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Creating Possibilities

November 14, 2023

To,

National Stock Exchange of India Limited Exchange Plaza, 5th Floor, Plot No. C/1, G Block, Bandra – Kurla Complex, Bandra (E), Mumbai -400 051 **Symbol: SJS**	**BSE Limited** Corporate Relationship Department, 2nd Floor, New Trading Wing, Rotunda Building, P.J. Towers, Dalal Street, Mumbai – 400 001 **Scrip Code: 543387**

ISIN: INE284S01014

Dear Sir/Madam,

Subject: Transcripts of Analysts/Investor Meet/ Earnings Call of the Company pertaining to Q2 of FY 2023-24

Please find enclosed the transcripts of the Analysts/Investor Meet/ Earnings Call of Q2 FY 2023-24 held on November 08, 2023.

You are requested to kindly take the same on record.

Thanking you.
Yours faithfully,
For S.J.S. Enterprises Limited

THABRAZ HUSHAIN WAJID AHMED
Digitally signed by THABRAZ HUSHAIN WAJID AHMED
Date: 2023.11.14 15:16:18 +05'30'

Thabraz Hushain W.
Company Secretary and Compliance Officer
Membership No.: A51119

Encl: As above

SJS Enterprises Limited
Q2 & H1 FY2024 Earnings Conference Call

November 08, 2023

ANALYST:	**MR. RONAK MEHTA – JM FINANCIAL**
MANAGEMENT:	**MR. K.A. JOSEPH – MANAGING DIRECTOR & CO-FOUNDER** **MR. SANJAY THAPAR – CEO & EXECUTIVE DIRECTOR** **MR. MAHENDRA NAREDI – CHIEF FINANCIAL OFFICER** **MS. DEVANSHI DHRUVA – HEAD – INVESTOR RELATIONS**

Moderator: Ladies and gentlemen, good day and welcome to SJS Enterprises' Q2FY24 Earnings Conference Call, hosted by JM Financial. 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 this 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 Mr. Ronak Mehta from JM Financial. Thank you. And over to you, Mr. Mehta.

Ronak Mehta Thanks, Neerav. Good morning, everyone. On behalf of JM Financial Institutional Securities, I welcome you all to 2QFY24 Earnings Call of SJS Enterprises.

From the management team, we have with us today 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.

So as we always do, we will start the call with a brief opening remarks from the management, followed by Q&A session. So with that, over to you, Devanshi. Thank you.

Devanshi Dhruva Thank you, Ronak. Good morning, ladies and gentlemen, and thank you 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 dais to Mr. Joseph, our MD and Co-founder, who will make the opening remarks. Then he will hand it over to Mr. Sanjay Thapar, our CEO and Executive Director, who will take you through some of the slides of our presentation that have been uploaded on the stock exchange as well as on our website.

Sanjay will take you all through the industry view, our business performance; and also give a strategic outlook for the future growth of the company at the end. And Mr. Mahendra Naredi, our CFO, will update you all on our financial highlights, post which we will open it up for Q&A. The duration of this call will be 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 time is not enough, please feel free to reach out to us through e-mail. And I may 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.

KA. Joseph: Yes. Thank you, Devanshi, for the introduction. Hello and good morning, everyone. I trust you would have had a chance to look at our investor presentation and the results published yesterday. While Sanjay and Mahendra will take you'll through the presentation later, I would like to quickly share some updates with you all.

1) This will be our first quarter where Walter Pack India, our recent acquisition, has been consolidated. And hence, all consolidated numbers will be including both Exotech and Walter

Pack, along with SJS financials. Please note that, for the full year, FY24, only 9 months financials of Walter Pack will be consolidated with SJS numbers.

Secondly, in August23, Everstone Capital sold 29.53% of their equity stake in SJS in the secondary market. We would like to take this opportunity to welcome all the new investors who have shown faith and confidence in us and have now become shareholders of our company. After the stake sale transaction, Everstone's equity holding in the company is now 4.63%. Consequently, both their nominee directors, Mr. Vishal Sharma and Kazi Zaman, have stepped down from our Board. However, on the work front, nothing has changed and it is business as usual, with me and Sanjay spearheading it along with our professional management team.

Now coming to Q2FY24 updates. As you all know, Walter Pack acquisition has opened up a plethora of new opportunities for us. This acquisition has enabled us to penetrate deeper in the passenger vehicle and consumer business, thereby further reducing our two-wheeler concentration. As per SJS' Q2FY24 consolidated performance including Walter Pack, 39% of our revenue contribution is from two-wheelers, 33% from passenger vehicles, 28% from consumer and other businesses. Both Exotech and Walter Pack acquisitions have helped us to balance our portfolio well between the automotive, that is two-wheeler and passenger vehicles and consumer businesses.

Since this is the first quarter post acquisition of Walter Pack, hence I believe we may take 2 to 3 quarters to understand the business better and to integrate the systems and processes in line with SJS.

I'm looking forward to seeing how SJS' growth pans out in the future with all the synergies and cross-selling opportunities on back of these acquisitions and new product additions.

With that said, I would like to now hand over to Mr. Sanjay to take you all through some of the businesses and industry highlights for the quarter. Thank you. Over to you, Sanjay.

Sanjay Thapar Yes. Thank you, Joe. Hello and good morning, everyone. Starting with our Q2 highlights. We have yet again outperformed the automotive industry for the 16th consecutive quarter. Auto industry two-wheeler plus passenger vehicle production volumes have degrown by 0.3% in Q2. Our consolidated revenue that is SJS plus Exotech, plus Walter Pack, grew by 39.5% Y-o-Y during this quarter, primarily on back of the Walter Pack addition from Q2 onward this year. Strong 25.2% Y-o-Y growth in the automotive business that is two-wheelers and passenger vehicles combined, as compared to 0.3% Y-o-Y degrowth in the industry, helped us navigate this quarter. Automotive business has grown well for us both in the domestic markets at 25.4% Y-o-Y and exports market at 20.2% Y-o-Y.

Q2FY24, post the completion of our Walter Pack acquisition, our net debt stood at Rs 599.4 million. And our cash and cash equivalents were Rs 238.5 million as of 30th September '23. We added marquee customers like Lear Corporation and also some ODMs like NeoLync and GDN and also Foxconn Technologies who supply to the telecom segment.

Despite muted performance of the auto industry in Q2, SJS has consistently outperformed, and this growth was no different for this quarter. In Q2, the two-wheeler industry production degrew

1.5%, while SJS consolidated two-wheeler sales grew by 8.4% on a Y-o-Y basis. The company witnessed PV growth of 51.3% year-on-year, while the industry production volumes grew by 5.6% during the same period. Automotive two-wheeler and passenger vehicle industry production degrew by 0.3% Y-o-Y, while SJS witnessed a robust growth of 25.2% year-on-year on account of its Walter Pack acquisition and increasing business in the automotive segment.

Overall consolidated SJS sales grew by 39.5% year-on-year, while organic auto growth stood at 6.3%, performing better than the underlying industry. Q2 organic growth was impacted due to flattish performance of the underlying industries. Simultaneously, for the first half of this year, automotive industry two-wheeler and passenger vehicles put together grew by 1% year-on-year, while SJS consolidated automotive revenues grew by 22.2% Y-o-Y; and organic growth of 13.9% Y-o-Y.

We are seeing some improvements in the export market, as it witnessed a growth of 25.6% year-on-year for the quarter. New business wins were partly offset by the slow-paced recovery in certain pockets of exports like Europe and Brazil. Overall for H1FY24, we saw a robust growth of 54.1% in exports to Rs 232 million. Q2FY24 exports constituted roughly 7% of our total consolidated sales. Both Exotech and Walter Pack are primarily domestic businesses. And hence, exports as a percentage of consolidated sales is 7%, while exports is 12% of the SJS standalone sales.

Apart from adding new customers like Lear and ODMs who supply to telecom segment, we continued to expand the share of wallet by winning new businesses from key customers like Mahindra, Stellantis, Foxconn, Maruti Suzuki, Bajaj Auto, John Deere, Geberit, Škoda and many others.

I would like to share one more update with you. I'm delighted to mention that the Screen Printing Association of India and the Federation of European Screen Printers Associations has awarded Joe, a lifetime achievement award in appreciation of the yeoman service rendered in the industry with visionary leadership and extraordinary achievements. Congratulations, Joe.

Lastly, on the CSR front, we've been passionately supporting certain social causes and we are seeing a visible impact. Some of these initiatives are Let's Feed the Needy, a Bangalore-based NGO that provides daily meals to the poor and needy people at orphan centers, roads, railway stations, old age homes, etcetera.

Continuously, we support a paralympic athlete, Mr. Manikandan, for the past six years to compete on global platforms. He recently won a bronze medal at the IFSC Para climbing world championship in Switzerland in August '23, once again making the country proud.

Supporting Kumarappa Institute of Gram Swaraj for the past seven years, we provide free-cost education, books, etc to several children of migrant labourers.

Apart from this, through our garbage cleanup initiative, we've helped improving lives of villages by providing them clean and hygienic environment to live in. Our coverage has been extended to eight more villages this quarter, taking the total count to 20 nearby villages. It is satisfying to note that these initiatives are helping improve lives of thousands of people in a positive manner.

I would now like to hand over the call to Mahendra, our CFO, to update you on the SJS financial performance before I talk about future growth.

Over to you, Mahendra.

Mahendra Naredi: Thank you, Mr. Thapar. Good morning, everyone. Before I talk about our Q2FY24 results, I would like to briefly explain the accounting treatment of Walter Pack acquisition, for everyone's benefit. As communicated, we have acquired 90.1% stake in Walter Pack for Rs 2,393 million. An independent valuer has ascertained net equity value to be INR413 million on acquisition date, which is 1st of July 2023; and intangibles assets to be Rs 853 million, majorly for acquired customer relations, non-compete, etc. And deferred tax liability on intangible assets has been created for INR220 million.

With some of that, the total value of the company has been arrived at INR1,043 million on 100% valuation. After adjustment of 9.9% of minority interest, SJS had acquired assets in total of INR940 million, representing 90.1% stake in the total net asset of Walter Pack India. The remaining amount of Rs 1,445 million, which is acquisition price minus 90% stake into our company valuation, was accounted as goodwill. As per accounting standards 103 and 110, we will consolidate 100% assets in asset side. And 9.9% of minority interest, we'll be showing under the liability side.

On P&L side, the sales and EBITDA will be consolidated. Each line item wise, whereas PAT will be bifurcated into SJS. And the minority, effectively Walter Pack India PAT to the extent of 90.1%, will be added to PAT in consolidate SJS financials. The ascertained intangible assets portion of Rs 853 million will be depreciated and adjusted from the consolidated PAT. We anticipate an impact of approximately Rs 28.9 million pre-tax and Rs 21.5 million post tax on going forward.

These findings have been obtained through an independent valuation company which we have currently relied upon and by our auditor. However, according to standards, a time frame of 12 months is available for validation of all assumptions. And if any change comes, it will be adjusted in the further period.

Now coming back to Q2FY24 financial updates. Referring to Slides 12 and 13 in our earnings presentation shows the quarterly financial in a snapshot. Slides 12 shows the organic business performance of SJS and Exotech and Slide 13 shows the consolidated picture including Walter Pack India.

Moving to Slide 14, 15, which talks about our financial performance in detail. Consolidate revenue for Q2 stood at Rs 1,632 million, a growth of 39.5% Y-o-Y primarily on back of Walter Pack India addition. Organic basis, the revenue growth was 6.3% Y-o-Y basis.

Our adjusted consolidated EBITDA, which is reported EBITDA less by one-time acquisition cost of Rs 21.5 million, stood at Rs 398.7 million, grew 19.4% Y-o-Y on a margin of 24.2%. EBITDA margin in Q2 was largely impacted on account of Walter Pack's India performance where EBITDA margin stood at 12.5% to 13%.

Walter Pack India margins were impacted due to lower automotive revenue during this quarter 2, as one of our largest PV customers was undergoing model upgradation for three of their models. And the existing order volume was tapered down before the launch of new model, which led to the lower auto component sales for Walter Pack India.

Also, Walter Pack India sales for Q2 included a large proportion of tooling sales for these new models, which is at a much lower margin than the regular component sales. However, these models are now launched and we are gaining volume back in the auto business. We expect the sales mix to stabilize in H2FY24.

Excluding Walter Pack, organic adjusted EBITDA that is for SJS and Exotech was Rs 349.2 million on a healthy margin of 27.7%, witnessing a growth of 4.6% Y-o-Y. Again, this EBITDA excludes onetime expense of acquisition cost to the tune of Rs 21.5 million, which we have incurred for Walter Pack.

Adjusted consolidated PAT at rs 208.1 million grew 4.3% Y-o-Y. And PAT margins stand, stood at 12.8%. Adjusted PAT margins have largely been impacted due to lower other income, which was Rs 23.5 million in Q2FY23 and Rs 16.8 million this quarter; higher interest costs to the tune of Rs 11.1 million on account of debt taken to acquire Walter Pack India; higher amortization costs on intangibles, which I called in the before, to the tune of Rs 28.9 million; and lower margin at Walter Pack, due to lower component sales and temporary change in product mix in this quarter.

Organic adjusted PAT growth has been 5.1% to Rs 209.7 million on a healthy margin of 16.9%. Profitability was impacted on account of lower other income, as prior to Walter Pack acquisition, the company had surplus fund and generated an interest income of Rs 25 million to Rs 30 million every quarter; as well as higher amortization costs for intangible, post acquisition, to the tune of Rs 28.9 million.

Our consolidated ROCE during this quarter stand at 17.9%, and return on equity at 13.7%. ROCE was lower due to Walter Pack India acquisition. This will improve gradually over the next one year or two years with better utilization of investment.

As Mr. Thapar mentioned earlier, our cash and cash equivalents were Rs 238.5 million at the end of September '23. Post Walter Pack India acquisition, our net debt has increased to Rs 599.4 million. Of the total debt, Rs 120 million has been repaid during October '23.

We have strong conviction in Walter Pack business and are confident of achieving our growth targets in the medium term on back of stabilization of auto sales mix, various cross-selling opportunities, synergies between all the three business and growing economies of scale.

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

Sanjay Thapar: Yes. Thank you, Mahendra. Considering the underlying industry performance for H1 whereas the automotive industry production volumes are flattish year-on-year, we are confident that we will outperform the industry significantly on the back of our presence in multiple industry segments, our global presence and also the diversified product portfolio and strong customer base.

On Exotech capacity front, we would like to update you all that we've partnered with a chrome plating manufacturer and booked their capacity for Exotech orders. We have started working with them since October '23; and are very closely standardizing, working to standardize processes and quality standards.

We believe this will help us in overcoming any capacity challenges that we have, and Exotech will be able to maintain its growth trajectory for the near term. Simultaneously, our team is working on finalizing the revised capacity expansion plan of Exotech and Walter Pack together that we expect to complete in calendar year 2024 and take it earlier.

As a company, we've always focused on introduction of new premium products and technologies that will help us to increase our addressable market significantly as we aim to be a one-stop solutions provider for all aesthetic products. You all know by now that we are working on this journey of diversification and accelerating our efforts to increase our kit value in two wheelers, passenger vehicles and the consumer businesses, with the addition of new premium products through organic and inorganic routes. We see this increase in kit value playing out with the addition of chrome-plated parts through Exotech, IMD and IML parts, through the recent Walter Pack acquisition.

Just to give you all some more color on this increasing kit value and how it will play out for SJS growth, I will talk about a live example where currently we are supplying several parts directly-indirectly from all these three companies to a leading PV OEM for a specific model. At the start of the year, SJS was supplying only Rs 250 to Rs 300 per vehicle worth of logos to this PV OEM.

However, now SJS standalone supplies Rs 750 to Rs 800/ vehicle worth of aesthetic parts like steering wheel, illuminated logos and appliques. Through Exotech and Walter Pack combined, we supply an additional Rs 1,500 to Rs 1,600 per vehicle worth of products like logos, fully automatic temperature controller parts, deco parts, wheel caps, etc to this OEM.

Hence, the total kit value supplied has increased not just 2x within SJS standalone itself, but overall it has increased to over 7x to 8x already with the cross-selling opportunities that we are playing out in favour of the consolidated SJS. We are excited about this and look forward to seeing how we can execute a similar strategy for other OEM customers as well.

Similarly, we also are in discussions with some OEMs to get approvals for cover glass that will be a complete game changer for us. Apart from that, we are working closely with some OEMs to introduce innovative premium products like IML wheel caps; and complex IML/ IMD parts for consumer companies.

It gives us great satisfaction to see our organic, inorganic strategies playing out well. Our potential content per vehicle for PVs has over the past two years increased by over 4x. And today, we are a mainstream supplier for passenger vehicle segment as well. It is because of the way we plan, strategize and execute ideas ahead of the curve consistently. Trending towards premiumization, we believe we will continue to outperform the industry in the future.

Now we'll talk about the outlook for FY24. At the beginning of the year, we expected the underlying markets to grow by 8% to 10% and had guided to a top line growth of 50% year-on-year for FY24. However, despite the muted performance of the industry in H1FY24, we still expect to deliver annual revenue growth of close to 45% year-on-year on a consolidated basis. And organic growth for FY24 might be closer to 20%.

Accordingly, our PAT growth is likely to be about 30% on a Y-o-Y basis. This 30% growth will be excluding the higher amortization cost of Rs 28.9 million each quarter due to this intangible asset amortization and one-time acquisition cost of Rs 21.5 million accrued during Q2. PAT guidance is lower mainly because of the impact on Walter Pack India profitability in Q2 on account of disruption and slow ramp-up of the models by the customer. And this, we believe, is a one-off event.

Unlike SJS, in the interiors plastic business, model changes happen once in six years or seven years, so we hope that, in the next few quarters, you will see a much improved performance from Walter Pack India. In fact, in the last three months, we've won new businesses at Walter Pack that give us great confidence of a strong order book and top line growth for FY25 at Walter Pack. We are confident that this Walter Pack acquisition will be right fit for SJS and will help us drive both growth and profitability in the long term.

With that said, I come to an end of my quarterly updates. Thank you. And now we are open to answer questions.

Moderator: Thank you very much. The first question is from the line of Pritesh Chheda from Lucky Investment Managers. Please go ahead.

Pritesh Chheda: Sir, just some clarifications on the way numbers played out. So you mentioned about Rs 2.9 crores is per-quarter extra amortization which has now flowed in from quarter 2. Is that correct?

Mahendra Naredi: Yes, absolutely right.

Pritesh Chheda: Okay. Second thing, now on the Walter Pack, I couldn't still comprehend. What is this model change? And what is this sudden impact on the GM of that business, where the last conference call would have happened in the month of August where you will be halfway through your quarter? And nothing was called out at that time. And suddenly, in these numbers, everything is being called out. And you have done the acquisition in quarter 4 of last year at some 30% EBITDA margin, which now you're telling that it will take next four quarters to ramp up, so I am unable to comprehend, what you want to exactly say?

Sanjay Thapar: Yes, Mr. Chheda, let me just correct you. We are not saying it will take four quarters to ramp up. This is a one-off event that we were taken by surprise. Let me explain the situation to you. I will not name the OEM. As Walter Pack was doing robust sales in fact, they are the only suppliers to this company for these category of parts. And they had reported the 30% EBITDA margin for the quarter 1 of the operations. We acquired this company in July.

And there were forecasts by the OEMs that they will launch new models and the SOP for the new model was planned for the month of July. And in fact, they were so keen to do this that we airfreighted in June close to about 11 tons of tooling to expedite and support them with this launch. Unfortunately for Walter Pack and for us, the ramp-up of volume with the OEMs did not take place; and we are not talking about just one model, We are talking about three main models which are supplied or products for these models are supplied by Walter Pack to this customer on an exclusive basis. So, since this customer launch was delayed, volumes were impacted very dramatically in the month of August and September. September, the vehicle volumes at the OEMs stabilized.

And in the month of October, they have come back in a large manner, so recovery is going to be much faster than what you understood. So already, we see that these volumes are coming back. All the launch issues at the OEM are behind them. And we expect these margins to come in very strongly. I will now hand over to Mahendra to explain to you the delta between, how has this impacted the margin at Walter Pack for this quarter. Mahendra, just go through that breakup, please.

Pritesh Chheda: Sir, just before that, I want to ask from what you mentioned. The revenue for Walter Pack is still Rs 35 crores in this quarter. The run rate which was mentioned at the time of acquisition was Rs 130 crores. So Rs 130 crores divided by 4 is still Rs 35 crores for this quarter, Rs 35 crores, Rs 37 crores, whatever is the number...

Sanjay Thapar: It's Rs 39 crores for this quarter.

Pritesh Chheda: Yes, ballpark approximately, right, so there is no deviation versus the run rate. And what you mentioned is incremental. So incrementally there was supposed to be a particular model which was supposed to be ramped up and was supposed to generate that growth. How can there be a sudden erosion then in the base business which you're doing at, whatever, this Rs 130 crores? Yes.

Sanjay Thapar: Let me take a minute to explain. I think it's a very important point. Everybody would be keen to know this. So we are the only suppliers to this OEM for three main models that they make. Now all these three models underwent a generation change. So they have completely changed to a much premium, higher-quality in-mold formed part, so that business is with us.

And tooling for this was developed. This tooling cost was close to about Rs 11 crores, which the company billed in this quarter, so at the overall sales number, the Rs 39 crores sales that you see comprised of almost Rs 10 crores to Rs 11 crores of tooling costs that we have billed. Tooling cost margins are far lower than the component margins that we have. And that has been, that is what we mean when we say that the production mix or the product mix got skewed.

My auto components sales, which is 2/3rd of the sales of this company. So before we acquired Walter Pack, for quarter 1, 2/3rd sales came from auto components sales. And 1/3rd sales came from their consumer business. Now the most profitable business there is the automotive business. The automotive sales, because of these production issues at the OEM in this launch phase in August and September, made the sales volume for automotive products decline to just

1/3rd of the overall sales that this company did in that quarter. So out of that Rs 39 crores, just 1/3rd came from component sales, which is high-profit-margin business for us.

And on the top line, apparently it appears that, because of that Rs 10 crores- Rs 11 crores of tooling sales that was done, the top line doesn't seem to have changed much visibly on the outside, but there's a big difference in terms of margins that we had to our tooling. So this is a new generation, new category of parts. It's a very, very complex part being launched for the first time in India; and the OEM had issues with this. There were some modifications that were done, so the margins on these toolings are negligible. So that put together constituted a significant drop in the margins for Walter Pack for this quarter.

Having said that, in the month of October, sales have come back. So the models are now ramping up. And we are extremely positive in our outlook for Q3 and Q4 at Walter Pack, where we think that this will come back to normal. So this was just a one-off case which took us by surprise. Nobody can anticipate that an OEM will delay a launch by two months. And they had actually taken up model changes for three new cars at the same time, so it was a very challenging time for us, but we come out of it now. I hope that answers your question, Mr. Chheda.

Pritesh Chheda: Yes. Just a follow-up on the outlook that you shared at 30% PAT growth. If it is supposed to adjust by one quarter, that should not have more than Rs 3 crores, Rs 4 crores of EBITDA impact for this quarter, or maybe Rs 4 crores to Rs 5 crores of EBITDA impact. I'm just wondering, why for the full year then the profit growth number that you guys have estimated is 30% now. Because then the only deviation remains -- is the extra amortization number, for which you need to make a clarification as well, why this amortization number suddenly increase within one quarter's time?

Sanjay Thapar: So I'll ask Mahendra to take this and explain to you in detail about the amortization. Just coming back on the guidance for PAT, that why we talk about 30%: So as I said, at the beginning of the year, we expected that the automotive industry, two-wheeler, four-wheeler, would grow at about 8% to 10%. And we had figured in our numbers based with that; and Walter Pack was growing very, very strongly.

In fact, the order intake for Walter Pack have been far higher than what we imagined, so we are going to really deliver great numbers, starting from, by the end of this year, those new parts also should be in production, so the outlook is bright, but the overall industry volume has been muted. So we are just guiding that, for the balance part of the year -- so for the first six months, as we've said, the industry has de-grown.

So there is a very muted growth in the industry against that 7% to 8% that we had imagined. So this is a factor of both: Walter Pack margin is impacted in Q2, one-off event. Certainly we will come back. And the industry growth that we've said, so even our organic growth that we talk of, about 20% to 25%, will be closer to about 20% because of this muted industry growth. So our intrinsic business is extremely strong, healthy. Our margins are normal and sustained. This is only an event which is because of this hiccup, so I hope that clarifies the matter.

Pritesh Chheda: Okay, sir, yes.

Mahendra Naredi: And regarding, addressing your query on the depreciation. This depreciation is on the ascertained intangible which is done by an independent valuer. And that is – majorly belongs to the non-compete with the Walter Pack, Spain plus acquired customer relations in the Walter Pack India. And this amount is intangible and depreciable over a period of time. And that depreciation, Rs 28.9 million, it will continue, from this quarter, for a couple of years.

Moderator: Thank you. Next question is from the line of Shirish Guthe from HDFC Life Insurance. Please go ahead.

Shirish Guthe: Yes. Sir, I just want to understand, just continuing on the same, Walter Pack. So how has the kit value changed between the models, when the model change has happened? If you could explain what has been the change in terms of kit value in the OEM?

Sanjay Thapar: So I will not be able to give you the exact answer, for confidentiality purposes, but the new models are close to about 40% higher, our kit value in the new models is about 40% higher than the old models. So what forecast was given by the customer was their SOP was to be in July for two models, and for the other model, it was end of July.

And this got deferred, so even though the volumes took time to ramp up in the workings that what the Walter Pack team had done prior to what acquisition we did, they did not show a blip because they had assumed that these new models will compensate for the decline in revenue due to phasing out the old models.

So on the overall sales plan per month that was provided to us at the time of this acquisition, I will not blame Walter Pack team as well because it was something that is on account of the customer delay because it was a new model launch. And many other, they had issues in many parts, so they could not launch it on time. And there was a sort of about 2-2.5 months of delay in terms of ramping up the volume for that model which has happened.

And unfortunately for us, it happened in just one month after acquisition, so we have to live with it, but we've examined that. And we see this volume will come back largely in Q3. And Q4, it will be absolutely normal.

Shirish Guthe: Okay. And sir, also the few OEMs who have launched, they have launched the lighting, etcetera. The content is going up that we see -- so -- and like Walter Pack is supposed to be doing that also for them?

Shirish Guthe: Sir, I just want to understand. In the industry, there is a trend of higher interior lightings content, that is going up, especially from an OEM. There are a few new launches that we saw this –there of like some steering wheel, etc. So is that the kind of work, which Walter Pack is doing? Or it's...

Sanjay Thapar: Absolutely. So this is a new generation of cockpit launched for the first time, so this was new for the customer, new for Walter Pack. Walter Pack, Spain was involved in developing these tools. These were developed in Europe. Fundamentally to get light to come through, through a dashboard, as you said, you need what is called a 2k moulding.

The substrate is opaque, but light comes through a part which is transparent, so you basically, in the mold, inject two plastics. one is a transparent plastic, which is the light guide material and the other is the substrate that matches with the other parts of interior. So this is what the product is. And that is with lighting, so yes, the new generation of products will have ambient lighting built into the IMF part.

Shirish Guthe: Sure. And sir, any other ones potentially that you'll see from Q2? Or Q3 should be far smoother side sailing?

Sanjay Thapar: Sorry. I didn't get that question. Any other...

Shirish Guthe: For Q3, are you seeing any other potential issues that might pop up? Or it should be smoother sailing.

Sanjay Thapar: No, we don't see any potential issues. As I said earlier, model changes and especially interior parts, you have very expensive tooling. And the customers don't change as they carry forward to the other models also, so strategically it is a great acquisition of business by us and the Walter Pack team. And this will continue, I think, for the lifetime. It's close to about seven years, so I don't foresee that there will be hiccup or another launch issue because they are not going to change their part for the next six years, seven years. That's what they've guided us, even customer have guided us.

Shirish Guthe: Thank you, sir. Thank you so much. I will come back in the queue. Thank a lot.

Moderator: Thank you. Next question is from the line of Ajox Frederick from Sundaram Mutual Fund. Please go ahead.

Ajox Frederick: Hi, sir. Thanks for the opportunity. Sir, you mentioned that tooling margins are low and therefore the margins were impacted. How much are the tooling margins, sir?

Sanjay Thapar: Unfortunately, I cannot share that with you because there are customers on this call maybe. All I can share with you is that, this is a new-generation tool that was launched. It weighs about 11 tons. And we air-freighted this huge tool, and this was done off site. Most of the tools, because this is a new-generation tool, so it was developed overseas, and so the margins are quite low. And there were some design changes that happened by the OEM. And so there were rectification costs, etc, so that is why what I mentioned is that the margins were very low, because this was a technology that was being implemented for the first time in India, not just by Walter Pack but no OEM in India has this capability or this technology in their vehicles. So it was a first time, a totally outsourced tool, therefore low margin.

Ajox Frederick: Okay, sir, understood. Sir, if I remember, you mentioned that tooling was about Rs 11 crores out of that Rs 39 crores. And remaining is Rs 28 crores, so if I do a math, it's roughly turn out to be 20% sequential decline. And to your point of three models, then it is exactly matching 20% on a sequential basis, those three models which you mentioned. So how much is this customer contributing to Walter Pack? It seems to be about 90% of share of business is coming from this one customer?

Mahendra Naredi: Yes, if I add here: This customer, I mean this auto sales is adding 2/3rd of our total sales, so this turnover almost has gone down to 18%...

Ajox Frederick: If we remove tooling for this quarter, the business coming from this particular OEM...

Sanjay Thapar: Yes. Sorry.

Mahendra Naredi: Continue, please.

Sanjay Thapar: So for the year, just to give you a perspective. So for the year, this customer is close to about 40% of sales of this company, not 90%, Just to give a ballpark idea, okay.

Ajox Frederick: Okay. The OEM is contributing 40% of sales, okay.

Sanjay Thapar: Largely, yes, by and large.

Ajox Frederick: Okay. And you are saying that this kind of scenario happens more like whenever the model is refreshed, not...

Sanjay Thapar: No. It's not just with model refresh. The challenge was that they changed all the three models and they had ramp-up issues not with our part but with other parts there, and ultimately they are our customers and we need to live with it, but it is now behind us. So we see October and November, October recovering. November is good. We see volumes growing in, so therefore, we are saying that these margins will come back. So in Q3, we'll be close to about 80% of what overall we expected in terms of revenues. And by Q4, we will back 100%. That's our expectation.

Ajox Frederick: Okay, sir. That's very reassuring. The second question, sir, is on the amortization. The increase in goodwill I see in the balance sheet is about Rs 144 crores. So that is on the acquisition of Rs 239 crores, sir. Is that the right understanding?

Mahendra Naredi: Yes. That is part of Rs 239 crores of acquisition. And when we acquired, the net tangible book value of the Walter Pack was Rs 42 crores. So the remaining amount is being assessed by an independent valuer who are expert into valuation of these topics. And they came out Rs 85 crores of intangible asset in the form of customer relations and non-compete. And that is going to be depreciate over a period of time.

Ajox Frederick: So Rs 85 crores. Rs 2 crores roughly per quarter, is that the run rate, –sorry Rs 3 crores for the quarter.

Mahendra Naredi: So on depreciation, Rs 2.8 crores. And on the PAT level, Rs 2.1 crores.

Ajox Frederick: Understood, sir. Sir, the third question is on operating cash flows. I see a muted number due to increase in receivables. Is it due to tooling as well for the quarter, for the first half?

Mahendra Naredi: On the operating cash flow, this quarter is something that's confusing to everybody because Walter Pack is going to be added first time. And all working capitals is added first time in working capital, and so you are seeing a decline number. If I remove it, then we have a very good amount, positive number, yes, our receivable has gone up because of the higher sales and higher exports. But this quarter, especially for the Walter Pack, first-time consolidation of balance sheets.

Moderator: Thank you. The next question is from the line of Rajesh Kothari from Alpha Equity Group. Please go ahead. Due to no response, we move on to the next participant. Next question is from the line of Nilesh Taha from Julius Baer India. Please go ahead.

Nilesh Taha: So I actually, wanted to understand a bit about the context in which the Walter Pack acquisition was done. I'm not sure if you have explained this in a prior call but would still like to understand, right? What was the sequence of events that led to the earlier promoter selling that company? And what was the process by which you acquired this? And as a corollary, perhaps you can tell us a bit about the, yes, management team of that company, have they stayed on with you? And if so, at what roles? Thank you, sir.

Sanjay Thapar: Okay. So let me answer that. Yes, we've explained at length in previous calls of the rationale of acquisition of Walter Pack India, so I'll just repeat for your sake. So Walter Pack is going to be leaders in the in-mold formed business. So their main play is in the automotive interior business. They supply to all the Western European OEMs. They are headquartered in Spain and they have expansion also going on, ongoing in Mexico, and they have, of course, this plant in India.

Now we as a company, SJS, we were predominantly a two-wheeler focused company. Close to 70% of our sales in FY19 used to come from two-wheelers. And we wanted to democratize our sales mix and reduce dependent on one customer, one segment, one product line. So the Walter Pack product portfolio was very interesting for us because it gave us access to automotive interiors and the four-wheeler business which we were missing.

So thanks to this acquisition, our share of business for the four-wheeler has increased to close to about 33% now. And the two-wheeler business has come down to 37%, so we have achieved an objective of becoming a mainstream player for the four-wheeler business which we were missing.

Now to give you a larger context. In terms of TAM, the global market for aesthetic parts, 68% comes from four-wheelers. And we were, let's say, a very small player because all that we had to offer for four-wheelers were dials for cars. And recently, two years ago, we acquired chrome plating, plastic painting company Exotech. So that supplies about Rs 1,100-odd parts or Rs 1,100 to Rs 1,500 parts in the content they supply to a four-wheeler.

But with Walter Pack, this value, we've added an incremental Rs 3,000 to Rs 4,000 at an average in a car because of these interior aesthetic parts that Walter Pack does. So these are formed films which are then injection moulded. And you will have a discrete component that adds to the aesthetics of the interior of the car. So that was the rationale for our acquiring it.

And why did Walter Pack Spain sell it? Because of this war in Europe post-COVID, there were challenges both in terms of energy costs and in terms of financing costs rising in Europe. And they were already committed to an expansion in Mexico, so to raise funds, they had no option but to sell the Jewel in their Crown, Walter Pack India. We were keeping close tabs on this company. And that's how we acquired it. So it was a good acquisition, we believe, which is a force multiplier for SJS and lays the ground for us to cross-sell these parts to our range of customers. Walter Pack, for example, does not supply to consumer appliances companies.

Now with this technology we are knocking on the doors of the global consumer appliance companies, which are already long-time customers for SJS, to grow our business and address this huge TAM that has opened up for us. So that briefly is what is the rationale for this acquisition.

Nilesh Taha: If I may ask you a small follow-up, right? So the business that Walter Pack India does, right? So could you talk a bit about the clients that Walter Pack India has, right? And how are those clients managed? And the reason I'm asking that is because I would imagine that, given Walter Pack is a European company, is it where these relationships managed globally?

Sanjay Thapar: So let me just butt in here. So no. So Walter Pack had an employee that they took on in India, a gentleman called Roy Mathew. He has been with this company from day 1. Now for almost 12, 13 years he's been with the company. He was instrumental in managing these relationships and growing the India business that is the purpose Walter Pack took him. So Roy owns stake in the company and he is now part of the SJS team, so he is cashed in about 5% of his equity, 10% of it or 9.9% of his equity is still with the company, so we, along with the company, acquired management bandwidth and ensured continuity by adding Roy Mathew as a part of this team, coming to who are the customers of these companies.

So as I said earlier, Tata Motors is a big customer for this company, and so is Maruti Suzuki. So these are two large customers that we've added to our portfolio, and we are now a major interior supplier to these two companies. In addition to this, they have many other customers, but then I mean, yes. So largely, that is what the answer to your question is.

Moderator: Thank you. Nilesh, I'm sorry to interrupt you. I'll request you to come back for a follow-up question. Thank you. Next question is from the line of Ronak Mehta from JM Financial. Please go ahead.

Ronak Mehta: I just have one question on the capacity utilization for SJS stand-alone, Exotech and Walter Pack. What is the capex plan for this year or next year?

KA. Joseph: Okay, in terms of capacity utilization for SJS, we are in the range of around 65% to 70% as of now, whereas Exotech, we are close to 95%. As you know, that we have almost tripled our sales in the last three years. So that is almost close to 100% utilization of capacity in chrome plating. Of course, we also have some additional capacity for painted parts in Exotech.

And regarding the Walter Pack: So we have had some capital infusion to the extent of close to about Rs 20 crores. And with this new expansion, we would be still around, I think, about 65% to 70% utilization. Yes. 70% utilization.

Ronak Mehta: Okay. So what is the capex plan for FY25, given that you are at about 70% and given the strong order book, you will look to add capacities. So if you can just indicate some capex amounts for next year?

Mahendra Naredi: So Ronak, yes. So on the capex side, we estimate that this year we would be somewhere Rs 40 crores to Rs 50 crores. And out of this, we have acquired one land for Exotech expansion, which I communicated in our earlier calls. Remaining, we now placed more amount for Walter Pack for a big growth we are anticipating. Like Mr. Joseph said, Rs 20 crores, we are placing for Walter Pack acquisition -- Walter Pack expansion. SJS, so this year, we would be somewhere Rs 40 crores - Rs 50 crores.

Now talking about next year, we will be in the same range, but like our plan for expansion for Exotech is going on. And we earlier thought, now since we acquired the Walter Pack, we will make a frugal decision that how can we make a better investment considering the expansion, further expansion, of Walter Pack, so another capex of around Rs 80 crores will come into the next year.

Moderator: Thank you. Next question is from the line of Tushar Khurana, a retail investor. Please go ahead.

Tushar Khurana: I just have one question. You did mention about the cover glass opportunity that you are discussing with the OEMs. Just want to...

Moderator: Tushar, sorry, we are losing your audio.

Tushar Khurana: Yes. So I would request you to please talk more about the cover class opportunity, and how it can help us in increasing case value? Thank you.

Sanjay Thapar: Okay. So as you know, there's a trend towards premiumization. A lot of customers who buy cars do online research before they step into a showroom. And Mahindra & Mahindra was the game changer in this business with the XUV700, where they launched a digital cockpit with a very large cover glass. This was supplied by one of the key customers for SJS. And this customer, we've been working with for the past more than 15 years. And we are today addressing RFQs for this cover glass for multiple models.

So this is an aesthetic part. This is glass which is then printed, which is the forte of SJS. We have more than 35 years of precision printing experience and we have good trust by the customer. And then this requires some special coatings of anti-reflection, anti-glare, anti-fingerprint, depending on the model.

So cars today use more and more of these clusters which are electronic and digital. And all of these require a cover glass which fits on top of the TFT screen that there is. So our scope of supply is the printed cover glass with all these coatings, and these are very high-value parts. So on average, cover glass costs about Rs 4,000 - Rs 5,000 for a product like the XUV700.

For smaller cars or smaller displays, it could be about Rs 1,000 or Rs 1,500, again depending on the size of the display, but I firm believe that, in the next four to five years, more than 50% of the cars in India are likely to have cover glass and the size will tend to be bigger and bigger.

So with this addition, we will increase our TAM. It's a new category of product, and I think SJS is an early mover in this. We've been engaging with customers for more than three years, giving prototypes, marketing ourselves, so this opens up a great opportunity for us in terms of expanding growth at SJS.

Tushar Khurana: And sir, where is this currently sourced from, this cover glass?

Sanjay Thapar: Currently the entire display is imported by these customers. They come out of countries like Japan, but the companies would like to localize in India. People, after COVID, understand the virtues of a supply chain which is close. And especially since we have the credibility to the customer in terms of managing new technology products, they are very keen to develop with us.

So when they localize this in India, instead of buying the complete display as a CBU or a completely built unit, they will do what is called CKD assembly. They will buy parts separately. So the TFT screen could continue to be imported, but the cover glass could be localized. And we will try that it's done with us. And then this assembly is done by the OEM, by the Tier 1 supplier himself at their line.

So one of the key players in this business is Visteon. They've already invested 1.5 years ago in a LOCA bonding line which is to assemble the display in India. So the intention of the customer is clear. And so that is a great opportunity for us to add this to our product portfolio and add close to about Rs 4,000 as average kit price, addition to our kit price of what products we offer to a car.

Tushar Khurana: Okay. And if I may ask one more question, please, if you could update on the Foxconn, where you are going to be supplying the aesthetics which will be going in the two-wheeler EVs?

Sanjay Thapar: Yes. Foxconn, the only, the question, I could not hear so well, so what was it about Foxconn you wanted to know?

Tushar Khurana: So Foxconn will be supplying the aesthetics that goes into the two-wheeler EV vehicles, right. So I just want some update on that front?

Sanjay Thapar: So we supply to them, again, like the car I explained. In the four-wheeler also, there are displays; and companies are now localizing these two-wheelers display also. So in these two-wheeler displays, there is a cover glass that goes on to the two-wheeler display also. So that is what Foxconn is developing with us for one of their customers, and those products are under development as of now. And we've started supplies of some pilot lots. And so this is under production now.

Tushar Khurana: Okay, sir. That’s all from my side. Thank you so much and all the best.

Moderator: As there are no further questions, I will now hand the conference over to the management for closing comments.

Devanshi Dhruva: Thank you, everyone, for joining us on this call. I hope we were able to answer all your questions. If you have any further questions, please feel free to reach out to me. And we'll answer the questions to the best of our abilities. Thank you, everyone.

Moderator: Thank you very much. On behalf of JM Financial, that concludes this conference. Thank you for joining us. You may now disconnect your lines. Thank you.