SJS Enterprises Limited
Q4 & FY2023 Earnings Conference Call

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Moderator: Ladies and gentlemen, good morning, and welcome to the SJS Enterprises Q4 FY '23 Conference 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 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 Rakesh Jain from Axis Capital Limited. Please go ahead.

Rakesh Jain: Thanks, Anne. Good morning, everybody. Welcome to the Q4 FY '23 Conference Call of SJS Enterprise on behalf of Axis Capital. We should begin with the opening remarks from the management. On the management side, we have Mr. K A Joseph, Managing Director and Co-Founder; Mr. Sanjay Thapar, CEO and Executive Director; Mr. Mahendra Naredi, Chief Financial Officer; and Ms. Devanshi Dhruva, Head, Investor Relations.

I will now request management to proceed with their opening remarks and then followed by Q&A. So would request Devanshi please, if you can start the 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 & Co-Founder, who will make the opening remarks and brief us all about our latest acquisition of Walter Pack India. Then he will 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 exchange as well as on our website.

Sanjay will take you through the industry view, our business performance and 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 our comments in about 20 minutes so that 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 email, and I will try to answer all your questions to the best of my abilities. 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. And hello, and good morning, everyone. I hope you have had a chance to look at our investor presentation and results published yesterday. While Sanjay and Mahendra will take you through the presentation later, let me start by sharing my perspectives on the synergistic acquisition of Walter Pack India.

As we had shared earlier, inorganic growth is one of the core strategies, and we believe the same will help us in reinforcing our market leadership in the decorative aesthetics business. Exotech Plastics, engaged in manufacturing of chrome plated and painted plastic parts was our first acquisition in April of 2021. Within 2 years of the acquisition, we have been able to successfully integrate the business which has resulted in doubling of revenues at Exotech, coupled with improvement in EBITDA margins.

After the successful acquisition of Exotech, we have become more confident of acquiring and integrating companies that could take SJS to the next level of growth. Walter Pack India is a subsidiary of Walter Pack Spain, was founded in 2006 and is headquartered in Pune. It's a leader in design and development of high value-added functional decorative parts in India.

Our primary driver of interest in Walter Pack is its complementary and adjacent technologies of IMF, IMD and IME. IMF in Walter Pack's core business. This technique is used to produce high-quality 3-dimensional plastic parts with decorative finishes, which are robust and resilient to abrasion and wear. This technology is complementary to the IML technology that we have at SJS.

IME technology allows us to integrate electronic functionality and even hybridization of electronic components in films. All these are emerging technologies in India with high growth potential and high margin potential in the future.

We have also signed up a 3-year service and technology support agreement with Walter Pack Spain for ongoing exchange of know-how. It will help us in sharing technical know-how, provide us access to new technology upgrades and will ensure Walter Pack customers of technology and quality support in a seamless manner.

Another important driver for this acquisition is cross-selling opportunities, thereby providing strong potential to both acquire new customers as well as increase the share of wallet with existing customers. This acquisition will also help us in diversifying the end industry revenue split as Walter Pack caters primarily to passenger vehicles and consumer electrical segments.

An important aspect of this acquisition is that the Indian promoter and Head of Walter Pack India, Mr. Roy Matthew, will continue to retain a 9.9% equity stake in the business, and that will ensure smooth integration from day one.

Talking of numbers, Walter Pack had an interim revenue of INR1,200 million and healthy EBITDA margins of around 30% with an attractive ROCE of over 50% for FY23. We are acquiring Walter Pack India via bilateral engagement at a reasonable valuation of approximately 7x FY23 EBITDA and will pay a total cash consideration of INR2,393 million for 90.1% stake. The transaction is funded primarily by internal accruals, along with some debt and a preferential investment of INR300 million by me.

We expect Walter Pack acquisition to be EPS accretive in current year itself. Walter Pack would also add scale to SJS given Walter Pack's EBITDA is approximately 1/3 of SJS EBITDA. We are looking forward to close this acquisition in the coming 3 to 4 weeks.

Along with Walter Pack acquisition, we are looking to grow SJS consolidated revenue in FY24 by over 50%. The EBITDA and PAT should grow by a little bit lower by around 40% as we balance higher growth with margins.

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

Sanjay Thapar: Yes. Thank you, Joe, for updating investors on our acquisition. Good morning, everyone. You refer to the presentation that has been uploaded, so I'll start from Slide 4. 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. We operate in the high value-added decorative aesthetics market across multiple consumer-oriented industries.

Talking of Q4 and this financial year gone by, we remain confident of our ability to benefit from premiumization trends in the industry and deliver new technology products to customers across end segments over the medium and long term. Specifically for highlights for this quarter, SJS with a Y-o-Y revenue growth of 3.6% in the automotive segment continues to grow ahead of the automotive industry, which witnessed almost a flat growth, both 2-wheeler and 4-wheeler volumes combined.

Revenues at INR1,065.7 million grew by 2.4% on the back of a 17.2% growth in our PV business. This growth was largely offset by a lower demand in the 2-wheeler and the consumer segment. Consistent delivery of robust margins has led to strong cash flow generation of INR609.5 million for the year for the company and our cash and cash equivalents at the end of this quarter stand at INR1,648.2 million, which we will utilize for funding the Walter Pack acquisition.

We are also happy to inform you that during the quarter, we've added Litemed, as a new customer in the medical devices segment and also entered the TV segment with Samsung in India. On the CSR front, the company supported education and health initiatives for over 1,200 children across 10+ government schools.

So during this quarter, SJS has grown ahead of the industry despite various external challenges like regulatory headwinds in the domestic 2-wheeler segment, impact on exports due to the prolonged geopolitical issues and the macroeconomic segments like inflation, rising crude prices impacting demand recovering consumer appliances.

Just to update you, the government announced implementation of stricter environmental OBD2 norms with effect from 1st of April'23. As a result in Q4, the 2-wheeler industry production volumes were impacted as OEMs wanted to correct the inventory of non-compliant 2 wheelers. In Q4 therefore, the 2-wheeler industry, degrew by 3% Y-o-Y and SJS 2-wheeler sales declined by about 6.3% Y-o-Y due to the implementation of this regulation.

However, as we mentioned earlier, there's a large 2-wheeler OEM we do not supply to amongst our 2-wheeler customers. And if we exclude that OEM's numbers. The rest of the 2-wheeler industry production volumes degrew by 9% Y-o-Y for this quarter, against this, SJS degrowth was at 6.3%.

The company's passenger vehicle growth at 17.2% Y-o-Y exceeded the industry production volumes of 13%. Overall, our automotive 2-wheeler and 4-wheeler business grew by 3.6% Y-o-Y compared to a flat industry performance. Overall, the consolidated revenue for SJS grew at 2.4% Y-o-Y. That was for the quarter.

Coming to the full year for FY23, we delivered a strong performance. SJS 23.1% Y-o-Y growth in the 2-wheeler segment, exceeded the 2-wheeler industry production volumes of 9.2% Y-o-Y growth. Passenger vehicle industry volumes grew by about 25.4%, while SJS passenger vehicle revenue was higher at 27.8%. So we've grown well within our set of PV customers. Though our PV journey is still in nascent stages, but we are winning new businesses and we will continue this growth momentum going forward.

The trajectory for growth in PV segment looks very promising, especially post the Walter Pack acquisition. That is proficient in advance in IMD, IMF and IME technologies, and it earns 2/3 of this revenue through the passenger vehicle segment.

Overall, FY23 automotive performance. 2-wheeler plus 4-wheelers grew at 11.9% Y-o-Y, while SJS had a robust growth of 25.1% on a consolidated basis. So we witnessed a 18.3% Y-o-Y growth. This was achieved despite all challenges that I mentioned above.

Our diversification strategy of various product categories presence across multiple industry segments, and a vast customer base has consistently helped us during the year to minimize the impact of industry slowdown in specific segments.

I'll now move to Slide 8. We would like to share some business highlights with you that will help us achieve our medium-term goals. We consistently focus on building mega customer accounts. 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 Mahindra, Maruti Suzuki, TVS, Royal Enfield, Honda, Uno Minda, Atomberg and Godrej among others. This quarter, we also added new customers like Litemed in Medical Devices segment and won of first order for the Samsung TV segment for supplying a special form of decals. We even won orders from EV OEMs like Altigreen and Hop.

Coming to Slide 9. For the third time in a row, your company has been certified as a Great Place to Work amongst mid-sized organizations in February'23. We are grateful to all our stakeholders, including our employees, who've been instrumental in making SJS a Great Place to Work.

The next 2 slides 10 and 11 top of our ESG framework and our CSR initiative. As a responsible corporate, SJS is committed to the health, safety and environmental concerns while balancing a sustainable growth objectives. In line with this objective, SJS has defined a ESG framework that will support SJS growth in the right direction and a sustainable manner. If anyone would like to understand further details of our ESG initiatives, please reach out to Devanshi, who heads Investor Relations at SJS.

In our commitment to good corporate citizenship, our company is determined to create a positive impact on the society at large with meaningful social welfare activities, especially in the area of education, skill development, health care and sanitation, rural development and environmental protection, which are key focus areas for SJS.

We believe inclusive growth, not just for employees and stakeholders, but also for the community around us. Last quarter, we took a few initiatives with respect to education and health care, distribution of school bags, e-learning kits, furniture to government schools.

Almost 1,200 students benefited from our free eye checkup camps that we conducted and distributed spectacles to close to about 117 children who never knew that they had an impaired vision.

Distribution of computers to police stations, so we do our bit for the society around us. I would now like to hand over the call to Mahendra, our CFO, to update you on the SJS financial performance before I go on to talk about our future growth outlook. Over to you, Mahendra.

Mahendra Naredi: Thank you, Mr. Thapar. Good morning, everyone. Moving to the Slide 12, which talks about our financial performance in detail. I would like to highlight that during Q4, the company showed resilience in difficult time and maintained revenue at INR1,065.7 million, witnessing 2.4% Y-o-Y growth.

A strong performing PV segment of 17.2% was largely offset by a 6.3% decline in 2-wheeler segment and 2.9% decline in the consumer segment. EBITDA at INR271.8 million grew by 1.8% Y-o-Y on a margin of 24.8%, 57bps impact due to product mix change in favor of Exotech and lower export sales. PAT at INR153.9 million was flattish on Y-o-Y basis. Margins at 14.4% was impacted 32 bps on account of lower EBITDA.

Moving to the next slide. For full year basis, we are consistently delivering a robust performance. SJS clocked 18.3% Y-o-Y revenue to INR4,330.5 million boosted by 24.2% Y-o-Y growth in domestic sales. EBITDA grew 23.2% on Y-o-Y basis to INR1,167.8 million, with a margin of 26.4%, an improvement of 75 bps.

PAT grew 28.8% Y-o-Y, INR672.5 million on a margin of 15.5%, 127 bps expansion despite lower export sales and challenging environment. I'm happy to share that all our efforts and initiatives taken post Exotech acquisition are adding growth and momentum to the consolidated business. We have more than doubled our revenue at Exotech just within 2 years of acquisitions. EBITDA margin in FY23 improved to 15.2% from 12.2% in FY21, around 300% or 300 bps improvement in 2 years on back of operational efficiencies.

Overall a commendable performance at by SJS.

Moving to Slide 14. Both 2-wheeler and passenger vehicle share of revenue has increased to 44.8% and 32.5%, while consumer durables witness is declining revenue share to 15.4% due to macro economic headwinds. Rising inflation that lead to subdued demand in Europe and North American markets.

Share of business from our export declined due to adverse impact of geopolitical issues and macroeconomic challenges in many regions. Decline in export also impacted sale of new generation products to a certain extent and hence overall contribution of new generation products to revenue is 9% to 10% for FY23.

However, we are confident that despite near-term challenges, our medium-term growth target for the consumer segment and a strong focus on export remains intact. With the acquisition of WPI, we believe that our share of revenue from passenger vehicle and consumer segment will considerably increase. Growth in this business will lead to a higher revenue contribution of new generation products like IMD, IML and IMF going forward.

Next slide gives you our financial highlights in a snapshot in a tabular format, which we have already discussed in the previous slide. Moving on. As on 31st March 2023, SJS has built a comfortable, consolidated cash and cash equivalent of around INR1,648.2 million, which will be utilized for funding our WPI acquisition and expansion.

We are a debt-free company on a net debt basis, and our long-term borrowing rating from ICRA is A+ (Stable). The Company generated strong free cash flow and for FY23, we have added INR609.5 million. Our free cash flow to EBITDA for FY23 stands at a healthy rate of 52.2%. As on 31st March'23, we have achieved robust ROCE of 33.1% and ROE of 15.7%.

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

Sanjay Thapar: Thank you, Mahendra. Now moving to Slide 17 to 21. Since Joe has already explained to you about the acquisition, I will not spend too much time on that. However, I'd like to mention a few key points on the Slide 20. So with these acquisitions, we've not only acquired a very profitable business at a good valuation, but at the same time, achieve key strategic objectives.

One amongst them was to acquire new technologies. So technology like 2K injection molding, laser decoration, large part in-mold forming to manufacture 3-dimensional IMS parts with complex surface geometries along with in-house tool design capability for IML/ IMD parts, 6 axes milling capabilities, 3D trimming, etcetera. All these are new capabilities that will supplement the vast array of technologies already available at SJS and together, they will help create a formidable advantage for SJS from a global perspective.

The second benefit we have is the technology support agreement that we signed with Walter Pack Spain, who is one of the leaders in the IMF, global leader and the go-to benchmark for in-mold forming technology as a part of this deal, which is a big plus.

We've also added management bandwidth to the company with Roy Matthew, the man behind Walter Pack, India and instrumental for growth of the India business. He will continue with Walter Pack India as a part of this deal. He will continue to hold 9.9% stake in Walter Pack India. This will help and seamless continuity and running of the business for SJS. Roy will report to me and Joe, same as is done by the other business unit heads of SJS.

Roy is a tooling engineer by qualification and is a seasoned professional. He has been associated in developing IMF technology with the Walter Pack's team for almost 15 years now and is a subject matter expert. He has an expertise in handling business development, design and operational functions. His tooling expertise fits in perfectly with the SJS team capability like the missing piece in a jigsaw puzzle and this will complement SJS capabilities.

I now move on to our future growth outlook. We have been on the forefront of leveraging technology for developing premium and aesthetically differentiated products that are complex to manufacture and will enable us to increase our addressable market significantly.

Our R&D teams bring about consistent breakthroughs in product innovation, enabling us to meet evolving customer needs and stay ahead of the curve. For passenger vehicles, I quote some examples here, passenger vehicles, we are working on products like optical plastics, cover glass, IMD parts integrated with IME, illuminated logos among others and this will increase our kit value of passenger vehicles offering by 3 to 4x from the current INR1,200 to INR1,500 per vehicle.

For 2-wheelers, we target to increase the kit value by 2 times from the current INR300 to INR500 by adding futuristic products like cover glass for 2-wheeler instrument cluster with touch functionality an IME moulded part that integrate multiple functions in a moulded decorative substrate, especially for the EVs.

For consumer appliances, our target is to increase the kit value by about 3 to 4x from the current to INR50 to INR150 range that we have currently with the addition of futuristic products like, again, optical glass with HMI functionality for control panels, printed electronics and capacitive touch function. There is an immense opportunity for growth and we are confident of achieving it in the near future.

The Walter Pack acquisition will be force multiplier for SJS as it opens up another window of opportunity for us through their presence in IMD, IML, IMF and IME technologies in the PV and the consumer segment.

Needless to say, we will create many cross-selling opportunities as well like we did at Exotech. SJS has a large consumer appliance customer base and Walter Pack is largely focused on automotive passenger vehicle customers with some consumer electrical business. Technologies such as large in mould forming and decoration will help SJS supply large-sized IMF panel to washing machines as an example. Expertise in 1K and 2K injection moulding and IMD will help us to address the medical devices segment faster.

With this acquisition, SJS will become a significant player in the automotive interior space, decorative interior trims with panels, which are with or without ambient lighting, 2K moulding will help us deliver high-quality IP prints for the dashboard of passenger vehicles for both IC and EV powertrains. This will add almost INR2,000 to INR3,000 in terms of content per vehicle.

Now quickly moving to Slide 26, which talks about our inorganic strategy for the medium term. SJS will continue to deliver on its guidance of robust financial and operational performance. We are very happy to state that despite external challenges, FY23 organic sales growth has been 18.3% for your company with the best-in-class EBITDA margins at 26.4%. The company achieved a PAT growth of 28.8% during the year, thereby achieving our guidance for the year. We are positive that going ahead as well, SJS will maintain its higher revenue growth margin trajectory.

In the near term, there could be some minor challenges as macroeconomic scenario has still not stabilized. It may take a few more months before exports also start recovering. However, our medium-term story remains absolutely intact, with 20% to 25% revenue growth over the next 3 years from FY23-26.

Our strategic growth drivers would be winning new businesses, increasing wallet share with existing customers, adding new customers, penetrating deeper into new geographies and increasing content by adding exciting new premium products to our portfolio. Hence, we believe SJS will continue to outperform the market.

Recovery in the consumer sector and export markets and tailwinds of a resurgent auto industry will add the required fuel to accelerate momentum of our growth trajectory. On the capacity front, at Exotech, it is well on track. Currently, for FY24, the company has created alternate solutions to maintain the growth trajectory till additional capacity becomes operational.

I now come to our inorganic growth strategy. Over the last 2 years, the company has demonstrated its ability to acquire and integrate and grow the Exotech business. As mentioned earlier, we have doubled Exotech revenue post acquisitions in the last 2 years and EBITDA margins have improved by 300 basis points during the same period. This clearly demonstrates our ability to integrate and grow the acquired businesses successfully and our ability to cross-sell products across new and existing customers rapidly. This gave us the confidence that we are on the right path of growing our business through inorganic route.

We believe every acquisition will be a steppingstone for SJS to achieve higher business growth. This time we added a high growth, high-margin business to our portfolio. We will evaluate other acquisition proposals as well in future that we believe would add value to SJS and create value for all our stakeholders.

I now come to Slide 28, highlights for our FY24 outlook. So SJS will continue to outperform the industry despite the continuing macroeconomic headwinds. At the consolidated level, we expect SJS revenue to grow by 50% Y-o-Y on account of the expected positive outlook for the 2-wheeler, passenger vehicle and consumer segments.

So key drivers for this are premiumization plus new customer wins plus exports plus Walter Pack India acquisition will all lead to a higher than industry sales growth for SJS. We have a very high visibility of our current order book being over 85% for the FY24 forecast revenue. Our margin profile will remain as robust as ever for the current business. Addition of Walter Pack and we expect operating leverage to drive consolidated PAT growth of 40% for the year FY24.

With that said, I come to an end of my quarterly update. Thank you for patient hearing, and we're now open to answer questions if any. Thank you.

Moderator: Thank you. First question comes from the line of Pradyumna Choudhary with JM Financial.

Pradyumna Choudhary: So I've recently started tracking the business. So I have a couple of questions regarding the business. First, on the competition, could you help us with who are we competing with in terms of domestically and internationally? And what sort of entry barriers or switching costs we enjoy in this particular industry, especially considering the low content per vehicle that is currently there. And probably also because of lack of criticality of the product, definitely is something which will grow very well. But it's not something which would stop a vehicle from functioning, right? So that's my first question.

And secondly, could you also give an idea regarding the market share in India for us and like in automotive sector. And whether we have more presence in premium segments, maybe in 2-wheeler like would you say that we have majorly present in 125cc segment, any sort of data point on that? -- and IC versus EV also, if you can give?

So these 2 are my questions. And thirdly, regarding your guidance for FY24 you've spoken about 50% growth. So is it right that the organic growth would be less than 10%, considering we are ending FY23 at roughly INR300 crores and we are guiding for INR450 crores for FY24 and INR120 crores out of this already from WPI acquisition. So yes, these three are my questions.

Sanjay Thapar: Yes. Sorry, I think we lost connection in midst of your question and answer session. So I will answer what I heard -- so first question you had was the large competitors that we have in India and overseas. So there is no company in India and overseas actually, which competes with all the product portfolio we have.

However, for specific segments, we do have competition. So for example, for our chrome plating business, we have a company called Polyplastics who is our competitor. For our decal business, we have a company called Classic Stripes, who is a competitor. On the appliques, we have a very strong position in the market. So we are possibly the strongest there. There's only some fringe players who supply.

For the overseas markets, we have companies like Megawagon in Europe, we have ADS in the U.S., and we have Serigraph in the U.S. So these are the competitors that we have. The advantage we have over these customers is that our business is batch mode. We handle a very large complexity, as we deliver our parts in close to about 6,500 SKUs to about 22 countries worldwide.

And the printing process for itself is batch mode, so it's the manufacturing skill that we need to produce these parts is very unique for the business. And that itself is a very high entry barrier. So our USP is that we have this manufacturing capability built over the past 30 years at SJS.

In addition to this, we have low efficiency, and these are very critical factors to win in global markets. You made a point about the criticality of our parts that they are simple. So I would argue that our parts are extremely critical. So while these are not safety parts, but they are very critical to a customer from aesthetics perspective, and this is subjective.

So customers over the years have built in SJS trust capability to deliver high-quality aesthetics parts, which are manufactured in a dust-free plant that we have in India, which is amongst the finest in the world. So, there are large entry barriers both in the process and in terms of our engagement with the customers for the past many years.

I'm sorry, I lost some part of your question because we disconnected. So, if you can just repeat that last point for me, please?

Pradyumna Choudhary: Yes, sure. So the second was regarding the market share that we have in 2-wheeler industry and 4-wheeler industry in India and whether we are present across all the segments and 2 wheelers? Or is it more focused on premium segments, say, 125 cc plus. And whether we are present more in ICE or -- and I know that it doesn't really matter like our product is agnostic to both ICE and EV. But just to get an idea regarding the same.

And third was regarding the guidance for FY24. I'm not sure -- you heard the question or not regarding the guidance-related question where I was basically asking whether we are guiding for less than 10% organic growth, because WPI would itself add Rs 120 crs to the base revenue number. So those were the questions. And 1 counter question on the answer that you just gave. So like I was just trying to understand like technology wise or even approval wise considering costs are quite low of our product. So would OEMs be open to test with other suppliers as well, this is why I was trying to understand in terms of switching cost being low.

Sanjay Thapar: Thank you for your very elaborate questions. So I would suggest there's so many questions rolled into one. So probably for the benefit of other questioners I would like to keep this brief. You are encouraged to come to with a plant to really understand the nuances of this business. But very quickly because there are many complicated questions, actually many questions you had, though not complicated at all. But to answer.

So the 1 question you had was what is going to happen to the outlook for FY24? So here, we have said our revenue will grow by 50%. Our EBITDA will grow up by 40%, and PAT also will grow by about 40%.

The reason is that we are focusing on prioritising growth over margin. So in the short run, we will be acquiring businesses which are long-term value accretive for the company. But the profitability and growth will remain very strong. That is a track record that we've demonstrated at SJS and moving forward.

In terms of organic growth, you said are we going to grow at 10%? No. Organically, our business will grow at 20% to 25%. That business is growing extremely strongly. The other point was that the customer testing for our products is that, and you had a question on market share and customer approval of a part, right?

So our parts are small but very critical visually for selling the products of the OEMs. So customers give a lot of emphasis, and they do not change or switch suppliers very easily. So that's the reason why our relationship with our customers are more than 15 - 20 years and we are supplying to them across geographies and across the world. So that is a very strong position and customers don't like to upset supply chain that is delivering the quality that they want.

I think the other question you had...

Pradyumna Choudhary: Sorry, please go on.

Sanjay Thapar: Sorry, I didn't hear that, please? Could you repeat it?

Pradyumna Choudhary: No, no. Nothing there was some background noise, nothing.

Sanjay Thapar: Yes. Okay. So maybe I think I've answered the question, so maybe we can get some other questions.

Moderator: We move on to our next question, which is from the line of Pritesh Chheda with Lucky Investment Managers.

Pritesh Chheda: So have 2 questions on acquisition and 2 questions on the recent performance. So first on the recent performance if you could also, the way you gave the growth number for 2-wheeler and Passenger cars, it would be very helpful if you could give us what was the performance for consumer durable and exports Y-o-Y in terms of quarter 4 and FY23?

Then my second question on the existing performance is that your stand-alone margins have eroded a lot. That's the SJS margin. Can you tell us what is the reason and what is the floor or maximum extent of the erosion that is possible?

Sanjay Thapar: So Mahendra, could you take this question?

Mahendra Naredi: So if I understood your question perfectly, you're asking the export revenue, for the current year we had INR319 million.

Pritesh Chheda: You can just give the growth or decline whatever it is for quarter 4 and fiscal year.

Mahendra Naredi: Yes. Quarter 4, we have declined by 23.8% on a Y-o-Y basis. And for the full lower by 31.7% on the export.

Pritesh Chheda: Same thing you can give for consumer durable?

Mahendra Naredi: Consumer durables, we are lower on quarter-wise 10.7%. And on Y-o-Y basis, we are down by 37% on a full year basis.

Pritesh Chheda: Okay. My other question was on margins.

Mahendra Naredi: So, margin on SJS, our margin of EBITDA for the current quarter was 24.8% and the last year same period was 25.3%. We have impact of 57bps, and that is mainly this product mix and the export sale impact.

Pritesh Chheda: Sir, my question is specifically on the stand-alone business. If you see the margin erosion is quite significant. Okay. So if you can tell us the reason there.

Mahendra Naredi: You were asking SJS standalone quarter 4 versus quarter 4 on Y-o-Y basis.

Pritesh Chheda: It is the lowest margin, I think that I have seen on, for the last 1, 2, 3, 4, 5, 6, 7 quarters now.

Mahendra Naredi: So that is on account of the lower 2-wheeler sales, lower export sales, wage rate hike in the direct wages of approximately 2% and lower than expected recovery in the 2-wheeler segment led to higher labour hiring which led to increase in the cost. So that are the major reasons. And this quarter, Q4, especially for the 2-wheeler segment there was a special event, that is the regulatory headwinds, which is the OBD2 implementation. And because of that, the 2-wheeler manufacturers have reduced their production volumes. And as you're aware that SJS largely depend on the 2-wheeler segment and the 2-wheeler segment was impacted, hence the margins have been impacted.

Pritesh Chheda: I didn't comprehend this answer. Because mix-wise, your 2-wheeler mix has improved, because we have grown faster than the durables or the exports. Then this margin explanation doesn't match with the mix explanation.

Mahendra Naredi: Maybe we are not listening you very well. Please repeat your question again.

Sanjay Thapar: He wants specific answer for the standalone margins for SJS, he says it is the lowest. So let's talk with data.

Devanshi Dhruva: So, this is basically talking about the product mix change within the 2-wheeler segment because of the regulatory headwinds. There were certain high-margin products within the 2-wheeler segment, although margins are almost similar, but there are certain products which are a little higher margin than the other products. So that has got impacted because of these regulatory headwinds as well as our exports has also got impacted.

So these 2 majorly has led to the margin decline for us, but however, this is in the short run because these two are external factors which were beyond our control. And also in this quarter, we have taken trials of certain new products, which has led to an increase in cost of our raw material consumed also. And this is all in the short run that I could say that the margins have declined.

Sanjay Thapar: Just to supplement that. So we are looking at some strategic businesses for the future. I talked of optical plastics, I talked about touch panels and illuminated parts. So all those products, we've been doing a lot of homework at SJS, so while we have reckoned the cost, whereas there are no sales because it is all pre-order activity that we have done.

Yes. Sorry, we had connectivity issue, could not hear you so well. I don't know whether you got my answer.

Pritesh Chheda: Yes. I could get your answer. I'll just follow it up with the other question is that when do you see the exports and the consumer durable business improving or what is the floor of this business, which has declined significantly?

Sanjay Thapar: No. So this is primarily because of the ongoing war, rise in fuel prices and inflation in Europe and North America, which are large market for us. At the moment, the answer is this is still and watch moment as it could be 2 months, 4 months, we really do not know. But for the consumer businesses, so one big activity that is going to be added with Walter Pack India. We supply to a global company or the domestic volume, and we are in discussions to supply this for exports market as well. So the consumer business what we guided to that 20% to 25% share of our wallet will happen by FY25-26. So we are well in line with that.

Even the export story remains intact, it's only a question that the last 1 year has been tough because of this ongoing war and the challenges in Europe and North America as a region.

Pritesh Chheda: Okay. My 2 questions on Walter Pack. One, what is the market share that they have in the passenger car business that they supply? And what is the net margins of this business. You have given us 30% EBITDA margin. It will be helpful if you can give the net margin. So market share and net margin.

Sanjay Thapar: So virtually, they have 100% market share of what product they supply, they are in a near monopoly situation. They supply trims for some very leading OEMs. We have not completed the transaction as yet, so I cannot give you too much data around that. But trust me, we have done our diligence, they are in a pole position as far as market share goes and the margins are seemingly high. Now 1 important factor to highlight here is that they do in-mould farming that requires films. So at SJS, we have great film printing capability, at Walter Pack we have great injection moulding capability, so I am very optimistic that the margins at Walter Pack will grow.

And clearly, they are in line with the standalone SJS business. So they are close to about 30%, north of 30% in the margin as far as EBITDA is concerned.

I would also encourage you to look at the business holistically. When a customer comes to me for a decorative product, so I have multiple technology to offer them. Now there are some strategic decisions that we take in terms of business acquisition strategy to say what direction we want to map the customer to.

So through our styling solutions, we choose to seamlessly move between SJS and Exotech and Walter Pack, depending on what is the value proposition for a specific model. So that gives me the leeway to negotiate and offer new technologies. So, many times, customers migrate from SJS to Exotech or Exotech to SJS. In long run, I would like the community to think of it as one whole business.

Moderator: Our next question comes from the line of Rakesh Jain with Axis Capital Limited. Please go ahead.

Rakesh Jain: Just 1 question on the standalone business, if you look at the topline, quarter on quarter we have seen a decline. So is there any element of commodity pass through or deflation in commodity prices, which is you have to pass through and that's like adjusting for that, any under recovery or price hike, which is impending earlier which impacted margins?

Sanjay Thapar: So not really. So what I said was that quarter 4 was an unusual quarter because many of the customers had to shut down models to make them OBD2 compliant. And as Devanshi mentioned earlier, there were some high-value parts. So certain models were impacted. So it's a skewed bag, so the right way to look at is year on year basis. So if you look at year-on-year standalone SJS business, so we have grown margins, we have grown revenue, despite the big impact on exports because exports was a large chunk of SJS standalone revenues.

So that being impacted, there has been a consequential impact, but we have more than made good this loss by improving efficiencies, by improving margins and also driving growth in other businesses especially Exotech. So for the full year, our margins have grown by about PAT has grown by about 13.4% and our EBITDA has grown by about 12.2% at standalone SJS.

Rakesh Jain: Got it. So how would you look at it this decline in 2-wheeler sales. I mean is it picking up when we are you seeing it come back to recovery and also what is the situation.

Sanjay Thapar: It's already come back. Sorry to interrupt, Rakesh. So it has already come back. It was an event based on 1st of April, the were regulation that vehicles, which were not OBD2 compliant, that means that they did not have an issue, which you could put the diagnostic probe and check the vehicle emission levels in real time that was a mandate by the government, and these OEMs had to change their model mix. So they cut down, because it would not sell vehicles without this after 1st of April. So now that has past us. So already the industry is back.

So we have very strong revenues growth in April, May. So we see that business will grow. Also, there was an impact at some lower models, the customers wanted to refresh because there's a cost impact on OBD2 implementation. So many customers are launching these new models. Some of them have got launched in the last month and some will continue in the next 1 or 2 months. So we will come back to normal very, very quickly.

Rakesh Jain: That was helpful. So suffice sir, next quarter onwards, your mix will again come back to normalcy and probably margins will look upwards from this quarter?

Sanjay Thapar: Absolutely.

Moderator: Thank you. Our next question comes from the line of Anshul Mittal with Care Portfolio Managers Private Limited. Please go ahead.

Anshul Mittal: My question is with regard to Mr. Joseph. So I wanted to understand the reason for the equity dilution of INR30 crores, considering we have strong cash flow generation and also strong ROCE profile. So what was the Rs 30 crs dilution for?

K.A. Joseph: Sorry, your question was not very clear. Could you repeat once again.

Anshul Mittal: So sir, I wanted to understand the reason behind the fund raise mix on the equity dilution of INR30 crores, considering we have a strong ROCE profile and cash generation. So what was the reason behind it?

Sanjay Thapar: The reason is simple. Joe as a promoter of the company, he believes strongly in the business. So he wanted to increase his stake. So that is the reason of this preferential allotment and that was also, so 1 reason was that we believe in the company and we would like to have a greater stake. The second, of course, is it helped us with our cash flow for the Walter Pack acquisition. So these are the 2 main reasons why Joe increased his stake.

Anshul Mittal: Okay. And sir, considering the growth guidance, which we have given of 50%. So I just wanted to understand the fair break up between organic and inorganic, within inorganic also divided between Exotech, Walter Pack and SJS.

And considering we are not able to see stable growth we are not able to on performance of the company since.

Devanshi Dhruva: Is not very clear.

Anshul Mittal: Yes. So I wanted to understand the breakup between the growth guidance which you have given a 50% between Walter Pack, Exotech on a standalone basis. Also, do we are considering if the macroeconomic environment stays this way for some more time, then is there any plan for the revision, downward revision of this growth guidance which you’ll have provided.

Devanshi Dhruva: No. So the guidance that we have provided is obviously based on considering the current environment. But definitely, in case if the situation gets worse, then probably there could be certain interruptions in between.

But however, we feel that the guidance of 50%+ kind of revenue growth is on a consol basis, including SJS, Exotech and Walter Pack. And for organic, it means SJS and Exotech together now is one company. So that we are saying will be growing at around 20-25% for the next year.

Anshul Mittal: So currently, coming into the season, , have we already started seeing the industry recovery, has it already started looking to improve the situation currently for these last couple of months.

Sanjay Thapar: Yes. So as I answered the previous question, so Q4 was impacted due to 2 wheeler because of this one-off OBD2 norms implemented by the government. So, this has already recovered. So 2-wheeler is now back. We don't expect any big challenge of Q4, that is past us now.

So we are quite optimistic that this growth will continue, and that is what is factored in our estimates.

Anshul Mittal: Okay. And sir, the last question from my end. Can you please provide the...

Moderator: Sorry to interrupt you there could you please join back the queue for further questions.

Anshul Mittal: Last question from my end. I just wanted to understand what is the capacity utilization between Exotech, SJS standalone and WPI currently.

Sanjay Thapar: So Exotech, as I said, we already doubled revenue since we acquired it. So it is running close to about 80% capacity or 90% capacity utilization at the moment. There is some capacity available in the paint shop there, which we will use to drive growth, but that's a matter of detail. At Walter Pack, the current utilization level is close to about 60%.

Devanshi Dhruva: And SJS is also 60% to 65% utilization.

Moderator: Our next question comes from the line of Harshil Shethia with AUM Fund Advisor. Please go ahead.

Sanjay Thapar: Sorry your voice is not clear. You have to repeat your question, please.

Harshil Shethia: How do we define or what size is defined as a major account in the presentation?

Sanjay Thapar: No, we say we are creating mega accounts where we grow our businesses by 2x to 3x over the last 3 years. So that is the pace of growth of business vis a vis the potential of the customer. So that, of course, depends from customer to customer. It's a very wide universe. But there are a few strategic customers that we focus on which give us sales opportunities both in India and overseas markets. So these are strategic customers for us, and we follow these accounts very, very carefully.

And I'm happy to say that we are getting very good response for all these strategic customers that we have.

Moderator: Our next question comes from the line of Lokesh Manik from Vallum Capital. Please go ahead.

Lokesh Manik: Two questions from my end. Both are on actual cost expenses One is pre-2020, we were incurring cost expenses in the form of site labour supervision cost contracts. And secondly, packing expenses. These expenses have ceased to exist post 2020. So just provide some explanation on the nature of these expenses, whether they are fixed or variable? Have they been reclassified into subcontracting charges post 2020?

Mahendra Naredi: Lokesh, if I understood, your question was on the selling side commission amount. So earlier, we had an outsourced commission of business where we are paying the commissions. Later on, we had our own sales team and we brought this in-house. Hence, this expenditure has gone out. I missed your second point. It was subcontracting or something else you asked?

Lokesh Manik: So this was, so actually, that was my second question, which you just answered. My first question was there was an expense item on site labour supervision cost contract.

Sanjay Thapar: So earlier, we had a model, wherein we had multiple warehouses, and we are packaging for the customer in the warehouses. Now due to VA/ VE measures, all the packaging is done at the factory itself and hence, this expense is noy seen separately.

Lokesh Manik: Sir, just for clarification, sir, you had earlier a lot of warehouses and now you've consolidated that. So those expenses are ceased to exist. Is that understanding correct?

Mahendra Naredi: We do have warehouse as of now also, but the working at warehouses has become limited and the packaging has been done in the factory now.

Sanjay Thapar: So there was re-packaging done at warehouses and that was required for based on the customer demand every day. So there's a full network that we have. So now these are packed and sent from the factory itself, so that cost has gone.

Lokesh Manik: Okay. And we have seen subcontracting charges post 2020. So what are these, will it be the same thing or different?

Sanjay Thapar: Subcontracting charges, contractual workers who are working in the factory that is the cost.

Moderator: Our next question comes from the line of Harsh Mulchandani with Kriis PMS. Please go ahead.

Harsh Mulchandani: Just wanted to ask some questions. One, what is the percentage export for Walter Pack, which is And in terms of export, are we seeing any sentiment improving, like, like you said, take maybe 2 months, 4 months or maybe longer? This was my first question, then I will come to my second one.

Sanjay Thapar: Okay. So on a Walter Pack, Walter Pack at the moment does not export. There's a very small business that they export. It's about 3%. So a very small percentage of their current sales. We are looking to cross sell these products to our significant export customers across 22 countries.

The other question that you had was on the timeline of export market recovery. So that is a question to be put to Mr. Putin and Nato I believe. But anyway, let me answer it to the best of my ability.

So we see demand coming back. The shock that was there earlier because of the war has gone away, people have now absorbed it. So sales are being relocated out of plants in Russia to some other countries. Some people have found the innovative solutions that they route supplies through a country like Turkey. So supply chains are re-aligning. So recovery is happening, but it is gradual. So that is the best answer that I have for you at the moment, and we factored this in our sales forecast. So we don't expect dramatic turnaround to happen in exports, and that is what is built in our sales forecast as well.

Harsh Mulchandani: Okay. And second question was after this acquisition is it safe to assume that for the next 1 – 1,5 years, we'll be working on the integration and that's how the plan of action is to work for the next couple of years.

Sanjay Thapar: No, no. So we are very nimble on our feet. Our integration does not take that much time as you said. I explained to you from data on Exotech, we doubled the sales in the 2 years. We expanded EBITDA margin by 300 basis points and integration happened possibly in the first 6 or 7 months of acquisition of that company. So Walter Pack is a mature company.

We have a management team, the reason of getting Roy, who has been with this company since inception as a part of the team is that there is zero loss of transmission and we run the company and take it off running at Walter Pack. So our plan for Walter Pack are extremely bullish. And as soon as we finish this acquisition, we will run very fast.

I don't think there'll be any time by maybe 1 month or 2 for integration. We will be able to run that business very, very quickly, very, very fast.

Harsh Mulchandani: Okay. Got it. And Walter Pack will also grow at 20% - 25% on Topline, is that understanding correct? Because then your guidance of 50% looks little conservative?

Sanjay Thapar: Yes, it will go to 20% - 25% that will be the outlook for Walter Pack India as well.

Harsh Mulchandani: Okay. So then your 50% guidance looks to be a conservative number. Is it to because 30%- 35% growth will come from the consolidated numbers itself?

Devanshi Dhruva: The transaction is not yet closed. So we still need to relook at the numbers and workout our guidance for Walter Pack. The only thing we can say right now is that we definitely expect Walter Pack growth to be a notch higher than consolidated numbers, when you combine SJS and

Exotech. SJS and Exotech, their organic growth together will be around 20% to 25% for next year.

Moderator: Our next question comes from the line of Jyoti Singh with Arihant Capital Markets Ltd. Please go ahead.

Jyoti Singh: As you've explained about the latest acquisition, that is Walter Pack. But I just wanted to get one clarity, on the new segment that we have entered after the Walter Pack acquisition as we already there in the IMD, IML and IME?

Sanjay Thapar: Maybe you'll have to repeat your question, little slowly.

Jyoti Singh: Yes. Yes. So as you guys well explained about the Walter Pack acquisition, but I just wanted to have one clarity the new segments that we have entered after the acquisition of Walter Pack.

Sanjay Thapar: Okay. So fundamentally, what Walter Pack specializes is in in-mould forming. Now what happens is this is that you have a very deep formed surface of the film, which is thermoformed, that is then used as an insert in injection moulding machine and the technology involved here is that you also need to trim it in a 3-dimensional space.

So whatever IML, SJS was doing, this supplements that capability. So SJS IML parts were smaller parts, smaller in size and also the forming depth was very small, only some radiuses of that point. So this is the point that the business between what we have acquired in terms of technology at Walter Pack. So in mould forming is the technology. Joe would you like to add anything further.

K.A. Joseph: Apart from the conventional ones, we also have the electrical segment that we are entering, which is for the switch boards, etcetera, which is a very large segment.

Jyoti Singh: Yes. So sir, my second question on the market share commentary, so if you can explain as to the segment-wise in domestic as well as exports?

Devanshi Dhruva: Yes. So in domestic market, I would say that there has been a significant contribution from the domestic market. For the full year, we have grown by 24%. And for the quarter, we have grown by around 5% to 6%. The major growth contribution has come from passenger vehicle and farm equipment for us, while 2-wheeler segment and consumer goods have seen a little decline of about 4% and 1% for the quarter.

Whereas if you see for the full year, Two-wheeler segments for domestic market has grown by around 27% for us. Passenger vehicle has grown by around 33%. Consumer goods has also grown for us by about 5% and balance is other segments, which has grown for us by about 8% to 9%. So overall, domestic market has grown around 24% for us for the full year.

Jyoti Singh: Okay. And third question on the outlook front. If you can explain me like what are expectations for H1FY24 and other is H2FY24?

Devanshi Dhruva: Overall, the outlook we have given is for the entire year, and we would like to stick to that, that on a consolidated basis, we would be growing by around 50% on our revenue and EBITDA would be growing a little soft at about 40% growth that we can see for an overall consolidated business.

Jyoti Singh: Okay. And as we have acquired new clients in this quarter, so are we any further any discussion with more clients? And also, we will be supplying all Mahindra EV and passenger vehicle segment?

Sanjay Thapar: So we are in an acquiring clients is the ongoing process at SJS. So we continuously work on mining clients and increasing share of business with existing clients. So we are in talks with many people all the time. And as this quarter, we've said, we've added Litemed as a medical device customer. We've had entered into the Samsung TV segment. Plus we won new business with many of our existing customers. So all of this is an ongoing activity quarter-to-quarter, and that's what leads to outperformance by SJS vis-a-vis the industry.

Jyoti Singh: Okay. And sir, are we going to supply all Mahindra EV and passenger vehicle or we are selected for certain product.

Sanjay Thapar: I can't answer this as w don't have a policy to guide on specific customer specific models, but needless to say, we are a very important supplier to Mahindra.

Moderator: Our next question comes from the line of Viraj with SIMPL. Please go ahead.

Viraj: Just a couple of questions. First is on Walter Pack India. If I look at the history when I talk about last 8 - 10 years, financial history, say, from 2014 to 2022, the average margins at the EBITDA level has been around 16%. Rarely, they have even crossed 20% EBITDA margin.

So when we say the entity has done, say, 30% EBITDA margin in FY2023, what has driven that? And why we think is a sustainable margin for that company.

Sanjay Thapar: Two major changes that have happened in Walter Pack is really that they've won a lot of businesses for some new models with new technologies, and they are one of its kind. So they work very closely with Tier 1 suppliers, making the interiors of the car.

And there are some exciting new projects which are already awarded and in advanced stages of production. So we see very strong visibility. So last year, the margins were very good, primarily because of 2 reasons, in terms of margins. So they used to pay a royalty to Walter Pack Spain which will go away and that is coming down quite significantly.

So that is margin growth and the revenue increase is quite dramatic, which is for both customers, both the passenger vehicle OEMs as well as for the consumer electrical business that I said. So there are some new products that are starting, which are growth. So last year was a very strong year for growth for Walter Pack and the next few years also look very promising.

Viraj: What is the royalty they used to pay earlier? And with this now, we have a service and technical fee arrangement. So what is payment, we would have to pay to Walter Pack Spain.

Sanjay Thapar: Yes. So earlier they had a 6% royalty payment on the sales, which has now declined to 3.5%. And after we took over, we will have the payment of absolute amount, which will be lower than say 3.5%. We have added for a 3-year technical support agreement with the company.

Moderator: Ladies and gentlemen, since that was the last question for the day. I would now like to hand the conference over to the management for closing comments.

Devanshi Dhruva: Thank you, everyone, for joining us on this call. And if any participants are in the queue, and I can see that, so we can take the questions offline and you'll can e-mail it to me. Due to time constraints, we will have to close this call. Thank you.

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