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February 17, 2023
SEL/SEC/ 2022-2023/25

BSE Limited
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Mumbai- 400 001
Ref: 532509

National Stock Exchange of India Ltd
Exchange Plaza, C-1, Block-G,
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Mumbai- 400 051
Ref: SUPRAJIT

Dear Sirs,

Sub: Investors conference call Transcript

Transcript of the Investors conference call held on Tuesday, February 14, 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: 2023.02.17 14:24:22 +05'30'

Medappa Gowda J.
CFO & Company Secretary

“Suprajit Engineering Limited

Q3 FY 2023 Earnings Conference Call”

February 14, 2023

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. VIJAY SARTHY – ANAND RATHI SHARE AND STOCK BROKERS LIMITED**

Moderator: Ladies and gentlemen, good day. And welcome to the Suprajit Engineering Q3 FY '23 Investors Call hosted by Anand Rathi Share and Stock Brokers Limited. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing star then zero on your touchtone phone.

Please note that this conference is being recorded. I now hand the conference over to Mr. Vijay Sarthy from Anand Rathi Share and Stock Brokers Limited. Thank you. Over to you, sir.

Vijay Sarthy: Thanks, Dorwin. On behalf of Anand Rathi Shares and Stock Brokers, I welcome you all to the Q3 FY '23 conference call Suprajit Engineering. I thank the management for taking time out of 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 CFO and company secretary. Request Mr. Ajith to give an introduction review about the results and then follow it up with Q&A. Over to you, sir.

K Ajith Kumar Rai: Good morning to you all. Thank you, Vijay. I appreciate all of you joining our Q3 results conference call. Thanks to Anand Rathi and the team. We have been able to interact with you over the years and that continues. As usual, I would request our team to make a short presentation on the results of Q3 and 3 quarters.

And then I will give you a short few wrap-up points, and then we'll allow the questions to come in. With that, I will first hand over to Mohan, who will talk about all the businesses, except LDC and STC, which will be done by Akhilesh. Medappa will cover the financial side of the presentation before they hand it over to me. Over to Mohan.

N S Mohan: Thank you very much. Good morning, everybody. As usual, what I'll do is I'll start with an overall assessment of the market situation. And then I'll move on to each one of the divisions. Well, generally speaking, October, and December quarter, we generally get hit by the year-end stock corrections by the OEMs because they are closing their accounts at the end of their calendar year. And this is also accompanied by Christmas and year-end closures. Therefore, this is generally kind of a quarter, which is not great.

However, moving on specifically to Indian market, Indian market has shown some resilience. The urban market has picked up and is borne by the fact that passenger car vehicles really went up very smartly. However, the entry-level segment of 2-wheelers did not do well. But the nonentry-level segments of 2-wheelers had done very, very well. That's primarily because of some rural stress probably. And we are also seeing some liquidity tightness in the market. Moving on to China. China has come out of the COVID cold. Hello?

K Ajith Kumar Rai: Yes. Go ahead, Mohan.

N S Mohan: China came out of the COVID cold, and it has started warming up a bit. It's still plagued by supply chain issues. And particularly the Ukraine war fallout in China has also happened. This is particularly affecting the European OEMs in China, like BMW etcetera. Europe is reeling under an inflationary pressure, coupled with high energy costs and overall general uncertainty due to war.

So that's what the scene in Europe. US market is hit by, we all know, unprecedented levels of inflation in recent times. And raising interest rates, which they are trying to tame the inflation, but has deflating effect on the consumption. And we have seen that happening pronounced the amount of business in that market. Now I'll take you through each one of our business divisions.

At DCD or the Domestic Cable Division, despite the muted 2-wheeler growth, which incidentally hasn't crossed the pre-COVID levels, our growth has come. This is both on the revenue front and also on the margin front, we are pretty robust. We have been seeing some benign commodity prices but rather strangely in the last month, we have started seeing an upward swing again and I hope this will not turn into a trend.

Our aftermarket fulfilment centre, which is a comprehensive table of aftermarket operations and warehousing, this we are going to start operations later this month. Moving on to the cable exports, the clouds of war, winter, energy, this has started affecting our overall business scenario. However, our consolidated sales and margin improvements is heartening. This is primarily because we have been able to get from our customers to compensate for the increased material cost. And this is coupled with also lower shipping and container costs. So together with this, I would like to say that our business pipeline has been pretty robust here.

Moving on to SENA or the Non-Automotive Segment, the impact of inflation in the US market, high interest rates, tepid housing market, all these things have not helped. This slowdown is expected to continue to another quarter the way we look at it. At Phoenix Lamps Division, the margins smartly bounced back. We clocked a double-digit EBITDA margin. We -- as you know, we were testing the pricing elasticity in the Indian aftermarket, which I had been talking about it in the last few calls. And I think that has started yielding results.

We have been making a few in-flight corrections, which were both responsive and proactive in the marketplace. And I think we had to show this agility, which we have done. This has been coupled with a laser sharp focus on cost reduction measures at the operations, and that has continued to yield that result. We focused our attention and actions on streamlining and making our overseas subsidiaries in PLD, more leaner and cost manageable. As you all know that we have 2 warehouses, 1 at Trifa and 1 at Luxlite and that we consolidated into 1 at Luxlite. We thinned down the staff at Trifa in line with the business. Now we are in the process of voluntarily winding down Trifa. And these, of course, are subject to statutory and other necessary approvals.

So in effect, restructuring at Europe for PLD has gathered momentum. These restructuring actions will, in my opinion, rightsized our business and also the infrastructure in Europe and, of course, bring the cost down on a long run. So this gives you an overview to what's happening in our traditional business, and I would want Akhilesh to fill in on the LDC and STP. Over to you Akhilesh.

Akhilesh Rai: Thank you, Mohan. In LDC update dated 25th July 2022 and 14th November 2020, we projected improvements in profitability despite significant headwinds in Europe, U.S. and China. Despite the unforeseeable headwinds of COVID as Mohan mentioned and related issues in China, we have still delivered our commitment of positive LDC EBITDA in Q3.

This improvement was based on operational improvements, integration synergies and share price adjustments from customers. On an operational level, LDC in Q1 was a negative 4.5% EBITDA. And in Q3, we showed a positive 3.7% EBITDA. This 8.2% improvement is significant in the automotive context and is very impressive work from the team there.

In Shanghai, China, we had some severe disruptions in Q3 due to China COVID resurgence there, which led to a challenging environment for our Shanghai Lonestar plant. The team has done well to overcome these challenges, but we continue to see softer demand in China.

In Siófok, Hungary, the team is doing well despite the continued slowdown in the automotive market there and inflationary trends in both labour and power costs. The operations have shown an improvement but select customer pricing discussions in that region are continuing into Q4. We expect these issues to be closed in this quarter. And Mr. Mohan had visited these customers in Q3 to help bring discussions to a conclusion. In Matamoros, Mexico, the team has architected a remarkable turnaround, both operational improvements, group synergies and more timely customer price enclosures in the U.S. supported the team there. A strong pipeline of business is seen and the team is highly motivated to improve the business further.

At our tech center, STC, the focus has been to commercialize some of the innovative products we have developed over the last few years. Our participation at the Auto Expo showed Suprajit in a very different light to our current customers and attracted many new customers as well. The market got a clear message that while we continue to focus on our core competitive control cables, we have a strong appetite of growth beyond cables as an R&D and innovation focused organization, be it into mechatronics, mechanical systems, braking systems or electronics. Finally, our electronics facility is scaling up production with most of the products focused on the EV segment and with the majority of India's leading EV customers.

This facility is expected to be a material contributor in Suprajit’ s organic growth and profitability in years to come. Thank you. And with that, I hand it back over to Chairman.

K Ajith Kumar Rai: Medappa?

Medappa Gowda J: Good morning, everyone. The consolidated revenue, including LDC for the 9 months ended 31st December 2022 was INR 2,053 crores, against INR 1,335 crores the previous year, recording a growth of 54%. The consolidated operational EBITDA for the 9 months ended 31st December 2022 was INR 223 crores, against INR 190 crores for the corresponding previous year, with a growth of 17%. The consolidated revenue excluding LDC for the 9 months ended 31st December 2022 was INR 1,545 crores, against INR 1,335 crores last year, recording growth of 16%. The consolidated operational EBITDA for the 9 months ended the 31st of December 2022 was INR 225 crores against INR 190 crores for the corresponding previous year, recording a growth of 18%.

The standalone revenue for the 9 months ended 31st December 2022 was INR 1,092 crores, against INR 915 crores previous year, recording growth of 19%. The standalone operational EBITDA for the 9 months ended 31 December 2022 was INR 187 crores, against INR 157 crores last year, recording growth of 19%. The total group debt level was INR 604 crores, against -- as on 31st December 2022 and we have a surplus cash of INR 343 crores as on 31st December 2022 invested in mutual funds. The Board has declared an interim dividend of 105% for the year '22 and '23. For further queries, you can approach any time as usual. Thank you very much.

K Ajith Kumar Rai: Thank you, Medappa. I think overall, what I would like to conclude is to say that we had a solid and good Q3 with solid improvements across our divisions within the group. For the first time in many quarters, PLD has done a double-digit EBITDA margin, which has been very heartening. Domestic cable division has done nearly 19%, again, one of the best in recent times.

Suprajit Automotive plus Suprajit Europe, our original export group have done a good improvement in margins and also improvement in sales. SENA has been steady. LDC, as Akhilesh has mentioned, it has become EBITDA positive in the third quarter. Overall, I would say we had a good growth and a very good improvement in margin in Q3. Despite Mohan and others are talking about the gloom and doom, despite that, I think we have turned out an excellent performance. The Q4 is also expected to be fairly steady and good. We have made the comments on -- in our business update.

With that, I will now let the questions to come so that we can specifically answer any of the questions that you may have. So I'll hand over to Dorwin, the moderator to start the questions to come in. Dorwin?

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

Aashin Modi: Congratulations for decent margin performance. So sir, my first question is regarding PLD margins. So sir, you've talked about that the gross margin over here was hit by high gas prices. So if you could help us understand where are the gas prices now? And secondly, if you could also let us understand markets of Trifa and Luxlite in the last 2, 3 quarters and how...

K Ajith Kumar Rai; Sorry, I'm missing on the Luxlite. What is the question on Luxlite? Hello?

Moderator: Sir, the participant in the queue currently has dropped from the queue, sir?

K Ajith Kumar Rai: Okay. I will answer for the purpose of others. I didn't understand the second question on Luxlite. The gas prices have come down, but it has not gone back to the historic levels. But what our operations team has done an excellent work was improve the efficiencies within the plant to get a better margin out of the entire operations. And also, of course, we have been able to pass on some of the price increases. And that's the reason why the margin at PLD has improved. So you can go to the next question.

Moderator: We have the next question from the line of Mumuksh Mandlesha from Emkay Global.

Mumuksh Mandlesha: Congratulations on our turndown in LDC and lamps margin, sir. So we visited the Suprajit pavilion in the Auto Component Expo and there you have showcased your wide range of new products such as mechanical disc brake display system, electronic throttles, actuators, speedometers and seeder gear boxes. Can you highlight how has been the response to the new products and particularly on the mechanical disc brake systems, which make use of sensors is particularly the cheaper than the disc brake systems?

K Ajith Kumar Rai: Well, I think you're right. We -- in our Auto Expo, we have displayed our STC products. As I think Akhilesh was mentioning, there has been very good response from the OEMs. Both ICE and EV side of it. Specifically, whether it is MDBS, mechanical disc brake or the other products, there have been many discussions that have started now as well some discussions were going on. All I can say is with a couple of customers, our products are under testing at this moment.

So these new product development is totally a new concept and also it's a patented concept and it takes a little time. But all I'm saying is that there's been an excellent reception for MDBS as well as other products that you mentioned. And we are all discussing at this moment with various customers.

Mumuksh Mandlesha: Sir, if possible, can you say what has been the revenues from these new products this year and what is the expectation for next year with the products such as seeder gear box expo starting soon?

K Ajith Kumar Rai: The seeder gearbox is under the final test with the customer in Brazil. So it goes through seasonal testing. So I think we'll have to wait for this season to be over. I don't really know when the season is ending, but our products are under the final round of tests in the field at the moment. That's ultimate decision maker. So we are expecting that certainly next financial year, the products to come into production. The volumes will depend because there are existing supply also. How the customer will share the business is something that we are able to negotiate so we are now in the final stage of product approval.

In terms of commercialization and the value of it, I think we will wait for some time to comment on the electronics division and our new division specific product revenue. All I can say is that things like digital clusters, actuators -- electronic actuators and sensors are under production. There are certain levels of business. We are still scaling up more at the moment.

So I think the next -- I mean, I would say this year we will go in our commercial operations to stabilize. I think then only we would like to give a comment on the numbers probably in the next quarterly update. But all I can say is that the response has been pretty good. And as Akhilesh mentioned, it will be one of the good organic growth prospects within our group in terms of revenue growth for the coming years.

Mumuksh Mandlesha: And sir, on the non-auto cable performance, it has been weak this quarter. Can you guide the performance expectation for coming quarters? And also, can you provide an update on the traction for in newer segments in the non-auto which the company was focusing on.

K Ajith Kumar Rai: Sorry, what is the next -- second question?

Mumuksh Mandlesha: On the new segments like the power sports, medical, marine...

K Ajith Kumar Rai: Okay, within our non-automotive. Yes, Q3 has been slightly weak. Again, this business is all for the North American business under SENA. So there has been a slight degrowth as you would see for the quarter compared to last year's quarter.

I mean US market is going through a kind of a recession. The uptake from customers have come back. We've been able to have a flat -- more or less a flat business in the Q3. Thanks to some of the new business. Otherwise, it would have been a significant drop in volume, but that didn't happen. So in a sense, we are sort of managing that thing. So how will be the fourth quarter, as I said, I think also mentioned in our business update. Q4 also is likely to be slightly weak for SENA. So I think, hopefully, from Q1 of next year, things should start looking better.

Mumuksh Mandlesha: Right, sir. Last question, interest costs, any reason for interest cost going up sequentially, sir?

K Ajith Kumar Rai: Interest rates, my friend, I think it's affecting everybody. The interest rates have gone up almost by 200 basis points compared to last year and also on a sequential basis. So that's basically the reason.

Moderator: We have the next question from the line of Ravi Purohit from Securities Investment Management Private Limited.

Ravi Purohit: Congratulations on a good set of numbers. Sir, I think if you could just spend a little more time on some of the newer projects or products that we've been talking about. And I think you just mentioned that it will be difficult for us to kind of give what kind of revenue or how much contribution we can provide next year. But you could just kind of give us some colour as to -- so for example, on the current businesses where we are doing our cables, right?

A typical 2-wheeler will fetch us like INR 250, INR 300 per vehicle from a contribution from per vehicle point of view. Similarly you have 4-wheeler, it will probably fetches like INR 700, INR 800 per some cables contribution. But the newer products that we are working on what kind of change in realizations per vehicle can it kind of give us? So in a sense, does it expand our addressable market substantially from what it is today?

And how does LDC product portfolio kind of fit into that? So if you could just elaborate a little bit, it would be very helpful for us to kind of understand some of these things.

K Ajith Kumar Rai: Yes. Thank you, Ravi. I understood the point. I think one of the statements we have been making in the last couple of quarters is that the intent of STC Electronics Division, all the new products, not just electronics, but also mechanical product is with a clear intent that in the next 3, 5 years' time, our content per vehicle, I'm talking about the 2-wheelers, whether it is EV or otherwise, will increase from the current position. The current as you rightly said, let's say, there are INR 200, 4 or 5 cables in a 2-wheeler. Our intent is that in next 3 to 5 years that content per vehicle should increase. That will only come from the new products.

Now just to give you a comparative number, I mean just for the sake of give me some idea. Typical, let's say, digital cluster will cost anywhere from INR 600 to INR 2,000 in an EV or in IC Engine vehicles. So even if let's say 1 or 2 cables come down and we have an electronic cluster or, let's say, actuation -- lock actuator in a 2-wheeler, which is all required. In EV, it is like every vehicle, we'll have it.

Each one of those just actuator will be INR 150, or say, INR 200. So MDBS is in a different league altogether. It's a much higher price. So these products that we are currently working on is commercialized, whether it is sensors, thumb throttles, they're all anywhere from INR 250 to INR 600, INR 800. So each one of those products. They are much more than the collective 4 or 5 cable costs. So I think that should give you an idea as to what these products will do to us in the longer term.

In terms of what LDC brings to the table is certainly on the electromechanical actuators. I think we have been working with them both ways, how we can make it, let's say, more economically in India for them and how we can bring those technologies to India. We have been also in discussions with 1 or 2 customers growth in EV space and the automotive space, how we can work with them to introduce them in the Indian ecosystem of automotive business. So that's an ongoing process. I think it probably will take some time, but those products are very exciting for Indian markets also.

Ravi Purohit: Sir, other point was, I think Akhilesh during his starting -- in his opening remarks mentioned about some of these products will be patented. So if you could just share some insights as to -- when you speak of patent, is it like patents that we have registered in India, but we have products work from LDC or we've actually developed them in-house and we are kind of -- so if you could just spend some time on explaining what has been like R&D progress? And what kind of patents are we working towards? And over a period of time, what kind of returns you would envisage these efforts you kind of bring.

K Ajith Kumar Rai: On the patent scenario, I think I'll ask Akhilesh to answer. Akhilesh will give you some kind of a brief on the patent situation with the STC.

Akhilesh Rai: Yes, sure. So the STC team is now 40 plus engineers that are completely focused on R&D development. And in terms of patent, most of the products developed by STC have been developed [inaudible 0:25:20].

K Ajith Kumar Rai: I think, Akhilesh, you are breaking. We can't hear you. Akhilesh, you are breaking. But I think still, you're taking your -- maybe Mohan can give some feedback. Hello, Mohan.

N S Mohan: Yes, sure.

K Ajith Kumar Rai: Please go ahead. I think Akhilesh is somewhere weak, on the STC and patent situation.

N S Mohan: Okay. There are 2 questions. So the question one is, the current patents, is it LDC or is it FTC based? Most of the patents that Akhilesh talked about has been completely developed in-house here in Bangalore at STC. So these are the patents that we are talking about. That, I think, answers the first part of the question.

Second part of the question was in terms of -- what was the second part? I think I missed it out. Can you repeat it?

Ravi Purohit: Yes. Basically, how -- what period of time can we see benefits coming out of the -- some of these patented products or some of the things that you developed, right? In the sense what I'm trying to understand is how have we kind of gone about developing these products? Because the customer came to us with a problem, are we solving or we kind of developed an in-house by looking at products that we have already?

N S Mohan: It's a mixture of both, to answer your question. There have been certain things, for example, let us say, the gearbox, where we have taken a paced on the way it is mounted and the way it is connected, etcetera. Now this was an existing product, and there were some issues from what was posed for the customer. Therefore, we address those issues came out with solutions. And therefore, we took a patent on those solutions that we have provided. So that's 1 category.

The second category is where that kind of a product does not exist at all. It is a completely grounds up idea at STC, telling, okay, why don't we make something in this direction? And why don't we produce something -- a product or an application in this way. So in the first one, it is obvious because it's directed by the customer who throws a challenge at you and you come out with a solution, therefore, it becomes easy. Whereas in the second portion, taking it to the customer, involves selling the concept itself, it is not selling a product.

Therefore first you need to demonstrate your concept, then proof of concept, then going for showing them a proto, etcetera. So I think we are upping the game here within Suprajit world. And I would say it's learning exercise as we go forward, and it evolves. But we have been moderately successful in the second one already, I would say.

K Ajith Kumar Rai: I think just to add on to what Mohan said, I think, for example, our mechanical disc brake is in their second segment, where we thought that okay, why can't we come out with the mechanical disc brake instead of hydraulic one. So that's entirely our thought processes, it has been done. It has been established. It has been patented. So it has been tried out by more than a few customers already. So -- there are both ways of looking it, yes.

Ravi Purohit: Thanks a lot. I'll get back in the queue. Thank you.

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

Abhishek: Congrats for decent set of numbers despite tough quarter. First question is from cable division. So where margin was decent despite slowdown in the 2-wheelers. So is it because of the price hike in European cable operation or fall in the RM prices? And is it sustainable, as going ahead, you need to pass on the benefit of the fall in RM prices to the clients?

K Ajith Kumar Rai: We hope we can be able to maintain it. But you're right to say that these price increases and material cost increases and decreases are kind of a pass-through mechanism. So certainly, we had some tailwind on that in the last quarter, but there would be some amount of savings that we'll be able to continue to hold on and some will have to pass on.

Having said that, one should not go by again, just one quarter performance. But if you really -- even if you look at the 9-month performance, we are generally ahead of the previous year in terms of margin on the cable division. So we are hoping to maintain it. Let's see how it goes.

Abhishek: And sir, in automotive cable business, how was the mix for the 2-wheeler versus 4-wheeler and how do you see improvement in the 4-wheeler business in the coming quarters?

K Ajith Kumar Rai: Yes. I think purely from an Indian perspective, the 4-wheeler business side of our business has improved quite a bit because obviously, passenger vehicles have done well. Whereas the 2-wheeler markets have -- the OEM market have not been doing all that greatly, which we all are aware of. That has been offset by our ability to push more in the aftermarket segment. So that's why the reason for growth is one is passenger vehicles and also secondly due to aftermarket as well, where we had a very good and robust business.

Globally, I think all our business is more or less is in the passenger vehicle. So that has -- as Mohan was saying, it has had its own challenges. Despite that, LDC has done a decent job. So LDC business and SAL, SEU business also has grown, which all is because of the new businesses we have. But the current business on the existing platform, the volumes have come down, but the new businesses, which we have been able to commercialize is responsible for the increase in business volume and also improved margins.

Abhishek: So in global business, as the supply side issues easing off and order backlog is very much strong in the passenger vehicle segment. So how do you see growth in the coming quarter because the most of the company has increased your guidelines for the production in the 4Q. So can you shed some more light there?

K Ajith Kumar Rai: India business passenger vehicle business is solid, there's no question everybody knows about it. Globally, I don't know if anybody has really said that they're going to increase their volumes. I think as we know, there has been probably a minor uptick, but it is nothing material as we see it. It is still the growth compared to, let's say, previous year in Europe and U.S. And also in China, for example, China has had not a very good quarter and also didn't have a good January. So the volumes are not really growing. I don't know whether anybody has said that it is otherwise.

Abhishek: Okay, sir. And my next question is the SENA division. So is the top line was impacted with the inventory correction in this quarter?

K Ajith Kumar Rai: No. SENA division, as I just was explaining. I mean we had more or less a flat quarter compared to the previous year is largely because the volumes have come down with some of the nonautomotive customers. Because generally, these are all non -- not U.S. intensive businesses where -- when there is a down tick in, let's say, home sales or whatever, whether it is the lawnmower or whether it is the tractor sales in the business in agri, they all have had some hits in the quarter.

And even things like power sport vehicles, which is more like for fun people use it. Those offtakes have come down in U.S. And that is the reason the volumes have been more or less flat. And that the situation, as you said, will continue probably in this quarter. And hopefully, if the -- if there a clear intent in a -- clear indication to the market that the interest rate cycles have now stabilized or not likely to go further. Hopefully, it will slowly recover for the next year. So that part of the business, there is some challenges. But we have also won some new contracts. So we are saying that we still will grow next year also.

Abhishek: So as you mentioned that SENA revenue will be weak in the quarter-on-quarter basis, weak in the Q4 as well. Is it Y-on-Y or quarter-on-quarter? Because SENA revenue is strong in the 4Q?

K Ajith Kumar Rai: I think on a year on year so far in the SENA division, we had some 10%, 12% growth. End of the year also, there will be some growth, but on a quarter-to-quarter basis, there may be a flat quarter. But on a year-on-year, there will be growth and -- which is what we expect to continue in the next year also.

Moderator: The next question is from the line of Diksha Chugh from Premji Investment.

Diksha Chugh: And pleased to see the turnaround in LDC as well. I sort of had 2 questions. One is on the commodity prices uptake. I think that was mentioned in the opening comments that you're now seeing some uptick there. So if you could elaborate on that one.

Second is in terms of SENA, I think the way that sort of we were looking at it is that the opportunity size is very large. So because the revenue has come down, I think that is -- if you could explain that one a little bit more. Like I said, that if opportunity size is so large, then the revenue should not have fallen as such.

K Ajith Kumar Rai: On the commodity price, I think till December, I think, there was peak about 6 months ago, or whatever, a couple of quarters ago. That had come down a little bit, and it has sort of stabilized in January, February. But what we are seeing in -- sorry, in November, December. What we have been seeing in January is, there seems to be some uptick in the market, particularly on the steel side of the market and also some of the other commodities like zinc, copper, etcetera. Is it a trend? I don't know, honestly. We are just thinking that it is one of things that we are seeing, and that it will stabilize.

So it's very difficult to predict the commodity prices. At the moment, we feel comfortable about it. There is a one monthly small uptick we have seen in some specific commodities, particularly steel in last month. But we don't know whether it will continue or whether it is a trend. With regard to SENA, I think, yes, the market segments are many, and we have had a running business of certain level. And at least 3 or 4 of our customers' offtakes have been significantly reduced in the last quarter, despite some of the new businesses that we have won, which has come into the city, but the existing customers' businesses have been dropped in some cases 20%, 30%, 40%.

So that's why the overall business volume has sort of stagnated or tapered off a little bit. It is -- the new businesses will get into -- not every quarter. I mean we had some input -- new business intake, but the drop in some of the existing business have been quite significant, I think. So overall, it has been a quarter where there has been some lower volumes compared to the previous year. I think, as I said, it probably will continue for 1 more quarter.

Diksha Chugh: Sure, sir. And just last question on the China bit. I think -- so January, of course, the sales have faltered, but until December, the data that we were tracking on the insurance bit that from China was showing that there has been an uptick seen in December due to the COVID guidelines becoming softer there.

So which is what -- so I'm also tracking the European auto stocks, they have also sort of performed well because of China reopening expectations and then the fact that we could do more sales there. So it was interesting that you mentioned that China sales have been softer. Is it more of backward looking? Or is it more like a guidance that you're seeing that for at least next quarter it won't be as good?

K Ajith Kumar Rai: I think I need to give a little clarity on this. If you look at purely at China, China business, which has had reasonable numbers, I think, but there's also been exports out of China. People make certain products in China using our products and then export to Europe. And one particular customer, without going into the name, was producing a significant volume of a non-automotive product, which was actually exported to Europe and also to Ukraine and Russia. So now that has been -- had a major shift in the last 3, 4 months. So that has had its own effect on us to be very -- more specific. And also, I think from January onwards, there has been some tempering of China volumes, whether it is a trend, I don't know.

So having said all this, I think January has been a weak month because also in January, we have this Chinese New Year. So nearly 10 days everything gets shut down. So January per se was weak, but we feel that February, March should recover reasonably well. So it is not really we're not giving guidance. It is just that the position we are in had some patches of this. But overall, China business has been actually one of our most margin-accretive businesses amongst the LDC entities.

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

Aashin Modi: So sir, can you repeat? I mean, first, I wanted to understand a bit more on PLD margins. So was it because of gross prices, especially gas prices coming down? And also if you can throw some light on losses in the Trifa and Luxlite business, how have they been? And what sort of a margin do we expect in this business?

K Ajith Kumar Rai: Mohan, will you answer the PLD part of it? Where we have been able to make improvements, and the margins have improved.

N S Mohan: Sure. Definitely on some of the commodities, the prices kind of stabilized. But as the stabilization was happening because it had become very expensive, we started running very focused cost reduction programs. So waste reductions and those kind of stuff. Therefore, we tightened the belt to a great extent on the cost front.

However, we did not keep quiet on that. We said that we should also tackle it from the price because the commodity prices have gone up. Therefore, we went to the market, be it at the OEM level or be it at aftermarket or at what we call as OLM, other label manufacturers, and we requested for a price increase, and we did get the price increase. Therefore, as people talk about a double engine growth. So probably this is one of those double engines network.

K Ajith Kumar Rai: And to talk about Luxelite and Trifa, I think we need a presence in Europe, but not at the level we had in the past or we currently have. I think a lot of the packing and storing can be done out of India and shipped also. So there have been multiple internal discussion as to how to bring the cost down in the European operations. So what we have done, as Mohan was mentioning earlier, we cut down one warehouse and then we said, okay, let's look at the year and see how the cost work out. It did bring down the cost a fairly good way.

We shrunk Trifa last year. And I think we now look at it as more like a front end that is required in the Europe and that most of the things can be done here and delivered from here and with a probably even a smaller warehouse than what we have. So with that thought process is what we have now initiated that just one entity is sufficient for us to deal with European requirements. And that's what we are trying to execute in the next 1 year or so, which will -- certainly will bring the cost down because it will also help in reducing the number of people there.

It will help in stocking and warehousing costs and things like that. So given a year's time, once this -- what I would call it, probably a final round of restructuring is done. I think that will add additional margin improvements for the overall operations of the Phoenix Lamps Division.

Aashin Modi: That's quite helpful. Sir, my next question is on the Wescon. So we have offset the industry degrowth by winning new businesses. So are these new businesses, margins are at a similar level? And I mean, if you see that against inflation, you can see that impacting. So is there a pressure of operating deleverage impacting margins in Wescon?

K Ajith Kumar Rai: I sort of missed your question. Can you just sort of...

Aashin Modi: So my question is regarding Westcon margins. So the new businesses which we have won, are these at similar level? And also if volume is impacted in Westcon going forward, do we see pressure on margins in this business?

K Ajith Kumar Rai: Not really. No, no, no. One is, yes, new businesses are typically one at what we expect as the current decent margin for the Wescon or SENA operations. Will the reduced volume will bring the margins down? I don't really think so. I think it's not that there is going to be some 20% drop in the sales, something like that. We still will have a decent number. I can -- all I can say is that probably we still have a double-digit margin by end of the year. I don't see any problems in that.

Aashin Modi: Okay. And sir, my third question is regarding the order book in LDC. So sir, what sort of a delta do you expect apart from the industry, especially in the Europe and U.S. business of LDC, considering our current order book?

K Ajith Kumar Rai: The order book is -- technically, order book based on the original estimates given by the customer should have been very, very strong. But what is happening now is that either the projects are taking off later, like, for example, the launches are getting delayed, number one. So although we have won the business, but we have not really started the production. We should have started, let's say, 6 months ago. That is one side of it. And those existing businesses where the volumes have come down. Now going forward, we still -- if you remember in the beginning of the year when we got into the driving fleet of LDC.

We have given certain guidance saying that we will still do about $100 million or so of business next year. And hopefully, end of the year, we will do a double-digit margin by at least the Q4 of next year. I think those guidelines still hold good. I don't think we're changing it. Although from the time when we made the comment and today, the scenario has been much worse. Thanks to

COVID in China, thanks to Ukraine war and thanks to a slowdown in the U.S., which we didn't really expect. But we still are holding that, that guidance is possible to achieve for the next year.

We have won some decent new orders, and we are hoping that we'll commercialize it soon enough. And some of the contracts, which should have been in the pipe, should have probably started now or in the next few months. We'll go into the production at least next year. So we are still hopeful that next year will be a good year for LDC in terms of sales as well as margins, of course.

Aashin Modi: Okay. And sir, lastly, on the LDC margins improvement journey which we are there, so, sir, we. So sir, there were 2 levels, 1 was pricing correction and there was 1, process improvement. So what sort of improvement can come going ahead these other pricing correction? And what sort of the journey in LDC margin do we see going forward, even that volumes could remain under pressure?

K Ajith Kumar Rai: So I think in our first update, we said the first 2, 3 quarters will be a negative quarters, and that slowly we'll get into positive and go ahead. And in the last quarter of next year, we will be -- that will be sort of -- we'll be in double digit. This is the kind of guidance we have given.

The first 3 quarters, we have been declaring quarterly numbers, as Akhilesh was mentioning, from minus, whatever, 4.5%, we have gone to plus, whatever, 3.5%, a net gain of 8%, which is, I think, a commendable job by the team in terms of operational improvement, number one. Number two, price increases as well. That has also been responsible. But some of the price increases, what has happened is that as I probably have said this 3 quarters ago, that the previous management never went to the customers for the price increase.

We had to start fresh after we took over. It is a bit late because commodity prices have started tapering off. So there has been and continues to be some reluctance from customers to these price increases. So some of them are still outstanding. We are still impressing on them to do it. And I think once that's all-in place, then the further improvements in operational efficiencies happen.

And of course, hopefully, the commodity prices slowly either stay where it is or hopefully will stay a little better or lower. I think generally now, we are not on a print rate, I would say. We are on a marathon on this LDC, it's a 2-year marathon. I think so far, our journey has been good. We've seen, despite worsening the economic condition, I think our progress has been quite satisfactory.

Moderator: The next question is from the line of Gokul Maheshwari from Awriga Capital.

Gokul Maheshwari: My question is more on the medium term. Given the portfolio now we have of the number of facilities and also LDC coming into the fold, what are the kind of discussions and engagements you're having with the customers in order to get more business with them? And how are they responding, given you have now a fairly good global presence? So if you could just give some examples on how do you see these engagements going forward in the next couple of years.

K Ajith Kumar Rai: Thank you, Gokul. I think very, very asked question, I would say, what has happened since the acquisition of LDC? Suprajit stand-alone in the past, was a good cable network, but didn't have the, what I would call as a global wherewithal in terms of, let's say, geographic footprint. I thin with the LDC summing, we got both manufacturing, R&D, engineering and business development wherewithal. Together, I think we are a strong force. I think Jim, our President, has visited multiple customers. Mohan was there recently in Europe, he has visited multiple customers. And our, of course, Vice Presidents of our business divisions have visited customers to various stages.

What has been strength very strongly by us after all these interactions is very clear, customer wants a supplier who is financially strong, who have got the right global footprint and who has got the capability to deliver both the right engineering solutions at the right prices at multiple locations. I think when we look at that kind of a requirement from customers, and it has been the view of some of the customers who very openly express this that, today, LDC plus Suprajit is much more than LDC separately and Suprajit separately. So they are much more comfortable with us.

Of course, pricing is an issue that they will always benchmark with multiple people and try to get the best out of everybody. But having said that, I think our ability to get to convince customers to give more business is quite easy. And I think we have been in that process now presenting customers multiple options of deliveries, not just one plant, one customer, we have got multiple options that we can ask them to use based on their comfort or they want to derisk some country or they want to derisk a region, they want to go to a low cost, they want to get it closer at home, we have all the solutions for these customers.

I think that has been our strength with the LDC plus Suprajit. And I'm pretty sure that once this economic so-called uncertainties and the wars and the COVIDs are behind us, I think we are very confident that the business momentum will pick up very significantly.

Moderator: The next question is from the line of Resham Jain from DSP Investment Managers.

Resham Jain: So sir, my question is on Phoenix. We have seen margin improvement there. But on the growth part, how are we looking at this division going forward, and what kind of utilizations we have currently? Is there a capacity constraint to go beyond certain levels? And how are we planning to do that?

K Ajith Kumar Rai: There's no capacity constraint. I think we have got enough capacity. As you know, the OEM side of the halogen lamp is coming down, whereas the aftermarket side of the Phoenix Lamps is improving. I don't know whether you're in the last call, but when we took over, we had 30% OEM and something like 70% -- sorry, 30% aftermarket and 70% or 65%, 70% as the OE business. That has almost flipped now. It is 70% aftermarket and 30% OEM.

So the aftermarket is still strong. But of course, there is competition. There are still players from China, from Korea and of course, domestic 1 or 2 of them who are trying to get into this market. So overall, I would say, it is now again where we have been able to establish ourselves as a strong player, quality conscious, capable of delivering to customers not just the aftermarket, but also the OLM and direct exports.

So we expect the volume growth next year for sure. How it is? It's a market where it's perennially dynamically changing. The OEMs are coming down, aftermarket is increasing. And the aftermarket has delivered a strong performance again. So I would say we have a situation where we are now considered a strong player, not just in India, globally. The last man standing philosophy that we adopted a couple of years is now panning out well.

We are one of the last man standing strongly in this market. And that had, of course, had dented some of our margins because of the competition and excess capacities in the market. Some of them has gone away. Some of them are still there. Some of them will go away in the next year or so. So overall, it's a dynamic market. All I can say is that today, we are a lot more comfortable to say that PLD has gone through the worst times.

And I think we are in a fairly decent wicket going forward. With a decent margin and a reasonable growth -- I mean growth may or may not be there or may not be great, but still, I think the margin will protect us for the next few years.

Resham Jain: Okay. Understood, sir. Sir, the second question is on the point which you have discussed a while back on the overall organization level. So from a sales perspective, I think each salesperson or a business development guy can sell multiple products. So from a sales organization standpoint now, how are you -- is there any change? And are you relooking at the overall sales?

Because there can be a lot of cross-selling opportunities of the strength of each of the plants, globally as well as within India. You highlighted that, but just from a sales perspective, I was just thinking, is there any reorganization there?

K Ajith Kumar Rai: I think Mohan, would you like to answer? I'll also probably add on an end.

N S Mohan: Sure. When we talk about sales, let's bifurcate it into 2 portions. Or rather, I would say, 3 portions. One portion is the aftermarket. The second portion is the OE phase. And the third is the exports. So let me answer each one of them separately. When you talk about aftermarket, when you talk about, let's say, Cable Division or electronics or Phoenix Lamps Division, the addressable market and the players in these markets, by and large, are different. Therefore, when you are talking to a dealer who is dealing with cables, it may be that they're also selling bulks, but the high probability is they're not doing so. Because there's a mechanical component and nan electrical component.

Therefore, the kind of dealership, distributorship that you are addressing is different. Therefore, to that extent, we have kept the sales organization separate for aftermarket, and it will continue to do so. Now I come to OEM. OEM, when you talk about it at a gross level, what you say is right, there is a cross-selling opportunity at the gross level. But when it comes to the buyer level, the commodity buyers are separate. For each one of these areas would be separate. Therefore, we will not be able to really mix it up and talk about it.

Export is a completely different ball game, and we have a separate way of handling it. Now when you talk about cross-selling where it matters is a strategic relationship, where we -- particularly, the OEM that I was talking before. There, we need to engage the top-level management of the customer and then show them the book products that we have and also the potential that we have to come out with new products jointly working with them or on our own.

Now that can be addressed separately by the top management itself. Akhilesh, many a times -- Akhilesh, many times, visits the customer. I visit the customer. And then we engage the customers at that level. And based on the requirements, we will channelize the division and the divisional sales people to go and start approaching. This is the way we are handling it. And I think going forward, we need to have the right balance of having the divisional focus and hence, the product focus at the OEM, but at the same time, addressing at a strategic level with the OEM customers. Aftermarket, I have already explained.

K Ajith Kumar Rai: I think just to add to what Mohan has said, Resham, on a global level, again, we have these automotive customers and non-automotive customers. We have also bifurcated that as 2 separate segments. As there is a head of business development for automotive, there's head of business development for non-automotive. They drive under -- within their own managers that they have into different segments of customers. Maybe 1 business manager under automotive will deal with 2, 3 OEMs. Similarly, 1 manager under non-automotive guy will deal with 2, 3 customers. And then there will be an engineering support for them to present the case for each one of these divisions.

So it's a well-structured system. We have been able to pitch it well. And to add again to what Mohan has said, I think one of the things that we are starting to do now is to do some tech shows with some of our Indian OEMs. After seeing our tech centre and our experience centre and seeing our products in auto expo, a lot of them have shown interest in us to have a tech day in their campus.

So one of the things will happen in the next 3, 4 months is that we will go pitching for a day with their engineering centre or R&D centre with our tech shows to showcase our products and let all their engineers who are working on different, as we mentioned, Mohan said, different engineers working different products, even the customers. They will come during the day and see our products what interest them. And our case is to get to explain to them.

That is the other way we are trying to sell our products as well, for which a lot of customers have started giving dates, and we're in the process of doing these road shows also.

Resham Jain: Great, sir. Sir, the last one is on the cable business. How are you seeing growth for the next couple of years. From there, do you think growth possibilities are there? Two-wheeler, obviously, is at cyclical low today, but is there anything else other than a 2-wheeler, which will drive growth in the core cable business going forward?

K Ajith Kumar Rai: Well, all I would say is that at the cable that actually we know now, that our dependence on 2-wheelers is, whatever, 25%, 27% from the 90s, 10, 15 years ago. So the dependence itself has come down. So what we are driving now is how do we drive our growth in the non-2-wheeler side in terms of automotive, in terms of non-automotive, in terms of aftermarket. I think that is where the Cable Division will drive its business, not just in India, globally. That is one side of it.

And within OEM, as we have said, there could be -- my view is that I may be wrong, and I hope I'm wrong, but the number that we saw some 2018, '19, whatever, 23 million, 24 million, 25 million 2-wheeler may never be produced in India for a long time. So we have foreseen this 5 years, 7 years ago, and we have been derisking that -- our business from 2-wheelers. And we have done it successfully.

So now, within the 2-wheeler, which is, let's say, 25% of our business, how do we further derisk? That's where the STC and our Electronics Division and our -- some of the new products are coming into the picture. So overall, we are quite confident that the Cable Division will grow nicely, not just for 2, 3 years, much more than that because the kind of traction we see in the LDC or in the non-automotive space or automotive space of our own Suprajit automotive and Suprajit Europe is pretty, pretty strong.

So global customers, OEMs have accepted us as a true global supply chain partner. There is nobody else of that stage in the past, they didn't have the comfort and confidence. I think we have been able to deliver that to them. So I would see a good uptick in our volumes in cable business itself. And of course, the rest of it will follow as we go forward. And I think -- moderator, I think it's already 7:00 o'clock. We'll take maybe another 1 question.

Moderator: Sure, sir. We have one participant in queue at the moment. We have Mr. Rakesh from Axis Capital.

Rakesh: Sir, just 1 or 2 questions I had. So what is the reason for your other income declining this quarter? I know it was high in last 2 quarters. But was there any one-off that you can highlight here?

K Ajith Kumar Rai: Medappa, can you explain other income coming down?

Medappa Gowda J: Sir, income for the quarter?

K Ajith Kumar Rai: Other income has come down he's saying, is it to forex? Or is it something else?

Medappa Gowda J: It's specifically forex. Yes.

K Ajith Kumar Rai: Yes. I think it's the forex. We have mark-to-market, and we have -- what is the reason, I think.

Medappa Gowda J: On forward contracts. Yes.

Rakesh: What would be the quantum of the -- I mean, the forex drop?

K Ajith Kumar Rai: Yes. Medappa, your number? Or you can tell them off-line.

Medappa Gowda J: I can provide later.

K Ajith Kumar Rai: Yes, you can contact Medappa. I think that is basically on the forward contract number.

Rakesh: Okay. And just one more question. Sir, if I look at your consol minus stand-alone numbers, sir, other expenses have also moved up sharply something like 15%. So is this largely due to energy prices? Or anything -- any colour over here?

K Ajith Kumar Rai: Yes, power in Europe has gone up. So as in the U.S. also, I think. But there could be some other -- I won't be able to answer clearly. I think maybe Medappa can clarify later on. But certainly, power is one of the cause. Thank you.

Thank you, all. I think from us that would be the last question we'll take. I'll hand over. And once again, thank you for the interest in Suprajit. We appreciate. If there's any more questions that you may have, you can always contact Medappa or our secretary department, and we'll be able to -- happy to answer any of them. With that, I'll give it back to the moderator and thank Anand Rathi once again for hosting this con call. Thank you.

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