



“Sandhar Technologies Limited  
Q2 FY2020 Earnings Conference Call”

November 06, 2019



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**Moderator:** Ladies and gentlemen, good day and welcome to the Sandhar Technologies Limited Q2 FY2020 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 questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by entering '\*' then '0' on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Nikhil Kale from Axis Capital Limited. Thank you and over to you, Sir!

**Nikhil Kale:** Thank you Janice. Good morning, everyone and welcome to the Q2 FY2020 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, CFO & Company Secretary, Mrs. Charu Khatri – Head Resource Mobilization & Investor Relations. I will now hand over the call to Mr. Davar and Mr. Joshi for their opening remarks, post which we can have Q&A. Over to you, gentlemen.

**Arvind Joshi:** Thank you ladies and gentlemen for giving us an opportunity. We would start by saying that we are pretty satisfied with our performance. We have been consistent in our performance in the sense that we have still outgrown the industry in the sense that while the industry degrew at a rate of 14%, our own degrowth was just about 10% and this has been a steady state of affair for the company. As was expected Q2 was suppose to be lower than Q1 as we had started seeing a declining trend month-on-month for the last almost about 12 to 13 months now and the numbers do not surprise us, but certainly it could have been a little bit better, but for the construction equipment business which saw a huge amount of decline of over 40% to 50% with most of our customers, however having said that, company did well to arrest the steep decline in the construction equipment business and restrict it to just about a 12% decline on an overall basis.

From an overall revenue perspective and all, if you look at our Q2 numbers, we had a decline of sales by 17% on quarter-on-quarter basis; however on quarter-over-quarter basis the decline was about 9% and this explains the declining numbers with regard to EBITDA, PBT, PAT; however again as we would like to say we did well in terms of ensuring that our margins remain above 10% as against 11.1% we had a margin of about 10.8% on a consolidated basis on Q2.

On the H1 numbers, we had a decline by 10% versus last year as compared to H2 of FY2019 our decline was about 9.1%, in terms of EBITDA we had a decline by 10.9% however compared to H2 our EBITDA declined by almost 17.9%, PBT declined by 38.6% on H1 FY2019 versus H2 the decline was a steeper decline of 42.3% the main reason being attributed to the increase in the losses from our joint venture companies which of course are

seeing headwinds at the movement what with the passenger vehicle segment not taking off in the manner which we had expected.

The hallmark of this quarter's performance has been a good balance sheet management. We did well in terms of restraining our outflow and as you would notice from our balance sheet, we have ensured that the cash flow remains healthy, we have been able to reduce our borrowing to almost about 44 Crores this is despite the fact that we had almost about 45 Crores of follow through payment to capital creditors, which were flowing in from the previous year. Had that not been the case our standalone levels would have come down significantly lower, but going forward with the new Capex commitment of just about 13 Crores we expect that our short-term loans at the standalone level would come down significantly from 70 Crores to about 50 Crores and on a consolidated basis we are likely to see the numbers moving down from 218 Crores to somewhere around 190 to 200 Crores.

Our working capital management has been fine, we have ensured that despite the steep decline from the customers as well we do not slip in terms of our payouts to our creditors and hence everything on the balance sheet side seems to be in order.

Despite the fact that the auto sector has declined, we are seeing a good amount of momentum building up with regard to the passenger vehicle sales we are also seeing transition which has actually been hastened by the OEMs in the sense that the BSVI component started moving to the customers, the order book position we have been able to gain almost about 114 Crores of new business specially with regard to the BSVI components in which we were not participating earlier and hence the BSVI is actually thrown positive for the company and ensured that our order book remains very healthy at about 250 Crores of new orders of which 114 Crores is contributed only on account of the BSVI transition which is going to happen. We have started seeing OEMs lifting the BSVI components and which means that the BSVI roll out would actually happen much before April 1, 2020.

On the JV side, as we said of course our numbers have not been very encouraging, but we would just like to mention here that these are start up times for the JVs, most of the JVs would take us into the passenger car business and hence we believe that FY2021 should start giving results and we would be in a better position to talk about them going forward.

**Moderator:**

Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. We take the first question from the line of Abhishek Jain from Dolat Capital. Please go ahead.

**Abhishek Jain:** My first question is related with the vision system revenue which degrew on 30% Y-on-Y in the first half which is higher than the industry degrowth so just wanted to understand the underperformance of this region have we loss some business in that part?

**Arvind Joshi:** So most of the business in the vision systems was coming in from the two-wheelers and the commercial vehicle business, and you would notice that the commercial vehicles have seen a steeper decline on an overall basis at the macro level and that has been one of the reasons. However H2 should be better actually we have gained new business in the mirror systems and hence this is the cause of concern there is no loss of business but just about the nonperformance at the movement of the commercial vehicle segment.

**Abhishek Jain:** Sir what is the size of this new business and what sort of the revenue degrowth you are looking in FY2020?

**Arvind Joshi:** So of the 260 odd Crores of new business, mirror vision business is almost about 31 Crores and most of it is actually flowing in from the commercial vehicle segment.

**Abhishek Jain:** Sir my second question is related with the sheet metal business that also underperformed and degrowth is around 24% on first half. So can you throw some light on that and what is your strategy to revive this business?

**Arvind Joshi:** Sheet metal business is predominantly for our two-wheeler business and also part of our half highway vehicles business where we do cabins as well as sheet metals fabrication. So it is just about the industry not performing well at the movement which has caused this particular decline, however as the construction equipment business starts moving up you would see growth coming in, in this business also.

**Abhishek Jain:** As you mentioned that cabin and fabrication business degrow around 12% in the first half. So just I wanted to know the revenue contribution of Kobelco, Komatsu and JCB in overall pie?

**Arvind Joshi:** So while the industry per se has degrown by 40% our business of the cabin and fabrication business degrew by about 12%, we have gained actually new businesses from Kobelco and Komatsu and Volvo. So new business is not a problem, the problem is with regard to the industry offtake per se and especially with regard how JCBs own performance has been which is the market leader in the off highway vehicle segment.

**Abhishek Jain:** So what is your revenue target for next two years from this business?

**Arvind Joshi:** For cabin and fabrication business we are looking at almost about a 20% compounded annual growth rate in the next three years.

**Abhishek Jain:** Sir just first half although the revenue declined 12% just wanted to understand on EBITDA and PAT front because earlier this business was a loss making. So in the first half just wanted to know what is the bottomline improvement?

**Arvind Joshi:** So except for our Jaipur business which is still facing some headwinds, price corrections from the customers offending other than that every other business is okay, pretty okay for us like this is the business which has an EBITDA margin about 9% to 10% with the volume so currently it is operating at negative there is a negative operating leverage operating in this particular business and with the volumes moving up we would certainly seen this particular business moving back to the above 10% EBITDA margin.

**Abhishek Jain:** On the PAT front?

**Arvind Joshi:** Well at the PAT so we do not actually calculate PAT vertical wise but the situation where we have already we have reduced our borrowing and the interest cost etc., which is definitely going to come down significantly, on an overall basis our PAT margins are going to be healthier from here.

**Abhishek Jain:** Sir just wanted to know about the outlook of die casting business. So apart from the Tata Hitachi, revenue from other clients are showing significant decline. So just wanted to know what is the outlook of this business and what is your target for the next two years?

**Arvind Joshi:** You are aware that we set up a new plant in Hosur at a cost of almost about 70 Crores the aluminum die casting if you look at the aluminum die casting business it is actually contributing almost 19% to the overall revenue of the company which has moved up from 16% to 19% and going forward also we have actually gained a new business out here Yamaha is the latest entry we would have an annual revenue of almost about 35 Crores coming in from Yamaha Motors, so we are expanding our customer base with regarding to the aluminum die casting business and with the ramp up taking place in the auto sector and with most of our customers you would see this particular business to growing at a compounded annual growth rate of about 20% in two to three years time.

**Abhishek Jain:** Sir you have also setup plant for increase an RE for the aluminum die casting?

**Arvind Joshi:** That is the Hosur business and the Oragadam business.

**Abhishek Jain:** Sorry Sir.

**Arvind Joshi:** That is the Hosur unit and the Oragadam unit in Chennai.

**Abhishek Jain:** And what is the current capacity be likely Sir?

- Moderator:** Abhishek Jain I am so sorry to interrupt requesting you to please rejoin the question queue for your follow-up as we have people waiting for their turn.
- Abhishek Jain:** Okay, thanks.
- Moderator:** Thank you. Next question is from the line of Ameen Pirani from Yes Securities. Please go ahead.
- Ameen Pirani:** My question was also on the aluminum die casting I can see that even in your new business update it is a single largest part of your order book. So my question which you have answered partially is that is it buy purely by new customer addition or are there newer components also coming in because of emission related changes?
- Arvind Joshi:** Well it is a combination of both as I said that we added up Yamaha as one of our customers apart from that we have actually increased the content per vehicle exploring in from different customers all together we have TVS, TVS as one of the biggest contributors, we have Royal Enfield also coming in and so the product base is also increasing with regard to the aluminum die casting business and also the product value per unit is also increasing as they move into higher heavy aluminum die casting component.
- Ameen Pirani:** One question is the aluminum die casting business different in as far as the return on capital is concerned compared to the other businesses because historically companies who have done aluminum die casting exclusively their return on capital seems to be different from the other business that you do. Is there a difference am I getting it wrong?
- Arvind Joshi:** You are right partially in the sense that yes it is a capital intensive business, but once you set up the capacity it all depends upon are you able to manufacture value added components or not. So if you are only dealing in commodity products not requiring too much of design capabilities and all then certainly it would be the return on capital employed would be lower however if you come up with larger components requiring complex design versus hole capacities and all then certainly the value addition is larger and return on capital employed also increases.
- Ameen Pirani:** Are we doing a lot of machining also or this is still being done at the OEM?
- Arvind Joshi:** It started commissioning activity from our Oragadam plant.
- Ameen Pirani:** Just lastly I can see that in your customer breakup I mean only one OEM has actually shown growth for you which is TVS so is it because you were with some new model or it is just organic market share gain?

**Arvind Joshi:** No it is because of the new products in the aluminum die casting business, it is in terms of increasing content per vehicle.

**Ameen Pirani:** Great thank you.

**Moderator:** Thank you. We take the next question from the line of Abkit Merchant from SMC Global. Please go ahead.

**Abkit Merchant:** So my first question is related to the production guidelines for BSVI specifically from Hero, TVS and Honda and have you actually started working on them?

**Arvind Joshi:** Hero has actually started taking the BSVI components from us they have started preparing for the BSVI vehicles. TVS is also following suite and so also Royal Enfield. Something which was actually to start the offtake which were to start from the month of January onwards have actually been preponed by most of these OEMs and so from that perspective I think we are fully geared up we are all prepared for our BSVI components and there is no issue out there.

**Abkit Merchant:** What is the pricing difference between the products which you do for BSIV and BSVI.

**Arvind Joshi:** Most of the BSVI business which we have gained our new products all together and with regard to the other we have several components in several categories the sheet metal, aluminum die casting it would be difficult for me to pinpoint and say what will be the pricing differential, but certainly there is a pricing differential of about 10% to 15% on an average.

**Jayant Davar:** Now let me supplement this. My name is Jayant Davar, let me just supplement this by saying for us for Sandhar we were not into any power train components earlier which meant that we were if we were agnostic to whether it was BSIV or BSVI our components were not in that range, we have added now components which are getting affected by BSVI and therefore it is a new line of revenue for us and therefore there has already been a pickup now, you have already probably seen in the press that Hero has already launched the Hero VI vehicle and some of the others are following suite quickly. We are now prepared with going ahead with volume production of BSVI. We have crossed our limited view to when their retailing will start in their organized fashion, but yes from a production side these companies are ramping up every month for the levels and the numbers of BSVI vehicles that they would be producing, does that answer your question?

**Abkit Merchant:** Yes, definitely and next question is related to the employee cost and can you shed some more light on it and have you seen across your manufacturing plants from the temporary workers some hike in their wages specifically in the southern side?

**Arvind Joshi:** While in absolute terms you would have noticed that our employee cost have actually come down significantly. If I compare on the quarter-on-quarter basis from an 82 Crores our employee cost have come down by almost 9 Crores to 73 Crores in just Q2 even as compared to Q1 of this year we brought it down from 77.5 Crores to almost 73 Crores so what we have been doing it, we do not have too much of flexibility with regard to reduction of employees because in any case most of our labor is on contractual basis so there is enough elasticity, the business comes down we have naturally lesser number of people operating and if the business goes up we have a higher number of people operating, but what is important out here is that we do not believe in cost cutting per se, but certainly cost optimization is always on the platform on the table for us to keep working upon and it is a continuous process, whatever be the time whether it is good time or bad time.

**Abkit Merchant:** Sure, but on the wages front has there been any revision upward revision?

**Arvind Joshi:** No, at least for H1 there have been no revision.

**Abkit Merchant:** Thank you so much I will come back in the queue for more questions.

**Moderator:** Thank you. Next question is from the line of Mahesh Bendre from Karvy Stock. Please go ahead.

**Mahesh Bendre:** Sir last few quarters our operating margins are in the range of 10% now, earlier we were hopeful that we will be crossing around 11% to 12% so it is understandable given the downturn in the industry we are seeing, still 10% is well in this environment but still going forward what is the outlook for the operating margins?

**Arvind Joshi:** See couple of things have played out here, one is of course that with high margin but so there has been an adverse product mix with regard to the sales, contribution of lower margin business has been higher this half year as compared to previous year. You would have notice that there has been decline in the sales of locking systems, vision systems, door handles and others and these are high margin business head to it the fact that the construction equipment business declined by almost 40% and naturally it put immense amount of pressure to digest 40% decline in sales actually mean that you should be actually incurring losses, however we have been able to arrest the decline to a substantial extent by ensuring that we consolidate our business and take a hard look in terms of how the margins move.

Once the ramp up starts we are pretty confident that our numbers of 11.5% of EBITDA margin is there to stay and we do not see too much of challenge coming it out here. If you look at our expense structure you would have notice that we have done enough in terms of ensuring that the cost do not spill of even if the revenue comes down and that is where we



stand and we are hopeful that the margin expansion would certainly take place once the ramp up starts.

**Mahesh Bendre:** Sir what could be the current utilization in our factories on blended basis?

**Arvind Joshi:** You know Mahesh that we operate in different mobility segment and hence it would be difficult to say in terms of really quantify the capacity level, but certainly on the construction equipment business we are currently operating at about 45% to 50%, on the aluminum die casting business also we are currently operating at about 50%, for the rest of the business those are our semi line biasness where it is difficult to quantify the capacity utilization, but certainly with 15% to 16% decline in the revenue on our locking systems and billing systems, they are actually working on single shift as against double shift.

**Mahesh Bendre:** And Sir what is the outlook for our business going forward and may not be in this quarter but at least the next year or so?

**Arvind Joshi:** So the steep decline at the PBT level has been mainly on account of the increased losses from the JV companies which we are likely to arrest. Our Jaipur plant, once the JCB sales starts moving up, our Jaipur plant should start breaking. Our Hosur and Oragadam plant are already back and they are generating healthy margins in the vicinity about 8% to 10% on a blended basis, I see no reason, we see no reason why the number should not be positive from here.

**Mahesh Bendre:** On a Y-o-Y basis sir, Q-o-Q sequentially you are taking about?

**Arvind Joshi:** Well except for Q3 where the numbers are muted, we believe Q4 should start yielding results as we move closer to the BSVI transition.

**Mahesh Bendre:** Sir 257 Crores of new business that we have achieved so when that business will be starting and is this the yearly number or is it a straight over a period of time?

**Arvind Joshi:** No it is a annual business award of 257 Crores of which in the first half the projections which we had got for the offtake was about 25 Crores. However the actual offtake was just about 12 Crores so you can make it out that the OEM themselves are not picking off although we are all geared up.

**Mahesh Bendre:** Sir then for FY2021 will there be a pickup from this business assuming that the overall two wheeler market behaves in a reasonable manner?

**Arvind Joshi:** For the H2 portion the new business would have translated into 50 Crores of new sales, now let us see there this 50 Crores actually ends up.

**Mahesh Bendre:** Sir last question is on JV performance we have not been able to scale up on those, so is this our strategy to go slowly given the current environment where we are operating into or is it that there is some change at business level?

**Jayant Davar:** Mahesh ji let me come in here to give you an onsite on the JV business, there is a diversified portfolio JV companies that we have gotten into and in each one of them there is a different scenario, but for the fact that most SOPs so for example our SOP for the sun visor is routed to March of 2020 and then that is the time when the business takes off, the same thing happens with shocks in antenna which takes off in the start of production is March 2020. There is a backward integration of cable business which will supply into the shock business, so at this point of time if you look at the portfolio companies most of them are going into are more in the project stage and we expect that you will see some inaugurations of our plants that happen in the month of January and February.

Going forward in the next year is when you will see a reflection of the revenues coming from these joint ventures. Now some of them have got delayed because of the way the industry is performing now and you ask this question as to why two orders have not converted into full revenue is largely because the number of models for our customers have also been delayed. So as and when if those delayed numbers could be between three months to six months that is the extent of a delay that we will have in our supply of parts. So both for the joint ventures as well as for this we expect if the market picks up, new models come in our new business is go into play and in the next year of course the joint ventures are going into production and therefore you will get some idea of the revenue that comes in.

**Mahesh Bendre:** So you have cumulatively invested around 52 Crores in this so how much investments we are expecting going forward at least for next two years?

**Jayant Davar:** No we have cut short on investments largely if you look at it Arvind gave you a number of what kind of so you are aware that we have been investing over a 100 Crores every year for the past five, six, seven years. However having said that that has been brought down drastically one the investment requirement has gone down because the investments have already taken place there are some top up kind of investments which are being done as we speak and which are likely to be done in the next year or future but they are a very insignificant number compared to what we have been doing in the past.

**Mahesh Bendre:** Sure thank you Sir.

**Moderator:** Thank you. Next question is from the line of Shyam Sundra Shriam from Sundaram Mutual Fund. Please go ahead.

**Shyam Sundra Shriam:** Sir on the BSVI components what kind of components are we manufacturing because the Daewha Fuel Pump JV did not take-off if my memory services right Sir, is there something new that we have started recently or is there something more of aluminum casting parts on the engine side, if you can throw some more color on that.

**Arvind Joshi:** Just to give you an example, if I be specific in regards the product we have started because we gain business on e-purge canister valve from TVS.

**Shyam Sundra Shriam:** Canister valve, okay.

**Arvind Joshi:** Canister valve so there is a combination of it, it is just not only about the aluminum die casting components but it is going beyond that. Sir you wanted to add.

**Jayant Davar:** So there are aluminum parts which are new to us we are aware this is a new business that we have kind of incorporated and therefore several parts are Euro VI specific parts which is new business for us completely and surge while that we are talking about is mainly plastic it falls in to one of our component less of the commodities that we do so it is a wide range of new components which to us is completely new business.

**Shyam Sundra Shriam:** Sir on Hero side till last year somewhere middle of last year we were doing better than the underlying production now we seem to be broadly in line slightly better but broadly in line is this because the scooter business for Hero has not really performed and that is why we are now come back to in line kind of numbers?

**Arvind Joshi:** I would just say that yes certainly the scooter business has been on a decline for Hero but most of the new model launches have not taken off you would appreciate that in the absence of the new product launches, the revenue attrition which takes place from the new components stays back and that is where the whole issue has been.

**Shyam Sundra Shriam:** Understood. Sir on the aluminum die casting while we have spoken about the potential there, are we are making positive EBIT margins there Sir post the depreciation?

**Jayant Davar:** Yes.

**Shyam Sundra Shriam:** Okay and the utilization levels in die casting still seems to be lower is this because of the industry phenomenon or is there anything else to it Sir?

**Arvind Joshi:** No it is more to do with the industry phenomena, the TVS sales per se has not taken off, our new component SHA to be launched and that was the only reason, currently we are on a EBT positive with regard to the aluminum die casting business, in fact last year we were negative of about 2 Crores which has now got converted into a positive of 6.5 Crores.

**Shyam Sundra Shriam:** That is very heartening to hear Sir. Sir on the JV side our Jinyoung Sandhar and Hansung while they have about 6 to 7 Crores of revenues, still they are loss making because these were a JV that have been running for a couple of years now. Any commentary why they are loss making Sir is this something therefore the pricing there or any other?

**Jayant Davar:** No, so the way this particular year we have added a new paint shop to the JEM business and when we added the same shop we expected the same shop because now we were in full role production but Honda volumes have fallen drastically on the models that were got to be launched and the models that are there. So there is a drastic upward movement in the plants that we have built in for next year and therefore you see the losses. Now what has happened is because of the capacity increase in play for Sandhar Hansung as well which supplies in to JEM on one end and has got other customers on the other, we have been continuing to add capacity. Now the capacity is now there but the utilization has kind of got delayed to where it should be. So therefore you see the reasons of the losses continuing. We expect both these units to be positive in the next financial year.

**Shyam Sundra Shriam:** Sir so broadly we will be supplying to all of Hyundai models or is this from...

**Jayant Davar:** All Hyundai model all, so Hyundai was one company as there are customer which was missing from our portfolio three years ago. Now the JVs as well as from our organic platform, Hyundai will become a major customer not only for the audio panels that we have spoke about in JEM but also for the shorter antennas also for the sun visors and also several other products that are being discussed as we speak.

**Shyam Sundra Shriam:** Wonderful Sir and any rethinking on the Amkin JV Sir.

**Jayant Davar:** No rethinking at all on the helmets business we started the business and the proper commercial production or commercial sales started only in the beginning of this financial year. We have ramped it up from I think we started off with 400 pieces in the first month went up to 4000, 8000, 16000 we have done 44000 this month and we plan to be in the range of about 1 lakh numbers by February or so, so that is the business that goes on the only thing is in a helmet business you need to have a much more number of models in play, it is not a business where you can work with just one model so the model expansion is happening as we speak and the choice to our customer is growing, there is a huge amount of demand and we expect this to be brought into our forum as we go along every month. So production is growing every month.

**Arvind Joshi:** I will just make some supplement here. So the marketing efforts have already started you would start to see our helmets being available on online platform also and as the brand visibility increases, the quality we are pretty confident that our quality is much ahead of our competition and it is just about the brand visibility for which the marketing efforts are need

to be ramped up and as our production gets ramped up we have certainly see lot of traction taking place in this business.

**Shyam Sundra Shriam:** So currently we will be supplying only to OEM Sir from this...

**Arvind Joshi:** No, we are currently started off with the aftermarket because the OEMs take time but at this point of time we are almost on let me say contract signing stages with all the OEMs, who have gone through their testing cycles and so on and so forth and they have picked up their specific models that they want us to go with.

**Shyam Sundra Shriam:** Sir a couple of housekeeping questions on the gross margin front we have seen an improvement on a quarter-on-quarter basis what has led to this improvement is it because of the construction business as they are going down and therefore the mix improving is that the reason there or is there because we will have to pass through any raw material benefits to the OEM right. So what has led to this quarter-on-quarter improvement in gross margin?

**Arvind Joshi:** Well of course yes the major component comes in from the fact that our labor cost we have initiated our labor optimization in most of the units, each of the units they do not increase the labor there had been some sort of price reduction coming in, in the raw material side so as we follow very conservative policy whatever is due to us from the customer we do not account for till the time we actually get the revised order however whatever we need to pass on to our suppliers we do it immediately and we do not wait for the customers here. So the most of the increase what you see is only on account of the fact that our accounting, conservative accounting ensures that whatever is to be given needs to be accounted for immediately. So you would notice that our Q4 turned better always it is a historical fact that Q4 always turns our better EBITDA margins and EBT margins also for the simple reason that now we follow this conservative accounting policy.

**Shyam Sundra Shriam:** Sir on the cabin fabrication are we making positive EBITDA margins now?

**Arvind Joshi:** For Jaipur no, but for Oragadam we have started making positive EBITDA margin and in Pune in any cases there are positive EBITDA margin business along with Bangalore.

**Charu Khatri:** Our cabin and fabrication division is making positive EBITDA margin.

**Arvind Joshi:** We have filed 40% to 50% decline in sales with most of the customers.

**Shyam Sundra Shriam:** Great Sir, wonderful. Sir just one more question on the tax rate Sir what is our decision on the tax rate front going forward, effective tax rate seems to be at 28% for 1H.

**Arvind Joshi:** We have already moved into a tax reduction regime so we are opting for this 25.17% effective tax rate that the government is promising we have nothing to loose here we do not carry any incentives whatever was available for Haridwar unit even that has got left so there is no point in continuing to maintain the higher tax regime and this has also added up we are likely to save almost about 8 Crores of tax in this particular financial year itself.

**Shyam Sundra Shriam:** So for the full year we will be at the 25.5% kind of a tax rate on a full year basis effective tax rate?

**Arvind Joshi:** Effective tax rate is somewhere around 25.1%.

**Shyam Sundra Shriam:** Okay, thank you Sir that is it from my side, I will join the queue.

**Moderator:** Thank you. Next question is from the line of Anish Kanani from JM Financial. Please go ahead.

**Anish Kanani:** Sir the tax rate question has already been answered I am sorry if you have covered the demand part of the question on the initial remark which I missed for first five minutes. But the question Sir is this year we have seen in the first half degrowth of 10% last year second half was almost repeat of first half in terms of overall revenue. So the question is at this point in time whatever is the demand situation on the ground and the inventory situation at an OEM level, do you think we will you be able to grow in the second half in the current year over last year second half and if so directionally at least how are you seeing this?

**Arvind Joshi:** No, we are pretty positive with Q4, Q3 is likely to be flat we would do well if we are able to maintain the same revenue numbers as we have for Q2, but certainly Q4 should be giving us positive revenues.

**Anish Kanani:** Second half this year should be slightly better than last year second half right because we are entering a slightly lower base?

**Arvind Joshi:** Yes.

**Anish Kanani:** Sir this new component business BSVI do you see that as a large opportunity or it will be in the at least fourth quarter you are saying that it will be, so will it be early large or in the initial few months, it will be on a low base and ideally?

**Arvind Joshi:** As we said that this business is almost that the new business on the BSVI is about 114 Crores business. Now all this 114 Crores is definitely going to flow in, in the next financial year. This year it is estimated that this would be somewhere around 18 Crores business.

- Anish Kanani:** And Sir that is part of the new business of 57 Crores that we are talking about?
- Arvind Joshi:** Yes.
- Anish Kanani:** Okay, so you are saying of the 257 Crores 114 Crores related to BSVI looks like very likely the balance part Sir you are also saying that I think that then the balance part is all about new product launches, much of the industry stabilities also should come in three to six months. So the point is large part of this 250 Crores at least to start flowing in next year at least if not this year?
- Arvind Joshi:** Yes absolutely.
- Anish Kanani:** Thanks a lot and all the best.
- Moderator:** Thank you. Next question is from the line of Umang Shah from Edelweiss. Please go ahead.
- Umang Shah:** Sir most of my question have been answered, but just one doubt which I have so right now so we did not have any products which were affected by BSIV to BSVI transition but currently that we have entered it, how much more investment are we looking at to gain market share from the OEMs if there is any and secondly which all OEMs we would be serving for BSVI products?
- Arvind Joshi:** So most of the BSVI business which we are gaining is from the two wheelers segment it is TVS, Hero Motor, Yamaha, Royal Enfield all of them are offering us new components with regard to BSVI, predominantly the maximum amount of business is coming in from TVS Motor almost to the tune of about 35 Crores is only new business all together especially in the aluminum die casting business.
- Umang Shah:** So any further investment that we have to make for tolling purpose or expanding purpose?
- Arvind Joshi:** All the investments the new Capex commitment of about 12.84 Crores what you see includes the molds and dies investments for the purpose of BSVI, there is no fresh requirement except for Yamaha business we might require another 3 Crores of investment.
- Umang Shah:** For their ADC business right?
- Arvind Joshi:** Yes, for the aluminum die casting business which would actually take place in Q4 and not now.
- Umang Shah:** Sir any other client addition apart from Yamaha or are we eyeing someone else?

- Arvind Joshi:** Well the discussions are on which especially with regard to our new businesses at this point of time we would like to refrain ourself from naming them but certainly our efforts are there towards passenger car OEMs in a big way.
- Umang Shah:** Specifically for any particular product line that we have or a new product we are looking at I mean from the JVs and not from the core business?
- Arvind Joshi:** Yes.
- Umang Shah:** So we are looking from JV attracting new passenger vehicles?
- Jayant Davar:** See we continuously track our organic platform and that is a marketing that we continue to do and there are several things are happen there whether it is our mirrors business especially new CVs that are being launch or even in the car business for that matter, but a predominant part of Sandhar 2.0 is being looked at from the new environment of auto electronics, electricals and so on and so forth to which we will be from the JVs.
- Umang Shah:** Perfect, alright Sir thank you so much.
- Moderator:** Thank you. We take the next question from the line of Arpit Kapoor from IDFC Mutual Fund. Please go ahead.
- Arpit Kapoor:** Most of my questions have been answered just so the 50 Crores order that you have indicated for the second half how much of that will have BSVI components in it, if you can quantify?
- Arvind Joshi:** I do not have the ready numbers I can share it with you privately.
- Arpit Kapoor:** On the JV the helmet JV any color on how you expect the ramp up to happen and given the fact that the opportunity is quite big, so if you can throw some light on that?
- Jayant Davar:** I have already answered that question but for the sake of repetition again, we started off in April with small numbers in a few hundreds went into a few thousands we did 44000 last and our target is that we will reach about 1 lakh numbers of production in sales by February. So the idea is that next financial year we will probably hit our capacity of the plant which is close to 2 million helmets a year.
- Arpit Kapoor:** So we will have an EBITDA breakeven before that?
- Jayant Davar:** Oh, yes.



- Arpit Kapoor:** So the EBITDA drag which is currently there should have a positive shrink next year to that extent and again next six months will also take for the ramp up, but do you also given the number the volumes that you will be doing would the ads fronts or the likes would increase so can that continue to remain a drag on EBITDA or you believe that with that kind of a volume you would be able to report positive EBITDA?
- Jayant Davar:** No, no we will report positive EBITDA for sure.
- Arpit Kapoor:** Thanks a lot Sir.
- Moderator:** Thank you. We take the next question from the line of Abhishek Jain from Dolat Capital. Please go ahead.
- Abhishek Jain:** Sir can you throw some light on the performance of Barcelona subsidy and other two step-down subsidiaries in the first half and what is the current net debt of this subsidiary?
- Arvind Joshi:** So the Barcelona performance has been good as against 140 Crores of revenue we got about 147 Crores both for the step-down subsidiaries they gained new businesses also and it is helping us in terms of ensuring that we generate a high level of EBITDA margin out there especially in the context of the business being operating in European region, EBITDA margins are pretty okay from our perspective. PBT of course because of the high interest cost which they have to incur as most of the financial needs on the molds and dies Capex which have a less than one year time and hence it all goes through the normal route of working capital financing, because of that the EBT is slightly down, but it is all positive out there.
- Abhishek Jain:** So what was the current margin on this subsidiary EBITDA margin and what was the reason of improvement in the performance on the margin front?
- Arvind Joshi:** Last year our EBITDA margin was about 8.7% it has moved up to 11.8%.
- Abhishek Jain:** So that is why your consolidated margin is higher than the standalone, right?
- Arvind Joshi:** Yes.
- Abhishek Jain:** And Sir just who were the key clients of this Barcelona entity.
- Arvind Joshi:** We have Bosch, we have Autoliv, we have Saint Gobain, we have TRW which is now weather casting.
- Abhishek Jain:** So what was is the current net debt of this subsidiary Sir?

- Arvind Joshi:** So the total debt is about 160 Crores that is all working capital.
- Abhishek Jain:** What is your plan to make this business profitable because the margin is quite significant they are only 11.8% so are you looking that this business will be profitable in FY2020?
- Arvind Joshi:** It is already profitable know, we have generating EBITDA of about 11.8% almost 12% EBITDA from this unit.
- Abhishek Jain:** Sir PAT level is profitable right?
- Arvind Joshi:** Yes, yes PAT level also it is profitable the EBT level are currently at about above 2%, 2.5% and certainly with the business increasing this will definitely move up also but we do not see too much of change coming in out here but certainly a 3% EBT would be something which should be take as a negative.
- Abhishek Jain:** Sir just wanted to understand the margin profile of your different business like in locking system, steel metal, cabin and fabrication, aluminum die casting?
- Arvind Joshi:** So our locking system, vision systems and the couple of other sheet metal businesses also they are all above they are in a healthy range about 12% to 15% EBITDA aluminum die casting business is soon with the ramp up of our new business just again has started moving up beyond 10% EBITDA margin. So as a policy we ensure that whatever new business we enter into they remain above 12% to 13% EBITDA margin, but certainly you would not see a hockey stick growth in terms of the EBITDA margin as we try to create a more sustainable business on a longer run basis and hence we would want to de-risk ourselves from one off transactions and all so while we do get opportunities of replacing one customer or the other for a shorter period of time, but we generally tend to avoid such situation and focus more in terms of gaining long-term businesses.
- Abhishek Jain:** The company has introduced several products in last couple of quarters like parking sensors, helmet and release so just wanted to know that what is your incremental revenue target for FY2021 from their business?
- Arvind Joshi:** I am not sure, if we had a meeting on this particular subject to earlier, but certainly we follow certain parameters when we set up new businesses and those parameters revolve around 5 parameters, mainly we do look at an asset turn of about three times from our new investments. We typically have investment not exceeding the size of about 30 to 35 Crores. So it would be suffice to say that each of the new business has a potential of a minimum 100 Crores of revenue we look at an ROC of about 20% to 24% for most of our businesses when we set up and that is how the payback is also planned we look at a target of about 3 to

5 years for the payback as a payback period. So this should give you enough indication with regard to most of our JVs where they stand currently and where they are geared up for.

**Abhishek Jain:** My last question is related with that Capex plan for FY2020 and 2021?

**Arvind Joshi:** Our Capex plan so we do not have any new projects coming up, whatever investments were to be made they have already been made, the H1 commitment in Capex has been just about 12.5 Crores going forward we do not see this moving up beyond another 12.5 Crores for the H2 period. Yes of course some of the JVs might require investments, but there the amount of money which needs to be infused could not exceed more than 15 Crores on an overall basis.

**Abhishek Jain:** For FY2021?

**Arvind Joshi:** For FY2021 all our money is already invested so as of now we do not have any formal commitment to any of our customers or for any new business for new investments.

**Abhishek Jain:** Thanks Sir that is all from my side.

**Moderator:** Thank you. We take the next question from the line of Mahesh Bendre from Karvy Stock. Please go ahead.

**Mahesh Bendre:** Sir the Capex figure you mentioned does that include maintenance Capex as well?

**Jayant Davar:** Yes full Capex.

**Mahesh Bendre:** Sir another thing about the debt repayment I mean the debt has gone down drastically in case now it is 71 Crores so do you see we being a debt free company next year?

**Arvind Joshi:** Well of course that is what our target is and with the current run rate of cash accruals certainly it has been to move up from here we are pretty confident that at least at the standalone level we should be operating at a, see we do not having that also is not good in the longer run, but certainly we would keep it to a level which is very manageable.

**Mahesh Bendre:** Yes because we are saying about the Capex level next year and if growth comes back we are operating at a very low utilization some of our factories so if we are able to utilize those then there is enough scope for to further the cash levels within the system will go up for us and since Capex is not there we should ideally become a debt free company at standalone level.

**Jayant Davar:** Yes absolutely.

**Mahesh Bendre:** Sir last question to Jayant Sir. Sir this is more about the macros we have seen what happened with the auto industry and how the it has surprised everyone in terms of the decline it is reported, but when the recovery will actually happen given the context of BSIV to BSVI transition and so many things are in place?

**Jayant Davar:** Mahesh ji when I spoken to you probably what we have to go we have mentioned at that point of time that BSVI would become a brand as and when it is launched unfortunately our reading was not correct and the slowdowns that will happen much before, now it is very difficult for us to find reasons for why it did I do not think anybody has been able to answer that question satisfactorily whether it is NBFC, whether it is Euro VI, or whether it is electric vehicle and so on so forth. But suffice to say that the ownership cycle in which there are some bumps that happened while people feel that they can delay the purchase of the vehicles it is kind of as adds to its perils and therefore one would see that one has already started to see some green shoots appearing at dealerships and so on and so forth the only thing is we as component suppliers do have a further drag. So in case there is a lot of inventory that was lying in the markets, it gets to start selling off and the OEMs only want to produce Euro VI there is a little gap that is happening for us to be able to make and deliver to them as we make it in the future so that cycle got delayed but I do see green shoots and that is why while the month of October or November per se October was a festival month where the sales were higher but obviously our productions were lower because those products were already in the market. We do expect our hope is largely on the last quarter of this year where there will be a ramp up of the OEMs rushing to produce Euro VI vehicles which will have to be placed in the market. So one is hoping there will be a certain amount of traction the government has also been very clear that they want to revive and regenerate the infrastructure portion so they are activating their Sagarmala's and Bharatmala's again which to us means that we being in the oversea business and the cabin business and so on should be a huge positive. That is what we are hearing from our customer so far but like I said we do not have the orders our schedules in place for the month of November to be able to say that this is definitely happening, but this is what one is considering overall in the auto sector as of today.

I know my answer is not very specific, but this is my opinion at this point of time, I think one will have to be an astrologer to answer that question out of it.

**Mahesh Bendre:** I take your point Sir, earlier everyone is expecting a growth in FY2020 and degrowth in FY2021 but probably we are looking the opposite now.

**Jayant Davar:** Yes, because when you have a vehicle for five years and you say one I can delayed by a year that could be near 6 but we are not going to delay too much further beyond that right. Now there is a lot of things that are settle down, the government is come in very clearly and said where electric vehicles are await away and you have also seen that electric vehicles

have stopped, the sale has gone down drastically for whatever they were selling I mean even from an international perspective a company like Tesla is slowing down in sales they have not been able to sell something in the last month so I think that flavor of the month end towards alternate power train is kind of going down and therefore people are understanding that the stable business is what we are doing and the companies have done a lot of work. With Euro VI 96% of lock submission go down 96% that is a huge number and therefore if we move on to the Euro VI platform where a huge number of investments have been made by the industry. Both the OEMs and the component suppliers and the lock submission go down, I think it will be a purpose well achieved and therefore this huge play sort of things happen whenever there is pollution about the electric vehicles and so I think that kind of screens are coming down dramatically.

**Maresh Bendre:** So Sir current two wheeler inventory in the system will be what mostly a BSIV Sir.

**Jayant Davar:** Yes, most of it is BSIV I do not think there is any BS VI ini entry per se I mean there will be few but those are like regular pickups, because the production also has not been happening in the Euro VI it is just launching off now like we said Hero just launched the Euro VI there they want to say at they were the first one and therefore they launched it, but TVS and others are not far away, I understand Royal Enfield is almost there as well.

**Maresh Bendre:** Last question, Sir any chance of getting into Bajaj business?

**Jayant Davar:** Bajaj so again two years ago we spoke about the fact that we have three people missing from our direct marketing front one was Maruti, one was Hyundai and one was Bajaj I think you asked me that question at that point of time and I think I stay with the answer that you give us two or three years we will be in all of them. Hyundai like I said we are already in that and the balance two people are not far.

**Maresh Bendre:** Sure Sir, thank you so much Sir.

**Moderator:** Thank you. Ladies and gentlemen, that is the last question for today, I would now like to hand the conference over to Mr. Nikhil Kale for closing comments.

**Nikhil Kale:** Thank you. On behalf of Axis Capital, thanks to the Sandhar management team and all the participants for joining the call today. Have good day everyone.

**Moderator:** Thank you very much. On behalf of Axis Capital Limited, we conclude today's conference. Thank you for joining, you may now disconnect your lines. Thank you.

**Jayant Davar:** Thank you all.