"SJS Enterprises Limited
Q1 FY2023 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Q1 FY2023 Earnings Conference Call of SJS Enterprises hosted by Axis Capital Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Nikhil Kale from Axis Capital Limited. Thank you and over to you, Sir!

Nikhil Kale: Thank you Rutuja. Good morning everyone and welcome to Q1 FY2023 post results conference call of SJS Enterprises. From the management team today, we have with us Mr. K.A. Joseph – Managing Director, Mr. Sanjay Thapar – Executive Director and CEO and Mr. Saumya Moganty – VP Finance and Ms. Devanshi Dhruva – Head IR. I now hand it over to Devanshi for opening remarks. Over to you Devanshi!

Devanshi Dhruva: Thank you, Nikhil. Good morning ladies and gentlemen and thanks for being with us over the call today. We appreciate it. Also, on behalf of everybody at SJS, we hope and wish that all your friends and family members are keeping safe. Moving on, this is how we intend to take today's conference call forward. I will pass on the dias to Mr. Sanjay Thapar, our CEO and Executive Director who will take you all through some of the slides on the presentation, which I hope, all of you would have got a chance to go through. The presentation has been uploaded on our website as well. Sanjay will take you'll through the industry view, our business performance and financial highlights and also share the outlook and strategy ahead for the future growth, post which we will then open it for Q&A. We also have Saumya Moganty our VP Finance with us on this call today. The duration of this call is around 60 minutes and we will try to wrap up our comments in about 20 minutes, so we leave enough time for you guys to ask questions. If the time is not enough, please feel free to reach out to us through e-mail or write to us and I will try and answer all your questions to the best of my ability. Thank you again and I will now hand it over to Sanjay to make his opening comment. Over to you, Sanjay!

Sanjay Thapar: Thank you, Devanshi. Hello and good morning everyone. I hope everybody is doing well and keeping safe. I take this opportunity to introduce you to Mr. Mahendra Naredi who joined us as the CFO of the company. Mahendra comes from a very strong finance background with more than 20 years experience in banking finance function in the automotive industry both in India and at European locations. His last credit was as Associate Vice President Corporate Finance with Minda Corporation.

Now, coming to back SJS you all know by now that SJS is one the leading players in the Indian aesthetics industry. It is a unique company dedicated who is serving and enhancing the growing the needs of the automobile, consumer appliances and other industries both in India and overseas. SJS is a blend of strong design sensibilities and capabilities backed with the state of our manufacturing in an environment that few can match globally and I am proud of where SJS have reached today. We have some robust growth plans for this company to make it reach new heights and we are just getting started for this exciting journey ahead.

We had declared our results yesterday and I trust you would have had the chance to go through our investor presentation as well. I will use this as a reference point while I speak to you today.

SJS has been consistent in its performance and this quarter is no different, as we have yet again continued to outperform the industry on a Y-o-Y basis. Premiumization theme is accelerating every year and we are quite bullish on the premiumization within the automotive and consumer durable industry both in the medium and the long-term. However, there are some near term challenges due to global uncertainties.

As you would observe in slide 6 for the quarter ending June 2022, the two wheeler industrial production volume grew by 38% Y-o-Y while SJS two-wheeler sales shot up by 75%. Passenger vehicle industry volume grew by 33% and SJS PV sales also grew around 29-30% Y-o-Y. Overall, automotive segment that is two-wheeler and passenger vehicles combined grew by 37% Y-o-Y while SJS automotive segments grew by about 54% Y-o-Y. Our consumer segment also grew by about 10% Y-o-Y.

Sequentially, SJS domestic sales are largely in line with the two-wheeler and passenger vehicle industry production. Quarter-on-quarter domestic sales have picked up and witnessed good performance while exports were largely impacted on account of various global uncertainties and challenges. Despite Q-o-Q impact on exports SJS maintained its Q4FY2022 sales momentum.

Slide 8 further talks about the financial performance. I would like to highlight that SJS delivered a strong Q1FY2023 in a challenging environment, especially for the automotive industry, which continues to face headwinds of commodity price increases. Our consolidated revenue grew 39% Y-o-Y to Rs 1031 million. We delivered a robust growth on EBITDA and PAT numbers, which jumped 50% and 71% Y-o-Y respectively. We continue to maintain strong EBITDA and PAT margins at 26.4% and 15.4% despite inflationary environment and raw material supply chain constraints. Strong focus on **VAVE** measures and operational efficiency improvement initiatives have led to EBITDA and PAT margin expansion by 170 basis points and 280 basis points Y-o-Y respectively.

Sequentially, the two wheeler and consumer appliance segments grew by about 4 - 5% and 7 - 8% respectively. Our margins remain robust with EBITDA and PAT margins improving by 106 basis points and 82 basis points QoQ.

Our domestic sales witnessed around 58% Y-o-Y growth with strong sales growth in all our end segments. Exports were impacted on an account of global uncertainties like the Russia-Ukraine war leading to lower demand as well as supply chain constraints of raw materials for EMEA region manufacturers and rise in fuel prices globally and an inflationary environment. However, as we mentioned earlier we are happy to see that despite this Q-o-Q impact on exports, SJS has maintained its Q4 sales momentum.

As mentioned earlier exports is a large opportunity and continues to remain a strong lever of growth for the company over the medium and the long-term, due to the fact that at SJS we are focused on improving our competitive edge by reducing waste and improving our margins, and we have demonstrated this every year, so year-on-year our performance continues to be very strong.

SJS standalone has witnesses a strong 29.4% Y-o-Y sales growth and delivered an even stronger growth on the margin front. EBITDA and PAT grew by 40% and 51% respectively. Higher sales and operating leverage have led SJS to deliver consistent improvement in margins, so SJS standalone margins improved by 244 basis points and 283 basis points to 32.2% and 20.3% both for EBITDA and PAT respectively.

Q2FY2023 has started on a robust note for us. We have achieved revenue of around 380 million in July 2022 on back of improvement in customer demand. Despite raw material supply chain constraints and inflationary trend, we continue to maintain efforts to maintain our margins. We believe we are on the right part to meet our FY2023 Y-o-Y growth rate of 25%, that I had informed you in my last call.

Going ahead we believe that domestic two-wheeler and passenger vehicle industry outlook will be positive with improving chip availability and expectations of a pickup during the festive season. Export volumes to remain strong on a medium term, but near term volumes could get impacted given the various macro issues in some key markets.

Coming to slide 9, just last quarter we laid out our FY2023 - 2025 strategy and we are very excited to share some of our key business updates, which will act as a stepping stone for us in achieving our goals.

We expanded our overseas footprint by adding two Whirlpool plants in North America as our customers. We entered a new country Argentina by winning business with Alladio, which is a Mabe group company, who is a leading manufacturer of consumer appliances in Latin America.

Additionally, Exotech has won first export business by cross selling chrome plated parts to Whirlpool.

We also have a razor sharp focus on building mega counts with our global customers and winning new orders from customers like Continental, Marelli, Stellantis and Whirlpool among others. We have also won several projects for key customers like Mahindra, TVS, Samsung, Bajaj Auto and Maruti Suzuki. Infact, we would like to share that we are very proud to be associated as a supplier of chrome plated parts to Scorpio N, that recently set the market ablaze by announcing one lakh bookings in the first 30 minutes of its lunch. So, the demand in the market remains very robust and it appears that we have the right products to grow.

SJS is also working along with EV manufacturer like Benling India, Navbharat Edison Motors, Gravton amongst others to fulfil EV companies demand and requirements.

Our customers are recognizing our efforts on new product development as we bag more and more orders from our existing and new customers across product categories. Honda Motorcycle and Scooter company recently awarded us for excellence in new product developments at their annual supplier meet held recently.

We have identified a large parcel of around 7.5 acres of land in Ranjangaon, Pune where we will build a state of the art facility to expand our chrome plating business. We expect to complete the land transfer process get possession by October 2022.

At the end, I would like to mention that we are a Company delivering strong financial performance and have a very strong revenue and margin growth trajectory ahead. As I mention to you last quarter, though the automotive industry has been going through its share of challenges for the past two years, SJS has consistently demonstrated its robust performance in these tough times and we are confident we will continue to do so in coming years as well.

Keeping that in mind, we stay firm on our FY2023 outlook as well as on our medium term guidance over FY2023 - 2025. We believe we are moving in the right direction. We have high visibility of around 90% of our forecasted order book for the current year. Premiumization, new customer wins, expected exports recovery from H2FY2023 onward and a positive outlook expected for automotive and consumer durable will enable us to deliver higher sales growth for SJS and the industry.

Our strategy for Exotech capacity expansion to meet higher customer demand pipeline, continued thrust on exports to diversify our business, consistent efforts towards development of new products and technologies, to stay ahead of the curve and building mega accounts with key customers will give the much needed boost to our sales growth engine. High sales growth, strong margin profile and expected operating leverage will drive our PAT growth of about 30% Y-o-Y in FY2023 and going ahead.

Simultaneously, we are actively evaluating opportunities and building an M&A pipeline to achieve our revenue growth over and above our organic growth rate of 25%.

We have laid foundations for a unique business to grab all organic and inorganic opportunities that will help propel us in our growth journey. SJS is poised to grow at a much faster rate than the underlying industry growth rate for the auto and consumer appliances sectors for FY21-26. We are quite optimistic about the future. So, thank you very much and we are now open to take any questions.

Moderator: Thank you very much. We will now begin the question-and-answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Jinesh Gandhi from Motilal Oswal Financial Services Limited. Please go ahead.

Jinesh Gandhi: Sir, a couple of questions from my side, firstly when we are looking at about 25% in revenue terms for FY2023, how much of this is dependent on two-wheeler recovery, what are we building in that 25% growth?

Sanjay Thapar: Sorry, your question was not very clear, so your question is regarding 25% growth in FY2023?

Jinesh Gandhi: How much of that will be dependent on the two-wheeler industry recovery?

Sanjay Thapar: So, two wheelers contribute about 45% of our sales currently and we are winning new businesses, so our sales trajectory is grown on what is the current sale that we have and the growth based on what the industry grows, in addition to that there are new businesses that we win which we are nominated for as mentioned 90% of our sales for FY2023 is already awarded to SJS so we see very strong traction and confident of achieving this 25% number.

Jinesh Gandhi: So, even if the two wheeler industry does not see a fully recovery, we still should be achieving close to 25% growth?

Sanjay Thapar: As I said we are sufficiently nearest in terms of the product that we do, but two wheelers our dependence is 45% and at the moment, we see that demand shaping up very well.

Devanshi Dhruva: So, Jinesh as we had mentioned earlier that the time when we had set out our targets in terms of growing at a CAGR of 25%, the underlying assumption was that the auto industry and consumer durables industry would be growing at 10% to 12% and we will be outperforming them. Obviously if the auto industry instead of 10% to 12%, if it grows for an example, say 4% to 5%, then there is bound to be some kind of impact on us. Yes, we have de-risked the business, but still to a certain extent we are linkd to auto industry as well, right.

Jinesh Gandhi: Got it, this is clear that way. Secondly, can you talk about Exotech's performance in this quarter how were the revenue trajectory, how did the margin behave in this quarter, is it on track to achieve turnaround which we are looking to achieve?

Sanjay Thapar: So, growth at Exotech continues very strongly, on a Y-o-Y basis they grew 70% from FY2022, Q1 FY2023 was 70.9% higher than Q1 FY2022, and EBITDA margins in Q1 were 12.4%, so that is how, so the demand is shaping up well, and we are winning a lot of new business at Exotech. Also won export business for Exotech, so our these really was to leverage and cross sell our products to our existing customers at SJS and we have done that successfully for a very large global customer, Whirlpool.

Jinesh Gandhi: Got it, and Sir, my last question pertains to the export. Export opportunity for chrome plating, how big can be the opportunity be given the nature of chrome – plating as a process, can that be a very large opportunity for us. Is it that in developed markets chrome - plating might be difficult to scale up in terms of local manufacturing, so can this be a very large opportunity for us?

Sanjay Thapar: It is indeed a very large opportunity among the aesthetic industry. Chrome - plating is a large chunk of the aesthetics pool that we have.

Devanshi Dhruva: So, the PV industry is said to be a$2.8 billion market that we said in North America and European countries. So if you will actually see largely it is PV industry and for passenger vehicles you require a lot of lot chrome plated parts as well and especially with premiumization trend, the demand for products like 3D dials, chrome plating and all is increasing. Definitely the market for us is huge, but to quantify in terms of a number, that we may not have a current number to give it right now.

Sanjay Thapar: So let me just substantiate what Devanshi said, we are right at the cusp of, chrome plating for us is relatively new business. We acquired this company, we grew it 50%, Exotech sales grew 50% last year and the order book traction that we see is exceedingly strong. That is why we informed the investor community that we would be investing into a new plant and building capacity and the part that we are looking at for exporting are relatively small parts, badges, logos, emblems which we have no real disadvantage in terms of shipping out of India.

Jinesh Gandhi: Got it, and just to clarify this $2.10 million number which Devanshi mentioned is the chrome - plating market for US and Europe for the passenger vehicle industry?

Devanshi Dhruva: No, that is the entire PV industry for global aesthetic industry for PV.

Jinesh Gandhi: Okay, got it. Thank you and all the best. I will come back in queue for further questions.

Moderator: Thank you. The next question is from the line of Mahesh Bendre from IDBI Capital. Please go ahead.

Mahesh Bendre: Sir, thank you for the opportunity. Sir, could it possible to share the breakup from this quarterly revenue in terms of two wheeler, four wheeler consumer durable even for domestic and export?

Devanshi Dhruva: Domestic sales would be somewhere around 85% to 90% and exports would be around another 10% to 12%. This is largely because our experts have been impacted because of the Ukraine-Russia war which is going on, that has impacted the EMEA demand as well as a lot of auto manufacturers in Europe are also getting impacted because they are facing issues of supply chain constraints in terms of raw materials.

Sanjay Thapar: So, Mahesh, in terms of India versus exports so, last quarter India sales were Rs.965.8 million and exports were at Rs.65.9 million, so that just give you a break up.

Mahesh Bendre: Sure and Sir, in terms of two wheeler, four wheeler and consumer durable?

Sanjay Thapar: So on a consolidated basis our two wheeler sales were Rs.464 million, passenger vehicle sales were Rs.311.9 million, consumer goods were 193.2 million, farm equipment was 53.1 million and others 9.5 million.

Mahesh Bendre: Sure and Sir, in absolute term what was the contribution from chrome business?

Devanshi Dhruva: Exotech is entirely chrome plating business, right, so if you take your consolidated minus standalone you will get your chrome plating business.

Mahesh Bendre: Sure and Sir, another question is that in the presentation you have mentioned that in the month of July we attained the sales of around Rs 38 Crores for July, so if I just make it for the next three months it is like 114 Crores, which is like a 10% sequential growth, which seems to be very strong in this kind of environment, so do you think this momentum will be sustainable going forward?

Sanjay Thapar: Absolutely, so we have a very strong order book and already we see an uptake. Infact what our internal targets within this year were, so we have more than offset this loss of sale of exports by increased domestic traction and we see the consumer demand very, very strong both across two wheeler and four wheeler requirements in India. So we are quite bullish that we will achieve our target.

Mahesh Bendre: Sure. Sir, last question from my end is that last quarter you mentioned that we have received orders from Continental, Marelli, Stellantis and even Whirlpool. This quarter we are talking about Alladio, then electric vehicle Gravton and so on, I mean just how this will translate into a revenue, what is the potential for the cumulative revenue out of these orders whenever they achieve steady state, any ballpark number?

Sanjay Thapar: So, I would not like to give a number on the potential, but these are very large opportunities. EV market of course is an evolving market in India, so we are trying to supply to all the people who are there in EV, so most of our customers we are talking will have its own trajectory. But in terms of Alladio, it is the part of the Mabe group, which was earlier owned by GE appliances, so they are a $4 billion company and they have plants across the world, so fundamentally they have 13 plants in Latin America and produce a large number of domestic appliance products. We have entered this market and how fast can we grow it depends on how this business grows, but the potential is huge.

Mahesh Bendre: So, when will these customers that we have bagged, will achieve I mean will their revenue peak in 2026 or 2025 any timeline for this?

Sanjay Thapar: So, this is like a mine okay, so peaking we are far away from it. As I said they make about 9 million cooking products, they make about 2 million washing machines every year, they make about 2 million refrigerators per year, they have 13 factories across Mexico, Argentina, Colombia, Ecuador supplying to different parts of the world. So it is a very large business, and we have just started our entry position. So currently, I am not in a position to answer at the moment that what is the maximum sales that we can do, but the outlook seems to be exceedingly promising. We would like to work with large customer that is our strategy, that is what our strategy has been in past, that we would like to operate and work with mega customers, so that we can build mega accounts with these people. Alladio is a strong player in the Latin American market and that is the reason why we targeted them as our customer.

Mahesh Bendre: Sure. Sir, last question from my end is that we have received two orders from Whirlpool's two new plants. I just wanted know how many plans we are currently supplying for Whirlpool and what is the potential going forward?

Sanjay Thapar: Whirlpool is a $25 billion dollar company globally, so we are supplying, I do not have the numbers readily available here with me as to how many plants that we supply to, but we supply to plants in Asia, we supply to plant in Kenya and US we were just supplying to one plant, as I said during our IPO before the pandemic. And now that the movement restrictions have opened up, we have open doors to two new plants Clyde and Marion, so these two plants are large plants of Whirlpool in Ohio and we will continue to enter more and more plants in North America and that is our target.

Mahesh Bendre: Thank you so much, Sir.

Moderator: Thank you. The next question is from the line Rahul Ranade from GSAM. Please go ahead.

Rahul Ranade: Thanks for the opportunity. Just a couple of questions from my side, starting with the chrome plating subsidiary where at least on sequential basis there is some bit of margin contraction I can see. It is largely coming from the RM percentage of sales going down, so just over a year is there any under recovery in terms of delayed pass through some customers side or is it just kind of the denominator effect, which is impacting the margin?

Sanjay Thapar: No, I would say that looking at it quarterly is not the right way to look at it, because there is a strong pass through mechanism that we have and we are able to get price increases from our customers, we are able to do that. But, there is a lag obviously, so let us say for the current quarter if some raw material prices have increased so the customer also observes it for a few months and then we approach them so this understanding is clear, they understand that this is a business where we need to be cognizant of the increase in input cost and then we recover it, so this is just a marginal blip in the first quarter, which we should get recovered. As I said, we should look at it annually rather than quarterly.

Rahul Ranade: Sir, is there some kind of seasonality also in terms of product profile which is a kind of in some quarters margins would be lower than these quarters, is that also one way to think about it?

Sanjay Thapar: Not really, not more than what the industry per se is., So we are very fairly diversified and we are diversifying the chrome plating business also. We supply to the sanitaryware industries, which is not seasonal at all, so houses get build all the while, people will replace what they want. Also, in the consumer appliance and the automotive industry pretty much the demand is in line with the industry, so it peaks around festival season time and so I would say not very significant seasonality to the sale at Exotech.

Rahul Ranade: Understood and just one more question in terms of your comment in terms of two wheeler you said that sequentially it has grown to the tune 4% to 5% in terms of revenue, so if I look at underlying in two wheeler data sequential growth is anywhere in the range of 10% to 11% as the two wheeler industry as a whole, but probably in the let us say 150cc above there is some de-growth because of the chip shortage, etc., which is OEMs and that, so would it be fair for us to see our two wheeler growth in line with more premium motorcycle growth rather than the overall, industry?

Sanjay Thapar: No, our products are quite secular, so we supply to entry level bikes, we supply to top end bikes as well, but depending on the specific model the content per vehicle as we explained earlier during the calls, it varies because the designer has different aesthetic requirements for each vehicle. So it depends on the number of products that are made because we make a lot of models, so we are present across the segment right from the top end to the entry level bikes and typically some models tend to do well, some do not do well, but overall I think we still maintain that growth and as I said the theme driving growth here is premiumization where there is added content on these vehicles, so that is what we look at when we forecast our sales.

Devanshi Dhruva: Rahul, that is why the best thing would be that since we are supplying across different models which are whether in mass segment or premium segment, the best is that quarterly there could be some up and down movements, but best is to look at yearly annual trend how it moves, because that trajectory will be in the direction that we have guided for.

Sanjay Thapar: So, like you saw the last year performance the industry grew by 38% and we grew by 75% right, we outperformed that so on a quarter-to -quarter I would say just look at it for a larger range and that scene plays out.

Rahul Ranade: And just for my understanding in terms of production let us say to the two wheelers because the product size is so small, does it work on a just in time principle for the OEMs or do they procure let us say some days worth of stock and use it and then procure it more in terms of batches rather than just in time. Just to understand if that is the case then probably then maybe I am wrong in correlating quarter-to-quarter like you are saying I should look at it more from a longer term perspective?

Sanjay Thapar: No, the OEMs maintain some stock, they ask us to maintain some stock in some cases where the OEM has a constraint, they would like to have just in time supplies, we do that also, but most of them is through stocks. So there is a little variation as I said and you rightly understood that one should look at a larger frame, so year-on-year is the better number to look at than to look at immediate quarterly inwarding because sometimes the OEM have some stock for a particular model which they do not want to lift the material at the moment so depending on the situation in the supply chain, so absolutely, to look at it quarterly may not give the right picture completely.

Devanshi Dhruva: Also sometimes, Rahul, what happens is that maybe the OEM would have planned a particular launch in say a particular quarter, but due to certain constraints or maybe some other reason they also delay the launches so accordingly in cases we are giving them just in time product then probably that will move to another quarter and in some cases like exports we do have to send it much in advance.

Rahul Ranade: Understood, this is very helpful. Thank you.

Moderator: Thank you. The next question is from the line of Joseph George from IIFL. Please go ahead.

Joseph George: Thank you for the opportunity. I have a couple of questions, one is you mentioned about the new plant that is setting up in Exotech in that light actually two questions, one is what is the return expectations that you have maybe in terms of ROCE on this incremental capital and second is for FY2023 and FY2024 at a consolidated level, what kind of capex including maintenance capex should we build into our models?

Devanshi Dhruva: So, the capacity expansion if used at full capacity then returns we expect it to be somewhere around 20% ROCE for Exotech and capex for the full year would be, because we are incurring our capacity expansion, so that would be somewhere around Rs 60 Crores.

Joseph George: So, this is the capex for the plant or you guiding Rs 60 Crores of consolidated capex for this year?

Devanshi Dhruva: Consolidated capex including capacity expansion at Exotech.

Saumya Moganty: One minute I will answer this, if we see the overall capex for the new plan altogether it will be around Rs 100 Crores, for this year it will be around Rs 50 Crores.

Joseph George: So, including the capex that we incurred for the new Pune plant, you will have a total capex at the consolidate level of about Rs 60 Crores this year, so we will take a similar number for next year?

Sanjay Thapar: Yes, largely so.

Joseph George: Sure, thank you.

Moderator: Thank you. The next question is from the line of Dhiral from Phillip Capital. Please go ahead.

Dhiral: Good morning, Sir and thank for the opportunity. Sir, if I look at your presentation and particularly on the passenger vehicle side, so our growth is lower than the industry growth so is it due to some model impact?

Sanjay Thapar: Our passenger vehicle sales are primarily on two accounts, one is chrome plated parts that Exotech supplies, in addition to that we supply dials out of SJS , so our passenger vehicle sales has increased last year, thanks to this in large measure due to Exotech increase we are doing we are opening up the market to other customers so at the moment we are not participating in the secular growth of the four wheeler industry, but moving forward we will increase our footprint and then you would see the traction of growth much stronger.

Dhiral: Sir, we are also in the process of acquiring 7.5 acres land in Pune so is it over and above the existing capex plan of chrome plating or this includes chrome plating incremental capex plan?

Sanjay Thapar: Yes, this includes the capex for the capacity expansion.

Dhiral: Sir, what is the contribution from the new product technology or advanced product?

Sanjay Thapar: So, our contributions basically are fairly steady across whatever products we make, so typically the margins what we said are about 26% EBITDA margins we earn on the current business, the new businesses are a little higher for a reason that the competitive intensity in those segments is much lower, so maybe about 10% to 12% higher.

Dhiral: Sir, what is the contribution?

Devanshi Dhruva: 10% to 12% is the revenue contribution.

Dhiral: Sir, lastly have you started supplying the products to the new clients like Stellantis and Continental?

Sanjay Thapar: Yes, we have won the orders, there are under product development and we will start supplies, so at the moment these are under development, so these businesses are won, we will start supplies as and when the SOP happens.

Dhiral: Thank you so much, Sir.

Moderator: Thank you. The next question is from the line of Jeetu Panjabi from EM Capital Advisors. Please go ahead.

Jeetu Panjabi: Thanks for the opportunity. I have two questions, one can you give us some colour on what is the activity level in new product development and both for the domestic side and the export side and are you seeing that accelerating or is it just running in a normal phase like in the previous year?

Sanjay Thapar: We see very rapid acceleration in our new development activity, because we are mining a lot of new customers, a lot of new models are coming to us, so our people are very, very busy. So while Honda Motorcycles Scooter Motor Company awarded us for excellence in new product development, it is raining business if I may use the word, so we are very, very busy.

Jeetu Panjabi: And you have enough capacity there or you are adding capacity under development side?

Sanjay Thapar: I mean we have a factory within the factory concept, and the same thing is for the product development teams, so the multiple product category that we deliver we have separate teams within the new product development department who focus on this. So that is what allows us to churn out new development product at a much faster pace and my customers are very happy with our output. So at the moment we do not see, but typically as we do resource planning and of course we regularly augment our capacities in line with what is the order outlook.

Jeetu Panjabi: The second question is, the raw material prices are going up and then softening a bit, do you think you navigate all this with stable margins or do you see some pressure at some point in time?

Sanjay Thapar: No, as we already said we have expanded margin, so while the world over the talk is of commodity headwinds and supply chain constraints leading to rise in shipping costs and container costs and getting raw materials, we have actually expanded margins both on a quarter-on-quarter basis and on a year-on-year basis, so I think that is the key strength of the company that no matter what is the external environment is, we are very conscious on driving margin improvement within the company.

Jeetu Panjabi: Excellent and the last question is, as you stated objective of increasing exports faster than domestic business is that directionally moving in the right direction?

Sanjay Thapar: It is, because we set ourselves a very strong lever for growth in the export markets, that is primarily our cost competitiveness. So as you see, as I mentioned in my earlier calls the people we compete with in export markets are manufacturers in Europe, North America. This is a batch mode operation business where it is very difficult for those guys to compete with us and we are further improving our competitive edge by constantly looking at ways to reduce cost and improve margins. So we are very, very strong contenders for the export market. Due to the two years of pandemic we were not really able to meet our customers, as we would have liked, but now that it is opened up, you can already see that we have some bit of good order wins.

Jeetu Panjabi: Excellent, good wishes, Sir. Thank you.

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

Nikhil Kale: Thank you. My first question was on the Exotech export orders that you have talked about, what would be the margin profile for these products, would it be higher than a current kind of domestic supplies?

Sanjay Thapar: Largely it would be, this is the first order that we won, it is chrome plating and painting, so this is in line with the margin that we have. We have not really pushed the envelope in terms of what margins we can =command. The idea really was to enter a large global customer, which we have done successfully. I think the margins are in line with what we have for other products, and moving forward of course we expect these margins to be higher.

Nikhil Kale: Got it and just on the business wins that you have talked about which is with Whirlpool and Alladio, so can you just talk about what are the parts that you will be supplying here and then I will just follow it up with another question on the global space?

Sanjay Thapar: So, we will be supplying to the washing machine business which are overlays so we have a lot of experience in the overlays. So that is what we will be supplying to begin with. They make a lot of appliances, so there will be lot of opportunities to sell other products as well.

Nikhil Kale: And Whirlpool is also is it overlays or the badges that you are doing?

Sanjay Thapar: Whirlpool is Chrome plated painted badge so that is that business that we won.

Nikhil Kale: And then just related to this part, just wanted to understand who are we replacing for these orders right, I am sure we would have been sourcing from some of the other suppliers, so who are we replacing and globally are we seeing, so I understand that globally this is a quite a fragmented space there are a quite a lot of smaller suppliers, regional suppliers, so are we kind of seeing consolidation happening in this space gradually, because of other global issues that are kind of playing out?

Sanjay Thapar: You know what has happened really, is that people post-pandemic, everybody is very cognizant of how stable are the supply chains, so we are benefiting from this China plus one policy where a lot of exports happened out of China, so they are looking at alternatives and supplier like SJS, which have global presence, already supplies to large global marquee customers, it is a natural choice for them because we are supplying to the who's who of the industry, both in consumer as well as automotive space. So that is a natural advantage that we have, plus as you rightly said, it is a fragmented market, most of the suppliers in even North America or in Europe or in Latin America are relatively small and OEMs are looking at very strong companies which have a strong financial profile, and are stable, so that they can guarantee delivery to them. We have an impeccable track record of exporting to 20+ countries and we supply parts without ever a customer line stopping, so that is a very powerful statement to make and that is exactly what the customers are looking.

Nikhil Kale: And just lastly, Sanjay if we look at this space, while it is fragmented, I think profitability is also quite high, now from our inorganic kind of targets, are we seeing that globally there are companies which are coming under stress, which can provide us maybe with an opportunity to acquire these companies?

Sanjay Thapar: More certainly, so that is what we are doing at the moment. We are looking at creating a pipeline of companies which are making products similar to what we do. This is high margin business, so those companies also have a margin, but their fixed costs are too high. As I said earlier in our calls, we have a very strong development capability here at India, we would look at acquiring companies doing the development work and backend work in India and having the customer facing interface as it is in those companies and extract more margin. Our focus very clearly is on profitability and we hope that with this strategy we will be able to make those companies even more profitable and a good addition to our company.

Nikhil Kale: Thank You.

Moderator: Thank you. The next question is from the line of Ronak Vora from AUM Advisors. Please go ahead.

Ronak Vora: Sir, the current capex of that you outlined for the chrome plating business of Rs 100 Crores and you said that the sales will ramp up from Rs 130 Crores to Rs 300 Crores, so basically our asset turnover will just be 1.7 times correct?

Devanshi Dhruva: No, so the thing is that in this case we are buying an entire land as well as constructing the building also, so it is not just the cost of the equipment and setup but it is also because we have building capacity, the entire building acquiring land all that cost is going into this entire capex of 100 Crores.

Ronak Vora: And when do we expect the capex to complete and how do we plan to ramp up the whole capex?

Sanjay Thapar: So, expect where we should be able to build this plant in about a year-and-a-half, so 18 months is what we look at, and at the same time we are building a strong order pipeline, so we imagine that we would be able to double our sales at Exotech in the next three years, so that is the target that we have.

Ronak Vora: Thank you.

Moderator: Thank you. The next question is from the line of Anirudh Gangahar from Avendus Wealth Management. Please go ahead.

Anirudh Gangahar: Thank you and good morning. Two, three questions from my side, firstly on the slide #16, you have given the FY2023 industry domestic volume growth for two wheelers and passenger vehicle is about 16% and 19% and you mention that your underlying growth target of 25%, top line growth and PAT of abouto 30% growth, could you help me reconcile that our profits are still based on 10% to 12% industry growth and if that is the case then this 16% and 19% is it something of an optimistic scenario or how should I look at this. That is the first question and the second question is more strategic in nature, last quarter you mentioned that we are looking for CEO to run the business while you are looking more at the business development planning and pipeline, could you help us understand where we are in that process, thank you?

Sanjay Thapar: So first things first, so this outlook or expectation of two wheelers growing at 15% and the passenger vehicles growing by 19%, I think this is coming out of all time low slidet in the volume, so these are essentially broker reports and market research reports on what is the outlook for the current financial year for these companies. So our outlook of 25% growth was based on 10% to 12% growth of the underlying industry, and that is good enough for us. So all this slide signifies that while the industry is bullish about this growth we feel that we are in the right segment close to about 70% of our sales is coming from these two industry, which are likely to grow much beyond that 10% to 12% target that we had originally, so we are quite bullish and optimistic that our overall 25% growth target would remain.

Anirudh Gangahar: Understood, thank you.

Sanjay Thapar: And you had another question on the strategic piece, so could you repeat that question again, please?

Anirudh Gangahar: Yes, in your last earnings call you had mentioned that you would be moving out of the CEO role?

Sanjay Thapar: So, we have setup a stable company Joe and I have run this company and we have created infrastructure both in terms of the human resources and the system that we have. Now what we are looking at is that what would be the next level for the company, more futuristic products. So the search for the CEO is on and we are in the process of finalizing this candidature, so in the next few months we hope to have a CEO on board.

Anirudh Gangahar: Alright, may I just ask one other question, you mentioned that 90% of your target in sales in FY23 the orders are already in the bag. Do you have any assessment about the next year? How much of the lead time would you know, how much of let us say FY2024 to previous as you mentioned it is 25% CAGR, so we are looking at 25% top line growth in FY2024 as well. Do we have any assessment or it is too early to know how much of those orders would probably be, may not be in the bag, but we got fairly good visibility because it is all model based?

Sanjay Thapar: So our outlook really is that next year also we should grow at 25%, but we do not give out the forecast specifically for the year because the lead time that we have for development varies from two weeks to six months So many times while we are in discussions with customers, the nomination is not done till much later, so that is the reason why we do not give a forecast. We talk every first of April, every year, where we stand and that is what we look that, so 80% has grown to 90% in the first quarter for the current year, so similarly we expect next year also to shape up.

Anirudh Gangahar: Right. Thank you very much for the answers.

Moderator: Thank you. The next question is from the line of Rajesh Jain from NB Investments. Please go ahead.

Rajesh Jain: Good morning, congratulations on good set of numbers. So, I have two questions, the first one is regarding the receipt of orders as and when we receive the orders from our customers, the new orders, how much lead time would it take to supply or first is to start the order and as well as to reach the peak level of that order?

Sanjay Thapar: So, as I said to the previous question, our lead time, so we can actually deliver parts within two weeks, so dependents on the product category, so we have 11 product categories that we manufacture, so the lead time varies for each. Now while we can do the production within two weeks or one month or six months, depending on what the product is, the peak is reached based on what is the nominated business, when is the customer going to peak in terms of his volume requirements, so that varies based on customer demand, normally the first year the customers ramp up and ramp up happens roughly about nine months to one year depending on the plan of the OEM, I cannot really comment on that, so we focus on making sure that we win the businesses, which are large volumes and we also make sure that we deliver very quickly so that we can start sales as quickly as possible.

Rajesh Jain: Sir, is it fair to assume that if it is for the existing models the ramp up would be very fast since the customer would be having that demand ongoing?

Sanjay Thapar: Absolutely, right.

Rajesh Jain: Sir, my second question is you talked about getting one more and more export orders and you also mentioned about the advantages that the company would be offering to export customers, so my question to you is other than the timely supplies, the quality and the financial strength of the company, the pricing would be the more important criteria while deciding for themselves. So just wanted to know what would be the price difference between the SJS and whichever the competitors we would be replacing?

Sanjay Thapar: So, in the export markets OEMs look at 10% advantage ballpark, so they would see that if they are buying from a European supplier, then SJS price should be about 10% lower because they want to do some validation expenses, etc., they want to figure that out within the pricing. But our idea is that we are at the same quality level and better than your existing supplier, so ballpark number is about 10% lower is what their expectation is. At SJS as I said earlier we are focused on improving and expanding that margin, so our manufacturing costs are far lower than that 10%, so I am much more competitive than a supplier in North America or in Europe supplying to the customer and that is the reason why we are very bullish on exports.

Rajesh Jain: Sir, as and when you do any mergers outside India, you talked of shifting the design and development to India, but is it that there is a possibility to shift the manufacturing also to India?

Sanjay Thapar: Yes, depends on case to case basis, so typically ideally what I would like to do is that the customer facing interface remains the same, there could be manufacture done out of India, supply is there, so there are all these possibilities exist.

Rajesh Jain: Thank you very much, Sir and wish you all the best.

Moderator: Thank you. The next question is from the line of Mahesh Bendre from IDBI Capital. Please go ahead.

Mahesh Bendre: Sir, thank you again for the opportunity. Sir, you mention that you bagged the business for Mahindra's new Scorpio N, so is the content very similar to what we are offering for XUV 700 as of now?

Sanjay Thapar: Yes, largely in line, we do not want to give you exact numbers, but it is a very lucrative business.

Mahesh Bendre: Sure. Thank you so much, Sir.

Moderator: Thank you. The next question is from the line of Vijay Sarda from VL Finance. Please go ahead.

Vijay Sarda: Good morning, Sir. Congratulations on very good set of numbers. Sir, my question is two prong, one how we see our non-auto business developing over next three to five years as we already started working with Whirlpool and other, so how we see that business growing that is the first and second when we are talking about 30% kind of growth for over next two to three year, do we need to do additional capex more than what we stated of Rs 100 Crores to get that growth?

Sanjay Thapar: Okay, let me answer the second part of the question first, so at Bengaluru, which is our main facility, our capacity utilization is still quite low, we just about 55% utilization, so we have enough head room to grow further, so no significant capex required at Bengaluru. At the chrome plating plant, we have already said, we expect to spend about Rs 100 Crores to increase the capacity at that location, so that is what we foresee to do at the moment. Coming back to the other question that how will our consumer business move, what is the outlook for the consumer business, so we are extremely bullish because we supply to virtually who's who of the industry in India. We have not really been able to venture out for the last two years because of the pandemic, but we are winning large businesses and as I said earlier cost competitiveness is key to us, we already delivered the global levels of quality that these people require, so there is no doubt in my mind that comparatively given that the strong profile that we have within the company for new product development, timely supplies, quick response to customers, we should be able to grow very, very significantly, so 25% growth year-on-year is what looks absolutely possible and we intend to do that.

Vijay Sarda: Thanks, Sir. Just last question, this Pune capacity of this chrome plating, what kind of margin we can inch up to in the next two to three years once we incur the capex and all that, so currently we are around 12.8% is what has been said, so how much potential there we have?

Sanjay Thapar: Okay, we do not like to give out very optimistic numbers, but we have a strategy in mind, the primary strategy is that we will change our customer focus from the domestic to the export market, now export market margins are higher and that is what will drive growth, moving forward, what I can guide is that our margins on a steady state basis for Exotech would be between 13% to 15%.

Vijay Sarda: Great, Sir. Thanks a lot, Sir. Thank you very much.

Moderator: Thank you. Ladies and gentlemen, due to time constraints that was the last question for today. I would now like to hand the conference over to Ms. Devanshi for closing comments.

Devanshi Dhruva: Thank you everyone for joining us on this call. If anyone's questions have remained unanswered, you can please reach out to me, and we will try to respond to the best of our ability. Thank you.

Moderator: Thank you. On behalf of Axis Capital Limited, that concludes this conference call. Thank you for joining us. You may now disconnect your lines.