"SJS Enterprises Limited
Q2 & H1 FY2023 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day, and welcome to SJS Enterprises Q2 FY '23 Results Call hosted by Axis Capital Limited. As a reminder, all participants lines will be in a 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 star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Ms. Devanshi Dhruva. Thank you, and over to you, ma'am.

Devanshi Dhruva: Thank you, Aman. Good afternoon, ladies and gentlemen, and thanks for being with us over the call today. We appreciate it and wishing you all a very happy Diwali and prosperous New Year from SJS team. 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 through some of the slides of our presentation that has been uploaded on the stock exchanges and website as well. Sanjay will take you on through the industry view, our business performance and the strategic outlook for the future growth of the company. And Mr. Mahendra Naredi, our CFO, will update you on our financial highlights, post which we will open it up for Q&A. 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 once again. And I will now hand it over to Sanjay to make his opening comments. Over to you, Sanjay.

Sanjay Thapar: Thank you for the introduction, Devanshi. Hello, and good afternoon, everyone. As you all know by now, SJS is India's leading and globally recognized decorative aesthetic player with an end-to-end 'design to delivery' capability. Today, I'm happy to share our Q2 FY23 results. SJS continues to deliver a strong operating financial performance despite uncertainty in the global markets due to the ongoing Russia- Ukraine war and other macroeconomic headwinds, spiralling energy costs and high inflation resulting in subdued demand in European and North American markets.

We continue to maintain a strong outlook for SJS for the near and medium term. I will refer to the presentation uploaded on our website and also on the stock exchanges for this earnings call. So please, you could refer to this.

SJS is a fast-growing design and aesthetic 'solutions' company. Our unique business model and diversification strategy has enabled us to consistently outperform the underlying industries, and this quarter has been no different. We yet again continued to outperform the automotive industry, both on a Y-o-Y and a Q-o-Q basis. Premiumization theme continues to gather momentum and we are witnessing its acceleration every year.

We continue to remain buoyant on the structural premiumization theme, both within the automotive and consumer durable industry over the medium and long term.

So I refer to Slide 7 and 8 of our presentation for the quarter ending September 22, the two-wheeler production volume grew 7.7% Y-o-Y while SJS two-wheeler sales shot up by 31.3% for the same period. This superior growth in two-wheeler segment compared to the industry volumes was account of our new business wins and market share gains as we increase our share of wallet with key customers.

Passenger vehicle industry volumes grew 38.1% Y-o-Y, while SJS passenger vehicle sales also saw a healthy growth of 28.9% Y-o-Y. We have grown well within our set of PV customers. Our PV journey is still in early stages, and we have won new businesses that will come into production in the next few quarters. The trajectory for growth in the PV market looks very promising with the introduction of new generation technologies that are under development at SJS.

Overall, the automotive segment, that is two-wheeler and passenger vehicles combined. -- production grew by 12.1% Y-o-Y, while SJS Automotive segment grew by 30.3% Y-o-Y, surpassing the combined industry growth.

SJS's total consolidated sales grew 17.3% year-on-year despite slowdown in the consumer durable market and the impact on exports due to various geopolitical challenges and the macroeconomic headwinds we see in Europe and North America.

For H1 FY23, SJS outperformed the market by growing at 38.9% year-on-year in the automotive segment, whereas the two-wheeler plus four-wheeler combined industry production grew by 22.5%–Y-o-Y on back of strong recovery in the two-wheeler segment. SJS has delivered a strong Y-o-Y growth of 26.5% for H1 and maintain guidance of delivering around 25% year-on-year growth for the current year.

On a sequential basis, SJS consolidated auto sales grew 19.3%, surpassing the two-wheeler and the passenger vehicles combined production of 16.4% growth Y-o-Y.

Overall, our domestic sales have grown 22.9% Y-o-Y and 12.5% quarter-on-quarter, compensating for lower demand in Europe and North America. Excluding these two regions, our export revenue grew by 5.7% Y-o-Y.

Despite impact on exports and consumer durables segment, I commend the SJS team for maintaining the company's sales momentum in Q2 FY23. Our strategy of diversification by industry segments and regions has helped us minimize this impact. I would now like to hand over the call to Mahendra, our CFO, to update you on the SJS financial performance before I come back to you with our business outlook for the year. Over to you, Mahendra.

Mahendra Naredi: Thank you, Sanjay. Good day, everyone, wishing everybody happy Deepavali and Prosperous New Year. Hope you all had good celebration. Now moving to Slide number 10, it talks about our financial performance in detail. I would like to highlight that the company is picking up a strong pace and delivered a robust Q2 FY23 financial performance despite external challenges.

Our consolidated revenue grew by 17.3% on a Y-o-Y basis to INR 1,169.4 million. EBITDA grew 24.5% on a Y-o-Y basis to INR 333.8 million on an EBITDA margin of 28%. This indicates an improvement of 134 bps in margin, primarily on account of higher sales, a strong focus on operational efficiency and aided by the softening in the raw material prices.

PAT grew by 30.7% on a Y-o-Y basis to INR 199.5 million, delivering a strong margin of 17.1% and 175 bps margin expansion. We continue to witness operating leverage in the business.

Now sequentially also, our sales grew by 13.3% and Q2FY23 margins remained robust with EBITDA margin improving by 161 bps and PAT margin expanding by 135 bps on back of higher sales and operational efficiencies.

I'm happy to share that all our efforts and initiatives taken post Exotech acquisitions are adding growth and momentum to the consolidated business.

Now moving to Slide 11. On H1 basis, we are consistently delivering a robust performance and inching closer to achieving our target quarter after quarter. The Company clocked 26.5% Y-o-Y growth in revenue, boosted by 35% Y-o-Y growth in domestic sales. EBITDA grew by 34.8% on a Y-o-Y basis to INR 612 million with a margin of 27.2% and margin improvement of 142 bps. PAT grew by 46% Y-o-Y to INR 361.6 million on a margin of 16.4% and margin expanded by 219 bps.

Now moving to Slide 12 and 13. As on 30th September'22, SJS has built a comfortable consolidated cash and cash equivalent of around INR 1,295.1 million, and we are a debt-free company on a net debt basis. The company generates strong free cash flows and for H1, we have added INR 322.6 million. Our free cash flow to EBITDA for H1 FY'23 stands at a healthy rate of 52.7%. As on 30th September'22, we have achieved robust, I would say, highest ROCE and ROE of 34.8% and 16.7% respectively.

I would now like to hand over back to Sanjay to continue about our business update and outlook for the year. Over to you, Sanjay.

Sanjay Thapar: Thank you Mahendra. I now refer to Slide 14 and 15. So we are excited to share some of the key business highlights with you for this quarter that will help us achieve our medium-term goals.

1. For this quarter, we added leading customers like Skoda Auto Volkswagen India for chrome plating parts in the PV segment and Atomberg Technologies for IML parts of consumer appliances segment.
2. SJS also entered a new FMCG premium segment by adding John Distilleries as a customer for speciality decals.
3. With the addition of BuymyEV and TI India in Q2, SJS now supplies to 12 leading EV manufacturers in the country, and we are continuously adding more customers.

4. Building mega accounts is a key focus area to SJS. We continue to expand our share of wallet with key customers by offering new products and winning new businesses. This quarter, we won many new businesses with our customers like TVS, Bajaj Auto, Royal Enfield, Mahindra & Mahindra, etc.
5. On the new product front, we see a huge opportunity for premiumization. We see increasing demand for display screens, both in the two-wheeler and passenger vehicle segments. We are already working with OEMs for these futuristic products, such as illuminated logos, cover glass technology for the automotive center stack displays.
6. We are grateful to our customers for recognizing our efforts of consistently building products of the highest quality standards. This quarter, SJS won eight quality awards.
    a. Visteon, their Global Director, awarded us, presented us an award for quality and delivery performance.
    b. SJS won six awards for Quality Circle and Kaizen at the Quality Circle Forum of India.
    c. Lumax also awarded us for our contribution towards the quality of our products supplied to them.

At SJS, we believe in inclusive growth, not only for our employees and stakeholders but also for the community around us. We adopted 7 villages in this quarter, under the Agara Panchayat Jurisdiction, Bangalore as part of the Swachh Bharat Abhiyan, helping us improve health and hygiene conditions in the villages, leading to a better living environment for all the village inmates and to minimize the risk of health hazards.

In the end, I would like to mention that SJS continues to deliver on its promise of strong operational and financial performance quarter-on-quarter. We maintain our FY23 outlook of around 25% revenue growth as well as our medium-term guidance over FY23 to FY25. Premiumization, addition of new customers, new order wins, recovery in consumer durable sector and the export markets aided by tailwinds of a positive outlook for the automotive industry will enable SJS to outperform the industry in terms of growth.

Our medium-term plan of capacity expansion at Exotech to meet higher customer demand pipeline, focus on new technology, product development to meet futuristic demands of the premium products by our customers and nurturing the customer relationships that we have to build more mega accounts, these will propel our sales in the right direction. High sales growth, strong margin profile and the expected operating leverage will drive our PAT growth of close to 30% year-on-year in the year FY23 and moving beyond.

So thank you with this, I come to an end of the company presentation. So we will open the floor for any questions that you people would have.

Moderator: Thank you, very much. We will now begin the question-and-answer session. [Operator Instruction] First question is from the line of Akshat Mehta from Sameeksha Capital

Akshat Mehta: Yes. So I have a couple of questions. One is on the export front that has been affected for sure. So what kind of a demand scenario are you looking after the quarter 2 and what were the reason affecting quarter 2? What kind of scenario are you looking at currently in October and for this quarter, as well as at the end of quarter 4?

Sanjay Thapar: Yes, thank you for your question. So as you are aware, the industry, the demand in Europe, North America is seeing great macroeconomic headwinds in terms of energy costs and higher rises of inflation. So at the moment, we still expect this market to be soft. And towards the end of this quarter or early next quarter, we could possibly hope for some recovery when the market settles down. So at the moment, increased domestic demand has compensated for this softening in the export markets, but we are cautiously optimistic that exports would come back because the size of the markets in the North America and Europe are very large. And customers also are challenged with the supply cycle trends that they're facing. And India is a destination and SJS being a strategic supplier would stand to gain from this.

Akshat Mehta: So, but you still would have an outlook on exports, how are the exports looking right now in quarter 3, let's say, in October, what is the on-ground scenario that you're looking at? Are the exports coming back from new players like Whirlpool and others? Or...

Sanjay Thapar: They are improving. So we have, so there are two different aspects to it. So Russia as a market still continues to remain impacted, which is some portion of our exports. But other areas, demand in other areas is likely to see an upward trend. That is the outlook that we have from our customers at the moment. But of course, we need to wait and watch as how actual demand pans out?

Akshat Mehta: So, but your view, your three year goal of reaching 25% export as a percentage of overall sales, that is still being guided right?

Sanjay Thapar: So these are near-term challenges that we see. The long-term outlook for exports remains extremely bullish for the simple reason that the market size, as I said, is very large. And we are also on the enlisted panel as a global strategic supplier to these customers. So we see that demand impact and our expectation for growth remains unchanged.

Akshat Mehta: My second question is on the likely acquisition that you were talking about earlier in Europe and North America. What is the rationale that you have for setting up new facility or acquiring a new facility over there?

Sanjay Thapar: Yes. So America at the moment or even Europe offers a good valuation opportunities. So these regions faced slow down, and there are many opportunities cropping up at attractive valuations. However, we are careful where we trade. So we are cautious to find the right fit for us. And of course, our management committee will evaluate the proposals as to what adds to our business plan and strategy that we have moving forward. So since there are current opportunities, multiple opportunities are available, we are in the process of evaluating all the avenues available to us.

Akshat Mehta: What is the kind of the next step of the strategy once you acquire?

Sanjay Thapar: So there are two themes here. So as we have said earlier, the product we produce are labor intensive. They require, there's a lot of variety that is required. So we have tested ourselves with global peers, and we find that we are very competitively positioned. And there is an opportunity to use the manufacturing capability that we have at India to supplement whatever acquisition we will do. So, we see a great opportunity for margin expansion moving forward, given our good infrastructure that we've put in place in India.

Devanshi Dhruva: Also, Akshat, regarding the acquisitions also, you need to note that this acquisition or whatever inorganic expansion we will do, that will add on to the 25% growth that we've already guided for. So, we are looking at various opportunities and proposals. But yes, we need to find the right fit, just like how we have been successful, and we are very happy with the integration of Exotech. Similarly, we would like to find a good fit for us, so that it will help us to grow further.

Akshat Mehta: So, ma'am, but like acquisition like, Exotech was not margin accretive in terms of your EBITDA margin. So how are you seeing margin expansion when you acquire a new entity in US or Europe, I mean because I think our India facility will be generating the highest prices overall?

Sanjay Thapar: So let me take that question. So basically, what we are saying is that the products that we produce have a lot of large variety. So there are many SKUs. And at SJS over the years, we have fine-tuned the art of production them and producing them at minimal cost. So cost wise, when I quote for my global customers, I am already giving, I'm 5% to 7% cheaper than the existing buying prices that they have.

So the strategy really is that if I acquire a business there, I could be able to add value to their offerings by bringing in or using a blend of manufacturing, both in India and the overseas markets to retain the same selling price, but my manufacturing costs will be lower. So that results would expand the margin available to me for that product. So typically, whatever margins I earn today or I quote today, I have to give a discount. But once I have a company that I acquired there, I would be able to sell at that local prices, but my cost of manufacturing would be more efficient compared to the incumbent supplier.

Akshat Mehta: So the manufacturing will be done in India itself, but the marketing will be done by the US or Europe entity?

Sanjay Thapar: Not all manufacturing will be done in India, but for example, development would be done in India. Product engineering could be done in India. The sales teams and the market-facing interactions will be done by the team that we have at the acquired company. So that we have a larger global footprint and are much more closer to the customer, so more opportunities come our way.

Akshat Mehta: And the next question is that can you give the breakup of what is the positive of new aged products in the sales that you've seen this quarter or H1?

Devanshi Dhruva: So new aged products, definitely, we are seeing more traction building up on the same in terms of passenger vehicles and two-wheelers. And these products are right now currently because they're new generation products, they are in lower volumes and the revenue was kind of flattish YoY. But we do expect that the way we are seeing so many RFQs coming in, I think that is going to grow further for us as the new generation technology products in itself are seeing a lot of excitement and interest from different customers of ours. And because of that, we feel that this is going to grow at a faster pace, especially the new products that we are working on currently is the cover glass technology and illuminated logos that we recently launched we are seeing a lot of engagement and dialogue with our customers, and we are building prototypes for it. At the same time, there are a lot of cover glass technology, especially is seeing a lot of interest among the PV segment. And once the volume increases, definitely that demand for localization is also going to increase. So that is giving us the confidence that we are going to grow further in this new generation product.

Sanjay Thapar: Devanshi, let me just elaborate on that question. So new technology is a key focus for us to develop futuristic products. So if you refer to our presentation on Page 20, 21 and 22, we have highlighted what are the new age products that we are gearing up for. So for example, on the slide that you see for motorcycles, so we have clearly mentioned there that what are the legacy products, what are the new generation products that we just talked of and what are the futuristic products that we are working on. So the futuristic products are In-Mold Electronics, illuminated logos and touch panels.

So there is a trend amongst OEMs to move towards better features in terms of digital display and at SJS, printing capabilities that we have, lets ourselves to do a lot of specialty coatings that are required on these materials. So already, we are working on these futuristic products and in dialogue with customers to localize this in India. So that is a good stream moving forward.

Similar examples you see on Slide 21 for cars experience. So the futuristic products that we are talking of really is the center stack display screens that we have, sorry, that's Slide 22. So the center stack display that you have, the touchscreen that you see on that slide, we are in discussions with key customers who already supply to the large famous brands that you see in XUV 700, the TATA Nexon on all new generation vehicles are having larger and larger displays. SJS has a strong relationship with customers and already we are in dialogue with many of our customers and offering them this touchscreen and cover glass technology. Similarly, there is a lot of demand for inbuilt lighting.

So thanks to this initiative that we've taken on In-Mold Electronics and smart services, we will see an explosion of this demand moving forward. So these are the futuristic technologies that apart from whatever Devanshi said. For the share of the new gen products to increase, these are going to be game changers, which could propel growth very-very aggressively for the domestic market for both the clients and the consumer markets.

Slide 23 gives you what are the future requirements or futuristic requirements of our customers in appliance sector. So here, In-Mold Electronics initiative that we've taken will help us, there are displays coming, including touchscreens in these consumer appliances, and we will just be able to offer them, because customers come to us as a technology provider. So when we have this early involvement with customers in their development cycles, they come to us with these requirements and thanks to these customer inputs that we are now engaging with customers on these futuristic technologies.

And this is what will lead to a very exponential growth in the proportion of newer technologies that we have vis-a-vis the legacy products that we have produced in the past. So a long answer, but I think it's important to note that at SJS, we build capability for these futuristic products. And thanks to our customer relationships, we are already in a very advanced dialogue with them on their localization plans in India for these products.

Akshat Mehta: Sir, so can you just also quantify what percentage of sales is new age products like for FY22 it was 16%. So what is the percentage of sales from new age products in H1 or quarter two?

Sanjay Thapar: Let me give you an idea in terms of the content increase that would happen. So today, a customer, for example, would import a cover glass for a center stack display at close to about US$60 per car. Now this is the content that we are talking of in SJS and if I talk about it in volume, so imagine that an INR 3,000 part or INR 2,500 part in a 4-wheeler is something that we will be supplying over and above what we currently do. And you can yourself understand all the new generation vehicles that are coming are coming with displays, the number of displays are increasing. And the coating on these parts, they require printing. So SJS, because of its strong capability in precision printing is already very advanced in this technology. And we hope to see that this could be about 30% or 40% of our sales in the coming years.

Now how soon it will be will depend on the pace of introduction by the OEMs of this technology in India. But what I would like you to take note is that we are ready for the future. We understand what these technologies are needed, and we are building capabilities on that.

Akshat Mehta: So again, what you're saying is that, let's say, cover glass technology US$60. So what would be the kit value right now and what would be the kit value going forward if you can give some sense on that?

Sanjay Thapar: So for a car, depending again, I answered in previous calls. So we have a wide variety of products. So chrome plating parts in a car are anywhere from INR 2,000 to INR 3,000 for a car. The dials that we produce currently at about INR 300 to INR 400 a car. So if you put everything together, we would be close to around maybe at an average of about INR 2,000 or maybe INR 1,500 per car currently, and you are talking about doubling this by adding this new technology, the futuristic technologies in. So these are for example, if you see in the XUV 700, the customer imports that large screen that comes in. And now a lot of customers are implementing the same technology across the board. And when that happens, there are very few companies in India that have the capability to do that. And thanks to our relationship with the cockpit display manufacturers, we are one of the first ports of call that they have. So therefore, we are extremely bullish that moving forward, this would be a significant component in value terms, you’ve see that it could double the contribution. And this would possibly be a standard fitment across all the mid segment and the top segments cars in India and slowly percolate down to the entry level vehicles as well.

Akshat Mehta: Are there any new launches as well where you've supplied your products? Any models that you can talk about?

Sanjay Thapar: So we are supporting customers with all their new launches. We supplied dials to a lot of these new customers. So, the dial localization or the display localization that I talk of is a function of when volumes pick up, then OEMs are under pressure to localize. And when that happens, that is where the inflection point happens and this growth happens very rapidly. So we are already supplying to new models of Mahindra, not the display technologies -- but the XUV 700 we supply, we supply to these Scorpio N, to Nexon EV, Tiago EV, their ACE vehicles, we supply to XUV 400, the electric vehicle for Mahindra. But these all are for other parts currently. These displays are not localized, because the customers are now looking at finding suppliers like SJS who could be able to supply these parts. But for sure, all cars will have display screens and the display screens will have these cover glasses that we say. The next step is to have touch panels. So SJS is working very closely on these futuristic technologies along with OEMs. So as and when this localization happens, these will form the bulk of the new age technology product that we will supply to the OEMs in India.

Moderator: Our next question is from the line of Nikhil Kale from Axis Capital.

Nikhil Kale: I have a few questions. Firstly, just taking this cover glass product ahead. Just add a few questions there. So Sanjay, this cover glass is still similar to what optical plastics that we were talking about in our DRHP, right?

Sanjay Thapar: Absolutely. So there are two technology there. One is the PMMA sheet, which is the optical plastic, there are some OEMs which use glass. So the purpose is the same. The coatings are similar. There's anti-reflection, antiglare, anti-fingerprint and it requires printing of a black border and some specific icons on that glass or the PMMA. So yes, it is the same part that we talked of at DRHP.

Nikhil Kale: But Sanjay, I mean, just taking that XUV 700 example, if I look at that screen, I don't think there are any icons or anything, right? It's just a plain display where most of these icons are like digitally created. So in that case, how does our value addition stack up?

Sanjay Thapar: There are two parts around that screen. So you see there is a black printed border along that screen. Inside, you have two TFT screens. These TFT screens have the visible icons that we talked of. But the glass itself has a printed border and it has some special coatings that are given there for anti-reflection, antiglare, anti-fingerprint, etc.

Now this is supplied by one of our key customers for which we have a relationship for the past 15 - 20 years. So I will not go to specifics. But all these customers are talking to us of localization in India. And at SJS, we are working with them to examine the techno commercial feasibility.

And I think it is just a matter of time before the first one starts and then everybody will follow suite. So that is typically what happens in terms of the adoption of any new technology that comes into the country.

Nikhil Kale: But in this product, what will our value addition be? We won't be producing the glass per se, right? We'll be sourcing it from someone and then doing the printing and the coating, right?

Sanjay Thapar: Absolutely. So even in the optical plastics part that you have, so these are commodity manufacturers, which produce in very large quantities and very large scale, so we will not be producing the glass or producing the plastic, but we will be doing a lot of value addition that happens later in terms of coatings, in terms of the machining that goes on. In many cases, there's a bending that happens. So there are very special technologies to make sure that this happens.

I can get into a technical thesis on this. The point is that there are two types of things which are air bonding and optically clear adhesive bonding. So, there are special technologies that are required, which controls the distance between this glass and TFT screen. And without loss of transmission without any distortion. So these are very precise optical requirements which at SJS, we've been working for almost three years now. So that should come in handy when we start localizing these for customers.

Nikhil Kale: Yes. So basically, I just wanted to understand that complexity. So see, compared to like a 3D dial, this is an equally complex product, right? I was under the perception that it might not be as complex, so the value edition might be low.

Sanjay Thapar: No. So, it is very complex and shipping it from overseas is a big problem because these are all parts which don't require, you need very careful handling. So, the market is huge, not just for the automotive industry, but you have multiple different applications, you have any consumer appliances, we have a lot of applications. So we are very, very excited about this technology. We are thankful to our customers that are working closely with us. And going forward, this could be a complete game changer as to what are the SJS portfolio of products to the customers.

Nikhil Kale: Secondly, just going back to the exports part. Can you just help us understand within our exports, maybe one year back, how was the share of exports within the different key geographies? And how is it now? I mean you've talked about Russia being an important part. So maybe some numbers around that would be helpful.

Sanjay Thapar: No. So Russia is a part, but it is not the most the important market. Europe for us the biggest market. And as I said during our investor call during the IPO, North America is a huge market for us. Crisil estimated the size of this market to be US$2.7 billion. We were hit by COVID. So post COVID, we started doing tech shows to these customers. We've already opened doors to multiple plants or new plants within North America.

Now of course, we have some headwinds in terms of the structure. So you have headwinds around the challenges that are there because of interest rate hike and fuel prices hiking. But the story remains intact. So we don't see any change in our guidance over the mid to long term on the importance of these markets, and we'll continue to drive growth here.

Nikhil Kale: Looking at the numbers, Sanjay. So if I look at consol minus standalone, which is effectively Exotech, there, the margins this quarter are really strong at, I think, close to 17%. In the past, I think we talked about this that in a chrome-plated plastics business, it's difficult to move beyond, say, 15% - 16% margins. So just wanted to understand, are these margins sustainable? And what are we doing, which is leading to this kind of an expansion on margins, especially Exotech?

Sanjay Thapar: So two parts on a steady-state basis, we still maintain our guidance that 15% is the ballpark number to look at. This year or this quarter, we benefited from a softening raw material regime where prices have come down. At the same time, we are doing a lot of hard work because we come from a DNA of a 30% EBITDA and we -- our natural focus is to enlarge expansion of margin at any of these businesses that we manage. So there's a lot of inward actions taken to improve efficiency, reduce rejections, that aided margins. But to be honest, raw material played a large part in getting this done. But at the same side, so guidance for the future, we still maintain about 16%. I was a little conservative when I said 14% to 15%. I'm not optimistic now. I'm just saying that it is within striking distance. So the idea, as I said, is that we inherited a legacy business when we acquire Exotech. Moving forward, we'll open the doors to customers which will possibly be in exports, new areas where we can do hi - tech work and have better realization on the chrome-plated part that we do. So that always is the ambition. So last quarter has been very satisfying, and we hope to continue that story forward.

Nikhil Kale: And then the next question is on the capex side. So I think H1, we've done maybe just INR 11-12 crores kind of a capex. What is the capex expectation for H2 given that we have also planned expansion at Exotech.

Sanjay Thapar: So Mahendra, would you take that question, please?

Mahendra Naredi: Yes. Thanks for your question. For the financial year, we have around INR 15 crores capex plan. I'm sure you are aware about it, that we are doing an expansion for our chrome-plating business, where we guided for around INR 100 crores capex. So around INR 40 crores capex will happen in the current year. So you can say roughly, capex for the year is around INR 55 - 60 crores. INR 10 crores we have done, so remaining H2 is around INR 50 crores.

Nikhil Kale: So it will be back-ended kind of capex right. And just on the standalone entity, I understand that we have a decent amount of capacity already. So just on the standalone revenues, what kind of revenues can we achieve without needing to do material capex as the standalone entity?

Devanshi Dhruva: We can easily double our FY22 revenues based on the current capacity. And definitely, we will do some kind of debottlenecking as well, which will help us to increase that revenue without incurring much significant amount of capex.

Nikhil Kale: And then just two more questions more on the product side. So I think, Sanjay, quite interesting, you've talked about entering the specialty decals segment in the FMCG side. So are there any other product segments that you are looking to cater to? And also, my understanding is that auto typically, the testing requirements, all those things are quite stringent compared to FMCG.

And that's why there are very almost handful players like SJS who are catering to the auto side. But FMCG are multiple players. So how is the product that you're doing different from, say, what others are doing? And also what could be kind of the margin profile for this kind of product?

Sanjay Thapar: So as I've said many times, our DNA is that I don't look at a business which doesn't earn me a minimum EBITDA margin of 30%. So that is the benchmark that we have when we look for, the lens through which we look at any new business opportunity. Does it open large doors to me? So this part was interesting to us. If you see the part, unfortunately well you can't see it on an audio call. So it looks very good. And now it has given us idea that why can't we do this, because there is a premium end of the segment, the theme is the same. Motorcycle manufacturer would like to add some parts from SJS. So if we add theoretically INR 500 part and you can get a mileage for INR 1,000, that makes good marketing sense for the OEM right. So typically, the same thing in these high premium, high end of the FMCG market. They want to position it at an aspirational level, and that look and feel of the product is enhanced by the technologies that we have. So customers get very impressed when they come to a design center to look at that what is the possibility, can we borrow something from the automotive to create that effect in the FMCG part or what more can we do?

So there are some technological innovations also that we've done, which create a superior effect. So the customer is willing to pay price, we get as higher margin amongst these premium products that we develop as we do for our conventional products. So we don't trade getting into a business at low margin. That is not what our focus is. So long-lasting products are typically high margin generating, particularly FMCG or the premium FMCG space, customers like to add some bells and whistles to command a much higher price. I gave earlier examples of decorating of fans, but INR 1,200 or INR 1,500 fan doesn't use any decoration.

But if you add a bit of decoration on that fan, the premium end fan segment is close to about INR 5,000. So the customer gains a lot and it is an additional opportunity to companies like SJS. And we can give prices solutions. We work with their design guys to offer them, give them proposals, what they can implement and that is what makes us unique.

Nikhil Kale: And just one last question. I think we have had a good head start in some of these advanced new aged products, be it lens mask assemblies or 3D dials. Now we are looking at the next kind of leg of advanced products. Just wanted to understand where are our competitors now, especially for the lens mark assemblies and 3D dials. Have we seen that competitors have also now kind of introduced these type of products? Or do we still have that kind of advantage over competitors?

Sanjay Thapar: Yes, a great advantage. So, I don't know of any customer who makes any 3D dials in India in any meaningful manner. And as I said earlier, there are two ends of the coin. One is the capability to do it and the other is to have a sponsor or a customer who is interested in buying from you. So what helps with SJS is a long-lasting customer relationships and the trust we build with them. They continuously award us for quality and delivery and all the other aspects. So we are the supplier of choice as far as they are concerned and it's very difficult to displace that. So it would take a lot of effort. But at the moment, we continue to enjoy that advantage of the trust that we've built with these customers over the years.

Moderator: The next question is from the line of Jigar from Edelweiss.

Jigar: Just a couple of things. Could you help me with the capacity utilization at Exotech. How much more existing capacity can do and is there a scope to debottleneck more in Exotech? And what kind of capacity utilization we are operating at?

Sanjay Thapar: So as I said, this is a company that we acquired. So whatever the vision they had at that moment, they focused on that. But over the last one year, we have debottlenecked capacity. Last year, we grew this business by 50%, and we are, of course, identifying new possibilities to reduce cycle time to increase output. We are also looking at, as I said, we've already started work on the expansion plan for Exotech. We've identified a land parcel and applied for MIDC for a change of name towards to SJS, and we'll commence building that plant, but that will take time. So in the interim, the actions that we've taken is, we will deliver a 25% growth on SJS. So last year, we grew 50%. This year, we'll grow 25% as we guided. And the new plant will take about 12 to 18 months to get on stream.

In the meantime, we are looking at various opportunities of debottlenecking, shifting capacity. In terms of molding, for example, we can plan and mold outside and get plastic parts. We can make the plating process, reduced cycle time. So we've already done some work around that to increase the throughput of that plant. And at the same time, we're also looking at some low tech work if we can outsource to free capacity in that plant. So the answer is all the above. So we are very conscious. We have a strong pipeline. Customers are very interested in our product offerings. So we will continue to debottleneck that plant until that new plant comes on stream. So that's the strategy.

Jigar: So we are confident that that business can also grow at 25% without the new capacity or until the new capacity comes on stream?

Sanjay Thapar: It is, to be honest, it is touch and go. So that plant was not built for such robust growth. So 50% we grew last year. This year, I'll grow 25% and the outlook for the year after that again is 25%. So it will take some doing. But then we are sweating the asset for all its worth to try and achieve the target. In the meantime, we will also see if we can do a new plant implementation in phases, so that we can have some part of the capacity available to augment in case there's any shortfall. So we are looking at all options.

Jigar: Right. So yes, so my next question was, so will we see some revenue contribution from the new plant maybe in 2024 because you would just mention that there is a chance that you might...

Sanjay Thapar: Towards the end of FY24. So we don't expect that to come on stream before the third or the fourth quarter of FY24. So around that time, that will come in. In the interim, we are making contingency plans to sweat this asset, look at all options to debottleneck and meet that demand. The customer pull remains very-very strong.

Jigar: Right. And from a margin perspective, on a consolidated basis now for the second quarter running, we have done almost 27% - 28% kind of margin. What kind of guidance do you see in terms of margins for the full year FY '23? I know this year you might, this quarter you had some additional benefits of raw material in Exotech. But for the full year, what kind of margin guidance you are looking?

Sanjay Thapar: So we are consistent with what we promised. We have delivered quarter-on-quarter. So our guidance on margin is between 25% to 27% EBITDA margin on a consolidated basis, we still maintain that guidance. And PAT, we expect to grow at close to about 30%. That is what we see for the year and the coming few years.

Jigar: Yes, because the first half itself, I think you've done on an average 27.7% or that, above your – guidance, so are you assuming some compression or you are just being conservative?

Sanjay Thapar: I'm happy to deliver more than I promised. So that is what our DNA is. So on a steady-state basis, that's what my guidance remains unchanged. So I'm still at 25% to 27%. I know we've done 27.7%. I'd be happier if I do 30% on a consolidated basis. But you can understand we are on the same side of the boat right, to push it as fast as we can. But the steady-state guidance still remains at 25% to 27%.

Jigar: Right. And just to understand in terms of absolute numbers, your standalone facility can do what kind of revenues considering the debottlenecking capacity that is...

Sanjay Thapar: That's what Devanshi just answered. So our current capacity utilization at the plant in Bangalore is about 60%. So we have another 40% to grow, headroom to grow. We have a very large parcel of land in Bangalore, which is already future ready. So we can have about 60,000, 70,000 square feet area ready for production in about five to six months' time. We've already future proofed that current plant, plus we can set up a duplicate factory for what we currently have in Bangalore. So, the current facility is about 250,000 square feet. Technically, we can actually build another facility and double the volume at Bangalore without investing in land.

Jigar: And just a last question on the two new products that you have launched the illuminated logos and cover glass product. What kind of capex, is it likely to entail and what kind of opportunity size do you see for these two products?

Sanjay Thapar: So, let me just correct you or set the record straight. We've launched illuminated logos, but the optical plastic localization is still in the process of development. So, we are in discussion. So, we've not started supplying these parts as yet. They are still under development with customers. Customers are very keen to buy from us. They see that we have all the capabilities. So depending on the volume outlook, so we are still firming up plans because most of these customers are at the moment importing this and this localization. So we are in dialogue with the customers to see what concrete forecast do we have. And then we will build our capex plans around the outlook of volumes as it matures. So I would imagine that in the coming quarter or so, we will have a much clearer vision as to what volumes are likely to be, and then we will cut our cloth according to the requirement of the market.

Jigar: But this will be largely funded through internal accruals, right? So shouldn't be a very big...

Sanjay Thapar: As we generate a large amount of free cash, as Mahindra said in his presentation. So 57% of our EBITDA is converted to free cash last quarter. So we generate, we have almost INR 130 crores sitting in as the cash in our books. Plus, we are generating more cash every month. So we are quite comfortably placed in terms of cash and we are a zero debt company. So clearly, that is the way forward.

Moderator: I would now like to hand over to the management, for their closing remarks.

Devanshi Dhruva: I would like to thank you all for joining us on this call. And in case if anyone's questions remain unanswered or you all need to get in touch with us, please feel free to e-mail to me. And any time if you all are visiting Bangalore, please do get in touch with us in terms of visiting our facilities because we've built a state-of-the-art facility here in Bangalore, which we would like everyone to come and see and to understand our products better. Thank you, everyone.

Moderator: Thank you. Ladies and gentlemen, on behalf of Axis Capital Limited, that concludes today's call. Thank you all for joining us, and you may now disconnect your lines. Thank you.