



“JTEKT India Limited
Q4 & FY '23-'24 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Q4 and FY 2023-24 Earnings Conference Call of JTEKT India 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 the management of JTEKT India Limited. Thank you and over to you.

Rajiv Chanana: Good afternoon everyone. Let me introduce the team members present from JTEKT side. My name is Rajiv Chanana. I am Director and CFO at this company. Mr. Hitoshi Mogi will be giving the inaugural remarks. He is the Chairman and Managing Director and we also have with us Mr. Minoru Sugisawa, he is a Whole-Time Director. Mr. Yasuaki Doi, he is the Head of MD Office. Mr. Terumitsu Kuwana, he is the Department Head of Sales and Marketing. Mr. A.D. Rao, he is the Advisor, Design and Development and PE Department and Mr. Shyam Sundar, he is the Deputy Department Head in Sales and Marketing. I hand over the call to Mr. Hitoshi Mogi for the inaugural remarks.

Hitoshi Mogi: Good Afternoon everyone and welcome to the JTEKT India Limited quarterly earnings call. I would like to thank, all participants for joining this call and the organizers.

India's GDP growth rate for the fiscal year 2023-24 recently came in at a better than expected level of 8.2%. RBI at its recent Monetary Policy announcement raised the GDP growth forecast for FY25 to 7.2 per cent from 7 per cent earlier. The central bank retained the FY25 inflation forecast at 4.5 per cent. Sustained price stability would set strong foundations for a period of high growth.

According to ICRA, supporting underlying factors such as rising per capita incomes, demographic profile, low vehicle penetration, and favourable policy environment, including infrastructure development are expected to help in the growth of Auto sector demand at a steady pace. ICRA has projected a CAGR of around 6-9 percent across the automotive segments over the medium to long term.

We have been closely watching the growth trends and the announcements for capacity expansion made by our OEMs including our largest customer – Maruti Suzuki. During my last interaction with you, I informed you that the Company will soon announce expansion of its production capacity. I hope our investors have read the recent announcements made by the Company at Stock Exchange for capacity expansion. We announced in Dec'23 and Feb 24 for setting up 2 additional lines for MS Gear, thereby increasing the capacity by 8 lac units. In Feb'24, we also announced doubling the CVJ capacity by 4 lac units.

Now I would like to discuss with you the company's financial results.

The financial results for Q4 FY 24 are now available with you. In Q4 FY 24, JTEKT India achieved the highest ever sale of 6321 million which was 19% higher than the sales achieved in the corresponding quarter last year. For the FY 2023-24, JTEKT India achieved the highest ever sale of 22,455 million which was 10% higher than the sales achieved in the previous year. The growth of 10% in sales was better compared to PV Segment Market growth of 7%.

The Company has achieved consistent increase in its EBIDTA margins. EBIDTA margin touched 11% in Q4 of FY 24 compared to 9.4% achieved in corresponding quarter. For the full year EBIDTA touched a level of 9.5% in FY 24 compared to 9.1% in FY 23. An improvement of more than 0.4% shows management efforts to improve margins and control fixed costs.

Lastly I would also like to inform that Hon'ble National Company Law Tribunal, New Delhi vide its Order dated 12th December, 2023 approved the 'Scheme of Amalgamation' of JTEKT Fuji Kiko Automotive India Limited with JTEKT India Limited. The said Order of NCLT was filed with the Office of the Registrar of companies on 1st January, 2024. Since both the Companies are part of the same value chain involving production of CEPS (Electric Power Steering), hence there exists a natural synergy. The merger has opened up several opportunities towards production and cost rationalization to enhance our competitiveness in the market.

With this, I would like to thank you for your participation and open the conference for questions.

Moderator:

Thank you very much. We will now begin the question and answer session. Our first question is from the line of Manoj Bahety from Carnelian. Please go ahead.

Manoj Bahety:

First of all, congratulations for a good set of numbers. So I have three questions. First one is if you can help us understand the write-off which we have done during the quarter towards some adjustment in the receivables, what exactly the nature of that, was it a fraud, whether the money has been taken out by someone. So that is my first question. If you can help us understand the details of the transaction and also to which year that original transaction belonged to. Was it like prior to the change in hands in the company or the recent one?

Rajiv Chanana:

Understood. So I think these let me explain the nature of these transactions. So these were unidentified reconciliation entries and these were pending in our receivable accounts. These entries actually pertain to deductions which were made by OEM from invoice value due to change in sale price, but not accounted by us in the past period.

And these entries as you asked are pertaining to a very old period, more than 5 years old backward of 2019, backward from 2011 onwards. So very old entries which were lying as unreconciled balances in our books. So during the current year we discussed with our stat auditors and we thought that we need to clean it up because we were not able to trace this entry the rational for these entries.

So based on our discussion with stat auditors we hired an external agency is a K G Somani & Company, is a very renowned firm of Chartered Accountants and we carried out a detailed forensic audit. The purpose was to establish the nature of such entries as well as the exact value of these transactions. So the total value of 77 million was charged to profit and loss account in

the current financial year March 2024 we charged all these amounts. And we have accordingly reported this matter to audit committee which in turn has reported the matter to stat auditors.

Our stat auditors will now review the report as well as the observations of the audit committee and will decide if any further step is required. As decided in consultation with our stat auditors since the amount of 77 million, INR7.7 crores is not material considering the PBT of INR145 crores for the year, no adjustment of the past period financial has been done. If you know that accounting standards require that if there is a past period error which this must be accounted for in the past period unless these are considered immaterial.

So these differences were not considered material hence there has not been any past period adjustment. The entire amount has been taken as a bad debt in our current financial year. So management has also taken necessary steps to ensure that no such similar error exists and that was the whole purpose of involving independent agency K G Somani & Co. We could have done this exercise on our own, but in consultation with auditors and audit committee we decided let there be a professional independent firm doing this analysis and then let there be a formal report to ensure that there is no further hit or no further entries which are pending.

So we have received recommendations also from K G Somani & Company to establish additional internal financial controls. In turn, auditors of the company now will be supervising the implementation of these internal controls to avoid any recurrence of such errors in future.

So two things one, this pertains to the very past period, these are unreconciled adjustment entries, have been completely verified by an external agency, the complete hit has been taken, the amount is immaterial and therefore no past period adjustment has been done. And we have closed the entries in the current financial year.

Manoj Bahety:

Great, great. Thank you so much. It is helpful, Rajivji. Thank you for the clarification. Just one related question to this. If I adjust for this INR7.7 crores, our EBITDA for the quarter is upward of 12%. So, can you also attribute the reason for such a meaningful jump in EBITDA margin and how do you think on the sustainability of these margins?

Rajiv Chanana:

Yes, thank you so much. So if we look at the profit margins, I think Mogi San has already covered that the company has achieved consistent increase in EBITDA. It touched 11% in quarter 4, even after taking this exceptional hit of INR7.7 crores. And this is very high compared to 9.4%, which we achieved in the corresponding quarter of the last year. I think full year are the more relevant numbers where we touched EBITDA of 9.5 compared to 9.1 in 2023, 0.4% improvement. This actually shows efforts of the management to improve margins and control fixed costs.

These are sustainable. Why? Because the increase has happened through several factors, including the merger, which has just been completed. So benefits of merger have already started pouring in and we expect that these can only further improve. If we look at improvement areas, I think you must have seen our financial results and maybe I may explain a bit about that. You know, whenever a new business is won based on competitive bidding, initial period, the cost of production, mainly material cost is slightly high.

This is followed by various initiatives which are taken by the company for reducing the material cost through VAV, localization and negotiations. While we have seen an upward movement in material cost in the current financial year, however, we have made our best effort to contain other cost elements, especially fixed costs. Just for the information of the investors, in the area of employee cost, the company has taken several initiatives involving rationalization, the digitization of manual and routine activities and productivity improvement.

This has actually helped us to reduce the employee manpower cost. If you look at the current manpower cost, it touched a level of 10.1%, which was as high as 13.4% in 2019-20. Along with that you must have seen there is complete control on the administrative expenses.

So over the mid-term period certain initiatives which are being taken by the company, we are very sure that this will help us to improve margins further, better price negotiations with customers for the new orders, expansion of exports, localization of certain critical components for our new product, CBG. I think there are many, many activities which are in the pipeline and progressing successfully. And we are very sure that we are able to retain this margin in the future periods as well.

Manoj Bahety:

Thank you. Thanks for the clarification of this, Rajivji. And great to hear on the margins part that the initiative of the companies are working. So my second question is on the capex, which you have done both on the CBG side as well as on the CPS. Just wanted to understand that with the current round of capex, what is the potential revenue possible once that capex gets over? And what is the timeline of this capex? And after that, I have one last question if I may ask.

Rajiv Chanana:

Okay, I think it's a relevant question. So, we will like to answer the question. If we look at the financial year '24, which you have just completed, we incurred a total capital expenditure of 1,700 million.

And this included setting up one additional PDC machine, pressure die casting machine of 850 tons. This thing we have, we are increasing our die casting capacity. We have, apart from that the new product development, which are happening, it accounted about 270 million of capital expenditure.

We had capacity expansion for certain child parts of the CPS, warm shop, warm housing, intermediate shop, accounting for about 270 million. One additional activity, which was a different type of activity is that replacing our diesel generator set with PNG. Environment point of view, yes.

And because they have been several environment regulations, which were troubling us. So, we have replaced all of our diesel generators with PNG generators, cost us about 85 million. Design and protocol, which is continuously spending money every year to improve our technical capability, 44 million was spent.

And then maintenance capex, like procurement of dies, etcetera, that was about 460 million. And MS-Gear, which we reported last time, the new line, which is under setting up, we spent about 124 million. So, this was, as if you will understand from my explanation, is that most of the money is going into future capacity building.

So, that's where the most of the money has gone. So, at present we are working on the third CPS line, whereby we will be increasing our capacity from 10 lakh units to about 15 lakh units. And we are working on the sixth manual gear line, which will increase our capacity from 23 lakhs to about 27.5 lakhs, around 4.5 lakhs more. The capital expenditure on this will be upward of around 1,200 million. So, this is one major capital expenditure, which we are planning in the current financial year. You must have seen our stock exchange reporting in December '23 and February '24, setting up two new MS-Gear lines.

And also, February 24, we announced setting up one more CVJ line. There will be some capital expenditures, which we'll start doing in the current financial year, but it may flow to the next financial year as well. Coming to the how we are going to fund this capital expenditure, the cash generation for the current financial year was about 1,870 million.

And this was sufficient to meet our capital expenditure requirement of 1,700 million, plus dividend payout of 179 million. There was a small increase in borrowings, about 500 million, and that was mainly towards funding our working capital due to increase in business. We have a corporate guarantee from our parent company available, JTEKT Corporation Japan.

And therefore, the company has got an access to very low cost funding for our future capital expansion. So, we are gearing up, and there will be additional capacity expansion, which will keep on happening. And we'll keep on reporting at our regular investor call, as well as stock exchange reporting. If you have any other specific questions, you can ask me.

Manoj Bahety:

Yes, one last question, Rajivji. If you can also touch up on how you are seeing the exports, you are also notified to the exchange about one export order win. So, how the export trajectory is likely to be completed over the next two, three years and as well as any chances of any new product introduction from your current bucket to India, any talks are happening in that direction?

Rajiv Chanana:

So, on the exports I think at our last investor call, we reported that our discussions with our group entity in Brazil are in final stages. And we hope you have noticed our stock exchange reporting on 11 December 2023 about receipt of final purchase order from JTEKT Brazil for supply of steering components. JTEKT Brazil is a group entity of JTEKT Corporation Japan and which is our holding company. So, the total at the start the volume will be around 1.14 lakh units.

And this will get us an additional sales value of 450 million. Total value of the order actually depends on the final customer demand. However, as per our current estimate this will be in excess of 1,800 million. This will be our first success in our efforts that we have been making for the last two years. So, we are very happy to announce that. SOP of this business is sometime in 2025-26. After this SOP the percentage of our export sales will increase from our current 4% to about 6%. And another thing the effort which we are doing in respect of increasing our exports is our customers in US they are very stable and there has been a gradual increase. There are two main customers in US, which is E-Z-GO and Club Car.

Just to quote you a few numbers in respect of E-Z-GO, where we export rack and pinion, manual gear and column assembly the total value of export was 561 million in 2023-24, which when we

compare with the total value of 475 million last year it shows a growth of 18%. Similarly, for Club Car, where we supply steering gear the total value of export was 274 million compared to 230 million in the previous year showing an increase of 19%.

So, we are very aggressive with our existing customers as well as we are trying to find out more opportunities for exporting. We are working with E-Z-GO for their new model also. It's a Liberty Gold Cart model. SOP is in the current month and this will give us additional volume of small 10 million. But yes, we are continuing with these entities to develop more models for export purpose. So, we are looking at it as this is first opportunity which has crystallized. We'll keep looking at export of components, export of steering gear in future as well. And we'll keep on reporting that to you.

Manoj Bahety: And on new product introduction?

Rajiv Chanana: Yes, so we need to wait we need to stabilize things in India. There are opportunities available. I will not shy away to say that there are more opportunities are not available. There are opportunities available for bringing in more products. There are opportunities available for exports of components. Many opportunities are available. We'll keep sharing that. At this point of time, we do not have anything to share because that's not in the public domain. So, we can't share at this point of time. But yes, we just can say there are opportunities available.

Manoj Bahety: Thank you so much, Rajiv.

Rajiv Chanana: Thank you, Manoj. Thank you so much.

Moderator: Thank you. Our next question is from the line of Tushar from Peace Wealth. Please go ahead.

Tushar: Okay. Thank you for the opportunity, sir. My first question is, what is the revenue mix that we have from different OEMs as of Q4? And then how can this number look like, say, two years out if we consider the current pipeline of vehicles that are coming in from different OEMs, be it Toyota or Renault-Nissan group, and as well as Honda export side? So just to understand some color on that. So, that is my first question.

Rajiv Chanana: So just to give you the breakup for the financial year 2024, Maruti Suzuki is 54%, Toyota is 12%, Honda is 8%, Mahindra & Mahindra 9%, Renault is 3%, Tata 2%, exports 4%, and the rest is aftermarket and other small products. So, going forward, I think, as I said, export, we expect to increase from 4% to 6%.

We are working with several new models of Maruti and Honda, and we expect that that business will increase, but we do not expect a major kind of a shift in our share of business of the different OEMs. We are working with almost all the OEMs for their new developments, and we hope that the share of business may be a little bit changed, but not significantly.

Tushar: And, sir, like we get almost 100% business of Toyota, 90% of Honda, if I recall this number correctly. So, what is that number for Renault right now?

- Rajiv Chanana:** Renault-Nissan is less, that's not, if you look at the total figures, it's split between Mondo and us. So, that's not 100% with us.
- Tushar:** And, sir, what is the current utilization of all three segments, which is CEPS, MS Gear, and CVJ at present?
- Rajiv Chanana:** Current utilization on a push-up basis for both MS Gear and CPES is upward of 90%.
- Tushar:** At present, you're saying, right?
- Rajiv Chanana:** We are, therefore, we are expanding. We will have, we have already planned our new CPES line as well as new MS Gear line, and the activities are in progress.
- Tushar:** And one last question, sir. So, under driveline, we had introduced CVJ. So, I just wanted to understand from JTEKT Corp side, so, how many products that we have under driveline for JTEKT Corp? I'm not asking you what we can add from there, but just to understand how big this business is from the driveline perspective?
- Rajiv Chanana:** So, I can give you the numbers, some numbers on the CVJ, but I will not be able to share the total. Like steering, we got a complete system, which we are supplying to our OEMs. Driveline, we are supplying certain products of the driveline combination, but we are not supplying driveline as a system at this point of time.
- There are other products also which form part of driveline, which we are not manufacturing. Coming to CVJ, if you look at, I think these will be some good numbers, which I would like to share with you. The current value of CVJ supplied in a set, there's two units, which are supplied as one set for one particular car, and the current price is around 5,600, which we are supplying. And there is a possibility, as we have improved technology, the price can go up to 7,500 also.
- So, when you look at that, when you try to compare content per car, if we look at CPS, which we are supplying, and we take some kind of an average number for that, though the value will change model-to-model, we take it 12,000 as a number and we take CVJ as 6,000 as an average number, which means that we are going to increase content per car by as much as 50%.
- So it's a major change which has happened and it has opened up a big opportunity for us. There is a competition involved, but the way we have started, we are just about 5% of the market at our current capacity and we will, like, as we'll be doubling our capacity, we have aspirations to increase this business, because this will help us to improve content per car in a big way.
- So these are the activities which we are doing and we'll keep sharing with you. Other than that, there are products available in the driveline segment. We are not a supplier of a complete system of driveline. Yes, we agree with that. But as we will have more opportunities open up for the Indian market, we'll keep reporting that to you.
- Tushar:** Okay. And if I may just squeeze in one more question, sir. Can you, can you please, is it possible for you to name all the models that we are serving to for all the OEMs, major ones?
- Rajiv Chanana:** You mean to say Maruti Suzuki? How many, for how many models we are supplying?

- Tushar:** Yes. Which models for Maruti and Mahindra and Mahindra, like that.
- Rajiv Chanana:** That's a huge list, my dear. Can you call me separately? For example, if I start counting all the waters, it will be like.
- Tushar:** I'll write your IR team. I really appreciate that. Thank you so much and all the best.
- Rajiv Chanana:** Term and tools balance sheet actually.
- Tushar:** Okay, sir. Thank you. Thank you so much. Thank you for the clarity.
- Moderator:** Thank you. As there are no further questions, I would now like to hand the conference over to the management of JTEKT India Limited for closing comments.
- Hitoshi Mogi:** Okay. I would like to thank everyone for joining on this call. I hope we have been able to respond to all your questions adequately. We are really positive about growth in automotive sector and would continue with our efforts to expand to meet industry requirements. Thank you very much. Stay safe, stay healthy, and thank you once again for joining with us.
- Moderator:** Thank you. On behalf of JTEKT India Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines.