Suprajit Engineering Limited
Registered Office : #100 & 101, Bommasandra Industrial Area,
Bengaluru - 560 099. Tel: +91-80-43421100 . Fax : +91-80-27833279
E-mail: info@suprajit.com Web: www.suprajit.com
Corporate Identity Number (CIN) : L29199KA1985PLC006934

November 15, 2023
SEL/SEC/ 2023-2024/65

BSE Limited **Department of Corporate Services** **P. J. Towers, 25th Floor, Dalal Street,** **Mumbai- 400 001** **Ref: 532509**	**National Stock Exchange of India Ltd** **Exchange Plaza, C-1, Block-G,** **Bandra Kurla Complex, Bandra (E)** **Mumbai- 400 051** **Ref: SUPRAJIT**

Dear Sirs,

Sub: Investors Q2 FY 24 Earning call Transcript.

Transcript of the Investors Earning call held on Friday, November 10, 2023 is enclosed herewith.

Same is also available on the website of the Company at www.suprajit.com.

Kindly take the aforesaid information on record in compliance of SEBI (Listing Obligations and Disclosure Requirements), Regulations 2015.

This is for your information & record.

Thanking you

Yours faithfully
For Suprajit Engineering Limited

MEDAPPA GOWDA JANTIKAPU

Digitally signed by MEDAPPA GOWDA JANTIKAPU
Date: 2023.11.15 08:53:50 +05'30'

Medappa Gowda J
CFO & Company Secretary

Encl : as above

“Suprajit Engineering Limited Q2 FY24 Earnings Conference Call”

November 10, 2023

MANAGEMENT: **MR. AJITH KUMAR RAI – FOUNDER & CHAIRMAN, SUPRAJIT ENGINEERING LIMITED**
MR. N.S. MOHAN – MANAGING DIRECTOR & GROUP CHIEF EXECUTIVE OFFICER, SUPRAJIT ENGINEERING
MR. AKHILESH RAI – DIRECTOR & CHIEF STRATEGY OFFICER, SUPRAJIT ENGINEERING LIMITED
MR. MEDAPPA GOWDA – CHIEF FINANCIAL OFFICER & COMPANY SECRETARY, SUPRAJIT ENGINEERING LIMITED

MODERATOR: **MR. MUMUKSH MANDLESHA, ANAND RATHI SHARES AND STOCKBROKERS LIMITED**

Moderator: Ladies and gentlemen, good morning and welcome to the Suprajit Engineering Limited Q2 FY24 Earnings Conference Call hosted by Anand Rathi Shares and Stockbrokers.

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 Mr. Mumuksh Mandlesha from Anand Rathi Shares and Stockbrokers. Thank you. and over to you, sir.

Mumuksh Mandlesha: Happy Dhanteras and Diwali Festive. Cheers to the management and participants.

On behalf of Anand Rathi Shares and Stockbrokers, I welcome you all to the Suprajit Engineering Q2 FY24 Conference Call. I thank the management for taking time out for this call.

From the management side, we have Mr. Ajith Kumar Rai – the Founder and Chairman; Mr. N.S. Mohan – M.D. and Group CEO; Mr. Akhilesh Rai – Director and Chief Strategy Officer, and Mr. Medappa Gowda J– CFO and Company Secretary.

Request Ajith, sir to give an introduction review about the results and then we can follow up with the query session. Over to you, sir.

Ajith Kumar Rai: Thank you, Mumuksh. Good morning, everybody and again, Happy Diwali and Dhanteras. Thank you for joining us on our Q2 and First Half Results Con Call.

We will start with some initial remarks from our team and then we'll take on questions. We'll start with Mohan – our M.D. and CEO, followed by Akhilesh Rai and then by Medappa.

So, I first hand it over to Mohan. Go ahead.

N.S. Mohan: Thank you very much. A very good morning and wish you all a Happy and Prosperous Deepavali and Dhanteras.

As usual, what I will do is give you a Market and General Business Update first and then take you through the Individual Units.

In India, as you know, the passenger vehicles segment did well. But importantly for us, the two-wheeler segment is still struggling. And very specifically, the entry level and the commuter segment is still not yet out of roads. Potentially, the failure of the monsoon could have had this effect. But however, even in October, it hasn't been great, and this was probably due to the short period and I really feel that the festive season will kick in some amount of good news. November shows some potential and we are seeing OEMs are picking up a lot in the market.

Now, moving away from India market and into the global markets, some of you would have noticed that in the previous call, I wasn't there, I was in US and Europe for about two months, and in fact, I met quite many customers apart from visiting our plants there.

Let me start with the US market and again within that, let me split it into automotive and non-automotive market. Automotive was hit by the UAW strike and again thankfully it's behind us now. But having said that, I think it did leave a scar on our business.

The non-automotive segment has taken a very severe hit due to a combination of reasons. The housing market, high inflation, high interest rates have had this impact specifically on discretionary spendings like lawn mowers and passports vehicles. Severe summer conditions did not aid either and it did not foster the sale in these segments. I expect this effect will be a bit prolonged in the non-automotive segment in the USA.

Moving on to Europe, Europe is still yet to recover and settle down the post Ukraine war scenario and the further stability in this region hasn't helped either. However, we continue to win business in the European region, and I think it's great news for our business at SEL and SEU.

In China, one specific customer who is into non-automotive got hit due to restriction in sales to Russia and that has impacted us along with the relocation that we are right now in the midst of.

So, having said this general update, let me move into specific divisions and I will start with our Suprajit Controls Division, which is basically all our operations outside of India, except for of course Luxlite. Our turnaround at SCD is taking more time and it is facing some headwinds primarily due to the economic conditions like customs tariff, wage increases, interest rates and so on and so forth. However, our restructuring and assimilation exercise has been on schedule and the Max teams which we had initiated across all the territories are coming together and bringing in synergies.

Specifically talking about Lone Star, China, we got a new plant head and Shanghai Lone Star is facing this relocation as I mentioned, causing some significant one-time and double expenses like rentals and it is also a double whammy with slowdown in the non-automotive business there. At Siofok, that is Hungary, we have identified parts which have been stressed on profit, and we have started bringing it to India as it still makes overall good business sense for us.

As mentioned earlier, we continue to clock new business in SEU. And our concept of the front end in Europe with a back-end operation in India is getting accepted well. I think it's a very good news. In fact, I was in front of a couple of customers, and I think it is really gaining traction. I think the track record that we have had helped us to locate these low margin products out of Europe into SAL while we still continue to look for high value adds at Europe.

In the US, we successfully completed the transition of a third-party warehouse; it is called the PMI warehouse to our own existing warehouse at Brownsville. So, it brings in a lot of economic synergies there.

We are also in the process of moving a lot of plastic injection molds from a third-party vendor who used to supply to Wescon and bring this in-house at our Matamoros plant and this obviously will improve the economics.

So, moving on to the Phoenix Lamps Division or the PLD, we grew business despite the continued LED penetration, and very importantly, the margins improved and went into double digit levels. I'm glad to say that these efforts both at the plant level and also at the business development level have yielded this kind of results in improved profitability. You may recollect that the EBITDA had dropped, and we had put together a plan to get to the double-digit level.

Division restructuring continues at Luxlite and Trifa, and Trifa liquidation is expected to be concluded by Q4.

Moving on to the Domestic Cables Division, we continue to retain our strengths in the form of our DCD. EBITDA remains stable. Our focus is clearly to go beyond cables and beyond two wheelers and these efforts continue.

With this I complete an update on the controls division, cables division and lamps division and I would like to hand this over to Akhilesh to talk about the other areas. Over to you, Akhilesh.

Akhilesh Rai: Thank you, Mohan. So, I'll start with the electronics division, as you know is an organically launched division that was only launched this year. I'm happy to say that it has made good progress and clock very good growth. The team at the plant has been literally 24/7 to manage the kind of growth we've had there. You can see in our disclosure that Q2 over Q1 was almost 150% growth in sales.

We're also happy that the division turned EBITDA positive in Q2 with just one year of operations, and as you can imagine, pretty high fixed costs.

The division started deliveries of actuators for two of the large EV two-wheeler customers and I would say that the digital cluster business is only starting to ramp up. So, you will see a lot more good strong business in the coming year and in the short term.

I'll move on to the Tech Center. This is of course one of the key parts of Suprajit and one of the reasons we were able to launch the electronics division. The tech center continues to change how Suprajit is accepted in our customers' eyes as a supplier beyond cables. We're in discussions on multiple products in the late stage of a lot of the evaluations to start productionizing products across different area. There's been a lot of interest shown by our customers in actuator systems, braking systems and of course the digital clusters that I've already discussed about.

Regarding the coming quarter and the balance year, we see the challenges that SCD continuing, mainly because of the global challenges already explained. However, DCD and Phoenix Lighting Division (PLD) will continue to perform well. The SED growth will continue. As you see today, we continue to see this as one of the strong performers within Suprajit. And we're actively pursuing multiple infrastructural assets to house us beyond cable projects, which a lot of our customers have shown great interest in.

The group is working on one ERP and one PLM initiatives to bring all of us under single ERP and PLM system. This will help us collaborate and find much better synergies across the group. We finalized the licenses with both SAP and PTC in the previous quarter.

The domestic business for Q3 has been strong so far, leading to some optimism and expectation for a good second half of the year. But, overall business will continue to be strong and we have clear long-term visibility on good growth.

With that, I'll hand it over to Medappa.

Medappa Gowda: Thank you, Akhilesh. Good morning, everyone.

We announced the Financial Results for the Half Year Ended 30th September 2023. The consolidated revenue for the half year ended 30th September 2023 was 1,389 crores as against 1,361 crores for the corresponding period previous year, a growth of 2%. The consolidated operational EBITDA for the half year ended September 2023 was 144 crores as against 136 crores for the corresponding previous year, recording a growth of 6%.

The standalone revenue for the half year ended September 2023 was 719 crores as against 723 crores for the previous year. The standalone operational EBITDA for the half year ended September 2023 was 125 crores as against 118 crores the previous year, recording a growth of 6%. The total debt level was 629 crores as on 30th September 2023. The cash surplus balance was 517 crores as on 30th September 2023 invested in mutual funds and bonds.

For any further queries, you may approach again directly even after this call. Thank you, all.

Moderator: Ladies and gentlemen, we will now begin with the question-and-answer session. The first question is from the line of Abhishek from Dolat Capital. Please go ahead.

Abhishek: So, how is the outlook for the second half in the domestic cable business? Second is what is the progress on the export cable business that is for the four-wheeler side if you can throw some light over there.

Ajith Kumar Rai: As for the domestic cable business, it will obviously relate to how the domestic industry will do. October, as Mohan has said, has not been greatly exciting, but November, I see that sales seem to be picking up. So, I would think that the October sales for us have been actually much ahead of the industry growth as far as I see for the month, but that is not really an indication. But I do believe that the second half will show some decent growth because historically also this is the time of maximum sales during the third quarter and generally Q4 is stronger. So, I would expect H2 to be probably slightly better than H1. In terms of four-wheeler exports, I think from SEL, the growth has been very good, the dispatch from our Suprajit automotive has been strong, the order wins have been strong, but what has happened is that the existing volumes have come down with the customers like all our big customers have sort of reduced offtakes and there has been certain postponement of the new launches. Although orders have been won, the launch dates got postponed by three months, six months, some of them have even pushed by almost a year because of all the uncertainties across the world.

So, it's the issue of timing, I think. Having said that, I think SEL had a strong growth in exports of cables.

Abhishek: The second question is in the non-automotive segment, Wescon and IDC are showing weakness. So, most probably when can we expect the revival in the volume as well as bottom line both? What kind of the CAPEX you are looking for in these businesses?

Ajith Kumar Rai: Non-automotive bottom line will depend upon the top line. The way we see it currently is that this year and next quarter we won't see any much change. This is the feedback that we get. I think Mohan, as he said been visiting a lot of customers. The customer feedback is that let's say a lawn mower simple thing. If it's too hot, there is no grass to mow. So, people probably postpone the decision of buying a lawn mower from this year to next year. Similarly, with all the global warming, if the snow season is weak, people don't buy, they postpone for another year. So, I think the postponement is typically a year in the business that we are in. So, if they do not buy this year, hopefully they will buy next year. So certainly, for the next two couple of quarters, we don't see much change and it will affect Wescon, it will affect part of our erstwhile LDC division and also exports out of Bangalore from our Unit-9. So, this I would say at least from what I see it is at least two quarter phenomena, if not more.

Abhishek: So, the 4rh Quarter is always very much strong for the Wescon. So, -

Ajith Kumar Rai: I agree with you. Typically, yes. Another reasoning is that people buy these things also under EMIs, etc., right. So, with the interest rate in US today mortgage rates I'm just giving an example of 7% and 8%, if somebody can afford to pay a mortgage, they will postpone everything else later on. These are all discretionary items. So, that is what is happening. So, I think this high interest rate is another reason where some of these purchasing powers have come down and there is going to be delay. It is not lost business, but I think it's a postponed decision as I see it.

Moderator: The next question is on the line of Viraj from SIMPL. Please go ahead.

Viraj: Just a couple of questions. First is on the Suprajit controls division. If you look at the overall sales which we did last year around 1,300 to 1,400 crores, so business largely has -

Ajith Kumar Rai: Sorry, sorry I didn't get that number. What are you saying?

Viraj: So, if you look at the overall sales, which we did of the entity last year around 1,300 to 1,400 crores, the business largely has three parts; one is the automotive export, which happens to SEL and then you have the SENA which is non-automotive part and then the erstwhile LDC. Can you just give some more detail perspective in terms of how the customer and the segment concentration is in each of these businesses? So just to give a perspective in Wescon, when we acquired it had a very high concentration in one or two sub-segments within the agri, of highway segment, but fast forward 2023 how has that changed in the overall business mix? And based on the order wins which you have, how that is supposed to change over the next two to three years? So, any perspective if you can give on customer and segment concentration in each of these businesses.

Ajith Kumar Rai: Let me make general comments on all the three subdivisions within that I would say. The SAL and Suprajit Europe business is pretty strong. That model of front ending from Europe and to some extent from US and manufacturing out of India has been really hitting the sweet spots with the customers. So, we have been winning significant new contracts at very good margins. So, that part of the business is doing strong. Now, SENA is the one I would say is most affected at this moment because there's purely non-automotive business. The reason why of course the Suprajit Controls Division has not grown is largely because of SENA, because there has been a degrowth at Wescon, there has been a degrowth at Unit-9, where we are manufacturing non-automotive cables because of the reason that we have said it's in the power sport vehicles, it is in the outdoor power equipment, all those are discretionary purchases. That is where the significant degrowth is there, which is why overall, although actually LDC, if you put separately, they had some decent growth, but when you're putting them together, I think the overall growth has been very marginal or flat. So that is in the individual basis.

Viraj: When it comes to, say, LDC or even the Suprajit automotive, in terms of customer concentration, how would that pan out? I mean you talked about the top three, US -

Ajith Kumar Rai: One thing good about is, they're all complementary customers. The LDC purchases didn't, except in one or two pockets there has been now overlapping of customers. I think there has not been an issue. The big customers today are still I would say the top customers for us is BMW, Volkswagen, John Deere, a couple of these North Americans, of course through tier 1, tier 2 and directly Detroit customers. I think they are the big let's say top five… and of course, Tesla is also a big customer. So, these are, I would say, the top five customers in that.

Viraj: In terms of the second half, if we see ex of the non-automotive business, I understand there was some impact in October because of the strike in US, but I mean adjusting for that, do we see any further deceleration in the overall sales or the new?

Ajith Kumar Rai: I think Q3 will have some impact because what has happened is that October has been badly affected because of this UAW strike and the restarting has also been happening little slowly. We have lost almost like seven weeks or maybe even eight weeks. So, to that extent, certainly, there will be an impact in Q3. And Wescon also will be weak in Q3 as well if, Q3 is typically not a great month for Wescon in any case historically also. So, that gets further accelerated, but then I would say that probably Q2, Q3 are the tough quarters for us. I should see some change hopefully in Q4 unless market itself decelerated for whatever reason in Q4.

Viraj: Just two more questions. One is again on the Suprajit Controls Division margin. We did like something like 3%. EBITDA margin, and if I look at the subsidiary level, you know adjusting the consol from standalone, we have been having losses of around 17 to 20 crores for the last two quarters. So, again looking at the business construct, you had SENA which is always on double digit, Suprajit automotive earning 16 to 20, LDC also, in the last few quarters, the trend has moved towards mid-single digit and above. So, this drop in EBITDA is given by what -- I mean if you can give some perspective the quantum of one-off expenses which we incurred in H1 or Q2 to kind of help us understand the two business models?

Ajith Kumar Rai: Agree. I think there are both factors. I think first of all, the deceleration in non-automotive is certainly a major part why the margins have been affected. It is affected more significantly in Wescon, but it has also been equally strong in LDC, of course. I'll come to that consolidated number little while. LDC also has got nearly 30% of the business was in non-automotive. That has also taken a hit and Wescon has taken a hit. I think there's the two places where significant margin erosion has happened, which is that number what you mentioned has actually happened. But let me also make a general comment. Now, I think slowly we are losing this SENA, LDC, SAL, SEU color because the way we have started working now, …I'll give you a few examples as well, it is working as a single division, not as separate entities. We are not looking at now what is the margin at SENA or what is the margin at LDC, we are looking at what is the margin at the controls division and what is the margin for the group. For example, PMI warehouse, what Mohan mentioned was for Suprajit Automotive. Now what we have done is that there is an additional expense to run a separate third-party thing. So, in Brownsville we had an LDC warehouse, so we moved everything into LDC warehouse. So, in the process as a as a group, we are getting additional margin because we are not going to pay to a third-party, I'm just giving one example. Another example is we have been underutilizing, LDCs plastic molding capacities. So, Wescon was buying lot of plastic parts. So, lot of those vendors have been moved out and those multiple components probably 100 parts have been slowly but steadily being moved to LDC. We had a problem with Hungary. I'm giving a few examples with one big business where they had a negative margin. Just recently it has been started moving to our SEL where we still are making some margin. So, as a group we will have better synergy. So, this Suprajit Controls Division will become a single entity by itself, and it will not have pieces of LDC and SENA in the next year or so. Because we are working out the total synergies together and in the process there are some expenses, for example, PMI, we have to pay them one year or whatever rental because it has been committed, but we are forced to move, so that is a one-time expenditure, we are doing it. I mean China movement, we are paying two rentals till whatever time because we are forced to move, but we still have to pay rental to the previous landlord. These are all not small costs. For example, in Luxlite or of course it's unrelated to this part of the business. There are expenses which is running for shutting it down. Multiple such events are happening. One of the reasons why also, for example, some extent controls division, margins come down is a simple thing on a customs duty, we were asked to pay a much higher customer duty thinking that the component itself is from China. Of course, we have now filed an appeal and we are confident of winning. But till such time we win it, we have to pay the custom duty, so it hits the P&L. I mean these are the things that kept happening in this quarter. That's why we have seen some changes.

But I think given another couple of quarters, all these things will settle down, I am pretty sure things should be much better than what it is today.

Viraj: Is it possible to quantify the impact in H1 because of these additional expenses and restructuring and I'm sure there will be furthermore restructuring expenses?

Ajith Kumar Rai: I'm sure there's an internal data on what it is, but we have not really been sharing it to the outside world, but I think till end of this year, there will be this ongoing restructuring cost, but I think that's when it will all probably taper off.

Viraj: In the interim, do we see any need for infusion or any lending support to the subsidiaries?

Ajith Kumar Rai: Not really. We are fairly well funded. I think we also have good banking limits. So, if they need a few million here and there, we'll always support. But I think it should be okay.

Moderator: The next question is from the line of Amit Hiranandani from SMIFS LTD. Please go ahead.

Amit Hiranandani: My first question is basically how much CAPEX we are planning to do in FY24 and FY25 and where are we going to spend this amount?

N.S. Mohan: Like we had already told last time, we are working with the budget of about 140 crores for this year and the 6+6 that I was looking at very recently indicates that we should be well within that ballpark for 140 crores. There would be some reshuffling in investments in what we had originally perceived to what we are going to do, but these are minor changes, not nothing great.

Amit Hiranandani: Can we assume this similar amount in FY25 as well?

N.S. Mohan: Ballpark, yes.

Ajith Kumar Rai: Actually, just to clarify, I think what Mohan said is that's actually part of it gets spilled over to next year also, this is an ongoing CAPEX, So, we will again be reviewing next year and will be coming out as to what will be required for '24 '25 and onwards, I think.

Amit Hiranandani: Second is basically, continuing with the previous participant question on the one-off expenses, so any broad number can you throw what was the one-off in H1 and how much more one-off expected in H2 because of China plant relocation and refine at the restructuring exercises?

Ajith Kumar Rai: I think I don't have that number with me. Maybe you can connect with Medappa later on.

Amit Hiranandani: Second question is basically wanted to understand the reason for PLDs margin improvement and how much of this is sustainable?

Ajith Kumar Rai: That's an interesting question. I think quite a few were quite concerned about the PLD division itself. A couple of years ago or I don't know, maybe three years ago, it was a hot subject with

LED penetration what's going to happen to the division. And we have kept on saying giving couple of years' time we should be getting back to double digit, and we made a clear plan of restructuring the entire division and we have gone through that and not completed, there's another couple of quarters or till by March end, the tail of the restructuring is being done now. So, if you look at the last three, four quarters average, we are in double digit. This is what we have said, when we are in a low single digit EBITDA, everybody questioned our ability to grow the business or our ability to go to double digit. And I think that is the wonderful team work that we have been able to do by our Phoenix Lamps Division and it is now not only growing in a shrinking market, but also the margin improvement. As I have said earlier a couple of years ago itself, the double digit was the target and we have reached it on a fairly consistent basis considering three months average or three-quarter average and we expect that to continue going forward. And we are also expecting that business will be stable and probably will also grow because of the global requirement. It's the last man standing position and I think that will continue. Just to answer some of the questions that were raised earlier, I think Suprajit Controls Division also eventually will be a story like that. I think we are confident that the business that we know that the business we know customer wants, there are very, very few players who have got global reach, global manufacturing footprint, global engineering footprint. I can only talk about two, one other than us having such a reach. So, in this business of high competitive thing, those who have strong market presence, geographical presence and of course the financial strength are the one who will sustain this race. I think the same story will pan out for controls division as well.

Moderator: The next question is from the line of Kashyap Javeri from Emkay Investment Managers. Please go ahead.

Kashyap Javeri: Question number one is on margins. You mentioned about looking at now that Suprajit Controls Division is now one unit. But if I look within that, our margins on exports from India seem to be expanding quite well. But the contribution of that piece in the total business within SCD is still much lower than what Wescon plus LDC contributes. What you're mentioning about double-digit margins, how many probably quarters or years that's still away from here? And within that, in the export division from India, margins have seen a fairly sustained expansion. So, what's driving that? The second question is to Akhilesh in terms of Suprajit Electronics Division. What's the order book at this point of time, and what is the execution timeline?

Ajith Kumar Rai: Akhilesh, do you want to talk about electronics division generally the business and the execution times and ramp-up times?

Akhilesh Rai: We have done a one-time disclosure of the order book last quarter. You can refer that order book. I think there's not been anything that's changed in that because those businesses are now going into production. What's interesting to see is that there were a lot of good businesses that got productionized even earlier than expected, for example, some of the two or three clusters businesses that were going into production have been delayed and are going to start in this quarter. I think we've been executing on that order book. With the kind of growth that we have, our complete focus is currently on execution rather than building the order book even further. We'll see great growth this year.

Kashyap Javeri: Sorry, just one clarification. These 150 crores which was mentioned in the last quarter, these are annualized order or this is total order book?

Ajith Kumar Rai: I didn't understand what the question was.

Kashyap Javeri: So, these 150 crores which was disclosed in the previous quarter, is the annual business or this is total business which is executable?

Ajith Kumar Rai: No. It is the business as one when it goes into full production, its annualized value was that, not the lifetime order.

Kashyap Javeri: On the margin side?

Ajith Kumar Rai: On the margin side, I think you're right. I think currently the Suprajit Automotive margins are quite healthy and strong and that is the model of Suprajit Europe front ending and Suprajit Automotive manufacturing. In fact, I can say that the maximum traction or a significant large traction of our future business is in that part of the business which is growing quite well. Having said that, the other businesses are also being one, whether it is for Matamoros, whether it is for Wescon or whether it is for Hungary, they are also one. But in terms of concentration, I think this part of the business is getting the largest concentration.

Kashyap Javeri: Just one clarification on that. As you know this division functions as one and probably there are services which can be rendered from India to let's say LDC and Wescon put together, the shift in revenue can be seen within SEL division from overseas ops to Indian ops?

Ajith Kumar Rai: Yes, I think I just mentioned. One of the businesses out of Hungary, we just started manufacturing out of India because there was no margin considering obviously Hungary employee cost and operational costs are much higher. The problem with all this movement is that customer approval takes a long time, and the customer also wants a piece of the pie if you want to move to a lower cost region as you know. So, the first large business has been moved actually and I think that is the kind of stuff we are talking about in terms of the restructuring when we said. I think that is very much part of that.

Akhilesh Rai: Look, I mean what we've seen is that till now we've had a lot of good exposure in the Europe market. Now, with the SED team being one of the leaders in the US market, we've got great exposure in the US as well. So, some of the biggest contracts now that we're seeing are all either US-based cable businesses coming to India or even actuator businesses that are now being seen that we can be one of the first few actuator knowledge and capability who can do it out of India. So, these are the kind of two big drivers that we will see in the next few years. I think definitely in the next couple of quarters we should have good updates on all these kind of business lines as well.

Ajith Kumar Rai: Added to that. I think what we are also doing is a… general point, the part of restructuring is also that lot of back end work we started doing out of India. The engineering work, for example, or the design work for example, simple engineering work to actual design work, Indian engineers are as good as any in the world. A few of the engineers who are working and doing let's say CAD work or a design work out of US, they are now becoming a front end for us to customer interactions and the back end is entirely done by our team whether it's in FTC or our SEL engineering teams are working with them. So, there's a lot of internal synergy what I would say tapping happening, but they're all not in immediate term, but this is a journey given few quarters I think we will see all these effects falling into the operational margins.

Kashyap Javeri: But just one thing as this transition happens, can we reduce the cost in terms of fixed cost in the ex-Indian ops within Suprajit Controls, do we have a plan and is it easy to reduce the cost over there because more business will shift to probably SAL?

Ajith Kumar Rai: I think it all depends how fast and how soon that happens. There would be some fixed cost reduction possible in terms of people, but infrastructure will continue to have these places because customer still wants onshoring. I think there is still a concern on offshoring.

Akhilesh Rai: We should also get a lot of synergies from this one PLM and ERP plan, right? Then we will be able to do a lot more back-ended work in India where right now ERP systems are based and supported out of these global operations.

Moderator: The next question is from the line of Aashin Modi from Equirus. Please go ahead.

Aashin Modi: Sir, my first question is related to the products at the Suprajit Technical Center. So, we have said that we've got a few orders from the instrument cluster side. So, could you please help us understand whether those would be LCD or those would be TFT and what sort of a product are we supplying over there? Also, we are saying of supplying few actuators and bringing electromagnetic actuator to India. Where we are supplying that and what is the scope over there?

Ajith Kumar Rai: We cannot talk about specific customer, but Akhilesh can answer both the questions.

Akhilesh Rai: So, right now in India, generally there's not many two wheelers going with LCD and TFT clusters. So, we have one currently running business in the TFT cluster side and a couple that are in the pipeline. The rest of the business is more on the LCD and various types of let's say lower end clusters just below the TFT, so, both LCD and what we call semi-digital cluster. In the actuator space, again, one of the big reasons we won this business is because of showing the experience we had in LDC of actuators and that's why we won the business in India even though we had no past actuator experience and we won business in seating actuators, in steering lock actuators, in charging gun actuators, all for two wheelers, and we're also now working with a few passenger vehicle customers for some of their new models for seating type actuators just like we have in LDC.

Aashin Modi: This penetration of actuators would be pretty less in the country, right?

Ajith Kumar Rai: Can you speak a little louder?

Aashin Modi: I am saying the penetration of this actuator within the two-wheeler and passenger car segment should be quite lower in the country or are we gaining market share?

Akhilesh Rai: I would say that the actuators are a much higher price replacement of a cable-based mechanism that we were already doing like a seat lock actuator was done with the cable and a lever and now it's with an actuator. There's not much penetration right now in terms of the total number of customers using actuators for this because it's a higher cost replacement. There are not many customers using it. So, I think within that we have a good market share because I think we're basically with one of the leading OEMs in terms of technology and also in terms of volume for these kind of actuators. So, I would say in the two-wheeler space, we'd probably be having a good leading kind of status in the market right now for actuators.

Moderator: We'll move on to the next question, that's from the line of Senthil Manikandan from ithought PMS. Please go ahead.

S Manikandan: Just a first question is on the domestic cables division. So, in the press release, you mentioned that total India business has grown around 1.5%. So, over the medium term, how should we look at the growth prospects for the domestic cables division, so will there be drivers like increase in content per vehicle if possible, so something on that?

N.S. Mohan: Let me talk about domestic cables division. There are three parts to it if I can split that question. One is the cables that we are supplying to the two wheelers. Now that will by and large follow the market whatever the market growth happens to the same extent we will be able to grow. To a certain extent, we would be gaining some market share here and there and that would help us. Now, the second portion to it is, we are growing into cables space beyond two wheelers, that means basically manufacturing it for passenger car vehicles and CVs. So, to that extent it is going to add to our growth rates, which is going to be beyond the two-wheeler growth rate. And the third part of the story is that we are talking about beyond cables, that means we are looking at mechanisms and products which go beyond cables, but into two-wheeler predominantly. Therefore, these three put together is where we are looking at how we can grow this division.

S Manikandan: Just a second question with respect to the Suprajit Electronics Division. So, in terms of digital cluster, how is the competitive intensity over there and over a long term or a mid to long term, what would be the market size, if you can share some aspirations on the market share?

N.S. Mohan: I would always want to cut the elephant into pieces before I start chewing it. Therefore, let me start by telling that when we are talking about the clusters, we should be talking about two portions. One is the ice portion where there are established players who are already supplying. Then there is the EV market where we have equal opportunity so as to say. Now, our long-term vision is that we need to be in a pole position when it comes to the EV segment because we are working with multiple EVs and they're also in their nascent stage, and they are also growing, and our idea is to have the foot firmly in the door so that we are gaining the entry there.

Therefore, acceptance again here would become easier with these kinds of OEMs. Whereas when it comes to ice players, it is going to take more time. It is a long, drawn way that we can penetrate into the market, but we definitely see ourselves gaining a reasonable market share. But, would it be a predominant market share? The answer is no. But would it be a reasonable market share? The answer is yes. Whereas in EV we are looking at a predominant market share. I hope I have answered it.

Moderator: We take the next question from the line of Gokul Maheshwari from Awriga Capital. Please go ahead, sir.

G Maheshwari: Just on the domestic two-wheeler business. The industry is at a premium end growing while the ex-level is not growing. So, from that angle, do we get any benefits with respect to premiumization in the industry?

Ajith Kumar Rai: Let me put it this way. As it becomes premiumized, there's probably one or two cables also won't be there, whereas the cost or a price per piece of cable probably will be higher because the expectations of performance also goes up. And overall, I don't think there's much of a change. Having said that, I would say that it's probably more neutral than anything else.

G Maheshwari: On the braking product, you've mentioned in the press release that you are now putting money behind on commercializing this.

Ajith Kumar Rai: I can't hear you properly.

G Maheshwari: In the press release, you mentioned that the braking product you are now putting into commercial operations in terms of putting money behind creating capacity. So, can you just give an overview with respect to the business win and how much would this capacity be for this particular customer or customers?

N.S. Mohan: When we are talking about commercialization, what we are doing is, we want to keep it as much as possible as asset-light. However, having said that, there are some OEMs who are wanting us to have a depth of manufacture. Therefore, we need to balance between these two. Therefore, what we will be doing is there would be a certain amount of investments bringing in the depth of manufacture, but we'll have to take a conscious decision between what we call as a make by decision. So that's what's going to happen. Specifically, with respect to the capacity that you asked for, why I'm alluding to that is, when it comes to the process, then the process-based capacity probably we will be investing a bit more, which would be across multiple customers, multiple lines, whereas when we come to the assembly specific product lines, it would be tailored to the protections that the OEMs have made. So, there is no one single answer I can give so much is the capacity, but it will be at the process level defined differently, at the product level defined differently.

Ajith Kumar Rai: Add to what Mohan said, we think that braking-related products would be one of the areas where we are going to concentrate and recently last year, as you know, we restructured our aftermarket into a single large place and that has actually released one of our plants for any of the use. So, we are converting that into a space for setting up some of our braking products at the moment. And at the same time, we're also looking at additional space as we have made in the announcement that we are looking for additional infrastructural facility to house some of the projects that we are in the late stage of negotiation with the customers for commercial offer orders. So, I think there's quite a few interesting things happening in that space, and we are getting geared up for that.

Moderator: We take the next question from the line of Jinal Sheth from Awriga Capital Advisors. Please go ahead.

Jinal Sheth: So, my question is that now considering the fact that there are global business, what I wanted to kind of understand is internally how does the management plan and think for uncertainties and obviously we've had learning, so wanted some thoughts and views from your side?

Ajith Kumar Rai: I'll let Mohan to give his thoughts. Maybe I'll add something more on that. Mohan, on our global business and how we are planning to deal with it.

N.S. Mohan: See, one thing about running a business is uncertainty. And I would say that at the end of the day, there is an area of concern and there is an area of influence. In an area of concern now let's say there is a war in Ukraine and say an area of concern, you and I can't do anything about it, so we need to manage the situation. If there is a failure of monsoon in India or weather pattern change happening across the globe, there is little that we can do about it. So, that's an area of concern. But if we look at the long-term trends we can use that area of concern and bring it into an area of influence as to what we can influence within our businesses. So, that is the way we always look at it. I'll substantiate it with an example. Now, let us say EUR 7. EUR 8 norms are going to come because of the environmental challenges that are coming. So, what could be an impact for our business, or do we see a business opportunity over there? That is the way we look at it and we start preparing ourselves. So, this is one way of looking at it. There are certain other areas where we will definitely not be able to predict it, but to a certain extent we do what we call it as a risk analysis. So, we have a risk committee, we sit with the risk committee, we make an assessment and to those which has got what we call as high RPMs or the risk priority numbers, what we do is we prepare some sort of an action plan as to what we can do to stay away from this risk. This is the way we manage risk so as to say.

Ajith Kumar Rai: And also, more from the system point of view as Akhilesh was mentioning, when we get into a single ERP, single PLM, lot of things gets connected, and responses become much faster where we can influence kind of a situation. Global business is different in different countries and different geographies, but ultimately, we work with the systems and processes. I think it is possible to monitor and also reasonably to control well. And we have a system where we have our annual budgets, our mid-year reviews, our monthly meetings where we constantly monitor their performance on a regular basis. I suppose that way we are generally in the picture everywhere so that we are able to understand and do what is required as and when it is necessary as we do the business with all these geographies.

Jinal Sheth: My last question is that considering the fact that the global industry environment is tough and we were already seeing consolidation, so is there any further exits or reduced competition from our weaker competitors?

Ajith Kumar Rai: See, I think this is a similar situation which I think I sort of elaborated a bit earlier. The situation at Phoenix Lamps, it was a similar situation where there were excess capacities and some people folded up and slowly and steadily the color turned, those who are good manufacturer, value for money product, capable suppliers who had the reasonable balance sheet to fight this kind of a battle in this what I would call as a dog-eat-dog market. I think they come out well. I mean, it's the same thing is there excess capacity… I'm not talking about cables; I'm generally talking about auto components. I think there are too many suppliers? The answer is yes. Is there a consolidation? Yes, I mean we ourselves have done five cable asset purchases. So, it's happened elsewhere also. So, the number of the suppliers will come down. And in the long run there can be only four or five good global suppliers. Right now, it is a lot more than that. Having said that, these smaller guys who are in 40 million, 50 million, 80 million of cables in terms of revenues, they don't have the full geographic reach, they are in part of the world, somewhere in half part, somewhere warehousing, but they are having big problems in terms of being viable and being profitable. So, I think slowly and steadily that breed will either get sold or go out of business and that's when I think the stronger players like us will get these opportunities to further improve on what we are doing now.

Moderator: We take the next question from the line of Mr. Viraj from SIMPL. Please go ahead with your question sir.

Viraj: Just two questions. One is on the global control division. So, the kind of fee structuring which we talked about, if you look at the first half, we did something like mid-single digit margins at the EBITDA level. Post restructuring, to understand the journey towards double digits, would a large part of the improvement come from the cost restructuring part or it will be more driven in terms of the recovery in sales and the new order wins? Second if you can just give some perspective in terms of the LED retrofit business, which we did on full year basis in '23 or in the first half?

Ajith Kumar Rai: I'll answer the first question and second, I'll probably pass it on to Mohan. I think the point is simple. For example, I'll just give you a ballpark number what can our Matamoros plant can produce. It can produce up to let's say 10 million a month or 8 million a month. What are we doing is let's say 4 million a month. So, what happens is that In the process, what I have said is the consolidation phase as we get more and more business, our fixed overheads get amortized and the margins improve. As we go forward with the competition and not being able to fight the war and as our volumes grow, our purchases and operational efficiencies improve, that is where the margins will add. So, I think there are multiple things that will drive it. And of course, there are a lot of businesses will be made out of India, which anyway is probably amongst our group is the lowest cost operations, that will add extra to the margins. And then we relocate businesses to the customers' requirements or customer cost requirements. I've just mentioned about moving something from Hungary, maybe we'll move something more from Matamoros where margins are let's say very small or non-existent and maybe we will easily get some margins out of India. So, there is a quite a bit of churn that's going to happen, but the trajectory is, as the volume grows, as we do the restructuring, whether it's a year or three quarters or five quarters, I think the margin profile has to improve and will improve and so is the top line. I think that is what we are expecting to do in the controls division. In terms of the LED retrofit, I think I'll ask Mohan to answer.

N.S. Mohan: Basically, when we tested the waters, we tested the waters in our area of strength, which is the two-wheeler bulb market. That's where we introduced the drop-in solution of LED and that retrofit or the drop-in solution as we call it, we had some lessons learned and we saw how the market is reacting both in terms of pricing elasticity and also in terms of the technological improvements that we need to do. Having stabilized that, very recently, just about a month back, we introduced new set of retrofits for passenger car vehicles. So, our idea is that we need to cover the entire range starting from a two-wheeler, three-wheeler combine I would say and then move to passenger car which we have started just now and finally move into the CV segment. So, we would be having a complete range as Phoenix in the marketplace in the aftermarket.

Viraj: So, when you say retrofit, is it largely DRL or these are proper fully -?

N.S. Mohan: No, no, no, they are not DRL, they will have exactly the same mount like what a halogen bulb has a mount. Trade calls it differently, H4 and H12. Like this there are different, different way H7. So, we have these different mounts. So, what we do is we give the same mount. But instead of the halogen with the filament there, we put the LED there, but we will also have a driver circuit there. And again, when we put the driver circuit, there are technicalities, whether it is able to handle AC and DC and kind of thing, can it handle the spikes because in Indian conditions it's going to be completely different in terms of robustness that would be needed.

Moderator: We take the next question from the line of Mr. Rakesh from Axis Capital. Please go ahead, sir.

Rakesh: If you can quantify what has been the overall impact of restructuring operations in our EBITDA, at what level was that? And going forward with this all transition going on in your restructuring operations, let's say another two quarters restructuring expense will in, will there be any impairment of the plants which you are existing? And secondly what are the breakeven levels for the new plants where you are transitioning this operation?

Ajith Kumar Rai: In terms of the impairment, it's difficult for us to say. I think only when restructuring is complete, we will know whether there is any impairment. Maybe the end of March is one time when we'll look at any impairment if at all. So, it's difficult to answer that. In terms of the cost of quantifying, it's an ongoing exercise, for example, we are now restructuring in China, we are moving from one place to another place. All those costs are actually on the P&L and they have been booked as and when they are doing, some of them are not tracked in that sense. The bigger one probably know what is the cost, we'll have to pay lease at the existing one, we have to pay the lease at the new one, we have to pay power here, we have to pay for power there. Those kinds of things are quantified. So, there will not be an exact picture, but there may be some information if maybe you could get some more color on this offline with our CFO, maybe he'll be able to answer that question.

Rakesh: With this decline going in the non-auto side, will there be any shift of your CAPEX program for this year and next year?

Ajith Kumar Rai: I think Mohan has already answered that the CAPEX as earlier disclosed at 140 crores for this year and part of next year still holds good and I think there will be some reshuffling within that 140 crores, but the overall number remains the same.

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

Ajith Kumar Rai: First of all, thank you all for patiently listening to our comments on our quarterly as well as half yearly number. Thank you for your interest in Suprajit. I again Wish You all a Happy Diwali and Dhanteras and look forward to again interacting with you in the next quarterly meeting. Thank you very much.

Moderator: On behalf of Anand Rathi Shares and Stockbrokers, that concludes this conference. Thank you for joining us and you may now disconnect your lines.