Sundram Fasteners Limited

Email: investorshelpdesk@sfl.co.in

REGISTERED & CORPORATE OFFICE
98-A, VII FLOOR
DR. RADHAKRISHNAN SALAI,
MYLAPORE, CHENNAI - 600 004, INDIA
TELEPHONE : +91 - 44 - 28478500
PAN : AAACS8779D
CIN : L35999TN1962PLC004943
WEBSITE : www.sundram.com

November 16, 2022

National Stock Exchange of India Limited
Symbol - SUNDRMFAST
Exchange Plaza, 5th Floor,
Plot No. C/1, G Block, Bandra-Kurla Complex
Bandra (East), Mumbai - 400 051

By NEAPS/ Digital Exchange

BSE Limited
Scrip Code - 500403
Phiroze Jeejeebhoy Towers
Dalal Street,
Mumbai - 400 001

By Listing Centre

Dear Sir / Madam,

Sub: Disclosure under Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015-Transcripts of Analyst/Investor Meet held on November 9, 2022

Further to our letter dated November 8, 2022 on the subject, please find attached the transcripts of the Analyst/Investor meet for your information and records.

The transcripts will also be hosted on the Company's website at https://www.sundram.com/corpgov.php

Please take the above information on record.

Thanking you,

Yours truly,

For SUNDRAM FASTENERS LIMITED

GOPALAKRISHNAN ANAND BABU
Digitally signed by GOPALAKRISHNAN ANAND BABU
Date: 2022.11.16 15:32:51 +05'30'

G Anand Babu
Manager – Finance & Company Secretary

“Sundram Fasteners Limited
Q2 FY2023 Earnings Conference Call”

November 09, 2022

ANALYST: **MS. MUKESH SARAF – SPARK CAPITAL ADVISORS**

MANAGEMENT: **MR. R DILIP KUMAR – CHIEF FINANCIAL OFFICER – SUNDRAM FASTENERS**
MR. K SRINIVASULU – CORPORATE FINANCE TEAM - SUNDRAM FASTENERS
MR. R GANESH – CORPORATE FINANCE TEAM - SUNDRAM FASTENERS

Moderator: Ladies and gentlemen, good day and welcome to Sundram Fasteners Q2 FY2023 Earnings Conference Call hosted by Spark Capital Advisors India Private Limited. As a reminder, all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Mukesh Saraf from Spark Capital Advisors. Thank you and over to you Sir!

Mukesh Saraf: Thank you Vivian. Good morning Mukesh from Spark Capital. I appreciate everybody logging in. I am very pleased to be hosting Mr. Dilip Kumar, CFO of Sundram Fasteners, Mr. Srinivasulu and Mr. Ganesh of the corporate finance team at Sundram Fasteners. We will start with a very brief opening remarks from Mr. Dilip and then follow it up with the Q&A. Dilip Sir if you could just start with your brief opening remarks.

Dilip Kumar: Good morning to all the investors. Welcome to this discussion on our results of Q2 and first half. A warm welcome to all of you. Just to set a context to the results as all of you would know inflation has been persistent globally. India is no exception well outside the RBIs comfort zone of 4% and the RBI has used its monetary tool and raised interest rates repeatedly in tandem with the other global central banks and this is also reflecting in the interest rates corporate borrowings, the interest rates have gone up. Retail interest rates have gone up. Mortgage interest rates have gone up so you are seeing inflation ruling the roost but having said that I think the demand is resilient. We saw that GST collections were more than Rs.1.5 trillion for the month of October so I think the Indian consumption story is still intact and the rupee has depreciated by 9% since January. In the current financial year by 7.45% but it is still one of the best performing currencies amongst its peers. So with that as the economic context our industry, the auto industry, has done reasonably well compared to last year and of course there was the effect of COVID last year and the industry I think has recovered smartly and if I look at our YTD numbers, Sundram Fasteners has grown by about 23% in the domestic market and we are probably there along with the industry growth or just above the industry growth and the export market there has been a bit of a slow down there so in constant currency terms probably we are flat in dollar terms but the rupee weakness has helped us and just to corrects myself, the domestic market we have actually grown by 34% but the overall growth has been 23% for the first half. The other key highlights are the raw material prices which I said in the beginning there was inflationary impact so that has had taken a toll on the contribution margins but we have recovered smartly in terms of fixed costs. We have pulled back there and the raw material prices which has been there since October 2020 but after the last increase was given in April 2021 the next increase we considered only from January 2022 so the last years the raw material price increase is not reflecting in the first half of last year whereas it is reflecting in the first half of this year so that has had an impact on our contribution margin. If I move to the middle like I said fixed costs have been fairly kept under control because of the overall volume growth. As we speak our capex program, the capital expenditure is getting incurred in the normal course of business, but we expect our depreciation to remain at this level. It is about Rs.40 Crores per quarter and our average borrowings have further come down and our debt equity ratio is 0.16 and we expect interest rates finance cost to remain at this level but we have taken a bit of hit because of the sharp exchange rate movement on our foreign currency loans.

Overall we finished the first half PBT at Rs.320 Crores compared to Rs.311 Crores last year and after adjusting for deprecation, we have reported a net profit after tax of Rs.241 Crores compared to Rs.232 Crores and this is about 10% of our revenues, the PAT number. If I go to the quarter it mirrors the first half the story line and the industry has grown by 23% based on the data we have and we have recorded the domestic markets have done well and grown by 30%. The export like the first half for this quarter also has been flat. There have been other sources of income, which I will not dwell upon.

The raw material inflation impact is also there in this quarter and our contribution which was in the corresponding period of around 28% has settled around 25% now. After adjusting for fixed costs, our EBITDA is around 16% compared to about 19% in the previous corresponding quarter. After adjusting for finance cost and depreciation, we have reported a PAT of Rs.111 Crores at 9% compared to Rs.120 Crores at 11% last year.

This is in essence the snapshot of what we have done and as far as our business divisions are concerned our fastener division has done well. Our engine segment has done well. The domestic market both the aftermarket and the OE business have grown very well for us. Like I explained, in dollar terms, we have had a flat year so far and rupee deprecation has helped. Looking at the Q3 and the Q4 the outlook for domestic market continues to be robust and even in the export market we are not seeing any slowdown as far as class 8 is concerned but the passenger vehicles where some customers have experienced semiconductor shortage still. There have been some slowdown which we are experiencing but we hope it is only temporary and there are already indications that schedules will improve in the coming quarters and we are also seeing a positive indication from our European customers so the Q3 and Q4 outlook we are quite reasonably confident of repeating our first half performance and while raw materials price increase continues to be a challenge, I think this inflationary pressure is also reflecting in our indirect materials cost so this has been the only reason for our impact on contribution or lower EBITDA compared to what we have done in the earlier quarters or the corresponding quarters, but we will see what steps can be taken but again I must say that in Tamil Nadu the power cost has got revised after eight years and the TANGEDCO has given a rolling plan for the next five years revising the prices continuously so we have challenges, headwinds in terms of slowdown in America and Europe, but considering the strong performance of the domestic market and the auto industry, we are reasonably confident of repeating our revenue performance. Also our subsidiaries just to touch upon our subsidiaries I think the subsidiaries have done reasonably well. Overall to take up our UK subsidiary there are a lot of positives which we can take this quarter and we have got a price increase from our customers. We have aligned our operations to the customer requirements. The machine capacity utilization has increased so overall we have benefited and the truck market looks quite strong because of the replacement demand in Europe. China as you know was affected by zero COVID policy and also the heat wave which has impacted them, but there again they have experienced inflationary pressures. It has been the same story everywhere and Q2 was impacted but the Q3 looks quite strong and we hope to finish well in China as well. So this is broadly the summary substance of our performance for the year so we are happy to take any questions which you may have.

Moderate: Thank you. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Karan Kokane from Ambit Capital. Kindly proceed.

Karan Kokane: Thanks for the opportunity. So Sir first question is on exports. So in this quarter we have seen a sequential drop in the revenue? Going forward how are you looking at the demand trends on the export front so you talked about yes last year truck you said that demand was quite robust over there but in terms of passenger cars and overall export trend for the next two quarters?

Dilip Kumar: Yes I think like I said the passenger cars we are experiencing a slowdown but our other major customers we have not had any indication of slow down so far Cummins or Navistar all other customers the schedules are quite strong. Only in passenger vehicles with one or two customers we are experiencing this slowdown, but we think it is only temporary and things will get made up with that customer if not in Q3 in Q4 so overall the plan was to do about $200 million of exports for the year and we would probably be pretty close to that by the time we finish the year in dollar terms.

Karan Kokane: Okay understood and Sir second question on gross margins so this quarter we are seeing some expansion in gross margins and material costs have also started to come off steel and aluminum so when do you think that this fall in material cost will start reflecting in our numbers?

Dilip Kumar: So while the raw material suppliers while they have not asked for further increase so no news is good news so that is good, but I think the OEMs and steel mills have reached a settlement in this quarter with effect from April 1st so we are in discussions with steel suppliers and OEMs so we expect things to stabilize or the full impact of the past actions to get reflected in Q3 and I think from Q4 it should resume the secular trend.

Karan Kokane: Okay understood and Sir on the capex could you just provide what was the guidance for FY2023 and over the next three years you had said that you will be incurring a capex of almost Rs.1000 Crores so if you could provide some light on that and if I remember there was also some customers in Europe for which we were looking at non auto order so any update on that?

Dilip Kumar: Yes so capital expenditure we will probably incur around Rs.300 Crores this year. We will be watchful and while we set out to our plan at the beginning of the year was around Rs.400 Crores but given the current inputs and the business conditions we are set to incur about Rs.300 Crores this year and I would think the capex would get incurred at this levels around Rs.300 Crores over the next two years as well, but we are watching the situation quite closely and align the capital expenditure program to our customer schedules and there was a question about non auto business.

Karan Kokane: Europe?

Dilip Kumar: With respect to the European customer whom you have raised I think we are on course to sort of getting further into the order and as the first phase during the current year itself we are expanding on capacity so that should be in full stream starting April 1st so we are on course with respect to growing the non auto business especially the wind energy fasteners. You will see the full impact or the benefit of those investments which we are making in FY2024 or at least part of next year at least three quarters. The full benefit you will see in our results in FY2025 but that is based on the capital expenditure programs we have already incurred but we are also in discussions with the same customer for further expansion so as and when that materializes then there will be further investments.

Karan Kokane: Understood and Sir just last question on this EV sales so could you just talk about what is our EV mix right now and any development on the EV front in terms of new customers and new product additions, etc.?

Dilip Kumar: Currently we are around 3% and that remains the same and there have not been any new additions. We hope to grow with the existing customers like General Motors, probably JLR and other customers but at this stage we are at probably 3% of our total business.

Karan Kokane: Thanks. That is it from my side. I will get back in the queue.

Moderator: Thank you. The next question is from the line of Aman Agarwal from Carnelian Capital. Kindly proceed.

Aman Agarwal: Good morning Sir and thanks for the opportunity. Just one question from my side so are we looking to get into aluminum forging which is gaining trend in EVs and that could be one area of opportunity for us in the future?

Dilip Kumar: No as of now apart from high tensile fasteners we are working on the stainless steel side but as of now are not envisaging getting into aluminum forging but with respect to aluminum we are into pressure dye casting in terms of water pump and oil pump which gets supplied to the passenger car segment.

Aman Agarwal: Understood Sir. Thank you good luck for future.

Moderator: Thank you. The next question is from the line of Jay Kale from Elara Capital. Kindly proceed.

Jay Kale: Good morning Sir and thanks for taking my question. Sir my first question is regarding our EV products you mentioned that you have got orders from General Motors and probably JLR so could you just throw some light on how has your content per vehicle been in these EV products versus your tradition ICE products say for example General Motors in an EV General Motors it will be like 1.2 to 1.3x of your ICE General Motors content so if you can throw some directionally how much of content per vehicle increase it will be?

Dilip Kumar: No we do not have that level of information but I think we should be in a position to probably give you once this EV business under the PLI program takes off we will have more data points to share with you.

Jay Kale: Understand any developments on the Indian business entity for any EV products be it passenger vehicles or two wheelers?

Dilip Kumar: I think with respect to the Indian car segment where we are already present through Tata Motors, Mahindra, and Maruti in terms of their program with respect to EV we are closely aligned with them and we are part of their project development.

Company Speaker: It is indigenous and we will definitely participate in the EV program.

Jay Kale: Sure but those would be largely EV components, powertrain agnostic products where you will be providing there is no EV specific components being supplied over there right?

Company Speaker: Yes currently yes.

Jay Kale: Understood and just one question on the financials. Pardon me if you have answered this question because I just got dropped out in between? The other expenses side has moved up on a quarter-on-quarter basis so if you can just throw some light of how should one look at that portion any one offs or it is largely the Tamil Nadu power increase that lead cost inflation?

Dilip Kumar: Not so much. It is more the inventory buildup which has happened and therefore the costs are getting reflected. If you compare the financial results of trailing quarter and the current quarter whatever increase you are seeing about Rs.27 Crores which is largely similar reflection you will see increase in the inventory. This is more because of the inventory effect not because of anything else. Of course there is also a bit of inflation in the indirect materials but the large portion of the increase which you are seeing is because of the inventory.

Jay Kale: Understood on the pricing side we were getting a price increase from the customers I think both domestic as well as export with a lag so how are we on that side because raw materials have again started softening so in Q2 would we feel any price increases from the customers reflected in our financials and going forward your costs could come down faster, but price reductions again will come with a lag anything of that sort?

Dilip Kumar: You are absolutely right. The price increases nobody wants to give a price increase obviously and it comes with a lag, but in general to answer your question raw material price increases we would probably be recovering most of it and the challenge is there at the export segment where it is solely driven by contracts where there are sharing arrangements and there are pass through arrangements. In some arrangements we are out in the cold, there is no protection unlike the domestic market so export market being one third of our business we have those challenges in some of the contracts but this is an ongoing thing so there will recovery of raw material price increase from customers and like I said the OEMs and steel peoples have agreed on a price increase with effect from April 1 which they have struck an arrangement so some of that again you will see some movement impact in Q3 as well and we hope that there will not be any further RM price increases and from Q4 the normal trend should resume.

Jay Kale: Understood and if I just see your exports revenues on a Y-o-Y basis may be the growth looks a little subdued and also we would have had a substantial currency benefit over there as well so if you can just if possible you can just break down the exports revenue between volume growth as well as the currency as well as pricing because I think the US markets have been relatively better off at least the car market than say may be an European segment so how are we looking at that?

Dilip Kumar: As far as the export is concerned in currency terms the constant currency terms we have actually had a dip and that has got offset by the rupee depreciation so like I said our plan was to do about $200 million of exports this year and I think we would probably end the year at around $185 million to $190 million so this is the gap as we are seeing at this point of time and as far as passenger vehicles are concerned, the customers with whom we are dealing in the models for which we are supplying there has been a slowdown so that has what has impacted the Q2 which is why in dollar terms we have dropped a bit. We hope the schedules to improve in the coming quarter.

Jay Kale: Understood and just one last question how is your exports mix between countries US versus Europe?

Dilip Kumar: Largely 70% is North America and I should say 20% is Europe and about 10% Asia and other regions.

Jay Kale: Understood great. Thanks and all the best.

Moderator: Thank you. The next question is from the line of Basudeb Banerjee from ICICI Securities. Kindly proceed.

Basudeb Banerjee: Thanks, a few questions. One presently what percentage of your revenue comes from differential gears?

Company Speaker: So now it would be about 3% or so.

Basudeb Banerjee: 15%?

Company Speaker: 3%.

Basudeb Banerjee: 3% and Sir if I look another domestic competitor who is making differential gear assemblies also and making good margin by exporting any plans in venturing into that segment on a larger scale?

Company Speaker: Yes from the Indian perspective while we are at 3% we have our overseas subsidiary which is predominately into the differential gear. Definitely we have a plan to get into disc assembly and which we are working with the OEMs in India as well as overseas to penetrate that market.

Basudeb Banerjee: Sir any timeframe and capex plan from that perspective?

Company Speaker: I think we are looking at time plan of one year and based on signing of contract I think we would be looking for capital allocation.

Dilip Kumar: The capital expenditure incurring capital allocation is not a really an issue. It is more to get the customer contract for which we receive RFQ and produce samples, get our product validated and get the customer buying. That is going to take a while.

Basudeb Banerjee: Sure and Sir last also you used to discuss like you are targeting wind energy segment under exports so how has that progressed? What part of your overall exports is related to wind energy now?

Dilip Kumar: The wind energy is progressing well and we are spending about Rs.80 Crores this year and we hope to take from the current level of Rs.150 Crores to Rs.180 Crores that segment to about Rs.300 Crores to Rs.350 Crores in the next 18 months. That is the plan. That is on course and we are looking at further resourcing opportunities from a European customer and that is under negotiation or even discussion not even negotiation but it is still under discussion.

Basudeb Banerjee: Sure and this expansion will be under Sri City or some difference facility?

Company Speaker: No this wind energy expansion will be on a different location and not part of Sri City as of now.

Basudeb Banerjee: Sir for EV to exports like General Motors even under EVs the radiator caps for EVs you were selling now as you said revenue from EVs is moving up towards around 3% so what all parts you are developing for exports specific to EV other than radiator cap?

Company Speaker: Other than radiator cap we have already developed parts and we are supply dual gear and pinien which go into disc case and finally into the EV application. Apart from that we are also into input and output shaft which goes for EV application. In terms of developing electrical fuel pump which is in the initial stage so with respect to various technologies where we are present in terms of development on various product segments we are on course.

Basudeb Banerjee: Sure and last question Sir if I can slip in. On a holistic basis like your business dependency on domestic truck or domestic passenger car being cyclical in nature so any strategic aspect you are looking at to reduce overall business cyclicality where FY2022, FY2023 and FY2024 three good years for domestic trucks so the risk of domestic trucks again on a decline mode coming in next may be three years later so how are you positioning yourself to reduce your revenue and operating leverage risk from that aspect?

Dilip Kumar: So that is a good question, strategic question, which our board and management is seized of that and in line with that like we have been articulating our intent is to earn 50% of revenues from exports so we are moving in that direction but it is not easy. It takes time, but where we have been relatively successful is selling more and getting more into non auto space and today in the non auto space we are again one third from about 15% to 20% level a few years back we are at now almost 30%, 31% and 32% so ideally you should move that needle also to 50% non auto and reach 50% in the exports as well. That will give us a good platform to drive our export revenues and be completely insulated from the domestic cyclicality and also the non auto space gives us the insurance and so that we are not dependent on the domestic. We are in that direction Sir.

Moderator: Thank you. The next question is from the line of Priya Ranjan from HDFC. Kindly proceed.

Priya Ranjan: Thanks. My question is related to the exports so you highlighted that probably the export volume or the topline this year will be probably 10% down of what you have expected earlier so is there any change in schedule with your OEM particularly because I think there is a ramp up and government pressure also in the US, particularly related to the EV adoption and the faster EV ramp up for the GM and all the legacy OEMs as well? Is it what you are seeing that next two years schedule for your existing programs can start coming down?

Dilip Kumar: No I think the program objectives will get met, but it may get deferred. It is only a delay. It is not a denial so the customers has been with us for a very long time and we have been with these customers for more than two decades. We supply from all our division, multiple locations. It is just that in one of these locations they have experienced a slow down which is more dependent on that division dependent on passenger vehicle, that particular model and also the customer has been experiencing some glitches in their program so the indications are that it is only temporary may be for couple of months and we expect things to improve if not in Q3 from Q4 onwards.

Priya Ranjan: Okay the CEO of General Motors which is your largest customer in Europe said that by 2025 he wants to be the biggest EV player and manufacturing in US so is the program already located to most of the guys who are suppliers or the programs have not yet awarded so that in terms of your order book and revenue contribution from EV so it is revenue contribution is roughly at 3% but if you look at your order books it is more than 3% and how do you look at it?

Dilip Kumar: Yes 3% is what we have actualized where we are already supplying and with the EV program with the customers, this number should go up significantly in the coming years.

Priya Ranjan: So the question was more related to the contribution from EV and the order book is very different in contribution from EV in terms of revenue as of now? Is it the right way to look at it?

Company Speaker: I think your understanding is fine while the current revenue contribution from EV would be at 3%. With the order book it should be looking upwards of closer to double digit.

Priya Ranjan: Understood great and so just one thing on the differential side so which subsidiary the UK subsidiary is basically into that?

Company Speaker: Yes UK subsidiary is majorly into the double gear but the application is more towards trucks segment.

Priya Ranjan: Okay and for the car, moving to car will it take a decent amount of time to move from say trucks to car in the electric side or is it like the same technology and it will not take much time to move from say to the car side as well from the trucks?

Company Speaker: One of our Indian units they are already into the car segment so we will explore further into car segment through our Indian operation and the UK subsidiary will work on the truck segment.

Priya Ranjan: Okay got it and from the electric point of view so are you approaching from say tier two or you are supplying to more towards tiers two right now or as the tier two to tier one or you are also directly approaching OEMs as a tier one in some of the products?

Dilip Kumar: We are in all of this. Currently we are at tier two and we are also tier one.

Priya Ranjan: Understood okay. Thank you. That is all from me.

Moderator: Thank you. The next question is from the line of Krishna Kumar Srinivasan from Lion Hill Capital. Kindly proceed.

Krishna Kumar S: Good morning Sir. Just export revenue from sales is the contracts purely on a CAS basis or FOB Sir? How do you structure and is there any change to that in the last six months to one year?

Dilip Kumar: Your question was about the exports terms?

Krishna Kumar S: Exports?

Dilip Kumar: No specific change. No change in the terms. Two thirds of our export revenue are next work basis. The remaining one third there are various terms. It could be CIF or DAP so we have various terms but in two thirds of our contract it is next work customer arises for the delivery.

Krishna Kumar S: Thank you and Sir in terms of the recent restructuring of the holdings between the group if Sundram Fasteners need to enter into new businesses in terms of auto components, etc., or is there any process means we have to take permission from group companies to get into some products Sir? How is the broad structure of the arrangement Sir?

Dilip Kumar: No the Sundram Fasteners likewise all TVS companies there are no fetters. The companies are free to enter into any new businesses unless it is already an existing business of another family in which case there are some agreements between the families and after the expiry of the period they will be free to enter those businesses.

Krishna Kumar S: Is it possible to disclose Sir?

Dilip Kumar: There are no restrictions to any business.

Krishna Kumar S: Is it possible to disclose how many years of non compete is that Sir in terms of agreements?

Dilip Kumar: Currently confidential kindly bear with me.

Krishna Kumar S: Thank you Sir. Wish you all the best Sir.

Moderator: Thank you. The next question is from the line of Navin Mattas from Mahindra Manulife. Kindly proceed.

Navin Matta: Thanks for the opportunity. Sir could you remind us about the revenue mix within the domestic and exports based on end user segments?

Dilip Kumar: Yes currently one third of our revenues is exports and two third is the domestic markets and within that segment I would think about 25% to 30% would be passenger vehicles. The remaining 60% to 70% would have commercial vehicles, agri applications, stationary engines, oil and gas so the applications are very wide but I would think about roughly about 30% would be passenger vehicles.

Navin Matta: Okay so Sir when we look at our domestic topline growth is about 20% odd in this quarter so I was just trying to understand because from a volume perspective we have seen recently high growth in most of the end segments and we would have some inflationary effect on our topline also because of commodity prices so is it that we kind of either our customers have not grown enough or how should we think about that?

Dilip Kumar: I think roughly you can assume about 5% inflation in our growth. If we have grown by 30% in the domestic market for the first half in terms of volume you can assume about 25% and the balance 5% by the way of inflation.

Navin Matta: Okay Sir and non auto you are talking about wind side we are taking about kind of ramp up from Rs.150 odd Crores to Rs.300 Crores I am just wondering that some of the bearing company which we called out that there is some slowdown that they have seen on the wind side in Europe so just wanted to understand from you whether these are new orders wins or we are kind of getting orders from existing customers? We are increasing our basket size? How to think about that?

Dilip Kumar: You talking about wind energy.

Navin Matta: Yes?

Dilip Kumar: With wind energy there are specific contracts as far as existing business is concerned. New opportunity will be a resourcing opportunity from customers perspective.

Navin Matta: And in our existing business whatever business that we have are we seeing any kind of slowdown out there?

Company Speaker: No. With respect to the wind segment we are not foreseeing any slowdown.

Dilip Kumar: I think given the kind of tariff increase and other things which are happening there will be more such projects which will get setup in many places, especially in Tamil Nadu.

Navin Matta: Okay and Sir lastly I think on margins I see in the previous quarters we were hoping that we will get to a kind of 18% to 19% kind of EBITDA margins in the second half so is that broadly still on track or we should expect little lower numbers out there?

Dilip Kumar I think we will have a clear picture after Q3 for at least remote quarter I would think we will be at these levels.

Navin Matta: Okay fair enough. Thank you.

Moderator: Thank you. The next question is from the line of Neelesh D from Invesco Mutual Fund. Kindly proceed.

Neelesh D: Thanks for taking my question. Sir I just wanted some more color on this power? Can you tell us is the power cost pass through with respective to OE clients or you have to bear it in increase or decrease?

Company Speaker: With respect to the passing of costs whether it is with respect to power or with respect to other indirect materials while we make an earnest attempt, but generally we see a lot of resistance from the OEM or even tier one sides so unlike raw material where it is a clear pass through with respect to the domestic segments, with respect to power we are not seeing such a situation but definitely we are making an attempt with various customers to get compensation for the power cost.

Dilip Kumar: The market understands and works toward compensating raw material prices at least the domestic market. It may happen with a lag effect that is as a market structure but with respects to inflation and indirect materials and power cost which we raised is a matter of negotiation.

Neelesh D: Got it and with respect to the mix on what proportion is being taken from the Tamil Nadu grid where you have some renewable also which you have been scaling up so what is the proportion coming from the grid?

Dilip Kumar: No we have fairly good source of grid power so probably by time we finish this year we should be close to 60%.

Neelesh D: 60% in grid?

Dilip Kumar: No green power.

Neelesh D: Okay green and my question was Tamil Nadu grid the way the tariff has got increased in September?

Dilip Kumar: That is what I am saying if the total power consumption if you take out of which three fourth is from Tamil Nadu. Out of that 75%, 60% we will be procuring through green sources.

Neelesh D: Okay basically you said from Tamil Nadu grid it is relatively much lower?

Company Speaker: Your understanding is right and I think we would bring this down further in the next year in FY2024. We will probably be close to 70% through green sources and the balance 5% would be only be from the grid and that should give us the flexibility to manage the power sourcing.

Neelesh D: Right and I just I think you were answering to Naveen's question with respect to the H2 margins, I just missed so what did you kind of say in Q3?

Dilip Kumar: What I said was we expect the things to remain at this level the Q2 level for one more quarter.

Neelesh D: Got it and Q4 we may see some improvement?

Dilip Kumar: Yes.

Neelesh D: Got it. I think that is all from my side. Thanks and all the best.

Moderator: Thank you. The next question is from the line of Peter from Ksema Wealth Management. Kindly proceed.

Peter: Sir my question is that in terms of raw material so what was the raw material basket cost for steel and aluminum this quarter compared to previous quarter?

Dilip Kumar: It is the same. The steel is our dominant raw material.

Peter: So steel at what price did you have to procure like just to understand the costs?

Dilip Kumar: The average procurement price would be around Rs.75,000 to Rs.78,000 per tonne.

Peter: And last quarter Sir?

Dilip Kumar: There is no difference between last quarter and this quarter but like I said in the earlier part of the call the OEMs and steel mills have reached some kind of a settlement and negotiations are happening and some price settlement will happen from April 1 and there is a roll back from the July 1. All that has been kind of they have reached a settlement and that will get implemented in our Q3.

Peter: Okay Sir and Sir in terms of volume what was the volume sales this quarter?

Dilip Kumar: Volume growth in terms of revenues overall in the domestic market we have grown by 25% and the inflation adjustment can be about 5%.

Peter: And exports Sir?

Dilip Kumar: Export in constant currency dollar terms we have been flat.

Peter: Sir what about the volume like how much is the volume tonnage wise sales this quarter compared to last quarter?

Dilip Kumar: No we cannot do it that way because we are having distinct businesses and we sell in pieces, we sell in kits, and we sell in tonnage so it is difficult to give you a price per tonne for product. Each one has its own characteristics. We also do not measure it that way and we see it only in growth in dollar terms.

Peter: Sir are you supply wise are you reliant on much imports? If yes how much percent is import?

Dilip Kumar: Repeat the question supply.

Peter: For your supply are you dependent on domestic versus outside?

Dilip Kumar: That is a dynamic call we take. It depends on the price in arbitrage. If there is a pricing advantage yes we definitely import. We used to import quite a bit but because the domestic prices were far cheaper we have stopped importing but again we have started importing. It is a bit of a dynamic decision because it depends on the grade of the steel and the condition in which it is required and there are a lot of technical requirements. Some of the requirements are customer’s specified material and sources so there are many which play out here but we do import yes. We have resumed imports of late.

Peter: The final question is in terms of increasing market share in domestic I see what are the methods the company is adopting Sir?

Company Speaker: So market share improvement we try to be participating in all the models and in terms of customers where they are importing we try to participate in the indigenization program so these are all the methods by which we try to improve the market share.

Peter: That is it from my side. Thank you so much Sir.

Moderator: Thank you. The next question is from the line of Abhisar Jain from Monarch Networth Capital. Kindly proceed.

Abhisar Jain: Thank you so much Sir for giving the opportunity. Sir I just wanted your view on the PLI related effort that you guys have been making for manufacturing of advanced automotive technology components so I presume that we have to make an investment of Rs.350 Crores and the target is of any around Rs.2000 Crores over a five year period so Sir can you give some update on what stage we are at and what kind of revenue run rate we are looking from that scheme for FY2023 and FY2024?

Dilip Kumar: No the large long term plan remains the same. The numbers which you just now indicated but like I said this quarter we are having a bit of a slowdown and our team is disusing with the sourcing managers of the customers and we will have a clear indication probably in the next one month or so, but there could be a bit of a slowdown as far as the FY2023 is concerned because of some glitches in the customer product and FY2024 our plan should be back on track.

Abhisar Jain: Okay and Sir if I were to ask you dividing this Rs.2000 Crores over five years what kind of ramp up would we see in the initial year? Would it be like Rs.150 Crores to Rs.200 Crores and then go into 400 to 500 Crores of annual run rate or how it should scale up?

Dilip Kumar: Yes our plan is actually for the year is about Rs.60 Crores and for FY2024 we have planned about Rs.250 Crores and thereafter doubling it. It should stay at these levels so for FY2023 we are looking at Rs.60 Crores and we think at this point of time we will be slightly below that target.

Abhisar Jain: Sure Sir and Sir on this PLI what would be the approx mix between domestic and exports?

Dilip Kumar: All of it is exports.

Abhisar Jain: All of it will be exports right and Sir can you give me this number for the constant currency export numbers for FY2022? The target you have for this year like $190 to $200 million vision what was it for the last year?

Dilip Kumar: Last year we would have done probably $180 million and we wanted to grow by 10% and hit about $200 million but I think we would settle somewhere in between.

Moderator: Thank you. The next question is from the line of Prateek Poddar from Nippon India Mutual Fund. Kindly proceed.

Prateek Poddar: I am saying did you call the reason why other expenses have gone up so sharply on a quarter-on-quarter basis?

Dilip Kumar: Because of the inventory increase.

Prateek Poddar: But I did not understand? The inventory includes leading to higher other expenses?

Dilip Kumar: When you compare it with the trailing quarter Rs.379 Crores has moved to Rs.406 Crores that is about Rs.27 Crores increase. If you see our inventory movement, the increases from Rs.11 Crores increase for another Rs.38 Crores so what I am saying is that when there is an inventory buildup we were experiencing in the United States and Europe. There will be lot of costs which will get incurred and it is absorbed in the inventory as part of inventory valuation.

Prateek Poddar: It will get absorbed as a part of inventory valuation so it gets attracted right is it not from your RM cost?

Dilip Kumar: I am talking about the conversion cost.

Prateek Poddar: Got it?

Dilip Kumar: The inventory will have two components the RM cost and the conversion cost so the conversion cost which has gone up is also sitting in the inventory valuation. It happens whenever there is an inventory buildup.

Prateek Poddar: Sir this should get normalized right as we move into the future quarters in Q3 and Q4?

Dilip Kumar: Yes. It will get normalized. The overall contribution margin will not change because of this unless there is inflation of price impact is there. It will either reflect in the gross margins or in the contributions so that is not going to change.

Prateek Poddar: You called out that Q3 you are also looking at flat margins on a quarter-on-quarter basis I would thought that the margins should start moving is it not because once you start liquidating and using inventory?

Dilip Kumar: No once you start selling from the inventory therefore the gross margin to that extent will come down and the conversion costs will get maintained so the overall contribution will not change. It will continue to be at the same level 125%. It is just in the optically. It is sitting in the conversion cost now and hidden in the inventory valuation. They will just swap places and so the gross margins will come down and your conversion cost remaining the same. It will have no baring as far as contribution is concerned.

Prateek Poddar: Thank you Sir.

Moderator: Thank you. The next question is from the line of Prolin from Goldfish Capital. Kindly proceed.

Prolin: Thank you Sir. Two set of questions. One is on export can you call out which is the sub segment or which is the customer where you do not have any price pass on mechanism? The reason why I am asking is that we had aspiration to make this 50% of the business in the next two to three years? The overall business will also increase so incrementally can we expect that large part of this revenue will be where price pass on mechanism is lot more robust?

Dilip Kumar: No I think like I explained in the earlier part of the call the domestic market is very different. It depends on the customer contract. For instance with one customer we have pass through to the extent of 50%. Some customers ask you for compensation if there is rupee weakness and likewise we also go back to them and ask them if there is a rupee appreciation which is very rare, but still the contract provides for that but in the many agreements there is no compensation for freight or raw material not only raw material even freight as you know shot through the roof from $2500 per container it has moved to $10,000 to $12,000 so things are normalizing a bit but we do not get compensation and with respect to those customers as freight rates stabilizes our freight expenditure also is expected to come down so that is how the export market works so it happens more by negotiation rather than through contracts.

Prolin: Sir I get your point.

Dilip Kumar: Most of the customers it is already provided for this raw material price increase.

Prolin: Correct but incremental orders that we have been in export what will be the pricing mechanism be like would it still be where the pass on mechanism is not there or it would be more linked to some sort of an index?

Dilip Kumar: No there are linkages to index also like you rightly said but my sense is that most of the contracts customers may not agree for RM compensation because there will not be a pass through.

Prolin: Right so then the business becomes 50% of our topline export business we will be lot more in a way open to these volatilities in commodity price right? Is that a fair way to look at it?

Dilip Kumar: Yes that is the fair way to look at it. The way we manage it is thorough higher volumes and also rupee weakness which we do not pass on to those customers so they add kickers to the revenue.

Prolin: Sure and also Sir in terms of the capex that we have incurred we have probably delayed the Rs.100 Crores capex this year may be to the next year, but in terms of we were probably waiting to incur more capex based on the kind of contracts that we get from customers so that process of probably prototyping or sending the part for testing is that happening as per the schedule that we have planned at the beginning of the year?

Dilip Kumar: Can you repeat the question.

Company Speaker: I understand your question. With respect to product development and testing that is happening parallelly whatever capex enhancement we are looking at capacity addition so with respect to testing and development that is happening based on the existing facilities available so that way it will not hamper our ramp up with respect to the wind energy softness sale.

Prolin: Right but the incremental capacity and incremental capex that you are planning to put for that also you are waiting for some customer contract right so that will also go through certain processes and some approvals, etc., etc., all those things are happening as per what we had planned as per our schedule?

Company Speaker: Yes with respect to the customer discussions and negotiations that is happening as per plan so we are very positive about it.

Prolin: Correct. Thanks a lot Sir. That is it from my side.

Moderator: Thank you. The next question is from the line of Naresh Suthar from SBI Life Insurance. Kindly proceed.

Naresh Suthar: Sir again my question is on this capex reducing to Rs.300 Crores from Rs.400 Crores is it driven by wind energy or it is driven by slowness in the EV customer you are seeing in export side?

Dilip Kumar: Can you repeat your question.

Naresh Suthar: I am saying this reduction in Rs.100 Crores of capex this year may be delaying it to the future years is it driven by the wind energy segment or is it some other segment?

Dilip Kumar: No it is not for the wind energy. Wind energy is going as per schedule. There is no change.

Naresh Suthar: But for which segment you have reduced and I may ask why Sir?

Company Speaker: It is with respect to other segments only Sir not wind.

Naresh Suthar: If it is not the EV segment?

Dilip Kumar: No EV we are incurring fully, we are not even saying we will not incur but the visibility we have at this stage based on internal assessment is about Rs.300 Crores definitely.

Naresh Suthar: Sir second question is like you guided for the next year we are expecting Rs.250 Crores of revenue from EV exports this is based on the capex which is already incurred right? This will not depend upon the Rs.350 Crores capex which have planned?

Dilip Kumar: Yes you are absolutely right.

Naresh Suthar: Thank you Sir.

Moderator: Thank you. The next question is from the line of Prithvi from Unifi Capital. Kindly proceed.

Prithvi: Sir can you give the non auto fasteners revenue for H1 and what has been the growth rate on Y-o-Y basis?

Dilip Kumar: Non auto fasteners roughly is probably about on a revenue of about Rs.5000 Crores all companies. It will probably be around Rs.300 Crores will be the non auto. It is probably going to the industry segment.

Prithvi: Standalone?

Company Speaker: Standalone yes.

Dilip Kumar: The H1 probably is slightly lower about Rs.150 Crores to Rs.175 Crores but overall we expect this number to be around Rs.300 Crores for the entire year.

Prithvi: You have the number for last year H1 or gross full year?

Dilip Kumar: Last year it will probably be around I am not getting to the H1 part of it but just to give you a perspective the last year would probably be around Rs.240 Crores to Rs.250 Crores.

Prithvi: Thank you Sir.

Moderator: Thank you. I would now like to hand the conference over to Mr. Mukesh Saraf. Over to you Sir.

Mukesh Saraf: Thanks. I like to thank the management of Sundram Fasteners for giving this opportunity and taking time out to answer the questions patently. Dilip Sir if you have some very final remarks and over to you Sir.

Dilip Kumar: No nothing specific Mukesh. I think thank you for hosting this investor conference and it was good to talk all the investors. Many of them are familiar to me I know them so it was nice and good to hear their voice after three months and exchange views.

Moderator: Thank you. Ladies and gentlemen, on behalf of Spark Capital Advisors India Private Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.