



Investors Meet

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Participants:

Sundaram Asset Management Company Ltd :	Mr Krishna Kumar, CIO Mr Shyam Sunder Sriram Mr Ratish B Varier
India Nippon Electricals Ltd :	Mr Arvind Balaji, MD Mr Elango Srinivasan, CFO Mr G Venkatram, CS



G Venkatram	<p>Good Morning Sirs, Welcome to the Conference Call. Please note that this Conference is being recorded. All information publicly available will be shared during this call and the recording / transcript will be posted on the website of the company. If any Unpublished Price Sensitive Information is shared, the same will be shared with the Stock Exchanges immediately after this Call.</p>
Krishna Kumar	<p>Good Morning, how do you see the industry recovery post COVID?</p>
Arvind Balaji	<p>Good Morning, three months ago, we would not have expected these volumes and you would not have expected the stock market also at this level. We are dealing clearly with the very uncertain and once in a life-time kind of a situation.</p> <p>I do not think, we are actively trying to guess what people are going to do. The general environment seems to be fairly bullish. Everybody is generally projecting a quarter at a time. So far, the outlook looks decent. Whether it is going to go to the peak of last year or not, I do not think anybody really knows. India has done a good job with COVID and the market has opened. There is a general view that because of people trying to avoid public transportation and things like that, there is a little bit more interest in personal mobility whether it is two-wheeler or four-wheeler and so that is probably driving some demand. Government has also clearly given a boost on infra so, that should drive CV demand along with Scrappage policy. The general sense we get from the market is that it is going to be fairly buoyant at least for the first two quarters. After that, I do not see anything slow us down suddenly that will shock us. But what we are trying to get ourselves to be ready is to be as flexible as possible to respond to the market as quickly as possible.</p> <p>INEL team has worked very well in the last few quarters to make sure that no matter what the oscillation in the customer sales were, they were able to meet it. That was well done by the team. I think we have built in the flexibility to make us capable of withstanding whatever the market does. The bigger challenge is going to be dealing with this volatility from a Tier-2 perspective and raw material perspective, and that was an area, I do not think, we had a clue how it was coming. We did not expect the kind of semi-conductor shortages that we are now facing in the market. INEL, it has not impacted</p>



	<p>much but in other companies the force majeure clauses because of some refineries shut down and plastic plants shut down and other kind of strange things happening, I do not know how to even budget that.</p>
Krishna Kumar	<p>But with our Government pushing more for atmanirbar and lots of import duties on Chinese items, are we seeing a gain in market share with customers who would have earlier bought something from China?</p>
Arvind Balaji	<p>Yeah, it is not so much the market share because we are quite dominant in the Indian Market to begin with. Going forward, there is a lot more interest from a lot of OEMs to localise many components that they were de facto importing. So, in their head they probably had China for these kinds of products to continue to come from their mother plants in Europe etc. That attitude is changing. So, we are seeing requests and RFQs being issued for products that were not localized earlier. They are now asking us to localise it. I cannot disclose their names yet but INEL has won a couple of businesses in the new areas because of the desire of customers to localise. It is in the area of sensors. If we have the competency to develop quality, cost and delivery to the customers they are having more open mind to localise.</p>
Krishna Kumar	<p>One of the other challenges in the industry is that of raw material cost inflation particularly the basic commodities like steel, aluminium, and copper – so how are the customers responding to the price increases?</p>
Arvind Balaji	<p>I think the whole industry knows that this is not a normal situation. It is a unique situation. Obviously, the ability of Tier-2 companies to withstand this kind of raw material pressure is less than Tier-1 companies is less than OEMs. Many of the OEMs have gone to the market for price increases and we had discussion with customers for compensation and we are helping our suppliers who are struggling in some of these areas so it is a negotiated settlement like any other thing. Broadly, the industry understands that this is a unique situation, and we have to work together to come out of it and that is what we do it.</p> <p>If an SME supplier is struggling, we will help them. Because, if they cannot supply to us, we cannot supply. So, we must do what we have to do. I do not think you can look at it very contractually in this point of time. Especially in such a unique situation, you must take a holistic view and help your suppliers and hope your customer helps you and the industry is working ok.</p>



	<p>But, broadly the industry is moving along figuring out how to deal with this situation.</p>
Krishna Kumar	<p>Most of our customer contracts will be having a link to LME copper and aluminium</p>
Arvind Balaji	<p>Yes, they will. It is a unique situation and there is scope for negotiation.</p>
Krishna Kumar	<p>How is the situation with regards to Semi - conductors, Sir?</p>
Arvind Balaji	<p>The situation is bad. Basically, the lead types for all the semi-conductors companies have gone up for 3 months more. We were earlier planning and giving a schedule of certain number of months and the suppliers used to supply to us. But now that has been extended. Because there is so much demand for basic fare and they are re-positioning it based on whoever blocked the capacity earlier I do not think the auto industry globally expected this kind of recovery of buoyancy across the world. You heard of plants shut down in Japan, Germany and America. So, this is not an Indian phenomenon it is a global phenomenon. We know many global companies are subject to the same day and we are looking forward for an allocation as everybody else is. We have to go and negotiate with our suppliers and try to extract what we can.</p> <p>As time goes on and electronics contingent products become more and more, this is going to be very critical piece of supply chain and semi - conductor is different animal - the lead times are longer, it is capital intensive business, you have to have proper agreements with your suppliers well in advance, so we all need to learn how to deal with this kind of volatility in this kind of high technology areas in the coming years.</p> <p>All the semi - conductor guys have said that the year 2021 is expected to have some issues.</p> <p>Some customers handle it better than others. They try to negotiate well in advance try to get it. So, there is a global situation but there is also a local optimisation that customers can do, and suppliers can do and to see how best to manage.</p>
Shyam Sunder Sriram	<p>Hi Sir, Good Morning, Regarding ISG adoption, we are not hearing any new models coming out with ISG- integrated starter generator. What are your views on that, Sir?</p>



	<p>The reason why I am asking is, leaving aside the first quarter and if you can see the next two quarters, just on a gross profit level there is an acceleration, per se, in terms of the year-on-year growth. So, I am just trying to understand that are there any reasons other than the underlying market picking up in terms of production.</p>
Arvind Balaji	<p>See, managing cost is the daily game. Basically, managing cost and negotiating based on increased volumes and improved productivities – if you do not do this in the auto industry you cannot maintain margin and you lose margins and you will not be competitive. So that ecosystem is a normal part of any decent automotive supplier and we continue to do that.</p> <p>Regarding ISG, our general principle is never to question our customer or customer behaviour. If they want to introduce ISG, we are with them. If they do not want to do it, it is ok with us. But in most of these kinds of technologies, the real decider is the end consumer. You may recall that in four wheelers, a few years ago, the stop-starter was introduced. And then it was dis-introduced. Because there was not that much demand for that. So, if customer likes it and we make good progress in the technology, we have advanced discussion with the customers, we can provide the solution and we are in the discussion with the customer to provide the solution also. If they do not want it and stick to the traditional magneto, we have got good share, we have got good technology, we can do that also. So, I am not budgeting profits based on whether customers will take or not. We will follow what our customer wants. Because the choice of increased cost and benefit in terms of viability is the decision of the end consumer finally. They decide what works and what does not work.</p>
Shyam Sunder Sriram	<p>This year we did lose some of the controller business from Greaves Cotton as well but despite this, you have done better than expectation.</p>
Arvind Balaji	<p>I shared with you even in AGM also that businesses come business go. We have a fairly visibility about what is coming and what is going. We have tried over the course of time to also optimise our products makes work and new products. I have in the past talked about after-market also. After-market business is also continuing to grow. We want to build a basket that gives us a robustness going forward and that is our goal.</p>
Shyam Sunder Sriram	<p>As spoken by you in the prior AGMs on bringing in new products in terms of Tyre pressure monitoring sensor and also other controllers per se within the</p>



	portfolio therein- How is that business scaling up, away from the existing product portfolio?
Arvind Balaji	<p>I will not say expanding away from the existing products – we are adding products in addition to the current product portfolio.</p> <p>As mentioned earlier, we have 2-3 business that are in new areas. That are not in current ignition systems that are allowing us to expand or margins expand or grow and expand our customers base. We are making progress on that. Our R&D Centre investment was meant to actually generate the IT necessary for all the new areas in electronics and we are making a good progress.</p>
Krishna Kumar	Is it possible to give some more colours on the new businesses that are here, and you are attempting?
Arvind Balaji	Yeah, probably I will. I will talk about it probably in the AGM.
Krishna Kumar	How is the market sizing up for you in respect of micro controller or device that are not only meant for automotive?
Arvind Balaji	<p>The story on consumer goods is very similar to automotive story. India's per capita consumption is so low compared to global average and the market size is so high. So, the theoretical market opportunity is very large. This is the standard India Story that every industry goes after. Frankly, in the white goods base, there is an opportunity. I think there is a significant amount of imports from China. The Government is trying to see how to localise the supply chain more. And there is progress made by other companies however, will it drive automotive, I do not know. Automotive is 50% of India's manufacturing GDP.</p> <p>There is an indication that the consumer goods business is also getting the same atmanirbhar spirit and there is more localization more R&D will come to India and we will develop an Eco System in India what we did for auto. I see an opportunity for the company. We will see how we can exploit it.</p>
Krishna Kumar	In the government scheme announced for non-conventional battery and other auto components in terms of turnover limits and other aspects do we see any opportunity in terms of export business and existing business?
Arvind Balaji	The global market is an opportunity, obviously. India is fairly competitive in terms of manufacturing at least our products. I do not think I can see us being uncompetitive compared to any other country in the world. So, we generally do not take decisions to go after a business or not go after a



	<p>business based on Government incentives. We are generally not an incentive driven. We obviously are always evaluating PLI schemes, the various government incentives how we can capitalise on the incentive itself. That will add to the bottom line. But I do not think I will be taking decisions saying that you will get into this because in 3 years we have this opportunity I do not think that a sustainable model. So, we are very well aware of the PLI schemes and well aware of the kind of government incentives that are coming. We are well aware of the import duty increases that are happening on our components. We understand the picture, keeping in mind our strengths and customer needs, we are trying to find new opportunities where to go up.</p> <p>India in automotive components is fairly a competitive industry in India. As many countries in the world go to EV, I think, there is still demand for IC engines for the foreseeable future. It is going to be there.</p> <p>There is an opportunity for Indian OEM, supplier, sub-suppliers who capitalise and make from India for the World. And that is truly where the atmanirbhar can come in its own way where India can make it for the World and our Prime Minister has talked very openly about it. Make in India for the world especially on mature technology where India has the capability to do it.</p> <p>So, I would not dismiss the older products as of now. Because there is an opportunity for there also while the world changes. And that will not take a few years. There is an opportunity right now in making the traditional products. So, we are trying to ride both the horses.</p>
Krishna Kumar	Thank you, when you look at the export opportunities and large volumes etc it also needs some amount of approvals from our own collaborators or joint venture partners to get into Market -Is that all ok, Sir?
Arvind Balaji	<p>Our joint venture partners have been very supportive. I do not see that is an issue. Issue is, we have to fight opportunities and do it. I do not see any bottle-neck from our partners or from Board or from anybody else. We have to find opportunities to grow.</p> <p>By the way, just to remind you our base, we are a two-wheeler dominant company and No.1 in market for two wheelers in India. Export is cool for</p>



	<p>cars but two wheelers, cool as India. Not, so much Cars. This is where the market is. Remember, one interesting situation is, in a mature industry, like two-wheeler industry when technology is shifting, there are existing suppliers making products comfortably. So, putting new capital going after an asset that if shifting to EV there are so many dynamics playing we must study it properly before taking a decision. If in next 20 years, they are going to bring in IC engines then there is a different discussion to have. But given the trend, there are so many open questions like when it is going to come. So, we will have to be very careful in putting our money down and going after.</p>
Krishna Kumar	<p>With the emergence of EVs, etc, there seems to be a situation where Lucas TVS could make the motors required and we supply the controllers and the electronics of it. And there is a battery component in which the group has evinced interest. Also, the government has announced some projects in making Lithium Ion battery. So, is that the way we think about INEL and Lucas TVS in the next few years?</p>
Arvind Balaji	<p>Let us leave non-INEL companies out of this discussion because I do not think that is the scope of today's discussion.</p> <p>We have actively worked in a product portfolio that will allow INEL to grow also in the EV domain. In fact, we have won one business, actually, in EV product. So, we are actually working very actively to develop EV Agnostic product portfolio that means the EV comes also, we will be able to have it. So, we are working very actively on that. Obviously, is it not a loss to us that if we do not build our product portfolio for INEL for the future, there is not a dependant on IC engines we have a serious issue on our hands. So, we are actively working in that area and are progressing.</p>
Krishna Kumar	<p>Sir, the reason I asked on Lithium Ion battery is that, I understand from the industry sources that there is huge investment there. There is an opportunity in two wheelers also. So, I would like to know whether INEL would be a part of this project?</p>
Arvind Balaji	<p>I cannot comment on its status now. But, one thing I can say is that, we are actively working on a product portfolio that can provide product and solutions to EV players. We are in active discussion with many EV players. We have won some business also in the area.</p>



Krishna Kumar	Ok Sir. Thank you
Shyam Sunder Sriram	Sir, this year you have won business from Hero and you also spoke about adjacent products what we are entering. I am just trying to understand, over a period of 5 years, what are the growth opportunities if you want to bucket it into existing products new customers and new products, new customers, where do you think the growth for the company can come from? I am trying to understand from more of a bucketing type.
Arvind Balaji	<p>As far as we are concerned, we are trying to address all the buckets. The centre of gravity continues to be current customers current business and the new models of the current customers. We are trying to expand on bucket share on current products also and I am happy to say that, we have made some progress in that area gaining market share by expanding our customers in current business. We have introduced new products to current customers. We also introduced new products to new customers. So, we have different strategy for each other quarters. I do not see this as an either-or question. When you have such a dynamic situation, just because I am doing one thing, it does not mean I should not do something else. I think, in today's situation, the goal of any company should be how to maximise the growth opportunities in all quarters. Because, you do not know, where the dynamics are going to change, when it is going to change, how fast it is going to change. So, if you put too many eggs in one basket that is a big risk.</p> <p>So, the way we are thinking about is, try to expand both our customer base and our products mix as much as possible. So, no matter how much the situation changes, it is only the degree of how much you will get. But, it will not fundamentally question the fundamentals of the business.</p>
Ratish B Varier	This is in extension of Shyam's question. For the existing products, what will be your market share.
Arvind Balaji	We have declared this in public. However, in some of the products we recently become No.1. So, we have made some progress.
Ratish B Varier	Even if you are No.1, is there still opportunities to gain market share or grow with the industry. How should we take it?
Arvind Balaji	<p>We are trying to gain more than market. Our goal is to gain as much share as possible.</p> <p>I will share a generic point. Current business products, if people invest in them, I think, there is always opportunities to grow because in the next few</p>



	<p>years, the current products range is going to continue. So, it depends on the company's choice whether they want to invest in their own products and try to provide more value to the customers and gain share. We are not giving up on current business we are actively trying to grow our current business also while trying other businesses. I always believe that there is an opportunity to grow. Probably, it depends on what our customers want and what our competitors do. But there is always an opportunity to grow. When I say grow, I mean gain share.</p>
Ratish B Varier	<p>But large clients like TVS etc we still can gain - to be made right?</p>
Arvind Balaji	<p>I cannot go into that level.</p>
Ratish B Varier	<p>But your large customers - you still have some market shares gain left. Why?</p>
Arvind Balaji	<p>That is why we are growing and growing faster than market</p>
Shyam Sunder Sriram	<p>I have a question more from profitability perspective. You had once mentioned that the existing power train is becoming more of a commoditized business, per se, and if you see in the last few years, from an INEL perspective, our PBT margins, I am just taking PBT margins because that includes a lot of depreciation and investment cost as well, so the PBT margins have increased from FY14 to 19 and may be FY 20 was a year of disruption per se. So we had reached 15-16% kind of PBT margins therein. As we go forward, how do you look at this company's profitability? If the business is getting more and more competitive, what is the outlook from the profitability perspective?</p>
Arvind Balaji	<p>I think, 2014 looks so long ago and I cannot compare INEL of 2014 with INEL of today. It is completely a different company today. In that period of time, we had improved our productivity, cost positioning, market positioning, technology positioning and made a lot of strides in improving ourselves. That has resulted in the better performance of the company more than anything else.</p> <p>Grinding out cost is just a de facto norm in the auto industry. If you want to stay alive, you have to learn the art of grinding out the Paisas.</p> <p>Our goal is to actually find profitable growth. We will not pick a business or drop a business because of a couple of margin points and that is not our philosophy. We have a direction with certain customer, certain products. We have partnerships. So, we do what we have to do to grow with the</p>



	<p>partnerships. And the margin comes as a result of that. As long as you continue to do things that are making sense for customers, our company and to our stakeholders which we are constantly evaluating. Things may change. If EV comes faster and there are excess capacity in industry, the dynamics may change. But right now, we have a fairly robust cost management system within INEL. We will try to manage the competitive pressures as well as we can.</p>
Shyam Sunder Sriram	<p>Thank you, Sir. In terms of investment over the next 2 years, how are we looking at the capital expenditure. You also spoke about R& D Centre.</p>
Arvind Balaji	<p>You steadily see in INEL capex go up over the last few years. I do not see the trend changing. We have invested in our Tech Centre to develop Technology. I look at the capex as a sign of investment in our own business to grow the business. So, we invested in the Tech Centre and I think, we will continue making investments to expand our Plants, invest in new Lines, expanding our Engineering Centre, of course, we will do that.</p>
Shyam Sunder Sriram	<p>If I have to split these investments between what we have been doing for the existing businesses and refurbishment of our Plants, maintenance capex and in terms of new product investment, how will that be, Sir. Will it be more towards newer initiatives than existing?</p>
Arvind Balaji	<p>I do not think you can see that way. But I would like to say that the amount of investment that is being invested in newer areas is increasing. And that is definitely happening. To run the current business, you have to do what you have to do. Expand the plant, upgrade the machine. You have no choice in the matter. So depending on the dynamics of the current business, you have to invest in current business. The new areas you invest in advance and that investment continues to grow. Because we have to expand our product portfolio, go after new customers, etc, that is something we are doing actively.</p>
Krishna Kumar	<p>When you get to scale and more scale, the make or buy decision, basically, you know matters.</p>
Arvind Balaji	<p>Yeah, that is an area of cost and revaluation. The make or buy decision also increases the level of complexities to the business. So it is the balance between do you want to optimize the margin but increase the organisation size and the competencies involved, is the benefit worth, I mean, it is the daily decision.</p>



Krishna Kumar	Where are you going Sir, directionally, you are looking more buy relatively at least on mature technology.
Arvind Balaji	<p>We will always control whatever is machine critical in terms quality. That is not something we are very comfortable outsourcing just for the sake of cost or whatever. We will do whatever is right for quality and customer that we will always do in-house. That we are always doing it. If you do not do that, we do not have future business any way. We also do not like this thing of suddenly taking it in-house and suddenly dropping it out. I do not think we can build competencies in such areas then. I think we have a balanced approach. We have a decent amount of value addition in our plant. Depending on the outlook, I think in a year or two, we will have a better visibility about the direction of IC engine and EV. Then there may be chance for us to reevaluate some of these things.</p> <p>We are always doing it. As you rightly pointed out, as volume and size changes, our certain products are quite large now. In those areas, we are constantly re-looking at. But you know, their supplies also upscale who have scales to their other suppliers. So, what extra value we are going to add that they cannot do. It is a delicate balance.</p>
Krishna Kumar	Sir, we have lots of cash and investment in the book and Very conservative way of handling the balance sheet. Given roughly Rs.250-300 Cr we have, the scale of opportunities would you consider good distribution or buy back?
Arvind Balaji	Our focus is always to try to invest in assessed growth of business and grow the business as much as we can. Our shareholders return in terms of stock market price, we have given decent returns to our shareholders. We will continue to use our capital to do as well as we can to give good return to the shareholders. I think we believe in our business. We want to invest in our business to grow as well.
Krishna Kumar	So, the cash has a near term purpose for investing in business?
Arvind Balaji	We will use the cash as appropriate
Krishna Kumar	Can you talk about kind of senior management hires in terms of areas they have been doing. Can you give some colour of what kind of people are you adding?
Arvind Balaji	As we expand and extend, we will be adding Engineers, of course. Our Engineering and Marketing are the areas where you see more increase is happening. Because as we expand our customer base, product mix the front



	<p>looking functions of Engineering and Marketing will come into the fore and we will be hiring Engineers there probably.</p>
Krishna Kumar	<p>Why I asked you the question is that if you look at some of the electronics and the software embedded products will be used more, I may be wrong, but the skill sets are available more overseas.</p>
Arvind Balaji	<p>You should not underestimate the competencies available in India. But we have a fairly decent network through which we can tap into, as required competencies that exist outside India.</p> <p>If we need to, we have the ability either independently or through the group, to reach out to expertise so that INEL can get. I do not think that is a bottleneck at this point in time. It may become a bottleneck as we get into new areas. I do not know.</p> <p>In today's digital world, to get access to competency to develop technologies, I do not see that will become a bottleneck.</p>
Krishna Kumar	<p>The reason I asked you is there was an era where people want to come to India and select a partner to work with and slowly people started getting into doing business here. Even in recent times, people like Minda and others, small companies have shown that they are given some stake and again trying to re-jig the JV model etc. Do you have any such plans Sir?</p>
Arvind Balaji	<p>I cannot comment on what Minda is doing or anybody else is doing.</p> <p>We have a list of products that we want to go after, and we are doing it through a combination of finding partners and finding people and hiring around. So far INEL has had a decently strong R&D Centre which why we are in a good market position.</p> <p>The basic starting point is to rely on our own people and our own competencies. We can hire people and hire technologies all that we can do. But fundamentally we believe strong stable company for a long term has to have its own IT developed in-house. And that has been our focus for a long time.</p>
Shyam Sunder Sriram	<p>Regarding capital expenditure, any number you would like to share for the next 3 years?</p>
Arvind Balaji	<p>No. let the market stabilise a bit. Let us get some sanity to understand how things are looking. And then, may be, at that time, we can talk about some numbers but not now.</p>



	<p>We are just a few months at a time. Get some visibility. But I will tell you we are not pulling back on any future capex. It is zero. During lock down I did not cut down and I am not going to cut down now. What we will have to do we will continue to do. We generally do not hold back our developmental activities. Whether it is capex or hiring we have not slowed that down. We do not plan to slow that down.</p>
Krishna Kumar	<p>Sir, there has been a division of interest in the group and various people are running the business are aligned while we are getting into the structure of this, does this also change the scope of what somebody can do in terms of non-complete things like that. Will it open up opportunities for us?</p>
Arvind Balaji	<p>But as far as INEL is concerned, I do not see INEL having any problem doing its business on its strategy. So that transaction will have zero impact on INEL business. If at all, it will give INEL an opportunity to grow.</p>
Shyam Sunder Sriram	<p>Just one question on the overall EV portfolio. Bosch has set up a separate electric business unit vertical wherein they are going very aggressively after two wheeler and three wheeler opportunities is what we understand.</p> <p>The market seems to have been tilted very much towards bigger players who are already bigger. In this environment, do you think we can also make some impact as and when market takes off meaningfully.</p>
Arvind Balaji	<p>That is a good question. I think this is the challenge and the opportunity. In electric vehicle space, everybody is starting from a fairly baseline level. So that is actually an opportunity. Nobody has got a 40 year heads. In the automotive business, in many of the traditional areas many other larger global players had decades of head start.</p> <p>So, they have some very inherent advantages. But, in the EV's space, as you have seen, new units start-ups against the OEMs the barriers for entry and ability to come up is easier in some ways. So, it actually levels the playing field to some extent. Secondly, large competitors are a challenge. But if we can compete them on traditional products I do not see, why we cannot compete them on new products.</p> <p>It may take a couple of years or more. That again I do not think is a bottleneck for us.</p> <p>In today's world, in an open world, in EV world, I think we have to focus more on Indian companies making good products. They add value to the customers as a means to grow. Rather than rely on import duties, quick fix</p>



India Nippon Electricals Limited

	here and there. That is why our focus is solely on developing good technology products. We believe we have the competency to be able to at least in the areas of two wheelers. 4wheelers are a different ball game. Even inside EV, it is different kind of high voltage technology. But where INEL is playing the two - wheeler space, we have the ability to compete.
G Venkatram	Any other questions
All	No Sir, broadly all have been answered.
G Venkatram	That is the end of the discussion. Thank you all
