"Sandhar Technologies Limited
Q4 FY2022 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Sandhar Technologies, Q4 FY2022 Earnings Conference Call 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. Good morning everyone. On the behalf of Dolat Capital I welcome you all on the fourth 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 of the company. We thank management for giving us opportunity to host the call. Now I hand over the call to Mr. Davar for his opening remarks post which we will have question and answer session. Over to you Sir!

Jayant Davar: Good morning Abhishek and thank you for this call to Dolat Capital and to the facilitators. I also want to wish everyone a very good morning to all the participants today. As we said today and we have announced the results yesterday. I say at a time where it seems after a long time the clouds are kind of cleared or clearing and it looks like a happy runaway ahead. So with where we are today. With whatever signals we are getting from the automotive industry from the market and some of the challenges that seems to be abating now. It seems as if we should be back into a flying mode soon enough so with that positive note and with that positive sentiment once again a big welcome and I am very happy to answers questions that all of you may have.

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

Anish Moonka: Good morning Jayant Sir, so in the past we made it clear of our ambitions to keep the ROC around 20% to 25% in any projects that we partake in however the projected ROC of the recently entered machining project is just at 15% as mentioned in our presentation so what are the reasons to dilute the ROC in this project. Additionally how big of a challenge do we see continued inflation to put on incremental capex. Thank you.

Jayant Davar: Anish thank you for the question so if you have seen the presentation and you have seen the machining business that one is talking about. This is the numbers that have been given to you for the first year itself. These are annualized numbers that have been given to you, but if you look at it and in our history we do not believe that we have ever started a project with expected ROC of 15% in the first annualized operation itself.

If you also look at it we are looking at the EBITDA in this particular case to be much, much higher. We are looking at almost 27% of EBITDA is what we are looking at this particular business so as soon as it matures and graduates we will be in that figure of 20% to 25%. You would appreciate that when you start new projects they do take time. In fact like I said this is the first one where we are beginning with assured ROC of this to begin with. I do not know if that answers your question.

Anish Moonka: It makes all the sense, so my second question is on the long term gross margin trajectory of the business, so we continually mention of the trend of premiumization and our existing portfolio, lucrative exports are of the China plus one beneficiary, adding a lot more technological complex products with relatively less competition there by as an outsider investor it does look like our gross margin and EBITDA margin trajectory should trend upwards over the next 3 to 5 years am I reading it on a right manner Sir.

Jayant Davar: Anish you are absolutely correct in your approach and I would be in your shoes asking the same question so congratulations on that question. The quick response that I would have that obviously COVID has killed many a deer in this particular case and things have slowed down not only from a perspective of how we anticipated or how the auto industry anticipated. In terms of premiumization that kind of slowed down. You were aware that the two wheeler industry for example has had the last three years which have been extremely, extremely challenging and one of the things that they have not been able to do at the speed that they expected was premiumization because the overall appetite of the industry dropped significantly now in those case scenario for them to add more cost was probably not the best thing to do. However, as we sit today and in my opening remarks I mentioned that lot of clouds have kind of receded and we see pathways ahead. So whether it is in the terms of the order book that is building up now on a monthly schedule basis or the call from the development teams to aggressively move on to platforms that involve premiumization have become quite aggressive from where we were in the last three years. Last three years we were following up and asking them what is happening, why are these projects getting delayed. This was supposed to happen and that was supposed to happen but thankfully now we are back where we are getting calls from them on a followup basis and on the call to quickly develop new components that they want to put on their vehicle.

Anish Moonka: That was very helpful Sir. Finally, I was recently reading 2020 article by Oracle on how they helped us improve and to automate our processes to improve decision making and cut cost, so could you please talk about our IT investment over the past few years and how have they improved our way of doing business, thank you.

Jayant Davar: So for us IT is into two particular areas. One of course is the internalization of the overall connect ability or connectivity of our businesses with the output of data that we get that is one. The second of course is also the IT facility of the technical side which not only is the involvement of connectivity in terms of softwares but also what we call PLM. PLM is an activity in IT which connects all the technical grounds of all our plants working together in communization of technical data. So let me explain this to you. We make one component let us say in Dharuwada, one in Haridwar, one in Mysore. There are different quality teams. There are different customers. There are different materials. There are different suppliers. Now at one point of time one customer would ask to us change a certain specification and that would change at that particular location. Today with our PLM we have standardized formats that exist in terms of our drawing, upgradation, RND everything happens together so it is happening across the board so that is one kind of technical connectivity which is connected to our design and operational softwares and the other portion is connectivity with our ERP where lot of decision making today and analytics today happen on account of data that is thrown out from the inputs that are done at every place. So whether it is our HRM which is our human resources management, whether it is our financial management, whether it is our purchase management on that Mr. Yashpal Jain who is also our CFO is in charge of that particular vertical which is IT. I would request him to supplement me in giving you this answer.

Yashpal Jain: Yes, morning Anish. Fact is that we are working in Oracle Fusion and majority all the tools of Oracle we are using which includes whether it is invoicing to the integration of all the various functions within the company. Real time accessible data and analytics part also so as of now we are completely I would say into IT mode with the ERP facilities and the backup modules also and we are consistently striving towards reducing the paper load within the organization. That is all we are working right now.

Anish Moonka: Sir cumulatively with this investment do you see this making an impact on your EBITDA margin profile as the business comes back to normal pre COVID levels.

Yashpal Jain: **Yes, obviously** If you are asking from the IT perspective that investment we are making into the IT so what happens that we are using cloud software. That is the annual renewal charges that we are paying to Oracle. As far as matter of hardware is concerned or the investment in IT, infrastructure is concerned secondly the value addition that we are getting from IT. I would say using the ERP modules for the interconnected modules is much higher, much larger than what we are spending on the IT right now with easy availability information then all our locations as far as the customer databases and the vendor databases. We are much more achieving our economic benefits going to that set up that is what I will say and it will constantly improve our EBITDA margins. The moment we are going to more IT digitalization.

Anish Moonka: Jayant Sir and Yashpal Sir thank you for patiently answering all my answers that is all from me.

Moderator: Thank you very much. The next question is from the line of Kumar Saurabh from Scientific Investing. Please go ahead.

Kumar Saurabh: Hello Sir. First, congratulations for the amazing work you have been doing despite of such a turbulent three years which we are seeing. My question is more around the industry growth rate and specifically two wheelers and this could be rough estimate so I would like to know your view. So if we look two wheeler industry they do approx 1.5 to 2 Crores of sales annually so if we add all ten years of number I am just guessing there would be around 20 Crores bikes and if we look we have almost 25 Crores household. I am just taking estimate of one bike per household so does not the industry looks almost penetrated given the prices have really gone up and people who have not yet purchased bikes maybe the lower of the strata so historically I know we have done actually 8% kind of growth rate in two wheeler which is now indicative so do you think the previous kind of growth rate will come or we will see around 3% or 4%. I am not asking from a one year perspective because we had three to four bad years but over a long term five to six years what will you see as industry growth returns from where we will get our growth rate will it come for export or will it come from replacement demand, how do you see that growth playing out and how are we preparing through double digit growth rate.

Jayant Davar: Kumar again a very valid question and I think a lot of this negative sentiment has come about with what has happened in the last three years however so let me talk about where we sit today. Where we sit today from the month of April that we completed to the next few months we have clarity on almost 25% to 30% increase in schedules that is kind of firm scheduling not flexible scheduling but firm scheduling post to that we believe that with the festival season coming on that schedule is likely to stay on board. Now I say this and yet the negative ring of your question still remains as to whether this is flavor of the month where there is temporary spike or is that how things are. Now when you mentioned the numbers of what you mentioned of 1.5 to 2 Crores of population that we have. We actually at one point of time were selling 3 Crores motor cycles now calculate what you will, but the ownership of motor cycles or two wheelers as we have is still very low to some of the other developing countries that is one, secondly the premiumization of personal transport within itself has not taken of the way it should have and India still is struggling at 30 cars per 1000 people which is at least 15 times less than what it is in the developed world. Now on one end we say that we are growing as an economy. I do not believe that will happen without the emphasis and growth in the ownership of private vehicles. As soon as you go in for personal vehicle aggregation the jump to cars will happen when the bottom of the pyramid which is two wheelers or motorized transport can go up. We believe and if we take the example of China then the same thing happened at a certain trigger so my belief is that we are still much away from stagnation levels of growth in the two wheeler industry. We do believe that the numbers that we are talking of 2030 today are higher than two times of what they are presently or what they were even in 2019 so I think the premiumization will continue, the growth in the volumes per se will continue and a value to opposition from our perspective is one the growth of mandatory and premiumization of parts which means the parts that are being used now will bring in more technology, will have more value. Locks for example that we do, the value of that is likely to be four, four and half times of what I supply today. It is already started. If that goes in I get four times the revenue from the same product but it goes into motor cycle and even motor cycle do not grow, the value proposition for an investor in Sandhar always benefits. Higher the premiumization, higher the value addition and EBITDA margins of course because of premiumization go up, so I think there is a win-win to that particular level and support. I mean to say that if you look at the car market around the world or some other markets around the world we have stagnated in terms of world growth, but in terms of supplier confidence in terms of supplier balance sheet they have continued to improve because the vehicles that you are buying today are much more premiumize than what they use today.

Kumar Saurabh: Thanks a lot and two more questions. One Sir whenever any industry goes through a very long pain period usually the weaker hands they get of market and the market consolidates and in auto ancillary we have gone through three years of pain so on the ground have you seen like the weaker players getting out which is going to benefit those who are there with stronger balance sheet that is question number one and second any visibility we have from the OEM from the chip shortage if we are getting out of the chip shortage situation or it is going to continue.

Jayant Davar: Both questions are different. Let me take one at time. You spoke about, you are absolutely correct, there is lot of pain in the industry, however, for us as a company it has been a time of opportunity and in this time of opportunity in the last year, year and half and two years we have taken on new projects and I do not if you have had look at the presentation, the presentation gives you images infact of the new project that have been inaugurated in the last few months and some which are going to be inaugurated or go on board in the next few months now with that we are looking at a growth of over 40% and if, those are numbers that we are kind of projecting are because of confirmed orders that we have so for us it has been a time where not only this, we have also been in the market looking for such tamed assets but they have to be endorsed by the customers. There have been customers who have brought some of these where we gone and looked at them and obviously we will look at it when it is accretive to the value for our shareholders so that is point one. Thankfully we had strong balance sheet and we continue to have strong balance sheet and therefore we are one of those people who are projected to benefit from this low period not from a perspective of maybe the bottom line directly because of various things but definitely from a perspective of opportunity for growth for long time and medium time in the future so that is one. In terms of the semiconductor shortage that you spoke about, the information that we have today is that things are abating. You will see, I know for a fact that there are so many models of both cars and motor cycles and some other product as well where production has suffered on account of the supply chain but the information that we have today is that things are changing, the tide is changing. The volumes of semiconductor availability are getting better. We do not have to wait for new plants to come up around the world for that to become better. Some of the assembly lines that had been attuned to electronics have come back to servicing the auto industry. Of course the prices of semiconductors have gone up no question about it, but the availability is getting better and from what we understand the timeline that is being given to us that we need to be prepared for an onset of much higher demand in the second half of this year itself. These are indications that we are getting today.

Kumar Saurabh: Thanks a lot Sir and wish you all the very best.

Moderator: Thank you very much. The next question is from the line of Arjun Khanna from Kotak. Please go ahead.

Arjun Khanna: Thank you for taking my question. Sir I just want to understand how do you see the capex outlook for FY2023-2024?

Yashpal Jain: I would reply this question. Largely we will be finishing our new projects within financial year 2022-2023 so if you say the capex outlook for FY2023-2024 as of now we do not have any plan to go for new expansion unless we had a request in the later part of the year so many of the customers or from any inorganic expansion that is one thing. Secondly routine maintenance capex yes we always incur as a policy it does not accept the annual deprecation which will be roughly around 100 to 120 Crores for the year ending 31 March 2023 so that could be our capex but as of now all projects will be finished and we will be on our commercial production by the end of March 2023.

Arjun Khanna: So what would be the capex for FY2023?

Yashpal Jain: So we have setup a target. We will be increasing a capex of roughly close to 350 to 400 Crores to finish up our new project plus to maintain our existing assets and portion of this will be funded from the cash accruals we will be generating during the year so in any case our debt equity ratio or a consolidated level including our overseas operation would not exceed one is one. It will be below one is to one.

Arjun Khanna: If we see this year we had strong free cash negative free cash flow to the firm almost 260-270 Crores probably with the capex schedule for next year we would again have a strong negative free cash flow to the firm so while you talk of one is to one is there any concern that it may just exceed that because earlier we were envisaging lower absolute net debt for the company.

Yashpal Jain: **No,** I do not see it is a threat to us even if we have one is to one ratio and as far in the coming 2022-2023 financial year we are projecting a free cash flow, free cash flow where it means that if I can add my depreciation to my earning we will have something close to around 240 Crores of cash in hand with us.

Arjun Khanna: Right because if I see historically we have never generated even net cash flow from operating activities so what brings us the confidence that will happen this year because we continue to see reports that possibly the semiconductor issue may last for maybe another 12 to 18 months.

Yashpal Jain: Basically thing is that if you see in the past our operating cash flow has been positive one largely we were investing in the business from the operation itself.

Arjun Khanna: This year we had positive on consolidated basis a net cash flow from operating activities I think it was close to Rs. 50 Crores even this year it is just that on a FCF basis the number seems to be negative. Last year even though we had 124 Crores of cash flow from operating activities our net cash flow, free cash flow to the firm accounting for capital expenditure and subsidiaries was yet around only 20 Crores so hence the concern.

Yashpal Jain: **No,** basically as of now in the current financial year we are excepting the prices of commodity to be stabilized so one of the reason of the increase in the movement of working capital was to build up the inventories to avoid any critical situation where we run short of the inventories or to take care of the price escalation so that is one of the reason secondly industry overall was facing troubles including the vendors so we have to support our vendors, so if you see our working capital movement our large part was used in building up the inventories for the new project as well as the existing project as well as to pay of the vendor so that they are also strong and they keep on servicing us that was the reason which we expect in the current year to neutralize.

Arjun Khanna: Sir just to talk on this point further. Given that we are expecting a 40% growth at least as the guidance in revenues would not working capital move up substantially?

Yashpal Jain: Actually we are renegotiating the payment terms with the customer the settlement of increase also so that is the reason we have considered all the factors and some of the new projects the payment condition maybe little bit lower as compared to earlier projects, that's all, so we have taken a cumulative average of all this.

Jayant Davar: Arjun we have been impacted dramatically on account of the commodity increase. So if you look at the prices of commodities is the change that has happened in the year in some of the commodities for example if you take nickel it has gone up from Rs. 1200 to Rs. 2441 that is more than doubling it, if you look at zinc that has gone up dramatically, brass that has gone up dramatically, steel that has gone up dramatically, aluminium that has gone up dramatically. In the last 18 months or so the amount of commodity increases has tripled everyone but thankfully the way we understand today from a geopolitical standpoint from a geographical standpoint from what we get from the market and what we understand the time and the tide has started to abate in fact turn positive. Now for 18 months the company had to do with continuous price increases and that impacted us, some for a long term perspective, and some for a short term perspective. If you calculate last year our consolidated EBITDA has been impacted by 23% that is a huge number and obviously all that goes into the bottom line as well. Now large point of that changes when the commodities are stabilized and we do believe that for this particular year irrespective of the growth of the industry with our new businesses that we have kicked off and start off production has happened and the lag of COVID to a certain extent the softening of the commodity prices these will all play into the positive territory for us.

Arjun Khanna: **Sure, so** would it be a fair expectation that margin should head up this year again towards double digit on a consolidated basis.

Jayant Davar: Absolutely, absolutely no question about it.

Arjun Khanna: The last question is in terms of the interest rates are we seeing hardening of interest rates and what is our expectation for FY2023?

Yashpal Jain: Well Arjun we are at the best lending rates from the lender. I would like to thank them. Yes if the RBI goes with increase in the REPO rates or the bank increases the MCLR rate obviously that may impact us. As of now I do not see much hike in the coming period of time and hopefully we will be able to maintain within our current level.

Arjun Khanna: Sure. Thank you.

Moderator: Thank you. The next question is from the line of Mayur Patwa from Sahasrar Capital. Please go ahead.

Mayur Patwa: Good morning and congratulations to the manager for nice set of numbers. I have basically three questions. The first one I want to understand basically when you say you are working more or focused on premiumization of product. How much is our revenue share at the moment at what we foresee may be in 3 or 5 years down the line what will be the share of premium products to the overall revenue. The second I just want to understand about the improvement of the EV segment so how much again is the revenue from EV segment and what are the efforts we are taking to improve the same and obviously the third one is basically when you said that our EBITDA margin has reduced significantly in the last year mainly because of the raw materials prices and other thing so how much of that we could really perform to the customer and what is the long term impact we see on the margin side because of this increase cost.

Jayant Davar: **Ok,** so let me talk about premiumization first Mayur thank you for those questions. In terms of premiumization you would appreciate and understand that all the products that we do have a premiumization that is already been announced or is being carried off in some of the premium models so to give you an example or the new example if you say, pick up any products that we do, if we do products in the line of locks for example I already mentioned that some of the locks going into the future not only go up for four times in terms of price, in terms of premiumization but some of them even go up to a level of 10 times our current selling price so there is huge line that is being build up and these premiumizations also are of different categories and levels. There is something which we may call generation one which is likely to come in now. Then there is generation 2 which is likely to come in 2 to 3 years from now and then there is probably stage 3 which will go on board 5 to 7 years from now, some of them are on account of passenger safety, some passenger comfort, some passenger entertainment and some on account of regulatory mandates that the government comes up under so if you put all of these together there is huge, huge, huge pipeline and that is not only in terms of locks for example, it is in terms of mirrors, it is in terms of seat belt, it is in terms of any product line. Looking at antenna for example that we today or if we look at parking sensors that we do today the premiumization comes from not only having beeps that come in from rear parking sensor but from the cameras that get attached to it so every product that you look at there is premiumization that is happening across the board in every category or product line that we make and supply today so that is your answer number one. In terms of EV segment, EV segment in terms of percentage growth has been very dramatic. We are of course little constrained in the number of signals that we get from the industry, sometimes they are aggressive, sometimes they are not however for us a company we are quite agnostic to the EV space. We supply to all the EV suppliers. Today I think we have customers almost 42 customers that we supply to so we have tried and tested for us it is not a proof of concept for us it a question of out of the 42 that we supply today how many of them will survive so if there is consolidation the good news is that because we supply to almost all even if there is consolidation and the numbers grow up we are part and parcel of that kitty going forward so we do not get negatively impacted even whatever the ratio is between IC engines or between hybrids or between EVs. Now the thing is that as far as the Indian government is concerned they have given some numbers in terms of how much EV will be there by 2026, by 2030 and so on and so forth but the fact is those numbers are still very small even as percentages. If we were to see it shows that the IC engines will continue that power train will continue to grow irrespective of the moment of the EVs. At this point of time the customer of course has been a little confused as to whether what is long term power train to be brought. If I buy an IC engine today will it be available tomorrow, will everybody move to the EV platform and so on and so forth. EV still have some space and time to be able to prove themselves on a mass ground. We still have to wait and see. If you look at two wheelers for example a large part of the two wheelers are still sold at low speed lead acid battery. We will have to see how the battery component, battery prices have a hold in evasion as we call it but for us a company it is very agnostic as to who we supply to whether it is an EV supplier and IC supplier, a hybrid supplier or hydrogen fuel cell supplier going forward. Your third question was on the long term impact of. You said something right. I am sorry Mayur what was the third question.

Mayur Patwa: On the raw material cost, the material prices.

Jayant Davar: On the raw material prices, on the raw material prices, if you look at where we are today of course the last 18 months to 24 months has been a very, very terrible period for us because we had a continuous loss every quarter on account of increasing prices. Now what that means that the last three months average price is the price that becomes the price for me for this quarter. Now the problem is that if this quarter again there is a rise that is happening then I am suffering a loss every every every quarter but when it abates when it slows down when it stops or starts to come back that is where the benefit comes to us. On an overall perspective typically we are compensated over a period of time. Now the thing is if you were look at any price while the prices may stop today but if the average over a period of time in terms of inflation does have an impact that impact stays in our balance sheet and profit loss account for the entire lifetime and those are only recovered in terms of margins that we get from a reevaluation of our cost whenever there are new developments, new models or new parts that are designed and taken care of so that can happen only when model changes. Otherwise there is as an impact the entire industry works on the same criteria of how cost are calculated in terms of commodity so that is why I said some models in the last 10 years or 12 years we do have an impact that continues in our books but if they are short term kind of model obviously the impact is taken of and incase there are temporary spikes in commodities and happen then they come back then we do not lose anything because at one time we lose then subsequent times we recover. We do believe there will be some recovery due in this current year because prices have gone up to crazy amounts. We do not believe those are sustainable and if they are not sustainable and they come down, whatever amount they come down to that will be a benefit that will be passed back on to us.

Mayur Patwa: Basically you are saying in the long term you should not have any margin impact because of this?

Jayant Davar: No, this is something that happened. If you go back 30 years ago steel used to be Rs.20, Rs.15 a kilo or Rs.18 a kilo and it grew from there on to less stabilize at Rs.40, Rs.45 a kilo about three years ago and now we have gone up to levels of **90**, they have started to fall, aluminium similarly, zinc used to be Rs.100.

Mayur Patwa: Yes, but so you know, we are basically whatever the prices?

Jayant Davar: Rs.350.

Mayur Patwa: Basically what we are seeing is obviously what the rise was, is there that we can pass on to the customer than you must have any impact on that?

Jayant Davar: Because of the gradual change that happens to be month again, I think in the entire industry has woken up today and have gone back to the OEMs where we are in negotiation saying this three month period does not work for us, so we would like it to change, at one point of time, this used to be six months that was brought for three times, now we are saying it should be done on a monthly basis, if that happens then the commodities will truly become an absolute pass through for the entire industry.

Mayur Patwa: Thanks for answering my question.

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

Abhishek Jain: First of all congrats for strong set of numbers in the challenging quarters. Sir, what is your revenue target for FY2023 and what would be the revenue growth in the different segment I mean through the sheet metal, cabin and fabrication and your code business like locking system?

Jayant Davar: Well Abhishek, Obviously I will not be able to give you absolute numbers, but what I can say is the investments that have been done that are matured and I have taken off already. We are considering the overall revenue even to be on a conservative side to grow over 35% for sure. In terms of if you want segmental stuff then there is the proprietary business where I think the revenue will grow close to 30% odd, in terms of the dye casting and moulding business we believe the numbers of revenue growth will be about over 20%, in terms of sheet metal and allied businesses we look at that number to grow up by again in some cases because they are absolutely new there the numbers are going to be in triple digit growth, so on an overall perspective we are looking at numbers to grow like I said over 35% seems to be a conservative enough number for me to give you around that, but obviously the margins growth is where we will concentrate and those should be much, much higher than the overall growth numbers that we are talking about in terms of topline.

Abhishek Jain: What would be the incremental revenue from the sheet metal business because of this capacity addition?

Jayant Davar: You want to take that question, you will have the numbers in front of you, Yashpal Ji?

Yashpal Jain: Sir, I will take up that question, Basically Abhishek your question was that how much business we will be getting from the new projects that we are having, right?

Jayant Davar: You are talking specifically sheet metal?

Abhishek Jain: Sheet metal as a segment.

Yashpal Jain: Basically we are expecting revenue, you want numbers from us, I will just give you the numbers we are expecting revenue of something about Rs.230 Crores from the new sheet metal businesses that the project would be executed during the year.

Jayant Davar: Two sheet metal businesses.

Yashpal Jain: Thing is that Some of the units like Mysore etc., they will not be operating full year, for the part of the year they will be operating, so going forward in 2023-2024 this figure would be much, much higher compared to what I have told.

Abhishek Jain: Thanks Sir. That is all from my side.

Moderator: Thank you. The next question is from the line of Basudeb Banerjee from ICICI Securities. Please go ahead.

Basudeb Banerjee: Thanks. I had just couple of questions. One, with regards to the premiumization aspect as you rightfully mentioned in the beginning of the call that you are looking at premiumization coming back post COVID, so with Royal Enfield one of the key premiumization drivers in the two-wheeler space, what is the kit value per unit of Royal Enfield as of now?

Jayant Davar: Come again, what was the question, what about Royal Enfield, the last portion your question?

Basudeb Banerjee: Content per vehicle of Royal Enfield as of now, how it has been progressing and what is the wallet share of the key products early you are supplying to them? Because they are also having various new launch plans in the coming quarters themselves?

Jayant Davar: Mr. Banerjee, First of all I am happy to announce that all the premium models are with us for all the product lines that we do. In terms of premiumization of the model is one thing, but premiumization of components in the same model is also there, so from that perspective we are a part and parcel of every new activities that is happening in our existing range of components that we already supply them to and also addition of many parts that we were not supplying to Royal Enfield that have fallen into our kitty now.

Basudeb Banerjee: On an average, what will be value addition for the model as of now?

Jayant Davar: In terms of contribution per vehicle I do not about Yashpal Ji, you have those numbers?

Basudeb Banerjee: For Royal Enfield Sir, revenue per vehicle.

Jayant Davar: From all of them

Basudeb Banerjee: On an average only for Royal Enfield?

Jayant Davar: On an average Sir if I was to calculate including the wheels, including the handlebars, including the locks I would say that are contribution to them would be close to about Rs.3000 to Rs.3500, in some models even higher.

Basudeb Banerjee: How much will be that compared to say HMSI or other normal two wheeler supplies?

Jayant Davar: TVS is probably the maximum where I think it even goes up over Rs.10000 a vehicle in many case, in the case of Hero depending from model to model it could range between 2500 to 5000 something odd that is where those numbers are, but of course you will have to realize that they depend from models to model.

Basudeb Banerjee: By that should it be right to assume there is a long way to go for that Rs.3500 in Royal Enfield move at least to Rs.5000, Rs.6000?

Jayant Davar: No, if you look at the overall past, may be goes pass like I said. There are some in which there is an averagization for example, for Royal Enfield now we also give them hubs and clutches, we also give them wheels, we also give them handlebars and there are some new portions of casting that have just started some sheet metal that have just started. The potential for there is of course going as much as what we do for some of the others, so I would imagine that the potential for us is to go up to Rs.10000 in case we were to take the entire kitty, some we do not take because their volumes are much smaller so we also have the same volume get for us. These are extremely important for us to enter a certain area because it requires a certain amount of effort, resources in terms of teams that we built up and in some cases it also means expansion in terms of capital equipment or putting up plants nearby to service them on a regular basis, so keeping all of that combination, yes it is growing on a gradual basis, but I would imagine those are the numbers today unfortunately I do not have the exact numbers in front of me right now, but I am giving you a ballpark.

Basudeb Banerjee: Sure Sir that is helpful. Second thing in the initial part you said you are seeing some schedule orders growth of almost 30% in the coming quarter though it is aided by COVID low based partly, from a sequential perspective say from a Q4 execution perspective, how are you looking at the Royal Enfield outlook from the TVS outlook from a sequential perspective?

Jayant Davar: You are specific the Royal Enfield, I do not have the exact numbers of Royal Enfield but suffice to say that if you look at it from a sequential standpoint, you have to realize and understand or appreciate that in the quarter that happened, the last year quarter of April, May, June was washout, May was completely shut, June was shut to almost half a degree, April was okay, but was in the but it was not a greatest quarter we have lost out on the entire, not us per say but also the customers and the OEMs lost a lot of sales. We believe that I do not know there will be comparison, because this will be hugely higher than what it was in that particular quarter of april, may , june

Basudeb Banerjee: Sure but I am saying from January, February, March of fiscal 2022 compared to the quarter just which went by how are you looking at supplies to them from June quarter to September quarter outlook as well?

Jayant Davar: We have started from the month of April onwards, so January, February, March is not something that we can look at those you have seen the results of everyone and you have seen where they are going and what they have done, they have largely been in the same place to a large degree, but April, May, June is where we see things changing, the positiveness in the entire industry stroking up and we believe that this is the quarter which will make a substantial difference.

Basudeb Banerjee: Sure, because that is also getting for us it is from the detail figures of April and May till date, so as you are also saying that that will only give the contribution per vehicle improving outlook for the two wheeler segment?

Jayant Davar: That is how it seems, these footfalls I understand in showrooms and gone up dramatically, the export pulls have started to happen to a better degree during the last year also, the export numbers had gone up and they continue, so the last few months in fact they had gone down I see again a traction coming in for the export models, the domestic market seems to improve with footfalls in showrooms, so the overall impact, the biggest things is inventory has come down. The inventory that was lying with dealers has come down dramatically and the entire system has become more lean so there was a time when most of these companies who are making their two wheelers, on "Dum Lgaake Haisha" basis, which meant that they were just producing not really concern too much about the inventory, the inventories in the market in some cases have gone up to over three months. Now those have come down to a realistic level and even below, the pipelines now are pulling for our component to be build. So, I think it is becoming more and more just in time play.

Basudeb Banerjee: Thanks.

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

Navneet Bhaiya: Hi sir, Thanks for the opportunity. I have a couple of questions Sir. You currently have about 54% of your revenue from two wheelers, 24% from four wheelers, how do you think this trending over the medium term and are there any margin or ROI differences between the various segments?

Jayant Davar: Navneet, Thank you, Is that the only question, is there any other question, so I can respond?

Navneet Bhaiya: I have a couple of more, so one of your project which you are undertaking is the SMT project which is into Printed Circuit Boards, USB chargers and a few more, so this is as far as I understood a little different from what you have been doing sale now, again which customers are you catering to with your another margin profiles and intricacies in these projects better stock suffer that is my second question and my last question is the how difficult or easy is it to add customer or a new model so for example I believe you supply to Tata Motors in their CV segment, how again easy or difficult would it be to extend your relationship let us say a Tata Nexon or for that matter GLR?

Jayant Davar: Let me take that one by one. You mentioned about the ROI in the businesses of four wheelers and two wheelers, again Navneet, as a company we look for opportunities and those opportunities of course are governed by the ROIs, the ROCs and the affliction and/or traction with those customers, so if you ask me as to whether I want to do a four wheeler business more than a two wheeler business, the answer is no. We are agnostic because at the end of the day I want return on capital employed, I want a good business, so while some people could be doing four wheeler businesses, but then four wheeler businesses have their own challenges. One, for example, the fragility of the volume of sales, secondly, the scales to which you operating, the changeover is that happens. So for us it is a question of which order can be get and it is that order will be able to give us the return on investment is question number one, is the one better than the other on an overall perspective, yes and no sometimes this is better, sometimes the other one is better. Our current ratio like you said is 54% for two wheelers and 24% for four wheelers is that likely to change perhaps but are we pushing towards that is the change, the answer is no. If I get more orders and better business in four wheelers I will take it. If I get something better in two wheelers I will take it. In case I get something better in the electronics I will take it. If I get something in construction equipment which is a growing sector I will take it, so this is a coincidence that business where we shift today. One reason could obviously be that in some of the areas that we operated. The volumes are much, much higher in the two wheeler space. If we make locks for example the price of the locks is probably the same in many cars and many two wheelers, but the volumes are extraordinary. We are the largest lock producer typically in the world if you ask me. As, the same way with mirrors, but the volumes come from there and it is the percentage margin is higher than it is very agnostic for us to pick that up that is answer one. Answer two on SMT, SMT is towards premiumization of several of our own components first of all which means we are now going to be doing smart handles which we have already started. We have started USB charges, we do electric steering locks, we do parking censors, we do shock Shark Fin Antennas, we do audio, visual monitors, so for all of these currently many of these SMT, the PCBs are being imported. Now when you import them obviously the cost is much higher, so working with our customers we have them agreed that if we localized this there would be a margin player which will go up some of which will be shared by the customer and some of them would be shared by us. Going forward in our request for electronification and premiumization we believe that these numbers and PCB Assembly is required in India would go up substantially and therefore these open for us that is the new line of business, so this will be profitable from day one and we do not have to go out seeking for customers to begin with, because we ourselves internally are going to be customers with the much bigger value and then we get today, that is question two. In terms of Tata Motors, see our industry is the quite small. There are huge amount of entry barriers. There are only so many people in play and for any component run there are only two or three players, in some cases, in our case for example, with some models or with some of the OEMs, we are the only players. In a case like this if these are long term relationships, so for us to jump into a Nexon or for this or for that is natural. The only thing is sometimes there is competitiveness on the pricing. Now that we have very strict as a company in terms of making sure that whatever we supply has to be supplied with a minimum amount of ROI and minimum amount of margins, sometimes we let some of these things go to the others that make sense to them because in the overall run if it is not going to get me that in terms of scale, size or profit then we have to be very choosy in what we do. You have to understand there are add many number of OEM players in this country or they are around the world and so you to be able to service every one, every model, if you want to get into that risk then obviously it affects your bottomline. So we are the ones that are little choosy on who to pick, which model to pick, where to go, it is not as a Tata Motors does not know us if these RFQs do not come to us, all the RFQs in the business come to us for the componentry that we provide.

Moderator: Thank you. Ladies and gentlemen we will take the last question from the line of Shashank Kanodia from ICICI Securities. Please go ahead.

Shashank Kanodia: Good morning Sir. Firstly, I just wanted to check last year we grew 25% in terms of value, so what is the volume growth or what is the valuation net for FY2022 on a consolidated basis?

Jayant Davar: From the consolidated, you want to answer that question, Yashpal Ji?

Yashpal Jain: Yeah sure, So Shashank, you are interested to know the value wise growth?

Shashank Kanodia: Volume growth.

Jayant Davar: What he saying is, what is on account of inflation, is that what you are saying compared to, what is volume? We will not have exactly the volume growth in terms of number of parts supplied because of the diversity. The number of parts as a number of component of part numbers that we supply run into thousands, so some may be supplied in millions, some may be few hundred thousand and so on and so forth that is a difficult question for me to answer or we can tell you is that on a generic basis, this 25% growth has come in from new product lines that have opened and these are new entries into these OEMs for that kind of parts. You are aware of the industry right, if you look at the industry, you have seen that while the industry has grown much lower compared to how we grown or in fact the industry has kind of gone down, we have still been able to manage it 25% growth, that 25% growth has come in from newer kind of parts, newer kind of businesses which have started now and which is going to help us in a scaling up these growth and the growth numbers that I spoke about. Now, we have not taken too much of growth in the industry in our projections for the future. What we are looking at is our growth which is coming in from new components, new premiumization and so on and so forth. In this particular year that we are now looking ahead for, we have not even looked at any growth or numbers that appear from any commodity increases because sometimes the pass through that also has an impact, so exact numbers to which component we would be very happy to send you numbers in terms of comparison if you were to choose the part that you are likely to have information.

Shashank Kanodia: Secondly, in every concall, we guide for double-digit margins but you are pitting performance is hard to depict that, so could you give us a various realistic sense as to what would be sustainable margins for us?

Jayant Davar: We have done margins in the past. I answered this question in the last quarter or last year, we had at that point of time we had stock expansions and I think we were at numbers of between 12% to 13% was the EBITDA margin and we believe that with the combination of these diverse product lines that we have that is a margin which should be a standard margin for our industry, for our kind of componentry that we do. Of course over a period of time in the last year, there have been various changes and there have been ups and downs in terms of sentiments, in terms of commodities, but that is probably if you look at that particular quarter, I do not have the numbers in front of me, but that was a sustainable quarter from a perspective of the output from a perspective of capacity utilization, it was idealistic in some form. I would imagine that as a company that is what our take is and that is where we should be, so you ask me what is idealistic margin. I would say not just idealistic, but something that has been achieved in the past and something that we wish to always hold it between 12% to 13% margin.

Shashank Kanodia: In your opening remarks you mentioned about supporting your vendors right in the times of difficulty, so does we also with the support from the OEM clients, because even you are not down toward single digit margin trajectory and single digit return ratios, so does that flow from the OEMs to Ashley place like USA?

Jayant Davar: Well, you know the OEMs do have lines of credits and discounting and so on and so forth, so one of the reasons for our working capital probably limits has gone up because we have stopped using that discounting, they charges too much money for this discounting facility. Yashpal Ji, you want to say something on that?

Yashpal Jain: Yeah sure sir, basically Shashank the question is that we get the line of credit as Sir told the discounting facilities from the bankers nominated by the OEs, but normally the discounting rates have considerably gone up. In some cases, they are even beyond 7- 7.5%. At the same time we are getting the working capital limits at something around 4% - 4.5%, so what we do is that we do not go for discounting from the customer side, we are using clean working capital facilities, so that is probably one of the reasons that you see debt levels are shown higher because bill discounting is normally clubbed with the current liability that is how it goes up.

Jayant Davar: To answer your question, a lot of small scale, a lot of other people in the industries that were in pain and where they had no available lines, they went to the OEMs and OEM supported them, but for us we feel otherwise, because we believe that we are strengths strong, we have not utilized that in fact we have given support to our supply chain.

Shashank Kanodia: Combine FY2022-2023 by doing something like Rs.500 Crores of growth capex right, so what state of asset terms can we generate from that particular segment?

Jayant Davar: Again it will be a hybrid right depending from component to component from the vertical to vertical, sheet metal will be different then locks which will be different then mirror which will be different then each unit will be different, we do have a working, Yashpal Ji, would you have the presentation let me have the other day. If you have it in front of you just open it and give some idea.

Yashpal Jain: We are expecting something growth of around 35% in terms of our revenue on the current level right one of the things. if you ask asset turn, if I take a total asset turn of my company that would roughly if I say it will be over 2.5% in the coming year. With this I will add, because couple of my projects will be starting later part of the year post third quarter. if I were to take the complete capacity utilization, for example I will take a scenario, 2023-2024, it can actually go beyond 3%, 3.5% with the volumes.

Jayant Davar: 3% to 3.5%.

Shashank Kanodia: Lastly, do you see debt picking at this end of this year or you see consistent growth in the debt levels also for the company?

Yashpal Jain:: No, debt level like our largely new projects will be finished in the current financial itself so we have kept a target to keep a debt levels below 1:1, I mean debt equity ratio and for the coming years we do not see much capex investment unless we get some new projects for we go for some inorganic expansion and at the same time with the capacity is being used from the new business as well as the existing business, we will be on a fast track to repay the debt also to reduce the debt. .

Shashank Kanodia: Because of few quarters back, your commentary was debt should have picked in FY2021 itself and now we have almost tripled this year and probably we will have even more debt coming on books for this fiscal year?

Jayant Davar: At that point of time we have said that under the current circumstances we had no reason to expand there or these businesses that you have seen have been thrown as opportunities on to our table and these are all new and these required very quick working in fact some of the projects are coming up within three to four months on fully matured startup basis, obviously when something like that happens, these are you could consider them inorganic at some point.

Shashank Kanodia: One last thing Sir, on the EV front if you can name some of your clients in the part state is supplying to them will be great?

Jayant Davar: I think we have given that in the past. It is a long list. It is a long list of the manufacturers and it is a long list of components, so if I have to read them out it would take a while, but I would say that in the Indian context of the EV industry, we are participating everywhere in fact even to a point are not only the people who set up establishment, some people who are planning to set up establishment, some of them which are under the trial and error mode also buying most of the component.

Shashank Kanodia: It remains broadly the same vis-à-vis what we do the ICE part or is there some addition to it?

Jayant Davar: Yes, there are some additions to it. In fact there are several components that we have developed only for EVs specifically for OEs that work with those clients are current and those are completely difference, so it is not interchangeable directly, these have more software, these are more electronic in nature, is how it is, here also now developing some componentry with specifically only go into EVs in the powertrain.

Shashank Kanodia: Thank you so much. That is all from my side.

Moderator: Thank you. Ladies and gentlemen that was the last question for today. I would now like to hand the conference over to the management for closing comments.

Jayant Davar: Once again big thank you to Dolat Capital for putting this together, a big thank you to all the participants today. Thank you for all your questions. I am not sure if I have been able to do justice to your questions in terms of my response, but sometimes that happens when you are talking on the phone. I am hopeful that the next time around the things improving, the way they are maybe we can spend more time in a physical meeting Abhishek and address some of these things to even better satisfaction and may be detailed presentations rather than the one hour slot that we had today, but like I said in the beginning let me close with that saying that while the year has been extremely, extremely challenging in terms of whether it was second wave of COVID which had disrupted the business in the last year of April, May, June which was the crazy upward trend, it was trend, it was crazy, aggressive nature of commodity price increases, whether it was the shortage of semiconductors, whether it was the negative sentiment in the market, whether it was the continuous increase in other input cost, power went up, fuel went up, wages went up in fact in our European operation, gas and power was costing eight times of our regular power cost and of course where we upcoming BS-VI phase regulations and transitions that were confusing the market on EVs and so on and so forth, but going forward now, I think I believe that all of that is in the past the impact of COVID has melted down, restrictions have been eased and I believe that this will give the much needed momentum to the industry, the economy in the global health situation, is also improving, so for us 2022 looks to be very, very positive, the commodity prices are expected to be stabilized, the new plants that we have put up or in the process of just completed, we will add to revenue, it will add to margins, it will add majorly to the content of vehicle, the schedules from OEMs I mentioned have improved dramatically and the first quarter is looking to be completely undisrupted in a sense, the vehicle inventories are record low and the chip availability is improving, so from my perspective this year should be a good year and on that positive note I want to thank you all once again for joining this conference.

Moderator: Thank you. Ladies and gentlemen on behalf of Dolat Capital that concludes this conference call. Thank you for joining us. You may now disconnect your lines.