“Suprajit Engineering Limited
Q4 FY2021 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Suprajit Engineering Limited Q4 FY2021 Earnings Conference Call hosted by Anand Rathi Share 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. Please note that this conference is being recorded. I now hand the conference over to Mr. Vijay Sarthy from Anand Rathi Share and Stock Brokers. Thank you and over to you Sir!

Vijay Sarathi: Thanks Steven. Good morning all. On behalf of Anand Rathi we welcome you all to the Q4 FY2021 conference call of Suprajit Engineering. From the management side, we have Mr. Ajith Kumar Rai, the Founder and Chairman. We have Mr. Mohan, MD and Group CEO and Mr. Medappa who is the CFO and Company Secretary. As always, we will have a brief review about the results and then we will move to Q&A. I now hand over the call to Mr. Ajith. Over to you Sir!

K. K. Ajith Kumar Rai: Good morning to you all. Thank you very much for joining this conference call for the Q4 results of Suprajit along with the yearly finalized audit numbers. I would like to thank Vijay Sarthy for hosting this conference call for the benefit of investors. As you know we will start with a brief on the operations by our Managing Director, Mohan followed by a quick update on the financials by Medappa, our CFO followed by I will give a short covering brief and then we will start the questions, so that we could ask answer your questions as it comes. With that I will hand over to Mohan to start the day.

N.S. Mohan: Thank you very much. Very good morning to everybody. I am very glad to report a very good set of numbers both of Q4 and reasonable set of numbers for the entire year. I am sure that Medappa will be taking us through the details there. I would also be taking you through the operational happenings at the various business units. As usual I will cover both the business units and legal entities in their combinations.

Let me start with our Suprajit Engineering non-automotive, SENA as we call it and Wescon. While the COVID scenario in US was the bit benign, the ability to service the customers from ORS was the challenge mainly because Mexico was still reeling under COVID and ORS was declared as an orange zone. We were able to quickly up the manufacturing Wichita facility and we started supplying the customers.

The ICE chip issue that there is one which goes into a sensor and that became a problem therefore we were constraint on the sensors along with that we also had a followup from the Texas Springs which impacted the plastic supply. Having said with all these kind of headwinds that we had despite all these challenges I am proud to say that the team delivered a good set of numbers in the last quarter and also as the entire year, they did reasonably good.

Now moving onto the automotive export which is our Suprajit Europe and Suprajit Automotive Limited we find that there has been sporadic disruptions in the automotive industry particularly in the EU region and primarily because of the chip shortage. The demand has been good. The final demand of the Europeans has been good and they are still anchoring for new cars, but the issue has been more from a supply chain perspective, but from our perspective the new launches went very smooth, but the main problem that we had was the logistic issue and we also still continue to have the Brexit confusion, which is bothering our business there.

Like it has been announced earlier we got Mr. Jim Ryan or James Ryan who joined the senior management team and I am sure with his rich experience, he will be guiding Wescon and automotive export business and we will be able to improve further both from an operational perspective and also from a new business point of view.

Moving onto halogen bulb, Luxlite and Trifa that continues to be a challenge, our inability to travel and meet the customers and also overall insipid aftermarket conditions continues to bother us. While most of the main customer purchase schemes like whether it is Hella or Bosch, most of them are operating from home as much as our sales team is also operating from home, therefore there has been to that extent hampering our business.

Moving Phoenix Lamps division in India, it came out with flying colours both our Noida plant and Chennai plant have very successfully supported the customers be it Osram, Bosch or our new customer like Lumiled which was earlier Philips, so while we did very well in the last quarter and overall year also we did reasonably good this quarter has huge amount of headwinds and this is primarily because of the nonavailability of oxygen which is obviously very critical for us because we melt the glass and to melt the glass to use liquid oxygen.

The government, of course rightfully stopped the diversion of oxygen to nonmedical use so hence we have to shutdown some of the plants or all plants. But we have got very active support by one of the major OEMs and through their recommendations and through their help we have been able to place an order on oxygen generators and they are already being manufactured and it is expected to be commissioned by around June. In the meantime, of course there has been some amount of levy that has been given and north liquid oxygen supplies through our Noida plant has been resumed. Again our aftermarket continues to give a stellar performance in our Phoenix Lamps division.

Now I will move to the domestic cable division. On the domestic cable division while we continue to hold the pole position what is very, very emboldened and I think we are proud of is that we won the prestigious Honda Best Vendor Award and this was completely surprise and a very pleasant surprise and it was an vindication for the focus that we have been giving on the increased business relationship with this key customer, but that was not all, this was coupled with a very similar honour from a very first customer which is TVS Motors. So TVS Motors also gave us the Best Vendor Award so this goes on to prove that we continue to deliver value for all our customers be it new or our traditional supporters. We also got recognition as a Best Vendor from Kubota so overall it has been an excellent year with good recognitions from the customers.

Moving onto our investments our plan to expand the capacity at Narsapura primarily for Honda has continued, but it has slowed down a bit primarily because of the COVID restrictions. Our Naya Manesar Project which is basically to modernize our Unit Four or the fourth unit that we have has been completed and it has been currently showcased to our customer in the north.

Just apart from all the specific business units, our Suprajit Technology Center has moved ahead coming out with new products which is electronic, instrument clusters, CBS or Combi Brake System and also the brake shoes These are being well accepted in the market place and particularly we have got some amount of success in the segment. I think with that I will conclude my updates. Thank you.

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

Medappa Gowda: Thank you very much. Good morning to everyone. We have announced the financial results for the year and the quarter ended March 31, 2021. The consolidated revenue for the year ended March 2021 was Rs.1641 Crores as against Rs.1563 Crores for the corresponding previous year, recording a growth of 5%.

I will go through the quarter on quarter comparison since YDT numbers are not exactly comparable due to subdued performance in Q1 2020 due to COVID last year. The consolidated revenue for the quarter ended March 2021 stands at Rs.513 Crores as against Rs.389 Crores for the corresponding quarter previous year, recording growth of 32%. The consolidated operational EBITDA was Rs.82 Crores for the quarter as against Rs.54 Crores for the previous year quarter, recording growth of 49%. Q4 2021 was the ever highest quarter in terms of revenue compared to previous quarters. The standalone revenue for the year ended March 2021 was Rs.1112 Crores as against Rs.1071 Crores for the corresponding previous year recording growth of 4%.

At standalone level we have achieved the turnover of Rs.347 Crores for the quarter as against Rs.258 Crores for the corresponding quarter last year recording a growth of 35%. The standalone operational EBITDA was Rs.58 Crores for the quarter as against Rs.46 Crores for corresponding quarter last year recording growth of 26%.

We are also happy to inform that overall group debt level has reduced to Rs.328 Crores against Rs.380 Crores during last year March 2020. For further queries if any on the results you may approach me at any point of time directly as usual after the investor call also. Thank you very much.

K. K. Ajith Kumar Rai: Thank you Medappa. I just would like to conclude from our side saying that the last year we started with huge gloom and doom thanks to the lockdown that happened end of March 2020 so the first quarter result was more or less disaster, but the way we were able to clawback during the year in the next three quarters has been wonderful work by our team which in the end we were able to actually clock a growth both on standalone as well as on the consolidated basis.

In fact on the consolidated basis despite first quarter of pretty poor results, we were able to actually improve our margins from to about 14% to about 14.5% so that itself is a wonderful performance considering not only the first quarter being the write-off, but also the fact that there has been increase in commodity prices through the year which you are all well aware.

As far as this year is concerned, I think we have also given a commentary on the current quarter and in the sense of worse to store the lockdowns are in various stages and various states and in various customers and we think that the first quarter would be materially impacted simply because business is at a very low key. How the rest of the year will pan out it all depends upon how the pandemic pans out so if the second wave gets over well and then enough people are vaccinated and the third wave is not bad then I think we still have a decent year ahead, but I am concerned that with the vaccination levels where it is and that typically the third wave comes may be in after two, three months that would be the peak season for automotive business that is September, October, November.

If anything like that happens at the time it could be something that could be pretty bad for the industry, so we are keeping our fingers crossed, but we are concerned that the pandemic is not under control still subject to that I think we will continue to do well. All I would like to conclude is by saying last year Indian automotive industry shrank by nearly 14% against that we have actually grown by 5%. So we technically had a delta for almost 18%, 19% on the automotive industry growth, which I think is a very creditable performance.

With that I now leave the floor for questions. Moderator, you can please open the question and answers please.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Ashutosh Tiwari from Equirus Securities. Please go ahead.

Ashutosh Tiwari: Congrats on decent numbers. If I look at automotive cable margins it dipped quarter-on-quarter from 20% to 15% obviously it would have been abnormal margin, but if I look at standalone other expenses they actually increased from Rs.19 Crores to Rs.25 Crores almost in this quarter on Q-on-Q basis?

K. Ajith Kumar Rai: Sorry, I am unable to hear you. Can you slowdown a little bit and come closer to the mike?

Ashutosh Tiwari: If I look at standalone other expenses it increased from Rs.19 Crores to Rs.25 Crores on a quarter-on-quarter basis, any particular one off in that?

K. Ajith Kumar Rai: You are saying the other income has increased is it?

Ashutosh Tiwari: Other expenses?

K. Ajith Kumar Rai: I think one of the reasons other expenses probably slightly higher is that please understand that one of the challenges, the group itself has found during the year was to some extent extraordinary freight expenses. The shipment that normally goes by boats were all disturbed due to port congestion, there is a Suez Canal issue and all kinds of stuff, so we had to resort to lot of air freights to make sure because we are all single source for many customers. I think that is the one I would say an element of expense which was probably more than normal for the year.

Ashutosh Tiwari: In the fourth quarter?

K. Ajith Kumar Rai: Yes, in the fourth quarter.

Ashutosh Tiwari: Is that the reason why automotive cable margins dipped on a quarter-on-quarter basis?

K. Ajith Kumar Rai: Again it is difficult to talk about quarter-to-quarter this dip, because the variation can be, there has been some sales reversal during the course of the particular quarter may be to some extent the margin may also have been because of the material cost that impact that it must have had. So there are multiple reasons, but I think these one or two things are also will add apart from the fact that there has been these freight issues.

Ashutosh Tiwari: Secondly, you mentioned that this Phoenix Lamp is more impacted in the current quarter because of oxygen issue, supply issues, so obviously we have very large in aftermarket as well, so is it other computed or similar issue in the plant that is why may be in second quarter we could have losses, seen in this quarter?

K. Ajith Kumar Rai: We are in the same boat as any other supplier of this particular product, but everybody needs oxygen and they are all depending upon oxygen being supplied by Inoxes of the world and we are now setting up our own oxygen plant which probably should be in place in June, so I think we should be back to a reasonable level of production, but let me also say that the pressure, let me give the larger perspective that oxygen produced in India, there are sufficient and enough oxygen available, there is no supply issue, there is no issue of meeting the demand, but there is an issue of supply in terms of logistics. Now where the oxygen plants are and how do you supply to them, all of them have been sort of resolved by now with all by road, by train, you will hear of trains taking oxygen containers all over the country, so the pressure has come off from some of the key suppliers, for example Inox has started supplying to us already, so the plants are back in normal. Has it affected? Yes, it has affected some production for us but has it affected any of the customers? No, because most of them are anyway on shutdown so we are now getting back to normalcy, so it did affect some production, we will pickup the production when things are needed, so if the rebound in the aftermarket to answer your specific question comes in let us say June, July, August, I mean June will be still a month where we will have to see how exactly lockdowns will be lifted. I think we will be very well prepared, there is no problem.

Ashutosh Tiwari: Thanks a lot. That is all from my side.

Moderator: Thank you. The next question is from the line of Deepan Sankara Narayanan from Trustline PMS. Please go ahead.

Deepan S Narayanan: Good morning everyone and thanks a lot for the opportunity. Firstly I wanted to understand what is our expectation of US and European market performance this year considering they are benign in terms of second wave of COVID and also are we seeing the status on new models of our new customers, is it running smoothly or it is getting delay?

K. Ajith Kumar Rai: In terms of new introduction, there have been some delays, SOPs have been delayed, the volumes have come down, but having said that we have one some quite a few contracts as we have been saying in the past in the last two, three years. One of the reasons we are able to continue to grow despite major disruptions in Q1 was largely because some of these new contracts have started gets production cycles. So that has helped us to sort of be where we were, which will continue this year also. In terms of overall volumes, it is not just the COVID that is bothering the automotive industry, it is also this ICE which Mohan just mentioned, if you seeing the global news both whether in US or in Europe I think right from Volkswagen to BMW to GM to Ford, they all have sporadically shutdown one week, two weeks, three weeks this plant, that plant, so overall the assumption is this year, let us say this calendar year automotive industry worldwide will not grow, it will actually shrink, whether it is 5% or 10% depends upon how these shortages will actually pan out in the next three, six months' time because the general feeling is that through this year, this ICE shortage will be there. It is not going away because there is an over demand and under supply and the capacities are full. So, having said that if there are no other issues I think we will continue to have because of this increased what I would call as new businesses we should be able to do decently well.

Deepan S Narayanan: On India business Sir, fairly we had a very low base last year on Q1 particularly. So, are we guiding anything on that? Will we be meeting last year numbers or you will be lower than that?

K. Ajith Kumar Rai: Difficult to say, but all I am saying that our April was reasonable. May was bad. June it again depends when everybody starts scaling up, so overall I would say that Q1 would be something like last year first quarter, hopefully a little better I think, it depends upon June.

Deepan S Narayanan: Sir, and this current conditions and commodity prices going up, so are we expecting some pricing to pass on to our customers or are we facing difficult time to pass on the prices to the customers?

K. Ajith Kumar Rai: I mean generally, in India there is recourse to customers. We are in discussion. We have got certain price increases, certain price increase is still under debate. It is an ongoing what I would call as debate and deliberations with the customers. Customers understand because this time the price increase is not 1%, 2% and steel prices have gone up by something like 30% and so are many other materials. So, I think the customers, our understanding is there will be always a timing gap between the actual impact of price increase and the actual impact of when the material prices have gone up, to that extent there will be what I would call as a timing issue, but otherwise, I think we are doing every effort to make sure that we get compensated. There will always be some difficulty at some point, but overall we should be able to manage it for the Indian market.

Deepan S Narayanan: Thanks a lot. All the best.

Moderator: Thank you. The next question is from the line of Amit Hiranandani from East India Securities. Please go ahead.

Amit Hiranandani: Thanks for the opportunity. First of all many, many congratulations to the whole management team for the exceptional set of numbers on this tough time. Sir, my first question is basically the non-auto cable margin for the quarter has substantially improved, just want to know the reason and whether can we sustain this higher level of margins in the coming years and on the other side, auto cable margins have substantially dropped QoQ and any one offs in it?

K. Ajith Kumar Rai: I think my basic answer would be that I do not want anyone to go by one quarter number whether it is on automotive or it is non-automotive. There are various reasons. There could be some for example, a pending price increase which got effected in that quarter so it is showing in a skewed number and also probably on Q4 in automotive exports you have huge air freights that we had to do because of all, you know, what all happened in the Suez Canal up to all the issues at various ports, so that has also been a big problem. So I would not go by a quarter, all I want to say particularly on the automotive side, I think one quarter, couple of percent, but if you look at the whole year, they are more or less at the same level. I do not see much change on that overall scenario. Coming to the non-automotive, I think what I am happy about is that Wescon seem to be turning around slowly but steadily. I think last year is a year where they consolidated, they improved their operational efficiencies, certain amount of new businesses have been won, so to some extent, I think the last quarter was a good quarter for in terms of sales. When the sales achieved certain level I think, it also obviously had its effect on its bottomline so that did give a pleasant surprise for the quarter that apart from whatever the other thing I mentioned, so it is a trend? I think overall non-automotive business which had been clocking lower margins in the past couple of years, seem to have stabilised and seem to be only on the trend up. So, we are happy that it is in a good double-digit now. So the idea is to make sure that we continue on that path.

Amit Hiranandani: Great. Sir, can you please throw some light on the new products and any plans for getting into making EV products or potential opportunity on the table?

K. Ajith Kumar Rai: On the new products and EV opportunities I will ask Mohan to answer.

N.S. Mohan: Thank you. Well, let us split it into two different things. One is the new product, when I say new product, for example, brake shoes is a new product for us. You know that we have entered into this segment. We have got a very good technology in place that is called In Situ technology and we have already commissioned the plant and we have done all the trials and commercialization of the plant is done. We also have got our one customer maybe an OE customer, and we have already started supplying for this OE customer. We have approached other OE customer for product validation and move ahead. In the process, we have also seeded that in the aftermarket and we have started selling it in the aftermarket. So, this is on our new product, which is other than I would say the cables and the halogen bulbs. In terms of EV segment, we are getting into a completely different ballgame here and that is into the electronics cluster. As in the last call, we were talking about that we have started our electronic division and we need to migrate from our instrument cluster which was mechanical instrument clusters into electronics and we have a very clear product roadmap and we call it as Supra 1.0, Supra 2.0, Supra 2.53 at different levels of electronic versions and some of these have already got good market acceptance and here very specifically our target has been the EV space, so we are working with a couple of EV players to supply electronic instrument clusters to them. Other than that we also had a combination braking system. That again is being targeted with some of the EV segment two-wheelers.

K. Ajith Kumar Rai: Just to add what Mohan said we are also working on electronic throttle controls for some of the customer's requirements, so Suprajit Technology Centre which is now being sort of augmented with more number of engineers where a couple of senior people joining the team, so we think that in the next two to five years' time, we will have multiple products coming out and commercialized for the overall good of the company's future growth. Thank you.

Amit Hiranandani: Great Sir. Sir, can you throw some light on orders from Osram? Are we getting it for the European order and aftermarket?

K. Ajith Kumar Rai: Yes. Osram, you know, there is a buyback agreement. In fact, without getting into the numbers, I can say that last year, we exceeded their own requirement, the original buyback commitment because they wanted more and we were able to deliver them more. The understanding continues. The requirements are robust. We continue to deliver Osram's agreements.

Amit Hiranandani: Sir one last question, we earlier had plans to further diversify the non-auto division geographically as well as product wise, so where are we on this plan?

K. Ajith Kumar Rai: I will ask Mohan to answer this question geographic as well as product wise on non-automotive.

N.S. Mohan: Thanks. On the non-automotive side, we are very clearly again looking at electronic what Ajith was talking about. The electronic throttle control is one of the key products. In fact, this was being supplied already by Wescon to some of the customers there, but they were buying a lot of those equipments or parts from other suppliers. So for that we went in for a back ended localization that we are going to do it here in India and supply it to Wescon and through Wescon supply to these customers. So, one of the key shifts that has happened is or is going to happen is going to be from mechanical control cables to electronic control systems. So we are positioning ourselves there. Other than that there are quite many other devices like for example our gear shifters which are again being positioned there in the US market, which will be back ended produced here in India.

K. Ajith Kumar Rai: Mohan, maybe also on the gearboxes that we are working maybe you can touch upon.

N.S. Mohan: Thanks for reminding. Yes, one of the key products that we are now commercialized and it is undergoing a lot of testing by some of the OE customers in Brazil is for a gearbox. This is an interesting product where we were making the cables for that and we were supplying cables for that. Now at one end of this cable there is a specific gearbox which goes for a seeding unit that means to plant the seeds in agricultural equipment. So, this gearbox is something that we locally designed here in India and we tested everything and we have started giving it, seeding it in the Brazil market, and in aftermarket it is already been given, but more importantly for the OE market it is being tested by one of the OEMs there.

K. Ajith Kumar Rai: Thank you Mohan. And to add to that in terms of we are also looking from the non-automotive point of view to not only get into newer products, but these are all the products that is being developed at STC, Suprajit Technology Center but to add to that what we are also trying to do is to get into new customers with our existing products as well that means, cables and whatever we are currently doing. I think Wescon team in fact, recently, we had a strategy session and five year plan, so we are very clearly focused on starting to work now, already some work has happened, which will make us to enter into some of the newer customers for our current products as well. So, that has also been clearly rolled out, so in fact, I can say that first quarter Wescon numbers are pretty good largely because the effort made to get into existing customers, newer business, new customer existing business. I think both are starting to break the ice. So, some of those orders that we have won in the last year is getting into production, so in fact Q1 of this year, which is typically the lowest or the weakest quarter for Wescon is turning out to be quite interesting from the point of view of sales. Thank you.

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

Nikhil Kale: Thank you for taking my question. My question is on again on the non-auto cable side. I think at the start you mentioned that there were a couple of challenges specifically in Mexico and also with respect to the sensors, so just wanted to understand was there any loss of revenues because of the issue or were you able to recuperate whatever revenues over the shift in the chain?

K. Ajith Kumar Rai: Yes, the point is when we shifted the Mexico production to Wichita there is a cost, I mean there is a cost issue, but we have not let any customer lines down that is the most important part in our business. Could we have delivered more and added another half a million sales, maybe the answer is yes, but we have been able to work with our customers so that we make sure that the lines are not down, we deliver somehow or the other on time largely because Mexico, we started with red and it has gone to now orange I think. So, there is no other issue other than that. In terms of sensor again see customer is fully in the picture in terms of sensors. So, for example a couple of our major customers they know the problem and they know which suppliers are using particular sensor or the ICE and they work with the supplier together with us and then they allocate and they budget quantities depending upon their production schedules. Accordingly, we receive. Typically, we would have produced more and kept new stock or send more to the customer. That is not happening. It is going just in time. So, we have been able to manage the customer so far, but then this is as per the non-automotive whereas automotive, it is a much larger problem and a bigger problem. The customers have taken a decision on many occasions just to shutdown the plant.

Nikhil Kale: Sir, if I look at the online margins, I think the margin improvement has been very good, 11% to almost 14.5% so I just wanted to understand one is in terms of our mix change of productions I think, we were also doing a lot of direct exports, so how does it stand today, how much are we manufacturing in Mexico, which is our direct exports from say India and how do we see that going forward?

K. Ajith Kumar Rai: You are talking about the non-automotive, I think.

Nikhil Kale: Yes, nonautomotive.

K. Ajith Kumar Rai: I think slowly but steadily there will be more production happen. I am not talking about one quarter let us say I am talking of the next two, three years, I think quite a bit of the new business will happen out of India, number one. Number two, a reasonable amount of business will also happen out of ORS because delivery times are much shorter and customer is willing to pay a slightly higher price. So, both are happening. So, the business in essence is not likely to grow in Wichita plant per se, but it will probably grow in ORS and India.

Nikhil Kale: Sir to that extent, I think the margins should be in this region or growing?

K. Ajith Kumar Rai: You know what happens when we move the business to India, customer also knows that it is made in India. So they are equally smart. They also ask for not the same level of pricing that we get at Wichita will come to the other plants. So, it is at the base, but yes, currently I would agree with you that the products made out of India has higher margins and that is why the growth is there, but the customer keep on pushing for prices and all. We will have to see how it pans out. At the moment, yes probably one of the reason that you saw some margin improvement as well in the last quarter.

Nikhil Kale: Just lastly would it be possible to maybe quantify some numbers on the order book that you have maybe in the non-auto side or even on the automotive cables that it would be very useful?

K. Ajith Kumar Rai: You can touch offline, because we do not really get into this much of detailing in terms of providing the data, but I think some basic data I think Medappa can provide to you offline.

Nikhil Kale: Thank you.

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

Abhishek Jain: Thanks for taking my question and congrats on a very strong set of numbers. As the retail sales is quite weak in two-wheelers, and inventory is quite high, so how do you see impact in your standalone number in the first half FY2021 and what is your value guidance for the core cable business for FY2022? So, can we see degrowth in the aftermarket business as well? Do you see the traction in distribution channel?

K. Ajith Kumar Rai: A little difficult to understand, but let me try to answer. You are saying about I think the OEM business about the pipeline stocks and thing. Let me answer the second part, I think I heard you properly. The aftermarket business our dealers and distributor opens up, I would think that the business will be back to normal and had been good last year when there was a reopening, there was a bust of business which came up quite nicely. It could again repeat for sometime but then will there be that much of pent up demand like last year I doubt it because it has been a good year for growth so there would be an uptick, but how much I do not know. Secondly, I think the rural economy and rural distribution was good last year simply because the COVID did impact the rural economy. This year I think it has impacted the rural economy so I do not know what would be the outcome of that, would it mean that there will be reduced sale of two-wheelers or whatever, as well as whether there will be and you are also in the same business, so you have to get to that mind. In terms of OEMs I think when we looked at March and beginning of April there was a feeling that there was an increased pipeline stocks in the two-wheeler dealerships and then of course the lockdown has happened and some of the customers as you know, have shutdown their plants sporadically and changes in schedules have happened. Now how much is the stock, I do not know. The people talk about six to eight weeks stock, if it so that is a little bit on a higher side. So, I think we will all have to see how, you know somehow there is a feel of discomfort for me and it is more by a personal view and I hope and pray that I am wrong that this time, the effect of COVID has been deep rooted. I think you all would agree somebody we know, some relations, some friends, some had the serious effect of COVID. So it has happened also in the rural area. So how the economy will pick up when the business will pick up. I have a little more concerned this time than the last time around because it impacted certain area and went away. This time it has got a deep rooted impact. So, will the economy really pickup and the two-wheeler or four wheeler business will pickup, I have some concerns, that is why we have been a little conservative and very cautious in our outlook for the year and I still hold that view.

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

Viraj Kacharia: Thanks for opportunity. First of all Sir hope everyone at Suprajit safe and healthy and congratulations on such a remarkable performance in such a challenging time so all credit goes to you and the team. I just had really broader questions I mean not just looking at mixed one or two for this but how to look at say next three to five years, first is if you look at FY2021, as you said we have seen a considerable outperformance compared to the Indian auto production and that is an outperformance we have been maintaining for last many years or decades. I was going to look at next three to five years, where will that outperformance come to us if it is exports, if it is a domestic, if it exports you know based on the kind of enquiries or any colour, you can give how the enquiries how the conversion looking right now or the pipeline looking right now so that is one and in relation to that since the PLI scheme is now out and open is there any benefit we can take and leverage upon so that is one. Second is largely as you said you know we had seen some impact into the production say for Phoenix and that is something which can happen to any company or supplier either in India or globally but is there now a thinking which we are looking at in terms of derisking the supply chain not just in India but probably at a global level and how does that kind of equate with our valuable position in respect to the cost, which we have always kind of tried upon so these are two broader questions I had.

K. Ajith Kumar Rai: I would say more generic answer than being specific. We have always outperformed the automotive industry and that continues to be our stand. We have always said that we will do 5% to 10% outperformance with 5% growth this year in sales which means it is almost like a 18%-19% outperformance to Indian automotive industry. Now how will it pan out for the next three to five years? I think the growth will come we believe that globally it is my view and our internal view that there will be consolidation of vendors. You are right when you set the supply chain derisking. Today, customers do not want tenth of suppliers of cables they want three or four who have the ability and financials standard stand to deliver them when they want despite whatever the problem they have. So that is where we step in and we have done as in the past two to three such acquisitions in this space. There continues to be opportunities and we have already made clear that we will continue to look for such opportunities that will augment our outperformance that is number one. Number two globally we are still pretty small player. So I think the opportunities globally will come in automotive as well as in non-automotive business. I think to add to our strength with Jim joining us who has been in the automotive cable business for 30 years and led teams in the so-called global majors in cables. I think gives us a lot of strength additionally to make some more inroads beyond what we have been doing ourselves to continue to go on this path of outperformance. So this is where we are looking at on the cable side and also on the even on the Phoenix Lamp side I think the kind of strategy we are striking with whether it is with Osram or whether it is with Lumiled and now ability to even deliver to the OEMs I mean we have last one year we successfully delivered to a Chinese OEM and we are working with some more so all these things will are new businesses for us. It is not the existing businesses. So that will all add to our ability to outperform the business. So I continue to believe that will outperform and added to that what STC is doing, I think we are not talking too much about STC today but I think in another two years' time some of the products that are in the final stages, Mohan talked about it quite a bit, some of them can easily take off. So we have a lot of hopes in that so all this will add on to our outperformance. PLI on the auto component industry we are here to study well. I think it has still not come out in clearly so we will have to see what exactly it means and we will see whether we can use it or advantage for sure. Supply chain derisking it is a perennial issue I mean we always have managed to do derisking of suppliers. We generally have two suppliers most of the times and unless there is a reason to be a single sourcing. So we never had we today supply to most of these customers something like either we are at 70 suppliers many a times 100 suppliers so we have been able to manage the supply chain well and we have a fairly good link within the supply chain to make sure that whenever there is let us say one supplier has a problem to switch suppliers and manage the situation. So we have not had that problem so far and I think our team is well equipped to deal whenever such crisis has happened. I think we should be able to deal with that.

Moderator: Thank you. The next question is from the line of Pratik Kothari from Unique PMS. Please go ahead.

Pratik Kothari: Thank you for the opportunity. Sir again it is a continuation of your earlier comments regarding for the next three to five years just wanted to get your sense on our preparedness to capture the opportunities which might come to us again over the next three, five years and I ask this in the context that for the last two quarters we are currently operating at almost full capacity that we have at optimum utilization and the capex that we had announced last quarter only adds about 2% to 5% of the installed capacity that we have so any major capex plan, any thoughts around that how do we once the opportunity comes are we ready to grab the same?

K. Ajith Kumar Rai: Good point Pratik. I agree with you, but let me also say this that we generally have the capacities in place. We have 300 million capacities in cables and about 100 million to 110 million lamps whereas last year of course let us not even if taking the first quarter number we are only at about 60%-65% capacity utilization across our capacities and then we are now augmenting with some specific capacity to meet a specific requirement or a specific segment. For example HS1 has a shortage of capacity so we are adding one line and we are getting new business from Honda so we are adding additional facility in Narsapura so that way that is selective but one thing is very clear we have enough bandwidth to install capacity in our existing facilities because the infrastructure has been set for a higher ability to deliver or put up additional plants. So we will look as and when there is one of the things in automotive industries that if you win an order today it is not for today it is for a year down the line at least. So we have a fairly clear roadmap as to when we need our capacity needs to be augmented and we work accordingly. There is enough time for us to deal with it and there is no issue on finances as we are cash surplus or we do not foresee any problem to meet these new businesses that we are going to be.

Pratik Kothari: Our approach here would be once to get this order and like you said it will be with a one year timeline and going to put up a capacity so we are not aggressively going out and adding some huge capacity?

K. Ajith Kumar Rai: I mean one of the things that Suprajit has historically done is that it is not that from 100 million and go to 200 million and wait for the orders to come. We have been continuously increasing our capacity, assessing closely what is our requirement for the next one to two years. So that is what we have done when we went from 225 million to 300 million because of the last year being COVID, we did not utilize the capacity so we are still reviewing very critically today to see what is required for the next two to three years so we sort of look at two three years in a bucket and see when we need to enhance our capacities and I think that has worked very well so that it also helps us in capital allocations in a very optimal or a very efficient way rather than just setting up and waiting so it has worked well and I think it will not be a problem.

Pratik Kothari: Fair enough Sir. Sir my second question we did a lot of cost optimization or prospecting whatever this year because of COVID, we have spoken at length about it in Q1 and Q2 calls so if you could just talk about how this would be reflected in our numbers going forward?

K. Ajith Kumar Rai: I think there have been right I think we have elaborated in the first couple of quarters update but let me also tell you now what is happening is that the COVID scene is adding to the cost in a sense because now we have to work on simple things like making sure that everybody is vaccinated at our cost. We are making sure that we operate with less capacity as much as possible to make sure social distancing is maintained and if somebody is quarantined, he is out for another two three weeks' time but we still pay them these kind of challenges which only the cost optimization in a pure operating situation but then there is also parallelly cost add-on like this comes up so ultimately it is a question of being most optimal in our business compared to the competition. I think that is where we feel that we are ahead of the race and that is why we will continue to perform okay but in terms of challenges there are still some challenges while some of the cost optimizations we have done last year will stand good this year. There are also some cost add-ons come in, not just because of COVID sometimes also because of some of the cost push inflationary pressures which is not easily transferable to customers because customer will give you a steel price increase but he may not give you a corrugated boxes price increase, just to give you an example, which is difficult to pass on and those kind of things also will be there. So we have to juggle multiple walls but I think we will still work out our guidance of growing ahead of the industry and maintaining certain level of margins I think that still stands good.

Pratik Kothari: Fair enough. Thank you very much congratulations to you and your team for such an excellent set of numbers. All the best.

Moderator: Thank you. The next question is from the line of Rohit Balakrishnan from i-Thought PMS. Please go ahead.

Rohit Balakrishnan: Congratulation to Suprajit team for stellar performance this year. Sir just most of the questions have been answered. I just had two questions; one was could you talk a bit about your efforts in the U.S markets for both phoenix and automotive cable business? That was question number one. Sir question number two was in continuation what of the previous question that was asked of slightly longer term in terms of your growth in terms of the next three to five years, you talked a bit about the new products and you were also saying that probably you are quite excited about your technology center, so I mean any broad I do not want numbers but just in terms of opportunities that you see that I mean in terms of the products that you have in terms of what keeps you very excited on that front what are the things that you are very excited about that and this as an offshoot of this in terms of capital allocation you have continuously said that is a part of your growth strategy given what is happening in terms of diversifying supply chain and overall markets being quite volatile just want to understand I mean is there any merit in going a bit aggressive there? These were the two or three questions that I have. Thank you.

K. Ajith Kumar Rai: About our business in U.S. both for phoenix and automotive I will ask Mohan to answer how it is panning out. Mohan!

N.S. Mohan: Yes I will take that. Let me start with the lighting or the bulbs area. That is a very huge market over there and we have been trying to knock into that market and very recently we have had very successful audits by some of the U.S. customers of our plants and audit reports have gone but again due to COVID restrictions the whole transaction has not been very smooth because they had to ask somebody in India to come and do the audit for us for them rather and that has been very successful. So we are in the process of getting into it of penetrating into the U.S, market. Moving over to the automotive as you know that almost about close to five to six years back, we got one gentleman out there to specifically look into the automotive market and even I have been there many times knocking the doors of many Tier Is and the OEMs and that has been successful and that is the reason we have got some amount of success over there. Moving forward with Jim coming on board and with his contacts and networking and I am sure that that will get even more I would say accentuated along with Gopal who has been doing this job therefore we are pretty much gung-ho on our penetration into the U.S. market.

K. Ajith Kumar Rai: On the other two points that on STC, I think it is difficult to say which product will really click. As Mohan has explained at least three or four products are under OEM, what I would call as approval phase and hopefully in the next three to six months' time there will be a decent development. The market size of them are quite large but then I am giving a market size and hoping that we will get 10% in the next two years I think it would be a little bit over optimistic statement. So we do not want to comment I think things like electronic throttle controls or the gearboxes we are developing or ABS/CBS products that we are planning to learn or even quite a few of the other things that we are doing, they are all very exciting products to us so we are working closely. It is something that we started two three years ago. It has come to some stage where we are now been noticed by the customers. Approval will take some time and so telling that we will do Rs.50 Crores, Rs.25 Crores, Rs.100 Crores would be little premature for us but then we are quite happy with the progress so far. I would leave it there in terms of capital allocation I continue to believe that consolidation of auto component manufacturers is a given issue. I think it will be there. There is no place for let us say cable maker making USD $25 million or only focused in U.S. it will not work simply because today any product launched by let us say a GM or a Volkswagen or whoever it is it is a global platform so the supplier should have the ability to really reach out to customer in all these markets and very few of us have that ability so such suppliers will eventually either get acquired or will fold up and it has happened already in this business so we are looking at opportunities and I think some of the capital allocations will go in such opportunistic players who will give us either a geographic fit or a manufacturing footprint or new customers or combination of these and that is part of our strategy anyway. Thank you.

Moderator: Thank you. We take the last question from the line of Saket Kapoor from Kapoor Company. Please go ahead.

Saket Kapoor: Thank you for the opportunity. Sir if we take the comparison of our performance from December to the March quarter that is the preceding quarter therein only we have seen a dip in the revenue both the topline and the bottomline so how would you explain this in what factors attributed to this sequential decline.

K. Ajith Kumar Rai: I think the automotive industry itself is cyclical you must realize. Typically the third quarter is the best quarter because that is where most of the festival season is both the OEMs do well and beyond that the aftermarket also does well. So from September to November are the peak months of festival in India, which is not there in the last quarter typically so also we have a lot of aftermarket schemes which sort of end in December etc., so that we sort of strategically position it so that is all the reason why Q3 number has been higher whereas on the consolidated basis I think it is still the highest because our subsidiaries did much better in the Q4 which has typically overseas contacts so for them it is a different situation so typically automotive Q1 is the worst quarter and Q2 and Q3 sort of gathers speed and Q4 sometime it is same, sometimes slightly lower than Q3, this is historically how it is.

Saket Kapoor: Last February where the board approved this buyback part also Rs.20 per share and so now since the CBA has also come up with a suggestion paper in fact the dividend distribution policy to be mandated by the top say a 1000 companies something of that sort, what should be the ideally investors should be looking in terms of this buyback and the dividend part buyback being now also being taxed at 20% and dividend being taxed at the hand of recipient so what is the way forward for your investment?

K. Ajith Kumar Rai: I think we made a small commentary on this in the last quarter business update as well as in the call. I think what the board has decided not in this board meeting in the previous board meeting itself was that typically Suprajit has been distributing between 20% and 30% of the net profit to the shareholders that has been the historic number, historic average has been about 23%-24%. So in that last board meeting in February the board took a decision that we have been only doing dividend distribution and as a part of broad basing our distribution policy, we should also start doing the buybacks the reasoning being simple that these are the two ways of rewarding the shareholders and let us do it both ways and also that we should increase our distribution on an overall basis over a period of time so buyback probably will not be happening every year but if you look at it three-year perspective as a matter of argument there is no board mandate to this but let us assume you do one buyback once in two or three years if you look at the three-year block, the distribution that Suprajit will do between buybacks and dividend distribution should go from 20% to 30% to 30% to 40% that was the decision that has been taken by the board and this is what I explained in the last concall also so we will be working on that premise going forward?

Saket Kapoor: Since you articulated that the entire ecosystem has been disturbed by the second unfortunate COVID wave so Sir as this pain recede what factors actually we investors should look forward that will start against the journey the way it started in the second quarter last year I mean what are the factors that we should look forward?

K. Ajith Kumar Rai: In terms of how we repeat last year, Q3 to Q4? How will we be able to redo what we did last year, three quarters?

Saket Kapoor: Yes Sir. You told that this would be different than what it was last time and it is very true in your assessment?

K. Ajith Kumar Rai: Last year after the lockdown there was no technically not much of any disturbance. It was an open market in India and world was generally okay anyway whereas this year we know we are still not through the second wave we are still struggling, the death rates are high and the challenge is whether the third wave will be and if it comes how bad it will be. Typically with no protection in place I would still think that 10% or 15% or 20% one shot is not good enough for us and this time it has gone to the rural areas so there is a little bit of uncertainty compared to last year, but I am hoping that if a good amount of vaccination happens in the next three months, the third wave may be a reasonable may not be too bad but will the third will come, my view is it will come. How bad it is? I do not know. I am not a medical expert so if those things do not lead to shutdowns of plants and lockdowns of towns and cities, I think we should be okay actually. We do believe that there is an underlying demand but if that happens ultimately the question of confidence of people also. Today if there is somebody in the household somebody has already had a COVID and his uncle, aunt and brothers and sisters had it, the discretionary spending will come down that is what I am worried. Last year it did not because rural area was solidly supportive this year rural area is also affected. It is a very difficult judgment. I do not know. I am hoping that it would not be bad and it will be back to normal but we all have to be mindful of the possible dangers. I think it is a very generic answer so I cannot answer any better.

Saket Kapoor: The last point was that this year I think so the second wave and its harmful impact is domestically only I think so the globally things are very different?

K. Ajith Kumar Rai: I think globally we are better off but let me understand that globally right now there is a different problem. The ICE chips problem is a problem let us face it. I think automotive industry in calendar this year will do less than last year calendar in terms of volumes because that ICE chip shortage is not going away. Today if I place a new order for ICE, it is 36 weeks delivery. So where do you go. So that problem will bring down the volumes in automotive but having said that we have won new businesses so we will grow. I would just summarize saying that yes these are all the challenges but we will outwit the market whatever it is how the market will grow we are all waiting and watching.

Saket Kapoor: Thank you for all elaborate questions. Thank you.

K. Ajith Kumar Rai: Thank you. Thank you very much for all of you for your continued interest in Suprajit. Our team has been working tirelessly. We have a two-pronged challenge today one is to try to excel operationally but at the same time manage the COVID situation. The team is doing a great job and we really appreciate all the good works, which we will pass on to our team and as usual we will work towards making sure that we come out with as good results as we can under these circumstances and we appreciate your continued interest in Suprajit. Thank you very much and have a good day.

Moderator: Thank you. Ladies and gentlemen on behalf Anand Rathi Share and Stock Brokers that concludes this conference. We thank you all for joining us. You may now disconnect your lines.