"Suprajit Engineering Limited
Q3 FY2019 Results Conference Call"

February 12, 2019

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Moderator: Ladies and gentlemen, good day and welcome to the Suprajit Engineering Limited Q3 FY2019 Earnings conference call, hosted by Anand Rathi Shares and Stock Brokers. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. I now hand the conference over to Mr. Vijay Sarthy from Anand Rathi Shares & Stock Brokers. Thank you and over to Sir!

Vijay Sarthy: Thanks Vikram. Good morning all. On behalf of Anand Rathi Institutional Equities, I welcome you all to the Q3 FY2019 conference call of Suprajit Engineering. From the management side, we have Mr. Ajith Kumar Rai, Chairman and Managing Director, Mr. Mohan, CEO and Director, and Mr. Medappa, CFO and Company Secretary. Initially Mr. Ajith will update about the results briefly and then we will follow it up with Q&A. Over to you Mr. Ajith!

K. Ajith Kumar Rai: Good morning to you all and thank you Vijay and Anand Rathi for organizing this conference call in connection with our December results. Welcome you all. I would first of all ask Medappa to give a quick brief followed by Mohan and with my remarks then I will open the floor for questions, so Medappa.

Medappa Gowda: Thank you. Good morning to everyone. We have reported the unaudited financial results for the nine months ended December 31, 2018. The consolidated revenue for the nine months ended December 31, 2018 was Rs.1159 Crores as against Rs.1025 Crores for the corresponding period last year recording a growth of 31%. The profit after tax has increased to Rs.92 Crores as against Rs.82 Crores for the corresponding period last year recording an increase of 12%. The standalone revenue for the nine months ended December 31, 2018 was Rs.791 Crores as against Rs.707 Crores for the corresponding period last year recording a growth of 12%. The profit after tax has increased to Rs.87 Crores as against Rs.75 Crores for the corresponding period last year recording an increase of 16%. We also declared an interim dividend of 70% for the financial year 2019 as against an interim dividend of 60% for the financial year 2018. Thank you.

K. Ajith Kumar Rai: Thank you Medappa. Mohan.

N.S. Mohan: I will take through some of the operational and business updates. I would rather want to go through individual divisions that we have.

Starting with domestic cable division, we have had a very good after market growth and our growth in the OEM segment continues. We won new businesses and passenger car vehicle segment particularly for the parking break cable and we are in the process of getting some gear shifter cable business too. The Narsapura plant, which is coming up in the outskirts of Bengaluru is getting ready and customer audit has already been scheduled, this is specifically for Honda.

Moving over to the export cable segment, the capacity expansion is on track as you know that we are talking about capacity expansion from 25 to 40 million and all the new launches are being monitored closely. As you know that we have SEU in UK, which would mean that we are in the midst of Brexit road humps therefore we are getting ready to handle the road humps on Brexit and inventory buildup has been done. We are also planning for a warehouse in the mainland Europe to cater to our customers in the mainland Europe.

Moving over to the lighting area, again we have got a fantastic growth in the aftermarket segment and we are planning for a brand revitalization program to promote the phoenix brand. We are working on the drop in solution of LED and it is in progress and we should be able to launch quickly and we had embarked upon having a single leadership in Europe as you know that we have Trifa & Luxlite in Europe and Marie Gentzsch retired and we have Frank Klinkert taking over both as head of Trifa & Luxlite, which would mean some synergies are being worked out both in terms of manpower, warehousing and all this kind of things, which is going to lead to a cost down measure while we continued to focus on customer acquisition and customer enhancement. We also participated in Las Vegas US AAPEX show and we went in at the right time because there was this talk about tariffs on China, therefore we had good amount of footfalls into our stall and we are gaining some interest and we have started the quotation process with some marquee customers in the aftermarket segment in US.

Moving over lastly to the SENA, the Suprajit Engineering nonautomotive segment, which is a part of Wescon. Steve Fricker who was earlier the CFO and declared as an interim CEO has now taken over as a CEO of the company. He has been with us for a good number of years at Wescon therefore we are very confident about his leadership. We had some turbulence in the operations due to China sourcing issues and we are coming out of that now, January has been a good month. We expect the quarter to keep in pace and have a reasonable growth for the year. I guess that is an overall update on the operations.

K. Ajith Kumar Rai: Thank you Mohan. Few other comments has been announced from April 1, 2019, the board has decided to separate the position of Chairman and Managing Director, the board has appointed subject approvals, Mohan as the Managing Director, and I would be Executive Chairman. In terms of business beyond what Mohan said as you would all know the quarter that we just talking about somewhat of a headwind I would say because the festival sales have not been up to expectations and with the pipeline stocks of vehicles increasing, it had slowed down the production at most of the manufacturers. That effect continues in Q4, but I would like to say that our Q3 was actually better than Q3 of last year as well as Q2 of last year as of this year itself so we still feel that we have a decent quarter to complete this year. With that background, I would let the questions to come and will answer them. Thank you very much over to Moderator!

Moderator: Thank you very much Sir. Ladies and gentlemen we will now begin the question and answer session. We have the first question is from the line of Ronak Sarda from Systematix Group. Please go ahead.

Ronak Sarda: Hi Sir thanks for the opportunity. Sir couple of questions one on the profitability side, how do you see profitability in terms of EBITDA margin now the commodities have started to cool off and also have you received all the pass through from the OEMs for the cost increases for year to date?

K. Ajith Kumar Rai: It is an ongoing exercise with customers in terms of price increase as well as price decrease and the price increase we have to literally struggle hard to get it and when commodity prices are coming down they will also come back to us so it is an ongoing exercise what I would say that what I would call is a more or less normalized situation, there are some pending issues are there, but materially I would say there is nothing that is going to surprise us in either plus or minus side so I would say basically we are on a neutral wicket at the moment on profitability and as you have guided earlier that we would on a consolidated basis will be between 14% and 16% we will continue to hold that view.

Ronak Sarda: Right and Sir second was on your export I mean you had indicated the Volkswagen group wants Suprajit to become one of their larger suppliers and for that may be we had to put up a plant in Europe any plans was the status there?

K. Ajith Kumar Rai: There are two to three sides to this, one is of course we are getting not only from Volkswagen even from others more business as you all know that we are setting up a new plant for exports next to Suprajit automotive within the same compound so that plant is halfway through I think in the next three to four months at least I would say in the first quarter of next year we should be starting to operate from there not fully, but we will start our operations from there so the volumes will come from India itself. There are couple of issues one is the Brexit as well as the customers need to be close to them so that can be done in two ways, one is of course we are currently working on warehousing solution for the customers in terms of M&A and things like that these are all things that will happen when the times are right or when the valuations are right so we are looking out various issues so probably it will take its own time, but right now we are working on making sure that our plant is ready in India and make sure that the Brexit related issues are taken care.

Ronak Sarda: Okay and Sir one clarification one of the competitors indicated that they have won a large order in control cables with the two-wheeler OEMs, I mean have we lost some market share or that is the business usual for us?

K. Ajith Kumar Rai: I suppose look at our numbers. I do not think we have lost any business as of now.

Ronak Sarda: Sure and last question regarding the split of position between Chairman and MD, what is the rational behind this as board taken decision as of today in the current period, can you explain that?

K. Ajith Kumar Rai: I cannot speak for the board itself, but all I can say is that now my Chairman and Managing Director position is coming to an end as of March 31, 2019 and in terms of the size of the business and the scale that we are currently operating now compared to what it was five years or 10 years back has changed so we felt that it is important to have two senior executives to be handling the business rather than one in fact Mohan has been on the board for a while, but my term had come to an end as of March, so it is just a question of timing I guess so we feel that it is important to have just board generally felt that the position of Chairman and Managing Director should be split I think that is the first point, so on that score I think this is what the changes have been affected.

Ronak Sarda: Sure. Thank you and all the best.

Moderator: Thank you Sir. We have next question from the line of Jayesh Shah from AUM Advisors. Please go ahead.

Jayesh Shah: I do have a couple of questions the first being how are we in talks with Maruti to be added as a client?

N.S. Mohan: Yes we have had the first product already done and now we are pushing for the second audit because that getting into the Maruti is always not an easy thing and rightfully so because they have multiple gates to allow vendors inside, so we have already got the first audit clear and we are waiting for the second audit to have and we are already pushing them and requesting them to come and audit us so that is where we have.

Jayesh Shah: Okay Sir when do we expect it to be completed by one year down the line?

K. Ajith Kumar Rai: That is a very good question, but I do not have an answer for that because I had been to Maruti very recently and we had been asking for that. They do indicate that they would be keen to come and do it, but what they are telling is they are right now busy with quite many other things like VFX therefore running around getting those new vendors audited therefore we are in the queue when our turn come I do not know hopefully earlier better for us.

Jayesh Shah: Okay and one more thing I guess in the last concall you indicated that in 1990s the content per vehicle in terms of cable there was four cables, which as of now is around 15 to 20 cables like with EVs coming into picture and the whole structure change do we expect an increase in content per vehicle on the PV side?

K. Ajith Kumar Rai: I would feel that whenever there was a change of technology there is always going to be some new applications coming in and some old applications going out. I think one of the challenges for EV manufacturers, EV based vehicle manufacturer is to how to reduce the load on their batteries and the battery management system so currently lot of them are running on motor driven systems. We also feel in our initial interactions seem to think that to some extent customers will try to have more cost effective solutions without motor driven systems so that would probably bring in applications for cables whereas may be in the cars already things like throttle cables have already vanished anyway from the scene it is all electronic controls now. There could be something that will go away, but overall our assessment is that there would be no impact because of EV coming in whenever that happens.

Jayesh Shah: Okay. Third question that I had was on the SENA side that is your non-automotive segment just wanted to know how big is the market and how do we see ourselves place in the market?

K. Ajith Kumar Rai: See we are currently the leaders I am talking about Wescon is that we are currently leaders in the outdoor power equipment segment that is a part of the non-automotive segment if you look at the total breadth of the market so there are multiple segments as I have mentioned earlier in the concall as well. Just to mention there is power sports vehicle segment, there is a medical segment, there is a material handling equipment segment, there is a marine segment, there is agri segment, there is construction segment, all of them have requirement of cables so what is the size of each one of that in North America I would say each one of the segments are anywhere from 25 to 75 million in price so we have now the effect of the SENA is slowly starting to sink in now because all these initiatives takes a year plus year to two years in fact if you look at our consolidated number US is growing only at about 2% to 3%, but we are able to grow slightly better than that so that means that we are starting to get some traction, but we actually hope to get lot more traction at least for next year so that strategy we are very confident that will execute over the medium term say two to five years' time so that is why we are actually spending quite a bit of money in terms of people and travel and meeting people, etc., to make sure that we have that positioning with all these new customers, so we expect good traction next year onwards for the next two to five years.

Jayesh Shah: Okay and Sir just one last one to squeeze in if you could just help me on that are we seeing any acquisitions on the LED lighting part or with halogen reducing directly in OEM?

K. Ajith Kumar Rai: I would not like to comment anything on acquisitions beyond saying that we made the statement that we look at M&A as our growth strategy whether it is in what segment I am not able to say, all I would like to say is that Suprajit growth story of last 10 years is both aggressive organic growth as well as inorganic acquisition, which one where when specific I cannot answer. Thank you.

Jayesh Shah: Thank you Sir.

Moderator: Thank you. We have the next question from the line of Abhishek Jain from HDFC Securities. Please go ahead.

Abhishek Jain: Thanks for taking my question. My question is related with Phoenix Lamps performance during this quarter. As per your last comment this H2 was expected to be significantly stronger as 50%, 60% of business that comes in October and January; however, if I see the numbers during this quarter so there is a flat growth on revenue front and margin has gone down to 10.2% so just wanted colour on the current state of this business?

N.S. Mohan: We need to break it down into basically largely into three segments, let me start with OEM. On OEM as you know that Honda switched over through LED for their base models therefore to that extent from OE market perspective we have lost some business over there not competition, but to LED. Whereas when it comes to aftermarket you would see that we had a very good growth in the aftermarket in fact we are in a commanding position today in the Indian aftermarket therefore to that extent aftermarket growth offset the OEM growth and all those things that we are doing in terms of brand repositioning everything is to see to it that we consolidate further growth in the aftermarket segment because that is where we need to start focusing on and the third portion is the exports. Again under this you have multiple one is through your group exports and another is direct exports. This is there we are focusing on and like what I said we went to AAPEX in USA therefore we expect certain amount of growth over there, so these are the three major segments in terms of I would say profitability there has been very clearly an effort to reduce cost in fact that is what we call it as C challenge, which is going on internally to challenge every part of the cost and bring it in line with the pricing that is going to happen.

Abhishek Jain: Sir just wanted to understand bottomline growth in PAT in Phoenix Lamps, what was the PAT in second and third quarter and what kind of the growth you have recorded in last nine months in Phoenix Lamps?

K. Ajith Kumar Rai: I think there has been no growth in sales as you would see from the nine months number Phoenix Lamps division what you said is right the operational EBITDA for the nine months has come down from about 13.7% I think to about 12.2% or 12.3%, 100 basis point drop is there is largely because the topline has not grown as Mohan said I think once we start getting our exports picking up, which is what we are hoping in the next one year and the efforts are all on that I think that is where our margins will try to increase so at the moment I think this year is going to be a flat year for Phoenix Lamps.

Abhishek Jain: So I just wanted to understand the profit growth in the last nine months or profit degrowth in the last nine months in Phoenix Lamps?

K. Ajith Kumar Rai: Yes that is what I am saying compared to these also part of the announcement Phoenix Lamp division there is no growth in the sales whereas the EBITDA has come down by about 11%.

Abhishek Jain: Sir I am talking about the profit basically bottomline of the company?

K. Ajith Kumar Rai: That we are not declared separately I think Medappa can give you that data later on it is not here with me.

Abhishek Jain: Okay and so Sir what kind of the operating margin you are looking in the next year basically as the margin has seen to that 10% kind of level?

K. Ajith Kumar Rai: Our margin I do not know where you are getting the 10.2%. My nine months EBITDA margin is 12.12% as declared it is in the part of our press release.

Abhishek Jain: No Sir I am talking about the last quarter numbers?

K. Ajith Kumar Rai: Quarter-on-quarter is very difficult to say it could be different product mix, etc., I do not think that is certainly not a direction on which we are going that I can confirm to you.

Abhishek Jain: Okay Sir. My next question is related to Wescon just wanted to understand the kind of the revenue growth as well as EBITDA growth in last nine months in Wescon?

K. Ajith Kumar Rai: We do it as a SENA division because right now we have got three divisions, one is the cable division, one is the lamps division and one is the non-automotive cable division, the automotive cable and non-automotive cable and Phoenix Lamps. The non-automotive division of cables has grown by about 15%, EBITDA has grown from Rs.31 Crores to about Rs.33 Crores.

Abhishek Jain: What is the contribution of the Wescon in total non-automotive business?

K. Ajith Kumar Rai: Again I think we do not really generally publish it, but I will have to check that out. You have to again to talk to Medappa on this.

Abhishek Jain: Okay Sir. Sir now my question is related with the Suprajit core business specifically just wanted to understand nine months growth in two-wheeler, four-wheeler and aftermarket in domestic and export in Suprajit core business excluding Wescon and Phoenix?

K. Ajith Kumar Rai: We do not really give that kind of details Abhishek on this, you can try to get some data if whatever is available in the public domain, but specifically we do not do it, but then all I can say is that our business domestic growth is in line with the industry growth. If you see the domestic growth has been about 10% amongst various segments and it is again broken up into cars are much lower about 5% or so and even less than that I think it is at about 2% I think. Overall growth is at about 10%, so our growth in domestic cable division including exports has been better because our exports from India has been improving. Our overall growth if it is at about 17% India growth is only at about 10% that means our traction on our exports has increased so that is where we are gaining traction.

Abhishek Jain: Okay Sir and as industry is expecting slow down in the two-wheeler sales in FY2020 so basically in a sense cost as well as introduction of ABS, CBS, so just wanted your take on the growth in industry as well as your performance basically?

K. Ajith Kumar Rai: Industry growth your guess is as good as mine, but what we feel is that of course you mentioned ABS, CBS, actually introduction of ABS, CBS is positive for Suprajit because it adds a cable here and there so we do not really see that as a problem, but in terms of the industry growth with BS-VI happening in the next whatever 12 to 15 months we do not know how the markets will polarize because the cost of the changeover is pretty significant so how that impact will beyond the business growth is difficult to say, but for us at Suprajit the way we look at it is that first of all just to answer your question our dependence on two-wheeler has come down to 35%, which has been almost 97% 10-15 years ago, so if there is significant slow down it will certainly impact us in that sense, but what we have been talking about is that our SENA strategy as well as automotive exports that is driving us at this moment so if it is a major downtrend it will affect us, but if it is a minor trend I think we will offset it with some of the solid traction we have in the other segments, so the advantage of Suprajit is that we are in multiple segments and sectors, so certain sectors not doing so well still may not have such a significant impact on our overall performance.

Abhishek Jain: Okay Sir. My last question is related with the balance sheet what is the current status of data on it plus the capex plan for the next one or two years?

K. Ajith Kumar Rai: Sir you are talking about the debt?

Abhishek Jain: Yes.

K. Ajith Kumar Rai: The debt is actually disclosed it is in the business updates so you can please have a look. The total debt including both working capital and long-term is about Rs.340 Crores, which is the same level as last year same time.

Abhishek Jain: Do you have any plan to repayment of the debt in the next two to three years?

K. Ajith Kumar Rai: There is a regular repayment schedules we are meeting, for this capex of Rs.100 Crores, which we had announced last time we have already spent about Rs.50 Crores, Rs.60 Crores for which we have taken some debt, we have paid some debt and we also taken some debt. We have some taken ECBs and long-term foreign currency loans at a pretty attractive rate of interest, so the overall interest cost will further come down actually.

Abhishek Jain: Thank you Sir.

Moderator: Thank you. We have next question from the line of Viraj Kacharia from Securities Investment Management. Please go ahead.

Viraj Kacharia: Thank you for the opportunity Sir and congratulations for good numbers in such a challenging environment. Sir just had a couple of queries, first is you talked about this opportunity for parking levers and shifting gears so is it through the MOU we had with the Korean company Daeshin machinery or is it some different OEs, which we are talking also, can you elaborate a bit how we are looking at this segment?

K. Ajith Kumar Rai: The gear shifter cable is entirely our indigenous development only, we have Suprajit Technology Center set up a few years ago so that is one that is delivering these results, we have got a new order for that and we are working on few more orders, so it is totally indigenous it is nothing to do with Daeshin. Parking break lever is more again an indigenous effort by our Suprajit Technology Center, we have one certain business with non-automotive customer a supply to one customer we are in the process of getting another business with the another customer so they are all indigenous development not technology tie-up or licensing agreement

Viraj Kacharia: I wanted to understand the annual opportunity size for the product segment and auto and nonautomotive what one would be looking at and how are we looking at this particular segment for the next two to three years?

K. Ajith Kumar Rai: We do not really make such futuristic projections on these products. They are all products of our technology center that has been now accepted by customers. We have got one customer of course there is a separated team to develop the product and also to do the business development. We are quite gung-ho about some of the things that we do as a technology center and these are some other two things that is in the market now, there are more products also, which we do not want to talk about it now so the traction to this is difficult to say, but suffice to say every car has got a parking break lever as you know so that is the market whether it is Indian market or global market and every car has got a shifter cable so that is the market you can assess it, but I am not saying that we are going to get 30%, 50% market share it is just entry that we have had.

Viraj Kacharia: So who will be supplying right now I mean if you can provide some colour?

K. Ajith Kumar Rai: We have a business, but we are not able to say till its product is launched actually.

Viraj Kacharia: Okay second question was on the Phoenix side we were making a lot of efforts in terms of getting to the customers back especially for H7 Lamp and that has not really played out so far so when we look at again for this particular business when we say we are expecting business so the growth to come in for next one year where we are getting this confidence from that is one and second you talked a lot on the cost part to further reduce our cost in Phoenix Lamp business so where we seeing avenues, are we looking to more production to India, I mean is that one the avenues for cost or if you can also elaborate a bit on that?

N.S. Mohan: I guess there were three questions embedded into it. Let me try to take one at a time. First is H7 as you know that when we started the whole thing our new H7 line was completely loaded I think when we started off at round 10% to 15% slowly it has started creeping up and right now we are at 50% plus, 55% around PAT so if you are telling are we getting the customers back the answer is yes, but is it a big bang theory the answer is no because it takes time for them to gain confidence and start moving business back to us. The fact is that it is happening and we are gaining traction and the best marketing tool for us is our production line itself, our production facility itself. Any of the customers who has come to our plant definitely have gone back with the confidence that they are going to buy from us so that is on H7. Then I move onto the other one you are telling where is the kind of confidence that you are getting the confidence that I am getting is very simple there is a big market out there be it in US or Europe and specifically Euro market we have not that at all as Phoenix we have not gone there in an earnest manner. With the China stopped happening I feel that there is an opportunity coming up there and when I look at I, myself personally went to Las Vegas to attend the AAPEX and I could see the difference and the way customers were approaching us therefore it has immediately resulted in people coming to India, visiting our plant, giving us the RSQs and starting the commercial discussions, so I get that confidence from a fact that we have a big market out there if we consider world market as our market, if you are thinking only India definitely not. I now come to the last part of the questions about the cost, you would see it is like the Japanese concept you always look at where the rates start and we initially started off the challenge as a consumption challenge because we used a lot of gases nitrogen, oxygen, hydrogen, LPG, so there are a lot of gases that we use in manufacturing therefore we said it is going to be a consumption reduction exercise. Very quickly it caught on inside the organization and everybody started talking about cost reduction therefore it has now become almost like a movement therefore whether it is looking at how we can say when canteen or cafeteria cost to small things like that to looking at China sourcing particular components moving away from let us say Korea sourcing doing in house make by decisions, there are quite many projects, which have been launched, which is helping us out.

K. Ajith Kumar Rai: Let me also add something more to what Mohan has said let us look at the macro picture that more than 70% of our business is in the aftermarket in Halogen lamps in the PLD segment. It is important to realize that globally people are getting a little what I would call as cold feet with some of the far eastern including China sourcing and also of course US also got 10% tariff, which has been threatening to go to 25% so some of this big marquee customers who are the big players in this market who have been only and solely sourcing from China are starting to have certain second thoughts on the entire strategy of sourcing itself. I think that is where one opportunity comes. Second one is we are also talking to the global majors without mentioning names probably our competitors as well may be in India, but globally they also want to have a cost effective solution supplier and they have most of them have visited us and we feel that one of the things that is going to happen going forward is that sourcing out of India for the global requirement not that we directly exporting that is also what we are trying to do, but also to piggy bag on some of the big names and brand it for them. So we are quite comfortable and confident and it is a question of time before we are able to get some more of those businesses to make this division continue to be doing pretty well.

Viraj Kacharia: Okay, just one last clarification, you talked about the domestic demand, I mean from your communications with OEs are we seeing any further rationalization in supply of production schedules or what kind of indications you are getting from them in the very near term?

K. Ajith Kumar Rai: I think in the near term I think we have seen January number has not been very great, it is all in the public domain, the February number is also somewhat weak, so this quarter is also not going to be much different than the quarter that has gone by, do not want to be specific about customers, but there is always automotive is a cyclical business, so maybe we are having that temporary dip it happened last quarter, this quarter, will it happen one more quarter we do not know, but we are becoming less I mean there is some impact of course there is still 60% of our business in India, but has become more and more global and get more and more business from our competition globally. The local variances these fluctuations and cyclicity will be sort of smoothened out, I think that is the advantage of Suprajit because we have got as I said earlier multiple sector, multiple geographies that we deal with, so that is an advantage for us, but yes this quarter also is pretty, but as far as we are concerned we have made a statement last time that H2 will be better than H1, we still standby it.

Viraj Kacharia: If you look at you mentioned in the opening remarks there was some amount of inventory buildup, there is Brexit so how much of the growth in the current quarter would have been led by the inventory buildup?

K. Ajith Kumar Rai: That is marginal actually I think I do not think that would be a material difference for us on that. It is a week's stock variances or one or two weeks shipping times variances and trying to build up something for a couple of weeks that will not really materially affect us.

Viraj Kacharia: Okay fine. That is all from my side. Thank you very much and good luck.

Moderator: Thank you Sir. We have next question from the line of Bharat Gianani from Sharekhan. Please go ahead.

Bharat Gianani: Thank you for the opportunity. I have one question on the product mix side so basically we have like four key segments that you highlight in the presentation four-wheeler, two-wheeler aftermarket and non-automotive so I just want a breakup of that as to like how much comes from the domestic market and how much comes from the export market for each of these segments like if you can just help?

K. Ajith Kumar Rai: It is again not in the public domain, we can try to give you some data offline. Basically the split is how we are positioned in terms of these segments and then geographic segment, 60% in India and 40% in outside India, so again the bifurcation we have the data, but I do not know whether we are sharing it in the past, if we have shared in the past we will share it with you.

Bharat Gianani: Okay fine Sir, I will take it offline and just one comment from my side like you said you are building up the export business and domestic business will be as you said like it will be more or less in the domestic OEM outlook, so my question is that you also highlighted that Phoenix will sort of have good growth and Wescon also you are seeing a good opportunity in the next two to five years, so FY2020, would you like to place a comment like we will do growth number, which is better than FY2019, any comments on that?

K. Ajith Kumar Rai: As we have always said in the past we do not really give a forward looking data, number in terms of growth or profitability, we generally give an EBITDA range of 14% to 16%, we are still confident that we will achieve it. We have generally been saying that our overall consolidated business will grow faster than our automotive business over a two to three year period kind of a horizon, so that is what we are continuing to do all these days and I think we will continue to do that going forward, that is our target for ourself, but specific number we do not give, but we still are confident that the SENA strategy will work, our export strategy of cables will work, Phoenix plants division will take probably another year to stabilize and hopefully grow, but at the moment it is a flat growth for Phoenix plants division and in the near future it will be so, but on an overall perspective we continue to believe that the growth would be decent and it will be in line with what we have delivered in the past.

Bharat Gianani: Thanks and all the best.

Moderator: Thank you Sir. We have next question from the line of Resham Jain from DSP Mutual Fund. Please go ahead.

Resham Jain: Thank you. I have three questions, one is other income, this quarter there is a high other income, can you explain on that part?

K. Ajith Kumar Rai: Medappa, can you answer the other income?

Medappa Gowda: Yes, it is actually the appreciation on the mutual fund investment as well as the forward contract gain.

Resham Jain: Can you give the breakup of the two if it is possible?

Medappa Gowda: I can give the breakup.

Resham Jain: Forex related other income is?

Medappa Gowda: Two, three aspects in that, two three components.

Resham Jain: What will be the forex related amount?

Medappa Gowda: We book the forward contracts.

Resham Jain: Yes, but what is that amount?

Medappa Gowda: Amount breakup I will give you later offline.

Resham Jain: Okay, fine and Sir secondly this increase in capacity from 25 to 40, if you can explain what will be the timelines of this getting commissioned and what will be the timelines for the utilization, in how many years like two years, three years will you be able to utilize this incremental capacity rough guidance you can give?

K. Ajith Kumar Rai: I presume you are talking about our cable capacity from 250 to 300 million?

Resham Jain: Yes sorry.

K. Ajith Kumar Rai: Okay, so yes the two new plants, I think one is in Narsapura, which the building and everything is ready, I think customer has asked us to go ahead with implementation of the project and installing of the equipment. We will have some during the first half of next year it should go into production whereas the other plant that we are setting up is for our exports from Suprajit Automotive, again there we are planning to increase our capacity from 25 million to 50 million, so that building is also coming up. I think during the first quarter of coming financial year we should have at least part of the space being used for manufacturing, so I would say that by December of this year we should have a reasonable capacity being utilized out of it. Now in terms of numbers I think last year if I am not mistaken we did about 210 million cables out of the 250 capacity. This year current you can see that we are going at about 10% to 15% that would be the kind of increase number, so we will be about probably to 225 or 230 would be the capacity utilized by end of this year, so we will have enough capacity for the coming year, so that is how it has been planned out.

Resham Jain: Just one last question is on LED technology side, are you seeing incrementally in the new models what is the traction of LED getting implemented in the new models and all whether the technology has stabilized in the existing models, if you can give some sense because we have multiple views on new models, there are certain issues in terms of technology and all?

K. Ajith Kumar Rai: Mohan will you answer that?

N. S. Mohan: Yes, I think what you are hearing is also something similar what we are hearing. First of all the push for LED, which we did not anticipate at the lower end models came about primarily because the load on the magneto and hence load on the engine therefore fuel consumption and with AHO coming in, all these headlamps on, concept coming in, the overall load on the consumption of petrol, consumption of fuel went up and the lower end models, the first thing that a customer ask in India is how much mileage does it give, so mileage is very, very important, so that prompted a lot of OEMs to very quickly move out to LED, but having said that like what you said there have been technological issues particularly in terms of heat transfer and it been able to last and the replacement cost of that, so there have been some rumblings on that, this is what we have also heard, but has it translated into specific business signals for us no, not yet.

Resham Jain: But any colour if you can give on the new models the pace of transition from the halogen to LED in the new models?

N. S. Mohan: Honda has moved over to their base models because again question is whether it is getting into niche segment or is it getting into the mass segment, so our anticipation, it is going to go into niche segment first, but actually it went other way around into the mass segment, which kind of affected us; therefore, our OE growth became a bit slow, so once Honda went in, TVS started following them, so we know that, that is the market is, but the question is how is it being accepted in the market more so, let us wait for the summer months where the Indian summer and let us look at the Delta T, temperature differences, how it is going to affect, so it is a technical question, we need to wait and look for the answers, let the market answer.

Resham Jain: Okay perfect. Thank you Sir.

Moderator: Thank you. We have next question from the line of Nikhil Kale from Axis Capital. Please go ahead.

Nikhil Kale: Thanks for taking my question. Most of my questions have been answered, just on the SENA part, so I think we have mentioned that we have been looking at spaces beyond the outdoor power equipment business, so just wanted to understand if you have any update on the business development activities and if we have had any progress on any new business?

K. Ajith Kumar Rai: Mohan, you want to answer?

N. S. Mohan: We have definitely approached in power sports vehicles and we have started switching around in the medical segment, these are the two areas where we have actively gone up, but again it would always mean building the customer relationship then coming even though we are in US and Wescon is a US based company, it takes time to dislodge an existing player, so we are confident that we will get into these segments, but have we made success, have we land in with specific contracts there, no, not yet.

Nikhil Kale: With respect to these segments just wanted to understand what would be the content versus our existing segment, is the content opportunity with the margins be significantly different from the current business that we have?

N. S. Mohan: I think in terms of this businesses of SENA that we are planning on, I think generally the current suppliers are western base, let us say US customer get a US cable supplier, so our strategy, which has been is to offer the same customer three options, either you want it to made in US will get it in US, you want to made it in Juarez, which is our other plant in Mexico will get at a even lower price and if you want it in India we will compete with China, so that is the strategy that we are approaching. As Mohan said, it is an initial last six, eight months, but there has been some good, what I would say lead generation, the RFQs are being generated, the final negotiations are being on, so we do believe that we will get new business on that and in fact smaller businesses have come for that particular segment as well. In terms of margins, I think there would be decent margin, there will be in line with our let us say margin that we currently operate on, it will be certainly not at a lower margin than what we are doing now.

Nikhil Kale: Lastly just if you could let us know what is your capex guidance for FY2019 as well as any indication for capex?

N. S. Mohan: In the last, I think couple of board meetings ago we had taken the capex over a two year period that is current year and next year that is to a capex of Rs.100 Crores to increase our capacity from 250 to 300 million, so that was done with a two-year view to do that, which will be again reviewed every year, we review our capex in the upcoming next year's first board meeting. There could be some minor tweaking on that, but it is nothing significant, but that is what we have done of which probably we have spent about half of it, the two plants are coming up and other balancing capex are going on in other units, so the capacity of 300 million will be in place by let us say December of this year with a total outlay of Rs.100 Crores.

Nikhil Kale: Thank you.

Moderator: Thank you Sir. We have next question from the line of William Charles from ICRA Limited. Please go ahead.

William Charles: Good morning. First of all congratulations on reporting very good performance in Q3 of this year. Sir actually most of my questions are answered since I am in the last head of the queue. One thing is the other income, which I will talk to Mr. Medappa after the call and second thing Sir if you see the nine months performance, so there has been a dip in the operating margins. One of the key cost components it has gone up is employee cost, so we have seen almost 17% growth in the employee cost, so just want to have a breakup of the impact of minimum wage from India and Wescon expenses, how can we break it the employee cost increase nine months?

K. Ajith Kumar Rai: In most of the states in India, the minimum wages have gone up, so that is one of the contributors to the employee cost increase and certainly in US we have increased employee cost because we are driving the SENA strategy, which requires again business development people, engineering resources and also automotive. As you know we have setup a Tech Center, Business Development Center in Detroit, so all these costs are adding to that as an extra cost. The business for which will be generated going forward, so it is an investment that we are making in the future, so you are right, I think that employment cost might have gone up for both the reasons, but over a period of time they all get the average out I guess.

William Charles: Okay, so how do we see the growth in the employee cost going forward Sir, is it going to stabilize?

K. Ajith Kumar Rai: Again it is all very dynamic right we are in multiple segments, so it is difficult to make a generalized statement on this.

William Charles: Thank you Sir. That is it from my end.

Moderator: Thank you. We have next question from the line of Vaikam Kumar from JM Financial Limited. Please go ahead.

Vaikam Kumar: Thank you for the opportunity and congratulations on a good set of numbers. I just wanted to know if it is possible to provide the standalone revenue mix for the first nine months?

K. Ajith Kumar Rai: Standalone revenue mix in terms of what you mean?

Vaikam Kumar: Both products as well as segments?

K. Ajith Kumar Rai: We do not have it certainly here, but may be you can connect with Medappa later on.

Vaikam Kumar: Sure, I will do that and if you look at SENA the nine-month margin was swollen by 140 BPS, you had already referred to sourcing from China as well as employee cost, is it possible to provide a split as to how much was the impact?

K. Ajith Kumar Rai: We do not really go into this much of details for the thing, but internally what Mohan said is correct those kind of things did have an impact on that, but I do not know, we can talk to Medappa later on, but we do not really go into that kind of detailing to provide the data, I think.

Vaikam Kumar: Sure. Thank you.

Moderator: Thank you Sir. We have next question from the line of Jay Mehta from Edelweiss Financial Services. Please go ahead.

Jay Mehta: No, thank you, all of my questions have been answered. Thank you.

Moderator: Thank you Sir. We have next question from the line of Alpesh Thakkar from Motilal Oswal Research. Please go ahead.

Alpesh Thakkar: Thank you Sir for taking up my question and congratulation for a very good set of numbers this time. Sir my first question is who is the major competition in India in halogen segment and what would be the rough market share compared to us?

K. Ajith Kumar Rai: Mohan.

N. S. Mohan: Let me again split it into OE segment and aftermarket. Before that let me answer the question in a slightly different way, let me talk about the capacity. We are the largest capacitated organization in India, we have a capacity of 87 million bulbs and last year we did about 62 million bulbs or so. So the nearest competitor has reported a capacity of 30 million. So you can imagine the kind of gap that we are talking about. Having said that now I come over to the market share, we have close to around if I am not wrong 70% to 80% market share in the two wheelers markets and between 60% to 70% market share in the passenger car vehicle market. In the commercial vehicle market again we have probably somewhere around 60% to 70% market share. Aftermarket is very difficult to answer because there are quite many unorganized players and there are people who just import a container load of junk and sell it as bulbs in the market, so it is very difficult to say, but our estimate in terms of organized players if I look at it would be very, very significant, we would be easily around 50% of market share.

Alpesh Thakkar: Okay. Thank you Sir and one more thing on the global competition in the halogen business, so are you seeing a degrowth of overall market in geographies like EU and US in halogen given the fact that the LED adoption is higher in these geographies as compared to India, so any kind of degrowth that you are seeing because of higher penetration of LEDs over there?

N. S. Mohan: First of all I think in the outside India, we are not in the OEM segment at all we are zero whether it is in US or in Euro, so there are some changes happening there, but where we are present today it is in the aftermarket. As you know the vehicle population globally is you can make your own assessment in these market, but it is all known and available data, so they all have at least anywhere from two to four halogen lamp, so the replacement market continues to be robust and that is where our aim is to continue to get some new businesses.

Alpesh Thakkar: Okay, got it. Thank you Sir.

Moderator: Thank you Sir. Ladies and gentlemen, that was the last question. I now hand the conference over to the management for closing comments. Sir over to you!

K. Ajith Kumar Rai: Thank you very much all of you for the continued interest in Suprajit. I do hope that we have clarified the queries that you have had. If you have any more questions or anything that you need to ask, please connect with Medappa and I would also like to thank Anand Rathi, Vijay Sarthy and their team for organizing this concall. Thanks.

Moderator: Thank you very much Sir. Ladies and gentlemen, on behalf of Anand Rathi Share and Stock Brokers that concludes this conference call. Thank you for joining with us. You may now disconnect your lines.