am just surrounding out to you what the future looks like over CAPEX perspective in our MCU business.

Shreyansh Gattani: So, what is the current revenue sharing or royalty structure with Chinese partner for the MCU business?

Alok Aggarwal: Currently there is no formal understanding we are awaiting this requires a lot of discussion with them, our mutual agreement. We were hoping travel opened in to or from China, but I think we do not see visibility in the next two, three months, but that is the conversation we want to have with our partners physically because it impacts a lot of action points after that. So, we will keep you posted as soon as we arrive at an understanding on that.

Shreyansh Gattani: Because we are going to do about 150, 160 crores in revenues so like currently this is just like purchasing the product from them and adding on top and then selling it to the Indian industry or how does that work currently?

Alok Aggarwal: You capture it correctly, but I want to reemphasize again the value we add on top it is not as if we are just it is a screw driver stuff, parts coming from China we put it together and ship it there is a lot of software these are lot of testing capabilities like Jaideep said this is a EV is a new industry segment altogether there is none of data behind this so there is a lot of testing, validation, customer interaction, customization, localization work which is done at the India end and on top of that a lot of the software customization is done in India, but our own tech team here in Bangalore, tech center and our plant here in Faridabad. So, there is a substantial amount of value addition being done which to my mind cannot be quantified. It may be as important as a product coming from China.

Moderator: Thank you. We take the last question from the line of Hitesh from Aksa Capital Advisors LLP. Please go ahead.

Hitesh: Sir just wanted to understand a bit more on your Bangalore expansion because I believe this expansion came sometime in 2018-19 is when this facility got commissioned when we had a scale of about 450 crores, 500 crores. Today on an elevated input price erstwhile is again around the same levels, but we are still looking to double the capacity there, so just wanted to understand the rationale for this?

Pankaj Gupta: We commission the plant I sense October 2019. So, we had decided to put up a facility in the financial year 18-19 maybe I think 17-18 itself. As you know that 18-19 was a peak here in the automotive industry. We had lot of opportunity with the customers, we lost a lot of business because of lack of capacities and we looked that is what gave us a visibility of the business going forward and lead time for us to optimize any facility anywhere from three to five years. So, we put up that facility which went live in August 2019 and we continued to do CAPEX here like I said few minutes back bulk of the CAPEX in Bangalore has been done till FY22 there is some balancing CAPEX which will happen this year that plant is as big as in the facilities we have a North India. Now and your question is why our topline revenue is similar to '18-19. What we did in '18-19 we were pushing our facilities in NCR plants to do those numbers. We had to buy out some parts from other vendors outside of a facility and process them in-house. We did not want to be in a position again to do that. We wanted to have capacity on the plus side so that we can optimize or capitalize on any opportunity we walked through our doors at the same time it is also our objective to mitigate the risk of all our facility being in the North, gives customer confidence to a customers including and this risk mitigation strategies are particularly done very closely by the likes of Maruti and Honda because they lost a lot of production on account of fire there are some vendor placed that they have to shut down themselves for a few weeks so that was one reason that we had to put another facility and finally we wanted to go to a new geography to add confidence to our all national customers we have a large amount of business comes from South and West. So, we wanted to give them showcase facility in North to add customer confidence and finally all the learning of the north plants have gone there. We believe our Bangalore facility is a Digital 4.0 facility and IoT facility, it is the facility, which is truly world class, we believe it is the best fastener plant in India and probably one of the better ones in the world. So, we are building our future fortunately if you look at a balance sheet from a cash position to spike those investments we are still almost net debt free we carry very little net debt we have generated a lot of cash post during COVID years also and we are building our future we are not thinking quarter-to-quarter it takes like I said three to five years to optimize the facility and give customer confidence. So, we are here for the future, we are here for the long term, we see tremendous headroom for our growth which is already coming to us in FY22 and 23 going forward.

Hitesh: Sir your JV partner I just have access to some of your numbers slightly dated, but this was sometime in 2015, 2016 we had an EBITDA margin of about 23% and again looking at the asset base on as a low asset base they were doing anywhere close to 200 million yuan, so just trying to understand in this particular JV for MCU now should we also be able to ramp-up the scale there will be inch closer to can we inch closer to this kind of a margin about 20% odd?

Jaideep Wadhwa: Obviously that is the objective and lot of work to get there, but I think the one thing that we recognized is that this is a low CAPEX high ROCE business it is very different from our partner business which had significantly higher CAPEX and lower asset turnover here. It is an engineering business it is a technology business.

Hitesh: But does this also have an application outside the auto industry in the industrial side or is it only restricted to auto industry?

Jaideep Wadhwa: So, Gtake they used to make AC drives and that is how they get into electric vehicles 10 years ago. There is an opportunity for us to do those kind of drives for India also in fact Gtake has got lot of experience in selling those drives in India and had a partnership with the leading company in India for such drives in the past which has since been dissolved and therefore we may look at it in the future, but it is not something which is in the short term. Right now focus is on the EV.

Moderator: Thank you. Ladies and gentlemen that would be our last question for today. I now hand the conference over to Mr. Atul Aggarwal for closing comments. Thank you and over to you, Sir.

Atul Aggarwal: Thank you everybody for your time like I said in the beginning this is the first initiative and we hope to build on that going forward. We will have continue to have calls and visits and more communication. I think Sterling is a different company today than it was few years ago especially with the addition of the motor control units business. It provides us not only organic growth from a traditional coal forged fastener business, but I think we rented the space, a new space in the EV power train business and with a product which is very advance to the high spent and we see a lot of momentum on that. We believe that business has a potential to be bigger than our fastener business over time and not only and will give us a visibility to add more product lines in the EV space going forward. Pankaj, I and Jaideep are available to you anytime for additional information you may need. Please reach out to any of us and we will try and address any questions you may have which we may not be able to address today. All the best to you guys and we hope to see guys again in the future.

Moderator: Thank you very much. Ladies and gentlemen on behalf of Sterling Tools Limited that concludes this conference. Thank you all for joining us and you may now disconnect your lines.