

Sunita Tools Ltd. (SUNITA)
H1 FY'25 Post Conference Concall
05/11/2024



SUNITA TOOLS LIMITED

Sunita Tools Ltd.
H1 FY '25
Post Earnings Conference Call

05/11/2024 11a.m.

Management Team represented by:
Mr. Satish Kumar Pandey: MD and CFO

Call Coordinator:
Punit Thakkar from Finviz Capital

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Punit Thakkar: I , Punit Thakkar, on behalf of Finwiz Capital , welcome all the participants to the concall of Sunita tools. We have Mr. Satish Kumar Pandey ji, the MD and CFO of Sunita Tools in the call. I would be moderating the session. We shall have a commentary by Mr Pandey , followed by QnA session. Over to you sir.

Satish Kumar Pandey:

Thanks Punit. It has been great connecting with you all. As a first time promoters, it has helped us grow over the years with our vision regularly every time we meet or interact with you guys. for instance we tried to comply with the listing and the SEBI guidelines of half yearly disclosures and half yearly reporting of numbers but we understand that quarterly numbers are required for good companies to pass on to investors and that's a learning that we are getting this time and we are sure and we are capable enough to give quarterly results in the future.

So mostly in the next financial year we are going to comply by this and maybe for the next quarter in this financial year we might do a conference call so that we are able to pass on whatever is the progress as on that time.

Now assuming all must have gone through the published half-yearly results uploaded. So without wasting much time on resharing the numbers, I will like to touch upon mostly the the important points to be considered and future prospects as we see.

I add a disclaimer here that all the forward-looking statements are as the management sees as current expectations tentative and subject to risks and uncertainties after which we move on to the question and answer sessions on the questions that we receive on the chat.

Y.O.Y figures are phenomenal and there is a substantial increase not only in the top line but also in the bottom line. The second half year of the last financial year was very good and we have numerically maintained the growth pattern and volume wise we have lived to our expectation and it

grown in volume of sales to an extent of maybe 38 to 40%. The numbers are lower but volume is high the number is low because the steel prices fell in the world and in India dropped by over 45% and so though I sold almost 40% higher we are a 1cr odd less in the sales compared to the last half year financial numbers so the point here I'm trying to make is that we are going as per our expectations in the volumes and growth numbers.

Now coming to the capex two machines were installed decently enough to give any addition to the first half year numbers and they did give a little bit of growth to our numbers.

The other four machines came in maybe around mid September. So they were yet to be commissioned or commissioned but not good enough to be impacting the top line of the the bottom line of the company.

And as we speak right now the one machine is at JNPT port and it should be coming in maybe in a week's time in our factory and maybe getting commissioned within 3 to 4 weeks time. Also to note as we speak we are a long-term debt-free company. The last loan was paid off in August. So the future numbers will see a reduction in bank interest cost to a major extent. It will only include the interest of CC limit which we have from ICICI bank and used to a very limited extent whenever needed or something comes up.

We have stated that we have increased our margins to a certain extent and a reason also is that steel mills like Arcelor Mittal and Jindal thus avoiding a distributor in between and his margins to an extent of 5 to 10% which normally a distributors charge, so that is now a gain for us and that is a prominent reason that has increased our margins and we also get very good credit terms from the steel mills whenever we are buying as we buy with LC.

One more thing to be noted is that the EPS is calculated on weighted average basis. Thus the preferential shares allotted have also been considered in arriving at the EPS in spite of it being in the latter half of the half year and the shares were still not credited in the buyers accounts because BSE permissions and approvals came in very very late. Regarding acquisitions in aerospace we did complete a few orders in aerospace category in the Suna Tools Wasai factory 2 apart from the Ahmedabad and the Coimbatore four units and as we speak there is a massive machine plate

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being machined which will be used to make aerospace parts for the aerospace industry that is being processed right now in our factory in Vasai. Sunal Leo equip Ahmedabad acquisition is complete and running very smoothly with Mr. Prashan Gupta director handling the operations very well.

We have added one more new machine in that factory and one new CNC VMC should reach that factory by December 2024. And as far as the consolidation of the numbers of Sunita Leo is concerned, it will start with the March 25 statements.

Sunita Imperial Comibatore, we are still completing the acquisition processes. GST number is applied for and still awaited as we speak , to start production in that unit. It's a very good company. We have a lot of good orders awaited in that company. And before we acquired the company, it used to do a 4 crore sales and a 1cr of profit after tax.

So with us in that company and our strengths of networking, finance and the engineering experience it should be a substantial boost to that company in growing not only in the aerospace field but in the precision engineering field too. So we have great hopes with both the acquisitions

As of now both together have a potential of adding approximately 3 crores odd to the second half year 24-25 top line and maybe a cr to the profit before tax of the consolidated numbers of Sunita tools March 25 figures.

There is good news for the company in the pipeline that we wish to share but as the compliance guidelines of SEBI and BSE has to be followed they will come in gradually and when its mature enough to be disclosed. Nevertheless there are many which we can share now and we will do it with a forwardlooking statement disclaimer.

As we informed that we have appointed distributors agent in Gulf region that is primarily Saudi and UAE and they visited us inspected our facilities and the potential that we carry for them for their products they were highly impressed and we assumed to start to get orders from them in the new calendar year 2025 onwards. as of now we are completing some formalities which are required to be registered with the UAE and Saudi embassy and the

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economic council. So we have very great hopes and potential with this association. We have also identified a plot of land for future expansion of the Vasai factory and paid a little advance for the same while we do the other formalities, due diligence, title search and other things. Since every expansion will require a lot of good people to be joining in good managers, good staff, good workers. So we will need place for them to stay.

So we have booked a couple of flats in Vasai and paid advances for them and mostly those are visible in the other current assets in the half yearly results that we have shown apart from the few rental deposits that we have paid. We have signed an LOI with a small mouldbased manufacturing company in Chennai to acquire the same and increase our manufacturing foothold in the south Indian market and the largest autocluster of the world. So, Coimbatore in South India is primarily an acquisition that is focused purely on aerospace and very high precision capex capital goods manufacturing.

While this will be purely an acquisition wherein we will be growing our foothold in the Chennai region markets which hold the huge auto makers there, and I understand a lot of new automakers are also on their way to Chennai region. So it should be a very good move to strengthen our position in this south India market.

Though too early to say but I recently visited a couple of very nice and very niche aerospace companies in USA who are wanting to sell their companies because of age because they wish to retire.

And these companies are in very good position to get a lot of orders and become a complimentary business to our Indian aerospace division as you know it will be a balance of orders from India to Indian companies and from US companies to India. So with that in mind we are exploring an acquisition in USA too because these companies are too good to be missed out.

We have done a initial round of due diligence and other rounds will happen and when we get more information from these companies and will depend on what valuation and what price we get for purchase.

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So we'll keep you updated on this.

So this is all I have for today and we can move to the QnA:

CA Varun Aggarwal: What is the pdate on the Chennai acquisition.

Satish Kumar Pandey: it's a very small company as of now maybe doing a business of hardly one and a half crores but it already has a presence there it is working it has people there who are already set up as per the Chennai's manufacturing culture and base so it will be a plug and play for us so it's a very small acquisition but with us establishing our foothold there it will grow into a very sizable business as Chennai has no mould based manufacturers as of now of maybe even half our size. So it will be a very good move by us.

Siddharth Nayak: When will the recent acquisition start generating revenue?

Satish Kumar Pandey: This I have already answered that from the March balance sheet we should have the consolidated numbers of growth and I have already mentioned that approx 3 crores of type top line and 1 cr of PBT should be visible in this March 25 numbers his first question was do you see any challenges to maintaining 80% CAGR over the next 3 to 5 years

Frankly volume wise we should not have any challenges in growing because I'll explain it to you in detail is that there are two things that help us have that kind of a vision where we can have a 60 to 80% CAGR growth

One, we have a strict policy since 2013 that we have four verticals. So we don't exceed 25% of our total sales in each vertical because we don't want to be forced if there is one industry which is going through a bad turn we also go to a bad turn.

So if I am just 25% dependent on an industry, there are other three industries which can take me to higher growth levels. So that 25% vertical and the policy to maintain that 25% sales number in each vertical helps us mitigate the risk of not achieving growth to a visioned expectation.

Second reason being we are a first mould base or ground plates or something from the mould industry being listed in any platform in India. So it's a new industry for everybody from an investor's point of view. So to study it totally you'll have to look at the world. So if you look at the China's topmost mould based manufacturer does a 20,000 cr sales. The Chinese mouldbased manufacturer is called LKM. You can go on the website and see LKM it's from China. Then let's go to Europe. The biggest is Meusburger and not yet listed. It's an Austrian company and it's a family-owned company. The last reported number by them was approximately in Indian terms 3,200 crores. let's go to USA the largest supposedly is DME which has a very minor and very small India presence. DME is the largest mouldbased manufacturer in USA and it's a billion dollar company. So if you study all this you can understand the kind of growth path we have with us. I'm not saying that it's all for us but as there is a scope for us to grow and with India and Indian government focusing so much on manufacturing and so much on Make in India there will always be an opportunity for us because every new industry that comes in if it does a capex the new machines will require our ground plates it will require our precision machine parts. If new cars come in, they will require a lot of mould bases from us. if new caps enclosures, if new FMCG products come in, they will require a lot of mould bases for their caps, closures, bottles, etc. So, it's a very big market out there. It's like what we can explore and what we can achieve, it is up to us.

All having said that this industry is also capex intensive, working capital intensive and skill intensive. So we have to grow keeping all these three in mind and we have to maintain a balance of all these three before we start the next phase of growth. So it's a stage wise growth that we have planned. So Sidharth I hope I have answered your question.

RK: can you please start conducting regular results calls and also release investor presentation.

Satish Kumar Pandey: Yes as I have told in my starting statement we learn from the investors and we have learned that we should give quarterly results. So we will definitely give quarterly results from next financial year onwards. how nevertheless we might have a call maybe in January or if not the quarterly results and we will have a call again after the full year results and the call practice is again after a learning from most of you investors. So I

take this opportunity to thank the investors to be so kind enough to let us learn and let us grow. Hope I have answered you RK

Omkar Rathi: Congratulations for a nice set of numbers. Please put a light on the aspects like what was the order book at the start of FY25 and cumulative order received in half year what is the outlook for the quarters to come?

Satish Kumar Pandey: I don't have these numbers on hand as of this very moment but as I have mentioned in my press release there is already a working capital of 12 odd crores.

So you can assume that that is the work in progress that we have and that will culminate into sales in the coming months.

Pranav Mehta: what will be the 3 to 5 years growth outlook in terms of topline and margin? what will be the strategy for inhouse growth versus acquisition ?

Satish Kumar Pandey: So as I have mentioned earlier also in past and I have given guidance that we will strive to and we should be able to maintain the growth that we have achieved in the last 3 years. We should continue for at least 3 years. 5 years is too long to talk about at this moment. Yes, three years we should and internal growth will all depend on capex which we are already doing, skill enhancement which we are already doing and the expansion of the manufacturing unit which we have already started as I told you we have paid advance for a new piece of land and if that gets into maturity then we should have a new manufacturing setup in Vasai apart from the existing one and acquisitions as I told you two acquisitions are already made completed and third acquisition of Chennai is in process and if I talk about the US acquisition we are exploring it we are very keenly looking at something in the USA because it will strengthen our position in the aerospace vertical of our business to a very great extent and we'll de risk us from 'only India orders' we will have orders all across from us and all across from India both hope I have answered your questions moving

Nilesh: how well are you capitalized with the two years view for now as of now ?

Satish Kumar Pandey: We are capitalized we should not seek any more capital for the time being and until something very substantial or very attractive or very nice acquisition comes into place. maybe you never know. Let's see.

Bharat : How do you see US India relations and acquisitions there will recent geopolitical developments?

Satish Kumar Pandey: I'm not a political analyst to answer that. it's in a nascent stage. So if we do that acquisition, it will not only help us cater the business that they have, existing markets that they have. Apart from that business can take a lot of orders which can be sourced from India and sold in USA. So that is the thought behind the US acquisition. And as far as management wavelength is concerned, we have the management wavelength to handle USA too. That's not an issue for us in any case.

Q: Why this quarter the result was not as per the expectations?

Satish Kumar Pandey: As I already told you it is as per expectations in volume terms. However, as the steel prices dropped by 35 to 45% in India, the numerical value of the number came down. If the steel prices would have been same in as in March last year then rather than March 24 then we would have been approximately 19 to 20 crores in sales. so there was volume increase as expected as forecasted and as we had strived for. However, it's not showing in the numerical number when you compare it with the last half year numbers.

Ayush Jhunjunwala: what could be the maximum revenue potential from the current capacity

Satish Kumar Pandey: I do understand there could be a lot of variation based on the mould base but yeah I understand your question but after the total expansion that we have done as of now all the machines come in and they start functioning properly I think 80 to 100 crores is the range which we can do easily that should not be a problem for us and I think then the next bout of expansions will definitely takes place because the demand is there always and it's quite huge . Just for your information the down cycles of

automobile industry are a blessing in disguise for us because when there is a down cycle the product developers the salespeople they get back on the drawing board. They start planning the versions of the same car, the new features, the new bumpers, the new lights, the new dashboards are added. So anything to do with plastics, anything to do with sheet metal in the car is a mould base for us. So down cycle, is also a blessing in disguise for us.

Anonymous Q: sir congratulations on great first year performance. Can you please tell us more about the vision for the aerospace acquisition? Who are the typical customers for this vertical? What products do we supply to these customers? Are these customer only domestic?

Satish Kumar Pandey: As of now all the customers in the aerospace are domestic. I cannot name the customers and I cannot name the products. I'll be very sorry about that because we are as yet tier two vendors in the aerospace. So unless we have permission from the tier one vendors of DRDO or ISRO or if then we cannot disclose anything on that part. I'm very sorry about that.

Ayush Jhunjunwala: Could you please explain in some detail about using alloy steel versus C45 in terms of revenue and margin?

Satish Kumar Pandey: Using C45 or alloy It is a decision of the designer and The buyer. If their product requires alloy steel they will buy two plates in It requires nine plates for mould bases. So out of the two plates are alloy.

So if the product requires that kind of volume and that kind of finish, polishing then they switch to alloy but yes if we have alloy steel to be used our sales revenue increases to a substantial figure.

Varun Aggarwal: 2 - 3 years from now how much percentage of revenue can we expect from new businesses like aerospace defense etc and other than that our traditional mould waste can it become 50/50?

Satish Kumar Pandey: Yes you are very right from approximately in the next 3 years it should be a 50/50 number easily that is what we are striving and we are looking at and envisioning

Khalid Khan, where do you see the company in the next 5 years? What is the long-term vision of the company? Are we going to move up the value

chain? Any plans for forward or backward integration? Where do we see margins in the next 5 years from current level?

Satish Kumar Pandey: Mr. Khan, I won't talk about 5 years is too long. And maybe if I give you the 5 years number a lot of lies will be put into it. I'd rather talk about 3 years because that looks practical and that is in vision

that is planned for and that we know that we can strive and achieve it. So as I told you as we have grown in the past 3 years vision that we will be maintaining that same growth pattern in the next three years. As far as backward integration is concerned, we have already started buying from steel mills directly and again avoided the distributor in between and its margins. So that was a very good move from us and we can call it a backward integration and it has definitely improved our margins to a great extent and I think my margins should be constant now it should not be a drop there if not an increase. We will try to optimize a lot of things in our business in our processes and in our costs so that we can add on to the margins but it will add to a limited extent so what I see that we are already at a healthy 18 to 23% PAT levels so I think we should be able to maintain that over the period of next two to three years easily. It should not be a challenge for us.

Varun Agarwal: The way you gave examples from China, Europe and Who are the top three mobile base manufacturers in India and what is their approximate size in terms of revenue?

Satish Kumar Pandey: We are rather the largest and the biggest mould base manufacturer as of today in terms of size in terms of volume and in terms of value. apart from that there is one Kalyani mould base in Mira Road Mumbai and maybe one company called Imbos in Bangalore.

Ayush Jhujhunwala: The work in progress and inventory of around 15 crores at the end of half one year , by when will it get reflected in the sales? Your earlier mentioned it takes 14 to 21 days to execute the orders?

Satish Kumar Pandey: Yes. it does take 14 - 21 days to complete the orders. No doubt about it. The work in progress is already mentioned in so it goes

like we get the design, we start manufacturing and the PO starts to come in and when they require the mould base to be shipped to them. So and when the PO come in, we start shipping. So if all goes by January I think all should be over as of today's progress apart from the work in progress that will be added in the due course of time as we speak and as we had reported the numbers there is already an increase of 75 lakhs. So it keeps adding on and it keeps adding on it keeps going. So it's a continuous process.

Yogesh: For the four verticals shared for the four verticals, what to expect in terms of margin profile? Are we not restricting our capacity utilization and hence operating leverage by capping 25% growth?

Satish Kumar Pandey:

So the four verticals is purposely the margins are constant all across maybe 1% here and there in all the four verticals. We are not restricting our capacity utilization by restricting to the verticals. We are in fact optimizing our capacity utilization at the same time. You can call it we are derisking ourselves and hedging ourselves from any downfall that comes in the industry. Supposedly there is a downfall in the auto industry and orders stop coming. So my 100% of business isn't affected. I am affected only to the tune of 25%. You understand? So my 75% keeps growing. So I can take care of that 75% easily to hedge the downfall that I received in this first vertical auto cluster ie.25%. So you can say it's a hedging policy by us and it has proved successful because we started this in 2013 and we have been successful for that and if you want I can share an instance in that till 2013 we were the only source of mould based die sets and ground plates for LnT and to grow they are switchgear division we used to do 70% of our sales .And suddenly one evening Mr. Naik decides to sell that division to some third party and we are wiped out of business by 70%. That was a very difficult year. Somehow or the other we managed to maintain the sales of that number but that was the time that we decided 1 customer max 10% one vertical max 25% and that has proven successful and we have grown since and it has never been a problem for us. Any customer goes it doesn't affect us negatively and it's a proven model so we will stick to it.

RK: sir in last 3 years your PAT has grown six times from 80 lakhs to 4.8crores. So when you say that you will maintain the same growth rate over the next 3 years, are you saying that you will be able to achieve six times PAT

Satish Kumar Pandey: I am not understanding this calculation to be very frank but the growth patterns are going to be same say around 68% or 63% CAGR that is what we are growing so we should grow accordingly I'm sure about that.

Mustafa Kachwala: how are you doing? Congratulations for the wonderful results. What your expectation on the top line in H2 as there are many acquisitions done. So will that help to grow the top line in H2O?

Satish Kumar Pandey: Sir, if you could read the rather you could see the whole con call again you might get the answers easily because I've already attended to these questions earlier.

Ketan Arlulkar : What are the major revenues for the company and how much each stream contributes in total revenue as of terms?

Satish Kumar Pandey: I mean, mould base, sheet metal, die casting, capex as in machine parts manufacturing. So these are the 4 streams and accordingly 25% is the capping necessarily not that once it comes to 25% we stop it unless there is that growth in the other or there is enough sales that has been built into the other categories also

Amarendu Gupta: why don't you start posting quarterly results from the current practice of posting a yearly result.

Satish Kumar Pandey: Yes the quarterly results as I have explained is a learning that we got from investors though we are ready for that our accounting team is very well apt to give the results. there is no problem in that. But we became a little hesitant as in if SEBI has no issues with half they are only asking half yearly results. We would be giving quarterly results from next financial year onwards. Nevertheless, after the December numbers, we

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will have a call where we'll brief you about how things are going and again after the March 2025 numbers, we'll have a phone call about how and where the things have gone right and gone wrong.

Anonymous Question: Please share more light on new clients and business developments

Satish Kumar Pandey: I'm very sorry, I cannot name the client. Neither can I give you any information about that because it's a very initial and a very prestigious trial order that we have got and we don't want it to be disclosed in the public domain as of now.

It's a very small order that we have received but once successful we assume from the RFQS and the quotations that we have given to them we should get an order of 350000 Euros from them if all goes well

Rahul Patel: please provide general sales mix between first half and second half. Is there seasonality or quarter basis and who are the major customers or which industry is the major customer?

Satish Kumar Pandey: sir the second question I will not be able sorry about that. But the first question is historically second half of the year has been better compared to the first half. So there is no seasonality as such but always a lot of industries prepare for Diwali and for products that are to be launched in and around Diwali are planned in advance. So suppose a year in advance it's planned so it comes onto the drawing board and from drawing board it comes to manufacturing between November to March. So that is why second half is always better for us, historically over the years if you can see the numbers last year also it was always better

Anonymous : so you are not a direct vendor in aerospace. So that means it's just you are supplying someone who is selling to aerospace company as you are not approved by government.

Satish Kumar Pandey: it's a nice question. We are tier 2 vendors. So tier 1 companies are the one who make the complete parts just like the automobile they assemble the parts they make a product which goes into the OEMs like DRDO / HAL.

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We are not in a position to be a tier 1 vendor as of now. I'll be very frank with you. However, nevertheless, we have already started our process of getting into registration with all the companies so that whenever they have requirements of us or our kind of machining or our kind of products they can directly approach us. but till that time we will always be with the tier one vendor as a customer and I think there's nothing wrong in that because without the tier 2 vendor no tier 1 can complete their parts and without the tier one vendors the no OEM can manufacture their fighter jets or missile or s aircraft or its cockpit or the nose of the prithvi missile or the base of the prithvi missile. It cannot be manufactured by OEM.

It has to go to a tier 1 who will assemble the part. Then it has to go to the tier 2 will make each individual parts each individual individual parts. So I hope I have answered your question on that part.

Sandip Chaniyara : What is the biggest challenge nowadays?

Satish Kumar Pandey: Nice question .The steel prices are the biggest challenge nowadays. it has come to a very good level as of now and it has stabilized for the moment. So now there should be an upward move in the steel prices and with our kind of inventory in stock it should be a blessing in disguise , but if it goes down it will be a little problem a little negativity for us. But with the crude prices as it is today very less chances that it will go down further.

Question: What is your customer concentration today? What is the revenue share of top five customers?

Satish Kumar Pandey: Top 10 customers maybe 60% and rest is 40%. And no customer goes beyond 10% of our sales. That is our capping since 2015.

Deepak Mehta: excellent call sir thanks.

Satish Kumar Pandey: hank you very much Deepak. So this was the last question. so now Punit can we end the call?

Punit Thakkar: Yeah, sure.

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Satish Kumar Pandey: hope I have answered all your questions as required and as you had expected and Nishwar we are working our best and I forgot I welcome all investors if you want to visit us if you want to visit our factory we invite you because unless you visit our factory, you will not know what is our skin in the game. what is the kind of investment we as promoters have done in that business and what we have raised is hardly anything compared to what we have invested apart from the 56 years of our family and and 30- 35 years of me and my brother in the business. So I take this opportunity to invite all of you to visit our factory, have a one-to-one discussion with us, have a look at our factories. you may understand the kind of people that we

have working there, the amount of the number of people that we have working there. I welcome you all. Thanks for attending the call