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

Date: 25th November 2024

Sub: Transcript of Analyst/ Investor Conference Call

Dear Sir/ Madam,

Pursuant to regulations 30 and 46 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, we wish to inform you that an earnings conference call for Q2& H1FY25 for the analyst and investors to discuss the financial and operational performance of the Company was held on Monday, 18th November 2024 at 10:30 a.m.

Following Management Attendees attended on behalf of the Company: -

1. Mr. Atul Aggarwal- Managing Director
2. Mr. Jaideep Wadhwa- Director
3. Mr. Anish Agarwal- Director
4. Mr. Pankaj Gupta- Group CFO

We further confirm that no unpublished price sensitive information was shared/discussed in the meeting / call.

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

This is for your information and records.

Sincerely,

For **Sterling Tools Limited**

ABHISHEK CHAWLA

Digitally signed by ABHISHEK CHAWLA
Date: 2024.11.25 09:25:06 +05'30'

Abhishek Chawla
Company Secretary & Compliance Officer
M. No. A34399

Encl: As above

"Sterling Tools Limited Q2 and H1 FY25 Earnings Conference Call"

November 18, 2024

E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on 18th November 2024 will prevail."

MANAGEMENT: **MR. ATUL AGGARWAL – MANAGING DIRECTOR – STERLING TOOLS LIMITED**
MR. PANKAJ GUPTA – GROUP CHIEF FINANCIAL OFFICER, STERLING TOOLS LIMITED
MR. JAIDEEP WADHWA – DIRECTOR, STERLING TOOLS LIMITED
MR. ANISH AGARWAL – DIRECTOR, STERLING TOOLS LIMITED

Moderator: Ladies and gentlemen, good day, and welcome to Sterling Tools Limited Q2 and H1 FY '25 Earnings Conference Call.

This conference call may contain forward-looking statements about the Company, which are based on beliefs, opinions and expectations of the Company on the date of this call. These statements are not guarantees of future performance and involves risks and uncertainties that are difficult to predict.

As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference call is being recorded.

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

Pankaj Gupta: Thank you. Good morning, everyone. On behalf of STL Group, I extend a warm welcome to our Quarter 2 and H1 FY '25 Earnings Call.

I am joined on this call by Mr. Atul Aggarwal, our Managing Director; Mr. Jaideep Wadhwa, Director; Mr. Anish Agarwal, Director; and SGA Partners.

We have uploaded our results presentation on the exchanges and hope everyone has had a chance to go through the same.

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

Atul Aggarwal: Thank you, Pankaj. Good morning, everybody. I welcome to our call for Q2 and H1 FY '25 earnings.

Let me start with a brief overview of the industry. Total domestic passenger vehicle sales marginally increased 0.5% to 20.8 lakhs units in H1 FY '25 compared to same period last year. There was a notable increase of 13.2% in utility vehicle sales. Out of passenger vehicle sales, passenger car sales declined by 18.5% in H1 FY '25 vis-a-vis last year same period to 6.6 lakh units. The domestic CV sales reduced by 4.2% in H1 FY '25, 4.5 lakh units as compared to H1 FY '24, indicating a muted demand for the segment.

Well, at Sterling, we are pleased to report a strong operation performance across key financial and strategic metrics for the first half of the fiscal year. Total income rose by 31.1% year-on-year, reaching Rs. 569.6 crore in H1 FY '25. This growth was largely fueled by the sustained strength of our SGEM business, which has made significant progress. SGEM's share of total revenue increased to 42% in H1 FY '25 up from 30% in the same period last year.

Our EBITDA grew 25.9% year-on-year to Rs. 68.1 crores, supported by both higher turnover and operational leverage.

We are excited to share that Sterling tools through its wholly owned subsidiary Sterling Tech Mobility Limited has recently announced a strategic partnership with Kunshan GLVAC Yuantong New Energy Technology Limited, a leading Chinese player in the EV and hybrid EV market space. The Company is a wholly-owned subsidiary of China's Kunshan GuoLi Electronic Technology Company Limited.

Through this partnership we will manufacture advanced high voltage direct current contactors and relays, which are essential components playing a key role in managing and controlling high voltage electricity flow between battery, motor controller or inverter and other power electronic systems. These provide safe switching and isolation in EV power circuits ensuring efficient operation while protecting against electrical faults. In the events of accidents or short circuits, these help to prevent hazards such as fire or explosions.

As the electric and hybrid vehicle markets continue to expand, it is important that we integrate highest safety measures in the electric and hybrid vehicles through advance technological systems. At Sterling, we understand these priorities and are committed to advancing safety in the EV and HEV sectors.

This partnership is expected to generate a revenue of Rs. 250 crores and Sterling Tools will bring in niche technology to manufacture and assemble HVDC contactors and relays at a new facility in Bangalore, through an investment of approximately 40 crores.

We expect to commence production by Q2 FY '26. By producing these components domestically, Sterling aims to drive import substitution aligning with Atmanirbhar Bharat vision and supporting the Make in India initiative. The development will empower Indian OEMs, Tier-1 companies and other suppliers to access advanced technology right at home, building a self-reliant ecosystem for E-vehicles and hybrid vehicles.

In summary, we remain committed to driving innovation, expanding our margins, strengthening client relationship, as we navigate this exciting period. Our strategic initiatives, including collaborations with Yongin and now GLVAC YT, position us as a leader in developer of electronics and electrical components, particularly for EV and hybrid electric vehicle sectors. With strong momentum and a clear growth focus, we are well-positioned to capitalize on emerging opportunities, ensuring sustainable, robust performance in the future.

Pankaj, back to you.

Pankaj Gupta: Thank you, sir. I will give you the Financial Highlights for Q2 and H1 FY '25, starting with the standalone number for Quarter 2. Total income grew by 8.4% to Rs. 168.4 crores. EBITDA grew by 11.9%, reaching Rs. 25.3 crores. EBITDA margin increased to 15.0%, up from 14.6% in Quarter 2 FY '24. Profit after tax witnessed a growth of 19.4%, reaching Rs. 11.9 crores in Quarter 2. And profit after tax margin increased by 70 basis points, reaching to 7.1% in Quarter 2, as compared to last year.

The Half Year Results, total income grew by 9.0% to Rs. 331.3 crores. EBITDA increased to 13.2% year-over-year, reaching to Rs. 49.4 crores in this half year. EBITDA margin stood at 14.9% in half year, as compared to 14.3%, increasing by 60 basis points. Profit after tax witnessed a growth of 29% year-over-year, reaching to Rs. 23.3 crores in H1 FY '25. And the profit after tax margin at half year was 110 basis points higher, reaching to 7.0%.

Coming to the Consolidated Financials:

Total income grew by 35%, reaching to Rs. 285.9 crores in Quarter 2. EBITDA increased by 28.2%, reaching to Rs. 34.1 crores, as compared to Rs. 26.6 crores in Q2 FY '24. EBITDA margin stood at 11.9% consolidated in Quarter 2. Profit after tax witnessed a growth of 40.0% year-over-year, reaching to 17.5 crores in Quarter 2 FY '25. And profit after tax margins stood at 6.1%.

Consolidated Financial Highlights for H1 FY '25:

Income grew by 31%, reached to Rs. 570 crores in half year. EBITDA increased by 25.9%, reaching to Rs. 68 crores, as compared to Rs. 54 crores in H1 FY '24. EBITDA margin stood at 12% in H1 FY '25, compared to 12.5% last year. And the reason for the margin reduction is the proportion of SGEM business in the consolidated level, which increased to 42%, up from 30% last year. Profit after tax witnessed a growth of 40.5%, and reached to Rs. 36 crores in H1 FY '25. Profit after tax margins stood at 6.3%.

We are pleased to share that our credit rating by ICRA has been upgraded, and we have moved from Stable to positive outlook, given the strong balance sheet. And overall, to summarize, our endeavor is to achieve higher growth as compared to industry, optimize capacity utilization levels, and sharpen our focus on new strategy initiatives going ahead.

Thank you, everyone. We can now open question and answer session.

Moderator: Thank you very much, sir. We will now begin the question-and-answer session. Our first question is from the line of Deepan Shankar Narayan from TrustLine Holdings Private Limited. Please go ahead.

Deepan Shankar Narayan: Good morning, everyone, and thanks a lot for the opportunity. Firstly, from my side, on the EV business, despite seeing 20% decline in Q-on-Q volume numbers for one of our top customers, we have managed with just 3% drop in revenues. So, what are the key drivers behind this? Is it due to higher LCV contribution or increased contribution from other customers in the scooter business for us?

Atul Aggarwal: Jaideep, do you want to take that?

Jaideep Wadhwa: Yes, good morning. I will say that, you know, we are seeing volumes from LCV and other customers pick up. But also, I think we have addressed this before, that you cannot track the output from, or you cannot correlate exactly the output from our customers and the shipments from our site because there are materials that go into stock, some are used for repairs and service and so on. So, there is a bit of a mismatch. Directionally, of course, it will be true. But there will always be a bit of a mismatch between our numbers and the numbers of our immediate customers because of these variances. But we have started shipping products to LCV customers. We are shipping to other two-wheeler customers and three-wheeler customers. So, that is contributing to the growth that we have seen in this quarter.

Deepan Shankar Narayan: Good to know that, sir. And earlier, LCV contribution used to be in high single digits. So, how it has been currently? And what is our outlook for next year for LCV contribution?

Jaideep Wadhwa: So, no, sir, I don't think we have ever had a situation so far, we have had a situation where the LCV contributions were high single digits for our motor control units because LCVs have just started. The homologation from our customers, from our key customers, has just got completed. So, they have just started selling. We do expect to see these sales really ramp-up because we think that the products that have been made are very good and the customer acceptance will be high. So, we expect to see volumes go from the hundreds to the thousands in the next year, monthly volumes.

Deepan Shankar Narayan: And can you throw more light on this new JV high voltage DC contactor? So, what is the kind of market size and competitive landscape in India? And what kind of value additions are we targeting? And will this margin and ROE profile be equivalent to MCU segment for us?

Anish Agarwal: So, I can probably take that up. This is Anish. So, firstly, this is not a joint venture. This is a technology collaboration agreement. And it's a wholly-owned subsidiary of Sterling Tools Limited. The agreement is between the wholly-owned subsidiary of Sterling Tools Limited, which is Sterling Tech Mobility Limited, and Kunshan GuoLi's DC contactor subsidiary, which is called Yuantong New Energy in China.

In terms of the market for this particular product, it's used in all three-wheelers, all LCVs, all passenger vehicles, both electric as well as hybrid. So, it opens us up for not only pure BEVs, but also for mild hybrids, strong hybrids and plug-in hybrids going forward, which is a play for OEMs, specifically in the Japanese space, such as Suzuki, Toyota, Honda, etc.

In terms of margin structure, we expect double-digit margins going forward, provided our capacity utilizations are good, and that we expect in the next few years, once we start production in Q2 next year.

Deepan Shankar Narayan: And what about these value addition levels, what we are targeting and what could be our key differentiators for this product?

Anish Agarwal: So, key differentiator at this point in time is that there is no one really manufacturing these products in India. At this point in time, we are probably the first one to localize, to assemble these products in the first year. Starting next year, we hope to assemble the product here by buying the child parts from our partner in China, and then localize step by step, depending upon the availability of certain raw materials, which go into these DC contactors. So, there is a phased manufacturing program or a phased localization program. But in the first year, we will be assembling and then we will gradually localize this more and more to reduce the cost.

Moderator: Thank you. Our next question is from the line of Himanshu Upadhyay from BugleRock PMS. Please go ahead.

Himanshu Upadhyay: One of my questions was on the Sterling standalone numbers. One of the things we believed was as revenues increases and more production happens at Bangalore, the EBITDA margins will improve for standalone. But now with 9% Y-o-Y sales growth and gross margin improving by 4% in the first half, the flow in EBITDA is only 0.6%. Why would that be that revenues have increased by 9% and gross margin improving by 4%, still EBITDA has not improved that much?

Atul Aggarwal: Fair question. I think when we look at the business, we don't look at Bangalore standalone. Bangalore margins have definitely improved from a unit perspective. The revenue on Bangalore is almost up 40% also. It's a combination of we are re-aligning our mixes of products we produce in different facilities depending on capabilities and capacities. So, Bangalore standalone has definitely improved.

From an overall perspective, the pass-through of 9% fully may not be there. And I think that's a tough half because like we have been saying in multiple calls, we have been able to get a full pass-through of steel price increases or reductions with most of our customers. But what we don't get is inflationary cost impact on balance value additive items of people, energy, consumables, et cetera, et cetera.

So, I think despite these challenges, our overall margins have improved on a EBITDA perspective, which is very much as per our guidance we had given in the last few calls. So, we are not surprised where the numbers are. We expected the numbers to be look like this. And as per our overall guidance given earlier, we expect our margins in our standalone business to be anywhere 15% to 16%. And I think we are on track for doing that.

Himanshu Upadhyay: Can you give an idea of what is the capacity utilization at both these plants?

Atul Aggarwal: I don't get that. Can you say that again?

Himanshu Upadhyay: The capacity utilization at Bangalore and the other plant for fasteners versus the last year?

Atul Aggarwal: Bangalore still is getting some maintenance Capex. And I think Bangalore, we are still currently at about a 50% revenue, what we expect over time. There is a lot of headroom for growth as the market keeps on growing. As our product mix, we keep on transferring more and more parts depending on, like I said, capabilities and capacities, the Bangalore plant, will keep on improving.

So, there is a lot of headroom for growth. I have said that in the last few calls as well. With the current capacities we have in place, we are looking at a revenue of 800 crores plus on a total basis for all our fastener business.

Himanshu Upadhyay: And one more question. Have we added new customer in CV because of which the share has improved from 27% in FY '24 to 29% in the first half of FY '25, or it is because of a higher share at the existing large customer for us? This is on standalone revenue breakup, what we have given.

Atul Aggarwal: Yes. So, on a standalone business, our PV business has grown substantially for two reasons. One, we have two main customers in that segment, which is Maruti Suzuki as a group. And secondly being Mahindra Automotive Division. Mahindra has gone substantially, which has given us a bump up in revenue. We have acquired and we continue to acquire a lot of special products with Mahindra Automotive Division and their units are going up, which is automatically translating to our bottom line as well.

Plus at the same time, I think our service level at Maruti Suzuki as a group are good, which is helping us increase, acquire new product lines and new products with these customers. So, these two customers, despite the fact Maruti may not have grown, we have grown faster. And Mahindra Automotive Division is a huge growth engine for our passenger vehicle business.

I just want to share, which we have been doing over a while now. We have also acquired business at Hyundai. The revenue growth will probably start coming in FY '26-'27 onwards. But yes, from a long-term perspective, we are strengthening our passenger vehicle portfolio, which was one of the weakness we had in terms of huge dependence on Maruti Suzuki. But over time, I think Mahindra AD and Hyundai will probably mitigate that dependence on that single customer.

Himanshu Upadhyay: And one last question. Any updates on magnetic components business? And what are the top three priorities or work to do so that the business starts becoming revenue generating over next few, let's say, quarters?

Anish Agarwal: I will take that question up. This is Anish. So, on the magnetics business, our discussions with our Korean partners are progressing very well. We hope to close definitive documents in the next 90 to 120 days. And this is a business which is a long-term play for us, and we hope to be in production sometime in early 2026 calendar year, not before that, considering some of the passenger vehicle programs for which this joint venture is being executed will kick in from 2026 only. So, Kunshan GuoLi will happen earlier, which is in Q2 next year. And Yongin Electronics, which is for Magnetics, will start the following year in 2026.

Moderator: Thank you. Our next question is from the line of Kunal from Sunidhi Securities. Please go ahead.

Kunal: I have two questions. The first one is that in the MCU business, I think in the E-two-wheeler segment, I think most of our revenue is from Ola Electric. And so, what is the risk going ahead if Ola starts manufacturing their own MCUs, which I think in some of the media news, they indicate that they might do that? So, any update on that or how are we diversifying our customer concentration to reduce this risk?

Jaideep Wadhwa: So, yes, Ola has announced that they will manufacture motor control units in-house. It's a part of their vertical integration strategy. And this is something that they have announced or they have talked about for quite some time. They are not in production yet, but that's something I believe that they will do at some time. I do expect that they will be able to develop their own in-house unit in the future.

Our strategy, I think, is very clear, and it's been something which we have been consistent with, which is that we are looking at both product and customer diversification. We have ongoing discussions with various companies to add additional products to our portfolio, and we continue. I think the last count is more than 30 active engagements with customers in more than 20 live programs. So, we continue to do that. As sales pick up from these customers, we will see our revenues shift from Ola to these customers.

With the changes in government policy, in terms of how FAME-II got morphed and now we have the PM E-drive, which changes priorities and also reduces the subsidy, the uptake on some of the newer customers was slightly slower than expected, but we are very positive about these new programs because they have got good products. And we are confident that they will gain good market share vis-a-vis ICE engines in the future, which will give us the business growth that we are looking for.

Kunal: So, I just wanted to ask how much Capex was incurred to double the capacity of the MCU from 3 to 6 lakhs?

Atul Aggarwal: So, actually, we have gone higher than 6 lakhs in terms of capacity, but the total, it's difficult to differentiate. I will just take a minute and also talk about what we were trying to do and it will give us an idea. So, as we look at our strategy of customer and product diversification, we also see that our customers have an interest to buy more and more components from one vendor because they want support and integration, and in some cases, these units are also getting combined into single packages or single boxes.

So, our strategy is that we see ourselves not only as a motor control unit Company, but as a power electronics Company, which means that the competence that we are trying to develop is one around power electronics for the automotive industry and within that, obviously, you have chargers, you have DC-DC converters, you have motor control units, etc., etc. So, we are looking at all of those opportunities and planning that.

The reason I am giving you that background is that the total CAPEX budget that we had for this year was just a shade under Rs. 29 crores. We have visibility for about Rs. 22 - 23 crores being capitalized before 31st March. There are still some long lead items that we don't have full visibility on. It's difficult for me to say what has, as a lot of this investment is going into engineering software, it's going into testing equipment, etc., I can't tell you exactly what has gone into the capacity expansion and what goes towards this overall competence building, but the Capex plan is Rs. 29 crores, and we may be a shade below that depending on how deliveries come in and installation and commissioning gets completed.

Kunal: And going ahead, how do we see the mix between fasteners and the other component MCUs? So, fasteners will be 50% or lesser than that, like maybe an FY '27 if you are giving a guidance?

Atul Aggarwal: Can you repeat that question?

Kunal: So, what's the mix of products be going ahead, FY '27, if fasteners versus MCUs versus the DC contactors?

Atul Aggarwal: I think early days. We are drawing up a plan finally for FY '26-'27, etc. Our EV businesses are currently at about a 40% clip. I think we hope to maintain that or improve that going forward.

Moderator: Thank you. Our next question is from the line of Siddhant Chhabra from Minerva Asset Advisors. Please go ahead.

Siddhant Chhabra: So, first question would be a bit of a bookkeeping question. So, your gross margins from FY '24, which were 24.8%, have now gone to 38.2% in Q2 FY '25, and even on a Q-o-Q basis from FY '25 Q1, they have gone up by 10%. So, I just want to understand the reasoning behind this spike in the gross margin, like it's obviously related to the COGS. So, if you could throw some light on that firstly.

And secondly, in relation to this only, this question, other expenses as well from FY '24, which stood at 13% of sales, have now gone up to 23% of sales. And this spike is also seen on a Q-o-Q basis. So, for this also, can you give us a reasoning for the spike in other expenses as well?

Pankaj Gupta: Your question is about the standalone, right?

Siddhant Chhabra: No, this would be on a consolidated level, right? Yes.

Pankaj Gupta: So, your first question is the gross profit margin, right?

Siddhant Chhabra: Yes.

Pankaj Gupta: That gross profit margin for Q2 stands at 51.5%, right? And for the half year, they are down 49.4%.

Siddhant Chhabra: My apology, this would be for the MCU segment, not consolidated.

Pankaj Gupta: So, the gross margin for Q2 is 38.3% for MCU segment. Yes, so this is up from 28% to 38%, right?

Siddhant Chhabra: Yes, and then from FY '24, it's up from 25% to 38%. So, just if you could tell me the Y-o-Y, Q-o-Q basis and what is the reason for the spike in gross margin?

Pankaj Gupta: So, one is the definitely is the economy of scale, and our purchase efficiencies at these levels have been better as compared to the previous year or previous quarter. So, at the volume which we are doing, we have been able to reduce the cost, which has a mix of better commercials and complete localization.

Atul Aggarwal: Jaideep, you want to supplement that, please?

Jaideep Wadhwa: Yes, sure. I think there is also a couple of, obviously there is a product mix and buying efficiencies that have kicked in. There is also a couple of other areas, you will see there is an increase in other expenses. We have started paying royalties to Gtake, which are now mentioned in that area. So, as a part of the whole agreement, there was negotiation on pricing on other areas and we also agreed to pay a royalty, because we were not able to conclude the joint venture agreement.

Also, we had certain provisions that we were carrying. If you look at our numbers, for our gross margin, we were historically looking at carrying a provision because of the warranty that we give to our customers and explained in earlier calls that we have a three-year warranty as per FAME-II requirements.

So, as per good bookkeeping practices, we have been keeping a provision so that we were not hit with any unexpected or large charges. As products that we have supplied in the beginning of our work have started completing three years, we are writing back some of these provisions.

So, I think there is some level of improvement that we do have. There is also a little bit of bookkeeping and realignment of heads that is causing this change, but at the EBITDA levels, you will see that we are fairly consistent.

Siddhant Chhabra: Also, you mentioned the volume point that since your volumes have increased, you have been able to reduce costs, which is a fair point. But if you look at quarter-on-quarter volumes, they have been similar and even on a quarter-on-quarter level, your gross margin has gone from 28% to 38%. So, what would be the reason there? Like why has cost gone down there because the volumes have remained similar?

Jaideep Wadhwa: Yes, no, my volume comment was last year to this year. Volumes are fairly stable between the two quarters. There is very little difference between the two quarters. As I said, it is to do with the royalty that, Pankaj, kicked in on 1st of June.

Pankaj Gupta: Yes, sir.

Jaideep Wadhwa: So, we have some royalties that kicked in, but when we were negotiating royalty payments with Gtake and renegotiating our contracts with them, we also negotiated hard on some of the supplies that they were making to us. And so we got some benefit there, which shows up in the COGS, but like I said, there is an offset in some part in the other expenses.

Siddhant Chhabra: Royalties, sorry, I didn't get that, was it 7% to 8% you said? Royalties were 7 to 8%?

Jaideep Wadhwa: No, we did not give a number, and I would prefer not to do that.

Atul Aggarwal: I just want to add one thing more for Jaideep and Pankaj said. I think one of the other reasons for increase in margin structures or gross margin structures in the SGEM business is also product mix changing as well. So, we got SOP started for a lot of customers and I think a lot of this, depending on the product mix, product mix is changing at the percentages, so that is also helping our margin structures.

Siddhant Chhabra: Now, my second question is on the customer split. So, as we know that you have a lot of customers, especially two-wheelers on the newer OEM side, like Ola especially, Ather, etc. Now, can you give us any understanding or any guidance on what you are doing to onboard some legacy names on the OEM side, like TVS, Bajaj and across segments, not just two-wheelers, even three-wheelers, CVs, et cetera?

Jaideep Wadhwa: So, I think you have touched upon one of the most important initiatives for us. We are working very hard to try and onboard legacy OEMs or the incumbents in the two-wheelers space. We are in active discussions with several of them. I can't share details, but to say that there are at least two or three discussions that are ongoing and moving forward. But we don't have a confirmed program that I can mention to you at this time.

On the three-wheelers space, we don't have any activity as of today with the existing or incumbent OEs, to be honest because it's just that there is a lot more activity happening in the new companies that are there. So, the three companies that have historically had presence in this market, which is Bajaj, TVS, and Piaggio, we are not working with any one of them right now, though we are in touch with these companies.

On the LCV space, we are strongly established with some of the incumbents as well as with some of the startups. So, in the LCV space, we do have some of the marquee incumbent customers as our customers.

Siddhant Chhabra: And any timeline we could expect regarding the addition of these legacy names in other segments, or would that be too much of a stretch to ask about?

Jaideep Wadhwa: No, I can share with you what we are seeing in the industry right now. You see, with the startups, the lead-time from the time you start engaging with the customer to the time they go into production is typically 6 to 12 months. That's how long we engage with them on engineering bills, on trials, on homologation, validation, blah, blah, blah.

In the case of the incumbents, it's much more structured and much more formalized. And typically, customers would be talking today about FY '27 launches. So, as far as the incumbents are concerned, volumes that they would give to people that they would onboard in the next few months would be in FY '27.

Siddhant Chhabra: So, if we do make additions in that, in these names, it could be FY '27 onwards?

Pankaj Gupta: That's right. So, in that respect, the EV industry has matured and has started much longer-term planning. The OEs have a very comprehensive model launch plan that they are following. And as they move forward, they are working with suppliers to identify partners and lock-in programs.

Siddhant Chhabra: Also, just wanted to understand one thing quickly. This is not a question. It's just a small, I need some numbers. Could you give me the contribution of HVDC contractors in 2-wheeler, 3-wheeler, 4-wheeler and commercial vehicles?

Atul Aggarwal: Anish, take that.

Anish Agarwal: So, I can't give you the exact value in it, but 3-wheelers sometimes have 1 contactor, sometimes they have 4 contactors per 3-wheeler. LCVs have somewhere in the range from 4 to 6 contactors. Hybrids have 2 to 3 contractors. Battery electric vehicles have again 5 to 7 contactors. Two wheelers may have one contactor or may not have a contactor at all. So, it depends on OEM to OEM in two wheelers.

Atul Aggarwal: I think, just to add that it's early days. I think we are starting a new product line in India. Currently, all these products are import based. It's a new setup, a new technology, which is coming to India. There is a lot of work we have done with customers. We have some ideas where we need to go on pricing and margin structure and supply chain. I think it's too early to talk about margin in that business right now. We probably have more clarity after one full year operation, but all I can say is all the numbers based on our working and our market research and our customer engagements look quite healthy.

Moderator: Thank you. Our next question is from the line of Pramod Amthe from InCred Capital. Please go ahead.

Pramod Amthe: So, just continuing on that high voltage DC contactors, considering that you are in the early stage, how do you see, because looking at your MCU, it was a single client handholding into that business. How do you see or which segments to kick off first or will it be a client concentrated and then pick it up? That's the first question. Second related to that is what you feel are the critical factors to monitor for success of this venture considering that it's a very high asset turnover business seems to be?

Anish Agarwal: Yes, so it won't be a highly concentrated business in the sense of what we have done with MCUs. These are used predominantly by Tier-1 customers. So, the companies which are supposing making the battery packs for three-wheelers, LCVs, passenger vehicles, they will be the users of these products because they have to put these circuit protection DC contactors inside their battery pack. And they are also used by certain power electronics companies, which are global MNCs as well as Indian MNCs that they will be using DC contactors. So, it's going to be supplied to Tier-1 customers who in turn put these components and then give it to the OEM. But the OEM also validates these products jointly with Tier-1 customer in India.

Pramod Amthe: And what are the key factors to look at or track to find a success for this venture if we have a shareholder certificate?

Anish Agarwal: I think the winning business obviously with these Tier-1 global MNCs as well as Indian suppliers to these OEMs will be critical from a sales side and obviously, how we localize some of the child parts which go into these DC contactors at the right price points. These will be critical.

Pramod Amthe: And the second one is more on the strategy side, considering we have seen some more and more joint ventures or the JVs getting formed in the EV space. How do you look at your technology landscape might be three or five years down the line, where you want to move strategically either in terms of product lines or in terms of customer lines? Because if I can look at your fasteners, there is a decent amount of penetration you have on the CVs and government also seems to be pushing more for bus and ambulance type of EV programs. So, how do you look at your technology maps?

Atul Aggarwal: It's Atul. Let me take that. I think, like I said in the past communications for the last couple of years, we have laid out the broad strategy for our businesses going forward. For the standalone business, we have been saying it's a mature business. We have been around for 40 years, and I think that's the anchor we have in terms of revenue, cash flows, etc.

But having said that, it's also matured. We expect this to grow in line with the automotive industry or maybe a few percentages point faster than that, and which is what we are saying going forward. But we will be adding more and more products for EV, hybrid and power electrical segments and which is what we have done.

We have made two announcements, which will convert to revenue in the years going forward, one as you see with DC contactors and the second one being magnetics. And we already have a mature business and a growing business in our motor control unit business. There are other product lines. We are currently researching, studying and looking at opportunities, identifying technologies. You will hear us do more and more announcements going forward.

I cannot give you any definitive timelines right now, but I can broadly share with you that that's our strategic roadmap. We want to have more of a play in new businesses. Substantially, most of the businesses will be greenfield and they will be for products which are not currently made in India. So, we have been based on our success of our motor control unit business, we have set up two tech centers. We will be adding more or the three product lines I mentioned EV, hybrids and power electricals, that's going to be future VC for ourselves in the short-to-medium term. And you will see us do more and more announcements going forward.

Pramod Amthe: The last question, for your MCU business, the large client is having some challenges on the service and quality as it is jot down by the government or the press. How do you see your component, because you also mentioned warranty costs and all, is there any sensitivity or studies in other than for any exposure of yours in that area or you are quite sure your product is much stronger to withhold all these standards?

Jaideep Wadhwa: So, yes, OLA has faced a criticism in the past and OLA is a very big customer for us. So, if there is a drop in OLA volumes, we will see an impact on our business. The way we are trying to address these concerns is really to work through, like as I said, on customer and product diversification. That's the core of our strategy, and that's what we continue to work on.

I can share one insight on OLA working. Their implementation is very effective. I have to say that their speed of doing things is outstanding and probably unparalleled. I do hope for the sake of the EV industry that they address the concerns that they are facing. And I believe that they have the ability to do so and to be able to get on top of it really quickly, and once they do that, then they will continue to do well, and I think the industry as a whole will benefit from that.

Moderator: Thank you. Our next question is from Manan Vandur from Wallfort PMS. Please go ahead.

Manan Vandur: I have three questions, sir. First question is, what is our capacity utilization for MCU?

Jaideep Wadhwa: So, the capacity utilization on average for MCU is about 80% or actually just less than 80%.

Manan Vandur: Less than 80%, okay. And the optimum capacity utilization will be 95% or something?

Jaideep Wadhwa: Yes, we could push it, but we also have, for us to increase capacity in that area is just some debottlenecking that we can do.

Manan Vandur: And sir, the next question is about that as of now we have 6 lakhs units, right? So what do you think is the total addressable market, like how much capacity does, do we have in comparison of the whole industry? For example, combining two-wheeler, three-wheeler, LCV, M & HCV, all of these, combining all of these, how much in comparison do we have out of 6 lakhs and how much will the total be having?

Jaideep Wadhwa: So, I think one way to look at it is that, I don't know what the capacities are. But if you look at the total number of electric vehicles sold in the country, our, what we have shipped is about 25% of that volume. So, if just as an example, if a million EVs across all product categories have been sold, and I am leaving out E-Rickshaw in this calculation, then we have sold 250,000. So, another way to look at it is that we are at about 25% market share at an industry level.

Manan Vandur: The third question is about the recent partnership with the Chinese Company. We say that we will do around Rs. 250 crores by FY '30. Does this mean that we do 250 each year, or is this divided over the next five years, or is it like we might do Rs. 100 crores in the first year in FY '26, and then we might do 150, then 200, 250, and so on. Is it that way?

Anish Agarwal : Yes, it is not the cumulative revenue. It is the revenue for FY '30 that we are targeting.

Manan Vandur: So, it will be in a phased manner, or maybe 100, 150, 250, that way?

Jaideep Wadhwa: Correct.

Manan Vandur: And sir, the last question is on the government push in the LCV and M & HCV that we might be seeing for MCU, because we see that LCV has gained around 9% for the H1 out of the total for SGEM. So, how do we see it going forward?

Jaideep Wadhwa: So, I think the PM E-drive should give a push to sales in the medium and heavy commercial vehicles. And also the other thing that the government is pushing very correctly is an investment in charging infrastructure. So, I think these elements would help improve sales in the high end segments, though I did see a newspaper article this morning to say that subsidies on three-wheeler cargo vehicles will probably start declining or will be withdrawn.

So, the government is continuing to fine-tune and because we play unlike many other companies, we don't play just in one segment. If we go across the entire segment with our products, which range from 1 kilowatt to 225 kilowatt that we have the ability to adapt to differences, different growth patterns within the industry as policies push the industry in different directions.

Manan Vandur: And last question, sir. How much does Ola have? I mean, how much does Ola contribute to our revenues for the SGEM in the MCU?

Jaideep Wadhwa: Ola is our biggest customer by far. And I am going to say that over 70% or 75% of our total revenue.

Manan Vandur: Okay, over 75%. Second and third would be, sir, what are the names for second and third?

Jaideep Wadhwa: I am sorry, I couldn't hear that. For second and third customers, what would be the names?

Manan Vandur: For second and third customers, what would be the names?

Jaideep Wadhwa: I guess Ampere would be our number two customer. And maybe some of the three-wheeler companies will be our third biggest customer. Then it gets fragmented below that.

Moderator: Thank you. Our next question is from the line of Mihir Damania from Fident Asset Management. Please go ahead.

Mihir Damania: So, my first question is the Ola's new range of e-bikes and the third generation scooters that are likely to be launched in the next few months, so, have we had a discussion that we are going to supply MCUs in this newer launches?

Jaideep Wadhwa: So the product that the bikes that were rolled out at the event on 15th August were powered by our MCUs that they were our MCUs which were installed on those right now at that time. We are, however, given to understand that they want to use an integrated motor.

I said the products that got rolled out or the samples that were rolled out on 15th of August were actually had our MCUs powering them, but we are given to understand that they want to use an integrated motor and controller on these models and that that integrated motor and controller will be made in-house.

Mihir Damania: So, the integrated motor would be, so the motor would be integrated with the MCU. So, are we in talks with the integrated motor manufacturer? Or would it be likely that our MCUs will not be used in this new arrangement?

Jaideep Wadhwa: So, we recognize that integrated units where multi-functions are combined into one box or one package is the trend in the industry, and therefore we also have some plans around this, but specifically to answer your question, as and when OLA completes development of their integrated motor and MCU solution, that is what will be used in the bikes and they will not be using our product there.

Mihir Damania: And who would be our key customers in the E 3-wheeler and LCV segment currently?

Jaideep Wadhwa: So, on the LCV segment, we sell to Switch, which is the Ashok Leyland subsidiary. We sell to Volvo Eicher. We sell to some startups, including, we sell to the Murugappa Group. So, there is just a whole bunch of people there plus all those startups. In the three-wheeler segment, we supply to Euler, we supply to Keto, we supply to Godavari Eblu, so a number of customers in the E 3-Wheeler segment too.

Moderator: Thank you. Our next question is from the line of Devchandra Ramani from Minerva Asset Advisors. Please go ahead.

Devchandra Ramani: I want to understand regarding the provisioning policy, which we are following for the warranties. So, based on FY '22 to FY '24 numbers, we are providing for around 3% of the sales within MCU Unit. So, it would be safe to understand that in FY '24 Q2 as well, our provisioning policy is more or less similar, and it has not been changed.

Atul Aggarwal: Yes, it's more or less similar. Yes, that's right.

Devchandra Ramani: So, backing on that point, if you are looking at FY '25 Q1 versus Q2 numbers and in other expenses line item, there is a difference of around Rs. 10 crores. So, if you are saying that the provisioning policy is more or less the same, then would it be fair to conclude that the rest of the difference is coming because of the royalty payments to the Chinese partners?

Atul Aggarwal: Well, I think there is a lot of development work we are doing beyond our regular businesses. There is a lot of support or build-up being done for the engineering centers, tech centers, for integrated motor control units, for making our products more robust. There is a lot of technical work going. There is a lot of technology work going on multiple fronts, which is causing this spike as well. But these are, like I said, I use the word spike. They will stabilize over time. You will find it's a combination of issues, not one particular issue which is causing the spike in other expenses.

Devchandra Ramani: And just to confirm the sustainability side of it, so would it be safe to consider that the gross margin which we clocked in during FY '25 Q2, those gross margins are sustainable?

Atul Aggarwal: Early days to talk about that. I think I would rather focus on numbers at operating margin levels. GM numbers will vary depending on how much investments you do, any quarter on technology, on people, on building capabilities, on the shop floor, process improvement, etc.

Moderator: Thank you. Our next question is from the line of Pratik Bhandari from AART Ventures. Please go ahead.

Pratik Bhandari: So, a couple of questions from my end. You mentioned that we are currently running and operating at a capacity utilization of 45%-50% in the Bangalore plant. And I wanted to understand as to when we see that we would be operating with full optimization levels, by when we expect that? And also, what would be the balance Capex required to enhance this operational efficiency?

Atul Aggarwal: I think we will be fully optimized by FY '27. And the bulk of the Capex has already been planned for this year. Most of the Capex will be online by FY '25. The rest would be maintenance Capex which we need going forward. So, FY '27 is the number you are looking at fully optimized Bangalore facility.

Pratik Bhandari: And like looking at the margins, prevailing margins, do we endeavor to maintain the 8% to 9% of margins in the SGEM?

Jaideep Wadhwa: Yes, I believe that at EBITDA level, this business will not only provide 8% to 9% margin, but in the future our ambition is to get to a double-digits, which should be the steady-state margin for this business.

Pratik Bhandari: And STL at a standalone basis would be sustaining at the similar margins or there is a headroom still for it to grow?

Atul Aggarwal: Based on the visibility we have and communications earlier and today, we are looking at anywhere between 15% to 16%.

Pratik Bhandari: And you mentioned that Ola would be your biggest customer when it comes to SGEM and two-wheeler segment of the same. So, like, if I talk about the revenue mix of the SGEM business, what would be the component of the two-wheeler versus the other segments?

Jaideep Wadhwa: Two-wheeler is the predominant. I mean, I think we have given it somewhere that it is 91% (wrongly said, kindly read it as 94%) for all the other, 91% (wrongly said, kindly read it as 94%) for two-wheelers and 9% (wrongly said, kindly read it as 6%) for all the others.

Pratik Bhandari: And out of this 91%, what contribution would be coming from Ola and others?

Jaideep Wadhwa: I think I just addressed that a little while ago, that Ola is over 75%.

Pratik Bhandari: 75%, okay. And just a last question from my end. You mentioned that we are aiming to have revenue of almost Rs. 250 crores by FY '30. So, can you give a sense of what we are expecting for FY '26 in particular, from this new partnership with the Chinese player?

Atul Aggarwal: So, I think FY '26 will probably start, like I said, in our communication, we are looking at starting operating in Q2 FY '26. So, it is too early to talk about FY '26 numbers. We will have some revenue, but there will be marginal revenue numbers.

Pratik Bhandari: And this Rs. 40 crores of investment, would it be split over the five-year period or how would it work? How would the dynamics for this investment work like?

Atul Aggarwal: I think that Rs. 40 crores of investment would probably happen in the first two to three years itself.

Moderator: Thank you. Our next question is from line of Prateek Bhedia, who is an individual investor. Please go ahead.

Prateek Bhedia: Thanks for the opportunity, but my questions have been answered.

Moderator: Thank you. As there are no further questions from the participants, I now hand the conference over to the management for closing comments.

Atul Aggarwal: Thank you, everybody, for being patient with us, listening to us. We have tried to lay the roadmap going forward. And hopefully, we will keep on sharing more information to you more closely. We have had a great first half and we hope to maintain similar numbers for the second half of the year as well. Once again, thank you for joining us today.

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