"Sandhar Technologies Limited
Q1 FY2019 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Sandhar Technologies Limited Q1 FY2019 earnings 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 the questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ashish Nigam from Axis Capital. Thank you and over to you Sir!

Ashish Nigam: Thank you. Good morning everyone and apologies to the slight delay. Welcome to the Q1 FY2019 results conference call of Sandhar Technologies. From the management team, we have with us, Mr. Jayant Davar – Co-Chairman And Managing Director, Mr. Arvind Joshi – Whole-Time Director, Chief Financial Officer & Company Secretary, and Mrs. Charu Khatri – Head Resource Mobilisation & Investor Relations. I will now hand over the call to Mr. Joshi for his opening remarks, post which we can have Q&A. Over to you Arvind Ji.

Arvind Joshi: Thank you so much. Thank you for taking out time to listen to us. We deeply appreciate giving us an opportunity to speak about ourselves and we also wish to convey our deep gratitude and of course thanks for waiting and bearing with us for the technical glitch which has taken place and which has delayed the conference call.

This is our first conference call with the investors post our listing. We have had intermittently few of the investors coming in and wanting to understand; however, this is the first consolidated investor conference, which we are organizing. We are happy to note and we are happy to convey that we are quite satisfied with the performance of the company in the Q1. We have seen the auto sector showing huge amount of traction with a 19% growth, which has not happened in the last five years. We have seen the two-wheeler growth of about 17.5% where again the motorcycles have led the whole show and naturally with our company having a dominant share of business throwing in from the motorcycles, our performance lays there what exactly and how the performance of the company has fared.

I just would like to introduce Mr. Jayant Davar now. He just stepped in and he would just give you a brief and then I will take on, on the nitty-gritty's.

Jayant Davar: Good morning everyone. You saw the results. I think the automotive sector is doing well, and we as a company are within our expectations of what we thought would be the results. The results would have been even better, but I think with the new manufacturing units, that have been coming up they will probably start showing their results from the next quarter onwards, but otherwise, I think, you have the numbers there and I will be happy to take on any questions that you might have.

Arvind Joshi: Just again on the numbers, you know quarter-on-quarter so while we have published standalone numbers, but we will be happy to share the consolidated numbers where the subsidiaries numbers have also been clubbed in.

At a consolidated level, we registered a revenue of 574 Crores as against 554 Crores in the previous year, year-on-year. We have registered an 18% growth quarter-on-quarter and 26% growth year-on-year basis. At EBITDA level, we registered an EBITDA of 56.1 Crores as against 50.58 Crores in the previous year's corresponding period thereby registering almost about 11% growth, year-on-year; however, as compared to Q4 we had a minor decrease in numbers by about 3% and this is more to do with the fact that Q1 is always a feeble as compared to the Q4.

We registered an PBT of 31.4 Crores as against 20.93 Crores thereby registering a 50% growth over year-on-year basis and 19% growth on quarter-on-quarter basis. The net profit has grown to 22.1 Crores as against 14.53 Crores in the corresponding period in the previous year thereby registering a growth of 52% and year-on-year basis and 20% as compared to on a quarterly basis.

The EPS for the quarter is 3.7 as compared to 2.84 in the previous year corresponding period. As compared to Q4 last year it was at 3.06 so almost achieving the same EPS as was there in the previous quarter.

From a business perspective, our revenue numbers we are more or less in line. The motorcycle segment registered a 42.9% revenue, scooters and step Scooty is 16.3, our passenger cars and the Tier I put together is almost about 25% to 26%, and off highway vehicles is about 12.6% and the non-auto plus others is about 4.2%.

Amongst the product categories, we got 22.2% revenue from the locking systems, 9.9% from the vision systems, sheet metals is about 15.4%, and again 12.6% from the cabins of highway vehicles and 16.7% from the aluminium die casting. Hero contributed 30% to the overall revenue followed by TVS at 21%, JCB at 5.6, Honda almost at 6%, Bosch 5.1%, Royal Enfield 4.6%. Top five customers fetched 67.6% revenue as compared to 69.2% revenue in the previous year corresponding period.

On a standalone basis the number stack up has the revenue of 494 Crores as compared to 396 registering a growth of 24.8% showing an EBITDA of 49.4% as against 43.4% in the previous year's corresponding period, registering a growth of 14.4%. PBT was at 31 Crores as compared to 20.3 Crores in the corresponding period previous year thereby a registering a growth of 44% and PAT grew by 48.5% as compared to the previous years' corresponding period registering a 21.78% as compared to 14.07%.

Our borrowings as usual as spoken about in the past, we utilised our IPO proceeds in repayment of the debt, the long-term debt were retired to the extent of 254 Crores; however, there has been increase in the working capital borrowing by about 50 Crores so the net borrowing decreased registered in this quarter is about 200 Crores. The borrowings stands at 129.2 Crores. Our gross block has moved up by 68 Crores to 702 Crores. This is including the changes in the capital work-in-progress. The overall investment stands at 60.6 Crores up by 11.4 Crores. This is mainly on account of some investments, which have gone into our new JVs such as the Jinyoung Sandhar Mechatronics and Sandhar Han Sung and a couple of other JVs which are for the fuel filter.

We have generated a cash of about 50 Crores out of which 33.2 Crores have been used in investing and we still have 8.9 Crores as free cash flow. Our financial ratios stack up well. They are in line with what it has been in the past. Our inventory holding period was at 35.4 days. The receivables collection period is at 45.4 days and 63.8 days is the creditors holding period. The debt equity ratio now stands at 0.20.

We have been able to gain new business and these currently stand at about 295 Crores of which in the motorcycles and the segment it is about 75 Crores whereas in the scooters and Step Scooty it is about 47 Crores. The off-highway vehicles business we have gained new orders of 77 Crores, along with the agri farm it is actually 80 Crores. The passenger car segment has seen order flow of about 59 Crores and the commercial is about 11 Crores.

Of the 295 Crores the majority of the revenue is going to flow into the lock assembly where 77 Crores of revenue is to be attributed. Sheet metal components is about 48 Crores. The cabin and cabrication is about 40 Crores and even die-casting business is going to bring in another 30 Crores. Now these are all new businesses, which we are talking about as compared to the previous year.

So all in all, we are very hopeful of achieving our estimates, the year-end guidance which we had given but for the minor delay in stabilisation of the new units. We would have achieved our projected numbers, estimate numbers that we had indicated to the stakeholders.

We now leave it to the group for the Q&A if that satisfies.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Mahesh Bendre from Karvy Institutional Equities. Please go ahead.

Mahesh Bendre: Thank you for the opportunity and great set of numbers, congratulations. During the quarter, on a standalone basis, our revenues have grown by 25%, but along with that our staff cost and other expenditures have also grown in line with the sales. So we have not seen any operating leverage benefit that could have been probably increased our EBITDA margins, so why there is no leverage benefits that we are witnessing?

Arvind Joshi: Thank you Mahesh. Thank you for giving us an opportunity again to explain our numbers. Well basically couple of factors have played in out here. Number one the Honda Cars business had been a bit slow in the first two months of this quarter. Now this being a higher margin business, naturally it does impact but the impact is not so severe if you could actually see, what has happened is that the new units set up at Jaipur, Oragadam and Hosur they are currently operating at a negative operating leverage that is mainly on account of the fact that this is stabilisation period, which is going on, so while the three units put together contributed about 25 Crores in terms of revenue, at the EBITDA level they were down by 3.52 Crores and at PBT level, they stripped off by 5.76 Crores. So, while there has been manpower increase because of these three units the manpower cost has also increased on account of the fact that the minimum wages in most of these states have gone up and some of the price increase which we have sought from our customers are still due. And hence what you see here is a slightly skewed number. The normalised numbers actually stack up in a manner where the consolidated if we take out the 25 Crores of incremental revenue flowing in from the newer units, we are still seeing a revenue growth of 19% and EBITDA would be increased by about 1% and PBT would increase by 1.3% had the negative effect of these new units had not been there.

Mahesh Bendre: And Sir, when do you think these new plants will be able to stabilise?

Arvind Joshi: They are currently operating at a level, which is about 60% of what the projections were given to us by the customers. We are hopeful that Q2 onwards should see most of these things getting rectified. Honda Cars in any case have ramped up their production, so they moved by almost about 50% from their levels of what they produced in April and May because of the model realignment and the new model launch, there was stock correction, which was taking place so that has started kicking in. The price increase is likely to come into our financials in this particular quarter and add to it the new units they would start and they have actually started from the month of July onwards, we are actually seeing them moving up bit by bit and we hope that Q2 should be in a position where they get into the black.

Mahesh Bendre: And Sir, my new question is Hero plans to launch two scooters in 125cc category and even bike in 170cc category, so what will be our role in that?

Jayant Davar: While we will continue to suppliers in the past that we do. There have been new editions to this and we are a part of those editions.

Mahesh Bendre: So we will be both in the scooters in 125cc category?

Jayant Davar: Yes that is right.

Mahesh Bendre: Last question is we have four JVs that should come up in the next probably 24 months, so what kind of outlook on those and what kind of capex we plan to in those facilities?

Arvind Joshi: Most of our JVs that we have signed on, a large part of that investment has already been done from an equity perspective. One of them has already hit of and it is called Jinyoung Sandhar, which has started operations in Chennai. It is operating at a rented premise right now, but it is moving to its own building by the beginning of next calendar year. There again the investment now from the company does not have to be added on to it. There is some debt that will be taken which will add to the capital investment that is required. So that is one. In the case of Sandhar Han Sung, there is an investment. Again there is an investment, about 10 Crores additional is required. Then we have Sandhar Amkin where I think some investment is already been done, about 7 Crores more is the new investment that is likely to be required there. And we have the Whetron where again there is some investment, but again it is not very large.

Mahesh Bendre: Thank you Sir.

Moderator: Thank you. The next question is from the line of Shyam Sundar Sriram from Sundaram Mutual Fund. Please go ahead.

Shyam Sundar Sriram: Thanks for the opportunity. Sir, if we see the subsidiary revenues while there has been very strong revenue growth EBITDA has been pretty weak, if you can add some more colour on that?

Arvind Joshi: Our subsidiaries actually comprise of Barcelona and the two-step down subsidiaries, which it has in Mexico and in Poland as well as in Spain also. While there the numbers have been pretty good, the tooling business is a second subsidiary, which gets added on in terms of the numbers, there they conversion of the tools, so the revenue attrition has not taken place because most of the tools are into the capital work-in-progress stage and hence it has not added up into the EBITDA margins and the PBT, but this is something where this particular business has always been operating at about 34% to 35% margin and it is just the conversion of the capital work-in-progress into the revenue which is to take place and which will happen in Q2.

Shyam Sundar Sriram: Sir, this tooling business, are internally they supply the tools to the other businesses? Or how does it work Sir?

Jayant Davar: I think 90% of the business is supplied outside to other customers and just supplementing on what Arvind said, this is a business where tools are made and billing obviously is not done on a daily basis. This is done on a completion of a tool, as there are times when you skip a few weeks and a month here or there, and that is being the scenario in this. Overall the budgeting for this for the entire year is on a much higher growth level compared to the last year and being a high margin business this will show up the numbers that we expect for the year.

Shyam Sundar Sriram: Sir how much revenues do we expect on the tooling business for the full year basis and the other European subsidiaries?

Arvind Joshi: Well, the European subsidiary would be somewhere around 280 Crores and the tooling business is likely to be around 16 Crores.

Shyam Sundar Sriram: Sir on the Whetron JV which particular product, of course the press release talks about a wide range of products, which particular product and customers are we targeting at this point of time Sir?

Jayant Davar: While we are targeting the customers for the rear parking sensors to begin with. The rear parking sensors are now going to be made mandatory from next year and therefore all four-wheelers in this country will have to carry them. So we would expect a market of 4 million vehicles available for the rear parking sensors and we are amongst those front-runners who are looking to do this business. There are other two or three players and we hope and expect to get at least 20% to 25% of business, but obviously there is a large portfolio of Whetron products that includes cameras, that includes oil view monitoring systems, that includes smart key systems and so on and so forth.

Shyam Sundar Sriram: Sir, in terms of the rear parking sensors approximately what I understand is the basic rear parking sensors would be more simplistic and less value adding kind of a product. What would be the average consumption on a per vehicle basis?

Jayant Davar: Rear parking sensors without a camera the basic thing would be anywhere between Rs.1500 and Rs.2000.

Shyam Sundar Sriram: This is on a four sensors in a car is that how it is?

Jayant Davar: That is right. Well you know the sensors is one portion the basic system is another, so depending on the number of eyes, you call them sensors, we call them eyes to eye system at the back and two in the front, which makes it four, should be about Rs.1500.

Shyam Sundar Sriram: Initially the sensors will be imported and sold and later as we go ahead, we will localise it Sir. Is that a right understanding?

Jayant Davar: That will be continued to be imported. The sensors are a commodity. It is like a semi-pillars systems. Our IP is to build all the parts around it and to build the application, and the monitoring system, which will be done by us.

Shyam Sundar Sriram: Got it. Sir, in terms of BS-VI transition, do you see the two-wheeler OEMs may transition in 2019 itself earlier than the stipulated date and from that perspective how will our content per vehicle change as we progress towards this new emission norms?

Arvind Joshi: Well, you are aware that we have a joint venture in the name of Sandhar Daewha where our lines are being put as we speak. Our new air filters and oil filters will be rolling out by the end of this year, and insofar as our own products are existing products are concerned, there are changes that are being done to our fuel tank locks, those have already been checked and tested and validated. So we are ready for that. You are right the mandate is for April 2020, we expect that companies will start rolling out these Euro-VI ready machines by the third quarter of next year.

Shyam Sundar Sriram: Thank you Sir. That is it from my side.

Moderator: Thank you. The next question is from the line of Arpit Kapoor from IDFC. Please go ahead.

Arpit Kapoor: Thanks for taking my question. Congrats for good set of numbers. Sir just continuing on the JV part on the Whetron part, given the size of regulation is from July 19, so have we got some OE, if that remains in terms of some models where we have got in the order book, so if you can share some of that?

Jayant Davar: Well, the thing is most of these because in our business, we do not really get clear cut purchase orders, our line of businesses as such, but to put it into perspective, we do joint development with most of the OEMs that we work with. So to give you a brief answer, we have already working with the OEMs right now in the development of these rear parking sensors as always the fact there are joint venture partner, currently if a current supplier to these OEMS in India has imports today. So there would be import substitution that is likely to happen. Obviously these companies would now want to get Indian prices and Indian billed products. So we are in the process of developing these for some new ones and for the existing ones we will start localizing them as soon as this goes on line on a mass stage. Right now some companies are importing but the volumes are very small that are being used only in high hand vehicles.

Arpit Kapoor: On the Sandhar Daewha JV which has the fuel pumps and oil filters so there also where would we be, where would our products be in terms of let us say product validation as far as OEs are concerned or how do you see that panning out in the next 12 to 18 months?

Arvind Joshi: Suffice to say that the motor that we are using is a brushless motor. It is possibly the smallest motor that has ever been produced, which makes it very convenient for it being inserted into a fuel tank and therefore we have a huge amount of traction from the customers in adopting this in their new fuel pumps. We are currently at a validation stage, where testing and validation is all happening and we should be ready while this has to go on block two years from now we are hopeful that we will have successful trials and validation by the end of this year itself.

Arpit Kapoor: Okay, and on the third JV, which you had highlighted the ACE one, shark-finned antenna for the cars, so I believe we have got the order for Honda if I am not wrong, so does that stand?

Arvind Joshi: We do not have JV. That is not a JV at all. That is a TC, a technical collaboration where we still have not got the order, we are still looking at orders in the antenna stage, we have got RFQs from the companies and we are working on those RFQs to satisfy them on development and on validation.

Arpit Kapoor: Okay and on our base business given the fact that again the current quarter numbers were impacted because of the three plant ramp up that we are seeing, so going forward you see revenues anyways was there, but we would see the margin uptick happening in the remaining part of the year?

Arvind Joshi: These have all started together. Jaipur started in the month of February or March, March I think is when the first billing took place. Oragadam again is a new unit, which took off recently. Hosur only started last month, so these are stages, which are more if you were to call from a technical standpoint, there are still trial production. We hope to reach sustainable levels in the next quarter and that is where hopefully the bottomlines will start showing the true impact. You see we hired almost 600 new people and there is no value ad per se from these people. They are in the process of being trained in these trial runs.

Arpit Kapoor: Of the new business status, there is this PV order of 60 Crores, close to 60 Crores so if you could just throw some light on what and would the margin profile for this would have been similar to the existing four wheeler business that we have?

Arvind Joshi: There are new lines of business. For example, in the case of car PV business that you said, there are new technologies that have come in. For example, in the case of cars, there are new smart handles that are now being introduced. There is the new Amaze which has come in which has the new smart hands that are new electric start, ESL they are called locks they have been just introduced so these are all new businesses which have got not only add to the newness of the technology but also add to our increased product portfolio.

Arpit Kapoor: Thanks a lot Sir. I will get back to the queue.

Moderator: Thank you. The next question is from the line of Pankaj Bobade from Axis Securities. Please go ahead.

Pankaj Bobade: Thanks a lot for taking my question. Congrats for a great set of numbers. Sir, you mentioned about the four JVs. Just wanted to understand how are we equipped to handle the new regulations using these JVs?

Arvind Joshi: Well, you are aware that with the new Euro-VI norm and in layman's terms the era of carburetors is over and what is required now is the new fuel pumps, which will also require the new context of air filters and oil filters and so on and so forth. So, we signed up for a joint venture with Daewha and we are in the process now of developing and validating the new fuel pumps. Now all 35 million vehicles in this country will require these new fuel pumps and still we are in a lead position to be able to get a market share as and when these come, so the new plant is under commissioning as we speak. A lot of equipment is being placed already. Some is in the process of being imported as we speak and some local ones are being established and commissioned and we hope to start producing our trial runs or starting trials from the next quarter. That is on the JV, which is towards the new emission norms if that was your question, right.

Pankaj Bobade: That was the question and this is one of the JVs what about the others. I just wanted to understand in relation to this what is the potential that we can reach?

Arvind Joshi: Well, I would not be able to give you a clear answer that will depend on the market share that we would get, but to give you a broad side a fuel pump typically would cost about a Rs.1000 and therefore if you are looking at 35 or 40 million vehicles to be built that gives you the size of the business. Now depending on whether we are at 10% market share or 15% market share that is for you guys to decide. But those are the basic ballpark numbers where the fuel pumps are concerned. The other mandate like I said earlier in the previous question is the rear parking sensors there are 4 million vehicles will move to have a mandatory rear parking sensors and the cheapest model of that would cost about Rs.1500 per vehicle. These are the two new mandates. There is of course some existing lines. I said the new fuel tank locks for example are undergoing a change but there we do not have a joint venture. That will continue from our existing fronts.

Pankaj Bobade: How about the two ventures?

Arvind Joshi: Those were about the emission norms. The joint venture of Jinyoung and Sandhar is for the AV and panel assemblies for Hyundai cars. That is more from an entertainment and comfort perspective where we have an order for all Hyundai cars and all chia cars with a capacity of 1 million that is already started ramping up. One more joint venture Sandhar Amkin where we are going to make helmets. Those helmets the trial runs have already been done. They are currently under government certification. We are probably the only ones who would be having EC clearance on all helmets that people use. Our target is to produce 2 million helmets per year by the second year and then build up a capacity for 10 million helmets a year.

Pankaj Bobade: You mentioned EC helmets?

Arvind Joshi: Yes the European Standards that is the European Commission Clearances.

Pankaj Bobade: Thank you Sir. Thanks a lot.

Moderator: Thank you. The next question is from the line of Shyam Sundar Sriram from Sundaram Mutual Fund. Please go ahead.

Shyam Sundar Sriram: Thanks again for the opportunity. Sir we supply mirrors to Ashok Leyland while I understand Ashok Leyland is not a major customer for us from an overall revenue perspective, given the change in Axle load norms, are we seeing any cuts to our production schedule?

Arvind Joshi: Not yet, nothing. So we hear a lot. We have been reading in the news as well, but there is no change in our schedule so far.

Shyam Sundar Sriram: Thank you Sir. That helps. In helmets you mentioned 2 million helmets as per the European Standard, this is majorly for the Indian markets only, right Sir?

Arvind Joshi: We will be looking at imports also.

Shyam Sundar Sriram: In terms of distribution how do we plan to go about the distribution?

Arvind Joshi: While we are still at a stage of building our marketing strategy and we will be able to answer this more probably by the end of next quarter when we role out our first helmet.

Shyam Sundar Sriram: Thank you Sir. That is it from my side.

Moderator: Thank you. The next question is from the line of Amish Kanani from JM Financial. Please go ahead.

Amish Kanani: Sir, two questions from my side. One is you mentioned that two wheelers have started on a very good note this quarter and this has not happened since last five years, if you can share your thoughts on why this has happened and is it because of those last year this quarter there was some GST impacts, so is it because of that and do you see this sustaining beyond say one year? Is it something very different that probably you are seeing on the ground? Second question is you have given us new business but if you can also tell us the outstanding order book kind of a thing, if we have or some visibility of how long we have these order book/pipeline/commitment from clients? Thanks.

Jayant Davar: Arvind mentioned earlier that our new business that we say is business that we had not had so far, so it is not an exchange of business, it is not substitution of business, this is new business in terms of new components. This is in addition to the organic growth that we are seeing with our current businesses, so if there is an auto industry growth and this is an additional business that we have got. So that should give you a feeling of where we are headed in terms of numbers are concerned. Insofar as your first question is concerned, which has to do with the two wheelers we see the two-wheeler sentiment to be extremely strong at this point of time. I feel there is a scenario where there might be a dip in the two-wheeler segment once the new emission norms happen in April 2020. There is a likelihood because there would be a sharp price increase in the two-wheelers, all kinds of two-wheelers. There is likely to be a jump before may be one quarter or two quarters before in the uptick as also post people getting used to the idea and we have seen that in the past whenever there had been new norms that have come in that leads to a price increase there is a dip that happens when that happens, so there is a likelihood that there would be let us say a lower number of growth, lower percentage of growth in the year 2021, but till then I feel the market is huge. In fact, it could get a bump up in a quarter or a couple of quarters before us.

Amish Kanani: Sir, you also mentioned about Honda ramp up issue, so while I understand that you may not be able to share a very detailed client level understanding, but if you can just tell us what is planned and whether the loss of volume or whatever our expectation was? Will it be more than compensated for the rest of the year?

Jayant Davar: Well, that is the bases on which we are working. We expect our numbers with Honda to be higher than those of last year. As of right now, I think we are still behind by 12% or 13% on last year’s numbers, but our expectations are very clear. We are down by 13.68%. This is YTD July but July itself picked up in terms of a lot of coverage and we expect this to be more than covered by the end of the year. In fact we are looking at bigger numbers than those of last year.

Amish Kanani: Sir just a clarification on the new business part of it the car segment, we have been showing 59 Crores, maybe part of that would be from this time right?

Jayant Davar: Yes.

Amish Kanani: Thanks a lot Sir. All the best.

Moderator: Thank you. The next question is from Raunak Sarda from Axis Capital. Please go ahead.

Ronak Sarda: Couple of questions; first on Honda cars. Sir we are like almost 100% share of supply, we supply to Honda so will the status remain the same and any other new product added during the year?

Jayant Davar: Like I said, we are the only supplier, you are absolutely correct. We are looking at some more value add within the componentry that we supply. So, in the locks that we were supplying we used to import let us say a number of magnesium casting components, now those being very high value added and we now got machines to localise those. So we are at this point of time in the process of setting up the magnesium casting line, which will then effectively means that we will have a higher set of value add within the some components. The size of that like I said, we have got the orders for the electric start, which obviously means that the value of the lock itself would more than double. Similarly the handles that used to cost an X amount would probably now cost 3x or more because of the smart handle in production, so within the same framework of the componentry the value add and the price itself is going to give us a much bigger jump in terms of value per car.

Ronak Sarda: That is interesting to hear. Sir, this smart handles would be across models or it is for certain model like Amaze entirely would be smart?

Jayant Davar: It never starts in one car, obviously gets attributed to everyone, and because Amaze is still not the highest at the car, that is being localised, you can understand that this will go into every category and not just that once you localize for Amaze then the volume start building in the country and the imports that they have even for the high end gets converted to localized material supplied by Sandhar.

Ronak Sarda: Right, I understand. Sir, second question was on your commodity cost. I mean, have we entirely seen the impacts of higher commodity and we would be waiting for the pass through from the customers or there is more commodity impact to come in?

Jayant Davar: Well that is an astrologer’s call. I would not be able to comment on that.

Ronak Sarda: I am just asking as on today, for the last quarter?

Jayant Davar: As Arvind already mentioned there is a lag in us getting some price increases those are in negotiations and there is always a lag between when the commodity price goes up and the time when we get it from the customer. We are expecting some of those previous ones to be credited to us now. But what is going to happen is this the maximum that these commodity prices will go and in case there is more lags to come in that is very difficult for me to answer today.

Ronak Sarda: That I understand. Sir, finally again on employee expense; have we seen the entire employee cost hit coming in this quarter for all the new plants or is some bit being capitalised and there might be some more increase in employee cost? Just want to understand the way we account?

Arvind Joshi: No, there is no capital accounting on this. It has all been expensed.

Ronak Sarda: All being expensed. Perfect Sir. That is really helpful. Thank you.

Moderator: Thank you. The next question is from Mahesh Bendre from Karvy Institutional Equities. Please go ahead.

Mahesh Bendre: Thank you for the opportunity again. The 276 Crores new business that we have shared in the presentation is it a yearly business and when this business will start?

Arvind Joshi: Well, the business has already started. And this is an annual number of the new business.

Mahesh Bendre: So annually whenever it stabilises it can generate 270 plus Crores of revenue additional?

Arvind Joshi: Yes, we will possibly be able to do a little over half this number in this current year and from next year onwards obviously it will go to full numbers.

Mahesh Bendre: Great Sir. Sir, what is the capital expenditure plan for the next two years at the Sandhar at the standalone level?

Jayant Davar: So, as you said that we are trying to keep it at the level of the depreciation and so far in Q1 it has actually following the same trend, there is no new major capex coming in from a customer perspective, but certainly if there is an opportunity which comes up we might look at it closely in terms of ensuring that the parameters which we follow for the purposes of setting up of a plant would have to be kept in mind. So as of now, whatever is there, it is all related to and considering the fact that it would not exceed the depreciation charge.

Mahesh Bendre: Okay and going by the trend it seems that we will become cash positive next year, so are we indicating that the additional cash that we will generate we will probably use for inorganic opportunities if it at all comes?

Arvind Joshi: Well, we cannot say what opportunities will come our way, but certainly with our ambitious growth plans we would not shy away from an opportunity which comes up keeping in mind the fact that our return on capital employed and return on equity investment the ratios remain intact.

Mahesh Bendre: Sure, and Sir, aluminium die-casting facility the two new plants have started generally we have seen in the past that aluminium die-casting there are initially lot of rejections take place at manufacturing level and that clearly influences the impact the margins of the companies so was that also a reason for the drop in the margins?

Arvind Joshi: It was not a drop because of the quality reason, it was just start up cost. We had gone through those rejections levels in the past two years when we started this particular business, so in terms of quality those have been established already, but obviously a new plant where capacities in terms of their trial runs, in terms of hiccups with people training and so on and so forth which are a normal part of any new setup. That is what we have experienced in the last quarter but now I think it is on the mode to stabilisation.

Mahesh Bendre: Sir last question, in terms of growth outlook, last year has been quite strong for us. We grew by more than 20% and our operating margins were in double-digit so what kind of outlook we should see for the next 24 months say for FY2019-2020?

Arvind Joshi: I would not be able to give you an exact number, but I see no reason why there should be any difference than what they were last year.

Mahesh Bendre: So it is reasonable to assume that we will be able to grow 20% for the next two years?

Arvind Joshi: Well, I do not know about two years, but I can tell you that this year you will see in the first quarter we are up 26%, the order books remain strong, the auto industry and the sector looks very, very robust at this point of time, and we have our fingers crossed that things should move even faster. We now have the festival season that is coming in. We see no reason why there should be a dip in this. Of course next year you have elections, so I do not know where the wins will flow, but this year it looks good.

Mahesh Bendre: Sir, operating margins we were in a double-digit last year, 10.7% so given the rising commodities and the new plant start up, do you see we will be able to hold on these margins for this year?

Arvind Joshi: Yes, we are quite confident.

Mahesh Bendre: Thank you Sir.

Moderator: Thank you. The next question is from Preethi R.S. from UTI Mutual Fund. Please go ahead.

Preethi R.S.: Thanks for the opportunity. Congrats for a good set of numbers. Sir, my question is on the cable and fabrication business, so how are we performing as per the targets, if I recollect it right we are targeting 500 Crores revenues from this segment particularly and also we have a new customer Kobelco in Chennai, so in addition to JCB the other customers how is the production ramped up?

Jayant Davar: This business as we speak is growing by about 65% in this current year, by July sales our numbers were about 93 Crores vis-à-vis 56 Crores of last year. We expect these numbers to grow at the same pace if not faster. We do not have a budget of 500 Crores in this year, but this entire thing will be over 300 Crores is what we are looking at which will be a substantial jump over last year. We expect that the new investments that we made in Jaipur, in Chennai they still have margins of improvement in terms of capacity utilisation and these should ramp up very quickly.

Preethi R.S.: Correct, so 500 Crores would be FY2020 or FY2021? Is that right?

Arvind Joshi: That is right.

Preethi R.S.: And the margins in this segment would be better than our company's average margins?

Arvind Joshi: Well the margins should be about the same? It is a fabrication business and we expect the margins to be almost at the same level of most of our commodity use.

Preethi R.S.: Got it. Thank you and good luck.

Moderator: Thank you. Next question is from Amish Kanani from JM Financial. Please go ahead.

Amish Kanani: Sir, is it possible to split our gross block. We had those old gross block which represents new investments that we have made, if you can split our current gross block into the old gross block and the new business, if you can attribute the new business that we have got 276 Crores what is the kind of gross block that we have added and you know what is the gross block that is probably still not getting any business and/or still potential for new annual business that we can get from there? Some approximate number would be helpful. Thanks.

Arvind Joshi: So we added about 150 Crores in the three units, which is at Jaipur, where we added about 32 Crores, Oragadam where we added about 52 Crores and Hosur where we added about 63 Crores. So these are currently at suboptimal level in Q1 but certainly by the end of the year all the three units would be running full stream and next year onwards, you would see the complete ramp up playing out for the company. Apart from that there is about 20 Crores of gross block, which is locked up in land, which is unutilized and which we would be keeping in mind for our new projects which are likely to play out in the next one year's time.

Amish Kanani: This 276 Crores new business that we got, how much is that attributed to these three plants where we have made this investment of 150 Crores and how much is from the old gross block that probably we had or it is coming from…?

Arvind Joshi: About 120 Crores of revenue is coming in from the new business.

Amish Kanani: Okay of the total new business that we have got this year of 276 Crores.

Arvind Joshi: Yes.

Amish Kanani: And the balance is from the old businesses and capacity ramp ups?

Arvind Joshi: Absolutely. So lock assembly itself is about 78 Crores, mirror assembly is about 35 Crores, our zinc die-casting plastic components put together is about 20 Crores, sheet metal components is about 48 Crores.

Amish Kanani: Sir, this you are saying is old ones?

Arvind Joshi: Yes. Thanks a lot.

Moderator: Thank you. We will take that as the last question. I would now like to hand the conference back to the management for any closing comments.

Arvind Joshi: I would just like to thank you all for bearing with us for giving us this possibly our first experience even call making. We would love to get your comments through email or whatever and we would be happy to respond to any of your questions even supplement to this particular call. Thank you all very much for today.

Moderator: Thank you very much. On behalf of Axis Capital Limited that concludes this conference. Thank you for joining us ladies and gentlemen. You may now disconnect your lines.