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August 30, 2021

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

BSE Limited (BSE) By Listing Centre
Scrip Code - 500403
Phiroze Jeejeebhoy Towers
Dalal Street, Fort,
Mumbai – 400 001

Dear Sir / Madam,

Sub: Disclosure under Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015

In terms of Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find attached the transcripts of an interview given by Ms Arathi Krishna, Managing Director of the Company to Moneycontrol.

Please take the above information on record.

Thanking you,

Yours truly,
For SUNDRAM FASTENERS LIMITED

R. Dilip

R Dilip Kumar
Vice President – Finance & Company Secretary

Interview | Targeting a double-digit compounded growth in revenue: Arathi Krishna, MD, Sundram Fasteners

moneycontrol.com/news/opinion/interview-targeting-a-double-digit-compounded-growth-in-revenue-arathi-krishna-md-sundram-fasteners-7406121.html

*Technology can be a big disruptor as well as a source of opportunities. This is why Sundram Fasteners, an auto parts company of the $8.5-billion TVS Group, is striving to be in sync with the technology shift in the automotive sector, says **Arathi Krishna, M**anaging Director. While the technology transition —from BS VI to electric vehicles — in the auto space has thrown up immense scope for Sundram, the company is looking at non-auto sectors as well. Here, according to Arathi, the outlook for aerospace is quite promising.*

The second of Suresh Krishna's three daughters and the first woman to join the family business, Arathi feels things are now looking up after the two successive waves of the COVID pandemic, and the company is poised to cash in on the emerging buoyancy in business.

According to the Sundram MD, the pandemic has taught the industry to be nimble-footed and efficient. Krishna, however, remains wary of the semiconductor scarcity, raw material shortage and ad hoc price increase by steel suppliers that could affect the supply chain. This apart, the possibility of a third wave of the pandemic is also keeping everyone on tenterhooks.

*Arathi shares her views with **Vatsala Kamat** on the company's future strategy and the financial targets that she has in mind.*

Edited excerpts:

Do you see an uptick in business and order book at Sundram Fasteners after the second wave of the pandemic?

We have a healthy order book. Sectors such as farm implements, printed circuit boards, and industrial power generation are growing really fast. Domestic original equipment orders have reached 80-85 per cent of the pre-COVID levels across segments, except for commercial vehicles. With the forthcoming festive season, the positive sentiment should lead to traction in the quarters ahead.

The after-sales market (mainly for fasteners, caps, pumps, sockets) is limping back to normalcy. Accumulated material in the secondary sales channel is getting liquidated. Exports are on good ground. We see a good revival in the developed markets, and customers in the US and Europe are looking at India too vis-à-vis traditional sources such as China and Taiwan. Overall, things are looking up.

How is the technology transition impacting sales of SFL?

There is a big leap in technology as the auto industry transitioned to BS VI, and is now moving towards electric vehicles (EV). This impacts technology in emission control, though not the overall product portfolio.

Technology on the material side is changing towards light weight and high strength, while the product geometry (size reduction) has taken a paradigm shift towards finer tolerances. Battery technology is also an emerging area. In terms of design changes in the engine segment, we have developed more efficient products in the pump segment, and variable valve transmission parts for engines.

SFL will benefit from the shift to EVs, though it is still at a nascent stage. There are good opportunities in the manufacture of shafts (rotor and intermediate assembly), gear blanks, differentials, electric oil and water pumps.

We are looking to expand our presence in the non-auto segments such as aerospace, defence, wind and solar sectors as well. The outlook for aerospace is very good and, I believe, India can be globally cost competitive in this industry, although we could do better with larger scale of operations.

How is the auto component industry coping with the transition (large and small firms)?

On the technology front, there will be considerable churn in the industry. The available skill base, which is predominantly mechanical, will have to shift to electronics. This would need close collaboration with technologically advanced companies. There would be a time lag between large and small companies to cope with the change. Internal combustion engine-oriented companies will have to move to other sectors. The need to work closely with customers will be reinforced further.

The auto industry is reeling under semiconductor shortage. How do you see this panning out for the overall industry?

Semiconductor shortage is a real threat. It is likely to remain a challenge for the next one to two years as capacity is getting diverted to lucrative areas such as mobile phones, laptops, computers, etc. From the global data, we see that it has caused 5.16 million in light vehicle production cuts worldwide, which could rise to 6.3 million before this year-end. North America has seen big cuts with the total vehicles that were not produced due to supply constraints likely to touch 1.98million before year end.

Of course, the chip issue is affecting the passenger car (PC) business, and it will have a cascading effect on severalindustries, including component suppliers, that are linked to it. Perhaps companies with a diversified portfolio would be less impacted.

As of now, SFL's product group is not facing any grave impact because of this. The overall impact on Indian auto industry has so far been minimal. However, OEMs are working on procurement strategies to manage the situation.

What lessons auto and component makers have learnt from the pandemic?

The pandemic has reinforced the importance of human resources and safety, which has been a priority at SFL. But, importantly, it has taught us how to manage through remote working tools, virtual meets and minimal physical travel. In fact, these modes save cost and are proving to be productive and efficient with more convenience.

At SFL, we have learnt to work with principles of lean and mean strength. What's most important is the need to be nimble-footed and cut wastage in terms of time and cost.

Sundram Fasteners is among the leaders in total quality maintenance, total preventive maintenance and just-in-time (JIT) deliveries, in India. Has the pandemic led to a rethink on these strategies such as the JIT?

Our planning skills have been sharpened by the uncertainties in supply chain and logistics. Yes, compared to JIT deliveries, global OEMs have started building additional stock considering lockdowns and container shortages caused by the pandemic. They are also re-thinking strategies with respect to their supplier base, in order to cut risk. The preference is towards supply chain partners who have proximity to the OEMs. This is true even in the domestic market as the second wave of the pandemic had varying degrees of impact in different states.

In our export division, we built stock with the permitted workforce, frugally used the available raw materials and other inputs for manufacturing essential components, and worked with logistics providers to route containers in the best possible way. As a result, our customers have never felt any shortage of the required materials when they re-opened after the pandemic.

That said, the pandemic is a Black Swan event. It can't be used to change some well-established concepts like JIT, which is the need of the hour, considering changing customer demand and the increase in competition. Some modular concepts like having common transmission/engine can marginally offset adverse impacts, if any, due to similar future shocks. However, cost competitiveness can come only through a larger scale of production, which a few global producers enjoy and are able to offer to customers. Hence JIT deliveries cannot be totally done away with.

The story of SFL's breakthrough in the export market decades ago is well known. Are there any new initiatives on these lines?

We are focusing on a diversified product range from EVs to non-autos, including aerospace, defence, wind, solar, among others. Growth through new customers and new products is always an ongoing process at SFL. We are deepening our engagement with the existing customers and also participating in new projects that our customers are foraying into. At the same time, we are getting into new territories and geographies.

In particular, we see quite a good flow of requests for quotation (RFQs) from Europe, as it looks at India as a viable and effective alternative to China.

Our China facility, which started over a decade ago, is doing well. In FY2021, its revenue of Rs 300 crore (approx) was about 10 per cent of the consolidated revenue and it is profitable. We are investing in backward integration and soon this region can become a microcosm of the parent Indian entity.

What challenges do you foresee in supplying to domestic and global original equipment manufacturers, going forward?

We are working on the product range to be compatible to the current technology, which is a challenge as well as an opportunity. We need to be more swift and agile with global OEMs who are already ahead in the technology front. With domestic OEMs we have the advantage to partner and grow with them. There are many new entrants in the EV space and the winner in this technology race is anyone's guess.

Apart from the semiconductor scarcity, raw material shortage and ad hoc price increase by steel suppliers are choking the supply chain on and off. The sustainability of domestic demand is a question, if the third wave impacts adversely.

What are the prospects for revenue growth and profit margins?

Our endeavour is to sustain the current level of operating profits and margins. We are doing well on exports, which comprise about 34 per cent of total revenue, with good traction in the key geographies of the US and Europe. We are targeting a double-digit compounded growth in revenue.