"Suprajit Engineering Limited
Q2 FY '23 Earnings Conference Call"
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MODERATOR: **MR. VIJAY SARTHY – ANAND RATHI SHARE & STOCK BROKERS**

Moderator: Good morning, ladies and gentlemen. Welcome to the Suprajit Engineering Q2 FY '23 Earnings Conference Call hosted by Anand Rathi Shares and Stock Brokers. As a reminder, all participant line 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 star then zero 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 Shares and Stock Brokers. Thank you, and over to you, sir.

Vijay Sarthy: Thanks, Lizann. Good morning, all. On behalf of Anand Rathi Shares and Stock Brokers, I welcome you all to the Q2 FY '23 results of Suprajit Engineering. On the management side, we have Mr. Ajith Kumar Rai, the Chairman; Mr. N. S. Mohan, MD and Group CEO; Mr. Akhilesh Rai, the Director and Chief Strategy Officer and Mr. Medappa Gowda, the CFO. As always, we will have initial review about the results then follow it up with Q&A. Over to you, Mr. Ajith.

K. Ajith Kumar Rai: Yes. Thank you, Vijay, and good morning to you all and welcome to you all for our Q2 and half year results call. I would like to thank Anand Rathi and also Vijay Sarthy and his team for hosting us for this call. As usual, I would go around and ask our team to make a short brief on activities for the first half and Q2. Followed that, we'll have also the question and answer. I'll first start with our Managing Director, Mohan. Mohan, go ahead.

N.S. Mohan: Yes. Thank you. Very good morning, everybody. What I'll do is as usual, I'll give you an update on what's happened in the second quarter, and then I'll really take you by division. So before we start, I'll just give you a general update on the industry, which I think, by and large, you are all aware of. But in India, the 2-wheeler segment is fully not out of use as we all know. Last quarter was not great again for 2-wheel industry. October, particularly and the festival season has brought in some cheer into the market. Now the question is, is it a flash in the pan? Is the rural business over?

I think we'll have to wait and see. PCVs and CVs continue to show growth, but the industry is still not out of this chip shortages. But definitely, the situation has eased a bit. In terms of commodity prices, the northward march has halted, that I can very clearly look at. But we are yet to see any kind of significant drop in the prices. It's still holding on there. In Europe, if I move to Europe, the gas and fuel shortages caused by the war is looming large, and it looks like it is turning into a recession there. Energy costs have shot up, and people in Europe are hoping for a benign and a mild winter.

Waiting period for cars in Europe still continues, despite the fuel crisis that we are talking about. The shadow of chip shortage still continues for all the European OEMs and Tier 1s. As far as our business goes, Suprajit Europe and SAL put together, we have done well and to our expectations. However, the exchange rate impact on the Hungarian forint and euro/dollar portion poses a challenge for us and for our LDC unit there in Hungary.

Now if I move to Americas, very specifically, USA, it's very clear, and now it's into a recession. Interest rates are moving northwards, real estate, housing markets have slowed down. So what happens is the segment that we supply to, what we call as outdoor power equipment, OPE, has started showing some signs of slowing down. Having said that, Wescon, I would say, did well in Q2. China is a mixed bag.

There are passing clouds of COVID restrictions. You know that in Q1, we came out of COVID restriction at our Lonestar plant. The economy has slowed down. Political stability has, I would say, reinforced the sense of continuity. So overall, I would say it is the place to watch from both economical and geopolitical sense, and its impact on the world economy. Our Lonestar operations did well in Q2. Now having talked a bit about the industry, let me go by individual divisions.

As usual, I'll start with our, what we call as domestic cable division or DCD. At DCD, both on the OEM front and the aftermarket front, we have had a strong performance. We have been able to pass on the material costs, however as usual with some time lag. Operational efficiencies are being kept a close watch through the DTA metrics at all the plants. Our efforts to go in for semi-automation or autonomation, as I call it, is in good progress. and our one-stop facility for our aftermarket needs, which we call as Unit 8 in Bommasandra, we expect it to be ready by this end of this fiscal and ready to serve the market early next fiscal.

Moving on to Suprajit Europe and SAL or the European cable operations. Here, the key update is that, we got a successful price increase, and this was from all the major customers, including all the OEMs. As we anticipated, it took some time, but I think our perseverance and patience has paid. We have also successfully launched a few cables with the new customers on the new programs, and we continue our winning new businesses in Europe. At Wescon, the operational metrics and efficiencies are improving,

Fundamentally, the hands-on approach both by Jim Ryan, the President of what we call it as Suprajit Controls Division and also our CEO at Wescon, Steve, has been good -- being seen on the shopfloor. We have seen a good sales and EBITDA growth at all of our SENA plants, that is Wichita, Juarez and in India. At Phoenix, the challenge continues.

Our ability to pass on the cost increases is being tested in the market. We have been successful in the OEM segment to a certain extent in our other label manufacturers of the OLM segment and also in the aftermarket. In terms of restructuring at PLD, it is on, and we are progressing as per our plan. Now with respect to the LDC portion and the integration portion, I would want Akhilesh Rai to take you through each of the key plans. Akhilesh, over to you.

Akhilesh Rai: Thank you, Mohan and good morning, everyone. LDC has shown good improvement in performance, despite worsening conditions in Europe and the US. The plant management teams have worked hard to deliver operational improvements, along with our max team integration effort, that has successfully found and started delivering on various synergies and improvements and cost savings across LDC, SENA and SAL plants

At China, the Lonestar operation came out of the COVID lockdown issues, and delivered well in Q2, both on revenue and EBITDA front. Some dollars lost in translation, but in yuan terms, Lonestar is doing well. The woes at Siofok, our Hungarian plant continues. As Mohan said, the euro and Hungarian forint depreciation, also high inflation and continuously increasing energy costs are a cause for worry and have been a larger drag in this quarter. But on the positive front, we got a new plant head in Hungary, who is working well under the leadership of Jim, to ensure that we bring the plant back to black zero in terms of EBITDA and then improve it further in the coming months.

We are working on various actions, including price increases, supplier consolidation, moving some parts to India and for manufacturing, et cetera, which are already underway. The Matamoros plant in Mexico has faced some uphill task in terms of the demand in the US markets, due to chip shortages at some customers. However, the sales remains stable and more importantly, EBITDA has moved from negative to breakeven levels, mainly due to operational improvements that we have managed to instill in the operations. While we have been able to get some price increases, mainly in the non-automotive customers, it proves to be a challenge in the automotive world.

However, we continue to impress upon our customers the need for a fair price in this territory. As you know, this plant at Matamoros contributes close to 60% of the business of LDC. We are lowering our full year estimated revenues from LDC from the earlier 95 million and in the range of 5% to 7%. This is primarily due to some of the currency effects that we are seeing globally. As you know, our foray into automotive electronics have started to pick up. Our new manufacturing facility for electronic products was inaugurated by Mr. Sudarshan Venu, MD of TVS Motors. We have put up an assembly line there, where we do instrument clusters, rotary sensors, actuators, or charging flaps and electronic throttle control.

K. Ajith Kumar Rai: Thank you, Akhilesh. Medappa?

Akhilesh Rai: Sorry, I have not...

K. Ajith Kumar Rai: Sorry, go ahead, Akhilesh.

Akhilesh Rai: So we have a good number of launches at STC coming up in the next few months, and most of them are focused on the EV space. We continue to be focused on to bring our solutions to the industry with a clear focus on 2-wheeler and non-automotive segments and both in the mechanical and…. These products will be made available to customers, both in India and globally and have been received well.

Thank you, and over to you, Chairman.

K. Ajith Kumar Rai: Thank you, Akhilesh. Medappa?

Medappa Gowda: Yes. Thank you, sir. Good morning, everyone. We announced the financial results yesterday. The consolidated revenue, including LDC for the half year ended 30th September 2022 was INR 1,361 crores as against INR 855 crores for the corresponding previous year, recording a growth of 59%. The consolidated operational EBITDA for the half year ended 30th September 2022 was INR 136 crores, as against INR 129 crores for the corresponding period last year, with a growth of 5%. The consolidated revenue, excluding LDC for the half year ended 30th September, 2022 was INR 1,033 crores, against INR 855 crores previous year, with a growth of 21%. The consolidated operational EBITDA from last year ended 30th September 2022 was INR 144 crores as against INR 129 crores, with a growth of 12%.

The standalone revenue for the half year ended 30th September, 2022 was INR 723 crores against INR 564 crores previous year, recording a growth of 28%. The stand-alone operational EBITDA for the half year ended 30 September, 2022 was INR 118 crores against INR 104 crores previous year, recording a growth of 13%. As on September 2022 was INR 567 crores. This is with the acquisition funding for LDC acquisition. And we have a cash balance of INR 285 crores invested in the mutual funds, as on 30 September, 2022. For any queries further, you can approach me any time after the call also. Thank you very much.

K. Ajith Kumar Rai: Thank you. Thank you, Medappa. Just to sum up the briefs from all our team. The LDC performance has been in line generally in line been in line with the plan that we had brought out in the month of July 25th, as a brief. Phoenix Lamps, we are actually seeing a change of trend in terms of margin performance. Wescon domestic cable division, SAL, SU, they all had a very strong quarter and half year. And the new initiative of STC in terms of an electronics division has taken off. We're getting some really new, interesting, exciting new businesses. And I think Electronics division would start scaling up the operation soon. With this brief from our team, I now open the floor for questions. Operator?

Moderator: The first question is from the line of Viraj from SIMPL.

Viraj: Just have a couple of questions. First this on the LDC. So if we just have to understand H1 and generally going forward as well, if you can just give some color in terms of did we take any write-offs in H1? And going forward, do we see any need for any further write offs or provisions for that operations? And a related question is, when you acquired, we were looking at aspiration of close to double-digit EBITDA margin or even higher over the next two, three years. So what I understand in the call, you talked about somewhere around 5% to 7% operating margin. So is that only for FY '23 or even in the long term, you're expecting that kind of a margin? So that is part one.

K. Ajith Kumar Rai: Okay. In terms of writing off or taking something, it's an ongoing process in the first year. So I would like you to sort of review our 25th July update where we have given this background. So as and when we see something, we if it needs to be provided for, we provide for it. So it will be an ongoing process at least during the course of this year. So whatever you have found or we need to do, we have done. And if anything more to be done, it will be done as we go forward. So that's on that. In terms of margin, again, I would like to address all of you from the point of view of our last trip on the 25 July.

We did say that the first two quarters will be negative and as you have seen and that it will become progressively improving. You would have noticed that in the first quarter, we had a 5%

negative EBITDA. Whereas this quarter, it's only a minus, I think, 1% or whatever. And I expect it to be in the black this quarter. So I think that's how the whole movement will be there. And we also said that over the period of two years or the end of the next financial year, we should be reaching double digit. And also we are expected that, in the next financial year, we'll do $100 million. I think all those statements that we have made in the July update holds good.

Viraj Kacharia: Sir, just one follow-up on this is, H1 has done somewhere around INR 9 crores operating loss. So I'm assuming this will be including the write-offs of the pro...

K. Ajith Kumar Rai: Sorry, can you repeat that, please?

Viraj Kacharia: Yes. In the H1, we made an EBITDA loss of INR 9 crores to INR 10 crores in LDC. And I'm assuming this is including the write-offs of the provisions...

K. Ajith Kumar Rai: Yes. Wherever. As I said, it's not just only the operations. Anything that we have found that was not provided -- has been provided.

Viraj Kacharia: So if we kind of adjust for that, what will be the operating margin still in this business, I mean -- sorry.

K. Ajith Kumar Rai: Yes, let me say this, as we are operating for the first time, we don't really want to distinguish this year between operating charges and exceptional charges. We probably unless the auditors suggest, so we will not be making it. It will be an ongoing exercise to clean up the operations. That may include operating issues, and that may also include one-offs. So, we have not really rather -- we have an internal tech, but we're not really talking about in the general public actually on that.

Viraj: So basically, what I was trying to drive at is, even adjusting for these provisions or write-offs of the margin which we are seeing currently is largely a factor of three elements, which is either recovery on price, forex and high energy costs. So is that -- normally, one do expect that to reverse? Will we get price increases for [inaudible 0:18:57] or that is largely -- the recovery will largely be led by new order inflows?

K. Ajith Kumar Rai: Yes. I think yes, that's a more interesting question, Viraj. I think there are two aspects to it. I think in terms of business, we are also starting to win new businesses under LDC, interesting businesses. These new businesses are coming at new what is expected of Suprajit kind of margins. But they will also you please understand it will go into production. over the next one to two years. So there is a time lag between the new orders, one at the current new margins to the time we actually receive those margins.

And in terms of other points, you are right, there are multiple headwinds. On the pricing side, at the customer end, as Mohan was mentioning, on the non-automotive side, which is a smaller business for LDC, I think about 20% or so. There has been some decent traction and we have got some price increases. Whereas the larger parts, on the automotive side, it has been coming slow. As I said, we approached the customer late and everybody is asking questions. So as you also made a statement on Suprajit Automotive as well as Suprajit Europe, we have been able to successfully conclude most of it.

So we expect it to happen. It's probably a question of a quarter here and there. So there has been a slight bit of a lag, but I think it will happen. Some of them are hopefully, will be concluded in this quarter as well. So that will add to the tailwind. Supplier issues, the peak has gone, but still, as we call it, PPV, Purchase Price Variances are still on the negative side at this moment, but it will turn positive, hopefully, over the next quarter.

And last but not least, is inflation, I think it's not just in power, it's also in wages, for example, in places like Hungary, wage inflation is phenomenal. So these are the kind of things that we are facing. But there is an ongoing exercise. I think once we get a little more hand in terms of stabilizing the supplier base, consolidating the prior supplier base, which is what we are doing through our Maxims, and getting some of the price increases during this and next quarter. I think that's when we have a much larger clarity. But the roadmap remains the same as we have explained earlier.

Viraj: Second question is on Phoenix Lamps. So as you also talked about in the last few quarters, there's been some significant amount of cost inflation. This was a business, which also used to do -- any decent double-digit margin business. And in the last few quarters, we are around mid-single digit or high single digit kind of a margin business. So can you just provide some perspective in terms of what will drive the margin improvement from here on? And with regards to Luxlite and Trifa, do we see any further provisions or write-offs in that entity or we are by and large done with that?

K. Ajith Kumar Rai: I think as we have mentioned in our this quarter's update and also just mentioned on the call just now, I think Phoenix Lamps, Mohan mentioned about being able to get the price increase from the customers, but it has been OEMs, whereas it's been a little more challenging from OLM and aftermarket. But having said that all, I think it has slowly but steadily eased in place. So we have also been able to tighten our belt in terms of materials, in terms of input costs.

So as we have said in the last month or so, we have been seeing a change of trend. We have said that in Phoenix Lamps, we are the last man standing kind of an approach to the business. And I think that is starting to yield the patience of last probably 18 or 24 months is starting to yield, I think, the results. We are seeing an improvement in margin, we expect that this quarter, the margins should start improving.

Viraj: If I can squeeze in one more. On the SENA part, Wescon, the US markets, we've seen a very strong double-digit growth for the last two years. So it's quite different from the trend which was earlier in this particular business. But our commentary going forward is very cautious. So can you kind of elaborate what kind of an environment you are seeing, and how should we understand growth in this business over the next two, three years?

K. Ajith Kumar Rai: Yes. I think Mohan has been cautious in terms of the US market, because as you know, Wescon service is mostly the United US, North American market. When economy downtrend comes, then the housing market sort of comes down, people spend for discretionary items like a lawnmower or a tractor or whatever, off-road vehicle, sort of tends to slow down. I mean that's how economy works when the belt tightening happens. So that's what it is. But if you've seen our SENA performance, it has been in double digit all the time. It has been double digit even in the half year really as well.

So going forward, although the market seems to be weak, we are also winning new contracts. So how it will pan out, it depends upon the depth of recession actually. So we do expect a stable half year, whether -- how much growth or something is a little difficult to say at this moment, because again, we don't know how the economy will pan out.

So the point is that, we are fully geared. We are getting good operational returns, and we are also getting some new businesses. Now we can fully offset some of the businesses, which will go off the table in terms of lifecycle, time will tell. But I think we are still fairly comfortable in the SENA division that it will continue to perform fairly well.

Moderator: The next question is from the line of Aashin Modi from Equirus.

Aashin Modi: Congrats for a decent set of results. Sir, my first question is regarding global automotive cable business that is our auto exports from India and LDC. So also, we have seen that -- you're saying that the industry seems to be weakening, but you continuously told that you have a good order in there. So is there a scope of market share expansion that could take the -- crush the degrowth and we can grow well?

K. Ajith Kumar Rai: Yes, absolutely. I mean that's the only reason we will be able to grow. If you really look at the global automotive market in the last two years, it has been only been shrinking. In fact, this year, both US, Europe and China markets by end of the year, expect to have a negative growth compared to the last year. So we continue to -- yes, we're guiding a growth and we are guiding that we are continuing to get new businesses.

Yes, I think I've been telling you in all the investor calls and on most of the places where we have an opportunity to meet investors, is that the consolidation of vendor is the real reason that is behind all these things. Customers want vendors who have got strong financial position, strong global presence and absolute capability to deliver in terms of quality, cost, delivery and development. I think that's where we are winning the new contracts, and the cost of small and marginal players in this business.

So there are, let's say, two or three strong global players who will continue to get newer business, not the small ones whose financial strength is at question, and whose capability to deliver globally is in question. So that's where I think we are winning this business. And you are right in the process slowly, but steadily, we are getting additional global share of business.

Aashin Modi: And sir, my second question is regarding LDC. So do you face any supply chain issues in China, because that's a -- EBITDA margin planned? So do we do going ahead expect any issues of the COVID restrictions to impact our China operations?

K. Ajith Kumar Rai: Well all I can say is, I wish I could know the mind of Chinese management at the political level. I have no idea. But they have a very strong no-nonsense approach to COVID. They are talking about taking strong views. Whenever there are clusters of COVID are there. In the recently in the news about how big electronic subcontractors had to shut down and people were jumping the fences. So it is happening in China, and there is no control for anybody on this. It's a rule it's the law of the land, how they deal with it.

Is it affecting us? As you know, first quarter, we did have an effect on this, because we had to shut down. In the second quarter, we didn't have any shutdown internally, but some of our customers and suppliers had challenges. And we dealt with it reasonably well. Some customers could not get materials on time, some customers had shut down so our supplies got affected. It will continue for some time till COVID is under reasonable control in China, because they have absolutely no patience in terms of relaxing any of the rules on COVID, as we have seen in the rest of the world.

I think that the political will of the nation, so we'll have to fall in line with that. So I would say that we don't know. But as far as we are concerned, we are doing everything that we could to make our supply chain remain active and live and our customers' lines have not stopped. So there are times, particularly when the COVID shutdown was there, we had about 80 people working or 90 people working, staying in the factory and delivering products, because we could not afford to shut down customer lines. So they have done a fantastic job on that. So having said all that, I think Chinese Shanghai Lonestar is amongst the three LDCs, the best-performing unit at this moment.

Aashin Modi: And sir, my third question is regarding Suprajit Technical Center. So we have just opened an electronics facility over there, and we were talking about an order book of INR 100-odd crores over there. So could we speak more about the clients, which we serve from there? What sort of order book currently we have over there? When can we see revenue going -- coming from them and how much growth do we expect over there?

K. Ajith Kumar Rai: I'm unable to go into the names of the customers, but suffice to say that we have got really good interesting businesses in digital clusters, from at least four or five customers, of which most of them, except one, is all EV space. And also one of the top four Indian 2-wheelers have also awarded electronic cluster business to us. And we are also working on a mini EMV for a marquee EV customer, for the lock actuation mechanism.

We are also working with a couple of EV guys for the Throttle Position Sensors, the TPS. And we are also working with one of our own global customers for an export of rotary sensors. They're all current commercial products that will be has launched and will be launched in our Electronics division. And it will start scaling up. I think now that it has been opened, and the fact that we also have a very nice experience center, where we have displayed our STC products very professionally, whoever is coming for these products or the plant visits, will see our experience center to understand the overall range and capabilities of Suprajit Technologies, which has been very well appreciated during the inauguration, we had some marquee customers coming and looking at what we're capable of doing.

I think there, frankly, I believe electronic division is, in a sense, a new chapter in the future of Suprajit. The starting has been good. I think we are starting to scale up. And it's -- let me also say this, that there's the initial start. I think once this facility gets filled up, I think we have a much bigger plan for this future.

Aashin Modi: And sir, my last question is regarding our Indian aftermarket operations. So you've benefited whole GST and the share of aftermarket in India revenue grew pretty strongly. So could you please comment over there, how are we seeing traction in the aftermarket, because of the shift from unorganized to organized?

K. Ajith Kumar Rai: I will let Mohan to answer both our DCT and PLD aftermarket, how we have worked to get such market shares. Mohan?

N. S. Mohan: Yes, thanks. There are multiple levels at which this operates. First thing is that it brings, I would say, the organized players into the fore and all those hanky-pankyness which are happening and trying to hide without bell and all those kind of stuff. To a great extent, with the economy getting more into an organized economy, organized players like us get visibility and people who want to do more business with us. That is number one.

Second thing that is happening in the entire process, which we actually off-late very clearly is when an unorganized player cannot play the game with the same rules, what they do is they will try to change their rules. What is happening what I'm trying to allude here is, there is a counterfeit. So what happens is, they try to imitated product starts coming in, because they can't sell it in their brand name in that way. Therefore, we were just looking at, for example, Suprajit spelling being, SUPRAJEET or something like that.

So what we are doing is we are working with the law enforcement agencies, and trying to plant down on these kind of spurious as we call them. So overall, if I look at it, the economy is turning towards more clean economy and therefore, organized players like us benefit out of it. Having said that, will there can you wish the rest of the segments away? The answer is no. It will be there. But albeit, it's importance in the overall economy will start moving down. It will not be zero.

Moderator: The next question is from the line of Mumuksh Mandlesha from Emkay Global.

Mumuksh Mandlesha: Congratulations on the decent performance. So just want to understand more on the non-automotive division sir. Can you share any new traction being witnessed in the newer segments like agri, construction, medical, marine and powersports sir?

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

N. S. Mohan: Sure. There are two portions to this answer. One is the cable portion itself. There, we are gaining more traction there, because what's happening is, you would see that we are very strong with the North America, particularly US. Now what our Chairman was alluding to earlier, there is a consolidation happening. Therefore, there are some people who would want to associate themselves with a much more stronger player, both strong in terms of technology, in terms of financial wherewithal and very important, strong in terms of the ability to deliver across the globe. So that is what is happening. That is one portion.

Second portion of the new business that we are talking about, where we are also very much keen and interested is new products beyond cable products, be it electronics or throttle controls, rotary sensors, these are some of the products that we are getting into, and we are positioning ourselves as a vendor of choice with these customers. Therefore, the growth will be on two counts; one is cannibalizing on the existing players. Second one is moving on to new technologies.

K. Ajith Kumar Rai: Just to add to what Mohan has said also, I think one of the advantages that strength that you have additionally got, is the strength of our engineering and marketing and business development team with the LDC getting integrated into it we have now a much stronger team to present our range of products, not just our cable or lamps or whatever, even of the new products that we are developing with STC, and commercializing it with our electronics division, to the world.

So it is not just the Indian market, we will be even currently or even eventually looking at it. I think these sales teams are quite excited about the product. In fact, Jim was here for a week till last week, and I think a lot of new things would be happening. I'm again talking about the medium term, next two, three years' time, that some of the products that we are developing with STC will be presented to not just 2-wheelers or whatever Indian market, but also global non-automotive, as well as some places in automotive businesses.

N. S. Mohan: A classic example, if I may add is our feeder gearboxes.

K. Ajith Kumar Rai: Yes. Exactly.

Mumuksh Mandlesha: Yes. So, on the LDC, sir, is it possible to share any guidance for the H2, what kind of margins do you see? And also in LDC, you mentioned some new contract wins and worked on large orders. Can you give some colour on this, sir?

K. Ajith Kumar Rai: Yes. In terms of the quarter-to-quarter, I'm sure you'll appreciate the global market is in such turmoil. And we have just acquired a business, which is -- needs to be worked on, restructured and strengthened. So giving a quarter-to-quarter number is not appropriate. But I think we have done a fairly clear roadmap in our July 25th brief update. I mean, a detailed update on LDC, I think that holds. We have said that the second half would be we should be in black. And at end of next year, we should be in double digit, and the next year's revenue should be 100 million.

I think those -- the larger perimeter of our guidelines still holds good. Within that, there will be some upheavals, but I think we have got a business of 100 million for a 40 million value. So I think it's a phenomenal value. So we need to be that much patient. But still, those guidelines hold good. That's on that. What is the other question, sorry?

Mumuksh Mandlesha: Just on the new contracts wins?

K. Ajith Kumar Rai: New business. Okay. Yes. So yes, I think both for automotive and non-automotive, we have received new businesses, both at LDC and at Wescon. We are not at liberty to talk again we have been now going into the fine print of our contracts with our customers. We're not supposed to talk about the specific customer and the value of business. But I could say is that, existing customers are bringing new business on the table for us. Some of the customers who are our long-term customers have also have second sources and other sources.

They find some challenges with them. Those businesses are being asked to requote by us. So we have received orders. But again, as I said earlier, this business are for, let's say, the end of '23, '24, '25 kind of businesses. But they are all fair value business historically, under Suprajit Automotive or Suprajit Europe, if I get $0.5 million business or a $250,000 business per year, which is something like on a lifetime, let's say, 2 million business.

Today, we are talking about few million, say, a year kind of business, 1 million, 2 million, 3 million business, which on the lifeline, if you talk about five, seven years life, it's a much larger number. So it is such an interesting space we are in. I think once we settle down in LDC, I think we have space in Matamoros, we have space in Suprajit automotive. We would be able to literally leverage these new businesses quite well. So we are quite excited over the medium term on the business outlook for LDC.

Mumuksh Mandlesha: And sir, is it possible to indicate what would be the revenues for the -- all the new products which we have launched, digital instrument clusters and sensor products. In first half possible to show what kind of revenue was there for these new products?

K. Ajith Kumar Rai: Again we have given guidance for the year and next year. We have not been giving business win guidance historically at Suprajit. We wouldn't do that. All I can say is that it will ensure that the LDC will grow at a healthy margin in terms of, at least a double-digit margin going forward, I mean, growth going forward, because of these large wins, despite the global automotive business shrinking. So that's all I can say.

Mumuksh Mandlesha: All right sir. Just last question sir, any capex guidance for FY '23? And what will be the tax rate expected at consolidated level for FY '23, sir?

K. Ajith Kumar Rai: On the capex, I think we did mention for the India business, about INR140 crores between this year and next year. This is largely to meet the electronics division, new facility which is going to production, a plant in Narasapura, and a new plant for the aftermarket plus other capex at various places, including PLD. That still holds good. It's sort of a two-year guidance we have given. That is what it is. Yes.

Mumuksh Mandlesha: And on the tax rate, sir, for FY '23?

K. Ajith Kumar Rai: On the tax rate, okay? Medappa, any comments on the consolidated tax rate? I mean, in India, of course, it is 25% or whatever, what is on the consolidated tax rate? Do you have any idea?

Medappa Gowda: Effective tax rate is around 37%.

K. Ajith Kumar Rai: How much?

Medappa Gowda: 37%, including deferred tax.

K. Ajith Kumar Rai: Including deferred tax, okay.

Medappa Gowda: Effective, ATR.

Moderator: We'll move on to the next question, that is from the line of Abhishek Jain from Dolat Capital.

Abhishek Jain: Sir, SENA division margin has improved...

Moderator: Sorry to interrupt Mr. Jain. We are not able to hear you clearly.

Abhishek Jain: Yes. Sir, SENA division margin has improved. Is it due to the high exports from Unit 9? Or is it because of the better product mix?

K. Ajith Kumar Rai: I think, again, you must realize that this one quarter number should not be taken. You should take at least half year level. Because what happened, there have been some price increases here and there and the effect gets magnified in some quarter and it chews the numbers. But if you look at the half year number, we are in line with the last year about 12%, 13%. I think that is what the margin going forward. It has got no other effects.

Abhishek Jain: So your full year guidance would be that 12%, 13%?

K. Ajith Kumar Rai: Yes. In this range, current numbers should hold good, yes.

Abhishek Jain: But quarter 4 margin is always better than the other quarters. So in last two quarters, already you have done well. So in the second half, margin would not be better than this...

K. Ajith Kumar Rai: Again I must say that, it is probably last year, if you have seen in the last quarter, number has improved, it had some effects of price increases also, which was probably relating to prior periods. So I wouldn't think that there is quarter-to-quarter margin fluctuations affecting the timing effect, and also probably some currency fluctuation effects. Otherwise, I don't think there is much of a change.

Abhishek Jain: So in non-automated business, what is the current contribution from the export? And can we see the increase in contribution from export in coming days, because freight rate is going down now?

K. Ajith Kumar Rai: Yes. Freight, it's a good point. In terms of the freight rate, it has come down. But this is one of the many spokes in the wheel as they say, something has come down, true. Will it have an effect? Freight by itself is not a big part of our cost, but of course, one of the costs, which had gone up significantly. So there has been some reduction. Will it have some improvement in margin, yes, but will it be into 1% or 2%, I don't think so actually.

Abhishek Jain: And as you mentioned that, you are looking to shift the manufacturing in India for the LDC business for a few parts. So how much shift can we see in the coming quarters?

K. Ajith Kumar Rai: No, I think this shift of business is how, there are two sides to it. One is a customer wanting shipped, because they want certain advantage, whether in terms of logistics or in terms of cost, then it becomes customer-driven. Sometimes it becomes driven by us, because we see certain parts made in certain plants of ours are not able to generate margins.

Then of course, we try to approach customer and give them some minor advantages and try to move. So the one that has been mentioned, I think, in the call or elsewhere is largely because the margins was impacted in the manufacturing location. So we found that, that can be made better by consolidating, because we are doing a very similar product in India. So we said by bringing it here or consolidating our manufacturing volume, which will help our volume growth, as well as a margin improvement. So it will reduce the margin depletion in one plant, and increase the margin in other plants.

Now how much of that will happen? It all again depends upon how we work with the customer. Yes, some more businesses can move. It is both ways. It is possible that some of the business that we do in China or in India can move to Matamoros and Hungary also, if that's what customer wants. So it typically depends on the customer, but there has been one or two instances where we have moved the business to India for an improving in the margin.

Abhishek Jain: And sir, as manufacturing cost is going up in global market, especially in the Europe. So what sort of the benefit you can get from this?

K. Ajith Kumar Rai: No, I think, obviously, the manufacturing cost in Western World is higher. Even in China, it is higher than India, for example. But that is not the reason why customers will ask for a change of location to the lowest cost. There is also a strategic advantage. Today, most customers want to de-risk a single location and single geography, and also want to be close to their plant. For example, in the last crisis of containers not getting delivered and freight costs going up. There is a lot of in-sourcing also, ensuring also being discussed. So it's a very dynamic situation. We are very open with the customers and say, this is what our plans are.

That's our advantage. That's why we are winning contracts. We are saying that this is our footprint. If our footprint fits you, which we test most of the time, you tell us where to make, and different locations will have different costs. It is not that we are letting go the margins. The cost structure difference and it is known to the customer and customer understands this, and accordingly, the pricing gets finalized.

Abhishek Jain: And my last question is related with the digital instrument cluster. You have just introduced these products. So how much is the content per vehicle is in two-wheelers and four-wheelers?

K. Ajith Kumar Rai: We are not in the four-wheeler cluster. Let me make it clear at this moment at least. It's probably somewhere down the roadmap. We are talking about the two-wheeler digital cluster, both for EV, mostly for EVs and also for the regular IC engine guys. It's a range depending upon the features. A digital cluster can be anywhere from INR 600 to INR 2,000. And similar thing, a set of cables for the same two-wheeler maybe INR 150. So what we have said in our past updates and briefings, is that the intent of our company is to make sure that in the next five years' time, we have higher content per two-wheeler than what we have today, which is only into cables. So that is the intent. And that's what we are moving on and that's why the commercialization of cluster line is a very big feather in the cap for us, as we have not just one order, at least four, five separate different customers placing orders on us.

Moderator: The next question is from the line of Viraj from SIMPL.

Viraj: So just had one question on BESCOM. Basically, just wanted to understand, if I look at the growth rate for last two years, three years, it has been a very, we've seen a very high double-digit kind of a growth rate, in a market which is traditionally a low single digit kind of a growth rate. But if I were to look at the margin, it's still around 14%, 14.5% level, operating margin, versus what it used to be around close to say, 17%. 18% when we acquired. So just trying to understand, what is the reason the margin is still around these levels, despite the growth rate being very heavy?

K. Ajith Kumar Rai: I mean you were a little, it was a little difficult to get to your question, but if I understood correctly, you were talking about the double-digit growth. Yes, we have had double-digit growth, and I think it is continuing this year also. In a market where the customer growth business, it is largely because we have, when we first started acquiring it, it is a, basically outdoor power equipment market.

But in the last two years, three years, we have also got into powersports vehicles. Now we are into agri and construction. So we are slowly expanding our market within the non-automotive space. So despite the individual market of outdoor power equipment not growing or de-growing, because we have gone parallelly across the non-automotive space, we have been able to get that growth.

Now in terms of margins, I think we have been always historically at around 15%, I mean when we acquired, that's only before they sold, that the margin was there. It came down to 7%, 8%. From there, we are in the double digit. I think that's where our comfort zone is. And I think, of course, ultimately, there's also market forces and competition. So at a decent double digit is a good margin to be, as I understand, on this business.

Viraj: Second question is on LDC. So you said that margin in the near term to be around 5% to 7%. In terms of sales, I kind of missed it. So you said around, so last time we talked to you, talked about somewhere around $95 million of sales in current year. So is the guidance still intact, or do you kind of...

K. Ajith Kumar Rai: I think we have made the update in the latest press release, why there is a 5% to 7% lower guidance now, it's largely a bit because of translation. If you know, Forint is one of, our reporting currencies, that depreciated by 30%. Euro has depreciated. Yuan, they all have depreciated by anywhere from 10% to 12%. So although underlying business are reporting the same sales, the conversion into dollar translated into a lower sale. So that's what we have already said in our business update.

Viraj: Last question is on STC, the new product which we launched and scaling up. So we have launched and got the orders for digital cluster. I think you've also got an order for electronic throttle controls, products, actuators and related products. If I just want to understand the overall market opportunity for each of these, what was that be? If you just were to talk only for the India market?

K. Ajith Kumar Rai: I mean I don't think we are looking at a percentage of share of business in that market size. Just to give you a simple example, I gave an idea of what is a digital speedometer cost, anywhere from a lower end costing INR 500, INR 600 to a higher end costing INR 2,000. You know the number of two-wheelers made in India. I mean that is the volume for you. But I'm not saying that we'll get a 10% business of that.

But that is the size, if you were to assess. So a throttle position controller, maybe INR 250 or INR 300 crores or INR 400. Each one of their little throttle controller is twice the content of cables for two-wheeler today. So in five, 10 years, if every one of them will have a TPS, maybe, maybe not, I don't know. But you know the size of it. But it's sort of a number crunching. But for us, I don't think we are looking at that kind of a number. But we are looking at entering those markets and slowly establishing us as a reliable long-term supplier.

Viraj: And just to understand a little bit on the competition in each of these markets. Any perspective you can share, who are the other major players and how many players they only cater, already catering to the OEs in this market?

K. Ajith Kumar Rai: Yes, of course in digital speedometers, there are at least two, three major players. They're all known. We don't want to talk about the competition. But they are known in the market. Whereas the other products are new in the market. Currently, they are also imported. So there will be others also who are trying to develop like us. It is not that we are the only one in the market. But for those other products that we mentioned, it is a greenfield. Everybody is new in the business. And I think people who are first in the market will have a first mover advantage.

Moderator: The next question is from the line of Ravi Purohit from Securities Investment Management Private Limited.

Ravi Purohit: I had two questions. One was in the past for Phoenix plant, I think we've maintained that we will kind of continue with halogen lamps. Is there any change of thought there on doing LED lamps going forward? And second question was on these digital sensors, actuators, cluster that we are kind of launching more electronics products. In the past, our product did not, were not like electronic components or did not have. So I'm not sure if they had like the product liability clause, or product recall clauses and all that, right? Now when we get into electronics, those kind of things will kind of add. So any thoughts that you can kind of share on these two?

K. Ajith Kumar Rai: Yes. Thank you, Ravi. On the halogen PLD, I think PLDs manufacturing facility is to make halogen lamp. So can I change over to LED, no. We'll have to put a new infrastructure. Now what is our plan? I think we'll continue to be a significant halogen player. We have talked about the last man standing position on this business.

And I think that holds good. And we are starting to get the traction on this, in terms, as I said earlier, it is starting to show in our margins going forward. And I think we will also start getting those businesses as we go forward. In terms of LED, we have also talked about launching in the aftermarket LED business for the headlamps, that has been pretty well taken in the market.

In fact, we are probably market leaders in that particular product that we have launched. Our product is accepted better than the global major's product and has been selling well. So we'll continue to keep feeding that market to increase our traction. So a small part of our business is already delivering in LED solutions in the aftermarket.

Digital foray, the product liability Ravi is everywhere. It is not that it is not in our current products, whether it is halogen lamps, whether it is cables, product liability is part of every auto component guy, as long as they are doing a priority or further proprietary part to our design. If it's a customer design, it's a different matter.

These products will also have liability issues, but I think we have dealt with these kind of liabilities historically very well, and have understood the product's liability issues, and we are very careful as to what we do, and how we introduce to the market and when we are ready to introduce. So we don't really see it as a it as, I mean, it is there, but it's part of our life.

K. Ajith Kumar Rai: It's 11:58 AM, we'll take maybe another one question, so that 12 o'clock, we clean wrap it up.

Moderator: Sure sir. We will take the next question from the line of Falguni Dutta from Jet Age Securities Private Limited.

Falguni Dutta: Yes. Sir, just one question. What is the percentage of exports out of India in automotive and non-automotive for us? Percentage of revenue exports.

K. Ajith Kumar Rai: That immediately, I may not be able to give you. You may have to come offline to Medappa. Because, we have multiple exports, and I don't have the data in my hand. We can take one more question, operator, if there is any more.

Moderator: The next question is from the line of Rohit Balakrishnan from iThought PMS.

Rohit Balakrishnan: Sir, just a couple of questions. So I mean, you've given an outlook on LDC earlier on this call as well. But let's say, a couple of years out, at a consolidated level, I mean, we've been very consistent with our overall margin of that very tight range of 14% to 16%. So over the next couple of years, do you think that whatever businesses that we have the electronics business also and LDC as well, let's say, two years out from FY '23, do you think that you'd be able to maintain that margin of 14% to 16% at a consolidated level? Or do you think that could be a challenge, given you're entering a new business and also acquisition?

K. Ajith Kumar Rai: Yes. I think if you talk about the LDC standalone as a separate entity, we have said that by end of next financial year, that is probably Q4 of '23, '24, we are expecting to get into double digits. So we have never said that we'll be in the 14% to 16% margin. And from then onwards, I think we will see where we will go from there, depending upon how the market forces are there. The challenge is to reach the double digit in the next pillar, say, 18 months' time. I think that's what our team is working on in terms of LDC. Now ex-LDC, we have said 14% to 16% margin. I think it generally holds good. Although we did mention that during, considering the huge uncertainties in terms of commodity prices and supply chain constraints, etcetera, it may fall short. But as you've seen even in the second quarter, our margins are around 14%. So I suppose we should be able to more or less there, in terms of margins.

Rohit Balakrishnan: And just one follow-up on this is that, our electronics business, will that be a margin accretive business over the next couple of years, or will it be in a similar range?

K. Ajith Kumar Rai: Again, Electronics is a volume game. So we need to scale up the business, then only the margins will be seen. In a fully scaled up version, the margin should be certainly be interesting and exciting. In the initial year, any new business that you start, it takes a couple of years to stabilize in margins. All I can say that, it will be a small business compared to our larger overall business in the first year. So the margins even if a little less, it probably will get covered with other divisions doing well. But over a medium term, let's say, two, three years' time, the aim is certainly going to be that we should be in the double-digit range. But if you want to expect that in the first year, it will happen, it will not happen. No.

Rohit Balakrishnan: No, my question was more on the medium term, sir. So yes, that was helpful.

K. Ajith Kumar Rai: Medium term, three years to four years, will it be double digit, I think so, yes, certainly, two years, three years' time. Yes.

Rohit Balakrishnan: Sure. Sir and last question, sir, on Phoenix, I think a few quarters back, four quarters, five quarters back, we were talking about penetrating the US market, the US aftermarket. So any update if you would like to share on that, that would be helpful?

K. Ajith Kumar Rai: In Phoenix, no, we have not been, we have been still talking, because there's a lot of logistics related and number of part number related issues. I think there are some discussions going on, but there are a lot of things happening in terms of now global economic scenario. So I think certain priorities of customers also change. So there has been some progress, but it is not ready for commercial launch at this moment. So we don't know the outcome of it yet.

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

K. Ajith Kumar Rai: Yes. Again, thank you all for your continued interest in Suprajit and taking part in this con call. If there's any further queries, you are most welcome to contact us again. Medappa is our single point contact. You can always write to him or contact him. I would like to thank you all for your patience hearing on our performance for the last one hour, and I would also like to thank Anand Rathi, Vijay Sarthy, and his team for organizing this con call. Thank you very much, and have a great day.

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