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CUSTOMERS EMPLOYEES SHAREHOLDERS SUPPLIERS

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Monday, 31st May, 2021

Listing Department National Stock Exchange of India Limited “Exchange Plaza’, C-1, Block G Bandra-Kurla Complex, Bandra (E), Mumbai - 400051	Corporate Relationship Department BSE Limited 1 st Floor, New Trading Ring Rotunda Building, P J Towers, Dalal Street, Fort, Mumbai 400 001
Script Code: PRICOLLTD	Script Code: 540293

Dear Sir,

Sub: Con-call Transcript

Pursuant to Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, we herewith submit the Transcript for the Con-call held on 27th May 2021 on the audited financial results for the quarter & year ended 31st March 2021.

This is for you information and records.

Thanking you

Yours faithfully,
For Pricol Limited

T.G.Thamizhanban
Company Secretary
ICSI M.No: F7897

Encl: as above





Pricol Limited
Q4 FY21 Conference Call
May 27, 2021

Management:

1. Mr. Vikram Mohan – Managing Director
2. Mr. Krishnamoorthy Pattabiraman – Chief Financial Officer
3. Mr. P.M. Ganesh – Chief Marketing Officer
4. Mr. Siddharth Manoharan – Head, Strategy & Special Projects



Pricol Limited
Q4 FY21 Conference Call
May 27, 2021

Moderator: **Good Evening Ladies and Gentlemen. I am Rutuja Moderator for this call.** Welcome to the Conference Call of Pricol Limited arranged by Concept Investor Relations to discuss its Q4 and FY21 Results. We have with us today Mr. Vikram Mohan, Managing Director, Mr. Krishnamoorthy Ramesh, Chief Financial Officer, Mr. PM Ganesh, Chief Marketing Officer and Mr. Siddharth Manoharan, Head Strategy and Special Projects.

At this moment, all participants are in listen-only mode. Later we will conduct a question-and-answer session. At that time if you have a question, please press “*” and “1” on your telephone keypad. Please note that this conference is being recorded. Now, I would like to hand over the phone to Mr. Vikram Mohan, Managing Director. Thank you and over to you sir.

Vikram Mohan: Thank you Rutuja. A very good evening, **(inadudible)** and my colleagues as well. I do hope that all of you are safe and sound and your families are secure in these difficult times. I would like to welcome you for the presentation on our results for the last quarter, and the financial year that has just ended on 31st March 2021. Our presentation has been uploaded and I do hope that all of you had a chance to go through the presentation. At the end of the presentation, we will have a question-and-answer session, where my colleagues and I would be happy to take your questions.

Prior to getting into the presentation, I'd like to share a few words about our performance in the last quarter and more importantly, on the year gone by. The last quarter from January to March of 2021 did see some headwinds as the company is very dependent on import of electronics and there has been a global electronic shortage and shortage of child parts like ICs on account of the global demand and supply scenario. In fact, it has been extremely acute. And we could have realized at least about between Rs 25 to 50 crore higher sales for the quarter gone by. And also our EBITDA could have been about 1% higher for the quarter gone by, if not for the shortage and huge surge pricing in the price of ICs.

While we have been able to recover a large majority of this price increase from our customers, the overall shortage has resulted in loss of production, not just for us, but for the OEMs in the industry. Prices of essential commodities have also reached record highs and is expected to continue to remain at these level. These do not have a significant impact on the



company, because these are indexed and as part of our indexation policy. And with a time lag, these moneys will come back to the company. In the first quarter of FY21 as all of you know, in the first wave of Corona and the lockdown, the company had very minimal output and lost more than two months of production. And the full year operation results for FY21 essentially represents about nine and a half months of operation and not really a 12 month operation.

Furthermore, we expect these disruptions to continue and remain and supply shortages all the way going until September 2022. And this is going to be the order of the day compounded by the lockdowns happening in different parts of the country which are going to also affect production and off take from OEMs because of closure of dealerships in different parts of the state. Overall, we are happy to announce that our company has performed much better than the market. This has been primarily enabled by introduction of new products, product lines, introduction of new capacities and increased share of business from our customers and overall market share increase. This has also been compounded by prudent cost control and productivity management and selective automation, which has helped us to improve our earnings overall as a company and improve our EBITDA.

I would like to jump to the slide which shows the quarterly highlights from a standalone basis, the revenue from operations has been indicated in a slide quarter wise. Similarly, the operation EBITDA and the profit before tax and the profit after tax. Specifically, referring to the profit after tax for Q4 of FY21. I'm sure many of you will have questions as to why the profit after tax for the quarter that has just gone by is extremely low. I would request at the end of my talk for our CFO to specifically dwell on this subject and explain to you as it is a non cash item and is not cash depleting. Similarly, on the yearly highlights the revenue from operations has grown from Rs 1139 crores to Rs 1336 crores be it on a nine and a half months of operation. The EBITDA has sharply jumped from Rs 98 crores to Rs 178 crores and we are very confident of maintaining such a EBITDA levels in the months to come, once stability comes back to the industry from September 2022.

The profit before tax, we have gone back into the black as we have divested all of our loss making subsidiaries and have a much cleaner balance sheet. The profit after tax figure is fairly low, which again our CFO will be explaining in detail. Our revenue from operations compared to Q4 of 20 has grown by about 59% because Q4 of 20 also saw selective shutdowns because of COVID. And for the entire year, compared to FY20 we have grown at around 17.3% whereas the market has de-grown.

The next slide talks about the profit and loss from operations which has been graphically depicted earlier. And an important point to be noted is the EBITDA that has accrued from operations, it is about Rs 133 crore versus Rs 113 crore in the prior period for the entire year.



From a cash profit and free cash flow, which is what I would like to dwell on, we have made a cash profit of Rs 137.66 crores in the year gone by as against about Rs 69.64 crores in the prior year which is FY20. And our free cash flow generation after CAPEX has gone up substantially to about Rs 108 crores versus Rs 16 crores in the prior period. As, I mentioned in the earlier calls, we are going to be CAPEX light mode for FY22 also as we have incurred significant CAPEX in the prior years FY18 and FY19 to enable all the new business and we will be CAPEX light and be able to generate a decent amount of free cash. This free cash has helped us also pare down our debt and control our working capital which is giving us a lot of resilience in this particular quarter. When there are a lot of lockdowns and shutdowns of the industry. I hope all of you are clear about the balance sheet both for the standalone and the consolidated. Our CFO will be able to answer questions specifically if you all may have on that, with regard to the long term borrowings of the company, on account of free cash generation, we have been able to pare down our borrowings overall from Rs 343 crores to about Rs 229 crores including working capital borrowings.

The consolidated borrowings including the subsidiary companies, which is Pricol Indonesia and Pricol Wiping Systems India stands at around Rs 247 crores which gives us comfortable debt equity ratio and comfortable debt (**inaudible**) as well. The overall total income and specifically we are using the term continued operations here, because as you're aware in the month of August 2020 we divested our operations in the Czech Republic and this reflects only the operations which are continuing and non-divested. So from total revenue standpoint, these figures represent our operations in India, Indonesia and the Wiping System subsidiary in India. With regard to the EBITDA from the continuing operations we have generated a revenue of Rs 1,359.94 crores and with an EBITDA of 13.68%.

Going into some key parameters like the quarterly sales; In the January to March quarter the vehicle production which is given by SIAM and ATMA data, various sectors of the business have grown quarter-to-quarter we are talking of Q4 FY21 versus Q4 FY20. The two wheeler and three wheeler industry by 26.59% whereas, Pricol growth was about 63.34%, the four wheeler industry grew by 22.96%, we grew by 42.21%. This is also because we started from a low base and the two-wheeler our growth is higher because of the introduction of the new products namely the **SPN**. Commercial vehicles grew by 48.73% whereas Pricol has grown by 203%. This is because we are becoming an increasingly important player in the commercial vehicle business. And we will have a very large share of business going forward in the years to come as we have won a significant amount of business way from competition. In the off road vehicle business, which is a small number the industry grew at 39.32% and we have grown by 50.57%. And in practice, we have more or less grown in par with the industry. Overall, we have grown at around 70% because we about 27.9% growth in the industry.



Specifically on exports, our actual growth was to the tune of about 23%. But because of the disruption and the Suez Canal blockages in the month of March, we are forced to reverse a lot of bill of lading though the material had been shipped and that will get reflected in this quarter. So the actual growth was 23%, but because of the reversal of bill of lading, we landed up with a 2% figure. Exports will continue to be an area of growth and we have subsequently also won a lot of new business in the export arena. Segment wise, we are still predominantly a two wheeler and a three wheeler dependent company. And going forward the numbers of the two wheelers will reduce the numbers of the commercial vehicles and the four wheelers will increase as we have increased our business on those segments and on the product wise segmentation about 65% comes from the driver Information system. This number also will go down as we increase our business on the pumps and mechanical products vertical primarily on the exports and the Fuel Pump Module. On a yearly sales basis year-on-year comparison, overall the industry de-grew by about 12.48% on account of the pandemic and the lockdowns in the first wave. Whereas, we have managed a growth of about 17.3%.

Again, the next slide gives you the segment wise sales, the sector's versus the product wise break up. The next slide is specifically reflecting on month-on-month comparison for the same month in FY20 versus FY21. And if you notice, from the month of April and May were very negligible months, and we started catching up from the month of July. And from there after we have had significant growth over the prior year. I would like to congratulate our Business Development and Technology team. Our company continues to invest very heavily in technology which has helped us win a lot of new business and some of the new electronic digital cluster businesses that we have one across various two wheeler customers are given in this slide.

The next slide talks about some of the LCD, TFT and electronic vehicle clusters that have also been productionalized in this quarter, and this is going to see a lot of traction going forward. The next slide shows our passenger vehicle and CV clusters. We will have a 70% share of business from the Tata Motors group going forward and this will help increase our four wheeler portfolio of business. We have also added a few other four wheeler portfolio customers which I will request our Chief of Marketing Mr. Ganesh to dwell upon. We have also increased our share of business in the commercial vehicle space with Volvo Eicher, Ashok Leyland and Tata Motors and Force Motors and some of them are electronic clusters as well.

The fuel pump module which has added significant turnover for us this year, for which two plants have also got added in the South and the North are shown in the next slide what we are doing for TVS, and for Hero MotoCorp and we are also developing a new range of pumps for Bajaj and few other customers. This vertical today has a significant amount of import



dependence from China, and the company is actively working and over the next 12 months we will be able to localize a lot of the key import parts thereby recusing our FOREX outflow. One of the new and prestigious export launches is for the Peugeot Citroën Groupe in Morocco, which is also an electronic instrument cluster for a city commuter vehicle that we have won, and some export launches for JCB and New Holland for Turkey and UK markets.

We have consciously grown our export business on the pumps division or the very heavy duty pumps. And some of the pumps that we have developed for Polaris and Generac are shown in the next slide. These are going to significantly contribute to export revenue. The next slide shows pumps that we have developed for Caterpillar very, very large pumps even weighing to the tune of about 80 kilos per tonne, quite complex pumps and Caterpillar business has kicked off and the volumes will grow in the next two to three years which will see significant growth in the exports revenue. And some of the other products developed for Harley Davidson, Ducati in Italy and BMW in Germany. These leisure segments and high performance bikes will continue to be powered by conventional IP engines in the foreseeable future as performance bikes before they get converted to EV. So we do not expect to see any business disruption in these sectors.

Some of the sensors that we have developed for export customers for Volvo and Claas. And the next is the domestic launch for the Peugeot Citroen group, the two liter water pump and the Gerotor oil pump of two liter. A lot of these pumps, we have been able to develop, thanks to our investment in Brazil many years ago, which helped us imbibe all the technology. And all whilst we lost a lot of money and we were luckily able to divest the business last year, all the learning's and the technology from there have been used to develop all the business in the last few slides that you have seen.

Some of the domestic launches and a very new technology pump is also the Variable Displacement Vane type oil pump which is a very complex new generation, which has also been developed in-house. I am very proud to say that all the above developments that you have seen have been completely developed in-house with indigenous technology with no technical support or technical collaboration whatsoever from any other agency. And that reflects why a significant portion of our spend continues to be on technology and process development, which helps us develop these products at a very cost effective manner, including cost effective processes, helping us maintain EBITDA and lead in the market.

The next slide reflects on the automotive industry. And the source is the ICRA report published in May. This report did not take into account the effects of the second wave of COVID which as all of you know, has been far more disruptive than the first wave of COVID. We are happy to report whilst we have had a lot of COVID cases across the various employees and clients of the company. We have not had a single fatality and we have a COVID release



cell working to help the employees constantly and continuous immunization drives where over 50% of the employees have been completed vaccination. And we do hope with a little more availability of vaccinations that by the month of July, we will be able to complete the vaccinations across all our employees, across all our plants.

We assumed that the disruption in the industry is going to be not so heavy. But considering the quantum of the second wave, the disruption has been very, very brutal. And we have seen loss of sales from April, May and June months will be rather bad as most of the OEMs have huge shutdowns and most dealer points are closed. And we do expect a recovery in the industry from July. The tractor segment also is expected to be a little slow this year, because of the domestic, in spite of good monsoons there is an agricultural output slump because there's been no offtake because of the lockdowns and the industry reports that the tractor industry may grow only 3.5%.

Some of the other factors that will continue to plague the automotive industry this year are the shortage of semiconductors, steel and commodity prices seeing an all-time high. These will not have a significant impact on the earnings of the company, but will have an impact on the sales of the company as the lead times have increased to 32 weeks for the supply, which will result in higher inventories and some supply dynamics. Overall, industry experts predict a hockey stick recovery like what happened after the first lockdown. So we do sincerely hope and we are fully geared up to meet that sort of a demand when the industry resumes from July and goes back to some degree of stability after September.

The next slide talks about the estimates for the two wheeler segments. Of course, this slide was prepared with data compiled as of March and released in May not taking into account the second wave of COVID. But these are the recent reports we have and we expect the growth to be a little slower than this on account of the second wave. Similarly on the passenger vehicle and the commercial vehicle sector only thing the hockey stick recovery will be delayed by a few months compared to what this report has to say. Coming to the tractor segment, they are predicting a very low growth again because of the challenges, because of the pandemic.

We do hope that all of you have gone through the presentation. And we are happy to take questions but prior to taking questions I will request Mr. Krishnamoorthy, our CFO to explain specifically on the lower profit after tax for Q1 of FY21 and how it is a non cash item. Krishnamoorthy over to you please after Krishnamoorthy finishes, I will also request Ganesh to give a five minute presentation on the business prospects for the company and the outlook for the industry on the whole. After which we will move on to questions. Thank you for your patient hearing.



Krishnamoorthy P:

Thank you Mr. Vikram. This is Krishnamoorthy, as our MD Mr. Vikram mentioned, the profit after tax for the year is substantially low and if I talk in terms of numbers for a profit before tax of Rs 46 crores, we have made a provision of close to Rs 32 crores in terms of tax, this is substantially high and the obvious reason is for taxable profit is much more than what the book profit which you have disclosed in our financials. There are two major reasons for that, one is our IT depreciation is much lower than the booked depreciation because our IT depreciation follows the gross block concept as per income tax rules and the written down value method. This is close to Rs 33 crores of impact because of this, the second reason is one of disallowance which you have consciously taken, with respect to certain expenditures for our overseas subsidiaries, on a consolidated basis we thought it may be a point of contention with the income tax authorities and therefore, we have taken it as a nontaxable item and the provided for tax in this.

As a result of this our taxable profit has gone up to close to Rs 96 crores for which we had to make a provision for tax but, looking at these two major impacts the depreciation is temporary impact timing difference, because as we go along and we start making investments, our tax depreciation will also go up and it may not continue in the future years. And the other one is a conscious decision which we have taken so that we do not get the impact with a retrospective effect in the future. But we propose to take a professional view on this, before we file the return and take a conscious call as to whether we can claim it as a taxable expenditure also, but looking at the total provision of proposed to Rs 33 crore which you have made in the books, none of this will be cash outflow item, because the entire value will get adjusted against MAT credit which we are already carrying in our books based on the book profits we made in the past years for which we have already paid the tax. So, although we made a provision of Rs 33 crores in the books for the tax, there are cash outflow on account of tax for the current year will be nil. And you will see the impact in our cash profits and cash generation also which continues to be healthy, which you will see as part of the presentations made by Mr. Vikram. I hope I made the point clear, now over to Mr. Ganesh, to make his presentation.

PM Ganesh:

Good evening to all and our Managing Director has already explained in detail about the business scenario and the new business wins. I will only touch upon certain key areas in the presentation which will be of interest. Pricol has been working on the Connected Vehicle solutions since the last three years. In fact, the first the Connected Vehicle solution was launched by Pricol for TVS Moto in the year 2018 for the Ntorq model, there upon Pricol has been working with a number of Connected Vehicle solution across various segments, and what you see is the Suzuki in one of the slides, where we have just launched the Connected Vehicle solution with Suzuki for their entire scooter models. These instrument clusters are BS6 and also easy ready it means that we are future ready. And also you can see on the right



hand side where we have launched the next generation of instrument cluster which is the TFT cluster, which is going to be the future technology on the instrument cluster or driver installation systems where we have launched two TFT clusters for TVS. One is for their first ever electric scooter which was launched during last year at Bengaluru, which has Pricol TFT cluster you can bring number of dynamic displays, which has one not yet acclaimed during last year. And also on the left bottom you could see the Apache RR310 a racing motorcycle of TVS, which have been built on the TVS BMW platform launched with the next generation TFT clusters.

I would also like to highlight on the export wins, where we have made some significant inroads into some of the export customer likes the PSA. There we have launched our first instrument cluster which is E for the EV vehicle application, which we have started to export to PSA Morocco as we speak we have become a global supplier to PSA for both the driver information system instruments and also for the oil and water pumps.

Again, JCB where we have shown the next generation TFT clusters, which we have started exporting to JCB to their headquarters in UK. We are a global supplier again to JCB for the next generation instrument clusters. I will also briefly touch upon Caterpillar. Caterpillar as you may know, is the largest in the world for making off road vehicles and construction equipment. We have won a major business with Caterpillar for the heavy duty water pumps like our Managing Director explained, these are very uniquely manufactured water pumps and they are weighing more than 80 kilograms. There are a number of oil and water pump programs that we are working with Caterpillar.

The Harley Davidson again is a global business that we have won and we have started manufacturing the oil and water pumps for Harley global from our facility in Indonesia. This facility would cater to the RCL manufacturing center of Harley and also to the U.S. You can also see that some of the leisure motorcycles like Ducati and BMW we have made major inroads in the oil pump and water pump that is why our Managing Director was explaining that the percentage of the pumps and mechanical products would grow when compared to the instrument cluster as a percentage.

I will last touch upon the PSA business, a breakthrough business which we have won into the passenger car after we have become a global supplier to Renault Nissan during the year 2016. This is a very major breakthrough for Pricol to manufacture both the existing technology and also the next generation technology, which is the variable displacement pump which would be produced in India by TFA and majority of the engines would be exported back to local countries. So our variable displacement pump would be used for the global market by PSA.



About the sector review, our Managing Director has already explained about the headwinds that are expected to be there. We have started seeing that the sales have been disrupted starting from April because of closure of number of OEMs and also the dealer point also have been closed. So we expect muted sale to continue to happen in June also, so we have to wait and see how the recovery is going to happen from July onwards. Thank you once again.

Moderator: Thank you very much. We will now begin the question-and-answer session. First question is from the line of Rajkumar V, an Individual Investor. Please go ahead.

Rajkumar V: So two questions, one of the slides where you have mentioned about the Telematics solutions, I just want to know what is the contribution that you're getting from Telematics and given that there are a lot of software companies also into this domain. I want to know what niche Pricol has from this segment?

Vikram Mohan: Mr. Rajkumar, Telematics is a growing business and at this point of time, the slice of the pie is quite small. So, we are the lead player in this industry. We primarily play on the hardware side, having said that we have also have about 72 software engineers in the company as we speak and growing a number that would see +100 people mark before the end of this financial year. Having said that, we also intend buying a strategic stake in an automotive software company not just for the Telematics solutions, but also for the instrument clusters or the driver information systems, which is increasingly being software driven. In fact, many of the clusters that were shown in the presentation are all driven by software. We are primarily a hardware company with software capabilities. So that way we are able to offer an integrated solution and we believe the Telematics and the instrument cluster is going to become an integrated device going forward as an asset management tool.

Moderator: Thank you. The next question is from the line of Shashank Kanodia from ICICI Securities. Please go ahead.

Shashank Kanodia: Sir initial the initial remarks regarding winning a substantial share of business from Tata Motors from competition. So, could you please elaborate a little bit more on it as in why did competition really exit Tata Motors and what were the USPs that we could offer to Tata Motors?

Vikram Mohan: Okay, I will have to dial back in history a little bit. Many years ago, we had joint ventures with Denso and joint ventures with Johnson Control, primarily to cater to the four wheeler and in the instrument cluster space. When Johnson Control got sold to Visteon, we were forced to exit that joint venture and when we exited that joint venture, we had a five year non-compete clause. Similarly, when we joint venture with Denso, we had a five year non-compete clause. At the end of the five year clause, we made a comeback with frugal



engineering again, it is our investment in engineering and technology that helped us be cost competitive and after the non-compete clause was over, we made a comeback in Tata Motors and now PSA and we are hoping to add a few more customers. I hope that answers your question Mr. Kanodia.

Moderator: Thank you so much. The next question is from the line of Vipul Shah from Sumangal Investment. Please go ahead.

Vipul Shah: I just want to know the margins for the two wheeler business and margins for four wheeler business are they different, logically margins in the four wheeler business should be higher. And as you have commented that, that part of business will grow over next two, three years. So, your comments please.

Vikram Mohan: Yes, the two wheeler business in mechanical clusters, and the electronic cluster and the electronic entry level clusters have got commoditized and have single digit margins, followed by increased margins. The next level of margins are contributed by the TFT and the next gen clusters, followed by the four wheeler clusters which are not yet commoditized and software rich and the commercial vehicle clusters which have higher margins, and followed by the highest margins given by our exports business where we are having cost, economies of scale and businesses that are going to grow especially the businesses like Caterpillar, Ducati, et cetera which Ganesh was pointing out in his presentation and also in my presentation.

Vipul Shah: So what should be percentage wise?

Vikram Mohan: **(Inaudible)** because it's customer wise basis volumes, which plant it is manufactured under certain plants are lower cost for the company, the newer plants where there's more automation, some of the older plants, especially the plants in Coimbatore which have historical cost of, higher cost of labor, et cetera and older plants contribute to lower margin. So then I'll have to go into segment wise, plant wise, customer wise profitability which is of course something at an executive level we do analyze, but overall as a company this is starting from a 6% to 7% margin for electronic clusters is going up to as high as 22% for the export pumps.

Moderator: Thank you. The next question is from the line of Ramnath, an Individual Investor. Please go ahead.

Ramnath: Now my question is regarding this other operating revenue, we have been consistently showing some other operating revenue to the tune of approximately around Rs 54 crores. Can you please elaborate on that sir?



Vikram Mohan: Thank you very much for the kind words Mr. Ramnath and we do hope that, we will continue to outperform the market. The other operating revenues primarily from the sales so far, fuel from our fuel station located in Coimbatore, which is one of the highest selling fuel stations in the Coimbatore district. And that is classified for the auditor's and other operating revenue, which was about 60 crores in the year at FY20 and about 52.76 crores in FY21. And the other small amounts of export incentives that we get, but the bulk of it is from the fuel sales of the fuel station.

Moderator: Thank you. The next question is from the line of Mukesh Sheth, an Individual Investor. Please go ahead.

Mukesh Sheth: I just wanted to understand in this second wave that has hit us in terms of COVID. What is the number of production days that we have lost, and how long or what has the impact been in terms of production days?

Vikram Mohan: As of now it's hovering at around nearly 45%, but seeing the situation in Coimbatore, which is one of the worst affected in the country, as we stand today, and the situation has yet to peak. We expect June also, Southern plants to get disrupted badly. But our Northern plants and Western plants are recovering. But we have plans for a similar situation like May where the Northern and Western plants were affected and Southern plants lesser affected, but at the very least in the months of May and June 50% would be realistic estimate. This is not just because of, its three reasons again, I'd like to elaborate here. One is shutdown of OEMs, thereby resulting in sudden change in demand. Second is shutdown of our own plants, because of employees contracting COVID. And third is shutdown of our key suppliers, either because of COVID, or because of lock downs. So all are interconnected, but I believe that a reasonable estimate would be, we would be losing not less than 50% in May and June.

Moderator: Thank you. The next question is from the line of Nilesh Shah from Envision Capital. Please go ahead.

Nilesh Shah: I just want to basically understand that, the year gone by you said you were operationally for only 9.5 months and it's quite possible that FY22 could end up being a similar year in terms of the effective months of operation. Knowing the situation today, what's the outlook for FY22, do you think that we've had a great FY21, do you think FY22 would end up being kind of a similar year both in terms of our overall revenues and margins. And the second question, I want to understand also that, we now have a different margin trajectory versus our previous year.

Vikram Mohan: Mr. Shah, can I just take your question one at a time, please. So, I will answer your first question. I wish I had clarity or my team had clarity. In fact, I've been constantly talking to my



colleagues in the industry. And the situation is a little uncertain, both COVID and a new problem that we did not have last year or for the vast majority of last year, the shortage of ICs especially affecting companies like ourselves and BOSCH, Lumax, couple of companies that have a lot more electronic content compared to the metal forming companies. Now, the lead times for select ICs have gone up to 32 weeks, and we are unable to predict a 32 week supply and demand situation. The industry is hoping that by July, we would have a much better understanding of what the industry is going to hold out for the rest of the year. And hopefully, the third wave which is predicted in October will not be as disruptive as the second wave. In fact, if you ask me the second wave perhaps has been the most disruptive for industry even compared to the first wave. This is going to have to impacts, inventory and strain on working capital is going to be there because of the long lead time and stock forcing us to have stock of items and then suddenly losing sales because of change in demand #A and #B, the overall price impact of cargo and freight and the shortage of ICs resulting in premium prices. While we are able to recover about 85% of it from the customer on a goodwill basis, we are also absorbing some of it, this will definitely have an impact of on the margin by anywhere between 150 to 200 basis points with our estimate.

One advantage that we had last year is there were no salary increases to any of the employees, which normally is done in July of every year last year because of the lockdown, and we had a discussion with our employees, and we decided that we will not give any salary increases. But there has been a lot of professional disruptions for people also in the second wave of COVID. So to keep the employee morale up, especially when the company is growing at a fast scale, and we have also won a lot more new businesses which are getting productionized this year, we have gone ahead with the salary increases in the month of April, which will impact the employee cost if the sales base is slow.

Having said all of this, the delta new business that we have added will definitely see us doing a significantly higher number this year, compared to FY22 compared to FY21. Albeit it with anywhere up to 150 to 200 points or 1.5% to 2% EBITDA impact because of these disruptions and increased cost, which may not be recoverable. I'm saying may not be recoverable because a lot of the OEMs are also limping back and we have a lot more clarity only in the month of July.

Moderator: Thank you. The next question is from the line of Rajkumar, an Individual Investor. Please go ahead.

Rajkumar: This question is for the CFO, sir you the explanation of tax increase; you were talking about some income tax depreciation, book depreciation and all that. So, I thought all those should get also the deferred tax. So, you should really kind of relook and give a better explanation offline I can send you an email that would be really helpful sir, because this charge is too high.



And it cannot be due to changes in your book depreciation and IT depreciation it will be primarily on account of some expenses which you are taking, taking a call that it may not be allow the reduction from a tax standpoint?

Vikram Mohan: Can I request our CFO – Mr. Krishnamoorthy to respond to this please.

Krishnamoorthy P: Yes, Mr. Rajkumar the deferred tax adjustment after considering the deferred tax adjustment only there is an actual tax of tax position which is higher by this amount. And as you said there are two reasons one is tax and the other one is a specific disallowance which you have taken on a consolidated basis. Both these things account for this difference and this is on the current tax provision after adjusting the debit tax adjustment. So, as you and I can get into an offline discussion and I can explain it more in detail if you want explanation.

Rajkumar: Okay, sir I will do that. I don't want to waste all of our time. Thank you sir.

Vikram Mohan: Thank you Mr. Rajkumar. You can send an email to our company secretary who will forward it to our CFO and he will directly take it up with you.

Moderator: Thank you. The next question is from the line of Shashank Kanodia from ICICI Securities. Please go ahead.

Shashank Kanodia: Yes, sir could you please help us understand what is the gross debt on books as of March ending FY21 and what will be the trajectory going forward over the next two to three years?

Vikram Mohan: We are hoping to be neutralize our debt provided without these lockdowns and other things we were hoping, by FY23 but with the way things are standing and the lockdown, I'm not able to clearly predict because, we don't know when this wave is going to lift and is there going to be a third wave and disruptions because there are even questions saying that, if things were normal and we know that business is going to be the way it is with normal growth rates we can project. But the gross debt on the books as it stands today forms part of the presentation but I will also request to Mr. Krishnamoorthy to give out the figures Krishnamoorthy over to you.

Krishnamoorthy P: The gross debt right?

Shashank Kanodia: Yes.

Krishnamoorthy P: Yes, so the gross debt is something around Rs 235 crore at the end of 31st March and we have started bringing it down and it is already down to Rs 230 crores. As of now, as we go along our prime focus is to generate enough cash and repay as much as possible first targeting the high cost debts and then the rest of the loans but our working capital borings



will still continue currently we are at the working capital asset the end of March we have brought it down almost to zero. But as the acceleration requirements go up during the current year, partly caused because of the pandemic, we might slightly go up on that. So, working capital borrowing has already been brought down on the long-term borrowings in a phased manner will be brought down in the current year, our prime focus is to use our cash generating to repay the debts in the current year.

Shashank Kanodia: No, in the base case we should be having around Rs 150 crores of gross debt over the next FY22, 23 is this the minimum assumption that we can work with?

Vikram Mohan: That would be very comfortable, that would be extremely comfortable our internal targets are higher.

Shashank Kanodia: Because sir in one of the meeting interactions you have.

Vikram Mohan: And also I would like to state that our CAPEX is going to be pretty light in this financial year. So, the cash generation will go down to paring down debt.

Shashank Kanodia: And sir one last thing, are we present in Ola Electric or any thought process thing you already have EV enabled to clusters?

Vikram Mohan: We are in talks and developing products for almost all the top five EV players in the country. Non-conventional OEM EV players in the country.

Shashank Kanodia: But sir, any breakthrough with Ola because these guys are really talking in terms of?

Vikram Mohan: I will take that question, no breakthrough as yet because their first clusters are not coming out of any conventional manufacturer, but we are in discussion and there programs are also delayed and given to understand I may be wrong. Thank you.

Moderator: Thank you. The next question is from the line of Manish Shrivastava from Amara Management. Please go ahead.

Manish Shrivastava: Just wanted to understand, asset write off in the last quarter let say quite a bulky item I can see in the cash flow statement almost Rs 10.5 crore of asset write off, was that even for the steady number, and this Rs 10.5 crore does not add up on the taxable profit, like the gap between the taxable profit that you suggested of Rs 96 crores versus the Rs 48.5 crore of PBT in the book account. That's a Rs 48 crore is a very large gap to explain from the book and tax depreciation and this asset write-off the subsidiary. So can you explain that thanks.

Vikram Mohan: We will answer that question in two parts. Mr. Srivastava the first part of the asset write off I will take and the second part, I would request our CFO to answer the question. On the asset write off we had got into multiple new programs a few years ago, and one of them was the oxygen sensor, which didn't go through, we were not successful. So we took a call to stop that program and all the assets and the lines and the tools that were developed for that program. And we have terminated the arrangement with Kardia technologies, the technology house that we were collaborating with for this program. So all the lines and tools and other assets, which were utilized towards this program contributes to almost 85% of this write off and the other things are routine small write offs of certain tools, et cetera. So it is because we took a strategic decision, any company we invested multiple verticals hoping for success. For example, the SEM worked very well for us and has given us Rs 200, 300 crores of sales or the variable flow pump, the oxygen sensor was one that didn't yield us the results and we took a call at a board level and at an operative level to bring that program to a stop and cut our losses on that. So that forms bulk of the write off of that 10 point odd crores. The second half of the question, I would request Mr. Krishnamoorthy our CFO to answer.

Krishnamoorthy P: Yes, I will take this Mr. Vikram. Looking at the book profit versus taxable profit, the amount that add up to in these Rs 33 crores of difference between the IT depreciation and the book depreciation. And second one is the Rs 14 crores of write up of assets as you know, only the sale value is getting depreciated from the block of assets' value but not the entire value that has been provided for the asset write off, tax reduction that's amounts to another 14 crore. And the third one is the as we told our conscious decision of the interest which is taken for our overseas investments, which we have a doubt whether it will be allowable in terms of a tax deduction. And therefore, we have taken a contributing call and this amounts to Rs 26 crores. So all these things put together take our taxable profit from the book profit of Rs 14 crore goes up to a taxable profit of Rs 120 crores. And after adjusting for the deferred tax, and also the gross profit depreciation the net current tax comes to around Rs 33 crores. The deferred tax adjustment which has been done is to the extent of Rs 6 crore, that is the current tax and it happened netting up this deferred tax impact.

Manish Shrivastava: Thanks a lot. So, these are one time?

Krishnamoorthy P: Yes, all these things are one time except that IT depreciation difference, which may go off in over a period of time as we start increasing our investments.

Moderator: Thank you. The next question is from the line of Sunil Jain from Nirmal Bang Securities. Please go ahead.



- Sunil Jain:** Congratulations to the management for outperforming the industry. My question relate to that only, suppose say in the next year industry grew by say x percentage, so at what rate higher we came grow as compared to industry?
- Vikram Mohan:** Our conservative estimate is at least a delta 10%.
- Sunil Jain:** Delta 10%, in the sense suppose industry grow by 10%, we can grow by 20%?
- Vikram Mohan:** Yes, the new business that we have added and the export businesses that we have added.
- Moderator:** Thank you. The next question is from the line of Ramesh Shah from Envision Capital. Please go ahead.
- Ramesh Shah:** So you mentioned about acquiring a software business to add to the capabilities. Just want to understand what could be the size of that acquisition, what are the kind of capabilities that we are looking for and what could be the potential outlay for that?
- Vikram Mohan:** Not more than Rs 10 crores Mr. Shah because we are looking at a strategic stake not an outright acquisition. We are looking at acquiring a strategic stake and not a majority stake. In a boutique software firm we are evaluating a few right now. It's gone a little slow because of the current situation and this could potentially happen only towards the fag end of this financial year. This is only to strengthen our technology abilities to serve our customers better as our products, especially on the DIs and Telematics are becoming more software rich. So this is not to add turnover directly to the company or anything. This is only to booster our own in-house technology capabilities, and it will be a strategic and not a controlling stake. That's what we envisaging at this point in time.
- Moderator:** Thank you. The next question is from the line of Vipul Shah from Sumangal Investment. Please go ahead.
- Vipul Shah:** Where do you see this contribution of this new initiatives like Caterpillar reaching as a percentage of turnover over next two, three years?
- Vikram Mohan:** It's not just Caterpillar are you referring to new initiatives because we have launched a lot of products like the SPM where we are increasing which has gone from almost 0 to 200 today, which will go again by another 200 to 50 crores including the exports business, et cetera. Over the next two years. Ganesh pardon, correct me if I'm wrong about SPM business and export business we have added delta about Rs 200 crores today will grow to about Rs 400 to Rs 450 crores over the next two years. Correct me if I'm wrong?
- PM Ganesh:** That's right.



Moderator: Thank you. The next question is from the line of Jaimin Desai from ICICI Direct. Please go ahead.

Jaimin Desai: You've already spoken about some of the headwinds for margins going forward like the chip shortage or the production losses. So my question is, how do we think about some of the more supportive factors that may be increased localization or better product mix going forward, and will we be able to maintain at least a current level of margins over the next couple of years?

Vikram Mohan: As I mentioned, we are confident of these levels of margins, but not for this year, because of the chip shortage and the uncertainties and increase in packing cost, freight cost, many input cost, we are recovering a significant amount, but some of it is also not getting recovered based on customer relationships. So there will be a hardening of margins or reduction in margins that I'm expecting for FY22 by anywhere between 150 to 200 basis points between 1.5% to 2% EBITDA.

Moderator: Thank you. The next question is from the line of Sunil Jain from Nirmal Bang Securities. Please go ahead.

Sunil Jain: My question relate to semiconductors. So you said that the supply can come back to some extent from September of this year?

Vikram Mohan: Yes, that's what industry experts are predicting that there will be some degree of normalcy coming back by September I'm not saying full normalcy, some degree of normalcy lead time is going from 32 weeks back to reasonable timeframes, which is why there is going to be continue to be an impact on that front, I personally think in our operating things, it's going to be the end of this financial show before complete normalcy comes back.

Sunil Jain: Okay. Then second half would be a bit normal as against first half?

Vikram Mohan: Provided there is no third wave which the whole country is now talking about connective lockdowns and we are estimating that the chip shortages and the resultant cost impacts will continue. Maybe not until September, but even until March, I'm being a little more pessimistic outlook there, frankly.

Sunil Jain: Okay. And sir last question is, what could be the tax rate for the whole year next year?

Vikram Mohan: I will request our CFO to take that question please.



- Krishnamoorthy P:** We should go back to a normal percentage of around 36% to 37%, but for some timing differences because of the depreciation. So close to around 40%, 42% will be the tax rate, because the other differences are all one time and they are not going to repeat in future.
- Sunil Jain:** Tax rate of 40%, 42% seems a bit higher?
- Krishnamoorthy P:** Yes, because I'm assuming that the difference between the book depreciation and tax depreciation will continue. So that will increase, but we are also evaluating our options to move to the lower tax bracket that evaluation is being done now. So depending on our profit generation in the future years we may decide to move to the lower tax bracket, but once that is done it may come down slightly a bit low, I am only talking about the current normal tax rate at this point of time.
- Moderator:** Thank you. The next question is from the line of Ramnath, an Individual Investor. Please go ahead.
- Ramnath:** This is regarding the assets, you have financial assets where you have made investments to the tune of Rs 59.47 crores. Can you please elaborate on that, what kind of investments go into it?
- Vikram Mohan:** I request our CFO to take that question.
- Krishnamoorthy P:** Our investment in our subsidiary companies, mainly Pricol Lighting Systems where you have interested to the extent of Rs 14 crores this is the only, and also in our overseas subsidiary in Indonesia.
- Moderator:** Thank you. The next question is from the line of Rajukumar V, an Individual Investor. Please go ahead.
- Rajukumar V:** Sir you mentioned that there will be one point, Rs 153 crore basis points reduction in EBITDA for the upcoming year 21-22. Just wanted to know, will we be able to from a value standpoint, will we be able to offset that by way of increase in topline given that your export market must be firing very well now. So just want to know, will you be able to mitigate the absolute reduction by way of increased exports?
- Vikram Mohan:** Frankly, we are in an unknown territory right now, Mr. Rajukumar we never expected our Coimbatore plants to be shut down for so long or our Northern plants to be shut down for so long and we don't know what is going to be the effect, the prolonged effects of this COVID and how much more this impact is going to be there. The COVID impact does not linger, Yes the business is going to be higher as the EBITDA contribution should be from a rupee



perspective higher. But this is subject to this wave of COVID being brought under control, which the way things are spreading. I have my serious doubts. It's not just us, a lot of our suppliers have got affected also. So even if we want to operate we are having supply chain disruptions and or customer disruptions, if we are willing to operate customers disrupted so it's a very, very dynamic situation. It's, quite an uncertain situation where we are unable to predict unfortunately.

Moderator: Thank you. The next question is from the line of Manish Shrivastava from Amara Management. Please go ahead.

Manish Shrivastava: Again, traveling on the tax issues itself, so the losses that we had booked in last two years significant losses, they won't give us a tax shield for future?

Krishnamoorthy P: Those losses will be capital losses and it will be adjustable only against capital gains. So they can't adjust against business. So, all of them were complete capital losses only, there was no business loss there.

Vikram Mohan: This was investment made in overseas subsidiaries, which was written off and our we had actually impaired our investments and taken it down, it is not a business loss that we incurred, it was a capital loss. And in fact, last year we had impaired investments.

Manish Shrivastava: Okay, and in your cash flow statement. On discontinued business, you actually have a negative hit from discontinued business how arriving still like?

Vikram Mohan: Sorry come again?

Manish Shrivastava: About Rs 10 crores of negative hit in your cash flow from discontinued businesses, how is that happen?

Krishnamoorthy P: We have partial operations coming in the last year and we completely closed and provided for those losses only in the year 2021.

Vikram Mohan: We sold those businesses only in August 2020. So in this financial year there are the operating months of April, May June, July and August of those businesses, prior to sales.

Manish Shrivastava: So, Rs 12 - 13 crores of cash loss in your consolidated accounts on that?

Vikram Mohan: Yes, for funding prior to the disinvestment for this financial year.

Moderator: Thank you. The next question is from the line of Shashank Kanodia from ICICI Securities. Please go ahead.



- Shashank Kanodia:** Yes, as you rightly mentioned that we have done good amount of CAPEX in the past. So, what is the peak revenues that we can realize of the current gross block?
- Vikram Mohan:** Between Rs 2200 to 2400 crores basis the product mix.
- Shashank Kanodia:** So, foreseeable future next three years we should be quite CAPEX side, so that will be in the range of?
- Vikram Mohan:** No, next two years after which we will go in for another round of CAPEX, because we are developing certain set of products for the EV vehicles which are other than the instrument cluster which we would like to productionalize in FY24. So, that we expect around of CAPEX to go at that point of time to keep this level of growth going.
- Shashank Kanodia:** CAPEX in 23 and 22 would be around about what quantum?
- Vikram Mohan:** We will be Rs 30 - 40 crores sustenance CAPEX which is for constant replenishment of tools and also for productivity improvements and automation. It's going to be just around that number or even slightly lower.
- Moderator:** Thank you. That was the last question for the day. I would now like to hand the conference over to Mr. Vikram Mohan, Managing Director for closing comments.
- Vikram Mohan:** Thank you very much for all your questions and for your support to the company. And I would like to thank, first and foremost all our employees who have stood with us through this difficult time, and in spite of enormous personal hardships having making it to the factories and offices to continue operations. And, I would like to express my gratitude to them. And I do hope that this wave of COVID will pass and normalcy may return and may everyone stays safe healthy. Thank you very much. God bless.
- Moderator:** Thank you. On behalf of Concept Investor Relations, that concludes this conference. Thank you for joining this conference call. If you have any further questions, please send us an email to gaurav.g@conceptpr.com. Ladies and gentlemen, you may disconnect your lines now. Thank you.