



“Sandhar Technologies Limited  
Q3 FY2022 Earnings Conference Call”

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**Dolat Capital**



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**Moderator:** Ladies and gentlemen, good day and welcome to the Q3 FY2022 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 touchtone 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 Steven. Good morning everyone. On the behalf of Dolat Capital I welcome you all on the third quarter 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. Now I will hand over the call to Mr. Davar for his opening remarks post which we can have the question and answer session. Over to you Mr. Davar!

**Jayant Davar:** Thank you, Abhishek and thank you Steven for this opportunity to talk to you about the industry etc., and of course Sandhar. So while numbers and I am going to leave all of those to Yashpal Ji to explain, I am happy to begin by once again welcoming you all, wishing you a very, very Happy New Year, and also from a perspective of Sandhar just to give you a broadside that we have in terms of nine month comparison over last year these nine months have been remarkably better.

Despite this being one of the most challenging quarters that we have seen in history. The commodity prices have gone out of the window and in some cases gone up by almost 30%, 40% so while the current quarter that we are in is stabilizing, the impact of the growing commodity prices or the rising commodity prices have had a plague on every company in the sector inside and outside.

In the nine months, we have had two difficult things that have also happened one is the chip shortage as you are all aware of, which has impacted the output of all four-wheelers and then in terms of two-wheelers at the entry level model there has been a slump in demand.

Putting these two things together I think it has been a challenging quarter and our numbers for therefore the last three months have not been what we had expected out of the beginning of the year. The silver lining of course is that while the entire industry has gone down, we at Sandhar have managed not only to out beat the industry but show positive results.

So I am going to leave it there and then you can start your question and answer session and I will ask Yashpal Ji to kind of take on questions where numbers are concerned and I will happily and supplemented with whatever any future looking statements are. Thank you.

**Moderator:** Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Abhishek Gaoshinde from Sunidhi Securities. Please go ahead.

**Abhishek Gaoshinde:** Thank you Sir for the opportunity. First of all, if you can share your outlook for quarter four or first half of the next financial year?

**Jayant Davar:** Well, Abhishek I am not allowed to give you numbers for the quarter. All I can tell you is that this quarter should be better on account of two or three things. One, I understand the chip shortage situation is improving and therefore we should see some uptick where in terms of numbers of vehicles being sold, you are aware that so far we have lost almost 0.5 million cards in terms of production during the year. I do believe that most of the car companies now are saying that things are getting back to a level which is better than what it was in the last quarter and therefore one should be able to see better numbers there that is one, on the two-wheeler front again I understand from FADA that while sales have been low, the footfalls have started to happen in the showrooms. So that again is a positive, positive thing. The third positive lined up stuff right now is that like I said the commodity prices have started to kind of stabilize and therefore you are aware that companies like us when the commodity prices go up and keep going up our impact lasts for at least three months and even longer if they continue to grow. But on stabilization the compensation that we get from the customers bring us on to a normal platform. So, we expect that to happen and the losses that you get or the impact that you have of rising commodity prices is taken off the table. So those are three statements that I can make with whatever I can see right now obviously I cannot talk to you about the entire quarter. I do not want to open the astrologer's ball here, but that is where it is. In terms of absolute numbers we cannot give you any forward looking statements here.

**Abhishek Gaoshinde:** No, these are helpful directional things are happened. Second thing Sir, you have applied for the PLI scheme. If you can elaborate that what kind of products or categories we are targeting under this PLI scheme?

**Jayant Davar:** Well, we are looking at several and I am happy to tell you that in the two-wheeler segment for example, we are looking at a lot of electronics. We are also looking at batteries and BMS's we are looking at battery chargers, we are looking at motor controllers, we are looking at DC/DC converters and for the four-wheeler segment, some of our technology partners have already started doing stuff internationally which we brought to India including the rear parking sensors, cameras, security systems, lane departure warning systems, heads up display, the radars and kick sensors, different kind of sensors and the stuff that I have mentioned earlier. So there is a lot in the kitty right now. We are still trying to consolidate and build the demand, a lot of it is mandated, a lot of it will become mandated by the government and we should be in position to be able to take advantage.

- Abhishek Gaoshinde:** Just one last question with Mr. Jain. Sir earlier you are looking to apply for the PLI scheme just based on directionally if you came for that?
- Jayant Davar:** We already applied for the PLI scheme.
- Abhishek Gaoshinde:** No, my question is that based on your assessment there, how the profitability or return of investment would be different, if you have invested in the same project without PLI scheme just directionally your comment? I am not looking for a specific number. Directionally how the things would be different with the PLI scheme?
- Jayant Davar:** No Abhishek it is very difficult to talk commercials right now. All I can tell you is that the PLI scheme in itself has a built off module of anywhere between 4% and 11% depending on the product, depending on the investment and depending on how quickly you can do it over the next five years. So while there will be an investment anything if you were to say in like-to-like if I was to do it we have the option depending again on the amount of input cost, on the amount of value addition, on the amount of distance to be travel anywhere between 4% and 11%.
- Abhishek Gaoshinde:** Okay Sir, thank you.
- Moderator:** Thank you. The next question is from the line of Sanket Baheti from GeeCee Ventures. Please go ahead.
- Sanket Baheti:** Thank you Sir for the opportunity. Couple of questions; Sir how much capex you have done in nine months and what is the total capex will be doing in this financial year?
- Yashpal Jain:** As of now in nine months we have done a capex of close to 134 Crores.
- Sanket Baheti:** For the total capex?
- Yashpal Jain:** For the fourth quarter we are again expecting to go something around 50 Crores or so, so annual capex we are planning around 184 Crores in this current financial year.
- Sanket Baheti:** Sir next year?
- Yashpal Jain:** Next year well as we move we are commissioning the specific projects for our clients so next year apart from our regular capex we have a plan to go for another capex of close to 100 Crores.
- Sanket Baheti:** I think it is approximately 80 Crores of your maintenance capex and 100 Crores will be this combined?

- Yashpal Jain:** Yes, maintenance capex that is a need base capex. It is not a thumb rule that we have to forcefully incur capex equal to the depreciation, it depends, but yes 100 Crores we will be spending on our expansions as of now, and this figure will keep on changing based on the businesses that we are securing from the customers.
- Jayant Davar:** Let me just supplement there. We are currently in this particular year. The idea was to commission five new plants, you are aware that the Nalagarh plant was inaugurated. This was done in the month of December and in the month of January we have started commercial production. We have now facilities coming up in Halol, in Hosur- Tamil Nadu, in Mysore in Karnataka and then an international unit in Romania. If you were to look at what the outflows, net outflows there is a total capex and there is a net outflow as well and this is taken after consideration of the incentives or subsidies that have been provided by the State or the Federal Governments. The total capex we look at for the plant here in India, Yashpal Ji you want to give a number and also for the total net outflows for all these five plants.
- Yashpal Jain:** Yes, definitely I will provide it, Sir. Four plants we are building up in India.
- Jayant Davar:** Five including the one that we have one so that will give them where is coming from.
- Yashpal Jain:** So 291 is the capex gross capex that we were doing in India, 159 Crores is the estimated capex for Romania plant so this is the gross capex that we have planned, if we take out the subsidies and etc., which will be something around 115 Crores, if we take out this will be roughly around 200 Crores of the capex sir out of the 190 Crores is the figure of a net capex after we consider there are various benefits on subsidies.
- Jayant Davar:** That is one the other thing that you have to keep in mind is that all these plants are fully booked from day one so when they start they go into full force production we do not have a gradual increase of production that we are looking at which means that a large part of the revenue will appear against these investments in the next financial year itself.
- Sanket Baheti:** Sir by when these plants are expected to start?
- Jayant Davar:** While we are looking like I said Nalagarh has already started, it is building up and ramping up, we have Halol which should also go into production in this financial year itself. Hosur and Tamil Nadu also we are targeting the month of March, in Mysore it will take us another three months or so. So we are looking at probably June and Romania again is something where we are looking at June of 2022.
- Sanket Baheti:** Sir what will be the total revenue from this?

**Jayant Davar:** Well again we are building a capacity to overall have revenue from these five plants to the tune of about 780 odd Crores.

**Sanket Baheti:** Most of that will come in FY2023 itself starting from FY2023?

**Jayant Davar:** Well depending on when it starts and obviously it takes a couple of months to stabilize but otherwise the capacities are fully booked.

**Sanket Baheti:** Sir in terms of sheet metal components I think we have reached revenue around 116 Crores during the quarter. So further new plants will be catering to the sheet metal components, is it right.

**Jayant Davar:** No, not all. Yes, some of them are sheet metal in India but Romania continues to be our growth and expansion of high precision aluminium castings.

**Sanket Baheti:** Sir, last thing. What is the gross debt and net debt at the end of the quarter three?

**Yashpal Jain:** Our gross debt stands at 356 Crores as at the December end and our net debt will be around 350 Crores.

**Sanket Baheti:** Thank you Sir. Thank you so much.

**Moderator:** Thank you. The next question is from the line of Navneet Bhaiya an Individual Investor. Please go ahead.

**Navneet Bhaiya:** Sir, my question is regarding you have targeted new product that you have explained in your presentation for both the two-wheeler and the four-wheeler segment so do we have tie ups for these with OEs already and where are we getting the technology from for most of these products?

**Jayant Davar:** Come again I did not get the question, please once again?

**Navneet Bhaiya:** These products that we are developing the targeted new products for the two-wheeler and the four-wheeler segment things like battery chargers, keyless solutions, there are several products that we have listed in our presentation so do we already have tie-ups for these with the original equipment manufacturers or once we developed it how does it exactly work does it work on a pool basis?

**Jayant Davar:** It works two ways one is co-creation. A co-creation is it depends on the model, depends on the OEM so I can give you a couple of examples which will probably exemplify what I am saying. You brought about let us say keyless entry. Now the keyless entry which is the new

or the futuristic way of locks or security for vehicles, there are different elements to it, if you take a two-wheelers themselves there are different levels, right now the loss that we provide cost anywhere between Rs.300 and Rs.500 odd. Going forward as keyless entry comes in the minimum level would be Rs.1600 and the maximum level would be Rs.8000. Now these obviously means that the features that get involved in keys bring in different technology so you would be happy to know that your company has one our own R&D which is developed the one which is the cheapest level of the keyless entry locks, we have Whetron which is let us say the worldwide supplier for Suzuki and Honda where the cost is about Rs.3500 when we also have technology partners of Honda Lock who have been our partners now for 30 years where the difference could be between Rs.5000 to Rs.8000 but they cover up the entire end of the platform that runs for the next three generations. So that should give you we not only have one we have almost three backups for the kind of technologies that we are looking to offer and depending like I said in the model of the OEM depending on the features require. We have adequate backing of the right kind of technology partners to take us through this.

**Navneet Bhaiya:**

If I understand it correctly any of these products that they are developing we have some 10, 15 or maybe 20 odd products listed do we already have a tie-up with the OE once we develop it to supply to that respective model?

**Jayant Davar:**

Yes, whatever we are developing is being developed, you see we are, so there are certain elements I will break this up into two, there are some components where we are current suppliers. Locks for example we are the largest lock producing companies obviously all the OEMs that are looking for anything futuristic in terms of technology for the next three generations, four generation of their vehicles co-created well then there are items which we currently do not do especially in the field of EVs and so on and so forth. Now there because the customers do not know that we do them and the customers do not themselves also have the technology because these are new ideas but the market is kind of developing they are reaching out to people who have technology tie-ups and we have those technology tie-ups so like I mentioned with several of our joint ventures and technology partners. So we are inviting that people are coming in we are now at a stage where we have started talking to them about technologies, features availability that they are looking for, the commercials and so on and so forth. So that is where the scenarios are, that the traction seems to be building on the components that I mentioned earlier.

**Navneet Bhaiya:**

Two related questions to these so new product that we develop not upgradation like the locks that you have mentioned the new product that we are building on what proportion of our turnover let us say a medium-term to these constitute I know cabins is something that you get a few year back but just wanted your sense on that how long that they take to ramp up a new product that we are building all together?

**Jayant Davar:** It depends on the change over where the OEM looks like. I brought you an example of let us say the keyless entry locks these obviously bring a huge amount of premiumization to the vehicles. So like I said Rs.400 locks goes to a minimum of Rs.1600 there has to be affordability that the OEM sees which he can afford to put in as inputs into his vehicle and there has to be a market cost. Now everybody knows that there is an upgraded component available the technologies available so they will gradually built it up starting from where high models and then bringing it down to all their models so it does take time but it is very difficult for me to say how long that can take there are something which are adopted and adapted very quickly there are some that takes a few years and more.

**Navneet Bhaiya:** I understand and my second question was in terms of traction with new OEs so how does that work and how long does it take to build up a new key partner or new customer?

**Jayant Davar:** Build up a new customer.

**Navneet Bhaiya:** Yes, new OE, so we have Hero, we have TVS, we have Tata Motors, Honda?

**Jayant Davar:** I am at one point of time we used to be very happy when we use to say well we use to have a mandate or a KRA for the company saying that we should add one customer a year that has not changed if you ask me if you are looking at rounded established customers. But in current times you are aware there are 64 new EV suppliers that have come into the platform now should I consider them as our customers and adding and saying that we have added 20 or 30 more that does not make sense while we are adding but the size of the customer and the size of business that we can do per customer is very important. EVs is still nascent gain and therefore it is difficult for me to say which ones we will work out, which ones will grow their volumes, which one will become substantial, but obviously we want to keep our foot in the door and therefore we are entertaining most of them. Going forward we will have to say which ones need the criteria that works for us we typically like to have a customer who is a 100 Crores and more of business for us right now there are several new ones which are much, much, much smaller, but on an overall platform we like to believe that our KRA of getting a new customer that offers us a minimum of a 100 Crores of revenue on an annual basis is still very strong.

**Navneet Bhaiya:** Fair enough. Thank you so much. I will join back the queue.

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

**Abhishek Jain:** Good morning Sir. First of all congrats for decent set of numbers in the challenging quarter. Sir my question is related with the aluminium die casting business which we have seen an

increase in numbers in this quarter and quarterly run rate has gone up to the 1.7 billion if we add foreign subsidiary number. So can we assume that this number will be sustainable in coming quarter?

**Jayant Davar:** Absolutely, I see no reason why you know that we made investments in fact I would be disappointed if you only say sustainable it should be a growing number that is what we are anticipating hoping we have been growing even in the quarters where our output of the OEMs and the overall industry has been grow we manage to not just keep our head up now whatever we have grown and we will continue to grow.

**Abhishek Jain:** No Sir the company got a lot of the additional business from the HMSI, TVS and Denso for aluminium casting especially for the tools and molds so what is the quantum of orders and how much incremental revenue will get in FY2023.

**Jayant Davar:** Well again I cannot talk a futuristic numbers, I am sorry, but suffice to say that like I said HMSI was a customer that we added in the last year they have given us several components some of them have been productionize others are under development this is an ongoing business for us and like I said every element of any new customer that we want onto our platform should be about a 100 Crores reach so therefore we are looking at those targets going forward whether it is for aluminium whether it is for the new locksets business that we have got now from HMSI I am sure you are aware whether it is a business of sheet metal that we have got from HMSI that again I think I made aware in our last investor meeting. So HMSI is going to grow to a large customer products going forward that is what we are hoping, that is what we are developing it for, that is where investments are being made that is where we are engaging with them on a regular basis.

**Abhishek Jain:** So Sir this quarter we have seen sharp revenue growth in the foreign subsidiary that margin has seen a sharp contractions. So can you throw some light on it what is the region of margin contraction in the foreign subsidiary which used to get a higher side in earlier quarter?

**Jayant Davar:** Is that right, I do not think so, I do not see a margin contraction. Overseas subsidiaries they have perform very well Abhishek. Our overseas subsidiaries have done very well here.

**Abhishek Jain:** So can you give numbers of the overseas subsidiaries like the revenue and the margin in this quarter.

**Jayant Davar:** Of course that I have in front of me. Yashpal Ji you have them individually.

**Yashpal Jain:** Yes I have them individually so I will just give, Sir.

- Abhishek Jain:** Sir my next question is related with the cabin and fabrication business you have owned seven new business in India, in overseas, demand for excavators is quite a strong so just wanted to know what is the outlook ahead for both revenue and the margin for the cabin and fabrications business?
- Jayant Davar:** Yes, if you ask me it will be very difficult for me to tell you, because of the fact that I am not supposed to talk about it all I can tell you is that I think last month was our highest level month in terms of output and that is an area which his going extremely strong. Add to it what has been announced in the budget you have seen the focus on infrastructure and if that is going to be the case I think that is one area of pressure for us happy pressure though in terms of growing sales and we see that not abating in the near future. So I think in terms of our run rate we are already at a run rate of 40, 42 Crores a month in that business and I think things will only improve thereon.
- Abhishek Jain:** Sir my last question relative with this JVs performance can you throw some light on the JVs performance each and everyone.
- Jayant Davar:** Yes, JVs performance this year again one quarter the first quarter was not good with the COVID scenarios lot of our joint ventures are with the Southeast Asian countries including Korea and so on there were certain elements in the JVs which you are supposed to be out of India only for exports however because of no travel which was allowed during this period some of the delays came in, in the introduction of those model outputs to sales in Europe and America and also back to Korea that has put a little bit of delay and obviously because these are delicate companies as being new companies any pressure or stoppage of sales for a period of time also impact the bottomline however happy to say that we manage to keep things under check the sales has now begun to grow and Yashpal Ji will give you the numbers.
- Abhishek Jain:** Yes sure.
- Moderator:** Thank you. The next question is from the line of Anish Moonka from JST Investments. Please go ahead.
- Anish Moonka:** Thank you. Jayant Sir while no one knows how the future bill evolve due to the inherent cyclicalilty of our industry. Still as much as we understand Sandhar is targeting a 30% growth over the next three to four years. I have two questions related to it. Firstly what part of the target is dependent on the increasing market share in the auto ancillary industry whether be it due to the new products or just increasing market share in old products and what part is dependent on a possible auto upcycle in the upcoming year. The second part is on the capacity that we have where we have given a capex guidance of just 100 to 125

Crores yearly basically equal to our depreciation so given our past asset turnover of just 2.5 to 3x that just adds a revenue of 300 Crores. So are the current capacity is enough to support this 30% growth target? Thank you.

**Jayant Davar:**

See on a bulk basis our capacity utilization at this point of time if I was to aggregate it amongst different components, amongst different technologies, I think should be between 60% and 65% so that is point one. Point two is that you have heard that we are setting up these five new projects and in those five projects Mr. Yashpal just told you that the total investment that has been anticipated is somewhere to the tune of about 350 odd Crores. Now obviously you can do the math in terms of asset turns and that is something that we are looking to do is starting from the next financial year itself. Add to that you asked about market share we are not looking at a hams market share we are not looking at because of the unpredictability right now we are not looking at the auto sector to grow on a dramatic turn. What we are doing is focus on technology upgradation and premiumization and also to get newer businesses that we are not doing now which is our call for wallet share increase which means that from the same customer that as I have today I am trying to get new kinds of components so I am starting from level zero I am not saying my share is 60% and I am growing it from 60% to 65% I am saying I am a zero today and whatever I am getting now will take me up to a second source, third source or whatever but it will give me a share of these new businesses going forward. I do not know if I have been able to answer your question.

**Anish Moonka:**

Yes good enough Sir. My second question entails the role of R&D and what are we doing at Sandhar to be ready with the next leg of products, that our customers will ask for in the next five to ten years effectively being ahead of the curve such that we not only grow in terms of revenue but also through a much higher value add compared to our competitors as you already mentioned in the locks. So could you please talk more about these efforts. Thank you?

**Jayant Davar:**

I mentioned locks and you saw that premiumization and value addition as we put it are goes at several poles and several times over and this is not just in the case of lock it is in almost all the vehicle components that we make, whether it is aluminium die casting while we are adding on certain things now that from aluminium we are also going into magnesium castings which are of a different premiumization and they give us some much higher value addition we are going in from regular machined components on to machine less components which obviously give us a much higher value addition this is in the commodity space if you look at spaces which are proprietary we are moving from one level of sensors to now cameras which then bring in a much higher level of premiumization and value addition so all across the board all the areas that we are functional in today we are looking at this premiumization. Even in the area of sheet metal components where we use to make

blank sheet metal components we are now moving into a different category of complete assemblies and subassemblies which are then being delivered not as a component but as a tier one product whether it is muffler bodies complete, whether it is frames that are complete, we are moving on from making parts to making proprietary items you saw that move when we move from components onto making cabins for example. So every element of our componentization is being premiumized every element. In terms of your R&D I am happy to announce that this year if I am not mistaken we have I think almost 12 to 15 new patents that were targeted that we have already got and that work goes on unabated and the advantage of getting Indian patents and doing it yourself is that you do not have to pay any royalties anywhere you do not have to tie up with any technology partners overseas and whatever you build out of here is done at Indian cost and that is extremely important in the area of manufacturing in India.

**Anish Moonka:** Just a last question from my end, from a capital allocation perspective I would like to know your thoughts on a buyback given the valuations at which Sandhar is trading in the markets? Thank you.

**Jayant Davar:** Well that is a difficult question for me to answer. I would love to buyback if you want to but I think we have responsibilities to our shareholders and in fact from what I understand the number of shares available in the market in terms the liquid shares is not very much. So we will be talking to people how the liquidity of shares in the market can grow and what can be draw down to the table to make our investors happier as they go forward.

**Anish Moonka:** Certainly Sir. I think that could lead to a much better price discovery. So I will rejoin the queue thanks for the elaborate answer. Thank you.

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

**Abhishek Jain:** Sir how much increase in content per vehicle in the sheet metal post setting up new plants and addition of the new plants?

**Jayant Davar:** Well the new plants obviously give us a huge upside Yashpal Jim he might have the numbers as to how let us say our content per vehicle even if you look at new plants that are being setup sheet metal for example what is our content going up from where to where.

**Yashpal Jain:** Sheet metals are like a component as of now there is the threefold increase in our component size I mean in the sheet metal it has gone near to 1500 is the content per vehicle as of now in sheet metal and it is going up with what has been added by the customer.

**Jayant Davar:** Yes, so to answer that question for us our capacity built up should let me say in terms of capacity we will go up to a capacity that can generate about a 1000 Crores of revenue from the current level of what we were doing which was close to less than 200 I am assume.

**Abhishek Jain:** Next question is relative with the JVs performance AMKIN which was supplying the helmet to the most of the OEMs the company wants several new orders from the OEMs and also receives some orders from the export so what is the outlook for this business and when it is going to be profitable.

**Jayant Davar:** Well we are now fingers crossed and happy to state that we feel confident that this will no longer be loss making going forward in the next financial year we have like I said in the past we were very happy to report that we now have clearance from almost all the OEMs the only company to do so and we have also built on, on a lot of export potential models that we have tied up with at this point of time as we sit those are being assembled and those should start shifting soon. So we are looking at a several fold increase in numbers over the next year.

**Abhishek Jain:** What about another JV of Jinyoung Electromechanics which is supplying avian panel and switches. So loses was wide earlier so what is the current status?

**Jayant Davar:** Well if you want me to run all of them I can you spoke about the Avian panel business which is Jinyoung Sandhar where loses have been brought down substantially already with consolidation it was a new unit and it got loss because we could not get technology partners to be here we are very hopeful that those matters are now behind us and we should be in the volume production on a regular basis where that is concern. In terms of Winnercom I think we are already now in profitability if I am not mistaken Yashpal Ji is that correct.

**Yashpal Jain:** Yes, Sir it is in profitable.

**Jayant Davar:** That is profitable the one thing that will be a big launch for us will be Kwangsung that has started manufacturing and started shipments in the month of January these will be ramped up as we go forward and again you will see substantial numbers coming out of the exports that we do from this unit this is sun visor and BOT films. BOT films have been accepted very well with the customers in India and we expect those numbers to grow and so well the sun visor.

**Abhishek Jain:** Thank you Sir. My last question is related with the EVs so what all products you are going to add in your portfolio and how much revenue currently you are receiving from the EV segment and what is your target?

- Jayant Davar:** Right now the EV segment I will give you the revenue very quickly I think Yashpal Ji will have that revenue but yes EV revenue is still very small it is very, very insignificant although having said that we tied up with almost more than 50% of the EV makers in the country you are aware that there are huge numbers we tied up with many, many, many of them that seems stable some of them are extremely small some of them are producing same numbers a month which obviously has no meaning for us but Yashpal Ji what has been our revenue.
- Yashpal Jain:** Sir it is 38 Crores for nine months from EV?
- Jayant Davar:** So there you have the number 38 Crores from nine months if you look at it, it is less than 5% of our revenue.
- Yashpal Jain:** Like we have the EV offtake starts growing that EV starts our revenue is going up and second is the reason is that like quarter two was the lesser due to chip shortages the business affected in overseas business also that is the reason because we are supplying for four-wheelers as well as two-wheelers in EV segment.
- Jayant Davar:** One is the product which is our existing products based in commodities which go into EV vehicles and then there are electronic vehicles that are specific to electric vehicles. So going forward the way we are looking at is that some of the things that I spoke about which is let us say the BLDC motors which will be specific controllers which will be specific these will be specifically for only electric vehicles. Let me give an example we can say we make a sheet metal frame for a motorcycle that can go in a regular motorcycle and that can go in an electric vehicle but some things like a motor controller or like a battery pack or like a battery management system will only go into an electric vehicle or a hybrid vehicle as best. So we are working on both items the regular items obviously go from our regular investments that are already there but some of the new ones will go in specifically for the electric vehicles where new technologies are being developed and being fine tuned.
- Abhishek Jain:** Thanks Sir, that is all from my side.
- Moderator:** Thank you. The next question is from the line of Shashank Kanodia from ICICI Securities. Please go ahead.
- Shashank Kanodia:** Good morning Sir. Just to get a sense upon the return to double digit margin profile with the kind of contractual arrangement that you have with your OEMs as well as stabilized Brownfield prices how soon will it get back to the double digit margin profile and what kind of a guidance you give for next two years.

- Jayant Davar:** Shashank you know Double a better digit is what we are looking at double digit should not be difficult to reach there is an aberration in the double digit thing for now on account of commodities and like I said if prices keep going up of the commodities then the compensation that we get from the customers comes in only three months later and therefore we may had an impact, Yashpal Ji what has been our impact on raw materials.
- Yashpal Jain:** In terms of our EBITDA hit.
- Jayant Davar:** Yes, uncompensated ones.
- Yashpal Jain:** It is 12 Crores.
- Jayant Davar:** It is 12 Crores. Now if you were to add 12 Crores you are already in double digit is not unreached so I do not think double digit is an issue at all our stabilized things that we work for that we should be working at an optimized EBITDA margins of anywhere between 12.5% to 13.5%. Anything lower than that is typically on account of stuff that happens commodity prices there is get compensated but that is the number that we kind of target here.
- Shashank Kanodia:** Sir this 12 Crores should come back in Q4 itself right the uncompensated raw material cost.
- Jayant Davar:** Yes, it should come back there is some long-term assets when there is commodity price increase it will bring absolute numbers you get that compensation back but as a percentage of the output there is a little bit of slipup that happens unless and until the model changes and when model changes then fresh costing were done but in any case the double digit is the minimum that we should be looking at is our target.
- Shashank Kanodia:** So Sir for next year maybe 12% is something that we should be able to do that.
- Jayant Davar:** I cannot talk the numbers and again astrology balls I cannot open I do not know if commodity, but then you will tell me next time, you only have told us.
- Shashank Kanodia:** Secondly Sir just if you can throw some more light about our penetration with the top EV OEMs domestically let us say for example Hero Electric, Okinawa, Ather, Ola Electric, so how are we present in these kind of an OEMs and what product do we supply.
- Jayant Davar:** We are in either supplying or actively developing with all the names that you heard of in the Indian context I will have to leave it there for the moment with that statement.

- Shashank Kanodia:** Secondly if I put it is the Hero is generally the own EV product so since we have a strong holding in Hero Motocorp so we will have a substantial share of revenue in the product segment from them right?
- Jayant Davar:** Yes, as and when they appear and as and when their volumes grow up you will be able to see it in your balance sheet.
- Shashank Kanodia:** Sir lastly on the debt profile how do we see the debt trajectory for next two years?
- Yashpal Jain:** Well Shashank I will respond to this. So presently like we have a debt price of 356 Crores as you know we are building up five new plants. So next year another we are planning something around 150 Crores of the additional capex but again next year we will be having our internal cash accrual of close to 250 Crores plus. So largely I do not see that going much beyond our level of another 100 Crores even if we have to meet out like maintenance capex and further expansion will be restricting it and whatever cash generation we will be generating from the businesses that will be using to reduce our debt.
- Shashank Kanodia:** So next year it will peak out of 250 odd Crores and then thereafter it will plan to reduce it right?
- Jayant Davar:** Yes, exactly because what happens is that we are doing capex in a staggered manner it is not that we are building all the capacities together so one is going live it is start generating revenue similarly the another one is being build up so in a phase manner all these five plants will be coming up so whatever that cash addition is there will be using it for further expansion per se that is how we plan today.
- Shashank Kanodia:** Thank you so much. Wish you all the best.
- Moderator:** Thank you. The next question is from the line of Nikhil Kale from Axis Capital. Please go ahead.
- Nikhil Kale:** Thanks for taking my question. My question was more on the strategy. So Sir in the presentation you talked about multiple new products that you are kind of working on so just wanted to understand how are we looking at it because we already have our strong position in some of the locking side of mirror. Now when we are getting into so many different products how do you kind of ensure that we have the kind of correct focus so that we can scale up and become a significant player in at least a few of these components or are we spreading ourselves to till?
- Jayant Davar:** Nikhil very good question thank you for joining the call today. You know a lot of components that you talk about that we have spoken about fall in the same genre of

componentry so if we talk of sensors for example the base level of the sensor is the same the applications are different. So if you look at companies do sensors they do all kind of sensors so I might be able to say while what we do parking sensor we will do ambient the air pressure center we will do a TPMS and so on and so forth they all fall within the same gambit. So overall in terms of our context of technology they fall within the same range. So similarly some of the electronics fall in the same range and you know that we have been working on electronics now for the past five to seven years so whether you look at USB chargers or you look at foldable keys or you look at ESLs all of them fall in the same category so categorization is not different it is just that it is a new block and that new block is not of 70 technologies it is probably only two or three technologies that every player has to play in and you also have to understand the air pressure sensors or any kind of sensors for that matter in themselves do not have too much of value so you need to combine and give it as a block to an OEM and OEM will not buy different kind of sensors from different kind of partners they would want to concentrate on sensor technology only with one or at best two suppliers I do not know if that answers your question.

**Nikhil Kale:**

Yes, it does, but just taking that point forward. So what I am thinking is see right now in an ICE you had multiple products and multiple suppliers had kind of position themselves across each of these products. Now as we gradually move towards EV specifically on the two-wheeler side the addressable number of products is coming down right so what we are seeing is that incrementally most of the suppliers are focusing on the same products be it motor controllers, battery BMS, battery chargers, DC/DC converters, sensors all these products now like you mentioned that OEMs will tend to just stick with couple of them and try to source most of the sensors say from one or two suppliers do you feel that structurally there has been a understanding that margins in these products are higher right now but going forward over the next two, three, four years given that you will see more and more competition for the same products margins will come down there will be quite a bit of margin pressure within the competitive intensity?

**Jayant Davar:**

Absolutely Nikhil you are bang on the margins will go down and it will be left to only two or three players in each segments not question about that this is something that is always happened and I do not think that will change. However what is the heads that Sandhar has over maybe 50 people who have announced over this is our technology partners and technology partners that have been with us for years and decades you are aware Honda Lock for example has been with us for over 30 years and now they have not only been our partner we have setup an R&D center here in India with the Japanese engineers sitting with us jointly and doing joint development here in India. Now obviously they have a traction they have been doing it all over the world so when they are doing it with us the customers obviously will come to us because they are familiar with this entire thing and that goes with whether it is our tie up with Whetron or whether it is with Honda Lock or with several other

Korean companies who have been doing exactly the same thing. Now because these are validated tried and tested obviously the customer want to go with people who are tried and tested. So if our suppliers have been supplying these things internationally to let us say Hyundai and Kia obviously we will be the first top of all for these people when they come to India or they deliver in India. I do not know if it answers your question Nikhil. It will get even more comparative as we go forward and therefore we have to understand that for some year some people might get a little bit of booty on top but effectively at the end of the day it is all stabilize business that will throw up equitable margins as most other components we have.

**Nikhil Kale:** Yes, but Sir just on the technology partner side so can you just talk about who are the technology partners we have seen some of these electric vehicle products be it battery BMS or chargers or for that matter wiring harness?

**Jayant Davar:** Yes, so wiring harness we have a tie up with Hanshin that we tied up which does data cable and now for the first time we not only doing data cables we are also doing offline data cables as well as regular wiring harnesses. So that connectors there are a little different and that technology is available with us in terms of shark fin antenna there are ones which are wired and there are some which may not be wired again that technology comes from Winnercom who is one of the best known people in the field in the world. In terms of locks ESLs and so on and so forth we have Honda Lock like I said who have been had since 1987 and therefore that is a very strong relationship where we were building on newer technologies in India in our joint engineering center that we have set up here in terms of our sensors we have Whetron and Whetron is a large supplier in the EV domain based out of Taiwan all names that you see get covered in all of that.

**Nikhil Kale:** Got it. Thank you.

**Moderator:** Thank you. The next question is from the line of Anish Moonka from JST Investments. Please go ahead.

**Anish Moonka:** Thank you. My question is on the auto industry as a whole. So for the last seven, eight years the number whether be it two-wheeler or passenger vehicles presume as the whole are stagnant so Jayant Sir given your 30 years plus experience are there any structural issues due to which we are not seeing the growth that China or Indonesia saw while their economies were growing rapidly do you see the Indian growth story coming back in the next five years or the industry would have to look at exports to grow further? Thank you.

**Jayant Davar:** My quick response to this there has been a trauma and I use the trauma this says that with so many things happening at once I think there was a shock in the system. You remember

the mandate that came in where it is started off with saying Euro 4 to Euro 6 or Euro 3 to Euro 4 as standards of Bharat 3 to Bharat 4 there was a huge jump in terms of the cost that went into these vehicles then came the mandate then get third-party insurance also then came things which were mandated on a count of either Pollution or in terms of comfort or in terms of safety so if you look at let us say even motorcycles today the same motorcycle that use to retail at less than 40000 today the minimum price is over 60000 and that if you see is a 50% jump over an entry price of what somebody was looking at from graduating a bicycle to a motorcycle and the same thing has happened in passenger vehicles the same thing has happened in heavy commercial vehicles, medium/ light vehicles and also in construction equipment so there has been trauma on one side add to it the fact that there is this huge thing build on pollution fronts. So everybody, every state, every city in this country said you know IC engines are polluting little bit they understand that when you were moving from Euro 4 to Euro 6 the amount of pollution that was being caused with minimal and going forward as you graduate from this you will actually not have pollution coming from IC engines that is our technologies but in the system there was this huge shock that happened add to it COVID where people stop going out and the last thing on their agenda was to go and buy a new vehicle here most people especially in the MSME sector or people who were running their small businesses or people like ready walas for example who wanted to graduate to a motor ride vehicles were now thinking of where to get their three meals to eat let alone go and buy vehicle so there has been a shock in the system so where is it that we are looking at you said about the future India still is at less than 30 cars for 1000 people compare that with the US which is 560 compare it with Thailand which has 150 I understand from my understanding or the numbers that I have from statistics Pakistan has more than what India does. Now the aspiration on one end we talk of demographics where we say that 65% of our population is under we add of 35 as the aspirations we talk of aspirations of rural areas where everybody talks about you owning your own home, owning your own car and education for your kids. Now all these three sectors are now going to just run away China you are absolutely right grew up they grew up to huge numbers without any headwinds all of us I mean the last three or four years there have been massive headwinds I do think that this is mitigating as we go forward and I am looking at this new COVID variant that came to be the beginning of the end and my fingers are crossed I think once we can get pass that once the shock of this entire thing goes away the commodity prices begin to kind of stabilize people and banks around the world stop printing money it should stabilize and honestly if the entire world is moving to India to make it not just a cost low cost manufacturing base but also the hugest market that is available today I see no reason that we sitting in India producing here selling here will not be able to get benefits out of it so to me this is a temporary speed breaker and we should find a highway to take off soon around.

**Anish Moonka:** Yes, makes all the sense sir I totally get the optimism and potential so any inorganic opportunities that we are in talks given the pain the industry has gone through in the last few years?

**Jayant Davar:** Always are, always have, and yes there are lot of stress assets available however the entire market because of easing money has gotten used to high valuations of very, very high valuation so I think those are getting stabilize now and we should hopefully have some announcements to make soon around.

**Anish Moonka:** Thank you so much again for the elaborate answer Jayant Sir.

**Moderator:** Thank you. As there are no further questions, I now hand the conference over to the management for their closing comments. Over to you Sir.

**Jayant Davar:** Well thank you Dolat Capital for putting this together. Thank you to all the participants today, I am not sure if I could answer questions to the best of your expectation however I did try and sometimes over the phone it gets a little more difficult I hope these COVID times pass by and we can all sit physically across each other celebrate back to normalcy and I am sure we will get an opportunity to answer your questions in much more detail. Thank you once again for being here and a very Happy New Year to you and your families again.

**Yashpal Jain:** Thank you very much.

**Moderator:** Thank you. Ladies and gentlemen, on behalf of Dolat Capital that concludes this conference. We thank you all for joining us and you may now disconnect your lines.