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Corporate Identity Number (CIN) : L29199KA1985PLC006934

February 21, 2024
SEL/SEC/ 2023-2024/85

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 Q3 FY 24 Earning call Transcript.

Transcript of the Investors Earning call held on Thursday, February 15, 2024 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: 2024.02.21 17:18:45 +05'30'

Medappa Gowda J
CFO & Company Secretary

Encl : as above

"Suprajit Engineering Limited

Q3 FY 2024 Earnings Conference Call"

February 15, 2024

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

MODERATOR: **MR. MUMUKSH MANDLESHA - ANAND RATHI SHARES AND STOCK BROKERS LIMITED**

Moderator: Ladies and gentlemen, good day, and welcome to the Suprajit Engineering Q3 FY '24 Earnings Conference Call hosted by Anand Rathi Shares and Stock Brokers. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing star and then zero on your touch-tone 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: Thanks, Muskan. On behalf of Anand Rathi Shares and Stockbrokers, I welcome you all to the Suprajit Engineering Q3 FY '24 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, MD and Group CEO; Mr. Akhilesh Rai, Director and Chief Strategy Officer; and Mr. Medappa Gowda J, the CFO and Company Secretary. We request Ajith, sir, and team to give an introduction review about the results, and then we can follow up with the Q&A session. Over to you, sir.

K Ajith Kumar Rai: Thank you, Mumuksh, and thank you for hosting this call. Good morning, everybody. Welcome to our Q3 and 9 month results analysis call. I welcome you all and thank you very much for your continued interest in Suprajit.

I will do a commentary in the end, but before that, I'll ask our team to quickly go through this quarter's and the 9 months' results and business updates. I'll start with Medappa, followed by Mohan and then Akhilesh. So I'll ask Medappa to give you a quick summary of the financial highlights. So Medappa?

Medappa Gowda J: Yes. Thank you, sir. Good morning, everyone. We announced the financial results for the 9 months ended December '23 yesterday. The 9-month consolidated business of the group grew by 3%. The standalone business also grew by 3% year-on-year. The 9-month consolidated EBITDA grew by 4% and standalone by 7% year-on-year.

The consolidated revenue for the quarter ended 31st December '23 was INR724 crores against INR692 crores from the corresponding previous year, recording a growth of 5%. The consolidated operational EBITDA for the quarter ended 31st December 2023 was INR87 crores as against INR82 crores for the corresponding previous year, recording a growth of 7%.

The standalone revenue for the quarter ended 31st December 2023 was INR405 crores as against INR368 crores for the corresponding previous year, recording a growth of 10%. The standalone operational EBITDA for the quarter ended 31st December 2023 was INR74 crores against INR69 crores for the previous year, recording growth of 8%.

The total debt level was INR622 crores as of 31st December 2023. The cash surplus was INR500 crores as of 31st December 2023, invested in mutual funds and bonds. For further queries, if any, you may approach me directly after this call also. Thank you very much.

K Ajith Kumar Rai: Thank you. Mohan?

N S Mohan Yes. Thank you. Very good morning, everybody. As usual, what I'll do is I will take you through a general market scenario and give a commentary on that and follow it up with specific business divisions. Let me start with what's happening in the automotive market.

The Indian automotive market, obviously, as we are all seeing, it is showing some signs of growth, while PCV, passenger car vehicles, is really going very well. Still, I would say, from 2-wheeler, I would say, to this one thing, particularly in the entry-level segment, is struggling.

When we move on to Europe and North American markets, the challenges are plenty. And that has led to some amount of postponement of some of the global customers' launches, which has impacted our trajectory. Specifically talking about the U.S. market, last quarter was besieged with the UAW strike, and hence, associated supply chain issues. While in Europe, we had these wars and the Red Sea event problems.

The non-automotive market has been something of a concern for us because we expect not just now what has happened in the last quarter, but it to persist over the next few quarters also. But having said that, I would say that new business acquisitions would bring in some amount of good medium-term outlook in this segment for us. We continue to see those headwinds in this nonautomotive market in the U.S., Europe and also in China because it exports to Russia.

Moving on to general economic and trade conditions. Obviously, there are many global concerns, but what stands out is the Red Sea issue. It is causing such significant delays in shipments, and it has created a lot of increase in container costs and air shipments also, our expedited costs, as we generally call it, in our lingo.

Along with this, the other key thing is persistent high-interest rates and inflation globally. It has been impacting the consumer behavior. Fundamentally, it would mean there's deferred discretionary spending.

Now here, I would like to move on to specific divisions. I will start with the Domestic Cable Division. Our India cable business continues to grow strongly. And what is important here is the passenger vehicle business has shown good growth. Our 2-wheeler and aftermarket business, which were persistent, Q3 is showing a change in trend.

And very importantly, in the Domestic Cable Division, we are commercializing what we call as the strategy of Beyond Cable products while retaining the focus on cable. So this generally includes braking systems, latch assemblies and those kinds of stuff.

Moving on to Phoenix Lamps Division. This division continues to grow, and margin improvement has been very consistent. Now we are at the double-digit EBITDA margin, both in Q2 and Q3. The aftermarket and the LED retrofit business has had a very good solid quarter.

And apart from that, the restructuring, what we started in Europe of winding down Trifa and propping up Luxlite, has gained very good traction there. And Trifa brand has been bought by

Suprajit. It was sitting with Luxlite. We bought that from them. So Trifa liquidation project, in my opinion, we should get it completed in the next couple of quarters.

Moving on to the Suprajit Controls Division, which is all our overseas division. Operational revenue remained flat in these 9 months, primarily because of the headwinds that I talked about. And the EBITDA declined due to the subdued Q3, primarily led by UAW strike. And also, the product mix changed because, generally, high-profitable margin products of non-automotive business has had a strong, I will say, backlash there.

In terms of long-term restructuring projects to get to what we call a double-digit margin, we are moving ahead because they are all very operational, and we are very glad it has moved in the right direction. And one of the main projects that we did was winding down a warehouse, which we were using a third-party logistics warehouse in Detroit, and moving the entire thing into our Suprajit Brownsville facility.

Therefore, the additional cost which we used to incur has come down. This is basically for exports from SAL. However, operational challenges due to historical pricing and also the global wages, particularly in Mexico, and the import duties that we talked about last time, which is still under appeal, has had an impact on our operational EBIT.

On the positive side, we have one record number and in terms of value contracts, and more are in pipeline. And our sales team are gung-ho, and we are conducting many technical shows or tech shows, as we call it, with the customers there evincing interest.

We also continue to relocate low-margin businesses outside of India through SAL in India so that the group margin enhancement is taking place. So due to this, we will be now considering for a capacity expansion at SAL or Suprajit Automotive Limited.

So this, by and large, concludes what I would want to tell. I would want to hand it over to Akhilesh to take over on Suprajit Electronics Division and Technology Center. Over to you, Akhilesh.

Akhilesh Rai: Okay. So thank you, and good morning, everyone. Suprajit Electronics Division continues to make solid progress with excellent growth and margin improvement as well. It continues with the excellent ramp-up of deliveries of actuators, digital clusters and throttle position controls to both the EV and ICE 2-wheelers and 3-wheeler customers. The new business wins on top of this also are looking robust. So I think it is in line with our guidance in the past that this division will be a strong growth driver going forward.

On the Suprajit Technology Center, STC has helped Suprajit win multiple braking contracts at both an Indian and a Japanese 2-wheeler OEM and one of the marquee EV OEMs, and these will all be productionized in 2024, 2025. The STC is planning now much larger new premises in Bengaluru, where we'll be housing growing technology deals.

We're being seen by most of our customers now as the overall technology provider in the industry. STC has multiple advanced products under customer evaluation and final approvals, with a clear focus on these 3 major areas, which are braking systems, actuator systems and digital clusters.

Our participation in the Bharat Mobility Show in 2024 in Delhi attracted a very good response for our product offerings. Our customers' response give us confidence that the best is yet to come at Suprajit.

A few extra strategic points that were not really covered in the press release, considering the kind of growth globally and within India and the technology growth at Suprajit. We have set up a task force, which is really focusing on employee development, succession planning, to ensure that we have a team that is ready to take up technological and geographical challenges that Suprajit will have to overcome in the following years.

There's also been a lot of focus on ESG. If you look at our export plans, we've gone live with captive solar at both our export plants and also 4 other plants of Suprajit, and we're evaluating various options for green energy adoption across all our plants.

I'm happy to inform you also that Phoenix, in last quarter, won the EcoVadis Silver Award for Sustainability. This follows in the footsteps of Suprajit Hungary, which had also won this EcoVadis Silver. This puts us in the top 25% of sustainable plants globally under the EcoVadis umbrella.

Lastly, considering the strong traction, as Mohan mentioned as well, and as I've mentioned on electronics and braking products, we are looking at various land acquisition possibilities to expand. We have made 1 acquisition of land in Q3, and we continue to look for places to expand our operations.

With that, I'll hand it back to the Chairman. Thank you.

K Ajith Kumar Rai: Thank you, Medappa, Mohan and Akhilesh. I'll just give you a quick sum up. I think, in general terms, Q4 has since have taken up very well. I think we had a fairly good month so far.

As you have heard, the DCD, PLD and Electronics divisions is on a strong wicket. Controls Divisions will have a few more challenging quarters. But what is interesting is, operationally, it is now on a very stable wicket. Margin pressures are, to some extent, because of historical issues, duties and wages, etc.

But operationally, I think we're stabilized. And then now, with the restructuring is on the way, some of which has been done and quite a few to come, I think things will start turning better at the Controls Division. As said earlier, I think what's really heartening is the new business wins in this despite the tough global business environment. Our teams in multiple locations are winning multiple contracts.

And then we talked about the single contract of USD 5 million, the USD 30 million lifetime, with a marquee Tier 1 U.S. customer, which, in turn, is getting supplied to the world's, probably the largest Japanese automaker. So I think where we hardly had any presence, for example, but now this is really breaking into a Japanese stronghold, which means that we are taking on the main competitor as well in this process. So that's a very good development.

And again, I think the developments both at the STC and SED, as said earlier, is clearly showing that Suprajit is solidly moving and transforming itself beyond cables, with a continued focus on cables, of course. So these are all the good things that's happening. And I see that Q4 would be a fairly decent quarter as we see it, so far, in the last 45 days.

And with that, I will hand it back to the moderator and look forward to your questions and comments to answer. So thank you very much, and back to the operator.

Moderator: And the first question is from the line of Aashin Modi from Equirus.

Aashin Modi: Congratulations on a great set of numbers. Sir, my first question is regarding the Suprajit Cable Division. So despite facing major issues like Red Sea crisis, UAW and also one time impacts on the China relocation, our revenue has not declined much. So is it majorly because of new order addition? And what sort of growth do we see in this business once things start to normalize?

K Ajith Kumar Rai: Okay. I think the order wins have been significant. They will start going in. Some of them already have started going, and that's why we still are not having any negative growth. In fact, for the 9 months, we do have a decent number.

So that's largely because you must understand, there is our Controls Division has got nonautomotive business, which had a negative growth, I think, something like 15% or 18%. However, the division, by itself, has grown a little bit in the quarter or generally stable. That means the automotive business has sort of covered it up. So that's what is happening.

So that is the kind of growth that we are seeing. And I think with this we feel that the bottom has been hit in the nonautomotive side of the business, maybe 1 more quarter or so to go. But when that changes, there, also, we are winning for new contracts. In fact, we comfortably see a double-digit business growth in the Controls Division going forward. But despite global market being probably at flat rates.

Aashin Modi: And sir, my second question was on margins in the Suprajit Cable Division. So this quarter, we saw sequentially a decent jump. What was the reason behind it? Was it majorly because of a change in the business mix? Or some onetime costs going away?

K Ajith Kumar Rai: Sorry, I didn't get the question. For which division you're talking?

Aashin Modi: Suprajit Cable Division. Sequentially, there was a decent improvement in margin. Was it a change in the business mix or some onetime costs going away?

K Ajith Kumar Rai: So Controls I mean, Domestic Cable Division?

Aashin Modi: Suprajit Cable, the global cable division.

N S Mohan: He means Controls Division.

K Ajith Kumar Rai: Yes, actually.

Aashin Modi: Actually, there was a subsequent increase improvement in margins. Could you tell the reason behind it?

K Ajith Kumar Rai: No. But the point is that, as you must understand that, operationally, we are doing very well, and a lot of restructuring also has happened. For example, moving the warehouses into a single place, moving some business out of Hungary. We're working on multiple other projects. So all that is slowly and steadily. Despite whatever the market condition, they are adding to our overall improvement. So I think that's what you're seeing.

Aashin Modi: And I mean, if you see in this business, on a blended basis, this should be 9% to 10% margin business at earlier levels. So when do we see improvement to those levels? And do we see structurally now with the big orders from exports out of India, do we see structurally margins improvement in the global cable division in the longer term?

K Ajith Kumar Rai: Yes, of course. I mean as Mohan said, the target for all of us at the management and at the various teams at various cases is to reach the double-digit margins in the Controls Division. And I think, of course, there is some more work to be done, some more restructuring to be done. But you must realize that one is some of the historic issues that is plaguing us, but slowly and steadily, they'll go away.

The new contracts that we have won are coming at much more decent margins. Whereas the older ones where you are sitting with bad prices will, at some point, will stop dropping off from the table. That's how the automotive industry works. So as and when that happens, as and when we continue to do some of those restructuring, moving businesses to get better margins and bringing in the newer customer businesses, it is a journey.

It's difficult to say from which quarter we'll do. But I personally feel that we are at the bottom of the barrel, maybe one more quarter here and there, then I think we'll see a steady improvement. But the target is certainly a double-digit margin, which we are quite confident we'll achieve we'll see it in the medium term.

Aashin Modi: And then, sir, my last question is regarding the Suprajit Electric Electronics division. So we had earlier highlighted an order book of INR150 crores per annum. And we've already reached an INR20 crore per quarter sort of a run rate. So could you please give more color on how what is the order book right now? And how do you see ramp up in that business going forward?

K Ajith Kumar Rai: I wouldn't say much about the order book. But a little more color, Mohan, will you take that question as to what's all happening maybe?

N S Mohan: Sure. Let me break it into a couple of big product groups. One product group is the digital clusters or the electronic clusters. On this, while we already have got a good business running, and we are almost running our SMT lines at around 54% capacity utilization. I expect that just to go very quickly move up because we are on the verge of winning one more major model with an existing customer, and this would be the EV segment. And that's going to be a high volume, high runner, as we call it.

Therefore, very quickly, I think we should be reaching our capacity utilization somewhere around close to 70%, 75%, 80%, which would mean that we would prefer to go in for additional investment on another SMT line so that we derisk the business, at the same time add capacity so that we become more hungry for more business. And we can have a stated philosophy within Suprajit that we stay ahead of the curve in terms of building capacity. So that's the way I look at it from an instrument cluster business.

Other than instrument cluster is where we have mechanical latches, electronic latches, seat latches, steering latches, etcetera. Here, again, there is a good amount of traction. We are one of the marquee customers, existing players, have evinced interest based on what we have already started supplying to one of the big time OEMs in the EV business. So that is also building up very well, I would say.

So the third portion of the product profile is electronic throttle control, where we are doing it just for only 2 customers now. But with this, we have been able to prove our capability in electronic throttle control. Therefore, again, there, we are gaining good amount of interest with existing players, both for our single-channel and dual-channel throttle controls.

So overall, if I look at it, we started off by entering into the EV segment because that was an easy entry for us. We have proven ourselves there that has attracted the attention of the existing and old-timers, as I would call it, or the established players, to be more politically correct. So, they are now approaching us saying that they would like to source from us. So that's the way it is moving.

K Ajith Kumar Rai: So just to add to what Mohan said, I think we look at Suprajit Electronics Division as a kind of a start-up within our group. Typically, in the start-up, in the first year or 2 is like a hockey stick growth. So that's exactly what you have seen in the first 3 quarters, and I think it is expected to continue for some more time.

Moderator: Thank you. The next question is from the line of Mumuksh Mandlesha from Anand Rathi. Please go ahead.

Mumuksh Mandlesha: So good to see the recovery of margins in the SCD division, new auto wins and Phoenix Lamps continuing to maintain double-digit margins. Sir, you mentioned about the Red Sea issue where you have to shift some of the fleet to the airfreight. Is it possible to quantify the impact, which can we expect in the next quarter? And also, on the UAW strike, anything you want to quantify what was the impact this quarter?

K Ajith Kumar Rai: On the Red Sea, I think what has happened is the routes have now gone via Africa, as you all know. And of course, the fleet companies, the container companies are all jacking up the price. I think it's something like 7, 8, 9x, suddenly the prices of containers costs have zoomed up. That is number one. And also, it is delaying the shipments.

So what has happened is that vendor, there is a delay in shipment by, let's say, 3 weeks. And there is some line stop somewhere in Europe or the U.S., we need to airfreight it. I think I don't have the numbers in my mind. But just in the last month, I think our freight forwarding costs probably has gone up by 4x. If you look at it, it will have an impact on the margins, but the point is, we're also growing so well. To some extent, it gets offset. So these are all passing phases.

Now slowly, I think in the next, hopefully, 2, 3 weeks' time, even if it stabilizes via Africa and if the containers are sort of prices have stabilized, it's okay. Now it has happened last time also when there was COVID, how it has gone up then it comes down. These are all seasonal, things we have to face it. It will have an impact in this quarter, but we are also doing well in some other places. So I think it all will get offset one way or the other.

In terms of UAW, I think September and October are the 2 months where we had an effect. I think October was much more serious. I don't know the numbers, but we certainly lost sales from Matamoros, at least, probably, maybe 2 million, 3 million for the month of October itself. I think that is all past now. So things are back to normal.

Mumuksh Mandlesha: Got it, sir. Sir, on the China plant, which is resuming from April, so just want to understand what kind of I mean revenues will you see from this new plant? And just a more on the potential of this plant in the China market, what kind of a growth we can see in the China market?

K Ajith Kumar Rai: Yes. I think the basic issue in China is that they were producing for China and for other Chinese market, but also to a couple of major export nonautomotive customers, who are manufacturing there and selling it out in Europe and also, unfortunately, one very big customer to Russia. So that business, because Europe has sort of clamped some restrictions on sale into Russia so that businesses have dropped off. That continues to be dropped off. So that business has gone down. So that has affected our China plant, these two things.

The domestic business seems to be pretty strong. It continues in the way it was. The point was that last 1 year, we have all busy with relocating the plant and is just completed. Now the people are all just settling down in the new plant.

So what has happened is that, in the process, we lost 1 year of business development time because everybody's focus was to get all the customers come and approve the plant, get approved for a change of location, and all. It's with a lot of other work gets involved. So that is now behind. I think right now, they are looking at new businesses. They did win a couple of interesting new contracts, but I think that will gather strength.

So in essence, I would say that this effect will come into picture probably after 3, 4 quarters of these new businesses. So 1 or 2 quarters, there will be still some amount of challenge in China. But I think the way we see it and some of these new contracts are being worked on. After that, I think it should be much better. So at the moment, I think the strike rate is pretty low, about 1 million plus. One million in the quarter per month, I think, is the current strike rate at that place.

Mumuksh Mandlesha: Got it, sir. Sir, standalone business as we've seen growth of 10% in Q3 quarter after a decline in the last few quarters. So can you share more on the segmental level, at the OEM level, aftermarket level, what kind of growth we are seeing?

K Ajith Kumar Rai: I think the aftermarket for the first 9 months and including the last quarter also has been fairly tepid. I think the Indian aftermarket in this business has been a little slow. It has come back quite well in January actually, but that has been slow. And I think we probably didn't grow in the first 9 months. That has been sort of 2-wheelers, although entry levels have had bad time. The other segments have done pretty well. So that's why what you're seeing the 10%.

And I think there is a reasonable festival sales also. So there is a change of product mix happening in the 2-wheeler segment per se, where the move is towards the mid- and higher-end segments. So we have significant also had a good presence in the entry level. That is where some effect has been in the past. Now I think it is also stabilized. That's why you are seeing a decent growth in the Q3. And I think that is getting actually a very good momentum in Q4, as I speak. So January sales have been very good.

Mumuksh Mandlesha: Got it. And just aftermarket, any reason why it's so soft. I mean last few years, aftermarket has gone very well. Any reason for slowness this year, sir?

K Ajith Kumar Rai: All these businesses, to some extent, a little bit of cyclicity there. There have been 2, 3 years of great growth. And this, I would say, is a year of consolidation. And also, I think, to some extent, monsoon, rural economies, all those have some metrics in these markets. I think it's a passing phase. In fact, we expect in the fourth quarter aftermarket to have a good growth, actually.

Mumuksh Mandlesha: Okay, sir. And just lastly, sir, you mentioned about assessing the global acquisition opportunities in the core business. Can you talk about what kind of opportunities you are seeing there, sir?

K Ajith Kumar Rai: Well, I'll give a little, I would long-winded answer to your question. The point here is, globally, I've said this in many of the earlier calls that consolidation is the way, and that in the long term, the smaller players will find it impossible to deliver to global customers, to global destinations. I think that's exactly what we are seeing now and as we have said in the last business update as well as we have talked about the big wins in this quarter.

What is happening is that it is not that the overall business is growing. It is that the stronger one, better ones are growing the business, so certainly, at the cost of the smaller ones. Today, 30 million, 40 million, 50 million, 60 million cable business with 1 or 2 destinations of production doesn't really give a global footprint.

So I think these guys are having typical problems. They are not able to grow. They are probably degrowing at some time. So that will put tremendous pressure on their financials. So what, we know all our competition, and I think we know what the steps is in this market for these players. And ultimately, customer is looking for a solid global supplier, who will not only have we have a low cost base, but also capability to deliver locally with either a delivery model of warehousing or a close-shoring kind of facility.

So we see that with the Red Sea, for example, customers are very jittery about material coming from China or India into Europe because it has to go through Suez canal. So you build a near-sourcing opportunity that gives them a little bit of comfort. So current pressure is on price, but I think now customers will wake up to say that we need to have a supplier who has got both low cost base as well as near-sourcing capabilities, near-delivery from manufacturing facilities.

We are looking at such opportunities. And I think if you are able to get the right such opportunities with right assets and at a price which is really value for money, we feel that strengthening our portfolio of such locations would probably help us in the long run to be really, really the best-in-class supplier. So that is a basic thought process. And I think that's why that statement has been made.

Moderator: And the next question is from the line of Pritesh Chheda from Lucky Investments.

Pritesh Chheda: Sir, my question is on the Suprajit Control side, which is the international piece. What is the capacity utilization that you're running at in these plants, number one? And how much portion of the business is what you're looking at offshoring? And at want extra GM over the next 4 quarters, 8 quarters or 12 quarters based on whatever plans you have, so that we get a better understanding on the margin suggested?

K Ajith Kumar Rai: Okay. In terms of capacity utilization, I'll probably say we have 50% capacity utilized today in all our let's say, our global facilities outside of India. In terms of the strategy of locating from elsewhere to India and improving the margin, I think, Mohan, will you take that question?

N S Mohan: Sure. What we are doing is. let me just give you the background on how we are doing it. What we have done is at each of these locations, be it our Hungarian location or Mexican location, we have looked at all the part numbers and looked at the margin levels. And wherever the margin levels are a bit thin out there, we have floated the same inquiry to our India plant. That is the Suprajit Automotive plant.

And we have taken the quote from here to see whether it makes business sets because if it doesn't make business sense here also, there is no point in moving it all the way here or go to the customer. So wherever we feel that we can manage our margins better, we have gone back to the customer. And third, look, we are ready to service you at this price, however, we need to move this to India.

In case you wish this to be done here itself, we need a price correction. Now that's the way we have approached the whole project. And this is going on, out of which there are a few projects where the customer said, "We are ready to move it to India, and we'll give you approvals because in automotive world, we need to have the blessings from the customers when we have to move the production from place A to place B.

So once we have done that, we have launched those projects. That's the way we are doing it. This is going to be an ongoing process for some more time because when we move, it needs customer approvals also.

K Ajith Kumar Rai: What I would like to also add to this is that the underlying philosophy is simple. By moving a business, thus the margin for the group improves overall. If it does, it makes sense. Otherwise, we don't or go back to the customer.

Pritesh Chheda: So what portion of the business will be offshored?

K Ajith Kumar Rai: Okay. I think that's a difficult question to answer at this moment. We are currently did one major transition from Hungary to India. We are working on at least another half a dozen projects. It is under assessment and evaluation. It's probably a process which will be done a couple of projects at a time, not that there'll be a huge move from one place to other, and it's very going to be very strategic. So it's difficult to answer that question, what will be the value of it. But it is going to be a steady but regular process.

Akhilesh Rai: I think there's no way to say it is there's no specific. we will move x percent to India. That is not the goal. The goal is specifically on margins where they are hurting and go back to the customer or move, right? So it really depends on what the customer does and a lot of factors. So there's no specific number that we aim for.

Pritesh Chheda: Sir, then based on this offshoring plus new wins and your capacity utilization at 50% today, the combination of these two, will we see the capacity utilization in your international operations moving to 75%, 80% over the next 8 to 12 quarters? Because if it doesn't happen, then if you're offshore, then you will have a lower utilization there, which will still keep the margin under check. So if you could help us.

K Ajith Kumar Rai: I get your point. I think very valid point. I think what you must understand, if you sort of looked at our last quarter's business report, where we have given the kind of business wins as well as what we didn't give the whole picture, but we just gave 1 business order that we have won.

So the point here is that together, along with these new business wins plus the transfers, we expect operations to be actually improving in terms of value, in terms of volume in every one of our plants. Now there is a restructuring, as we said, going on. If we, at any time, feel that this is going to have in the next 2, 3 years, an issue with, let's say, an x plant, we will see what needs to be done there. So that's all I would say at this moment.

Akhilesh Rai: I'll also add to that, that in our business, the utilization, it's not like a machine shop where the utilization is as critical because our lines are very much done for a customer. So it is not like these lines can be reused for any customer at any given time or these machines can be or they have to go through a certain change, process to be used for a different customer.

So that 50%, even though like Chairman said, it's maybe on a one-shift basis. We're are fully utilized, but we're talking probably on a 3 shift basis. So, if you look at from that perspective, there if things were to change, we should be looking at doing a lot more higher-value products, and that's what we see. More actuator products, more lever-based products these kinds of locations, where they bring much more value to our customers to be near shore.

Pritesh Chheda: And last question is on Domestic Cable business. In the 9 months, it grew 50%. It's much less than the auto growth in India. Sir, if you could give some comments there?

K Ajith Kumar Rai: Yes, I think we have mentioned in the last quarter and also in this quarter, I think I just mentioned earlier also, is largely due to the aftermarket being weak in the first 9 months. It's as simple as that. Whereas we have seen in the third quarter, we've gone at 10%, whereas I think, in the Q4, we are seeing it coming back, so the growth will be more interesting.

Moderator: The next question is from the line of Viraj from SiMPL Limited.

Viraj: A couple of questions. First is on the Suprajit Controls Division. If you can just give some perspective on how is the end market degrowth has been in various geographies for us. It's one of the key segments which we cater to. So I understand there's a new win which is offset the degrowth, which has seen there. But just to get a perspective, what is the kind of degrowth we have seen in those markets? And in the press release we mentioned about us winning an order from a large Japanese PV/OE. It's a global order. So is it purely a cable or is this an actuation system out of ours. So that is...

K Ajith Kumar Rai: The order that we talked about 5 million is purely a cable business. It will be made out of India at SAL, warehouse at Brownville and delivered by Suprajit Brownville to U.S. customers, but it's actually landing up in a Japanese number 1 car manufacturer. So you know who it is. So that's where I would leave that.

In terms of the end market scenario, the problems have been in the outdoor power equipment, power sports vehicles, that is where our core of Wescon and nonautomotive business are. That business has been weak. Actually, that kind of degrowth we have seen in that market is somewhere 25%. So it's now fallen enough. So hopefully there is not falling anymore and probably it's growing. And to offset that, I think the business that we have won in the last year or 18 months in the automotive side has offset it to as much as possible. Still it has not been 100%. But going forward that the base has been now, I think, at the bottom for the nonautomotive. We feel that things should be for the next year would be better.

And to add to it, the automotive wins, which has been extremely strong will certainly give additional tailwinds to that.

Viraj: Second question is on the margin for the Suprajit Controls Division, right? So if I look at a 9-month basis, can you give some perspective, what is the restructuring, relocation charges or the liquidation because there is also an impact of cost under recovery, impact of wage increases or duties. So what will be these expenses if I have to look on a 9-month basis?

K Ajith Kumar Rai: I mean, we wouldn't be able to go into that kind of details. We don't give out such details. But let's suffice to say, for example, the annual impact of just the China duty is INR2 million for us. Let's just give you 1 data point to you. And in terms of warehouse moving, in terms of moving the China facility, they'll certainly get into fairly decent numbers. It's and there has been some restructuring in terms of manufacturing relocation from Hungary to India, which has brought probably more margin to SAL, but also has reduced the pressure of margins in Hungary.

The actual numbers, I mean it's internal, but we are not really going to that kind of detail for giving out. But all I would say is that they're fairly decent. That's why we are saying over the medium term, expecting a double margin once automotive business start into the manufacturing new win as well as nonautomotive slowly and steadily, probably recovering a little more next year, we expect this to go back to the double digits. That's why we make those statements.

Viraj: Just two questions from my side. You talked about in the press release that we may look at opportunities to drive consolidation in the Control, Cables globally, right? Now if I look at our utilization, it's around 50%. Our organic share expansion has been phenomenally well. In fact, we're driving new win rates to both the new and existing customers. So the natural progression for us has been quite healthy in terms of share gains and driving consolidation.

So then what scenario you will look for an acquisition because from a footprint point of view, technology point of view, segment coverage point of view seems to be ticking all the boxes. So why would then we be looking at inorganic opportunities in this space, if at all, we are looking, correct me on my understanding.

K Ajith Kumar Rai: Yes. I mean, I get your point. I think the point here is that do we have a perfect global supply chain footprint? What was there 4 years ago and what is there today is a superior one. But is it the ultimate one? I would say, still there are opportunities. I'll give you some color to it. There are people who moved from, let's say, the Western world, say Germany to Hungary, people moved from Hungary to Bulgaria or Hungary to Turkey or Hungary to Poland and then still they found Poland is being more expensive. Then somebody moved to Turkey, somebody moved to Morocco, somebody moved to some other place.

So what I'm trying to say is that we need to see one place which has got a fairly stable manufacturing low-cost base, which is closer to the mainland, let's say, Europe. Similarly for, let's say, for North America. I mean, Brazil is a big market. Do we have a presence in Brazil? Zero. So what do we do about it? Do we setup the greenfield? Do we find somebody? So these are all the questions that we at management face with. The idea is what, we need to be the perfect footprint company to make cables better than the competition that we have and give the best value to the customer.

So that the customer will be able to say, okay, you give me the low cost from India or China, we're warehousing, I'm fine to take the risk of 6, 8 weeks. Red Sea, I will take care of it. I will do airfreight, then it's 1 solution. No, I don't want to take the chance. I want it to somewhere near Europe, then whether we go to Turkey or Morocco or whether we go to Bulgaria, that's what we need to see. So is there a supplier who has got this kind of facility, which answers this question. I think that is where we're coming up.

And it is not that we are looking out in desperation. Most of these companies in that price. I mean, value in terms of revenues, whether it is $40 million, $50 million, $60 million, they are all struggling to survive today. So that is some of them fit us best to further strengthen our Controls Division's overall strategy. I think that's what we are looking at.

Viraj: And just last one. In terms of the fee, if you look at the cash, right, it's largely on the stand-alone the major part is on the stand-alone books. And the debt is largely in terms of the overseas entity. So on an annual basis we have been incurring, say, around INR45 crores, INR50 crores of interest expenses. So purely from and if I look at from a CapEx point of view also, we have been talking about INR100 crores, INR140 crores kind of annual spend.

So even after that, the cash position will just keep on building up. So purely from a treasury or from a debt consolidation point of view, how are we looking at it? Is there any thoughts in terms of further winding down the debt given the cash would always keep on building up further despite the CapEx plans we have.

K Ajith Kumar Rai: Yes, I think a fair point. I think there has been a multiple debate internally, whether it's at our management level, at the board level, what we should do. I think what we have done in the first step, I think, a couple of years ago or a year ago, 2 years ago, we decided to increase the payouts to shareholders saying that over a period of 3 or 5 years' time, the overall payout should be between 30% and 40% from that then 20% to 30%. That means it would be not only dividends, but once in few years we will do buybacks. We did 1 buyback.

The Board will put in appropriate time to do what is necessary to have that 30% to 40% distribution. So that is one way of doing it. Secondly, I think historically, we always have had a cash pile. If you look at our cash pile as a percentage of our sales, I don't think it has changed over the years. It would remain same. Since our business has grown, our cash pile also has grown.

The point about what do you do with the cash, whether you want to wind down some debt. I think our historic philosophy has been that we will, if you do it's all been an acquisition that basically is that we'll be a 50-50. It's an INR100 crores acquisition, we will put our INR50 crores, and we'll take INR50 crores debt. I mean, we continued with that philosophy, and that's why the debt still.

Can you retire the debt? The answer is yes. Will we have more opportunities going forward? The answer is also yes. we just asked a question, and I answered it. And secondly, also, I think going forward, within Suprajit there will be more requirements of funds. We just made one acquisition of land parcel. We are looking at other one. We're already talking about Suprajit Automotive having to expand its capacity because of the kind of orders we are looking at it. Mohan just mentioned about SCD starting to utilize its capacity mode. We are looking at bringing in maybe new divisions within Suprajit to capitalize on what the STC is doing wonderfully well in terms of product development. So all of them are required which will require cash.

So around a core business of cables in India, you are right, the cash requirement may be less. But I think it is important to inform all of you that the color of Suprajit will change in the next 5 years, from a pure-play cable player to a core cable player plus a significant other product player. I think that also will require cash. So we are being prudent in that way and conservatively continuing the current strategy.

Viraj: And maybe one last query. On the LED retrofit, if you can just talk about how big that segment is now because we've been talking about a significant success and scale up happening there. So while all the discussions on STC and SEL and all, but I think this is also an initiative which seems picking up for us now.

K Ajith Kumar Rai: So I'll ask Mohan to give a color on our LED plans and what we are doing.

N S Mohan: Sir, I didn't get the question. Can you repeat that?

Viraj: What is the scale right now on retrofit and the LED business under Phoenix?

N S Mohan: Okay. LED business in Phoenix, is it?

Viraj: Yes. What is scale right now?

N S Mohan: Okay. See, we embarked upon this because there was a lot of Chinese imports coming in. And once they were expensive and two, the quality levels were bad so we said we owe something to the market here, and there's also nice business opportunity for us. So instead of resorting to what everybody does, now import and sell, we decided to invest into it. We started putting our own power circuits. And not only that, we started doing our own circuits at our own SMT lines, and get only the LED chips and ensure that the geometry is contained and proper. Therefore, technically it is a strong product.

So very quickly the customers have realized it, and they have started taking it. And we are not very cheap in the market. But we are known for the quality that we are putting out in the marketplace. Therefore, we have got some good, I would say, movement by the dealers.

The second thing that is happening is, a normal replacement bulb goes in the spare parts market, whereas LEDs were going in not in the spare parts market, it is going in the where more high-end people do upgrades. So we have been able to get those dealers also, dealerships also interested. Therefore it is moving on both the grounds now. It is growing in the traditional spare markets segment because it is a drop-in solution. But it is also growing in this segment where people going for conversions. Therefore, I would say we have played out very well here.

And not only that, it has attracted some of the global players who have come to us telling that whether we can make it for them. Therefore, very shortly we should be launching for them also in their packaging. Therefore, I would say that we have been able to get good amount of business being cornered in the LED.

Viraj: Is it 10% of business or...

Moderator: Sorry to interrupt. I just request you follow back the queue as several participants are waiting for their turn. Please sir. The next question is from the line of Resham Jain from DSP Asset Managers.

Resham Jain: So just, sir, overall, it seems that last couple of years we have won lot of orders, but obviously the industry environment has been quite challenging. And hence degrowth was little rapid. But now seeing your commentary it seems that some of the acquisition-related stuff also is now improving. So going forward how should one think about the overall growth at the company level? You have mentioned about division wise lot of new orders have been there and all. But let's say, in the normalized environment, how should one think about growth?

And the second related question is, some of the challenges which we had across the acquired entities, in this quarter it seems that some of them are resolving, and going forward it will further improve. So how should one think about company level margins going forward?

K Ajith Kumar Rai: Thank you, Resham. Yes, the reasoning has been twofold. The growth has been muted, as you rightly said, because of the global issues and also because of some of the delayed launches of some of these projects. So I think it has come to a stage where we feel that the worst is behind us, I would put it that way, in terms of growth. In terms of growth, I see at least so far in this quarter, things seem to have been stabilizing. I think given another quarter or so, the growth should take a momentum.

But in terms of number, I think next year, if you look at it, if we don't do a double-digit kind of a growth easily, I think it would be, I would say, not up to our own expectations. So despite the weaknesses in some of the markets, we feel that the new wins will have the tailwind to us, which will propel us into a comfortable double-digit growth in terms of business growth. So I suppose that answers your question.

Resham Jain: Yes, sir. And on margins?

K Ajith Kumar Rai: On the margins, I think the margin issue is simply on the Controls Division. As you've seen Phoenix Lamps has changed its profile. Its margins are double digits. The Electronics Division has also gone into double digits. DCD has always been a strong performer. The only challenge has been with the Controls Division. The challenge is to bring it to the 10%. That, I think, will take, I would say, a little more than a couple of quarters. The idea is to see how it improves from now on.

And I think our internal working is that we seem to see that it will slowly but steadily will go from if not this quarter, from next quarter onwards to a higher level. May take 3, 4 quarters before it hits the double digit, I think. But that is where we think will happen when all these volumes fill up these plants. And I think that's what we are looking forward in the next 4 quarters.

Resham Jain: Sir, the last and the final part is with respect to the SCD. And we have seen good steady ramp-up over there. And even at a lower level of revenue, you are making like decent margins, which is quite good. but sir, 3 years, 5 years out, how do you because you have been very, very positive on this segment, and it took a lot of R&D work and all over a period of time.

But let's say, 3, 5 years, what kind of number you see in this business? I'm not asking specific numbers, but like will it be a INR300 crores, INR400 crores business or it can be like you see that to be because these are like high product high-value products compared to cable business, which are like INR200, INR300, INR400 products while the digital cluster is a large value, yes.

K Ajith Kumar Rai: In terms of the business, I think the traction is pretty strong. We are doing INR10 crores plus sales now comfortably, which is, I think, is quite strong within 1 year of our operations. So we had talked about INR100-plus crores. I think we have already crossed that on a monthly run rate. And we expect to see this kind of continued growth for at least for the next 2, 3 quarters because I think the order position is pretty strong. And we are in the process of winning even more orders as we speak.

The idea is that we put up a new division, brand new division is to get the right focus with the senior person running it a separate infrastructure. The idea is that Suprajit has got a Controls of Cable Controls Division, a Phoenix Lamps Division and now an Electronics Division.

Obviously, a company of our size without having a vision of a size, let's say, of INR500 crores for a division at a reasonable time period, I don't think it is something that we would be happy to do it. So that is the kind of vision the division has easily.

And I think in terms of the margin, I would say that of course, automotive is a competitive market. But I think we have had in certain products, the first-mover advantage, particularly things like actuators for locks and throttle controls and of course, digital clusters is a product which others make as well. But I think we have been able to in a short span, able to establish that.

So I think one of the strengths of Suprajit, I believe is our manufacturing excellence. I think that is shown in the Electronics Division in a short span getting to double digits. So our aspiration for our India business were always what it is. You have seen it in DCD or you've seen it in SAL or you've seen it in Phoenix Lamps. So I think getting those kind of margins on a sustained basis, it should not be a problem for us, I think.

Akhilesh Rai: And also just to add, in terms of going forward, Suprajit has been focusing of course on growing this global Control Cables business. Each of these Control Cables, like you said, INR100 Control Cable can be replaced by a actuator. And that actuator we have also developed that expertise in-house. And like you said, INR100 cable can become INR400 actuator or even more than that.

So if you look at the global division, the kind of growth path that it has is that any control cable can be replaced by an actuator of some sort, which Suprajit being will be one of the key global India-based providers of these kind of actuators because there's nobody else who has this global footprint and based out of India.

And I think that gives us a very big advantage where you can tell at least we're talking about on these products at least 3, 4, 5x the current buying price. So you can see, even with the current products we have, we have a great future growth path within the divisions.

K Ajith Kumar Rai: By the way, I think it's past 12:00. So we will take probably maybe address 2 more questions, please from 2 more participants.

Moderator: The next question is from the line of Abhishek Jain from Dolat Capital.

Abhishek Jain: In the Suprajit Controls Division, how is the 9 months of annual mix for the SCDs, Wescon and the Domestic Cable Division?

K Ajith Kumar Rai: I think if you can come offline with Medappa, I think he will be able to provide. I don't have it immediately with me.

Abhishek Jain: And my last question on how do you see the growth in automotive versus nonautomotive in FY '25? And what would be the margin of each division?

K Ajith Kumar Rai: For the Controls Division?

Abhishek Jain: No, sir. I'm talking about the automotive versus nonautomotive growth, revenue growth in FY '25 and.

K Ajith Kumar Rai: What was the market you're talking about actually?

Abhishek Jain: Yes, automotive versus nonautomotive, I'm asking.

K Ajith Kumar Rai: Yes. I think nonautomotive, as I said, some of our customers at a 25% to 30% degrowth in this year. So from there, I think it will grow. We do expect it to grow but I don't know whether we hit the bottom, that is the point. So I think at the best probably, hopefully, this quarter would be the bottom of the barrel, I hope. And then the growth will be there. So for us, it is not the industry growth that will determine our growth. Actually, we are growing in automotive, let's say, 15% in the next couple of years because of the new wins, argument sake. Industry is growing at 2%, 3% globally, if at all.

So we are ahead of the market because we are getting somebody else's market. So, the global automotive market growth has got no relevance to us actually. So it's the same thing for nonautomotive also. We are winning now contracts that will go into production in the next year. So our growth would be certainly ahead of the industry. So the industry growth is not really a benchmark for us actually.

Abhishek Jain: Any specific number for FY '25? Any specific number for FY '25?

K Ajith Kumar Rai: Yes. Our growth would be very good double-digit in automotive, whereas in nonautomotive we are still not able to assess simply because we don't know where it is now and whether it is stabilizing at the current position. So probably next quarter we'll have a better answer for the nonautomotive. Automotive, we are quite comfortable at a comfortable double-digit growth next year and the year after next.

Moderator: The next question is from the line of Harsh from Marcellus. Please go ahead.

Harsh: Just one question from my side. When we look at the Domestic Cable Division and deduct the 2-wheeler revenue out of that, then there is almost 30% decline. This seems to be the number for the India aftermarket business. So just my question was like, what has happened to this business actually because I thought that this business should actually do well after reintegrating all the 3 facilities to another plant, and that's not being seen another plant as all altogether. I thought that this business should have actually done well.

K Ajith Kumar Rai: I think I have answered this question. This question was raised earlier, but anyway, I'll repeat. Integration of the business into a single facility has improved operations tremendously and also improved the overall aftermarket, let's say, internal divisions performance. So that is very clear.

What has happened is in the marketplace, as I said, for the first 9 months of the year, the markets have been somewhat tepid, whether it is monsoon or rural, things have not come back. There are multiple probably reasons for that, which we are seeing a change of trend in this quarter. For example, last quarter, we are seeing right now in the last 45 days, very strong offtake of the aftermarket. So it's the usual. We had a 3, 4 years of solid run in aftermarket. So it had a kind of, I would say, stabilization in the last 9 months. But I think, again, it is picking up actually. Yes, you are right, the delta is because of that, mostly.

Harsh: 30% decline is not completely...

K Ajith Kumar Rai: It is not 30% decline. I don't know how you calculate it. You can have a conversation with Medappa off-line. There has been a marginal decline, yes, but it is not 30%. You must also understand the product mix of the main customers also. It's much larger than that, I think.

Moderator: Ladies and gentlemen, due to time constraints, we will take this as the last question. I now hand the conference over to Mr. Ajith Kumar Rai for closing comments.

K Ajith Kumar Rai: Thank you very much all of you. I appreciate your interest in Suprajit, and I hope we have answered your questions. If there's any further questions, please do contact Medappa and we'll be happy to provide more information. So thank you very much, and thank you, Anand Rathi and your team for hosting this call. Thank you and have a good day, everybody. Thank you.

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