"SJS Enterprises Limited
Q3 & 9M FY2023 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day, and welcome to the SJS Enterprises Q3 FY23 Results Call 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, 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 Mr. Rakesh Jain from Axis Capital. Thank you. Over to you, sir.

Rakesh Jain: Thank you, Dorwin. Good morning, and welcome, everyone. Welcome to Q3 FY23 Post Results Conference Call of SJS Enterprise. Today, from the management team, we have with us Mr. K A Joseph - Managing Director; Mr. Sanjay Thapar - CEO and Executive Director; and Mr. Mahendra Naredi – CFO. Along with them, we have Devanshi Dhruva - Head of IR. Now I'll request Devanshi to take over with the conference call.

Devanshi Dhruva: Thank you, Rakesh. Good morning, ladies and gentlemen, and thanks for being with us over the call today. We appreciate it. Moving on, this is how we intend to take today's conference call forward. I will pass on the dias to Mr. K A Joseph, our MD, who will make the opening remarks and then hand it over to Mr. Sanjay Thapar, our CEO and Executive Director, who will take you all through some of the slides of our presentation that has been uploaded on the stock exchanges as well as on our website. Sanjay will take you all through the industry view, our business performance and then along with Mr. Joseph, give the strategic outlook for the future growth of the company at the end.

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 in about -- we will try to wrap 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 to write us, and I will try to answer all your questions to the best of my ability. Thank you once again. And I will now hand it over to Mr. Joseph to make his opening comments. Over to you, Joe.

K.A. Joseph: Yes. Thank you, Devanshi. Hello, and good morning, everyone. I trust you all had a chance to take a look at our investor presentation and the results published yesterday, which we will use as a reference as we speak to you all today. If we can move on to Slide 4. As you all know, SJS is an established market leader in a very attractive and niche business segment. We operate in a high value-added, definitive aesthetic markets across multiple consumer-oriented industries.

We are a partner, co-creator and supplier of choice to several leading OEMs in the automotive and consumer development industry with a dominant share of business in India and a focused strategy to increase our global presence. Our company continues to deliver strong operating and financial performance despite uncertainty in the global markets due to the geopolitical and macroeconomic headwinds.

We are able to outperform the industry year after year due to our well entrenched customer relationships, strong in-house design and engineering capabilities, leading edge technologies, offering a wide mix of products, and our lean operations designed to support multi-fold revenue. Our robust performance is demonstrated by our financial numbers, which Sanjay and Mahendra will take you'll through shortly.

I would like to hand over to Sanjay to take you through some of the business and industry highlights. Thank you. Over to you, Sanjay.

Sanjay Thapar: Thanks, Joe, and good morning, everyone. So SJS, as you know, is a fast-growing design and aesthetics solution provider, our business model and diversification strategy is unique, and this has enabled us to consistently outperform the underlying industry growth quarter-after-quarter, and this quarter has been no different.

Yet again, we outperformed the automotive industry, premiumization theme continues to accelerate very rapidly and we remain confident of our ability to benefit from this mega trend that we see to grow our business over the medium and long-term. So specifically for this quarter, we delivered strong performance in our automotive business that is two-wheelers and passenger vehicles combined, SJS grew by 25% year-on-year, whereas the Industry, the two-wheeler, four-wheeler production growth, was only 4%. Our total revenue for Q3 stood at about INR 106 crores, growing by 21% Y-o-Y.

The passenger vehicle business grew by 43% for us, and the two-wheeler business grew by about 14%. SJS generates strong cash flows, and we have a healthy cash and bank balance of INR 143 crores on books as of 31st of December. This cash, of course, will be used for the company's growth and expansion plans. I'm also delighted to share that this quarter, we added new marquee customers to our portfolio, customers like Foxconn and IFB to our already very large client-base, and we hope to build a healthy, long-lasting relationship with them.

On the CSR front, the company's initiatives on garbage collection under the Clean Village Initiative Campaign improved lives of close to 3,000 families across 12 villages, and we also added 20 beds to local community center, hospitals here, with 50 patients everyday benefit from this.

On the next slide, you see a graph where you have a performance of the industry and how SJS performed. So for quarter ending December '22, the full year industry volumes were flat at about -- just about 0.5% growth over the last year. Whereas SJS two-wheeler values were shot up by 14% for the same period. This superior growth in two-wheeler segment compared to the industry quarter on account of new business wins and market share gains as we increase our share of wallet with key customers.

The PV industry volumes grew by 21% Y-o-Y, whereas SJS volume sales grew by 43% on a Y-o-Y basis. We have grown well within our set of PV customers. Our PV journey is still in early stages, and we are bringing new businesses that can help us grow our Q3 FY '22 revenues, and we hope to continue this momentum forward, especially with the introduction of new generation products that are under development at SJS.

Overall, the automotive segment grew by about 4% Y-o-Y, whereas SJS revenues on the Automotive segment grew 25%, surpassing the overall combined industry growth.

Our consolidated sales grew by 21% Y-o-Y. This growth was despite slowdown in the consumer durables market and the impact on exports due to this ongoing war in Europe and the other geopolitical challenges like the rising in energy costs, high inflation in the developed nations and the subdued demand both in Europe and North America. For the 9 months, SJS outperform the market by growing at 54% where the industry grew by about 16%, and we have delivered a strong revenue growth about 25% for the first 9 months.

On a sequential basis, the combined industry volume from quarter 2 to quarter 3 declined by 17% whereas SJS consolidated auto sales degrowth was limited to about 6%. Despite this impact on export and consumer durables, I really appreciate the efforts of our team to consistently maintain the company's sales momentum in this last quarter of Q3, and our strategy for diversification by industry, segments and products has helped us minimize this impact.

Some key enablers of what helped us grow, let me summarize that for you. So, growing mega accounts by consistently within key businesses is an important area of focus for us. We continue to expand our share of wallet with key customers, by offering new products within new businesses. This quarter, we won many new businesses from our customers like Mahindra, Tata Motors, Toyota, Whirlpool, Electrolux, Royal Enfield, and many more.

We bagged our first order for optical plastics for a passenger vehicle manufacturer, and we are very positive on executing many such businesses in the future. This quarter, we added leading customers like Foxconn in the two-wheeler electric vehicle space and IFB Industries in the consumer durable sector. We continue to enhance our global presence. We have added sales representatives in Columbia. So now in addition to Brazil, Argentina in Latin America, we also cover Columbia, and this ensures that we have a major presence in the Latin American market.

On the next slide, we tell you about how customers reward our efforts. So, Visteon in this quarter, presented us with the best performance award for Extra mile Support with respect to the flawless launch of Scorpio - N. This underscores our very, very strong new product development capability. We also continuously participate in Kaizen Contest, so the SJS team won the prize, third prize at the Kaizen competition organized by ACMA in the Southern Region.

We have laid down an ESG framework for the company. ESG essentially comprises of 3 dimensions: Environment, Social and Governance and our responsibilities towards fulfilling our duties in each dimension as a responsible corporate citizen. If anybody would like to understand further details on our ESG initiatives, please feel free to reach out to Devanshi, who heads IR at SJS.

At SJS, we believe in inclusive growth, not just for the employees and stakeholders, but also for the community around us. So last quarter, as mentioned, we adopted 7 villages under the Agara Gram Panchayat jurisdiction, Bangalore, close to our factory, as a part of this Swachh Bharat

Abhiyan. This initiative is helping improving health and hygiene conditions in these villages, leading to a better living environment for all the villagers and minimize risk of health hazards.

Taking this initiative forward, we today cover 12 villages and 3,000 families benefit from our Clean Village Initiative where we organized garbage collection from door step. We also added 20 beds at the Community Health Centre, as was said earlier. 50 patients benefit from that daily. We also contributed towards infrastructure buildings for schools in our vicinity.

I would now like to hand over to Mahendra, our CFO. He will update you on the SJS financial performance for the last quarter, before Joe and I come back to you and talk about the future growth outlook. So over to you, Mahendra.

Mahendra Naredi: Thank you, Mr. Thapar. Good morning, everyone. Moving to Slide 12, which talks about our financial performance in detail, I would like to highlight that the Company maintained a strong pace of growth and delivered a robust Q3 FY23 financial performance despite various external challenges. I would like to bring to your notice that revenue and margin for Q3 FY22 have been adjusted for INR 37.6 million of provision for discount on a customer sale created during FY21 that was reversed in December '21, and this resulted in increased sales, EBITDA, PBT and PAT. So, to make a like-to-like comparison, we have excluded that amount and shown our financials for Q3 FY22 and 9M FY22.

Considering this, our consolidated revenue grew by 20.8% on Y-o-Y basis to INR 1,063.7 million. This strong revenue growth was on account of overall domestic sales, clocking 22.2% Y-o-Y growth on back of 56.4% Y-o-Y growth in PV and 16.7% in two-wheeler.

EBITDA grew 25.3% on Y-o-Y basis to INR 284 million on a margin of 26.1%. Adjusted PAT grew by 29.5% on Y-o-Y basis to INR 157.1 million, delivering a strong margin of 14.8%, thereby maintaining around 15% profit margin consistently quarter after quarter in FY23.

On 9-month basis, we are consistently delivering a robust performance and inching closer to achieving our target quarter after quarter. The company clocked 24.6% Y-o-Y growth in revenue boosted by 31.7% Y-o-Y growth in domestic sales. EBITDA grew 31.6% on Y-o-Y basis to INR 896 million with a margin of 26.9% and margin improvement of 117 bps. PAT grew by 40.6% on Y-o-Y basis to INR 518.7 million, or a margin of 15.9% and margin expanded by 181 bps.

I am happy to share that all our efforts and initiatives taken post Exotech acquisitions are adding growth and momentum to the consolidated revenue. Exotech achieved FY22 full year revenues in just 9M of FY23, with EBITDA margin improvement to 14% from 12.8% in FY22, which is higher by around 115 bps improvement in 9 months. Overall, SJS delivered a strong ROCE of 33% based on 9M FY23 performance compared to 27% in FY22.

Talk about sales, both two-wheeler and passenger vehicle shares of revenue has improved to 47% and 31%, while consumer durables witnessed a decline in revenue share to around 15% due to macroeconomic headwinds, rising inflation that led to subdued demand in Europe and

North American markets. Other segments witnessed a little slowdown in revenue from farm equipment, hence, the share marginally declined.

Exports declined due to adverse impact of geopolitical issues and macroeconomic challenges in many regions. Decline in exports also impacted sale of new generation products to a certain extent, and hence, overall contribution of new generation product to revenues is around 11% to 12% for 9M FY23.

However, we are confident that despite near-term challenges, our medium-term growth targets for consumer durables and strong focus on export segment remain intact.

Moving to the next slide. This slide gives you financial highlights in a snapshot, which we have already discussed in previous slides. As of 31st December '22, SJS has built a comfortable consolidated cash and cash equivalent of around INR 1,431 million. We are a debt free company on a net cash basis.

The company generates strong free cash flow, and for the 9 months, we have added INR 478 million to our balance sheets. Our free cash flow to EBITDA for 9M FY23 stands at a healthy rate of 53.4%. As on 31st December '22, we have achieved robust ROCE of 33% and ROE of 15%.

I would now like to hand over to Mr. Joseph and Mr. Thapar to talk about our future plans and growth outlook.

K.A. Joseph: Thank you, Mahendra. SJS, as you know, is a technology and innovation-driven company with strong in-house design and engineering capabilities. The company has a track record of successful new product development and commercialization, supported by its dedicated product development and R&D teams. The company's strategy is to introduce premium futuristic products that are complex to manufacture and increase our addressable market significantly for automotive and consumer durables industries.

For passenger vehicles, we are working on products that will increase our kit value from a current INR 1,200 to INR 1,500 by almost 3 to 4 times.

A few examples of these products are:

1. Optical plastics/cover glass with touch screen capability.
   Recent vehicle launches have demonstrated a huge demand by the end consumer for larger and integrated display screens inside the cars. These are very complex parts. At SJS, we have had an early start in this technology, and we are very hopeful of growing this to become a large part of our product portfolio in the coming years.
2. In-mould decoration integrated with In Mould Electronics for car interiors.
3. We have illuminated emblems and door projector branding and illuminated scuff plates are other examples of our new products under development.

For the two-wheeler industry, we target to increase the kit value from the current INR 300 to INR 500 by around 2 times by highly futuristic products, such as,

1. Cover glass for two-wheeler instrument cluster with touch functionality
2. In Mould Electronic parts with integrated multiple functions in the moulded decorative substrate, especially for EVs.

For the consumer appliances, we target to increase the kit value from the current INR 50 to INR 150 by around 3 to 4x with the addition of futuristic products such as:

1. Optical glass with SMI functionality for control panels
2. Printed electronics with the capacitive touch function for consumer appliances again.

The opportunity for growth is significant, and the company is confident of achieving this in the near future. With that, I would like to hand over to Sanjay to brief you all on our future outlook.

Sanjay Thapar: Thanks, Joe. So quickly moving to Slide 21, which talks about our organic strategy for the medium-term. As you can see, SJS continues to deliver on its promise of strong operational and financial performance.

Organically for the first 9 months for FY23, we delivered a strong 25% year-on-year growth, maintaining best-in-class EBITDA margin of 27% and a PAT margin at 16%. We are confident of maintaining a high growth trajectory for our company over the medium-term by gaining new businesses, increasing wallet share with our existing customers, adding new customers, increasing content by adding exciting new products to our portfolio.

We expect SJS to continue to outperform the industry growth. Recovery in the consumer durables sector, in export markets and tailwinds of our resurging auto industry will add momentum to our growth trajectory. On the capacity expansion plan at Exotech, with higher customer demand pipeline, we are well on track as is our focus on new technology, product development to meet the futuristic needs of our customers.

I now come to the inorganic growth strategy for the company.

So over the last 2 years, our company has demonstrated its ability to acquire and integrate and grow acquired businesses. So we acquired Exotech 2 years ago. In the last 2 years, we've doubled revenue, demonstrating ability to cross-sell products across new and existing customers very rapidly. Sales have grown from INR 68 crores in FY21 to about INR 102 crores in FY22. And for the first 9 months, we already achieved full sales of FY22, so we are on track to achieve a great growth in that company this year as well.

We expanded EBITDA margins from 12.2% in FY21 to 14% over the last 2 years. And also, we've successfully integrated operations of Exotech with SJS. We have great confidence to acquire and integrate new businesses, and we are currently actively evaluating a few other acquisition proposals that will add value to SJS.

These acquisitions would require additional funds. Therefore, in a proactive manner, the Board has passed an enabling resolution for a fund raise, for an amount not exceeding INR 300 crores. This approval is valid for a year and can help us meet our fund requirement as and when we conclude a suitable acquisition. Any acquisition, I can assure you will be done with a judicious mix of debt and equity, keeping in mind the interest of all stakeholders and the best for the future of the company.

I now come to our outlook for FY23. So SJS will continue to outperform the industry in terms of growth. For the first 9 months of FY23, our revenues have grown by 25% despite a very challenging external environment, especially in exports due to the ongoing war in Europe and the subdued sentiment in North America and European markets. We continue to face headwinds for exports in the current quarter as well. We are awaiting recovery here.

Considering this, we are moderating our FY23 guidance slightly from 25% revenue growth to about 20% and our PAT growth estimates of 30% we would possibly reach 20% - 25% this year. SJS will continue to maintain best-in-class margins with a very robust cash flow. So despite the rise in the FY23 outlook numbers on some of these external factors, the company is still in a very good shape. We are optimistic about achieving our mid-term guidance from FY23 to FY25. We continue to maintain our target of revenue growth of 25% and a PAT growth of 30%. So with this, we finish the presentation. Then I would open this floor for answering any questions. Thank you.

Moderator: The first question is from the line of Deepen Shah an Individual Investor

Deepen Shah: I had a couple of questions. Firstly, just related to the business. Just wanted to understand, you are into various products, as have depicted in PBT. If you can just give us some idea on what is the kind of USP which you have when you approach clients for these new products, and what is the competitive scenario in maybe the top 3 or 4 products which you have?

Sanjay Thapar: So thank you for your question, Dipen. So fundamentally, our competitive edge really is that we have a seamless design to manufacturing and delivery company. So in terms of the number of technologies that we have under one roof, we are quite unique not only in India, but across the world. So that is a great USP and differentiator if I map competitors in India or overseas, either they are printing companies, they don't do plastic moulding, or they are plastic moulding companies, they don't do printing, or vice versa.

There are other technologies like chrome plating assemblies that are required, some special finishing on badges required. So our competitors, because of their focus on a few product areas, are not able to identify or deliver such a vast array. So that's on the technology side. On the manufacturing side, we handled a very large number of SKUs, and we've handled it very successfully, delivering across 22 countries worldwide, and customer lines have never stopped because of us. So we are very strong in terms of our delivery capability, so that also is a differentiator when you talk of competitors.

And if I talk of export competitors in the other markets, our products are batch mode production. So these are labor-intensive parts, and we have a very strong labour arbitrage and so SJS is far more competitive. So that is why we are very excited about growth, and those, I think are the key factors which differentiate us from competitors, both in India and overseas.

Devanshi Dhruva: Also, apart from the new products that we introduced, one of the other things is that the amount of SKUs that we are able to handle and the number of products that we have under one roof that we manufacture. We manufacture about 10, 11 products, and we are growing out there as well by introducing new products as well as the number of SKUs we manufacture as well. 6,000 SKUs, and growing there as well.

So that sheer complication that is involved in manufacturing these number of SKUs and delivering to all our OEMs on-time, quality products, that itself is one of the bigger challenge, which acts as a barrier for our competitors.

Sanjay Thapar: I like to add one more point. The great strength we have is our new product development capability. We have a very strong team. This team is focused only on futuristic products, so that is why we are able to launch these products, wherein one of our very old standing customer awarded us for that last mile support. They appreciate our quality levels to support global volumes. So, I think all in all, we are quite uniquely positioned to support customers in the aesthetic decorator space.

Deepen Shah: Sir, just to carry it a bit forward, like once when you go to a new client and pitch for a product, why would it shift from their existing supplier to you? That is the first question. And the second is that when you pitch to an existing customer that you need to gain market share and replace another supplier with your products, why would he do that? Because that obviously is well entrenched with the existing supplier, and the cost arbitrage which we speak about is probably not that much because you contribute maybe INR 300 per vehicle in a two-wheeler and maybe INR 2,000 in a four-wheeler. So why is cost arbitrage that important, when he has to change the whole supplier for just a very small part?

K.A. Joseph: So answering your question, so we have a very long-standing relationship with customers. It is not just a transactional thing that we support the part. We are co-developers of parts with them. So for the customers, for new models, we have an insight onto what new model will happen, maybe 1 year or 2 years before the customer launches the vehicle. So we do a like of ideation workshops. We conduct what are called Bling workshops where we say, we offer the customer multiple technology options.

So it's not just a part of or he wants a logo. We can offer them a logo in 5 - 7 different technologies. We can do very rapid prototyping and show them the results, what the effect is going to be. And that is the reason why customers like to come to us and not go to other people. So for example, there is a chrome plating business, so company could start with thinking that I want a chrome plated badge, but when he sees 5 options from SJS, he finds that there's a larger variety and we have parts priced at different price points.

So depending on what the requirement is, and that is something that I think we are quite unique in that concept because of this early engagement, as I talked of. And the customers like to have robust suppliers. So they are all financially robust, well-run companies, and there's already consolidation that's happening. So a customer would like to have fewer suppliers buy larger parts, larger quantity of parts from these supplies so we gain from that trend as well.

So we don't compete on price. We compete on our capability to differentiate products and add value to the customers' product.

Deepen Shah: Okay. And I just wanted some data if you probably could. In what part of the revenue comes from increase in market share? Like you replacing the existing supplier in an old model with your product? And how much comes from new products of the customers, the new launches of the customers?

Sanjay Thapar: To be honest, I don't have that breakup with me right now. But I can only say that our out performance of the industry is primarily on increase in wallet share. So customers, I would not like to name specific customers and give you data around that, but new model launches by a very premium motorcycle manufacturer. So we virtually gained the wallet share across all and our revenues have increased quite significantly. So again, as I said, this is confidential. I would not like to name customers. But a large extent, it is because of premiumization and gain of wallet shares. So these are the two significant drivers of growth when we outperform the industry.

Moderator: Sir, we request you to kindly return to the question queue as there are several participants waiting their turn. The next question is from the line of Harsh M. from Kriis PMS.

Harsh M: Congrats on good set of numbers. I actually had 2 questions. One is more on if you can explain what exact headwinds are we facing in consumer durables? And are we even facing headwinds for our automobile sector as well in case of export, or it's just the CD segment? That is my first question. And then I'll come to my second question.

Sanjay Thapar: Okay. So the headwinds are headline news across the world, so everybody reads the same papers. So, the war in Ukraine continues, the sentiment is dampened because inflation is very high, energy costs are spiralling out of control. So sentiment both in Europe and North America, which are very large markets for us, are impacted.

The question was that is it only consumer durables or also automotive? So also automotive. For example, we supply a lot of dials to customers across the world and with lower production in Europe and North America that demand has fallen. So overall sentiment is low, and we are hopeful that this demand should come back. But essentially, it is this rising interest rate and a scenario where customers are cutting back on discretionary expenditure in those advanced countries, which is impacting sales in the long-term. But nonetheless, these continue to be very large consuming markets, and we are hopeful that return to growth will come in the near future. So we are just crossing our fingers and watching how it plays out.

Devanshi Dhruva: Also, the thing is that if you'll actually see in our consumer durables or in our auto segment, in exports or in domestic as well, we've not lost any customers. It is just that because of this demand has been subdued, that's why the volumes in consumer durables have gone down. And that's why it has impacted us also.

Harsh M: Got it. Got it. No, the reason to ask this is because we've seen across few other auto ancillaries, the exports has not been impacted significantly for other players, at least in the automobile sector. So that is why it was a bit, I wanted to get that color, but fair enough.

And by when we can expect the volumes from the new customers then, the Foxconn and IFB which have been added? So next financial year, can we expect some volumes from them or they'll take time to get them into developing new products and then it will take time?

Sanjay Thapar: So most certainly, so Foxconn is an important win for us because they are famous for their integration of manufacturing of Apple cell phones. But they are a large global integrator of electronic parts. And when we look at integrated displays, which I talked about in my earlier conference call, that there is going to be a pressure for localizing these, so that we see is happening.

And now the product of Foxconn is already under development, and hopefully should see volume within the next year.

Harsh M: Got it. Any number in terms of revenue, if you can follow on what we can expect from the customer?

Sanjay Thapar: Strategically, we don't provide guidance on our customer, sir.

Moderator: The next question is from the line of Jigar Jani from Nuvama Wealth Management.

Jigar Jani: So firstly, on the guidance front, so I think in start of Jan, we were anticipating or reiterating our guidance for FY23. So just wanted to understand the major reason for guidance cut in for this year, was it a particular customer in the export market that we were anticipating, and we did not onboard it?

And whether the guidance on PAT, which you are guiding about 20% to 25%, is basically on the rebased numbers that you have done for 9 months FY22, or is it on the full year PAT? That's the first question.

And secondly, on the acquisition. So, we have about INR 143 crore of cash, and we are planning to raise another at least at max INR 300 crores, so that's about INR 400 crores of kitty for the acquisition. So I just wanted to understand what is the color on or what kind of acquisition are we planning, whether it is in the domestic or the export market? Some more color on what kind of acquisition it is likely to be since we are in advanced stages? Because it's a significantly large outlay on an acquisition, considering that we are also planning to take some debt for the acquisition. So any color on that would be great.

Sanjay Thapar: Yes. So thank you for your question, Jigar. So first on the guidance of FY23. So for the first 9 months of this year, we have stayed steadfast in our guidance in terms of revenue growth, so we were at 25% for the first 9 months. It is only in all honesty I am sharing with you. So we were hoping that the export demand will come back. We have not lost any business in exports. We have not lost any customer in exports, so everything is intact. It's just the macroeconomic issues that exist in Europe and North America that is causing subdued demand. So I'm only being transparent when I say that we were hoping. So for the first half of this year, the domestic demand compensated for the export demand. So export markets have been suppressed all through the year since this war is going on.

We see fresh challenges every day. But despite that, our revenue growth for the first 6 months was 26.5%. We still were at 25%. We were hoping that the export markets would kick in. The domestic market was a little soft post the festive sales, which is seasonal, that happens. So we are, at this moment, only revising that a little slightly to a growth of about 20% and a PAT growth of about 20% - 25%, so that's what I said. So we remain extremely bullish on growth prospects, and that is the reason why we see huge traction by our customers.

We are looking at expanding, because we have a lot of customer requirements that we are wanting to fulfil. And we will outperform the industry. So the key point is that while we are not completely insulated, our strategy of premiumization, our strategy of gaining wallet share, adding new products, all has helped us compensate and outperform the industry. So the industry numbers as we saw were flat, but we've still grown very, very strongly. So I'm very happy with the performance my team has put in. And the second question that we have was the acquisition.

So I can't disclose specific details, but to tell you, we need the funds that we have, INR 143 crores, as we've already guided earlier. We are looking at capacity expansion at Exotech, so some amount of money will go there. And the acquisition that we are doing are all value-added synergistic acquisitions, which would help us propel the company on a very high growth trajectory moving forward. So that is the reason for this enabling resolution that's been passed. It's not that we are spending money now. We are very prudent, very cautious that we have the right target as we've done successfully for Exotech, as I mentioned during my commentary.

Jigar Jani: So any time line on when we can expect this, and whether just, if you could share whether it would be in a domestic market, or will it be an overseas acquisition?

Sanjay Thapar: I would not like to provide the details till the deal is done, so you can understand. But then, we are pursuing hard. So that's all that I can say for the moment.

Devanshi Dhruva: Also Jigar, as Sanjay mentioned, this is just an enabling resolution from the Board, like for an amount not exceeding INR 300 crores. It does not mean that we will actually raise INR 300 crores or anything. It could be in different tranches also.

And at the same time, this is moreover taken in advance so that this enabling resolution will help us so that we can smoothly go ahead with the acquisition whenever it happens. Since equity raising is a lengthy and time-consuming process, we just thought we should start the process in ahead. So whenever the transaction happens, it happens smoothly.

Sanjay Thapar: Expansion at Exotech is an important lever, which we've already gone on record, right? So we see very strong traction. We have doubled the sales in 2 years. We've increased EBITDA margins. So we are extremely bullish, we're looking at talking to large global customers.

So for that, we need capacity, like we've done at SJS. The same thing we want to build at Exotech so that we can fully utilize the benefits of scale in that company and fully utilize the cross-selling opportunities that we have with customers that we have large relationships with.

Moderator: The next question is from the line of Dhiral from Phillip Capital-PCG.

Dhiral: So if I look at your P&L, and particularly the other expense, so as I see our other expense on a Y-o-Y basis has risen sharply by almost 30%. So any one-off line item over there, which has impacted our margins?

Sanjay Thapar: So Mahendra will take that call.

Mahendra Naredi: Yes. We have a one-off expenses in this quarter in our subsidiary, Exotech. There was a rate amendment request from the customer, which I mean, that has belong to the transaction we have agreed before the acquisition. The details are yet to evaluated, but on a conservative side, we have accounted for, and that is accounted for in our provision for doubtful debt. So that was one item. That's impacting around INR 6 million.

Apart from that, all expenses are almost in line. And the percentage rise when we see it compared to the last year, in the last year, we had a one-off income in our revenue, INR 37 million, which I talked about in my commentary. If you see in an adjusted manner, you will find that the cost has gone down.

Sanjay Thapar: But overall, just to add 1 more point. So Exotech, we've actually expanded EBITDA margin. So, I think that is the way to look at it. We've grown sales, we've doubled sales, as I said earlier, in 2 years. Outlook is very bright. We also expanded margins, so we are on the right track in Exotech, and this is what we'll try to do moving forward, growth and profitability.

Dhiral: So this is a onetime expense, sir, or…?

Mahendra Naredi: So Dhiral, we are still evaluating. But however, for the 9-month period, we have already factored. So while we're giving the EBITDA of 14% that has already been factored there. But yes, it is under evaluation.

Devanshi Dhruva: Yes. So despite factoring in that thing also, at 9 months, we still stand at 14%.

Dhiral: Okay. And sir, when you're looking to increase our content per vehicle by almost 1.5x to 3x to 4x across our product category. So by when, sir, we are looking to achieve that number in coming years?

Sanjay Thapar: So I'll request Joe to answer that.

K.A. Joseph: We are working on different technologies as we had mentioned during the presentation. So these things will start, the SOPs probably would start by the second half of FY24. That is around September, October days.

Sanjay Thapar: So these are all related to model launches. So we are pitching very hard for these new generation products. Now as and when, so between award of a business and by the time the customer launch so that we are controlled by the customer's launch timing, so that's what Joe’s referring to.

Dhiral: So sir, by FY25, are we able to achieve that content per vehicle across category?

Sanjay Thapar: Yes, the products in our portfolio now? So technically, we will then push it to other customers as well. So as you've seen, with any new technology, there's a market leader which launches 1 product, which appeals to the market and then others follow suit. This is what we've seen in the case of the huge screen that Mahindra launched with the XUV700. It was a game changer for the market, and now other customers are wanting the same thing.

So similarly, whatever we launch for one customer will get adapted. And that's a matter of,in the next couple of years, you see that transition commission happening very rapidly.

Devanshi Dhruva: Also Dhiral, it's very difficult to give exact time line because it also depends on how fast the OEMs as well as the customers will adopt these new products. We definitely see demand in the West also growing for these products. At the same time, it depends on how fast in the domestic market also these products come in and how fast the demand picks up for it.

Moderator: We have the next question from the line of Karan Kokane from AMBIT Capital.

Karan Kokane: So first question is on Exotech. I wanted to understand, so already, you have shown like a good improvement in the margins for Exotech. Wanted to understand what can be like sustainable margins? And do you think that because of these capacity expansions, there could be like some hurdles to margin expansion in the mid-term for Exotech?

Sanjay Thapar: Okay. So we've guided that standard steady-state margins would be about, let’s say 14% - 15% is what our estimate is because understand that this business, largely, it's the legacy business that we inherited. In the last 1 year, we've added many new customers. So, the margin expansion is a function of the customer and the selling price that I get. So, we are opening doors wide.

So one reason why we're investing money in this company is that it should be a facility that customers are happy to buy from, and when they compare the systems and processes, it should be truly world-class. So that's what we aim to do as we've done the same for SJS.

So margins would continue, I mean they would be, as I said, demonstrated increase in margins has happened. And in addition to this, once we get into the export markets, then we should be able to get even more traction and positive upside on the margin front at Exotech.

But this expansion in terms of capacity utilization you asked, so we are quite confident that our ROCE here for whatever expansion we're doing will be upwards of 20%, so that is what is our investment thesis of business.

Karan Kokane: Understood. And sir, second question is just on the ownership of the company. So if I look at the promoter ownership, there is about a 35% stake, which is being held by a private equity company, and then the promoter is holding around 15% stake. So just wanted to understand how should we think about this 35% stake, which is being held by the private equity firm? So that's my second question. And then I just have one last question after.

Sanjay Thapar: Look, so Everstone is a private equity player and at some point will exit, so that is the nature of all PE funds. But essentially, the business is professionally run, so Joe, who is right next to me, is the promoter. This is a business that is very close to his heart. He will continue to hold, and he is very passionate about this new product that he is launching. So maybe you'd like to get it from Joe as the promoter. So Joe?

K.A. Joseph: Yes. I think I have repeated this. For me, this is like live here, die here kind of business. So I started with about 35 years back, and I continue to play a leading role, and I'd like to continue as much as possible. So, there is no going back on that part of it at all.

Sanjay Thapar: So Joe's family is also committed to the business, so his son has joined the business, so he's not going anywhere. I mean, that's what he is trying to say.

Karan Kokane: Okay. Understood. And sir, just one question on exports. So exports, you said that you're feeling a lot of pressure because of demand weakness in North American and European geographies. So just wanted to check if our company can also be a play on the China +1 thing? Because we've seen other auto component players saying that the suppliers from China are facing heat, and that's why they're gaining market share. So is there any scope for us to gain market share? And if China is a big supplier, could you just name a few Chinese suppliers?

Sanjay Thapar: Yes, so very good point. So absolutely. So all the supply chains are aligning post-COVID and this war. India is a great beneficiary and in SJS we have copied ourselves into a position that we have won customer's trust. We have a very pro delivery model. We ship across the world both on the supply side and to purchasing and delivery, both the supply chains have been tested during COVID and customers have sent us appreciation letters. So that's a very strong point when I talk to any customer.

So supply chains are re-aligning. We have large inquiries from global customers wanting to ship business out of China. In fact, also ship business out of Europe because of this rising energy costs and inflation in those countries, so those companies have lost their, I mean, we are always more competitive than them. But now, the pressure is even more acute.

So, that's the reason why I'm so very optimistic about exports, and it should pick up. So it's hard to say what time when Mr. Putin will decide to end the war and things come back to normal. But fundamentally, it cannot go on, right? So we are already in the worst stage, one year has gone, we've still grown at 20% - 25% growth, despite these external challenges. What we could do at these tough times is focused inwardly and work on improving our operational efficiencies, work on improving rejections, be very prudent with what we do moving forward.

So I think we've utilized this challenge very well as the organization, and we are well poised for growth in the mid to long term.

Moderator: The next question is from the line of Lokesh Manik from Vallum Capital.

Lokesh Manik: Sanjayji, sorry, I joined a little late. So if you can just briefly share on the acquisition of Foxconn as a customer. What are the products that we are supplying to them, the end use of those products and therefore, domestic requirements or for their exports requirements?

Sanjay Thapar: It is for the requirement in India. So as you are aware, Foxconn is a global and maybe the largest global assembler of electronic parts. A lot of these displays that are used in both these 2 two-wheeler, especially electric two-wheeler and the 4-wheelers, are all large electronic assemblies. And as I said earlier in my call to the investor community, there is definitely going to be localization that will happen once it reaches critical mass, and that is exactly what has happened. So, we have won this first business, so that's a very important step.

We shook hands, the products are under development, and we will get this. So the product we have is an optical plastic part for the 2-wheeler EV. And incidentally, we've also broken ground in the PV industry, where we have the central stack display. So we won our first business again in that business, so that is what products Joe talked about in this presentation. So we have a good manner, we're getting a lot of customer traction on this.

Lokesh Manik: And Sanjayji, just a follow-up on this. So have you done any research in terms of that if this product would be cost competitive in the export market versus their existing suppliers also?

Sanjay Thapar: Sorry, could you repeat that a little slowly for me?

Lokesh Manik: For the same products in the export market for their export requirements in the global market, would we be cost competitive versus other players?

Sanjay Thapar: We are again, I would not like to name customers, but as I said earlier. So we've been working on these products for almost 2 to 3 years now. So yes, there is an export market, and we are cost competitive, so that also is a big lever. As we talk, we are knocking on doors all our customers where we have long relationship with. So certainly, they will consider for the export market with us.

Moderator: The next question is from the line of Neel Shah from ValueQuest.

Neel Shah: So firstly, my question is around this equity raise that you're doing. We are a company. We have very good cash. We have almost no debt, and we have generated good cash flow. So what is the reasoning behind going down this equity route rather than going to a debt route?

Sanjay Thapar: So at the moment, we have not decided whether we get equity or a debt route or a mix of both, so that the board will take an appropriate decision. But rest assured, we'll take a very prudent decision, keeping uppermost the interest of our shareholders in here.

Mahendra Naredi: And just to add...

Devanshi Dhruva: Yes. Yes, Mahendra, continue.

Mahendra Naredi: Raising fund through equity is basically a lengthy and time-consuming process and require lot of regulatory and internal approvals. Hence, we thought to take enabling regulations to be ready, from a point of view for a potential acquisition.

But anyway, this enabling regulation and approvals are valid for a period of 1 year, so we have enough time to decide about it. Like sir Thapar said, we are not in a hurry. And at an appropriate time, it will be done.

Neel Shah: Right. And my second question is around these new products. So in the new products categories that we have, so let's say, capacity overlays and the non-legacy business that we have, what is the percentage revenue that we are doing as of 9MFY23?

Mahendra Naredi: For the new product, we have covered in our commentary at around 11% to 12%. Our new products are also being exported to some of our customers. And like you see, the exports demand is lower at this moment for many reasons we have discussed. So it has gone down compared to the last year.

But yes, we are hopeful that the exports come back. We will be back on this trajectory.

Sanjay Thapar: And not just exports -- Yes, sorry. Just to add to that.

Not just export. Fundamentally, the new technology products will find a lot of traction in India, which we've already seen. So all these optical parts that I talked of. So there's a huge demand, and I think sooner than later, you will have this as an essential requirement by OEMs when they launch new models.

Devanshi Dhruva: Yes, as Sanjay just highlighted in the question before. He mentioned that for Foxconn, for one of the PV customers and many other customers, lens cover especially, and a lot of other new products that we're introducing, we are already bagging orders for that as well. We are already winning many new orders for that.

So in the future, we are very confident that these new generation products are going to grow at a faster pace.

Neel Shah: Right. And these products, do you have any target set for them as percentage of revenue in medium-term?

Devanshi Dhruva: Sorry, could you repeat your question?

Neel Shah: So I was saying, do you have any target in mind as to what level do you want to reach as percentage revenue in medium-term?

Sanjay Thapar: So my thinking is that we should be at least 25%. And in fact, let's say, 7 years later, it could be almost 70% of our business. So big growth coming into this area. So 20% - 25% is what we can realistically assume over the next 3 to 4 years.

Moderator: The next question is from the line of Dhananjay Jain from Brescon Ventures.

Dhananjay Jain: I wanted to ask first question on exports. So in export, can you give me a breakdown of realization in terms of Latin America, Vietnam, Thailand and US and Europe, what is the difference in relationship with India, US, Europe and other countries? That is one.

Second. What has been historically a percentage of revenue for export in North America, Europe and other countries? Third one I want to know is what time it takes to onboard the OEMs in overseas versus India, what is the process there? How much time it takes?

Sanjay Thapar: A lot of questions rolled into one. Let me answer one by one. So first question you asked was what is the share of different geographies for exports, right? If I understood that question right. So as I mentioned -- Yes, Devanshi, go on.

Devanshi Dhruva: Yes. In terms of share of export, we've always mentioned that Europe has been one of our larger markets, and that could be somewhere around 30% - 35% of our revenues generally. And this quarter, it's been a little lower than that because of the factors that we already mentioned. USA is another market, which is somewhere about 8% - 10% of our revenue. And Asia is another 30% - 35% of our revenues, balance are other countries.

Dhananjay Jain: Okay. Differential realization?

Devanshi Dhruva: Sorry?

Sanjay Thapar: We don't guide on realization as per geography. So all export markets, primarily our competitors, are different companies. So let's say, whatever margins we earn here, export margins are about 5% higher at an average compared to what margins we have in the normal domestic business that we have.

Dhananjay Jain: Okay. And time it takes to onboard OEMs outside India. What is the process for OEM?

Sanjay Thapar: **Depends on** products. So we already have a relationship, for a company like Visteon, we supplied to for many years. There is zero time, it is just they give us a number and specifications, and we start developing the product, it is proven, so there is no challenge there. For some specific new generation products like these optical plastic parts or the lenses with the special coatings, that could take maybe about 6 to 9 months for them to approve. But these are new technologies. All the legacy products that we have, we don't wait for approval. Specifically for some special export requirement like color matching, et cetera, we do some tests which again is 3 - 4 months testing period.

Dhananjay Jain: Okay. And apart from this.

Yes. I wanted to know in chrome plating business, what is the growth percentage you are seeing? Are you looking to go into areas, SJS customers as well? Can you bifurcate between cross sell and non-cross sell revenue?

Sanjay Thapar: I think we have the last part of your question but let me report to what I heard.

Dhananjay Jain: Cross sell and non-cross sell revenue. My question was...

Sanjay Thapar: Your question is about cross sell opportunity -- cross sell. Okay.

So we increased sales -- we increased sales at chrome plating business by 50% last year. Again, very strong growth as I said we are doubling sales in the last 2 years, so that's testimony to the traction that we have with our existing customers. A lot of that business has come from cross selling, especially this year. So it has come from cross selling, it has come from gaining market share and launching new products very quickly. So it's a mix of all. Do we have it? But maybe Devanshi will talk to you separately on this.

Moderator: The next question is from the line of Chirag Fialoke from RatnaTraya Capital.

Chirag Fialoke: Just a follow-up on the Exotech margin. Is it correct that the INR 6 million provision that has been taken for a pricing negotiation, I believe, all of it should be adjusted to the Exotech EBITDA? Is that right way to understand it?

Sanjay Thapar: Mahendra, could you take that?

Mahendra Naredi: Yes. So that was right. It was, as I said, with the Exotech contributions. Yes.

Sanjay Thapar: Let me give you some flavor around that.

So before -- I mean, the company entered into contract before we acquired Exotech. So this is something that has been a request raised by the customer now, we are examining it. But yes, it is specifically only Exotech.

Chirag Fialoke: Understood. But if I don't adjust for that, then this quarter, Exotech would have made something like 12.4%, 12.5% EBITDA margin. Do you think that it's just because of that provisioning that if you adjust for that comes to 14%, that's how I should understand it? Because from a quarterly cadence point of view, we are at INR 35 crores, but the margins have come down on a quarterly basis on Exotech, specifically.

Mahendra Naredi: So you are right. Had this not been there, the margins would be higher for sure. And like we were examining this point also. And going forward, we will improve our margins by the Exotech margin improvement over a period of time.

Sanjay Thapar: So the way to look at it is, look at the 9-month margin, then we will have a better average. So we are at 14% on a 9-month basis at Exotech, just to give you that figure. And that is after doing this adjustment.

Devanshi Dhruva: Even for the same Q3, actually, if this adjustment had not been there, we would have been at a 15-16% margins at Exotech. So that's why on a 9-month basis, even after factoring in, we are still at 14%.

Chirag Fialoke: Right. And this adjustment is for the whole of 9 months, is it is taken in this quarter, but it also sort of retrospective in nature? Is that the right understanding, correct?

Mahendra Naredi: So right, this adjustment was taken in quarter 3, and this belongs to the whole year.

Chirag Fialoke: Understood. Just one more question. On the export split side, could you please share the number for the split of exports for H1 also as you have done for 9 months?

Sanjay Thapar: Devanshi, could you take that?

Devanshi Dhruva: Yes. Could you just repeat the question?

Chirag Fialoke: Sorry, the split of exports in domestic for the half year.

Devanshi Dhruva: The breakup of exports in domestic, you mean?

Chirag Fialoke: Yes.

Devanshi Dhruva: Yes. For the half year, it would be somewhere around, our exports would have been around 7% to 8%, similar to what it was this quarter also for the 9 months, and domestic was somewhere around 90% to 93%, even for the half year.

Chirag Fialoke: And the same half year FY22 would have been around 13% - 14%?

Devanshi Dhruva: Last year, say, last year, exports was somewhere around for half yearly was somewhere around 12%.

Moderator: Ladies and gentlemen, that was the last question for today. I would now like to hand the conference over to Ms. Devanshi Dhruva from SJS Enterprises for the closing comments. Over to you, ma'am.

Devanshi Dhruva: Thank you. Thank you, everyone, for joining us on this call. If anyone's questions have still remained unanswered, please feel free to contact me and I will answer it to the best of my ability.

Thank you, everyone. Have a great weekend.

K.A. Joseph: Thank you.

Sanjay Thapar: Yes. Thanks.

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