"Precision Camshafts Ltd. Q3 FY2022 Earnings Conference Call"

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MANAGEMENT: **MR. KARAN SHAH – WHOLE TIME DIRECTOR, BUSINESS DEVELOPMENT**
MRS. AAROHI DEOSTHALI – FINANCE TEAM

Moderator: Ladies and gentlemen, good day and welcome to the earnings call of Precision Camshafts Ltd., discussion of operational and financial performance for Q3 FY 22. 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 '*' then "0" on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Karan Shah, Whole-time Director, Business Development. Thank you and over to you, sir.

Karan Shah: Thank you very much. Good afternoon, ladies, and gentlemen. I would like to thank you all for being a part of this Precision Camshafts Q3 FY22 Earnings Conference Call. I am joined today by Mrs. Aarohi Deosthali from our finance team for finance related questions. In case any detailed questions on financials, please email your questions at cs@pclindia.in and we shall provide you answers in a reasonable time.

We have also submitted an investors' presentation for Q3 of FY22 to the stock exchanges on February 21st, 2022and the same is hosted on the website of the Company. Investors are requested to refer to the same.

I'll now start with an overview of the automotive industry and then get to the Company's performance. The global automotive industry is still reeling through difficult times due to COVID and supply shortages on semiconductors and higher commodity prices. This has put pressure on the global OEM's and on ancillary businesses. While experts predict that the constraints on the supply-chain should ease by the end of the year, it would be difficult to predict when things would get back to complete normalcy. Throughout these difficult times, we continue to take care of our employees and our facilities around the world to ensure the highest levels of safety and ensure readiness for customer demand.

I'm happy to share that despite the challenging times, your Company has delivered 16% growth in revenues at a standalone level and an 11% growth in revenues at a consolidated level compared to Q3 of the previous financial year. The parent business, PCL India, has stabilized over the last year posting consistent results and growth in top line as well. PCL has been awarded several new businesses from customers like Ford, Maruti, Kia, JLR, Avtovaz, Renault, etc. These businesses have been awarded over the last two years and will help in better asset utilization at PCL.

Machined camshafts sales have increased considerably quarter-over-quarter by almost 38% which has led to an increase in the top and bottom line of the standalone Company.

The Company has also actively started development and validation of new components in new material apart from camshafts for customers who are powertrain agnostic, which means not dependent on IC engines. The new team at PCL is dedicated to this effort of diversifying the product portfolio and customer footprint to ensure that PCL is future ready.

The Company has also started work on a 15 MW captive solar plant, which will further insulate us from growing power costs and also further our sustainability goals. In summary, PCL India as the parent Company continues to enjoy healthy margins and is poised for growth over the coming years.

Coming to MEMCO, based in Nashik, the Company has seen consistent demand in the last four to five months owing to pent-up demand in the CV market, and has delivered good top line and bottom-line results, which is in line with previous quarters.

Our group Company, MFT based in Germany, has seen stabilization of business, but we still see challenges ahead due to the increasing COVID situation in Europe and the long-lasting impact of semiconductor shortages. The team at MFT is also focused on bringing in new non-engine components to the Company's portfolio. In summary, the group's automotive component business is now well diversified in terms of product, as well as customer base wherein no single customer contributes to more than 23% of revenues and is showing consistent growth in top line and margins.

Now coming to our e-mobility subsidiary, EMOSS based in The Netherlands, the Company has registered significant growth in business over the last two years. Since we have completed the 100% acquisition in July of 2020, we have focused the business on adding new customers and technologies to the Company. While the traditional business of retrofitting medium and heavy commercial vehicles continues, we now look forward to an exciting new journey as we partner with several niche OEMs across Europe to provide them with ready-to-assemble electric driveline kits. The Company has posted a top line of circa ₹ 48 crores in Q3 of FY22 with positive EBITDA and PAT margins. We look forward to an exciting and promising journey ahead at EMOSS.

As you might know, over the last one year, the Company has retrofitted a mid-size passenger bus into 100% electric in India. The team has grown significantly and is currently road testing the electric bus across Maharashtra. We see positive results from the initial testing and are in touch with several potential customers for conversion of buses. In addition, the Company is developing an electric driveline for some 4-ton LCVs in India. There are over 2 million LCV's currently registered and running on Indian roads with approximately 500,000 new ones added each year. These are used for a variety of applications such as last mile delivery, waste collection, postal services, etc.

The Company is focused on bringing a high-quality reliable product to the Indian market while ensuring cost competitiveness by means of high localization. The various meetings with state and city officials, as well as private corporates, gives the Company great confidence in the future of its e-mobility offerings in India. While the Company hopes to grow the India business in the coming three to four years, our focus right now remains on the European market where the demand is consistently growing, and we see great visibility in order position till 2023 and beyond.

I thank you for joining the call and I will now handover to Mrs. Aarohi Deosthali for financial updates. Over to you, Ma'am.

Aarohi Deosthali: Thank you Karan Sir. Good afternoon to all of you. Coming to the financial performance of the Company starting with the standalone business performance, Precision Camshafts Ltd., which houses the camshaft business.

Total income for Q3 FY22 increased by 16.06% year-on-year to ₹ 145.37 crores. EBITDA for Q3 FY22 reduced by 10.7% year-on-year to ₹ 32.58 crores. PBT for Q3 FY22 is ₹ 22.59 crores and PAT is ₹ 16.46 crores. EBITDA margin for Q3 FY22 is 22.4% and PAT is 11.32%. Total revenue contribution from exports is 47.82% and balance is from domestic sales. Total income for nine-months FY22 increased by 35.5% to ₹ 376.15 crores.

Volume of sales for Q3 FY22, Camshafts casting sale for Q3 FY22 decreased by 2.96% quarter-on-quarter to 1.31 million. Machined Camshaft's sale for Q3 FY22 increased by 37.93% quarter-to-quarter to 0.80 million. Total Camshafts sale for Q3 FY22 increased by 9.33% quarter-to-quarter to 2.11 million. Volume contribution of machined Camshafts increased by 8% quarter-to-quarter.

Now, coming to the Consolidated business performance, total Consolidated income for Q3 FY22 increased by 11.4 % year-on-year to ₹ 244.88 crores. EBITDA for Q3 FY22 reduced by 3.10% year-on-year to ₹ 38.20 crores. PBT for Q3 FY22 is ₹ 17.63 crores and PAT is ₹ 11.63 crores. EBITDA margin for Q3 FY22 is 15.60% and PAT is 4.80%. Total income for nine-months FY22 increased by 31.7% to ₹ 680.38 crores.

Now, coming to our group companies' revenue, MEMCO, MFT and EMOSS. Revenue of MFT in Q3 FY22 is ₹ 38.04 crores. Revenue of MEMCO in Q3 FY22 is ₹ 13.38 crores. Revenue of EMOSS in Q3 FY22 is ₹ 48.67 crores. With this, we would like to open the floor for question and answers. Thank you.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question-answer session. The first question is from the line of Yash Agarwal from JM Financial. Please go ahead.

Yash Agarwal: Hi. Good afternoon, Karan and congrats on a good set of numbers. My first question is, the machined camshaft business, basically the standalone entity machined camshaft has seen a dramatic improvement in utilization in the third quarter. Firstly, what has led to it and how sustainable this is. Also, going forward given the fact that we're hearing Maruti, and all the passenger vehicle companies are looking at record production in the fourth quarter, can this get even better from what the third quarter level is? That's my first question. The second question is on the EMOSS side, you mentioned that there is one vehicle, which is being tested. Have we participated in any government tenders of Maharashtra Government, and are we intending to participate in Maharashtra or any other state government e-bus tenders in the near future?

Karan Shah: Okay, thank you for your questions. To your first question on machined camshafts, I think that last year, due to COVID and due to semiconductor shortages and other issues around the world, almost all geographies have been affected wherever we are supplying, including North and South America, Korea, India, as well as Europe. We have seen an uptick in demand over the last three to four months, which is why we see an increase in the sale of machined camshafts. This should be a sustainable number going forward. As far as the Indian OEM's that you mentioned, especially to Maruti and some others, we supply Camshafts in the form of castings, which are further machined by the OEMs themselves. So, if there is an increase in demand from the local OEMs in the next quarter then we are for sure aligned with them to provide them with additional camshafts wherever required. So, that would be a derived demand for us. So, that's on the camshaft side.

On the EMOSS side in India, yes, we have one bus, which we are testing at this point of time. We have not yet participated in any government tenders simply because the vehicle is not fully tested, and roadworthiness certification is not yet complete. We are in discussions with several STU's, as well as private corporates for their requirements for retrofitting of buses, but like I said in the call, the intent of the demo bus was to really understand our capabilities of doing such work in India. But we are now looking at the LCV market, which is a really large market in India and underserved at this point of time to provide a really good solution for that. So, this is where we are right now.

Yash Agarwal: So, a follow-up on the LCV, you mentioned I think a figure of 2 lakh LCV's that are plying the road, annually being sold in India. What sort of market three to four years down the line is something which could be a market for you? I am not saying what we are going to win, but what potential could be the market size for this retrofitting of LCV's?

Karan Shah: I really can't put numbers to that right now. We're still just for developing the vehicles. So, it's very hard to say what the market would be in two years from now, but the number is actually 20 lakh vehicles are registered right now of a similar kind and even if you take a very-very small percentage of that, which can be converted into electric rather than buying new ones, I think that's still a very large enough market for us. So, it's very hard to put a number right now on that.

Yash Agarwal: Sure. Also, a follow-up on the margins. So, our standalone margins have come in at a very healthy level despite rising commodity prices. So, in light of even higher commodity prices possibly in the fourth quarter, do you think that this sort of level is sustainable, over 20%?

Karan Shah: Yeah. Typically, in our business, we have an index for commodities, which the customer passes on to us, especially on the metal side. So, we are more or less insulated on that. There is sometimes a lag in how we are compensated for that, but the materials are generally pass-through.

Yash Agarwal: Last question, you mentioned that you are booked on the EMOSS till 2023, the demand is primarily coming from Europe. So, what is the order book number that we are going, or how many years of sales are we covered just based on the order book from Europe?

Karan Shah: I'm sorry, but you know I can't answer that since it's a futuristic number, but enough to say that we have significant outlook and visibility for this year, the next year and beyond.

Yash Agarwal: Sure. Thank you and best of luck.

Moderator: Thank you. The next question is from the line of Shubham Jain, an individual investor. Please go ahead.

Shubham Jain: Good afternoon, Karan. Congratulation for a good set of results. I have one question currently on EMOSS. Two quarters back, we did ₹ 50 crores of revenue, last quarter was at ₹ 45 crores and the quarter gone by was ₹ 48 crores. So, what we are seeing in the EMOSS numbers, have we hit a peak in terms of the quarterly run-rate because there doesn't seem to be a month-on-month growth, which is generally expected in a high growth business, right? A quarter-on-quarter growth we're not seeing. Is there some bottleneck in terms of capacity expansion because as you said, your orders are booked for the next two to three years' time? Do we see some amount of quarterly growth also coming in, in the EMOSS business in the next few quarters or will we maintain the same run-rate going ahead because we're not able to expand on the capacity side to deliver on the orders, which we have on hand, at a faster pace?

Karan Shah: Thank you for the question. I think, to answer you, we are not a month-on-month business or we're not a quarter-on-quarter business. So, it's very difficult to say that in three months will be a dramatic change in such a business. We are, at the end of the day, dependent on what the customer demands from us, how the industry looks like, how the supply-chain looks like, etc. If you look at a year-on-year growth, there has been significant growth, and I am sure you can see that in the numbers based on what EMOSS was doing say one year ago same quarter to now. We see even additional business going forward. I can't put a number on that in terms of what the run-rate would be, but in terms of capacity, that is not an issue for us. We have, in the last year, acquired an additional plant very close to where our current plant is in The Netherlands and that is not really a constraint for us. So, we should be seeing growth in the coming years. I can't put numbers on it right now.

Shubham Jain: Thank you so much. At least we got color in terms of what is happening. One more question. I had, in the last conference call, also asked you in terms of what is happening on the OEM, supply as a full-stack solution to OEM's, from the EV perspective besides the retrofitting angle. So, any development on that side? Soon, do we see EMOSS driveline fitted vehicles coming into the market?

Karan Shah: So, we have already six or seven different OEMs in Europe that we work with already for the last one year. We supply to them complete EMOSS drivelines and the vehicles are, let's say, produced by an OEM, but powered by EMOSS and that is what has been the growth driver for us over the last one-and-a-half to two years. Discussions are ongoing in India, but like I said in the call also, our focus and our efforts right now are on the European market where the demand is and where we see visibility. India is still a nascent market. We are developing products for it, which I said is the bus that we have already done and an LCV that we are planning. You'll hear more about that from us in the coming six or eight months or so.

Shubham Jain: Thank you. No more questions right now.

Moderator: Next question is from the line of Akshay Agarwal, an individual investor. Please go ahead.

Akshay Agarwal: Karan, thank you for taking time to answer my questions. My first question is regarding EMOSS. Essentially, what is the seasonality in the business because you seem to be quite confident in your voice and body language in terms of what EMOSS will do in the future, but like the previous question had also asked, there seems to be a little bit of plateauing of sales. Is there some event, for example like Diwali or something there that causes your sales to go up or what is it that will cause your sales to go up, a new OEM for example?

Karan Shah: Again, I think, a similar answer to the previous question. This is not a month-on-month or a quarter-on-quarter business that should be tracked. It's a long-term business that we should look at starting where we did three years ago at, give, or take, ₹ 40 crores of turnover per year, we are now at ₹ 50 crores of turnover per quarter. So, that in itself shows you how much growth there has been. Seasonality, there is not much except for the fact that generally in August, there is a summer shutdown all across Europe and in December, there is a Christmas shutdown. So, in these two times, you should expect a little bit of dip, but the product that we do are going for essential needs at most places. It is delivery services, it is waste management, it is road sweepers, and very-very niche application. So, it is not that there is more buying or less buying due to a particular season. So, end of the day, there have been significant difficulties over the last one year, especially in Europe due to COVID and also supply-chain shortages. Despite that even if it looks flat, for the last couple of quarters, has been good business. Most importantly, one point that I did not mention in the previous answer is that at this level this is probably one of the few EV businesses around the world, which is EBITDA and PAT positive. So, we’ve got to look at this holistically.

Akshay Agarwal: I really appreciate the fact that you are able to build a business of scale in Europe that is profitable, and the fact that you've built a business from ₹ 40 crores a year to almost ₹ 50 crores a quarter is also really appreciated. But most investors feel like "Dil mange more." So, just a little bit of color in terms of the sales mix, all power to you going forward. Is there something happening in terms of the mix of sales between retrofitting and OEM sales that is causing this profitability to go up. It's unusual for businesses to change their profitability profile without dramatic sales growth.

Karan Shah: Absolutely. So, three years ago, the Company used to do 10-20% OEM sales and 80% retrofits, which are very handmade, custom solutions for the customer and those are not standardized, those are not productionized, it can't have an assembly line, etc. Today, we do almost 50-55% of the business is kits and OEM sales and the rest is retrofit. So, moving away from these custom solutions to becoming a more solution provider for OEM's has definitely helped not only on the sales side, but also the bottom line.

Akshay Agarwal: For the India business, how are you thinking about retrofitting versus kits? From two perspectives, #1 is the FAME subsidy and #2 is availability of OEM's who can actually produce for you, or will they have to make any changes at all?

Karan Shah: I can't answer the OEM or the kits supplies at this point of time. It's just too premature to answer that question. From a retrofitting point, yes, I think we've got one thing with the buses we have learnt that a high level of localization is possible in India, which is what will drive cost down, which is what will make us competitive at the end of the day. We are looking at this LCV market in a really big way because there are plenty of customers whether they are State Transport, Municipal Corporations, fleet owners, last mile delivery guys, etc. So, there is a large market for that, and we believe that we would like to start with purely as a retrofitting solution at least until such time that we have proven that this solution that we provide, that the driveline that we provide is high quality, is reliable, is cost competitive, etc. We want to have a track record of saying that these are vehicles that we have delivered that have driven hundreds and thousands of kilometres before saying that why don't we jump in and become an OEM. So, that's where we are today.

Akshay Agarwal: Just to be clear that’s a really good and safe strategy, but that would mean that your product would be higher priced. Retrofitting, would that still allow you to claim subsidy from government?

Karan Shah: No, FAME II is not applicable to retrofits, but what it does is that instead of you buying a new vehicle, which costs say Rs. X lakh, the solution that we provide is that you already own a vehicle, which you have been driving for five to six years, and it has come to a point where the internal combustion driveline has too many issues, has basically warranty issues, pollution norms don't fit, etc., where you can come to us, we convert your existing vehicle for X minus something lakh rupees, it obviously would not cost as much as a new vehicle, and would give you an extended life for that existing vehicle of yours. So, that's the whole idea behind this.

Akshay Agarwal: It sounds like a smart strategy. I’ll get back in the question queue.

Moderator: The next question is from the line of Vipul Shah from Sumangal Investments. Please go ahead.

Vipul Shah: Hi. Congratulations for a reasonably good set of number. So, would you repeat the sales mix for EMOSS? How much is retrofitting and how much is the OE sales?

Karan Shah: It is give or take 50:50 right now. It changes month-to-month but give or take 50% each.

Vipul Shah: Margins are similar for both the businesses?

Karan Shah: Well, I would say that margins would be better and more sustainable for the OEM supplies because it's more standardized. Sourcing is done at larger volumes, etc., but then on the flip side, the selling price of the retrofits is much higher than that of the kits. I would say still that the margins are more sustainable when it comes to OE supplies.

Vipul Shah: So, are we adding any capacity at the EMOSS level in near future?

Karan Shah: Yes. We have an additional plant now in The Netherlands to cater to the new demand, but it does not call for significant capex or anything like that because it's an assembly line basically where we are sourcing and assembling kits, and then installing our proprietary software's and things onto the driveline.

Vipul Shah: So, that Netherland plant has become operational or it is yet to become operational? But I am asking about is adding of new capacity at EMOSS.

Karan Shah: Yes, we do have an additional plant, which is already functional. So, that is from where we will supply the additional demand that we have for this year and the next year.

Vipul Shah: And lastly three years down the line, can we expect these OE sales to reach 75%?

Karan Shah: I can't answer that, at this point, unfortunately. I hope would be that but can't answer it in terms of number.

Vipul Shah: Okay, thank you.

Moderator: Thank you. The next question is from the line of Shubham Jain, an individual investor. Please go ahead.

Shubham Jain: Karan, we have already started seeing competition in the Indian market from a company called TeraGo which has already come in with an EV, LCV into the market. I am just a little concerned in terms of the timelines of coming into the Indian market, EMOSS participating in India. So, what are your thoughts around this because the two-wheeler market is really hot in terms of many more competitors coming in and at the bottom end of the commercial vehicles, we are seeing now players have started moving in with the electric three-wheelers coming in and now with the people like TeraGo, smallest LCV, has also moved into the EV segment, so is it something which you are also looking at and preparing for commercial launch in the next financial year?

Karan Shah: I hope so, I think if we have all that goes according to plan, I hope so in the next financial year, but yes of course we have a close eye and ear to the ground when it comes to what competitors are doing, etc. and I think that it's a very early-stage market. There is a huge market to play at and I don't think there is a risk of saying who gets the pie because I think it's a large enough pie for everybody to share at this point of time. I think our focus is on getting best-in-class technology, best-in-class product while being competitive. I don't wish to talk about any of the competitors in this space at this point of time, but I think our focus is on getting this European technology, but for the Indian market and making sure that we have a good product here.

Shubham Jain: Okay, and have we started also sourcing components from India for EMOSS Netherlands now to reduce the cost further for the business, which is happening in Europe?

Karan Shah: Yes, we have started the process, but not yet executed or implemented yet because we have to look into a variety of factors, including European norms and standards and compliances, and things like that. So, the process has started, but it will take some time to actually implement.

Shubham Jain: And lastly I have asked this question in the last two con-calls as well, is this a moment on the non-camshaft business for PCL like we discussed and we were told that the vision or the target is to reach to 25-30% in the next four years' time for non-camshaft business happening at the PCL level.

Karan Shah: Absolutely. So, I think like I said in my talk, we have a completely new team, very senior team, comes from extremely good background, which is dedicated to this effort for diversifying the product portfolio. We have not started series production for these parts, but the development and validation of a lot of new components is already underway and these are not only non-camshaft, but very specifically non-engine components, which is what our target is for the next four years.

Shubham Jain: Okay. Thank you Karan.

Moderator: Thank you. The next question is from the line of Akshay Agarwal, an individual investor. Please go ahead.

Akshay Agarwal: Thanks for taking my question, again. First of all, congratulations cannot be said enough on the success that you have achieved with EMOSS. The question I had was if you could help us understand what is happening in terms of sales cycle at EMOSS because is price a lever, like would you not consider giving people a 5% discount to get dramatically higher sales and would 5% not move the needle enough? What is it that one can do to accelerate sales, hiring salespeople or it's a business that cannot be precipitated by hiring salespeople?

Karan Shah: I think this is very easy to say, very difficult to execute, but I think the fact is that we have grown significantly, multifold over the last year and it comes because of all of these efforts, number 1. Number 2, wherever we do supply, whether it is OE or otherwise, we are typically a single source to that customer. It's not a commodity product, it's not a plastic part that we are supplying saying that make it 5% less and we will get more business. It's a product that has taken three years of research and development and validation and has gone through certification and homologation in say 15 countries that we serve and then goes on to the road. So, there is tremendous amount of work that goes behind even one kit or one vehicle that leaves our premises and drives on the road. So, the demand that we see right now has been the result of the last 18 months or 2 years of efforts with several customers and that effort continues, and you will see the fruits of that effort in the coming two years and not immediately. So, again I would want to reiterate this that let us not look at this business as a month-on-month growth or a quarter-on-quarter growth, but really long-term business. So, you have seen what can happen in three years and only can I extrapolate what could happen. That's all I would say.

Akshay Agarwal: That is super fantastic. Just a question, it clearly seems that you have a good product for anybody to set even one truck under European regulations is kind of tough and especially in electric vehicle to sell the truck that you're telling, you must have got a really good product. I was just wondering, you used a word it's a long-lead sales cycle, is the demand not obvious, like you have to tell somebody so it's not something that you do, it's like automatically Anheuser-Busch is figuring out that need 10 of their trucks to meet their quarterly targets or something like that, is that how demand comes or do you have to market like in India, like you have to advertise on television or advertise at Trade Fair?

Karan Shah: It's both ways to be honest. When we work with OEM's, once we have a contract with an OEM, however many vehicles that they sell, we sell that many kits, that's very clearly derived demand. On the other side, when we are talking about new OEM's that we would like to partner with, that's something that we do as outreach. When there is some new conversion that we want to do that's something that we do as outreach. So it's both ways, it's not one way.

Akshay Agarwal: Got it. That sounds really interesting. I'll get back in the question queue and ask further question.

Moderator: Thank you. The next question is from the line of Akshay Agarwal, an individual investor. Please go ahead.

Akshay Agarwal: Karan, couple of questions around your domestic strategy, of course, it's up for a lot of competition and demand like you answered the previous participant. In terms of your own strategy, to the extent you could reveal it, would you be optimizing for profitability in the short run or would you consider running the product at a little bit of a loss for the first few quarters or may be years to seed the market and equally if you will consider raising money, so the framework is essentially saying, would you need to raise money for a venture like this in India?

Karan Shah: So, to be honest, both are forward-looking numbers, I can't answer forward-looking questions. So, I can't answer either of those questions, but the point is that like I said in the previous answer, we will try and get into this market over the next 12 to 18 months, have good products in the market, which our customers can use, try, test, and then say that you have a good enough product then you can actually have a good enough market share. If the product is good and if the pricing is right, etc. So, I can't answer to you as directly as will we sell it for a profit or loss or do, we need money, and I think those questions will have better answers when we are further down development.

Akshay Agarwal: Got it, no I think the market is at an early stage, so your strategy will evolve as well. For the camshaft business, what is the likely medium-term outlook, not to say what numbers you will deliver next year or year after, just from a medium-term perspective, you are already 10% of the global market in terms of camshafts from what I understand and do you see the fact with EV increasing, margins will come down but machined camshaft are going up, what's the medium-term best guess in terms of what will happen to margins?

Karan Shah: So, we don't see any pressure on margins at this point of time due to change in EV or otherwise. I think what we're saying is that for the camshaft business, we have at least an order for the next three-four years that we know is visible So, in terms of asset utilization, in terms of what we can do at our plants here, I think more or less we have the visibility for the next three-four years. Having said that I think we are also in various negotiations and discussions with many customers around the world for new camshaft project. So, there is no such thing as IC engines or gasoline or diesel engines,this is the last kind of wave of engines that are being developed and there will be no more. I think we still think that even 10 years down the line, there will be some sort of equilibrium between IC and electric and maybe some hybrids when there may be hydrogen-powered powertrains going forward, but I think in all of this mix, we see that the Camshaft business will stay as is and will continue to grow based on some of the new businesses that we have got. So, I think visibility is there for sure.

Akshay Agarwal: Karan, the reason I asked this question is just for the Camshaft business is when compares the electric vehicle business with the camshaft business, the kind of growth that you have delivered in electric vehicles of may be 4-5x in under two to three years, and when one compares it with the camshaft business, you have setup a new plant with the IPO money and utilization still after five years is still let’s say 70-75%, what would it take for utilization to go up, is it external export orders, some domestic orders, do you see us reaching 100% capacity utilization sometime in the next three years?

Karan Shah: 100% capacity utilization doesn't exist. There are efficiency factors and things like that, so even for us to get an 85-90% capacity utilization over the next two years is possible because of the new businesses that we have been awarded. There have been delays, there have been lags, there has been a slowdown in general globally in the last two years and we are all aware of that, but if things pan out as per the contracts awarded to us, I think we do see higher utilization in the next couple of years. Can’t say how much.

Akshay Agarwal: Got it, and Karan, is there is a large difference in the profitability of the machine camshaft business that explains the profitability as you see this quarter and the corresponding growth in machine camshaft business?

Karan Shah: Yes, absolutely, significantly.

Akshay Agarwal: Any order of magnitude like 5 percentage points better, 10 percentage points better, or even more probably?

Karan Shah: EBITDA margins for casting would be in the 12-15% range, for machine camshaft would be in the 25-30% range, so it's almost 2x. So, that's where all the value addition comes in, so the more machined camshaft we do, the better the margins should be.

Akshay Agarwal: Okay, got it and your large part of orders, the incremental orders are in the machined camshaft business as also some in the casting business. So, is there any medium-term plan of doing any CAPEX for the business, I mean either some sort of adjacent product or this business will effectively generate, let's say, some number between 50 and 100 crores of profit over the next every year on a rough basis, I am just annualizing what you have delivered in the last few quarters and all of it will effectively, you will do some maintenance CAPEX, but it will basically be cash flow?

Karan Shah: We don't have a CAPEX at this point of time planned, but we will for sure let shareholders know once there is some solid plan.

Akshay Agarwal: Got it. I think most shareholders or at least some like us would suggest that you keep re-investing into the EMOSS business, which has pretty interesting prospects. I have no further questions. Thank you.

Moderator: Thank you. The next question is from the line of Shubham Jain, an individual investor. Please go ahead.

Shubham Jain: Karan, I am so sorry I keep coming back because I want a little bit more understanding on the EMOSS business. Now, I know that you are supplying to OEM's, but these are all very-very niche OEM's if I am not wrong, in terms of somebody who is doing the municipal sweeping vehicle, somebody who is doing something else, but these are very niche, when are we looking at getting into the mainstream OEM's, probably the larger ones like Porsche or BMW's of the world. So, is there something you guys are talking to because that's where the scale will come.

Karan Shah: We don't intend to be also, all of the large OEM's have their own e-mobility divisions, which they spend billions and billions of dollars on and this is not a space that we like to be in or want to be in. I think in the market that we are, in the niche OEM or the niche vehicle applications, there is tremendous head room for us to still grow and we will continue to be in this at least for the next couple of years.

Shubham Jain: So, is it safe to say that we would be in a monopolistic situation in the niche OEM's market where we are supplying?

Karan Shah: I can't say that with surety at this point.

Shubham Jain: But we do have a substantial market share?

Karan Shah: Yes.

Shubham Jain: Cool, Karan, thank you so much.

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

Vipul Shah: What is our annual capacity for machined camshaft?

Karan Shah: Aarohi Ma'am if you could answer that exactly.

Aarohi Deosthali: Yes, I will answer that question sir. Capacity for the machine Camshaft including the machine shop in 4 million.

Vipul Shah: So we're running almost at 90% capacity utilization right now, for machine Camshaft?

Aarohi Deosthali: Sir, in Q3, we are utilizing 81% of the capacity and it is for the machine shop only and including the foundry and machine shop, cumulatively we are using 77% of the capacity.

Vipul Shah: So, casting and machined both together that is what you are trying to say.

Aarohi Deosthali: Yes, sir.

Vipul Shah: Thank you.

Moderator: Thank you. The next question is from the line of Varun Gupta, an Individual investor. Please go ahead.

Varun Gupta: Thanks for taking the question. This question is regarding the LCV business in India that you spoke about. So, as things stand today given where battery prices are and crude prices are, how does the total cost of ownership for LCV, which is EV powered compared with the IC alternative? Are EV's cost competitive today or is it more an environmental approach that the companies may take?

Karan Shah: No, at least on the LCV side and some specific applications, the total cost of ownership over the lifetime of the product or the vehicle is definitely lower when it comes to EV's, but I can't put a number in terms of years for return on investment or things like that because we have not yet finalized pricing and sourcing in India. So, I can't explain the numbers.

Varun Gupta: But order of magnitude, Karan, would it be 10-20% better, 20-30% better or broadly equal?

Karan Shah: Really I can't answer that because see I think the upfront CAPEX that the customer has to bear is yet to be determined. I can't put a number to that. Just in terms of operating cost and in terms of maintenance costs, those costs are approximately I would say 50-60% less compared to diesel. So, there is certainly a lot of saving there in terms of operating cost, but in terms of total cost, it all depends on how the vehicle is priced, what the upfront CAPEX is etc., so can't answer that right now.

Varun Gupta: I understand. You are pretty positive that it will be economically viable, it's not just a maxim of seeking environmental goals? And can you also talk a bit about the growth outlook for the camshaft business that you have, like in terms of utilization, where are you guys at today, I think you mentioned 64% but 81% in machined. So, with machined camshaft, are we close to full utilization and how much do you see can we go to in terms of overall utilization over the next two to four years.

Karan Shah: Can't talk to you about where we can go in terms of utilization over the next years because again I would be indicating a future number, but I think we are at a lower utilization in the casting business and getting to a much higher utilization in the machining business or the machine shop business and I think based on the order that we have on hand right now, if everything goes as per plan, if there are no more issues in the supply chain or semiconductor shortages and plant closures, etc., then we should see higher utilization on both businesses.

Varun Gupta: I understand and related to that in the standalone business over the last five odd years, your EBITDA margins have ranged between 25-31% but they were slightly lower this year, the early 20's, is this a little bit of the lag that you were referring to that commodity prices passed on with the lag or is this the new margin profile of the business?

Karan Shah: No, I think the sustainable margins like we have said are in the 20-25%, so that's sustainable margin. I think there are many impacts, Aarohi Ma'am if you can answer, but I think there are several impacts like commodity prices, there is forex and plenty of factors that affect the margins.

Aarohi Deosthali: Yes, the raw material prices affected the profit margin of the Company and the labor charges also affected on the profit of the Company and some repairs and maintenance cost that has also affected. A number of reasons are there.

Varun Gupta: Do you see that changing like the standalone margins for each of the last four years are actually between 25-30%, in fact 30% in three out of the last five years. So, do you see that those margins not been achievable going forward, it's more a 20-25% margin business going forward?

Karan Shah: I think between the 20-25% is what we are saying is sustainable margins. There have been obviously certain quarters or certain years where it has been higher and there are a variety of reasons for that which could be forex being restated at a higher rate, lower commodity prices, different variety of factors, but like I said, what we have right now should be sustainable.

Varun Gupta: I understand and in general on EMOSS, I know you don't want to give any specific numbers and I respect that, but from a growth outlook perspective, you don't think we are at the peak. This is not a steady cash cow business, which will grow at 10-15% or something like that. It can grow much faster, it still continues to be a growth business, would that be a fair comment?

Karan Shah: Yes

Varun Gupta: So, it may be useful to ignore month-on-month or quarter-on-quarter, but as one looks at it over a longer period, the compounding is going to be much higher?

Karan Shah: Yes. If you look at the last four years, it has been about 40% CAGR, so I think that is the history. I think going forward also, I can't put a number, but it's definitely not month-on-month or quarter-on-quarter.

Varun Gupta: But still continues to be a compounding business. It has not reached its peak in its niche market, it's still very early in the niche market.

Karan Shah: Yes.

Varun Gupta: And from a CAPEX prospective, are there any CAPEX plans that the Company has over the next year or two.

Karan Shah: Not at this point of time, not that we have declared. We will definitely announce these as and when plans fall in place.

Varun Gupta: And one last question if I may squeeze in, on the EMOSS side, as you said it's still a growth business, you continue to invest for growth. Can one expect better margin profiles, I mean EMOSS is still in the context of EV's, one of those rare profitable easy business globally as you said, but can one expect meaningful changes in margin profile as well as it continues to grow?

Karan Shah: No, I don't think so. I think we are at roughly 8% to 10% EBITDA margin at this point of time, which is what should be sustainable.

Varun Gupta: So, growing margins from here on in EMOSS may or may not happen, it's likely to be 8% to 10% EBITDA, but high growth business?

Karan Shah: Yeah.

Varun Gupta: Those were the questions from my side. Thank you so much for taking the time.

Moderator: Thank you. The next question is from the line of Shubham Jain, an individual investor. Please go ahead.

Shubham Jain: Karan, I wanted to also have an update on the status of this investigation, which is opened against our Company a couple of months back where Ministry of Corporate Affairs have sought information pertaining to 2010-11 etc. Is that gone by, passed by or is the Company still under investigation, I don't know what was the reason for which we got the notice, but what is the status of that? It would be great if you could tell us.

Karan Shah: I think this , as far as we understand, routine investigation, we have provided all of the required details to the concerned authorities and this is where we stand right now. Whatever was required to be provided is being provided.

Shubham Jain: So, we can safely assume that we are past that particular incident, which has happened, right?

Karan Shah: All I can say is that all of the information that was asked from us has been provided to the authorities.

Shubham Jain: Fair enough. Thank you.

Moderator: Ladies and gentlemen, that was the last question for today. I would now like to hand the conference over to Mr. Karan Shah for closing comments.

Karan Shah: Thank you so much for joining this conference call for Q3. I hope that we have been able to answer most of your queries and we look forward to your participation in the next quarter. Thank you very much.

Moderator: Thank you. Ladies and gentlemen, with that we conclude today's conference. Thank you for joining. You may now disconnect your lines.