

From the MD and CEO's desk

Making our own future



Dear Shareholders,

This year has marked a profound transformation for our Company as we transitioned into majority ownership by public shareholders.

We as a Company, and I personally, are acutely aware of the responsibility that accompanies this change. Today, we carry the weight of the expectations of over half a million shareholders, as well as the millions of individuals who have entrusted their hard-earned money to esteemed Indian and global financial institutions, which have, in turn, invested in our Company.

All weight leads to pressure, but we recognise that this pressure is a privilege — a privilege granted to a select few who are entrusted with the stewardship of shareholder capital.

I pray that God continues to give us the strength required to shoulder this responsibility of creating value for those who have entrusted their assets to us.

As a majority publicly-held Company, our goal is to attract and retain long-term owners. To achieve this, it is imperative that we consistently and repeatedly communicate our business philosophy and our vision as a Company. Allow me to reiterate our purpose once again.

Our Vision, or why we exist as a Company, is to become one of the world's most respected and valuable auto technology companies. Everything that we do stems from this unifying purpose. Our Mission is to be leaders in the technology we invest in and give our customers an edge over the rest while designing and building products that enable the future of mobility.

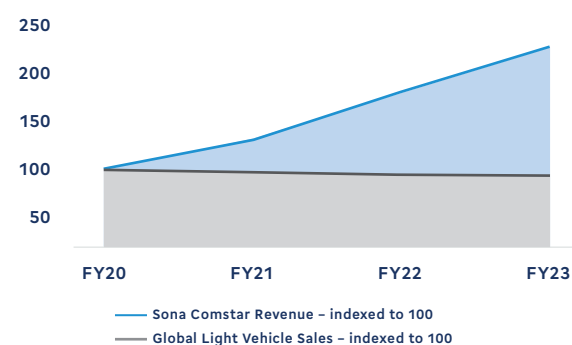
This is the race we are running—a marathon that spans decades. When our race is truly run, we will have built an Indian engineering Company that the world can be proud of.

Singhavalokana: A retrospective look at the year gone by

Legend has it that after traversing a considerable distance through the jungle, a lion pauses to examine the path it has chosen—a practice referred to as "*Singhavalokana*" in Sanskrit. As this letter serves as a performance report from a manager to the Company's owners, we too shall look back and assess our journey in the context of our annual performance evaluation. Allow me to present our performance scorecard based on our six Key Result Areas (KRAs): financial results, electrification, business development, diversification, technology, and ESG.

Delivering robust financial growth

Our numbers speak for themselves. Our revenue, EBITDA, and PAT have grown by 26%, 25%, and 24% respectively. When juxtaposed against the backdrop of our industry from FY 2019-20 to the present day, our revenue has experienced an astounding growth of 119%, while global light vehicle sales dropped by 7% during the same period.



"We have made significant progress in our biggest strategic priority—to be at the forefront of the electrification of mobility worldwide. Our BEV revenue share rose to 26%, with a 33% growth in absolute revenue, reaching INR 6.7 billion."

Electrifying our future

We have made significant progress in our biggest strategic priority—to be at the forefront of the electrification of mobility worldwide. Our BEV revenue share rose to 26%, with a 33% growth in absolute revenue, reaching INR 6.7 billion. We anticipate exponential growth in this domain as both the number of EV programmes and EV customers globally have increased by 1.4 times compared to the previous year, now totalling 42 programmes and 26 electric vehicle customers, respectively.

Moreover, we have expanded our EV powertrain capabilities by developing the Electronically Locking Differential (EDL) and securing a new programme to supply EDL for an electric SUV of a Global EV OEM. Additionally, we have entered the Electric Commercial Vehicle space with a driveline programme awarded for Class 4 electric trucks.

Strengthening our global significance

Our relentless focus on customers has made FY 2022-23 our best year for new business development. We secured INR 80 billion worth of orders, resulting from 35 new programmes and 7 new customers.

We closed the financial year with a stronger net order book standing at INR 215 billion (8x FY 2022-23 revenue), with EV programmes accounting for 77%. Our global market share for differential gears has expanded to 7.2%, while the starter motor market share dipped slightly to 4.1%.

This year, we achieved significant milestones, surpassing the cumulative production of 350 million differential gears, 34 million starter motors, and 180,000 traction motors.

Broad-based diversification to balance risk

Maintaining a balanced customer concentration is of utmost importance. We strive to avoid situations where revenue is fragmented among numerous customers, as it consumes excessive management and engineering bandwidth while causing production inefficiencies.

Likewise, we endeavour to prevent the concentration of power in the hands of a few customers, which may pose existential risks. In the context of the global light vehicle industry structure, our long-term target is to have no customers contributing more than 20% to our revenue, with the top 5 customers contributing less than 50% and the top 10 customers contributing less than 70%. Presently, no customer contributes more than 20% to our revenue, while the top 5 customers accounted for 55% and the top 10 customers contributed 77% to our revenue in FY 2022-23.

We have achieved further revenue mix diversification by powertrain, with Battery EV contributing 26% to the total revenue—an improvement from just 14% in FY 2020-21. Our reliance on pure ICE technology has steadily decreased from 25% in FY 2020-21 to 15% in FY 2022-23.

From the MD and CEO's desk

Progressing on our technology roadmap

To encapsulate the four significant shifts in the future of mobility—Electrification, Personalisation, Intelligence, and Connectedness—we have coined the term E.P.I.C. In this brave new world, sensors and software will play an oversized role. For instance, our IMCM module for intelligent suspensions alone required 2 million lines of code, approximately five times the software found in an average space shuttle. Considering that an average modern car contains around 100 million lines of code, it becomes evident that software and AI will be instrumental in building autonomous vehicles.

Building an autonomous vehicle, in simple terms, is a matter of replacing, with machinery, the three things humans need to drive: the hands and feet that operate the controls, the senses that perceive their surroundings, and the brain that turns data into decisions. The first bit is mostly mechanical and electrical. The second one of perception is achieved through sensors, whether they be cameras, LiDAR or

Radar sensors. The third, the intelligence to turn this input data into decisions is software. NOVELIC helps us add the second and third sets of capabilities of chip design, Radar sensors, software and ML/AI tools to what we already have in mechanical, electrical and electronic abilities.

In line with our long-term strategy, we are excited to add sensors and software as the third pillar of growth through the NOVELIC transaction, which we aim to close in H1 FY2024.

Furthermore, we have made substantial organic progress on our technology roadmap by developing four new driveline products (intermediate gears, input/rotor shafts, net spiral bevel gears, and EDL) in FY 2022-23 alone. We continue to actively work on developing innovative products for our customers across all our businesses.

119%

Revenue growth in last 3 years

INR 215 billion

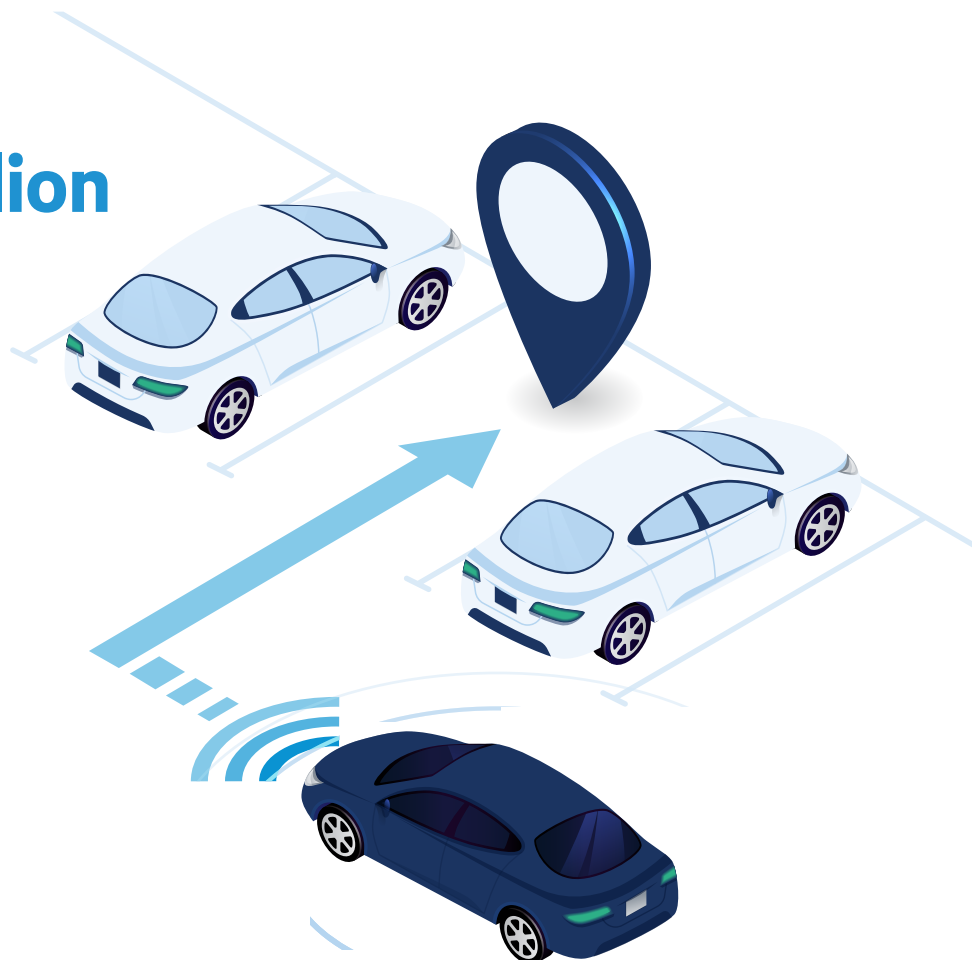
Net Orderbook

42

EV programmes across 26 customers

26%

BEV revenue share in FY 2022-23



Forging ahead responsibly

This year, we published our first Sustainability Report and set medium-term goals for environmental protection, social performance, and governance. Notable progress was made by implementing an innovative solution in our forging plant at Gurugram, enabling us to recycle and save approximately 12,000 litres of water every day. Our greatest impact lies in GHG reduction through technologies that improve energy efficiency and enable the electrification of transport. We have set a target for Sona Comstar to achieve over 45% of revenue from BEVs by FY 2025-26.

Our Path As We Move Forward

We have chosen a product innovation-led business model to delight our customers, sustain our growth, and progress towards our vision while creating value for our shareholders. In the dynamic and fast-changing mobility industry of the past five years, this is not an easy path. However, we are led by belief, mirrored in the words of *Dharmakirti*:

“No one behind, no one ahead. The path the ancients cleared has closed. And the other path, everyone’s path, easy and wide, goes nowhere. I am alone and find my way.”

Once one has chosen their path and internalised the truth that they are only racing against themselves, that choice permeates every encounter along the journey. For us, this choice has shaped and will continue to shape our strategy, our product development, our talent acquisition, and our worldview. This approach has led us to our growth, as our revenue has skyrocketed from INR 3.6 billion in FY 2015-2016 to INR 26.7 billion this year, representing a staggering seven-fold increase during the eight years I have been privileged to serve this remarkable Company.

However, it is not that we are inherently special or destined for a string of uninterrupted successes. At times, despite our best efforts, we have made mistakes, and more will likely occur in the future. Yet, I firmly believe that this is acceptable. Success and failure, triumph and disaster, are often much closer to each other than one imagines.

The key lies in being prepared to confront both situations with integrity, equanimity, and humility. Such a mindset allows us to learn and emerge stronger from every experience—either we learn, or we win.

What truly does make me feel special is the fact that I have been chosen to lead this exceptional group of people at Sona Comstar. So, thank you to the shareholders and the Board for placing me in this position of trust, and thank you to my team for having faith and choosing to follow my guidance.

In closing, I would like to share a shloka from the Bhagavad Gita, a verse that encapsulates the essence of our journey:

“*Yogah karmasu kaushalam*.” which can be translated as: “Yoga is skill in action.”

This ancient wisdom reminds us Karmyogis of Sona Comstar of the importance of skilful execution, adaptability, and resilience. It is through these qualities that we continue to innovate, and help our customers in shaping the future of the automotive industry. As we continue to evolve on our journey towards our vision, I hope all of you will continue to place your faith in us for the long term.

Thank you,

Vivek Vikram Singh

Managing Director and Group CEO