"Sterling Tools Limited
Q1 FY 23 Earnings Conference Call"

August 10, 2022

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MODERATOR: **MS. HAZEL RATHOD - S-ANCIAL TECHNOLOGIES**

Moderator: Ladies and gentlemen good day and welcome to the Sterling Tools Limited Q1 FY23 Earnings Conference Call. As a reminder, all participant lines will be in listen only mode. 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 '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Hazel Rathod from S-Ancial Technologies. Thank you and over to you ma'am.

Hazel Rathod: Thank you. Good afternoon, everyone. I welcome you all to Sterling Tools Limited Q1 FY23 earnings conference call. From the management we have Mr. Atul Aggarwal, Whole Time Director, Mr. Jaideep Wadhwa, Director and Mr. Pankaj Gupta, CFO. I now request Mr. Pankaj Gupta to take us through the key remarks after which we can open the floor for the Q&A session. Thank you and over to you, sir.

Pankaj Gupta: Hi, good afternoon, everyone. Thank you for joining the revenue call for quarter 1 FY23. The key highlights for this quarter, you would've seen our investor presentation, we are up by 53% as compared to the quarter last year with clocking a revenue of INR 138 crore, our margins are up as compared to the last quarter by about 230 basis point touching 15.6%. Our margin INR 22 crore EBITDA, which is almost 50% higher than the last year same quarter. Profit after tax has increased almost 97% as compared to last year, at INR 9 crore. Overall, quarter has been good in terms of our revenue and segment mix. And we see our run rate is in line with our year's plan and year's target. On electric vehicle side, also in this quarter, we are in line with our original plan and quite stably going that also is in the line with our previous quarter's progress. So, we'll be happy to take your question answers.

Moderator: We will now begin with the question-and-answer session. The first question is from the line of Anmol Grover from Albatross Capital. Please go ahead.

Anmol Grover: Sir my first question is, what is the EV sales number for Q1? Can you share that please?

Pankaj Gupta: Quarter 1 EV numbers, we have clocked the turnover of about INR 38 crore.

Anmol Grover: Okay. And, sir we've been hearing that, the July numbers for Ola electric has been low, so, and Ola being very key customer for us, so does the INR 15 crore per month revenue booking still stand with them for the whole EV business or is there any change in our assumption?

Pankaj Gupta: Jaideep?

Jaideep Wadhwa: This is Jaideep here. Yes, we are, we did see a drop in Ola. We did see a drop in Ola numbers in July. Our understanding is this is primarily due to shortage of sales that they are experiencing. They are not getting the sales from LG. We do expect that these shortages would impact their output for a couple of months, but for the full year, we should be on track for our numbers.

Anmol Grover: Okay. So are we looking to make up, these numbers that the couple of impact we have in the coming month or will the whole year revenue number reduce overall for the EV business?

Jaideep Wadhwa: From whatever we can make out right now, we expect the numbers to be made up especially with the festive season coming up.

Moderator: The next question is from the line of Deepan Sankara Narayanan from TrustLine. Please go ahead.

Deepan Sankara Narayanan: Sir firstly I wanted to understand the contingent liabilities, in our books. So how is this getting recognized, is it only due to EPCG duty or anything above than that?

Pankaj Gupta: So, yes, it is continued liability in the annual report is on account of EPCG for the machine imported. And basically this rolls out with as we do export this obligation gets fulfilled.

Deepan Sankara Narayanan: So this total amount mentioned as contingent liability is that export duty obligation we have or the duty obligation is much lesser? Because export revenues we could see only INR 24 crore and INR 50 crore could be expected by FY22 right. So, how will this be getting reduced over a period of time this contingent liability?

Pankaj Gupta: So duty obligation is actually a fraction of the total export. Yes.

Deepan Sankara Narayanan: Okay. So the total is not liability for us, right?

Pankaj Gupta: Sorry.

Deepan Sankara Narayanan: The total contingent liability is not a total duty obligations to be met during previous?

Pankaj Gupta: Correct.

Moderator: The next question is from the line of Kunal Patel from Equilligence Capital Advisors. Please go ahead.

Kunal Patel: My questions are related to EV. Sir at what levels do we expect the segment to breakeven? First question and secondly, what would be the steady state margins, we can expect from NCU at a scale? And lastly, have we added any new customer in the segment?

Jaideep Wadhwa: Okay. I think, our breakeven here is less than INR 10 crore a month, and we find that we should be able to hit that on most months, in terms of steady state margins I think we had addressed this earlier also, we believe, that this business is a low double digit EBITDA margin business. Finally in terms of new customers that we have added, we've got one customer that we have added. And I think there was also, we had also made an announcement to this. This is the leading, light commercial vehicle company in India, or leading commercial vehicle company in India. And we have got the business for their light commercial vehicle program. We are also very close to three other programs, which are very, very interesting and hope to finalize those in the coming weeks.

Kunal Patel: Does that increase, will that increase our order book significantly from INR 170 crore, INR 180 crore right now? And, is there any increase in this order book from last quarter?

Jaideep Wadhwa: So, I guess if you look at the order book, it looks better. The problem is, these things are all phased out. You got to first apply 5 pieces and then 10 and then 50 and then 100 and so on and so forth. So we don't like to make a big deal out of it, until we actually start production supplies, but definitely our this new order gives us a lot of momentum for the latter half of this year and for maybe the fourth quarter of this year and for the early quarter of next year.

Kunal Patel: What is the pending order book Sir on the EV side?

Jaideep Wadhwa: The pending order book on the EV side right now should be, I don't have the exact number but about INR 200 crore.

Kunal Patel: Okay. And, Sir you said INR 10 crore is amount where we break even on the EV side, so are we breaking even, did you break even this quarter on EV?

Pankaj Gupta: Yes. To answer your question, yes we broke even in this quarter and that is true and as Mr Jaideep said, but, yes and our assessment is that yes, around 10 plus minus a few crore should be our target. One of the reason is very lean operation. And that is what is giving us 10 to breakeven at this level.

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

Abhishek Jain: Congrats for the strong set of numbers in this question, after a lot of challenges. Sir, how is your arrangement with the clients for passing the impact of the commodity prices is it on a monthly basis or quarterly basis? And how much benefit, we will see in the fall, in the metal prices in the coming quarters in your existing business? How is the arrangement with the clients for passing the impact of the commodity cost is it monthly basis or on quarterly basis?

Atul Aggarwal: No. So I think most customers give us a price increase as and when it happens on steel. There are a couple of customers who do it on a quarterly basis, but I would say substantial part of them give it as and when it happens. And similar thing happens, there's a lag, yes, there's a lag of say you can say on an average 30 odd days, but that lag also applies when the steel prices go down. So it all balances out.

Abhishek Jain: So in this quarter steel prices have gone down around 15% to 20%. So we'll see the fall in the metal prices benefit in the coming quarter in your core business?

Atul Aggarwal: So I think we'll see, second quarter, we'll see, if second quarter we foresee improvement in our margin structures, because, like I said, there was some lag on pricing increases. Steel also has gone down in the latter half of the quarter, which will also impact which will have to pass through to our customers, but net-net, I think we feel there will be, we have some savings on account of steel.

Abhishek Jain: So what is your margin guidance for the second half of FY23, will it be able to pass the 15% if the metal prices will stabilize at this level?

Pankaj Gupta: So, we improved Abhishek, by about 230 basis point as compared to last quarter. And when I say so, our plants are not paced and there are cost increases which are uncontrollable like power, but at the same time, we feel that next quarter and going forward, margin should be better, quarter over quarter. But there are a lot of variables, which we need to cut in. And we only get to know when we reach the quarter yes, it'll improve more than 15.6% what we have achieved in this quarter.

Abhishek Jain: And sir, MCUs how is the imported, how much is the imported product and how much is the localization?

Jaideep Wadhwa: So on the high selling models, we are able to, because high selling models are the ones with the greatest amount of localization. We are at about 50% import and 50% domestic value add.

Abhishek Jain: Okay. And what is your target for the localization in the coming?

Jaideep Wadhwa: We won't be able to exceed that, unless, we actually start seeing the active and passive components being made in India, because, our imports currently on the high selling model is only the electronic components what we call the DSP the digital signal processors, or the MOSFETs, or, the Diodes or the Triodes or things like that. Now those components are not made in India currently. And, I don't see visibility of manufacturing plants for those in India, in the near future. Maybe after two, three years, maybe we will see something. So if we can hit about 50%, I think we've done a very good job.

Abhishek Jain: NCU the company, it has the capacity of around 3000 units and 3 lakhs unit and has planned to reach the 5 lakhs units. So currently company is mainly present in the fast exclusive scooters, but going ahead company is going to diversify also into CVs, slow scooters and other vehicles also. So what is the revenue visibility for the next two years perspective?

Jaideep Wadhwa: Yes, so you're correct. We are looking at, right now is basically high speed scooters. We are looking at diversifying, we are looking at businesses from low speed scooters from three wheelers and from commercial vehicles, the way we are looking at it that even from a strong base in this year, we should be looking at, at least 50% growth for the next two years.

Abhishek Jain: Okay. And what is your current capacity, Sir?

Jaideep Wadhwa: Current capacity I said is 3 lakh units about 3 lakh units on a single shift basis.

Abhishek Jain: Okay. And, what would be the average realization now?

Jaideep Wadhwa: The average realization is about 10,000.

Abhishek Jain: 10,000?

Jaideep Wadhwa: Yes.

Abhishek Jain: And Sir if you get approval from the JVs, with the Sterling Gtake, then you will have to share your 50% profit with them. So how is the current arrangement and what is the outlook for the future arrangement?

Jaideep Wadhwa: So, as you know, we don't have, we haven't got approvals from the government for the joint venture as of now. As of today, there is no question of sharing, any margins, I'm not sure I've understood what you're saying.

Atul Aggarwal: We didn't get any FDI approvals for the joint venture, to be activated from equity perspective. So currently, SGEM or Sterling E-mobility is 100% subsidiary of Sterling Tools.

Abhishek Jain: Okay. And how much royalty you are paying to them?

Pankaj Gupta: There's no royalty right now Abhishek. Currently there's no royalty. We are buying input material from them.

Abhishek Jain: Input material okay, so it's the kind of the trading business?

Pankaj Gupta: Sorry, no.

Pankaj Gupta: No, let's understand what the arrangement is. So originally it was supposed to be a JV. And as we shared in the last investor call because of the China, tension and the COVID et cetera, this entire thing went for a hibernation. And now current situation is that they keep on supporting us on technical side and we are buying because all electronics parts, whoever is buying from India is buying from, China and we are buying from them. But at the end of day, our entire manufacturing happens in Faridabad. So it is not trading. It is, you can.

Jaideep Wadhwa: And I think I just clarified to an earlier question that the value addition on the high moving models is as high as 50%.

Abhishek Jain: The Company is also looking to add section motors, board charges, BMS, in the e-product portfolio. So how's the progress now?

Jaideep Wadhwa: So let me, I mean, let me just, I just want to re-emphasize one thing, I mean, because of your comment on trading operations. So, all of the mechanical components are sourced in India. So we've gone out to local vendor bases in India, and all the mechanical components have been developed. We have to import electronic components, because those components are not made in India, and we have to, but we bring in those components, we do the manufacturing, the PCB population in India, the testing, and all of this is tested and validated, and the software are developed in India and uploaded onto the MCUs before shipping. So it's as far from a trading operation, as you can imagine. So I just wanted to clarify that. Secondly, getting into, other components we continue to look for or other pieces of the drive train, we continue to look for opportunities. And all of those that you mentioned are on our radar screen, we, for us, the challenge right now is finding a technology that fits India and also something that is commercially viable in India at Indian price points. And also finding something that, is reasonably high margin. So, all of these are under evaluation. We have connects with companies in China, Taiwan, as well as in Europe. For many of these elements, we are doing testing and evaluation, but I can't give you a specific guidance and say this has gone through our evaluation process and is commercially viable. And we can go ahead with this business plan. So that's still a work in progress for us.

Moderator: The next question is from the line of Shubham Ajmera from SOIC LLP. Please go ahead.

Shubham Ajmera: So my first question is regarding that, you had mentioned regarding the JV, for the JV we haven’t received the FDI approval, and we are also not paying the royalty to them. So is there any technical licensing agreement, which you had mentioned in the previous con call as well? Like you will, if it doesn’t go forward, we will convert into an agreement, into technical licensing agreement?

Jaideep Wadhwa: That's exactly right. Like we mentioned in the last call, the JV agreement is valid. I mean, if we do get the approval, they have the option of investing and if we are not able to get the approval, we'll convert this into a technical licensing agreement. We haven't reached that decision point yet.

Shubham Ajmera: Okay. So as of now we are not paying royalty or is there any other kind of fees to the Chinese partner, right?

Jaideep Wadhwa: Not right now.

Shubham Ajmera: Understood. And, is there any way, like going forward, like if we haven't received the approval for the JV, then on pro rata basis we will be paying to them, or is there any agreement in discussion?

Jaideep Wadhwa: No. There is total clarity on that. Nothing, in any agreement that we enter will be with prospective effect, not with that retrospective effect.

Shubham Ajmera: So for example, if we haven’t got the approval, we haven’t got any agreement in the last six months, then till the next six months, we'll not be sharing any royalty or any agreement, but after six months, whatever the agreement will be having that prospectively we'll be sharing with them.

Jaideep Wadhwa: That's correct.

Shubham Ajmera: And second question is regarding the order book size of INR 200 crore, as you had mentioned previously, so this is for total for the EV component, right. And this is not for the fastener component, or is it including both?

Jaideep Wadhwa: No, only EV. Let me clarify, only for the motor control unit business, this is only for the motor control unit business and Sterling Tools may have customers in the EV space and maybe and they may have some EV component in their order book, but we are not counting that we are only talking about the electronic motor control unit business, which is housed in Sterling Gtake.

Shubham Ajmera: Understood. And any timeline for the completion of this order book, like in the next six months, or like?

Jaideep Wadhwa: Well, it's an ongoing thing. As our customers, ramp up their volumes as their sales pick up, we should I mean, obviously we would hope that, majority of this will get done in this fiscal year. Some will definitely carry over into next fiscal year, but I mean, we see a clear path to a lot of growth, in this business, because of the traction that we've got. I mean, it's difficult to predict in this business, month by month because of, there are delays in technical finalizations, there are delays in product launches and so on from the customers. So, we have to work with them, to execute their requirements, as per their schedules and as per their thing. So, if sometimes the product may be slated for a launch in July, but may get August pushed back to August or September, and we just have to live with that. Everyone is, in the EV business, there's no Maruti Suzuki who, if they say they're going to launch in July, they will launch in July in the EV business, everyone is learning the business as we go along. So, there is some variability that comes in.

Shubham Ajmera: Right. And what is the current capacity utilization for our like, MCU as well as the fasteners plant?

Jaideep Wadhwa: So I can address on the MCU business. We do have, and, I'll request Atul to give you the details for the fastener business. On most months we are running just below 50%. Sometimes it's a little higher, sometimes it's a little lower.

Shubham Ajmera: Okay, on an average, 50% capacity utilization.

Jaideep Wadhwa: Yes, just below 50%.

Shubham Ajmera: Okay.

Atul Aggarwal: Yes. On the fastener side, I think, capacity utilization is a function of the kind of product mix we have, but keeping in mind, the kind of product mix we have currently, I think this year we'll probably touch about 80% utilization levels, on a full year basis.

Shubham Ajmera: Okay, so is there any CapEx plan for this? Like if we reach above 80% then?

Pankaj Gupta: No. I mean this is Pankaj. So CapEx we don't require to, for extension of capacity currently, we are already there. As I mentioned, in the last call, some maintenance, CapEx keep on going that I think will be in the range of INR 25 crore to INR 30 crore in this year, in the fasteners business.

Shubham Ajmera: Okay. Got it. And my last question is like, I'd like to have your view on this auto cycle and the revival in the demand for the whole cycle. So are we at the pre COVID level or still there is some demand, like, which you have still been seen? And if you can give us the broad idea on the segment as well, like for which we are seeing the more demand like two-wheeler PV or CV like commercial vehicle?

Atul Aggarwal: So, if you go back into numbers, pre COVID financial year 18-19 was the biggest year in the automotive industry across all segments. I think in 19-20, there was a substantial drop, I think commercial vehicles were down by almost 70%. And, I think two wheelers were down by almost 30% and they're still at a 40% negative level from the peak. So I would not look at pre COVID I will look at, from the automotive industry perspective FY19, which was the biggest year ever. Now, if I compare ourselves or compare the industry to that, I think two wheelers are still 40% negative to that peak level of that financial year. Commercial vehicles are at about maybe 65%, 70% levels of the peak level of that financial year. Passenger cars have yet to hit that number, of that FY19 numbers. So, to answer the second part of the question on pre COVID, I think, yes. I think all numbers are up to pre COVID levels of financial year FY20 pre-COVID was FY20 pretty much. So yes, you can say we are up to back to pre COVID levels in all segments. And I think there's one segment, which is larger than pre COVID also is a tractor segment, which is bigger than that.

Moderator: The next question is from the line of Jayesh Gandhi from Harshad Gandhi & Securities. Please go ahead.

Jayesh Gandhi: At the current capacity, what kind of revenue can we generate in the MCU business I mean, the new EV business that we are talking about?

Jaideep Wadhwa: So as I mentioned, it should be about INR 300 crore.

Jayesh Gandhi: Okay. And, if you can share the margins that we enjoy in this business, if you cannot share the exact figure, is it greater than the overall margins that the company currently registers?

Jaideep Wadhwa: No, it won't be greater than, the margins that are there in the fastener business, the fastener business is a very old and established business and a business that has invested very heavily in operational excellence. We have a lot of upfront investments. We have a huge, engineering budget. We are investing constantly in softwares and testing and validation. So, it's not possible for us to be able to, because of that, the kind of investments that go in, we are not able to invest, we are not able to reach the numbers, or the type of margins that the fastener business enjoys at least for a few years.

Jayesh Gandhi: Then, what is that our back of mind that ROE or ROC that we want to generate from that, new investments I mean, the new EV business?

Pankaj Gupta: So Jayesh, the thing is that EV business as Mr. Jaideep said, is a tech based business, which requires a lot of investment in terms of people, your technology, not as CapEx intensive as any other conventional, manufacturing industry. So, having said that the ROC of this business will definitely be better, even with higher single digit or a lower double digit EBITDA margin as we give guidance for EV business. So ROC is not a concern. The key thing on this is that it is a new business for the entire industry and so is for SGEM. And, a lot of things are settling down, in terms of technology imbibing, technology change, localization of the parts, and vehicle getting stable on the road. We keep hearing and somebody mentioned that, volumes fluctuations are too many currently. So, as Mr Atul said in the last call, it'll take us couple of quarters, to be honest, to be very clear about our margin, guidance on EV business, but definitely, we are very positive, in terms of ROC. There's no doubt.

Jayesh Gandhi: I'm asking because if you see from say 2014-15, we have generally clocked more than 20% - 25% on an average of ROC. And now in last two, three years, of course, thanks to COVID that we are into the 10% - 11%. So with this business and with our existing business, can we go back to that north of 20% what is there in your I mean, what is your opinion on that?

Atul Aggarwal: Yes, so I think, yes, I think, in nutshell, we'll go back to those ROCE numbers very soon, hopefully, but I think the ROCE numbers went down for two particular reasons. One, we have done a lot of investments in our Bangalore facility, and unfortunately that coincided with the COVID times and COVID also impacted the overall size of the market. But as revenue keeps building up now, which, you are saying, you would find the ROCE numbers improving quarter on quarter. And I don't see it too far out before our ROCE goes to 20% plus.

Jayesh Gandhi: And one last question sir, in that our contingent liability, there is an export obligation, as you said, it's on sales, right? Are we confident that export obligation will be met? I think we have to meet it by 2024, if I'm not wrong?

Atul Aggarwal: Yes. So just to clarify, just to repeat, what Pankaj said earlier, the numbers you see in the balance sheet are export obligations they're not duty obligations. The duty obligations are a fraction of that number. So, I would not worry about that contingent liability issues from export obligations, one. Secondly, we are confident. We will be able to meet those obligations, keeping full timelines in mind if need be. We have some flexibility and extension of timelines also. So I and we don't foresee any issues in meeting those obligations and having any kind of, duty penalties on us because the numbers are very small.

Moderator: We have a question from the line of Karthi from Suyash Advisors. Please go ahead.

Karthi Keyan VK: On the MCU business I wanted to clarify this, you referred to a near term supply contract, are these auto renewing in nature, is there a longer term consideration or could you be displaced, can you clarify that it's not obvious to me from your commentary? So, I was saying you referred to near term order backlog, effectively suggesting that, either these are short term supply opportunities rather than longer term partnerships, I assume that your customers -- right. So, why would you refer to a near term opportunity? Could you be displaced easily is that the point there? What should one take away from that?

Jaideep Wadhwa: No. So these are orders that we have on hand that, that we expect to, you see, in a typical auto environment, what happens is there's a blanket order that's given in, when the commercials are finalized and thereafter you work on, schedules that are provided. Now we can't work on that basis in the EV industry because there's just too much variability. There's just too much, there are too many changes. If we were to work on that basis, everyone would give us huge orders. We would end up with a lot of inventory and we won't move the material. So typically what we are doing is we are asking the customers, give us a confirmed order, give us a confirmed non-cancellable order. So that, I mean, we can accept some level of delay, maybe something will slip by a month or two months that's acceptable, but they shouldn't be able to go back on a commitment because obviously we then have to source our components and the situation on electronic component supply chain right now. So, we have to plan accordingly the way to look at it is that as these orders, what we don't know is, will these orders get executed in 6 months or 12 months, 6 months or 8 months or whatever. We don't know the exact numbers, because like I said, there are changes, but in every case that we are working on, let me change that. In every case that we are working on, we are the sole supplier. There is no dual sourcing. So as long as the customer continues to sell the vehicle, we will continue to get the business in the future the customer could look at some other option, but, that's typically a 6 month to 12 month validation cycle. As of today, there is not a single customer out there that for the program that they're working on with us and that they have an alternative to us. So, as long as they sell, as long as their vehicles sell in the market, our MCUs go into that. If we don't supply MCUs, they're not going to be able to supply vehicles.

Karthi Keyan VK: That is abundantly clear. The second question is what has been the kind of cost variation that you have seen in the interim and how do you handle that?

Jaideep Wadhwa: Actually things are improving now. We went through in the initial stages, we went through some really, difficult times because freight was out of control, sourcing of electronic components, if you'd ordered them well in advance, it was okay, but if you were suddenly trying to ramp up production, the premium on electronic components was just, absolutely horrendous. So we've been through those difficulties, today I think things are stabilizing, freight rates are actually coming down, both by air and by sea. Electronic components I won't say, availability is now good, but I will say it's better than what it used to be. So actually, we are finding that the cost, I mean, and as far as the domestic things we buy, we buy aluminium or plastics or rubbers, or we buy the solder or whatever, that kind of stuff, there was variability, you all know what happened to aluminium, but, it was something that we could manage that today. I think we are in for much more stability than we've seen in the past. Also, we've been bold in the way we approached this business and we've made commitments, to our suppliers for long term supplies. So I think, one of the things that we offer is that we have the ability to confirm to customers that, yes, I have, if you give me this order, or, once you've given me this order and I'm working with you, then I have the visibility of critical electronic components for the next 6-12 months to supply you. That is very unique in today's environment.

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

Basudeb Banerjee: Just a couple of questions. So I haven't gone through your company details earlier, but I was going through your presentation where I saw exports is only 3% of overall revenue mix. Whereas global fasteners market is huge in size and also your another listed peer his export mix is also north of 30%. So, can you share sir, what's your view why exports is so limited or your plans in that down the line?

Atul Aggarwal: So as I said, the export market is huge for fasteners, but you got to understand, even a nail used in carpentry is also considered a fastener. So that's why the overall size in market looks very big. Now for us, for Sterling Tools, we do automotive fasteners only purely for the automotive application, which makes addressable size of the market, a fraction of what you see. So fasteners will contribute in automotive fasteners, construction fasteners, home building, electronics, machine building, chemicals, etc So automotive fasteners is a relatively much smaller segment of fasteners for that. So Sterling Tools only addresses the automotive fastener segment. Secondly, to answer your question on peer that if I'm right, the peer companies also have a multi-product presence for exports. They are not a pure play automotive fastener maker, like we are at Sterling. So I think the numbers may not be truly representative or I don't think you can do a like to like comparison for that particular entity. Lastly, coming back to Sterling. Yes. I think the challenge has been in the last 12 months, Europe fell down by almost 10%. So 90% of our exports go to Europe and because of Euro falling 10%, it has made pricing a little uncompetitive, but we are re-pricing everything. Customers are billing us, are renegotiating with us for price increases. So I think we'll be back on track and we are confident that we will be able to improve our numbers and also meet our all obligations.

Basudeb Banerjee: That's good. And like I'm not saying apple to apple comparison, but they have also ventured into non-auto fasteners, also working for wind energy and other sectors. So, will you be open to also diversify beyond auto fasteners as such or any specific reason why you will be sticking to, because that will open the horizon also?

Atul Aggarwal: Yes, so I think we have no plans or vision to get into non automotive right now we are exploring, we are growing well in what we are doing. Having said that I will not say there are no opportunities, but we want to focus a lot more of our energies and capital, going forward into our electric vehicle initiative. We believe we have a lot more opportunity there and market seems to be just waking up. So the upside there is much bigger for us. And, I think that's what our, we visualize our future to be.

Basudeb Banerjee: That's great Sir. And last question sir as you highlighted correctly that FY19 was the peak of all auto segments, even much before COVID, happened, nowadays if I look at car market per month wholesale as per SIAM data, and if I annualize that, it is almost closer to the FY19 levels. So as almost a significant part of your revenue comes from domestic PVs. So, is that in sync with your production level of FY19 is that you present monthly production levels are almost similar to those levels?

Atul Aggarwal: Yes, so we are doing very well in our PV segment. I think we are in fact, growing faster than the industry. If the industry is growing by X, we have a faster growth rate and as for a function of that we've been able to acquire new components with our existing customers and also maybe increase our share of business with them. So net-net our PV, business has grown faster than the industry currently.

Basudeb Banerjee: And any diversification in PV customers because say five, six years back PV market was more of a Maruti and Hyundai show with all others being small, small markets here. So now, Tata Motors, Mahindra other than Maruti, Hyundai so all emerging players are also there so any diversification to view all such players or else KIA?

Atul Aggarwal: So we are currently, as a tier 1 and a tier 2, we are doing a lot of, so Maruti currently is the largest, passenger vehicle customer. At the same time we are negotiating. We currently supply some fasteners which go as tier two to tier one companies who supply assemblies to Hyundai and KIA, but we are also currently under negotiation and assessment with Hyundai, KIA and Tata Motors at the same time. Tata Motors passenger vehicle division at the same time.

Moderator: The next question is from the line of Ashutosh Garud from Ambit PMS. Please go ahead.

Ashutosh Garud: I just wanted to understand in the previous conference call, we mentioned about how the inquiries and the number of customers for our electronic baskets has been increasing from, let's say 1 last year to 10 and 30, recently. So although you mentioned about how your margins, you commented about your margins, but what is the growth rate you are seeing in your top line for this year and maybe next couple of years, because you have been, you have mentioned that the EV basket would grow at pace two or three times in this particular year. If you can elaborate more on how that is going on?

Jaideep Wadhwa: Can you repeat that question? So we lost the connection. So let me understand the question again.

Ashutosh Garud: Yes, sure, sure. So what I was trying to understand is that in the previous conference call, we did mention how our customers are increasing, especially from the EV basket and our E basket, which was around 10% of our revenues, it is expected to grow at 3 or 4 times in 1 year or 18 months so to say. So just wanted to know how is that ramping up for us? And, also how would that translate into margins? I mean, such kind of growth typically actually helps increase the margins as well. So your comments on that.

Jaideep Wadhwa: So, as I mentioned that earlier in the call that, we continue to see great traction, and acquisition of new customers. So it's something, earlier, we were talking about being, participating in 10 customer production programs. Now we are up to 11 and there are, like I said, there are two or three, which are weeks away from finalization, if I can, as we see it in terms of, you know, and we've already talked about, how that the revenue will play out in terms of margin, you won't see, the margin obviously will be higher, but as we mentioned, that the margin on this business currently is lower than the margin on the fastener business, that’s something we need to keep in mind.

Moderator: The next question is from the line of Deepan Sankara Narayanan from TrustLine. Please go ahead.

Deepan Sankara Narayanan: So on the fasteners business side, so what is the kind of potential revenues in the fasteners current capacity and when are we, when can we expect that to reach that potential?

Atul Aggarwal: So without going to hard numbers, let me say that I think based on our current capacity even our CapEx plan for this current year, I think, and also I'm going to put any one more assumption that assuming steel prices stay as of today's levels because steel price is moving up and down dramatically by 10%, 20% it has an impact on revenues also, revenue numbers rather, I would say. I think we are looking at maybe between INR 700 crore to INR 800 crore of revenue, on optimal basis.

Deepan Sankara Narayanan: Okay. So over next two years we'll be probably able to achieve that number? Over next two years, we'll be able to reach that number sir?

Atul Aggarwal: We are quite positive about that. Yes.

Deepan Sankara Narayanan: Okay. And what kind of margins currently fasteners business is having and are we aiming for higher margins once we achieve that full potential number?

Pankaj Gupta: So yes. So if I repeat what I mentioned in the beginning, our margin this question EBITDA margin is 15.6%, which is about 2.3% higher than the previous quarter. Yes, we clearly see that, margins should improve as we go to next and next quarter, overall year business, it should improvise overall, uncontrollable factors to be kept in mind, as Atul said, steel variation have a denominator impact, which we will have to factor in as we move forward. But I think we are pretty much on track.

Deepan Sankara Narayanan: That should be overall margins right sir, so this fasteners business alone, so that we should be able to do?

Pankaj Gupta: I was telling about fasteners business only, because advisory indeed Jaideep sir has already given right.

Moderator: The next question is from the line of Anmol Grover from Albatross Capital. Please go ahead.

Anmol Grover: Sir my follow up question is, what is the future roadmap for your EV product? And if you would be developing those product in-house or doing more JVs for those products? So I was asking, can you give a future roadmap on your EV product and if you would be developing those products in house or doing more JVs for those products?

Jaideep Wadhwa: So I think there's two aspects to this one is, we continue to want to expand our portfolio of motor control units. We've got two models currently in development, basis, specific customer inquiries, one from a large incumbent OE and one from a start-up, so we want to continue to look at development of technology on the motor control side. And also look at other, using different materials and different types of electronic components to improve efficiency. So that's one part of our strategy. The other part of our strategy is to look at additional components. I had addressed that earlier that we are evaluating many different opportunity or many different EV components for the Indian market. We haven't found a viable business case for one year that we would like to pursue as soon as we do we'll take a call on that. In terms of technology, for motor control units, it'll become more and more in-house, if you were to get into a new product, whatever that may be, we would obviously want to start with technology from overseas and then slowly build up the capability because for us speed to market is very important. And, by having a partnership of some sort to give us the technology initially, gives us the best opportunity to come into the market quickly and to get that first movers advantage.

Moderator: That was the last question for today. I now hand the conference over to management for closing comments.

Pankaj Gupta: Yes. Thank you. Thank you everyone for joining, it's a good learning for all of us. And we’ve pulled ahead with a vision to expand our products to EV. There's a lot of excitement built around there at the same time, strengthening our fastener business. So and we'll keep looking for more interactions with you in future. Thank you very much for joining.

Moderator: Thank you. On behalf of S-Ancial Technologies Private Limited, we conclude this conference. Thank you for joining us. And you may now disconnect your lines.