



“JTEKT India Limited  
Q2 FY ‘23 Earnings Conference Call”  
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**MODERATOR:** **MR. NIKHIL KALE – AXIS CAPITAL LIMITED**

**Moderator:** Ladies and gentlemen, good day, and welcome to the JTEKT India Limited Q2 FY '23 Results Conference Call hosted by Axis Capital Limited. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Nikhil Kale from Axis Capital Limited. Thank you, and over to you, sir.

**Nikhil Kale:** Thanks, again. Good afternoon, everyone and welcome to the call. From the management team, we have with us today; Mr. Hitoshi Mogi, Chairman and Managing Director; Mr. Rajiv Chanana, Executive Director and CFO; and other members of the team. I will now hand over the call to management for opening remarks, post which we can start the Q&A. Over to you, Mr. Mogi.

**Hitoshi Mogi:** Okay. Thank you, and good afternoon, everyone. And again, I'm Hitoshi Mogi. I'm the Chairman and the Managing Director of JTEKT India Limited. Welcome to JTEKT India Limited quarterly earnings call. I'm really appreciative for attendance [inaudible 0:01:29]. Thank you very much. And the whole industry was facing a difficult time for the last two years due to COVID pandemic and JTEKT India Limited was no different. However, we continued our efforts in the direction of the being future-ready by identifying and investing in growth and technical know-how.

Today, I'm happy to inform that JTEKT India has started commercial production of the drive south of [inaudible 0:02:04] from beginning of September 2022. [inaudible 0:02:09] was set up at our existing [inaudible 0:02:13] plant at a total capital outlay of more than 850 million. The total capacity of facility is 4.5 lakh unit, and the company has already started supplying to product to [inaudible 0:02:34] model. We expect a new line of business to expand in the future, and we are ready to make future investments for the same.

Now I would like to discuss with you the industry developments, discuss our company's results and then opening the door for operations. The first half of the current fiscal year has turned out to be very encouraged for passenger vehicle segment. Turning first half 2023 fiscal year, passenger vehicle segment reported its highest-ever sales, and quarter 2 becomes the fast-ever quarter to cross 1 million mark in domestic passenger vehicle sales.

Industry saw improved performance owing to the easing of the semiconductor supplies, new lounges and COVID-free festive season after two years. However, we need to be cautious at the point of time, high inflation and increased fuel price and other commodity price has kept entry level vehicle out at least for first time buyers. As far [inaudible 0:04:11], recent increase in the price of CNG fuel, higher labor and Russian/Ukraine conflict are concerned and could impact the market in the coming months.

I'd like to touch up on the financial results for quarter 2 of fiscal 2023 are now [inaudible 0:04:40] with you. For standalone NTT revenue from operation at 5,796 million for quarter 2. So the

healthy growth of 48% against revenue of 3,907 million achieved during the comparable quarter of previous year.

Profit after tax at 297 million in quarter 2 saw improvement of more than 200% compared to PAT of 89 billion comparative quarter of previous year. PAT improved with the improvement in sales as well as swift control of our fixed costs. Lastly, I'd like to inform the activity relating to amalgamation of subsidiary company, JTEKT Automotive India Limited is progressing and we expect to receive the approval from authority shortly.

Now we shall move to CFT for approvals. I think that contributes the great growth of the company, I think. So -- and we -- with this, I would like to thank you for your participation and open the conference for questions. Thank you very much.

**Moderator:** The first question is from the line of Akshat Hariya from Multi-Act PMS.

**Akshat Hariya:** Thank you for the opportunity and congratulations on a good set of numbers, sir. So, my first question was that our revenue for the first half has grown by 48%, while the production volume growth of our largest customer has been around 34% and even the industry production growth has been near 30%.

Even the largest peer, which is there, the revenue growth for them has been only around 14% to 15%. So clearly, what we can see is that we've gained the share of business with Maruti. So, could you please throw some light on what is leading to the share of business gain, like whether it is coming from existing models or any new business wins, which is -- or any other factor which you would like to highlight to us?

**Rajiv Chanana:** Sure. I'd like to give you a few facts for your knowledge. And maybe then -- there upon we can take it further. So, it's only -- not only from Maruti Suzuki, which has been growing at a pace of 30%, the overall market cost has grown up by about 38%. So, when we look at the market share, there have been certain other customers who have grown faster.

And you rightly said that there are certain products where we have fine share. For example, Maruti Suzuki, one of the critical decision was taken to continue with the Eeco model. And that model, we are supplying axle assemblies, and we continue to get the same business for the month of September.

So in the quarter 2, that came as an additional sales volume for us. Apart from that, we have been working hard to ensure that all the spare supplies, etcetera, are on time in all our customers. and we have made sure that all our export consignments have been delivered during the month of September, despite all the logistics challenges, which we have been facing. So these have been two factors.

And we hope that this kind of a trend will continue. Having said that, yes, there has been new models, which have come into the picture. For example, Maruti Suzuki, Alto, Wagon R, the new business which we have received. We have a share of business. We have a business of Honda

City and Toyota, models of Fortuner and Innova. So all these models have contributed to improve the sales for the quarter 2. These have been the new models, which have been doing well in the market during the first and the second quarter. So that has contributed to the sales of the company.

I think, lastly, if we like to tell you is CVJ family, which started commercial production from 1st of September, so we had the benefit for the full month of CVJ production, which we have started supplying to one of the models of Maruti Suzuki. So these have been a few factors which have helped us to perform slightly better than the market. And we hope that we shall continue in the same direction for the rest of the quarters.

**Akshat Hariya:**

Sir, my next question was that, the absolute employee cost that has remained at an elevated level despite the VRS that we concluded recently. Sir, should we assume that the employee cost will remain at this rate -- the run rate going forward or should it come down because of the VRS that we have done?

**Rajiv Chanana:**

So maybe I would request you to recheck the numbers because when we calculate and compare the employee cost compared to the last year levels, this has come down from level of about 12.8% to about 10% in H1. So, when we calculate the employee cost for the first half of the financial year, the percentage is right around 10%.

So there have been several rationalization activities, which have been carried out, not only the VRS, which was carried out by the company. But apart from that, there has been several areas of rationalization of manpower. We have a – wherever it was possible, we have digitized our work, so that dependence on manual work can be reduced. And we have done a lot of productivity improvement activities also during the last almost 1, 1.5 years.

So this has actually benefited. I would request you to recalculate the numbers. It has actually come down by a significant percentage from 12.8% last year to 10% this year so far.

**Akshat Hariya:**

I agree on the percentage side, sir, on the – as a percent of sales, I agree. I was more alluding to the absolute number. So absolute number, like while we used to maintain a run rate of about INR 50 crores, INR 52 crores, the last quarter that we did in Q2, we had almost INR 56 crores of employee cost. So, on an absolute basis, should we consider this INR 56 crores to be the new base? Or is it more like a semi-variable in nature and we should look at it on a percentage basis?

**Rajiv Chanana:**

So there is a significant portion of the cost, which is variable. All the direct manpower has got a direct relevance to the sales. Sales are increasing, direct manpower has to go up. That's why I would request that, please do not look at the absolute number. In India, you know the inflation rate, which is currently going on. So it will be unethical on our part not to increase the salaries of our people.

So last year, we gave an increment of about 8%, which was a good number and very comparable with the industry. So we would like to continue to reward our employees going forward. But

however, we keep an eye on the total cost in terms of value, as you rightly said, plus as a percentage of the total sales.

**Akshat Hariya:** Sir, and as a percentage of sales, where do we see this employee cost settling? So, we would be comfortable around what levels?

**Rajiv Chanana:** The target has to be single digit. We don't know where will it settle, but we -- as a management target, we'll continue to work around the 10% level. And maybe we would like to bring it to the single-digit level going forward.

**Akshat Hariya:** So next, I really wanted to ask you on the CVj production ramp-up. We've started our production from September, so how has been the ramp-up on that side? And what could be the full year revenue potential from this product? And any new customers that we've signed up other than Maruti for this product line?

**Rajiv Chanana:** So it's a continuous process. We have the first preference was to set up a line, which can produce quality component, and that we have successfully achieved. As Mr. Mogi pointed it out, we had a huge investment of more than 850 million and this has got a capacity of 4.5 lakhs. So, when the capacity is fully utilized on a double shift basis, which we -- that's how we normally calculate, we can generate a volume of INR 120 crores from this line.

So we are moving forward. It will be -- it may not touch immediately the same levels of 100% capacity and 100% sales realization, but very sure that in a very short period of time, we'll touch that. And then we are already in touch with other OEMs. This -- if you look at the market scenario, this currently is captured by GTN in a larger manner. I think they have market share of more than 70%, 80%. So market is actually restricted to one or two players at this point of time.

We hope that, at an entry point of time, if we are able to establish our products and deliver a good quality product in the market. I think that, once we said that example, it will allow us to go a long way to convince other customers, including our parent company, Toyota, good company Toyota, as well as the fastest-growing Indian OEM Tata and Mahindra. And we are working with them very closely at this point of time. We have a product. So whenever we have our technical discussion with all the OEMs with which you have a relationship. We keep explaining our ideas to them.

**Akshat Hariya:** Sir, I had one book-keeping question.

**Moderator:** Mr. Hariya, I'm sorry to interrupt, sir. I request you kindly get back in the question queue for further question.

**Rajiv Chanana:** We can have a separate discussion sometime. I think we have to give opportunity to other people out there.

**Moderator:** The next question is from the line of Rakesh from Axis Capital.

- Rakesh:** My first question is, we know that Maruti used to be 55% to 60% of your revenue, and while Mahindra would be close to 10%. Can you just break down what is your revenue contribution from key EV players, right now in the India business?
- Rajiv Chanana:** Like for the quarter 2, I can give you the numbers. I think these are very similar to quarter 1 also. So Maruti Suzuki was 60%, Toyota 7%, Honda 6%, then Nissan 5%, Mahindra & Mahindra 8%, Tata Motors 4%. We have exports around 4%, and then the aftermarket approximately 2%, and then other product.
- Rakesh:** Second question, you had a very significant presence in entry-level segments, especially for Maruti, Eco, Alto Espresso. Now these are models which have not doing really well over the last two years? I mean they are largely flat or declining trends, okay? Now have you able to make any inroads in the SUV models for the Breza or the new Vitara, which they have launched? And similarly, for Toyota Hyryder, model? And second part to this is similar to M&M, what is the kind of traction you have been having with them for their SUV range?
- Management:** Myself is Okazaki, from Marketing, and according to those query, of course, we know the tendency in the market from that segment is going to the decent network, compact SUV. So we already got orders all those portions, and tendency is growing also for this segment for SUV. We are kind unsecured for the volume.
- Rajiv Chanana:** So, we are participating in the new models of Maruti Suzuki and Toyota, TKML. So we have a share of business in both the model.
- Rakesh:** So you are supplying to the new Brezza and the new Vitara?
- Rajiv Chanana:** Yes, we'll be supplying them all, we'll be supplying to them
- Rakesh:** And is there any increase in the content which will be supplying, or is it more or less similar?
- Rajiv Chanana:** Look, yes, I think we were debating these questions. Content per car, it has improved over the years. You know that, but given the major benefit which will come to us is through the introduction of CVJ. You know that every car required a drag shop and there are -- it comes in a set of two components. And I think this is going to add value to the contribution per car contribution per car, which JTEKT will now expect. But this will depend as to how fast we are able to grow into this segment. We are very optimistic with the quality of product, which we have just now delivered, and we hope that we'll continue to get this more business.
- Rakesh:** And sorry to harp again on this, but what is the kind of content increase you will be seeing with this [CVJK 0:19:47] in this new model? So will you be able to quantify? Or any sense if you can give what is the increase you have?
- Rajiv Chanana:** We normally don't share this number, but okay. So it will be in the range of INR 5,000 to INR 6,000.

- Rakesh:** And the 4.5 lakh capacity, as you mentioned for CVJK is includes more units or its single unit capacity?
- Rajiv Chanana:** It's for single unit capacity.
- Rakesh:** And the second part of my question was what -- how are you doing with M&M right now? I mean, what do you have? I mean, have any presence in the new model launches or any potential launch that you have?
- Rajiv Chanana:** Mahindra & Mahindra, we are doing good. We have our share of business with them. And for example, I'll just give you a few models, which we are very active. At KUV100, we are supplying the CPS. We have share of Bolero. In HPS category, we are supplying Scorpion and TV 300 HPS. So we have our share of business, which is stable and we continue to supply to them. For Thar, which was recently introduced, we are supplying column for that. So if we share a business which we have now with Mahindra & Mahindra. It looks like it's quite good and growing.
- Rakesh:** So for Thar and Scorpio, could you be a second supplier? What is your share of business over there?
- Rajiv Chanana:** So Thar HPS is being supplied by [Rani 0:21:22] our competitor. We are supplying the column.
- Rakesh:** Similarly for scorpion, right?
- Rajiv Chanana:** Scorpio, the current Scorpio, we have HPS and column both.
- Rakesh:** Scorpio N, right?
- Rajiv Chanana:** Yes. Which model you are saying?
- Rakesh:** You're supplying for Scorpio N and the classic Scorpio both?
- Rajiv Chanana:** No. the original Scorpio.
- Rakesh:** One more question. Are you supplying to any of the EV models in India right now? Any orders or any...
- Rajiv Chanana:** No. not yet.
- Rakesh:** And any breakthrough you are expecting in the OEMs, sir you are not present, Honda, Kia, MG?
- A.D. Rao:** Yes, Myself A. Rao. I just want to say one thing. I mean, as far as EV is concerned, there is no change in as far as our production is concern. Of course, the current EV segments, I mean, EV production in India is not very high. However, I mean, going forward, we will be achieving our current market share more than that as the technology is not changing. So this is doesn't really a matter for us, whether it is EV or non-EV. Of course, whenever there are new models, in EV, we will see competing and we are confident of doing so.

- Rakesh:** And then my other question was any potential business expectations from Hyundai, Kia or MG? Any discussions?
- Rajiv Chanana:** Yes, we continue to work with all of them. We'll be participating and we are participating,
- Moderator:** The next question is from the line of Aman Agarwal from Carmelian Capital.
- Aman Agarwal:** So I had a few questions, starting with first on raw material costs. So how does the raw material cost pass on basically works? Because if I see the last two quarters, three quarters, our gross margins have basically impacted, like they used to be around 31%, 32% kind of levels. But in this quarter, we get somewhere around 29%. So if you can touch upon that?
- Rajiv Chanana:** So right you're absolutely right. It's a market process, which takes place. And we understand that the metal cost has slightly gone up. But this is a natural activity, which happens whenever you start a start with the production of new products. So initially, the cost of production is slightly higher. However, as you know, the auto sector and you must be already looking at it, this activity, this is followed by various saving initiatives, which are taken by the company in terms of reducing metal cost. Through various activities like, we have localization efforts going on, keep going on and through the various negotiation activity which we have.
- So there may be an upward movement in the metal cost, however, we are making our best efforts to contain the other cost elements, especially fixed cost. And I hope that these actions will continue to support us in terms of maintaining our overall operating and EBITDA margins. But you're right, there has to be an impact. But just to clarify one point, so that there is no confusion. We have proper back-to-back arrangements with all of our customers. So all RM index movements, which happen are back-to-back to compensated by our customer. And this is true for both upward and the downward movement, and we have settlement rules, which, thereby, on a quarterly or half yearly basis, these prices are settled.
- Aman Agarwal:** So once this, so it happens with a lag of a quarter or half yearly depending on the client side, the raw material side?
- Rajiv Chanana:** I think this is the lag will be slightly higher also. But yes, if this gets compensated and whatever maybe the lag half year, this is true for both upside and downside. So then we look at an average kind of a thing over a long period of time, it's even good for us.
- Aman Agarwal:** And sir, just focusing on the EBITDA margins, like before COVID, like during 2018, 2019 levels, we did around 14% of EBITDA margin. And given with a 10% EBITDA margin during this quarter and once the gross margins recover, should we be touching that kind of 14%, 15% kind of EBITDA margins when we start getting the PV sector volumes as well as the benefits from the cost reduction initiatives we have taken over the last year or so? Any indicative side on that?
- Rajiv Chanana:** The last three years' time, the margins have been below 10%. So it's not that only for our company, it's an industry phenomena that these are the kind of an EBITDA margin with which



the industry is working. There may be certain industries who may have some products, which are proprietary and where we may have a higher margin. But if you look at on a competitive basis, these are very good margins. So where you have to focus is that how you improve these margins plus how you are able to increase your business, either by having a better share of eaters or by introducing, by improving your product portfolio.

I think our efforts have been in all these directions. We have been trying to increase our share of business by winning new business. We are increasing our portfolio we should be, the CVJ, which we have just explained to you. So that has been a good initiative taken by the company. It has taken two years time to deliver this performance. And then the other areas, which means that cost reduction, either directly or by looking at various elements, of course, or through rationalization activity. So two things which we have done in the last one year, 1.5 years is that one is that we have carried out the huge manufacturing rationalization activity.

You may be aware that we had one unit in Sanand, Gujarat, which was not doing well because of the lower level of sales volumes there. We have shifted all the production facilities of that unit to other units, which are located at Chennai and in Gurgaon. And that has actually helped us not only in the -- not only bringing more efficiency in our manufacturing operations, but plus also we have been able to reduce the costs which are associated in maintaining a single unit. So these actions have been continuing on a continuous basis for us.

And then lastly, which we just Mogi explained you in his inaugural speech is about amalgamation activity. So we are very sure that some amalgamation will help us in a big manner. Two reasons for that. One is that both the companies are part of the same value chain, which is CPS manufacturing. You may be aware that [inaudible 0:29:12] is our subsidiary company, the entire production of this company is used for captive consumption. So once we are able to bring both the entities into one segment, we will be -- we'll have new opportunities for further rationalization.

And also, you know that cost of maintaining a separate company in terms of how many legal compliances, one has to do. So we are sure that we will be able to leverage on these costs areas of improvement. Plus, you also looking at my results on a standalone basis and on a consolidated basis, you will be looking at the numbers, improved by approximately 2% in our consolidated financials. So the H1 financials, which have been published just now, you will see that on a standalone basis, while EBITDA margins will be around 8% on a consolidated basis, it improved to 10%.

So this is something which is natural, once the two companies get merged, plus there will be huge opportunities for us in terms of cost savings, which we can bring through rationalization of manufacturing plus cost reduction. So these are the various things, and management is fully devoted and fully, I mean completely involved into bringing more and more actions into the company so as to reduce costs as well as improve profitability margins through expansion and new product introduction. Having said that, it's a very competitive market. And we are better than possibly when we compare ourselves with few other entities operating in the auto

component sector. But yes, this stress will continue to be there. And we'll try to overcome it through our management actions.

**Aman Agarwal:** And just a follow-up on that, sir, sir, when we say that the industry is competitive, but if we see there are mainly two, three major players in the industry like even with our largest customer, we and one other player present and also Hyundai and KIA is out there, majorly one or two players. So, ideally even globally also this industry is concentrated. So ideally like in terms of quoting for a new project, what kind of ROC or ROE to be factored in internally like to quote pricing for our projects, sir? If you can touch upon that sir, in terms of return on capital?

**Rajiv Chanana:** I mean maybe you may find that the industry is concentrated, but there are in the whole world is open. They have been imposed, which we have seen taking place. And with new players who have entered the market, they are still relying on imports rather than setting up the facilities in India, component suppliers based in India. So it's not that just because there are, you look at two players, but don't ignore Mando which is supplying to the second largest OEM in India. So there are many such risks, which are there, and the market is quite competitive as far as we understand it from our side.

So having said that, we should be targeting a very high profit margins, yes, but we try to improve it through various other activities like, as I just told you, through rationalization, cost reductions and improving our product line. But to answer your question as to what margin we should be looking at for our new negotiations, it's very difficult to say. It depends a lot of other factors also the market conditions, how the competitors are behaving, etcetera. So I think we would like to concentrate on our efforts and try to convince our investors based on our initiatives, which the management has taken other than telling us how we are going to face competition in terms of prices.

**Moderator:** Sorry to interrupt, sir. I request you to kindly get back in the question queue for further questions.

**Aman Agrawal:** Yes. Just a follow-up, sir, so what kind of IRR we look in terms of this new project -- new product pricing, sir? If you can touch upon that? And I'll get back in the queue for the...

**Rajiv Chanana:** Having said that we will not like to answer this question. I'm so sorry for that. We will try to answer questions on how we are trying to improve our margins rather than how we are going to enter into a negotiation for EBITDA target profit margin. I think that will not be a good answer from our side, at this point. It actually depends on the market condition at any point of time.

**Moderator:** The next question is from the line of Aditya Shah from HDFC Securities.

**Aditya Shah:** I wanted to know what is our market share within Maruti?

**Rajiv Chanana:** So it should be around 50%. I think we continue to be around that level.

**Aditya Shah:** And when you say you're supplying to the Brezza or the Hybrid -- the Toyota Hybrid, so will you be single source at least for the -- for one model, will you be single source or there are multiple vendors for one model as well?

- Rajiv Chanana:** So it actually becomes a complex thing because in certain cases, we may be supplying [CFS 0:34:37] and MS gear both. But in certain cases, we may be supplying one of the part of the steering system.
- Aditya Shah:** Okay. And second, just in terms of competition, what we believe is that this [Rane NSW 0:34:50] there prior recall expenses are now largely behind them. So are you seeing the competition increase, particularly because now obviously, Maruti will be more open to giving others also the order?
- Rajiv Chanana:** It has been almost like that. I don't think Maruti Suzuki. We don't want to comment on OEMs because this is investor call for JTEKT. But yes, having said that, we just want to say that Maruti Suzuki is an excellent market player. They have the largest market share in India. And if the fall a dual-supply policy, we respect that because that's something which provides them safety in terms of their -- I think we -- as you rightly said, Rane say some issues, but we don't want to comment on that.
- But yes, we are okay with the current setup with which we are working. And we'll try our level to improve the quality of our products make us more cost competitive through efforts like the one activity, which you are doing amalgamation and this activity, which will help us to become more competitive in the market. That's whole our target. And I think we will always try to improve our market -- our share of business in Maruti Suzuki.
- Aditya Shah:** Sir, last thing at 50% is a good enough market share level from, right? Or do you -- because if you are so more than this than it sometimes on the cost of margins? It's normally 3%...
- Rajiv Chanana:** No, I will not say that, I will not say that because every negotiation is a separate negotiation. It's not that because if I got a 90% share my margins and reduce, it's not like that. So we'll continue to have trying from our size to win more business with Maruti Suzuki. They are the leaders in the industry. And we have seen each of their product has done well in the market. whether it's a small A segment or a B segment car, which we are very optimistic about their products, and we'll try our level side to increase our business with them.
- Moderator:** The next question is from the line of Jatin from RTL Investments.
- Jatin:** Given that we are doing a call after a big gap, I just wanted to -- the question is a little bit more pertaining to what's happened in the last few years. So when I look at it, post-capex kind of taking control, we had revenues which were stagnant for our company, whereas here for competition like NSK and Mando they were growing significantly. It seemed as if we were losing share. But now in the last few quarters, is again, from the outside at least, it looks like you're starting to win back some shares. So just wanted to get some perspective on that as to what's really happened in the last few years?
- Rajiv Chanana:** There's no changes. Yes, I can't say that the management philosophy or management steadily has changed. Kia always worked towards delivering better products at a better quality. I don't

think we have any special thing to mention here that why we have performed better in the current two quarters, and we have been trying for it for a long time, and we have been successful.

**Jatin:** Sir, just back calculating that because in your annual report, you give your the contribution of revenues that come from Maruti as part of your related party transactions. So just back calculating the number from non-Maruti revenues, it seems you had a three, four year period where that number went down significantly from almost like INR 600 crore revenue to INR 320 crores, INR 330 crores, and it's now starting to come back to INR 550 crores, INR 600 crores. So just wanted to understand what, on the non-Maruti side, what was happening with respect to the share of business or this was just -- basically, those customers are not doing well and customers like Mahindra and Tata now starting to do well?

**A. D. Rao** This is A.D Rao. I just want to inform you that in all kind of business, the time to win a business from the time to in a business and then start generating revenues, there is almost a period of two to three years. And then, of course, as we said, I mean, there is a significant improvement in our revenues recently.

And this is the result of various efforts that we have put in previous years by and which has resulted into winning more businesses, and that is showing results now. And it is a cycle really on cycle. I mean -- so -- and we have won several businesses in the recent compared to what our competitor is doing. And with that, we are hopeful that we will continue to maintain our market share of business in the market, which was a target. And we'll continue to work in that direction. And it's an ongoing effort to normal. So just -- I mean, it's not a result of last three quarters, which the result you should not get it on sudden increase in some customers things.

**Jatin:** One other question is -- now it seems Maruti and Toyota are clearly working not closely together, and JTEKT being Toyota Group company, is there any benefit that we derive out of that?

**Rajiv Chanana:** So yes, we are good companies. So Mr. Okazaki will reply.

**Kenji Okazaki** Okazaki this side. There is a benefit. Of course, it's not 100 to guarantee, but some under model, even it is a joint project, Toyota and Maruti, some digital, advanced digital in Japan, mostly for the Toyota motor in Japan. In that case, we can coordinate or discuss in detail. So those discussions comes later stage handed over to Indian side, there will be a benefit advantage.

**Jatin:** But in that -- with that comment, I was kind of slightly surprised that with the Toyota Hyryder or Maruti Grand Vitara because that's a Toyota model not a Maruti model. We don't have like 100% share of business there?

**Rajiv Chanana:** Yes. But we continue to have that business. So we are supplying part of the saving system. I mean, look, this thing will continue for some time. I think it's not bad. We don't look it as a bad thing that we have a share of business in certain products. We are okay with that. Like there if we have 50% share of the Maruti Suzuki. So we are happy for that. I mean we are not saying that that's a bad situation for us.

- Jatin:** Just one last question. Any – you’ve recently introduced this new product, the Constant-Velocity Joints -- any more products in the JTEKT whole ecosystem, which can be introduced to the Indian market?
- Rajiv Chanana:** So we like to stabilize this technology. We have just now introduced. It takes some time for us to introduce and stabilize that particular product. And we do have some sizable level of production. I think maybe then we can always look at other options, other products, which our JTEKT operation, Japan is manufacturing worldwide. But it will take some time. At this point of time, we are not at that advanced stage that we can start disclosing. In any case, we have norms to first disclose to stock exchanges if we have such thing coming into the -- into our portfolio. So we’ll keep you informed. As soon as we have any information, we’ll be reporting to stock exchange.
- Moderator:** The next question is from the line of Dhruv Bhatia from Bank of India Investment Managers.
- Dhruv Bhatia:** Sir, my first question was on CVJ's side. Obviously, you started the plant in September. And as for the presentation, it's a very miniscule revenue this quarter, but in the second half of the year, are we expecting a meaningful ramp up? Will it be a gradual ramp up in this business?
- Rajiv Chanana:** So as we told you that there is a capacity, which we'd like to exhaust. But having said that, yes, there are certain models where we keep getting our share of business. So it may not be a very immediate ramp up, yes, but this will continue to grow. I think maybe, as we move along, you will see improvement in these numbers.
- Dhruv Bhatia:** And sir, is there a breakeven level that minimum X percentage utilization will reach to a breakeven level for this plant?
- Rajiv Chanana:** Frankly, our breakeven comes at around 75% level, between 60% to 75% level of declination.
- Dhruv Bhatia:** So at that level at EBITDA level, you will be neutral?
- Rajiv Chanana:** PBT levels. On expenses including interest if there is no, there is not a very huge -- the good part about this project is that this is mostly funded out of internal accrual. If you look at my borrowings, it has not gone up from last year's level to the current tail level, it's a very, very small increase, which means our interest cost has not gone up. So effectively, you can see it's EBITDA. Yes.
- Dhruv Bhatia:** Sir, the second question was on the margin. Obviously, this quarter, you reported a very healthy number. But just to understand the part where gross margins have taken a slight hit, and my understanding would be as you mentioned that CVJ would have also led to that. But as commodity prices are easing off and the other costs being under control, logically, you should be able to maintain or improve on the numbers reported this quarter? Is that the fair understanding?
- Rajiv Chanana:** So like I'm going to say my EBITDA margins have improved.

- Dhruv Bhatia:** No, I'm saying, sir, are these numbers sustainable or can expand further? Because you've seen elevated RM costs this quarter because of probably new products and older raw material. And as commodity prices are easing off, so logically, your EBITDA margin should either be similar going forward or should only improve?
- Rajiv Chanana:** I hope your understanding is correct. You're right. Whenever we have a stability, it actually led to improve margins for the company. Thus, we are hoping that certain other actions like manufacturing rationalization, which I keep telling you. But once we are done with our amalgamation activity, and I think all these actions, which company has initiated beyond whatever will be happening in the market in terms of commodity pricing stabilization, etcetera. That will also support us in improving our margins over the next one, two years. Yes.
- Dhruv Bhatia:** Understood. Sir, when the amalgamation, what is the time line for this to get concluded?
- Rajiv Chanana:** So it's a long process, as you know. So our -- there has been no complaints from the public when this was put for public opinion. And based on that, both BSE and NSE given there are no objection to SEBI and we are now waiting for SEBI approval. Once that is received, we will immediately move to court, which is NCLT our target is this year that we want to conclude this by 31st March 23, so that when we will be finalizing our financials for '22, '23, we should be able to present merged financials to our investors. Having said that, the NCLT is currently burdened with a lot of IB cases, but we'll try our level best.
- Dhruv Bhatia:** So the other is that last year for you as per your annual report, Maruti contributed about 73% of revenue share. This -- you mentioned Maruti first half was 60% so I'm not able to build that gap. So as Maruti grown slower than the 48% growth that you have reported in first half and hence, the mix has come down? Or could you just reconcile that for me, please?
- Rajiv Chanana:** This is actually our mix of sales. So it has got nothing to do. It doesn't mean that the Maruti share sales to Maruti has come down. It doesn't mean like that. It's only say that there is share of business of other customers has gone up. So when I'm calculating percentage, I have to consider increase in sales of Toyota, Tata and all other -- and CVG also.
- Dhruv Bhatia:** Sir, the last question is about the capex plan?
- Rajiv Chanana:** What did you say?
- Dhruv Bhatia:** I was saying the capex just for FY '23, '24, if you could just call that out, please?
- Rajiv Chanana:** So like the last year capex was primarily towards CVG expansion, and then we had some new product development and manufacturing rationalization activity, as I was telling you. So total spend was about INR 1298 million, about INR 129 crores. This year, again, our capex is likely to be above INR 100 crores because we have certain areas where will be spanning money. One is that our backward integration plant, which is a pressurized casting plant, PDC plant, we are buying additional 850-ton machines there. So there will be that investment, plus we will be --

there will be more spend towards our new product development activity. So our spend may be above INR 100 crores even this year.

**Moderator:** The next question is from the line of Jyoti Singh from Arihant Capital Markets Limited...

**Jyoti Singh:** Sir, my question is on the revenue mix side. So currently, we are contributing around 96% domestic and 4% exports. So do we have any plan going forward that we will increase exports revenue going forward?

**Rajiv Chanana:** Yes, yes. So our efforts have been on there have been a few businesses which we launched in the last one or two years. you are aware is that we have been talking about it. There was an alternate vendor, which was selected by our customers from China. So -- and that was one of the reasons why it slightly came down from our regional level of around 7% to 8%. However, our exports to US are quite stable now and they are gradually increasing, and we will be exploring options to in the medium to long term.

We start supplying over overseas entities. However, there are two things which I would like our investors to know. One is that there has been a slowdown worldwide and there have been surplus capacities available. So that actually restrict supplies to group entities. That's one. Second, which is our most important thing, which we continue to debate at our end is that whenever we start exporting to overseas entities, we need to manage our supplies without disruption.

So which means the main condition is that we must have a very strong and stable supply chain in our company. And we have seen the last two years the kind of a disruption, which everybody has faced, not only us, but which means that -- so what we are now doing and working is that we hope that we are over a period of time, we are able to establish a very very stable supply chain. I think that will be the right time to go and ask for additional business from entities worldwide. It's difficult to estimate any future target number, but we have been trying and we continue to try to first establish a strong supply chain within India and then of a bid for new business overseas.

**Jyoti Singh:** And sir, any growth number we are targeting going forward?

**Rajiv Chanana:** I think Maruti Suzuki is the right person to answer this question. We are -- yes, even how we will improve our growth numbers by improving our share with the advertising existing OEMs. We are trying for that by bringing new business by introducing new products. So our efforts are on in all these directions. But having said that, we will -- are still dependent on the overall auto sector growth.

The numbers are good and encouraging whatever data we get from external agencies, CM, et cetera, those numbers are very encouraging, at least for the second half of this financial year. There are still backlogs. More than 6 lakh vehicles are still required in the market to be planning to be delivered. So all these signals are good for the time being. We don't know about the future because future will depend on a lot many other things. They have a prediction that GDP may slightly go down next year.

But whatever we are very optimistic that the auto sector growth now has rebound and it will continue for next few years. The slump which it has faced, I think auto sector faced for almost three years or even before that, we hope that, that trend will not come sooner, hope we wish for that. And we hope that for the next two to three years, we'll have a good growth numbers as per the market rate.

**Jyoti Singh:** This is my last question. So like what we are doing and what kind of strategy we are adopting to accelerate our growth?

**Rajiv Chanana:** So there are two things. The other two or three things, which are we are working at as to how we can improve our profitability. I've already spoken about the sales things, maybe two or three times, so I will not repeat that. However, as far as we are looking at how we can improve our profitability. So one area will be manufacturing rationalization. I just suppose explain you about our Sanand relocation facility. I've already spoken to you about amalgamation effort.

So this is one direction in which company is working. The second will be definitely how we can increase our product offering. So we are actively in touch with many, many OEMs and where we are through the tax shows, et cetera, we are in touch with them to show our product line, including the new CV Day, which has been delivered very efficiently, a very good quality product, which we have introduced now. And the third will be how we are able to reduce our costs.

So as I explained you about the manpower, we have through the rationalization, digitization of manual and routine activities, productive improvement, we have been trying to control these costs. And there has been a very strict control on the administration expenses. So these are the various efforts which we have been doing to improve profitability margin. And we hope that if sales continue to favour us for the next few quarters, we will be able to demonstrate even better profitability.

**Rajiv Chanana:** I think we can have one last question. I think time is over.

**Moderator:** We'll take one last question, sir. It's from the line of Akshat Hariya from Multi-Act PMS.

**Akshat Hariya:** Sir, one bookkeeping question. What would be the tooling revenue that we've received during the quarter and for the first half of this year?

**Rajiv Chanana:** So I think total revenue -- tooling revenue was approximately 120 million or so.

**Akshat Hariya:** And sir, in the annual report, we have discussed about LCV segment. So when would that start contributing and what could be the potential revenue that we are expecting from LCV?

**A.D. Rao:** So this is A.D. Rao. So LCV whatever projects that we have won, some of them are already gone into production and some are in development stage. Mainly, these are in Mahindra vehicles in the Tata Ace because the numbers, I mean, difficult to say at this moment. I mean...



- Rajiv Chanana:** Including Maruti Super Carry, Tata Ace, Mahindra, Maximo, I think these are the few borders where we are well, well there. We are also supplying column for Tata World Truck. So these are the few things where we are present. We'll try to improve our share. But currently, this is around 3% or so, 2% to 3%.
- Akshat Hariya:** And just to be clear, sir, this is all new business, right?
- Management:** The new pace lives new orders, Model change in...
- Rajiv Chanana:** Combination of that.
- Akshat Hariya:** So for JTEKT, we were not present in LCV area, right? This is a new segment for us also...
- Rajiv Chanana:** You're right. We are improving...
- A.D. Rao:** The except one product, which is a World Truck we are supplying a [inaudible 0:57:37]
- Akshat Hariya:** Thank you, sir, and thank you for holding the call after two years, and I hope you will continue to hold your calls so that we can have a chance to interact with you.
- Rajiv Chanana:** Thanks for you, right? We wish to continue to do that. Maybe if we are a regular on a quarterly basis, at least we'll try to conduct it every half year.
- Moderator:** Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to the management for closing comments.
- Rajiv Chanana:** So we are grateful for the participation I was told that there were more than 50 participants. And we are really grateful and Mr. Hitoshi Mogi, will give the final comment. Thank you so much.
- Hitoshi Mogi:** Okay. Thank you very much. I'm really happy to hear the very different kind of questions. Maybe I will try to answer as much as possible. And anyway, we are going forward, and we are try to best effort for expanding our business as well as appropriate. And I really appreciate for today's participation. Thank you very much.
- Moderator:** Thank you. On behalf of Axis Capital Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines.