



“Sandhar Technologies Limited
Q2 FY2022 Earnings Conference Call”

November 15, 2021



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Moderator: Ladies and gentlemen, good day and welcome to the Q2 FY2022 Earnings Conference Call of Sandhar Technologies, 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 pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Nikhil Kale from Axis Capital Limited. Thank you and over to you, Sir!

Nikhil Kale: Thank you, Jacob. Good morning everyone and welcome to the results conference call of Sandhar Technologies. Apologies for the delay in starting the call, due to some technical issues. From the management team today we have with us Mr. Jayant Davar – Co-Chairman and Managing Director, Mr. Yashpal Jain –CFO and we also have Mr. Narendra Dogra from the Finance Team. I will now hand over the call to Mr. Davar for his opening remarks post which we can have the Q&A. Over to you Sir!

Jayant Davar: Thank you, Nikhil. Thank you Jacob for organizing this. Thank you to all the participants in this call today. Let me begin by wishing you all a very good morning and hopefully a good winter. Where the industry is concerned, we have a mixed bag. You are aware that two-wheelers are slow right now in their offtake. The four-wheelers are suffering on account of nonavailability of semiconductors. The commercial vehicle market is kind of balance and stable right now so are tractors. The one area that is growing very rapidly is the construction equipment. So that largely is the play in the automotive industry as we like to look at it.

Where Sandhar is concerned, I am happy to say to you as you have already probably seen the results, where we have put up a strong performance in the first half of the year despite the slowdown or the closure that happened for two months of the year. So, if I look at pure numbers, our revenue for the first half of the year are about 1032 Crores which is up 63%, EBITDA is 107% up at 95 Crores, cash profit is up 106 Crores and cash EPS not annualized is 12.53. So that is where we are. I am just going to leave it there and I will leave it to questions and respond which may cover most of the items that you would want to know. I am also very happy to announce that in line with the movement towards electrical vehicles, Sandhar has been active and our revenues from the electrical vehicle areas are in tandem or in fact ahead otherwise, of the entire electrical industry in India. So, I am going to leave it there and I will ask for your questions and try and respond in the best possible manner.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Abhishek Jain from Dolat Capital. Please go ahead.

Abhishek Jain: Thanks for taking my question. First of all congrats for the decent set of numbers in tough times. Sir, my first question is related with your capex plan. As you are putting around five to six plants, in the next two years, so just wanted to know how much capex you have incurred and how much incremental revenue will come?

Jayant Davar: Thank you Abhishek for that question. I am very happy to say that in these times which are looking weak, Sandhar as your company continues to see the light at the tunnel. In terms of our new investments, which are fresh investments and I am not talking of new revenues that will be built on organic or other growths but like you said, we are building five plants as we speak. The total investment in the next three years is likely to be in the tune of about 300 Crores odd, which will deliver revenue of 761 Crores is our calculation. This will be spread if you look at it on an annual perspective most of this investment will come in, in the form of this current year and graduate to almost zero levels in the next three years. The good news is that most of this is matured investments. So, almost 80% to 90% of the revenue will start from the first full year of operations as well. So, like I said, the total investment actually is about 300 Crores odd. There are some incentives that have been built in. With this we would look at asset turns of about 2.3 times to 2.5 times.

Abhishek Jain: Sir, can we expect that this year the capex would be around 200 Crores to 250 Crores and reflection of this capex would be seen on some time in FY2023 onwards of adding around 500 Crores to 600 Crores of revenue?

Jayant Davar: I will give you the details. We will spend close to about like you said 250 Crores is the current year, which will give us a revenue of something to the tune of 570 Crores additional in the next year itself, which is 2022-2023. In this year, because it is going to be graduated and most of this is going to come online, starting from December, up till March but it is slow, we will do 28 Crores to 30 Crores of revenue, this year, but all 560 Crores to 570 Crores I believe will come in the next year.

Abhishek Jain: Most of the capex is towards the sheet metal business, and the current run rate is 87 Crores on a quarterly basis. Can we assume that it will move up to 130 Crores or 140 Crores in the coming quarter?

Jayant Davar: Absolutely. That is what we are looking at. So from the month of December onwards, we will start adding about 6 Crores to 7 Crores from plant I and then plant II, plant III, plant IV that is the basis on which we are looking at, the next year we will be ramping it up to about 50 Crores a month additionally to what we are doing.

Abhishek Jain: All these incremental revenues are coming from the HMSI or TVS or from the other players?

Jayant Davar: Yes, this is coming from HSMI, it is coming from Hero, we are putting up one new plant for Hero in Halol. That is the part of this new project. There is Nalagarh. There is Hosur. There is Mysore. These are typically for TVS. So in all it is coming from TVS, Hero, and HMSI and also some Enfield.

Abhishek Jain: My next question is related with the aluminium casting business, which we have seen impressive numbers in this quarter and the quarterly run rate has gone up to the 1.4 billion. So can we

assume that these numbers will be sustainable? I just wanted to know that what are the new products have you added which is giving boost to your revenue?

Jayant Davar: This business is not only sustainable. This is growing business. So, as we speak, in the last call, I have told you that we have got a lot of additional business from HMSI as well and from TVS as well as from Denso. Now these are being developed as we speak in terms of tools and molds and every month, there is an incremental numbers that will keep throwing up in the aluminium industry.

Abhishek Jain: What is the product wise revenue mix? I mean the two-wheeler, four-wheelers and aluminum casting and have you won some new businesses from the four-wheeler players?

Jayant Davar: Yes. At this point of time, if I was to break it up, our two-wheeler business constitutes 55% of our business, four-wheeler is 24%, the construction business and tractors is 16% and others are 5%.

Abhishek Jain: I was asking the question from the aluminum side, just wanted to know product wise revenue contribution, two-wheeler versus four-wheelers?

Jayant Davar: Product wise, revenue share is at this point of time, 23% is ADC, which is aluminium die-casting, then there is locking system at around 20%, sheet metal is about 14%, 15%, cabins is about 13%, assemblies are 9%, the mirrors are about 9% and the balance is others.

Abhishek Jain: Sir, my last question is relative with the cabin and fabrication business you have won several new business in India and overseas. So, just wanted to know that what is the outlook ahead, the margin and revenue both?

Jayant Davar: Yes, cabin and fabrication business is going quite rapidly. At this point of time, we have reached a run rate of almost 40 Crores a month and typically the last quarter is of course the strongest quarter. The market seems to be doing extremely well and we are very fortunate to have one new contract in this space especially in the space of excavators. Now we are supplying to almost every excavators in the country and we believe that excavators is the fastest growing module along with others. So, we are very, very bullish with this business. If you remember last year we were making losses in some of the units, they are all now profitable as we speak.

Abhishek Jain: What about the margins? This business has a very low margin around 6% to 7%? What is the current margin?

Jayant Davar: That has been growing now. I think we have already upped it up by about 150 basis points to 200 basis points as the revenues grow obviously this will grow. In the meantime, what has happened is because of the increase in commodity prices, while the absolute number of margin is growing the percentages is having its effect because the raw material now constitutes the larger percentage.

Abhishek Jain: Thank you. That is all from my side.

Moderator: Thank you. The next question is from the line of Sumesh Guleria from Green Portfolio. Please go ahead.

Sumesh Guleria: Good morning. First of all congratulations on great numbers. Sir, question is with regard to the JV. So, actually we have not seen much moment in the JV's financial performance over the years because when we read the news it was very optimistic, but later on it was proposed like there will be 150 Crores capex over two three years but till now I guess, till the financial year 2021 only 14 Crores, 15 Crores was showing in the non-current assets and in Daeshin also we have not seen any revenue till financial year 2021. So, any significant events happening currently in the JVs like which we should be aware of something like that?

Jayant Davar: Sumesh just to answer that question, we have been very bullish on three of our joint ventures. Of course Winnercom is now making profits, which is one where we do shafts and antennas, the data cables that has come to a breakeven level, Whetron is kind of slow right now because of the COVID there are many mandates of the government which are still to be executed; however, the business of Honda has now been confirmed to us and we will start supplying to them from the month of January. This is a rear parking sensor business where you will not only do go in for newer models, but the ramming changes being done with our models starting January. The three most important JVs for us; one was Amkin which was the helmet business. Unfortunately, because of COVID times and most of this business were supposed to be B2C and the market signed across that did not get the revenue and the growth that we were expecting; however, like I said the last time, we have cleared the OEM perspective from every two-wheeler manufacturing. So, we are the only ones who meet with the quality standards of every OEM and we have got orders now from everyone that is point one. Point two, is a big chunk of export orders has come to us and therefore we expect that when this starts also in January the volumes there will jump up dramatically. So, while in the current time we have been running losses, and losses were also expounded a bit on account of commodity price increases, we believe that in the next quarter we will get a substantial relief from the losses and we will be on the way. So that is Amkin. That is point one. Point two was our joint venture where we do audio panels. This is in joint venture with a company called Jinyoung of Korea where we setup a new plant in Chennai to supply this Hyundai and Kia. Again, because of differentials of late launches and also on account of commodity prices, which delayed our negotiations with Hyundai and Korea we continue to run losses. Those losses have now been brought into perspective and we do believe very strongly that those losses will continue to abate as we go forward.

The third one is Kwangsung, Kwangsung is the one where we had guide up for the manufacture of sun visors and BOT films. BOT films has started production and billing form last month the sun visor business which was largely meant for exports back to Korea and to the US and Europe that got delayed because of container shipments and dependency of Hyundai to feel that India at this point of time if we start logistics might create issues in shipping to different parts of the world so that project got delayed that project of CM7 has now been cleared and our production

will start of the sun visors in the month of February. So yes there have been delays in the joint ventures but we are as bullish as ever on this particular scenario. On Sandhar Daeshin again the models got delayed and we use this opportunity which was given by the government of India to bring down the taxes the new company now because Sandhar Daeshin had been incorporated earlier and as there was not much work done we decided to close that company at Sandhar Daeshin and open a new one in the new tax regime. So that is where we are who is the joint venture as of today and while losses have continued we do believe that the next quarter will show up promise throughout the entire chain of the joint venture that we have.

Sumesh Guleria: Sir my next question is like what could be our expected revenue in like next two to three years from JVs and as an absolute number and as a percentage of our overall revenue?

Jayant Davar: While we do believe Sumesh that our revenues from this will go up to almost 500 Crores in three years. That is what we are looking at number one in terms of percentage I would hazard a guess if you would ask I would imagine that number to be somewhere in the region of about 10% of our overall revenues.

Sumesh Guleria: Thank you. Thanks a lot for the answer.

Moderator: Thank you. The next question is from the line of Anish Jobalia from Banyan Capital. Please go ahead.

Anish Jobalia: Thanks you for the opportunity to speak to you. Sir one question I had on the emission on the switching lock systems and you have as slide where you are winning more businesses from the electric vehicle players so Sir what I would like to know is what are the trends over there especially in this particular products? Is the requirement there for see as a Keyless Entry Systems incrementally in this EV products and do we have the capability around the same. So how should one expect the trend in this new segment of the vehicles?

Jayant Davar: Thank you Anish. Very quickly we are probably the ones in the frontline of the business of immobilizers. Yes you are absolutely correct that we have tied up with almost every key customer in the electric space for the supply of this particular product. There is a mix bag. So some of the large volumes of suppliers that you heard of are looking towards not immobilizer kind of loss but some of the ones for example let me name let us say after for example is looking at immobilizer locks and we are working with them, Ola on the other hand is looking at simpler locks on account of maybe reducing the cost because their cost numbers are high. It is a mixed bag but suffice to say that in terms of capability, we are at the frontend without having four different levels of technology available in the immobilizer space either with us directly from our own patented designs or from our partners in terms of whether it is Honda log or whether it is Vetron or whether it is another foreign company which we work with.

Anish Jobalia: Because your voice was a bit shaky, I mean I was not able to hear you but you are saying that the demand is mixed it could be had a mechanical lock or it would be keyless electronic lock?

- Jayant Davar:** Well, I would, see mechanical is limited. It is electric, electronic and immobilizer kind of lock.
- Anish Jobalia:** We do have the technology for those projects?
- Jayant Davar:** Absolutely, like I said four levels of technology. The only thing is there is a huge amount of price difference. Our traditional lock sells at about Rs.300, Rs.400, immobilizer locks start at Rs.1600 but that can be at some way all vehicles, all two wheelers will have immobilizer lock so that is a big play for Sandhar depending on when it starts to happen and once it starts on the higher model will obviously comes down in the lower models, as well so maybe we see this to be a two, three years horizon where all of them will be in place so the Rs.1600 is the start up and the highest level of immobilizer or smart lock as we call them go up to Rs.8000, there is a huge revenue benefit going forward.
- Anish Jobalia:** So this will be a big center to our vehicle right is the transition happen there?
- Jayant Davar:** That is right. In terms of even content per vehicle we spoke about sheet metal somebody asked about sheet metal, you see our content per vehicle if you look at it just for sheet metal, I am not talking of the overall thing. Our current sheet metal per motorcycle for example was Rs.655. The new business that we have added as on Rs.3772 per vehicle and the total from Rs.655 will go up to Rs.4427 per vehicle. If I look at scooters it goes up from Rs.180 to almost Rs.3700 so there is a big jump in place and that is the content per vehicle.
- Anish Jobalia:** I am sorry because I was not able to hear you but you are saying that the content per vehicle is overall our content per vehicle right?
- Jayant Davar:** No. I am talking about sheet metal only. Only for locks and our other product line our content per vehicle and motorcycles is crossing Rs.12000 per vehicle, not everywhere but in many cases. So it is a combination some could be Rs.3000, Rs.4000, Rs.6000, Rs.8000, Rs.12000 depending from model to model, but I am just giving you a take as how this content per vehicle is growing that is the story that Sandhar has always had is to increase the content per vehicle.
- Anish Jobalia:** Sir and second question is around the aluminium die casting, so could you provide some strategy for understanding of your strategy around this business so are we targeting more on global or export markets or is it more domestic focused as such it comes to...?
- Jayant Davar:** Anish, you are aware that our business overseas is largely aluminium and if you look at the business of let us say our overseas business today our overseas business is somewhere in the region we expect that to be in the region of about Rs.350 odd Crores so that is a large part of the business that is all aluminium based, which has been growing well. The EBITDA margins are in fact now higher than that of the Indian business and with the new plant in Romania those numbers will accentuate and grow even faster; however, the Indian business is also growing very rapidly in the aluminium space. This is a space that we got into in recent times and like I said

today if I look at it ADC perhaps is the largest part of the business at 23% of our overall product wise revenue share.

Anish Jobalia: So this business will also benefit from the China Plus One strategy?

Jayant Davar: Yes, absolutely so the plant in Romania is largely done on the substituted business that we have got from our customers who have decided to source it from us against what they were buying from China.

Anish Jobalia: Fantastic. Thanks for your time. I will just fall back in queue.

Moderator: Thank you. The next question is from the line of Nikhil Kale from Axis Capital. Please go ahead.

Nikhil Kale: Thank you Sir for taking my question. My question was one on the overseas business you kind of alluded to it in your previous remarks but can you just throw some more color on what is driving growth in this business specifically I think in the casting side we have been focused on two components but are there plans to maybe diversify in to some newer components and what would be the key drivers of growth could you talk if you maybe focusing?

Jayant Davar: Nikhil you are aware that light weighting now is becoming a large part of the business especially overseas in light of electric vehicles and so on and so forth. So traditionally people have been going away from cast iron or sheet metal down to aluminium and in many cases even magnesium. You are aware we are also one of the front runners in the country doing magnesium business but aluminium continues to be a pleasing scenario for the entire thing. We see a huge demand in this business going forward not only overseas but in India. We continue to not only upgrade our technology but because of our supply lines, we have been a preferred supplier and many, many more companies are coming to us as OEMs in the new space as well as in the old space to build this new business so we do expect that this business will continue to grow and as I had been saying for years the margins are growing and like I said even this year our margins in the international businesses are higher than those of our domestic business and we see that this trend of increase of margins will continue in the overseas arrivals.

Nikhil Kale: My second question is on the PLI scheme. Now I think just couple of days back the list of the advanced products and technologies which would be distributable for the PLI scheme have been announced so how are you looking at this scheme, what are the products are we manufacturing any of these products that can benefit from this or are there any plans to get into manufacturing some of these?

Jayant Davar: Yes. You are aware of some of our product lines that fall in to this category in terms of connected vehicles in terms of EVs in terms of safety devices so you are aware that we do a lot of safety devices in the schools that we manufacture and now there are other components that are going to go into it. Our sensors business is something that falls completely in line with the list that has come out besides of this not just parking centers but we have also got ready our tyre pressure

monitoring systems which care again sensors so in the current category that there are we are already in the process or are supplying but I think there are four more categories which will align and meet with our plans for items that are ready and develop which will fall into the PLI scheme and we will start getting benefit of it. As it is because like you said the list was notified only three days ago we and our consultants are working on making a list as to what is the entire benefit that could accrue to us over the next five years. To answer your question again insistently yes it is going to be very beneficial for Sandhar going forward.

Nikhil Kale: Thank you. That is all.

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

Abhishek Jain: Sir as industry is moving from the normal locking systems to the specialized locking systems, where their realization is three to four times higher so how much growth are you getting in this business in next two years?

Jayant Davar: Well Abhishek I cannot answer that question very clearly right now because it will depend on the adoption of the industry. You are aware at this point of time as we sit some people have delayed plans on account of the slowdown that has happened in the industry especially in the two-wheeler space, I think the entry level models have taken up backseat right now so it is all about adoption. From our side our products are ready to be rolled out. I know that the first set of rolling out is going to happen in the next year, but what is the speed of adoption is something that we will have to wait and see that will be the OEMs who will decide you will understand and appreciate that as soon as the first locks are rolled out the second rung and the models below will also come in picture and also depends on which one takes the call first. So, if one motorcycle manufacturer takes a call first the others will follow very quickly. We know that when the adoption happens it will happen very quickly. It is just a question of who is going to bell the cat and when it will happen. So, it would not be possible for me to give you a structure of how fast this will happen and how quickly the benefits will accrue to us, but yes we know that it is inevitable. It is going to happen there could be a difference of six months or one year here or there and once that happens it will happen quickly and it will mean a huge amount of revenue difference for us.

Abhishek Jain: So what is the difference in the content per vehicle for the EVs and ICEs for the locking system?

Jayant Davar: The locking systems content per vehicle is the same both for EVs and for the others.

Abhishek Jain: And sir my next question is related with the investment in the Romania so you are also getting some subsidy from the Romania government to cater this plant?

Jayant Davar: That is right so we have got the first clearance from Romania from what I understand the incentive that has been given to us is to the tune of about 66 odd Crores.

Abhishek Jain: How many years would be avail to get the 66 Crores?

- Jayant Davar:** 66 Crores over four years, I understand.
- Abhishek Jain:** So most of the capex would be recovered?
- Jayant Davar:** Yes so we would recover exact maybe the land or whatever but building and machines because they are going to be shifted and some new we expect that almost 80% of this would get recovered.
- Abhishek Jain:** No you are talking about the 2.5 to 3 million capex for the next two to three years so these capexes also included in that.
- Jayant Davar:** Yes, everything is included in that. This is for the businesses, Abhishek that we have already contracted for. Obviously, if there are new businesses that come in as we go forward in the next two or three years those would be the additional capex for which I am not in any position to say because the businesses have not been confirmed yet.
- Abhishek Jain:** Thanks Sir. That is all from my side.
- Moderator:** Thank you. As there are no further questions, I would now like to hand over the conference to the management for closing comments.
- Abhishek Jain:** Thank you Nikhil for putting this together. Thank you to all the participants' for joining today. I hope that we have been able to clarify some of the questions that you had. In case there is anything else please feel free to write to us and we will respond in more details in any specific area that you might want to know or whatever is allowable under the act in the law. We will be very happy to share that information. Like I said in the beginning yes the markets are a little slow but it is bright for us to relate in a way and feel as that the company continues its journey unabated and the investments that we have done in the past are coming to lose now and we see the rate of growth to continuously grow despite of how the markets are playing out. So that is where we are I want to wish you all a very Happy Diwali I know it has gone by and the coming Festive Season and the New Year. God bless and take care.
- Moderator:** Thank you. On behalf of Axis Capital that concludes this conference. Thank you for joining us and you may now disconnect your lines.