



NDR AUTO COMPONENTS LIMITED

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Sub: Transcript of the Earning/Quarterly Call of FY 2023-24

Dear Sir/Madam,

Pursuant to the provision of Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations 2015, please find enclosed herewith the transcript of the earnings/ quarterly call Q1 of FY 2023-24.

The same is also available on the website of the Company.

Kindly take the same on your record.

Thanking You

For NDR Auto Components Limited

Rajat Bhandari

Executive Director and Company Secretary

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NDR Auto Components Limited Earnings Conference Call Transcript August 08, 2023

Rishab Barar:

Good day everyone and a warm welcome to all of you participating in the Q1 FY24 earnings conference call of NDR Auto Components Limited. We have with us today on the call Mr. Pranav Relan, Whole-Time Director, Mr. Vinod Kumar, Chief Financial Officer, Mr. Sanjeev Kumar, Financial Advisor and Mr. Rajat Bhandari, Executive Director and Company Secretary, along with other members of the senior management team.

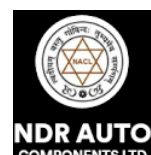
Before we begin, I would like to mention that some statements made in today's discussion may be forward-looking in nature and are subjects to risks and uncertainties. A statement in this regard is available in the Q1 FY24 earnings presentation shared with you earlier. We will start this call with opening remarks from the management, following which we will have an interactive question and answer session. I now request Mr. Pranav Relan to share some perspectives with you regarding the operations and outlook for the business. Over to you, sir.

Pranav Relan:

Good day, everyone, and a warm welcome to the Q1 FY24 conference call of NDR Auto Components Limited. Since it is possible that some of you may be looking at our company for the first time, I would like to begin with a small brief about us and what we do. We have close to three decades of manufacturing seating solutions in the form of frames and trims for two-wheelers and four-wheelers and have recently also commenced BIW manufacturing.

NDR Auto Components was demerged from Sharda Motor Industries Limited in 2020. We have built strong relationships with best-in-class auto companies like Maruti Suzuki, Toyota Boshoku, Suzuki Motorcycles, Bellsonica, and Toyota Kirloskar Motor. The company currently has four fully integrated sheet metal fabrication and trim manufacturing facilities, two in Haryana, one in Bangalore and one recently commenced in Gujarat. All these plants together have a capacity of 11 lakh units and these make seating solutions for across models manufactured by OEMs, whose names I earlier mentioned.

Some of the brands we service include the Grand Vitara, Brezza, Jimny, Dzire, Ciaz, WagonR, Alto and Fronx from the stable of Maruti Suzuki, Hyryder and Urban Cruiser made by Toyota, and the two-wheeler Access and Gixxer of Suzuki Motorcycles. We have state-of-the-art in-house test and validation laboratories fully equipped to conduct a range of mechanical and conductor. We cater close



to 30% of Maruti Suzuki's requirements. Our associate, Bharat Seats Limited, was one of the first joint ventures of Maruti Suzuki India Limited and Suzuki Motors Corporation Japan.

In fact, our Gujarat facility, that was commenced in the quarter under review, is set up primarily to best cater to the needs of Maruti Suzuki's Gujarat plants.

Let me now discuss the financial performance of the company for Q1 FY24. In Q1 FY24, on a consolidated basis, our total revenues year-on-year increased 101.15%, reaching to Rs. 128.92 crore. Our EBITDA increased by 128.80% to Rs. 12.79 crore, indicating an improvement in operational profitability. Additionally, our EBITDA margins grew from 8.72% to 9.92%. We also achieved a 100.73% increase in PAT amounting to Rs. 8.27 crore. Our EPS to the 13.86, reflecting an impressive growth rate of around 103.52%. Our focus going forward will be expanding our portfolio of offerings. There are also several new regulations that are anticipated in the auto industry and we are confident that NDR Auto will be in the forefront in catering to these changes.

Lastly, our endeavor will also be towards increasing the number of OEMs we work with. We are a zero-debt company with a strong balance sheet and are prepared to explore all growth opportunities, organic or inorganic, inorganic growth that comes on offer.

We will now be happy to discuss any thoughts or questions you may have.

Moderator: Thank you very much. Our first question is from the line of Saket Kapoor from Kapoor & Co. Please go ahead.

Saket Kapoor: Namaskar, sir, and thank you for discussing your numbers and the background for the company. Firstly, if you could give us some color on the current capacity utilization levels and how have those been trending for the last two years?

Pranav Relan: Our current capacity utilization in our NCR and our bank facility is about 80% to 85%. And the Gujarat facility has just started ramping up. So that's close to 40% at the end of the quarter.

Saket Kapoor: Sir, it was mentioned that the revenue will be Rs. 70 crore. So that's the annual revenue we are expecting from the Gujarat facility when we are at full optimum levels.

Pranav Relan: Yes, at the moment it's Rs. 70 crore. And then we've added some new business that's starting next year. So it's likely to increase from there.

Saket Kapoor: Sir, when we look at your presentation, it mentions that our total capacity is 11 lakh sets, 11 lakh set is what we are showing as the capacity and then we are giving the description on the set supplied is around 13 lakhs. What I mean what should be derived from these two numbers 5.1 lakh sets supplied for Maruti and 8 lakhs for Suzuki, so this is, for which period are you assigning this number?

Pranav Relan: So, our capacity is 5 lakhs for Maruti, 2 lakhs for TKM and 11 lakhs is the four-wheeler segment. And in addition, the 8 lakhs is for the two-wheeler segment.

Saket Kapoor: Okay. So in the presentation, when we mentioned total capacity at 11 lakhs, this is the breakup you provided?

Pranav Relan: So that's the four-wheeler segment. We'll provide the two-wheeler segment as well next time.

Saket Kapoor: Okay sir. This is the one which you have given is only for the four-wheeler segment?

Pranav Relan: Yes.

Saket Kapoor: That was confusing, because the number did not match up.

Pranav Relan: So, we will correct that next time.

Saket Kapoor: And sir, if you could explain to us the raw materials mix and how are, what steps are we taking to integrate further? And one more important understanding I need, what was the reason for this demerger as it is mentioned, that the demerger was for the stitching arm only, but now we are into the rim part also and integrating the entire thing. So, if you could explain to us what was the thought behind this demerger and the way ahead?

Pranav Relan: So, the demerger was on a family settlement where the seating vertical demerged. The seating vertical has the stitching and the welding arm from Sharda Motor, Sharda Motor have the exhaust arm. So, our family took over the seating arm and they kept the exhaust arm.

Saket Kapoor: And sir, for the raw materials market, can you explain to us how, what factors affect, how are we integrated for the material consumption? I think that's a single line by a largest line item?

Pranav Relan: So, all our raw materials, our commodities are fully indexed. So, if there's a significant increase or decrease, our customer compensates us for that.

Saket Kapoor: Sir, do we have a lag effect on it or how does the same work in case of a movement happening?

Pranav Relan: No, no, we get it from the day, from the movement, there's no lag on it.

Saket Kapoor: And sir, the understanding currently from the OEMs, I think so many, the deliverables -- how does the order pipeline move, sir means in how many days in advance do you get the deliverables set up from the OEMs, since I think, so it is the totally we are setting to the OEMs only, the entire sales?

Pranav Relan: We start the RFQ process and the technical process about three years before our production and when we get the order approximately two years before our production.

Moderator: We move to our next question. Our next question is from the line of Jay from Dolat Capital, please go ahead.

Jay: Just one thing I wanted to ask that majority of Bharat Seats Limited revenue is coming from Maruti and isn't that a concern like, so just one customer has a huge share of your revenue. So don't you want to diversify it more or are you trying to penetrate to different customers as well?

Pranav Relan: So Bharat Seats has shareholding from Maruti Suzuki. So, Bharat Seats as an entity will always be catering to Maruti Suzuki. NDR, in addition to Maruti Suzuki will cater to other customers.

Jay: Okay. Thank you, got it, sir. One more question. What do you see as a barrier to entry like, what barriers do you see, like if you would want to pitch to other OEMs or other automobile manufacturers?

Pranav Relan: For other OEMs, definitely going to be cost competitiveness.

Jay: Okay.

Pranav Relan: And we'll be giving them a technology at a cheaper price than any global player.

Jay: Okay, got it, thank you.

Moderator: Thank you. Our next question is from the line of Abhishek Agarwal from Naredi Investment. Please go ahead.

Abhishek Agarwal: Good afternoon, sir. Congrats on good set of numbers. Sir, my question, what growth have we expected in top line and bottom line in FY24?

Pranav Relan: I think same sort of run rate is expected to continue.

Abhishek Agarwal: Okay any capex plan for FY24?

Pranav Relan: We're investing about Rs. 20 crore to Rs. 30 crore this year.

Abhishek Agarwal: Okay, thank you so much, sir.

Moderator: Thank you. Our next question is from the line of Jatin Chawla from RTL Investments. Please go ahead, sir.

Jatin Chawla: Yes, I was saying the number of two-wheeler and four-wheeler sets sold in the quarter. If you could please share that number.

Pranav Relan: Two-wheeler frame should be about 5 lakhs and four-wheeler frame should be about 6 lakhs to 7 lakhs annually.

Jatin Chawla: You're saying sets sold in the quarter?

Pranav Relan: Yes, annually.

Jatin Chawla: Okay. And the share of business for Fronx and Jimny?

Pranav Relan: For Fronx and Jimny, we do half of the Fronx and half of the Jimny.

Jatin Chawla: Okay, 50% share with both, okay. Also, your annual report this time around, it mentions that you've recently got a patent for a replaceable trim design for railway seats designed at the instance of Railway

Coach Factory, Chennai. We just wanted to understand a little bit more about the potential for business here and the timelines involved?

Pranav Relan: Yes, this is what we received three years ago. We're not doing anything with it for now.

Jatin Chawla: Okay. And you mentioned in your opening remarks that given the changing regulatory landscape, you're expecting some opportunities in the future. So what sort of products are you looking to focus on going forward when you say regulatory changes, you're looking at new product opportunities?

Pranav Relan: So the content in the seating product itself is increasing, as there's a 3 point seat belt that has come in, which will be implemented in about a year, year and a half. So our content for the cheaper, the lower end of our vehicles is likely to increase.

Jatin Chawla: Okay, and what sort of content per vehicle increase should one expect?

Pranav Relan: So for Alto and WagonR, it should be about 15% to 20%.

Jatin Chawla: Okay and in the higher end models, already the seats would be compliant, I guess?

Pranav Relan: Yes, that's correct.

Jatin Chawla: And Gujarat, I think you spoke about some ramp up plans. So what is this new business that you're expecting from next year? Is it from your existing OEM customers or is this some new OEM?

Pranav Relan: So Maruti Suzuki, they've launched the new Fronx. I think that's taking some time to ramp up production.

Jatin Chawla: Okay, but with that, you are at 40% utilization, right? You mentioned next year, some new model is coming which could take this utilization higher?

Pranav Relan: With that, we'll be a little bit more. And maybe second half of next year, we'll be closer to the 80% to 90% of that.

Moderator: Thank you. Our next question is from the line of Shailly Jain from Dolat Capital. Please go ahead.

Shailly Jain: Hi, sir. Can you please throw some more color on what's the current content per vehicle and how are you going to increase it?

Pranav Relan: So our current content per vehicle, we haven't disclosed at the moment. Maybe we can disclose it at the next call. The way we're going to increase it is to add new products to Maruti Suzuki and other OEMs.

Moderator: Thank you. Our next question is from the line of Nishid Shah from Ambika Fincap Consultants Private Limited. Please go ahead.

Dhruv: Yes, hi. This is Dhruv here, Pranav. Thanks for the opportunity and congratulations on a really good set of numbers. Pranav, my first question is, on your export opportunity, I'm coming from one of the competitors called Lear. He does a \$17 billion sales in seating and most of his plans are in low-cost

countries, though he supplies to countries like US and Europe. So there is an opportunity wherein you can manufacture here and supply to an OEM which is based out of North America or Europe. Can you just elaborate? Are we focusing on that area or are we just focused on Indian OEMs right now?

Pranav Relan: So the opportunity is not for the full seat necessarily, but for some seat components. So that's something we're working towards doing.

Dhruv: Right, but when you say that we are focusing on other OEMs, are we focusing only on Indian OEMs or are we also focusing on some European or US OEMs?

Pranav Relan: I think first step will probably be to do it within the India market and maybe as a second step, we can look at something else.

Dhruv: And I was just doing back of the envelope calculations and as a percentage, because if I'm not wrong, you guys are something around 30%, 33% of the overall seating cost for Maruti. So if I back calculate your turnover, that means Maruti would be spending anywhere around INR1200 crore to INR1300 crore on seating on the total raw material cost for them, which is 86,000. So that's hardly 1.3% for Maruti. Do you see this cost as Maruti is launching more premium cars, do you see this component going up?

Pranav Relan: The amount that Maruti spends on seating is actually the Bharat seats revenue, which is around Rs. 1,000 crore or Rs. 1,100 crore plus our competitive revenue, which is another maybe Rs. 2,000 crore. So the total by at the moment is INR3,000 crore and that is going up as cars are getting more premium.

Dhruv: But where do you see this still if I calculate 3,000 on 86,000, which is around 3.5%, do you see it going substantially higher like 4.5% - 5%?

Pranav Relan: Yes, it is going substantially higher to 4%, 4.5%.

Dhruv: Okay, got it. And other question I have Pranav is like, obviously you have gone up the inch from around 20%, 25% to right now almost if I calculate 1100 on 33,000 -- 33%, do you see this also going up as you progress over next year or two?

Pranav Relan: Yes. We're working towards that. So as our numbers start increasing or improvement, we'll let you know.

Dhruv: But are we getting any exclusive tie-ups on any new cars for Maruti, like Fronx or Jimny? You mentioned Fronx and Jimny is 50%, but any new cars wherein you are the 100% supplier?

Pranav Relan: We're working on that also.

Dhruv: Okay, but Vitara would we be 100%?

Pranav Relan: Vitara would be 100%.

Dhruv: Okay, got it, right. And what kind of revenues did we see from BIW this quarter or haven't we seen any revenue coming from there?

Pranav Relan: Maybe INR5 crore or INR10 crore.

Dhruv: This quarter?

Pranav Relan: Yes, last quarter, maybe INR5 crore or INR7 crore, nothing substantial.

Dhruv: But where do we see this number going by end of this year?

Pranav Relan: This year will be something similar, we're hoping next year will start increasing.

Dhruv: So, this year we should expect INR5 crore run rate every quarter, more or less?

Pranav Relan: INR5 crore, INR7 crore, I'll just pull the exact number and let you know.

Dhruv: Got it, got it Pranav. That's it from my end. Thank you so much for the opportunity.

Moderator: Thank you. Our next question is from the line of Saket Kapoor from Kapoor & Co. Please go ahead, sir.

Saket Kapoor: In continuation to the earlier question, firstly, sir, are we dealing with any EV players also in the EV segment? Any contribution or do we have any plan to enter this, especially, two-wheeler EV segment? Any type of component? Yes.

Pranav Relan: No plans to enter any two-wheeler player at the moment, but wherever the four-wheeler players are going, we're going to try to be with them.

Saket Kapoor: Okay, sir. Any reason, sir, why we are not opting for the two-wheeler category?

Pranav Relan: It's a low-cost, low-margin segment. There's not much technology in our products over there.

Saket Kapoor: Okay, sir. As you also mentioned that you are not interested for the railway seating work also. So again, that is because of the government part of the story coming into play and then the receivables and the working, the money being stuck for a longer duration, or what could be the reason? There also, we obviously are not opting?

Pranav Relan: So out of the pie, the most attractive segment is the four-wheeler segment. That's what we're trying to focus on at the moment. In addition to that, maybe the commercial vehicle or something off-road, that's the second most attractive segment. So that is the other thing we would try to focus on, where there's good technology and we have a cost competitive advantage.

Saket Kapoor: Okay. And then off-road, we have seen MG, Kia. They have been standing their ground in the country. So how are they getting their arrangement done for the seating segment and any steps that we are taking to grab their market share? Because they're also increasing their production and they're increasing their presence in the country. So how are their ecosystem aligned?

Pranav Relan: So MG and Kia both have their own seating companies, just like we have Bharat Seats, where the OEM has equity in the seating partner. So maybe not for MG, maybe for Kia, we can look at some T2 opportunities.

Saket Kapoor: We can look for?

Pranav Relan: Some opportunities where we supply to the seat maker.

Saket Kapoor: Correct. And so in the financial statement, there is one long-term liability of INR29.5 crore. And then there is other financial liability of INR19 crore. So if you could clarify what is it getting to, sir, and when are they being stable?

Management: Explanation of lease liability in Balance Sheet as at 31.03.2023. Total lease liability: Non Current financial liability Rs. 29.47 crore. Current Financial Liability Rs. 2.41 crore. Total Rs. 31.88 crore.

Note: As per IND-AS 116, present value of lease rentals payable over lease term has been booked as financial lease liability. Amount payable within 12 months has been shown under current financial lease liability. Correspondingly, right of use assets has been recognized in non-current assets which is amortised over the lease term on a straight line basis. *

Saket Kapoor: And sir, in this scope of work, especially in the seating segment, I was looking at how well are we integrated? If you could explain in brief about our integration?

Pranav Relan: So we do the seat assembly, we do the polyurethane, we do the whole metal structure and we do the seat covers.

Saket Kapoor: Right, sir. And so my question was on the raw material front, how are we integrating ourselves? Do we depend on the third party completely for the raw material sourcing? As you have told that it is based on index, but we are dependent on other players for the entire raw material content, or are we integrated in? And what are the key raw material component out of this the line item of raw material consumed of INR97 crore, what are the key components?

Pranav Relan: So the key component is the seat mechanism and something new that's coming up is the seat ventilation. Those are the two new features that are coming in. At the moment, we haven't developed it, but we buy it from someone. We have the full capability to integrate it in our facility.

Saket Kapoor: Thank you. And, sir, airbags, how are airbags systems being aligned to the these arrangement? In the cars where airbags are there, what kind of customization goes into it, and how does that open any line of business for us? Because I think that now airbags and seatbelts are the two other safety components.

Pranav Relan: So the polyurethane changes, the frame changes, and the seat cover changes with both airbag and the seat, the 3-point seat belt. It's a new product that we've already developed. So our products become a lot more premium with those.

*This question was unanswered during the call. It has been subsequently incorporated.

Moderator: Thank you. We move to the next question. Our next question is from the line of Chetan Dhruva, who is an investor. Please go ahead, sir.

Chethan Dhruva: Thank you. Thanks for the opportunity. I have two questions. One is on the margin of growth. Do you see any upward bias as we go through the quarters of the rest of the year, the remaining three quarters?

Pranav Relan: I think we'll stick to the 10% mark. I think we'll be hitting that

Chethan Dhruva: Okay, thank you.

Pranav Relan: There might be a slight improvement if there's a volume increase.

Chethan Dhruva: Beyond the 10%, you mean?

Pranav Relan: Yes.

Chethan Dhruva: Okay, that sounds good. And I think you kind of reiterated the quarterly run rate based, I mean, similar to what you had said last time. So thanks for the consistent outlook. Again, the same question here. Do you see any upward bias in terms of the trajectory of the revenues too?

Pranav Relan: So we're looking at multiple organic and inorganic opportunities. If something pans up, then we'll let you know. That could be a good opportunity for us.

Chethan Dhruva: Okay, I understand that. But given the festive and other things, festive season coming up and so on and so forth, I would assume that without any new components, also there should be an upward trajectory, right? To the remaining quarters.

Pranav Relan: Yes.

Chethan Dhruva: Okay. And the last question. This kind of has been a thing for the group, I think, because these ED raids that were going on, they're still lingering around or is that kind of sorted now, IT raid?

Pranav Relan: Can you repeat that?

Chethan Dhruva: The Enforcement Directorate, IT related raid that were announced, you had also talked about it last quarter, I think.

Pranav Relan: There was no ED raid. The IT raid, we have provided the necessary information and responses to the Department. No notice demands have been raised on the company as of date.

Chethan Dhruva: So the issue is late to rest, is it?

Pranav Relan: Yes.

Chethan Dhruva: Because even your sister company, Sharda Motors, which I tracked that as well, had this thing and I think last time the call didn't happen at all. So I'm kind of not concerned after that. And then checking. So thanks for the clarification, Mr. Relan. Good luck for remaining quarters.

Moderator: Thank you. Our next question is from the line of Jatin Chawla from RTL Investments. Please go ahead.

Jatin Chawla: Yes, thanks for the opportunity again. So you spoke that before a model starts production, two years before that, you would get the order. So just wanted to get a sense of what is the revenue visibility looking like and is there an order book number that you can share for the next 12 months, 18 months? What sort of revenue scale-up should we expect?

Pranav Relan: I think we're likely to continue the same run rate. The order book number we will start sharing from next quarter onwards. That way you'll get a better visibility of our run rate.

Jatin Chawla: Right. And you also mentioned that BIW should scale up next year. So are there any orders that we have received here on the back of which we are expecting a scale-up next year?

Pranav Relan: So 2025, we should have some orders in place. We'll again update that next quarter.

Jatin Chawla: But as of now, we don't have any orders in hand for that?

Pranav Relan: We have a lot of opportunities coming in. We're just being a little careful over that.

Jatin Chawla: Okay, so that is still at an RFQ stage?

Pranav Relan: Some are at an RFQ stage, some we've received. We'll update that next quarter with you.

Jatin Chawla: Okay. And Kia also, you spoke about an opportunity as a Tier 2 player. So Kia, where are they sourcing? Do they have Tier 2 vendors in India or are they sourcing from somewhere else right now?

Pranav Relan: So that's something we are looking to serve from our Bangalore facility. That if an opportunity comes, we can do something from there.

Jatin Chawla: Okay, got it. Thanks, sir. Thanks, and best of luck.

Moderator: Thank you. Ladies and gentlemen, that brings us to the end of our question-and-answer session. I would now like to hand the conference over to the management for closing comments.

Pranav Relan: Thank you everyone for your participation in this call. It was a pleasure connecting with you. NDR Auto Components, on the back of its demonstrated scale and capabilities, is poised to maintain its strong growth momentum. We look forward to connecting you again post the Q2 FY '24 results. Thank you.

Moderator: Thank you. On behalf of NDR Auto Components Limited, that concludes this conference. Thank you for joining us.