“Sandhar Technologies Limited Q2 FY 23 Earnings Conference Call”

November 11, 2022

Dolat Capital

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MR. YASHPAL JAIN - CFO

MODERATOR: **MR. ABHISHEK JAIN FROM DOLAT CAPITAL**

Moderator: Ladies and gentlemen, good day and welcome to the Q2 FY23 Earnings Conference Call of Sandhar Technologies, hosted by Dolat Capital. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touch-tone phone. Please note, that this conference is being recorded.

I now hand the conference over to Mr. Abhishek Jain from Dolat Capital. Thank you, and over to you, sir.

Abhishek Jain: Thanks, Rutuja. Good morning, everyone. On behalf of Dolat Capital, I welcome you all in the second quarter FY23 conference call of Sandhar Technologies. From the management side, we have with us, Mr. Jayant Davar, Co-Chairman and Managing Director, and Mr. Yashpal Jain, CFO of the Company. We thank the management for providing us the opportunity to host the call. Now I hand over the call to the management for the opening remarks, followed by the question-and-answer session. Over to you, Jayant Sir.

Jayant Davar: Thank you, Abhishek. Thank you Rituji for putting this together. Good morning, everyone. As we sit here today, at this time of the year, where the automotive industry is concerned, I think the fear and the theme of COVID is no longer being discussed. And as you're all aware, the industry seems to be on a very, very solid footing.

Let me break this up in a segment-wise understanding. The cars or passenger vehicles, as we call them, you are all aware has a long waiting. In fact, the last month has been extremely good and the traction seems to continue into the future. In the last couple of months, we have broken the all-time records of the pre-COVID year as well. So, I think there's good news all around. The only pressure now is to build more vehicles and there is a lot of waiting. In some cases, the waiting I understand is over one year. So, it is good times ahead.

Where two-wheelers are concerned, this was an area which was causing concern to everyone. But from what I understand from FADA and from what I understand from the demand full of the OEs in the sector, things seem to be in a much better shape than they were a few months ago. So, I think there is positivity even in this segment. This segment had been confused in the past on account of several factors. One is, if you look at it post the Euro 6 jump, the cost of these vehicles had gone up by almost 30% to 35%. And there was obviously a lot of resistance, and that needed time to mute out and moderate, so that people could get an understanding that this is where the new vehicles are going to be in terms of price.

The second aspect obviously was also on account of the powertrain. Whether it should be IC engines or electric or whatever other options that were being put on the table. I think that also kind of sorted out. People who are going the electric route are going the electric route. Some of the traditional players that were very large in the IC area have also kind of shifted dome and they are saying that they will be manufacturing EVs as well. But they will take it gradually and slowly and we will then correspondingly look at look at how this entire thing has to be handled going forward.

Where commercial vehicles are concerned, there is a little bit of volatility, but having said that, the number seems to be going up. Tractors, you're all aware are doing well, especially in some of the theme makers. Construction equipment, again, is something which has been doing well. There is obviously going to be some change in the powertrain norms there in terms of Euro transfer from Euro 4 to Euro 6, but, on an overall summary, I would say that the auto sector right now is in a good gear.

There are some factors that are affecting the industry. While commodity prices have begun to moderate, and that is a good sign. There are however other inflationary costs that continue to benign this particular sector. Add to it the fact that the interest rates are going up. The inflation numbers are still high, not only in India but around the world. There is still a lot of uncertainty on account of the war clouds that not only stay but also shower at times between Russia and Ukraine. So, there are the geopolitical risks as we said today, but I would say where the automotive industry is concerned, a lot of the stress and concern factors are in the windshield, and we should be on a good way forward.

That were my opening remarks. You have all probably seen the results that were declared yesterday. I'm very happy to take questions. And me and Mr. Yashpal Jain, who's here, will try to cover up any clarifications that you might have. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Resham Jain from DSP Investment Managers. Please go ahead.

Resham Jain: Yes. Hi. Good morning, Mr. Davar. So, I have a few questions. So first one is with respect to this quarter, where we saw that you saw top line growth while margin didn't come through. It has in fact gone down to almost one seven --

Moderator: The next question is from the line of Abhishek Jain from Dolat Capital. Please go ahead.

Abhishek Jain: Hi, sir. Congrats for a decent set of numbers in a tough time. Sir, my first question was regarding the gross margin that is continuous under pressure. It is because of the higher revenue from Die Casting and Cabin & Fabrication business. And just wanted to understand what would be the key tailwind for the margin expenses going ahead?

Jayant Davar: Okay. Thank you, Abhishek for that question. Very quickly. I think that was the question that Resham was also trying to ask. Well, if you look at the margin drop, that margin drop is largely on account of the new CapEx that has been put. And if you look at it, these are initial commissioning and other one-time start expenses of the new projects. That being one. The second thing is, that the sale has started and revenue has started in some measure from these new projects, but the costing still has to be finalized with TVS for that matter. So, while the formulas and all have been worked out, that final call is likely to be done today or tomorrow and we are hopeful that within this month, we should be able to close that factor. So, I would say that there is an aberration. And I have Mr. Yashpal Jain, who will explain to you the losses that have been incurred on account of these new projects. And if it wasn't for these losses, what would the actual gross margin be? Mr. Yashpal?

Yashpal Jain: Yes. So, like we mentioned in presentation also, on a half year basis, there has been an additional loss of INR20.25 crore. I mean INR20 crore on the round side. In terms of losses from the new project, which is on account of major significant initial costs that are not part of the capitalization. So, if we have to eliminate this then I mean our EBT comes to INR61.71 crore, which is roughly 4.32% of our income, which used to be our profit in the past also. So, more or less, we are on the track, sir. And in the succeeding quarter, this impact of one-time expenses, I mean charging of one-time expenses towards the new projects won't be occurring again. That's how we would like to respond to it.

Abhishek Jain: So, in second half the expenses won't be in incurred. So, most probably that the margin will improve by 200 to 250 bips in the coming year, sir?

Yashpal Jain: Definitely. Reason being because it's a one-time cost. Many quarters, what happens is that, the moment you start doing your job work activities, internal sampling, the capitalization stops. But the volumes actually, they kick up after a certain period of time. So, in between there is an expense, but there is no revenue supported by it. So, these are those costs.

And largely, we have all the plants commissioned now except the Mysore one, which will be coming in the last quarter. So, more or less that won't be occurring much cost, reason being the Mysore samples are already tested in our Hosur existing facility. That is how it is going to enter up.

Abhishek Jain: Okay, sir. And sir, during this first half, we have seen a strong revenue growth in the Aluminium Die Casting business. So, just wanted to understand what is your plan for this business? And are you looking to shift your business from two wheelers to four wheelers and the EVs because many companies are getting a lot of the order been in this business? So, if you can throw some light over there.

Yashpal Jain: Yes, because like in first time the Die Casting has performed very well. It has even outperformed all other verticals also. We are very bullish, like in four wheelers, we are already getting through our Barcelona operations. In India also we are in the four-wheeler segment and three-wheeler segment for die casting. And we see a major scope in this. Even, we are working opportunities to work on a cross border basis also for die casting products. So, I mean in the coming period of time, we are very bullish on our Die Casting business and it definitely will see a higher profits and higher volumes in this business.

Abhishek Jain: So, what is the current margin in aluminium die casting?

Yashpal Jain: Well, aluminum die casting has given us a EBITDA margin of 8.5% in the current half year. Reason being, there were some new projects also which were commissioned, new lines were commissioned. So, in the coming period of time, obviously, it will look cross in double-digit EBITDA margins. And with machining, the margins will be even more, beyond 11% to 11.5%.

Abhishek Jain: Okay. And sir, in a Sheet Metal business, you had a very high target of around INR500 crore to INR600 crore for FY23. Once I see the number in a presentation, that is showing only INR189 crore kind of the numbers in the first half. So, it is included revenue in the other business or what? We are not able to understand it.

Yashpal Jain: No. Abhishek, thing is that, if you see the SOP dates for various plants that we discussed last time also, they have been little bit stretched based on the customer's requirements. So, all these Sheet Metal plants will be coming into mass production from April' 23. So, in the current financial year, I would say in the current half year there is not much of the sales value from the Sheet Metal business. They are actually under the testing processes. Three of the plants are in testing processes, one is under the construction process. So, the volumes will really start picking up from April' 23. But in the next quarter you will see a major footfall in terms of Hosur plant, Nalagarh plant and Halol plant.

Abhishek Jain: So, what is your revenue target from the Sheet Metal business for near to medium-term, sir?

Yashpal Jain: So, if you ask me for the current half year, we are targeting something INR132 crore to INR135 crore from new businesses. When I say INR130 crore, it means new businesses, which includes the Halol, Hosur and Nalagarh plant, right. We are targeting something around INR130 crore. Next year we have plans exceeding INR400 crore from these Sheet Metal projects. And this is for existing business, in an existing plant which is generating revenue INR150 crore.

Abhishek Jain: So, that means the next, in second half FY23, you would be able to get a revenue of around INR330 crore, INR340 crore from the Sheet Metal?

Yashpal Jain: If we include the old one it will be around INR300 crore.

Abhishek Jain: Understood. And what kind of the margin can we expect from this business, sir?

Yashpal Jain: At EBITDA level, we are trying to say up to 9% or 10%.

Abhishek Jain: 10%?

Yashpal Jain: Yes

Abhishek Jain: And how's the margin in the Cabin & Fabrication business? We have seen a very impressive growth in the last couple of years. But on a margin front, how is the picking up right now, because the utilization level has improved significantly. So, can you give some guidance there?

Yashpal Jain: Fabrication has grown up. Earlier it was hit by the commodity increases as you know the price settlements used to take six months from the JCB's. But now gradually, the prices are stabilizing. So, we'll be seeing again a good sort of margins in the CFD business, Cabin & Fabrication.

Abhishek Jain: So, can you give some guidance for the margin in this particular segments?

Yashpal Jain: Roughly we have closed at around 8% EBITDA in this in the first half, and we expect to improve it further in the next half.

Moderator: Thank you. Next question is from the line of Kumar Gaurav from Dolat Capital. Please go ahead.

Kumar Gaurav: Hello. Hi, sir. Thanks for giving me the opportunity. Sir, my first question is in two business segment, recently, you have launched a many extract variants of their existing variant. So, are we benefiting from this? I mean, have you seen any increase in share of business from Hero?

Yashpal Jain: Hero's volumes are more or less they are constant as of now. They are launching the models, but the volumes remain to be constant in Hero and we are maintaining our share of business in terms of in Sheet Metal, as well as in Locks & Mirrors, our Proprietary business, as well as Sheet Metal business. So, there has not been any dip or significant increase, the reason being Hero is at a constant level. They are launching the products, but it is yet to pick up in the market. So, as and when it increases, obviously, our volumes will also go up proportionately.

Kumar Gaurav: Okay, sir. My second question is in ADC segment. So, could you indicate the order win? Any new order win in ADC segments

Yashpal Jain: Well, in ADC, right now we are getting to all the OEs, which includes Honda, TVS, then Hero, Royal Enfield and these are regular orders, I would say, because, in addition to that, if you remember, we have got one machining business from TVS. That is also a part of the Casting business. That will be coming to commercial by Jan' 23. But the volumes are increasing and we are targeting new markets and new customers also in four wheelers and commercial vehicles also.

Jayant Davar: We have also just received the order from Denso and that is growing. So, in all, we are very, very bullish on the ADC business including the Casting business and the Machining business. In the Machining business, we are moving 35 lines from TVS into our own facility and this will become a substantial forerunner for us, not only for what we do in India, but also for exports in the future.

Kumar Gaurav: Okay sir. And what is our current capacity of utilization in ADC segment, sir?

Yashpal Jain: well, if you ask me because it depends on part-to-part basis. There cannot be an exact number. I mean we have a sufficient capacity available in case of surge in the demand. That's what we can say. So, it won't be impacted. We would be able to cater to the demand.

Jayant Davar: We do not need any major capital expenditure. Whatever increase in volumes is likely that we will see, whether with Denso or with other businesses, can be managed either within the existing capacity or with incremental capacity increase which could be one machine, but it's not setting up new plant.

Kumar Gaurav: Okay, sir. So, my next question is on Capex and debt side. So, I think our H1 capex stood at INR133 crore. So, what is the full year guidance for Capex?

Yashpal Jain: Yes, sure. I'll just tell you how the CapEx we will be moving. We have working also. So, in that first half year, if you've seen the cash flow statement, we have done a Capex of close to INR133 crore, right. At the same time, we have generated cash from operating activities of INR106 crore. So, roughly INR23 crore, we have gone for the incremental borrowing in the first half. This is how we have managed. To complete all our projects, we require to incur an outflow of around INR296 crore as of now, as of date, to complete all our major seven or eight projects that we have in the pipeline. And we are expecting to generate a cash of around INR120 crore in the next half, another INR24 crore, we'll be getting a cash subsidy in the month of March which has been confirmed by the government of Romania. So, we will have our internal approvals of around INR144 crore in the next half year against INR296 crore.

So, if we deduct that, INR296 crore minus INR144 crore, our incremental borrowing will be INR152 crore. Current borrowing levels if I take, it is somewhere around, if I say current borrowings is INR567 crore, right. So, we will be around INR700 crore because, thing is that in the new project, TVS has revised our payment terms from 45 to 15 days. So, 30 days of working capital benefit we have got. That will ease the working capital pressure for other projects also. So, working capital, we won't be increasing any limit. We will be managing, in fact, we have a target to reduce our working capital utilization by another INR20 crore in the next half. So, we'll be landing something around INR690 crore to INR700 crore at the end of March' 23. This is a debt we are targeting.

Coming to the next, how we are going to repay? Next year we are targeting a cash generation of close of INR200 crore straight away and the breakup of this INR700 crore would be around INR300 crore for overseas, INR400 crore for domestic in the next year. And out of this INR700 crore, INR200 crore roughly will be the working capital. So, term-loan remains to be INR500 crore, and we are in a very comfortable position to pay at least INR200 crore in the next succeeding financial year.

Moderator: Thank you. The next question is from the line of Resham Jain from DSP Investment Managers. Please go ahead.

Resham Jain: Yes. Hi. So, Sir, overall, I think on the balance sheet side Capex and growth, you did mention about it. But philosophically, if you can explain, because the last two years, we saw a lot of challenges at the industry level, but I think things are coming back. But going forward, I think as of today, if I look at your debt-to-EBITDA ratios and all, it has been probably might be at the peak of your Capex cycle. But going forward, how should one think about the overall debt levels which company is comfortable with? And out of the total Capex which you have done till now, let's say over next two years, what kind of revenue and EBITDA you can generate out of it? If you can just explain more from the trajectory perspective. I'm not asking for any specific numbers, but just from the trajectory.

Yashpal Jain: Sure. So, Resham, like to address your question, in terms of debt, as I explained some time back, we are targeting total debt of around INR700 crore at the end of the current Financial Year, right, which may be around INR200 crore of working capital which keeps on fluctuating depending on the business. INR500 crore of term loan. And the debt mix would be around INR300 crore overseas and INR400 crore, India.

Overseas, we are paying a borrowing rate in the band of 1.6% to 3.25%. So, this is the kind of interest that we'll be spending. So average rate comes to around 2%, 2.5% for the overseas borrowing. Another INR400 crore, out of INR400 crore, we have INR100 crore of working capital, INR300 crore would be our term loan debt. Next year, with a new project coming and with our existing business, INR200 crore of cash we can easily generate. I am just giving a very practical response to that. So, we will be leaving with a term loan of around INR100 crore and another INR100 crore of the working capital. So, this is how we plan to manage our debt and that will be a very reasonable level for us to manage, because although overseas, maybe something around INR270 crore to INR300 crore, but the outflow in terms of interest would be very, very minimal amount. Even if we take a higher rate of 3%, 3.5%, it won't go beyond that. This is one thing.

Secondly, once all the projects are coming to the mass production, that we expect from April '23, because it takes time to get sample tested, TAVs by the customer and all other models. We expect, barring the machining business, because it is on a job work basis. So, you can't see a bigger turnover. But in the case of Sheet Metal and Romania, together we expect a turnover of in the first year itself, something around INR500 crore. And Machining, we are targeting as per the customer estimate, it can be around INR77 crore. This is the type of revenue that we are looking in the coming financial year from the new projects, other things remaining equal. No major incidents happening in the economy or geopolitical conditions.

Resham Jain: Sir, what kind of debt-to-EBITA, you will be comfortable with going forward? That was my question? Because I'm specifically asking this because what has happened is that last five years, we have seen all kinds of events in the industry. And it might be, I don't know, it may be prudent to have a right level of debt. But so, I was just asking from that perspective that will be comfortable level for you guys.

Yashpal Jain: Yes. So I'll answer in a way like debt we are comfortable as I responded, and we have a very structured plan to pay off the debt. Secondly, as far as margins are concerned, if you see our figures, there has been a one-time cost of INR5 crore on account of Romania because job work has started over here. There are licenses costs etc. So, total INR20 crore of losses have been pulled up on account of a new projects, but if you take the EBITDA count for overseas, it is around 14%, with a net profit margin of double-digits. I mean, 5%, 5.5% of net profit margin overseas. So that kind of margin will continue even in the Romania business. This is one set of answer for the margins.

Secondly, for the Machining businesses, we are in a place, having a contract with the clear content with the customer of 8% margin on the total turnover value. And EBITDA is roughly, will be, I mean fluctuating. From day one, it will be about double digits. As far as Sheet Metal is concerned, we are targeting a 10% of EBITDA in the first year for the new projects.

Resham Jain: Okay. Okay. Got it.

Yashpal Jain: So, if you average out all these businesses models, because Machining you will see a lesser or sales figure, but at the same time, we have a confirmed interest and depreciate of INR21 crore. So, the value goes INR100 crore. The percent might come down but if the value remains INR50 crore, then 21 divided by 50, you will see a very high level of EBITDA. That'at all. On an average basis, we will be surely in a double-digit EBITDA in the next year on. We have taken many steps to integrate our operations also and to rationalize our costs also. That impact will come over a period of time, in another six, seven months of time.

Moderator: Thank you. The next question is from the line of Abhishek Jain from Dolat Capital. Please go ahead. As there is no response from the line, we'll move to the next question which is from the line of Arjun Khanna from Kotak Mutual Fund. Please go ahead.

Arjun Khanna: Sir, thank you for taking my question. Just on the lines of the question of the earlier participant. If we look at the business, obviously, we've phased through a number of difficult circumstances. We seem to be pretty confident of the future but we don't know what may come through. So, in light of this, if we look at our debt levels, it seems to be on the higher side. So, how do you characterize our business prospects going forward in terms of CapEx, etc.? Would you wait to see the income flowing from this side, pay down debt before we undertake further CapEx, because we seem to be into a number of lines of business at this point of time in the automotive space?

Jayant Davar: Arjun, thank you for that question. Well, we are, let me just say, we are very conscious of the projects that were taken up. But there are two things that I want to bring in line. One is that all the new businesses that have been set up or the investments that are going right now, which will conclude within this financial year, are all meted out their100% capacity utilization. So, these are not businesses which will mature over a period of time. These are businesses that have been taken, as soon as we are ready, the entire lines are going to be consumed. So, these businesses will start growing our margins from day one, which are positive margins. Typically, when you set up a new plant and you grow capacities from 10% to 20% or 50%, there is that lag that happens. Fortunately for us all these new investments are fully mature investments that will throw out money from day one. So that's your answer number one.

From the debt perspective, like we said, our margins had dropped on account of like I mentioned right in the beginning because of one-time initial commissioning costs and other startup expenses. And also, the fact that when these plants are set up, you would appreciate that two or three months do pay for the customer to, like Mr. Yashpal said, for QAVs and for quality establishment. So those losses at the rate of about INR20 crore happened in the last quarter, the results of which you're seeing, which have dropped our margins. But I think going forward, as we mature, as these units come into full line maturity and production, which is happening, going to happen very quickly, we will take care of that.

As also, Yashpalji said, that we will generate close to about INR200 crore of free cash flow that will go into debt repayment in the next year itself. So, next year, our domestic debt will be, we will be left with about INR100 crore of term loan and about INR100 crore of working capital, which I think is extremely, extremely manageable and under control by the organization. So, that's what I want to leave you with in terms of debt. So, we are quite comfortable with how we are managing debt. But you see, the opportunities that came during COVID was something that we did not want to leave by. And these are going to show great results for us going forward.

Arjun Khanna: Sure. And on the lines of business, so essentially, we seem to have a position across components. We seem to be more horizontally inclined, by having small amount of revenues from a number of components, apart from our historical Proprietary products, where we actually have a higher say locks, etc. Just wanted your thoughts on that.

Jayant Davar: Well, let me talk about our segment diversification in that sense, Arjun. We already dominate the wallet share of the products that are manufactured by us, especially in the two-wheelers segment. So, if you look at our locks, we are the largest lock producer. If you look at mirror, we are the largest mirror producer. If you look at our Sheet Metal stools, we are the largest in the world. If you look at our Cabin business, we are the most diversified in the entire country. So, it leaves us with less options than for us to look at diversification in other areas to grow our wallet share. And that's what we've been doing.

But corresponding to your last question and this one, I am very happy to say that from our perspective, at our given snapshot time, we see no further investments for a considerable period of time going forward. So, we have no more CapEx's that are in line to be spent in the next year, for example. So, and therefore, we look at debt to be paid off very, very quickly before we move into any other segments. So, for the moment, that diversification is kind of complete.

In our existing lines of business also, we have made investments to upgrade our technologies, smart technologies, for example. If you look at our smart locks, for where we've already got the orders for some of the major customers, and some of them should be coming in shortly, this will deliver us a five times stake on the revenue that comes from our traditional locks. So, and that is going to become active starting next year Financial Year' 24. So, you will see and all of those investments are already in place. So, I don't see any further capital investment of a large degree coming in the year next, and we will pay down the debt that we have taken so far in the subsequent years.

Arjun Khanna: Sure. Sir, my final question is, in the first quarter conference call, you spoke on how on the third quarter you will decide on JVs going ahead in terms of which JVs to take a look at where we want to scale up and otherwise. How has been the journey till now because since inception, we haven't quite seen?

Jayant Davar: I'm glad you asked this question, Arjun. I'm glad you asked this question. So, our Helmet business which goes under the name of Sandhat Amkin, it has witnessed the turnaround. It's become EBITDA positive on an overall basis, but also on a monthly basis has become PAT positive. So that's a very happy news for you to see. We will see on an annual basis in March '23, we will be positive on a PAT basis for the entire year as well. So that's on the helmet business.
Winnercom-Sandhar and Sandhar-Hanshin are already PAT positive as we speak, with both registering sales of over INR35 crore each. Sandhar Hanshin Technologies registered a sale of INR27 crore and has already so far been PAT positive to the tune of INR 1 crore and these numbers will grow very, very quickly from here on. So this is in regards to four.

Sandar Whetron is EBITDA positive, and we expect the business to grow in '23-'24. In the case of Jinyoung-Sandhar, where our half year registered sale is INR24 crore here, and in the case of Kwangsung, while the margins have become EBITDA positive, the foreign exchange fluctuations have kind of hit us. And therefore, we expect those. So, what we have done is, we've reached out to our JV partners, and suggested that some of the imports that happen in these particular JVs should be converted to Korean local currency or KRW instead of U.S. dollar, where we believe that the fluctuations are minimal compared to the volatility in the U.S. dollar. We are expecting positive responses there. And therefore, I'm very, very happy to say that where the joint ventures were eating away a lot of money, that will not be the case going forward.

Arjun KhannaL Sure. So, do we project a breakeven in the overall, in terms of run rate for fourth quarter? Should we see no negative drag? Is that the right understanding?

Jayant Davar: Well, in all the other cases, like I mentioned Sandhar Amkin, Winnercom-Sandhar, Sandhar-Hanshin, Han Sung, Whetron, it will all be neutral or better. Where these two cases are concerned, it depends largely on the exchange rate fluctuations and we'll have to see. But for a large part, I would say from an operational level, all of them are now positive.

Arjun Khanna: Sure. And how much further CapEx we would need apart from the last funding for these JV project?

Jayant Davar: We are not looking at any more CapEx in these joint ventures.

Moderator: Thank you. The next question is from the line of Abhishek Jain from Dolat Capital. Please go ahead.

Abhishek Jain: Sir, every company i quite aggressive in EVs right now. So, what is your plan to expand your business in the EV segment? How much is the current order book with you, and what all products are going to introduce in?

Jayant Davar: I think in the presentation, it's already been marked on the EV segments that we are getting into. So, one is the EV segments that we've already started supplying with our present rate or present portfolio of components. And then, there are some that are specifically being designed for the EV industry. And if you look at what are the new products that have already been developed so far, which are compatible are the electronic steering column lock, the foldable keys, the Tire Pressure Monitoring System, USBs, deterrent, foldable, mirrors, keyless smart locks, ambient air pressure sensors, as CDF, mobile holders, Mirror will turn these are all that are in the supply mode right now.

But if I go forward and these are being now supplied to Ather, Ampere, to Bigos, to TVS, to Matter, to Buma Innovative, to Revolt, to Electric, so, these are the customers that are being targeted. Also three-wheelers and four-wheelers are Mahindra and Mahindra, Tata Ace are all being supplied with our consistent range.

The next line of components that are specific for EVs, which is the hub motor, we are proto ready now. Our performance validation should be completed by February of '23. And we expect the ICAT approval to happen in July of ’23. The mid drive motor, again, proto is done. We expect ICAT approval by April ‘23. The motor controller, we expect proto readiness in the next month and again, we are expecting that by March, April of ’23, these will also be ICAT approved. DC Controller, this is something that has been working on since November of 2022. We expect that in a month or two we will get ICAT approval. EV Charger, we expect ICAT approval by May ’23. The battery management system which we are working on, has for the moment being put on hold, and we expect ICAT approval to be given on the February of ‘24 and ICAT approval also in the same month. So, that is the overall context and summary of what we are doing in the EV stage.

Abhishek Jain: So, what revenue you targeting from FY’23 especially from the EV segment from existing products, as well as the new products?

Jayant Davar: I did think we gave this number at the last scenario.

Yashpal Jain: So, Abhishek, if you ask EV from overseas operations, like we are expecting a turnover of INR400 crore. So, it's all supplying to the four-wheeler segment, which includes EVs and non-EVs, both, right. And another 2% to 3% our domestic is going for the EV companies. That’s how it is placed.

Abhishek Jain: Okay. Thanks sir. So, my next question is related with your contributions from the two-wheeler space, is still is a very high of 57%, 58% and the passenger vehicles and CVs is only 40%. So, what is your plan to move from two- wheelers to four wheelers to winning new business, especially in the aluminium die casting or an in other business any other business like locking system and any other system?

Jayant Davar: Well, Abhishek, to be honest with you, we don't have a very strong work in place where we say that we will only take four-wheeler orders and we will not take two-wheeler orders. And therefore, and because we've been in this space, like I said, smart locks will probably quadruple the revenue in locks over a period of time because the value of each lock is that much higher. Now, obviously, if it goes to two-wheelers, that revenue will continue to grow. Die Casting, again is something that happens both for two-wheelers, as well as four-wheelers. And obviously, one cannot differentiate.

So, I'm not saying that there is a drastic change that is changing in the portfolio of two-wheelers versus four-wheelers versus construction equipment or of highway equipment. All I'm saying is that we are following with orders that come our way through any of these segments, but our intent is to grow on the value add of each one of them, and margins on each one of them. Every business that we take, should have a very adequate level of profitability for us to grow. We are not too taken in by our dependence on two-wheelers or four-wheelers at this point of time.

Abhishek Jain: Sir, in particular, Aluminium Die Casting business, many companies are winning new business in the EV segment from the exports. So, like the battery housing and motor housing and all. So, are you looking to gain those business? If you can throw some more light over there?

Jayant Davar: Yes, Abhishek, I'm very happy to say and I think Yashpal Ji has referred to it, that with the onset of our Machining business, now, this would mean like I said, 35 lines, 300 new machines that will be used in these two segments. Most of the exports that happen from India happen in a machined form. And you have seen some of the companies that they carry huge, big multiple of their valuation that goes towards the machine parts. So, while we were machining earlier, but this new facility will take us to a new level, which will open doors for exports in a big way, where the value add is much, much higher. So, we are now very keen and very happy that this business will start on a full-fledged basis and you will see the results of it in the next quarter.

Abhishek Jain: So, what is your current proportion of the machining in total revenue and how much it is expected to increase and how this will get the benefit in the margin?

Jayant Davar: Well, like I said, like Yashpal ji also said, the new business that we've taken for machining, we are taking only on a job work basis, so that we don't get saddled down with working capital. And just the machining business, which is on job work basis has been calculated in the first year to be worth INR77 crore and a margin of something like INR21 crore to INR22 crore on an EBITDA basis that has been agreed upon. Those are the numbers. But obviously, it will open many, many doors for us to be able to grow not only from a company that does casting and basic machining, to very deep precision machining that we will be doing in the future.

Abhishek Jain: Okay, sir. And sir, in a locking system, what is the current proportion of the keyless locking revenue.

Jayant Davar: I think it's about 20%.

Yashpal Jain: 20% is the locking revenue share of the total business.

Abhishek Jain: And how much is the keyless or smart locking system revenue?

Jayant Davar: Well at this point of time smart locks are still to start. We are starting I think in this next quarter with some EVs, but our major line will come from Suzuki that begins in '24, where the manual and the other business put together over a period of two and a half years is about INR500 crore odd.

Abhishek Jain: So, are you not supplying any components and iQube? TVS iQube?

Jayant Davar: We are supplying to iQube, but those are normal locks. Those are not smart locks. Those are what we call four in one locks. So nobody started using smart locks as yet.

Abhishek Jain: Okay. And what is the difference in the content per vehicle in the locking system, smart lock versus the normal lock?

Jayant Davar: Traditional lock could be anywhere between INR350 to INR450 and a Smart Lock begins at INR2,000. Actually, a new order that we got which is for Honda scooters, which is the new model, the new motorcycle which is being launched now, the 100 CC motorcycle which is being launched from Bangalore, which is going to be their mass production and we are sole suppliers for that particular product. That will begin from next financial year as well.

Abhishek Jain: Okay. And sir, in locking system, you are only supplying to the Honda cars in the four-wheeler segment. Are we looking to get business from the other players?

Jayant Davar: We have already got business from Tatas. And we are also now very close to closing with two others the names, which obviously I can't announce right now.

Abhishek Jain: And this would be very high margin business because of the change in the mix?

Jayant Davar: Yes.

Abhishek Jain: Okay. Sir, my last question is your revenue guidance for FY23 and '24 and what is your margin guidance for the FY23??

Yashpal Jain: Yes. So, for the current year, we are expecting to close something around 24% above on the last day year's figures. March '22, you can take a 24% up to settle something between 2,800 between 2,900 in the current year, right. So that's one the sales basis, that is the target. And next year with a new project coming, another we are targeting a 30% jump on the total volume.

Abhishek Jain: So, there will be 30% jump on the volume side…

Jayant Davar: In the value in the next year.

Yashpal Jain: Next year, with the revenues from the new project adding up to our existing business.

Abhishek Jain: But next year, the Sheet Metal prices will correct because of the fall in this metal prices. So, will it impact?

Yashpal Jain: That time is to see how the old trend goes in the next year, whether downward or upward.

Jayant Davar: Yes, but that will not have a significant base because all our business is new. So, values are building from new businesses, not from the price of the componentry that much. And then we'll go up even higher in the value.

Abhishek Jain: Okay. Great. And what is your margin targets for FY23.

Yashpal Jain: Obviously, we target for FY24, we target a double-digit. FY23 is still like, as I said, INR20 crore of the initial losses. We have that pressure. So, we are expecting to close something on a good note of around 9% at the EBITDA level. It can go up also depending on the fourth quarter performance.

Abhishek Jain: So, you are talking about the extraordinary expenses of the INR20 crore. Is it incurred in first half?

Yashpal Jain: Yes. It has incurred in the first half. So, on an annual basis, in any case, it's going to hit the P&L account, even if I analyze. This INR20 crore will always remain. Part of it may be recovered, but some cost is a cost, that is the initial setup when we set up the plan, the licenses and all other things the initial sampling and testing costs, QAV costs that incurred. Those are one-time costs. So, there was pressure with the new project, like Mysore again will be coming into picture in fourth quarter. So, this pressure will continue for the new projects. That's why I said as April '24 or '23 onwards, we will streamline in the business with all these activities being finished.

Abhishek Jain: So, all these costs have gone in the other expenditure or in a RM cost.

Jayant Davar: We take it in P&L.

Yashpal Jain: It goes in P&L in the appropriate head. So, material cost, that will go to the material cost. If it is a job work expense, it will go in the job work expense. It is going in the proper head as per the accounting.

Abhishek Jain: Sir, in gross margins, in RM expense, how much was the one off expenses in this quarter?

Yashpal Jain: Regarding? Can you come back?

Abhishek Jain: Sir, in RM cost, how much were the one-off in this quarter?

Jayant Davar: One-off in the RM? You mean, what is the impact of RM?

Abhishek Jain: Yes. So, the RM cost has gone up significantly. Is there any one-time expenses which you had taken in this?

Jayant Davar: Okay. Okay, I think that's about 4% or so if I remember.

Yashpal Jain: Yes.

Jayant Davar: It's about 4%.

Yashpal Jain: It's 4%. Initial cost. It has one-off. Because initially, we need to build up some component, supply of inventory, testing. So that' all. So, around 4% impact is there. Barring that, there is no other negative impact.

Moderator: Thank you. As there are no further questions from the participants, with that, I would now like to hand the conference over to the management for closing comments.

Jayant Davar: Well, thank you once again, to all the participants today and all the questions. We are excited about the future, like I said, the next quarter and very, very excited about the next year where we believe that we would have stabilized as an organization with no extraordinary kind of CapExes and a streamlining of our operations. We are also quite bullish on the macro stage of India. And we believe, that we will be able to take full benefit or whatever is coming for all of us to see here and absorb. With that, once again, a big thank you. I wish you all a very Happy New Year and God bless. Thank you.

Moderator: Thank you. On behalf of Dolat Capital, that concludes this conference. Thank you for joining us and you may now disconnect the lines.