"Nelcast Limited
Q4 FY2021 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Nelcast Limited Q4 FY2021 and FY2021 Post Result Call hosted by Batlivala and Karani Securities India Private Limited. 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. Annamalai Jayaraj from Batlivala and Karani Securities. Thank you, and over to you, Sir!

Annamalai Jayaraj: Thank you Mallika. On behalf of B&K securities, welcome to Nelcast Limited Q4 FY2021 and FY2021 post results conference fall. From the Nelcast Management, we have with us today, Mr P. Deepak - Managing Director and Chief Executive Officer and Mr S.K. Sivakumar - Chief Financial Officer. I now hand over the call to Mr. Deepak for opening remarks to be followed by question and answers. Over to you, Sir!

P. Deepak: Thank you. Good morning everybody and thank you for being here on this call regarding our Q4 as well as full year FY2021 results. I like to start with just a quick introduction of Nelcast since we are relatively new to having this earning call, so just for the quick introduction, we are the leading producer of Ductile & Grey Iron castings in India. We have three plants, the first one was started in 1985 in Gudur in Nellore District, Andhra Pradesh, which about 140 kilometers north of Chennai, the second plant was commissioned in 1996 in Ponneri in Thiruvallur district in Tamil Nadu 40 kilometers north of Chennai and the third one which is the most recent addition to our facilities was inaugurated and commission in 2018 in Kadapa in village in Nellore district, Andhra Pradesh about 125 kilometers north of Chennai.

We as a company we cater primarily to be tractor industry as well as the medium and heavy commercial vehicle industry. We also cater to the railways and the highway industry. Our company was primarily focused on domestic market; however, in the last 7 years we have had a transformation towards a fairly large growth in exports. In FY214, we were doing about 3 Crores per annum of exports, in FY2021, we have now crossed 126 Crores of exports for the financial year. Our exports are to North America, to US and Mexico, to Asia, to Thailand, as well as Indonesia, to Europe, to Italy, Sweden, Spain, France, Belgium, Hungary, Switzerland as well as Australia, so we cover a wide range of the globe and in exports we are catering primarily to the similar industry medium and heavy commercial vehicles, we are catering to the tractor industry, we are catering to the highway industry and we are also catering to the car industry primarily in terms of SUV and pickup trucks.

Little bit more about our performance for the financial year of FY2021, our total revenue for the fourth quarter stood at 223.47 Crores in comparison to 131.68 Crores in the previous year, so that was a growth of about 75% for fourth quarter. For the year as a whole for the full financial year total revenue grew from 580.35 Crores up to 619.85 Crores, so for the full year we recorded a growth of about 7.8%, which I think is something quite remarkable considering the fact that we lost the first month and a half of the year due to complete lock down across the country. Our export sales also had a growth of 12.5%, we grew from 112.26 Crores to 126.29 Crores so therefore we were able to record a growth in exports as well and that helped us in achieving the overall growth.

In terms of the company performance itself and profitability, we were able to record in the fourth quarter an EBITDA of 21.51 Crores as appose to last fourth quarter of 19.08 Crores, so we did achieve a growth in the EBITDA number in the fourth quarter; however, because of first and second quarter challenges due to COVID and the ramp up that subsequently happened in the third and fourth quarter, for the full year there was a drop in the EBITDA from 61.84 Crores in prior year to 51.27 Crores in the current year. In terms of margins we typically like to measure our EBITDA margins on a per kg basis, so for the full year in 2020 we were to achieve Rs.11.85 per kg and in 2021 we were able to achieve 9.2 whereas in the fourth quarter we were able to achieve Rs.10.94 per kg.

So, this is regarding our performance. I think overall as a company it has been our focus through COVID to take care of the health of the employees as well as the financial health, so we were able to make quite a good amount of improvement also in the financial health of the company. The debt from 225 Crores was able to come down to 215 Crores and the cash and cash equivalent was able to increase from 47.93 Crores to 64.98 Crores, a large reason for that is that we were able to reduce our inventory that we maintain through several operational improvements. Therefore our net debt reduced from 177.18 Crores down to 149.71 Crore.

Diving a little bit more into the segments and the sales, in the medium and heavy commercial vehicles our sales breakup contributed 33% of our overall turnover as against 37% in the year prior, so there was a small decline not only in our contribution, but in the overall number there was a decline of approximately 3% to 4% in car sales to heavy commercial vehicles, which is a positive sign I would say considering the entire industry de-grew much more substantially by more than 10%. In the tractor segment, we have a substantial amount of growth as a contribution to us it was at 31.73% in the prior year whereas in the current year it reached 37.61% so there was a growth of about 28% in the tractor segment, which is slightly higher than the 26% recorded by industry.

Our exports was another positive sign, I will touch upon it. We grew from 112.26 Crores to 126.29 Crores. The other segments such as railway there was a small degrowth in railways, in the previous year it was 6.84% and the current year it was 3.83%, so the highway had a small growth from 2.95% to 3.18%, so overall I think we could see that we largely followed by the industry, but we out performed the industry marginally. I will touch upon couple of reasons for that, one of the reasons why we were able to do better than the industry on the heavy commercial vehicle space is because of the introduction of the BS-VI vehicles as well as the growth in the tipper segment.

So, the heavy duty tipper segments where we have a lot of new products, very high market shares and this is a segment that grew fairly well in the past year because of the infrastructure push that happened towards the end of the year especially in Q3 and Q4, so we saw good growth coming from the products that are used in the tipper segment and therefore that helped drive our commercial vehicle growth. Tractors overall has been strong post the lock down and it is anticipated to remain strong with the forecast of the monsoon this year to remain normal as well as generally good conditions in the rural areas for the agricultural segment and exports we expect to continue to see growth and we expect continued to see strong growth in the exports over the next 3 years.

We are seeing overall a few different things that will drive our exports growth, one is new products, and we have a lot of new products in the export space that we will be ramping up. In addition to that on the exports space we were seeing also the markets there are growing substantially especially if you look at the North America the trucks, there has been a substantial growth and substantial order intake over the last 12 months and we anticipate that this will continue to fuel growth in the North American market in addition to all the new products that we will be launching over the next 2 years, so with that I would like to conclude by saying that we are anticipating in the next 2 to 3 years will be very, very good time in terms of growth for the company. We are anticipating that we would expect to see strong growth over the next 2 to 3 years and we have all the investments in the new plot that will help us cater to this growth. With that, I would like to hand it over to the operator of the call for any question and answers that anybody might have to you either myself or my colleague, Mr. Sivakumar, who is the CFO.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Sahil Sanghvi from Monarch Networth. Please go ahead.

Sahil Sanghvi: Thank you first of all for conducting this conference call and congratulations for the operational achievements that the company has achieved. Sir, first of all could you just give me some idea on the capacity on each of these plants and what is the utilization currently?

P. Deepak: Sure, so overall I think the current capacity that we have for the plant is about 16000 tonnes and currently, prior to I would say the second wave of COVID we were operating at something around, we did around 20000 tonnes in the previous quarter, I think too more specific.

Sahil Sanghvi: Would you be able to give me the split over the three plants, Sir?

P. Deepak: I do not have that information right now, we certainly be able to share that information that the exact split at the moment if I was to break it up, actually I can share that to you right now, so we have about 60000 tonnes capacity at our plant in Gudur, 40000 at our plant in Ponneri, 60000 at our plant in Padappai.

Sahil Sanghvi: So would it be fair to say that we are approximately at about 50% utilization before COVID?

P. Deepak: Yes, and the second phase which was 42000 tonnes out of the new plant was commissioned only on the month of September 2020, so if we were to go back to the previous quarter, yes, it could be fair to say that 50% capacity utilization, but that being said the new plant is only 6 months old so the capacity does take a little bit of time to get ramped up and we have several new products that are under development and one of the key features of the new investment that we have in the new plant is our ability to make much more complex and much larger parts, which would have better realizations as well.

Sahil Sanghvi: Got it, Sir. My second question is regarding the demand from HCV and tractor and I am completely asking over the domestic demand, so how is that working out right now as we speak because I mean I understand that a lot of states which are gradually lifting the lock down, but the supply chain have been affected and tractor might be still stable, but what is scenario on the commercial vehicle plant?

P. Deepak: So what we are seeing is a small impact on the tractor segment as well, we are seeing an impact there and lot of that does have to do with supply chains that are there. In terms of the commercial vehicle front, I would say there is a very significant demand, I would say compared to a few months ago the industry is probably operating at something around 50% or so and the large reason for that is I think both the demand that little bit slow because of the lock downs that are there, the fact that many of the dealers are also closed and do not have to show rooms open for taking deliveries, but the forecast that we are hearing from in spite of the current numbers that we are seeing is actually extremely positive especially going into the construction and mining segment where it is used, we are actually sharing extremely positive forecast coming out of the industry because they do anticipate that the budget that just was passed the allocations that was made towards infrastructure will certainly drive growth post these lock downs and hopefully you know going past the second wave without there being the third wave.

Sahil Sanghvi: Got is, Sir and would you be able to share the volume number for FY2021 and Q4?

P. Deepak: In terms of tonnage?

Sahil Sanghvi: Yes.

P. Deepak: So, the sales quantity in FY2021 Q4 was 19857 tonnes and for the full year it was 58550 tonnes.

Sahil Sanghvi: And this would be full year versus FY2020, how much would it be?

P. Deepak: FY2020 full year was 54946 tonnes.

Sahil Sanghvi: Got it, Sir on my last question, would be what more can we do on the cost front because I see a good growth on the revenue front in the numbers in Q4 also, but can still improve our cost structure when I compare it to some of the other competitors we have in the casting industry, so do we have any plans on that front and what can we do when it comes to power and fuel cost or the other expenses or the RM cost?

P. Deepak: I think if you look at the cost front right and boil down to the bottom line, the two largest expenses that are there are, are the first is in terms of the raw material cost, so cost is actually a function of the open market, we are buying steel scrap, which is the primary raw material, so we have a mechanism for passing on increases or decreases to our customers is typically a small lag to it for quarter-on-quarter, so when there is a steep increase in material cost like we have seen in the last six months it takes usually about one quarter, two quarter shock that we have to absorb, one quarter shock to be absorbed before we pass it on, because we have seen being a continuous increase that we have seen in Q3 as well as Q4, so that is on the front of the raw material costs, it is a pass through mechanism albeit with a slight lag, similar material costs are coming down the reduction is also passed on with the slight lag so, net net we hope that it all balances out. Now the other area is the power and fuel costs so we are working on that continuously in terms of the more we optimize our output and the higher the output that we get, this cost is a mix of both variable and fixed, this cost will keep coming down as we start ramping up our new facilities as well. In addition to that there is also things that we are working on in terms of reducing the cost per unit at which we are purchasing, which includes certain investments in renewable energy as well.

Sahil Sanghvi: Got it, how much you are spending in diesel it is a large chunk?

P. Deepak: It is not a large chunk, it would be a group captive investment that we are making.

Sahil Sanghvi: Got it, Sir. Thank you for your answer and I will come back in the queue. Thank you.

Moderator: Thank you. The next question is from the line of Saket Kapoor from Kapoor & Company. Please go ahead.

Saket Kapoor: Sit, thank you for the opportunity, first as you informed that it is Rs.10.94 paisa per kilo that is what the key figure for us on the casting business, and going forward as the OEM are providing you a schedule for minimum definitely for a quarter what are the likely realizations going forward and what is the outlook for the way forward?

P. Deepak: So I think the realization was a little bit hard to actually arrive at the forecast because of the raw material costs, so again it depends on how that lag factors works out, we would hope the target are working towards is to be at a number that is better than Rs.10.94, so we want to definitely work on continuing to improve this, as our capacity utilization improve as some of the new products come in as well as the experts continue to grow, we anticipate that we should be able to reach a number that is better than 12 and we are targeting to try to get to around 14 to 15 that over the next maybe three to four years, but that is the target that we are working towards, but in the short term it is a little bit harder to project primarily because of the variation that happen in raw material prices and the lag that is there and particularly over the last six months we have seen a fairly substantial fluctuation in raw material prices and fluctuation only going upwards actually to be fair, therefore I think it is a little bit hard to assume that. In terms of growth what we are seeing in terms of top line over the next year, we do expect to see growth. We do expect to see growth in the double digits and driven by the fact that we expect the tractor industry will have a fairly good year this year. We do anticipate that the commercial vehicle industry more specifically on the construction mining segment for tippers will do well and that is an area where we have a fairly substantial presence in terms of the products that we have and the market share and the third thing is that growth in exports. We expect to continue to see growth in exports and we would hope that the current numbers what we are seeing from the export markets will continue and overall I think as a blended number, we expect to see a fairly good amount of growth definitely in the double digits.

Saket Kapoor: Sir, what are the export component percentage mix on the top line for this year, if could you?

P. Deepak: For this year, the export percentage was about 21%.

Saket Kapoor: And for FY2020, how it was it, I wanted to know the growth?

P. Deepak: For FY2020, it was about 19.8%.

Saket Kapoor: Sir, going forward for this year what kind of growth in export market we did in this year?

P. Deepak: On a ballpark number I think the number that we would hope to see, we would expect to see in terms of exports is certainly greater than a 20% growth I think that is what we anticipate in the current year, it could be more than that, but certainly we believe that with the current market conditions that is the number, keeping in mind that obviously this is a cyclical industry and there are obviously risk factors that are involved in trying to project numbers.

Saket Kapoor: Sir, this is only significant, yesterday Mahindra & Mahindra did come up with a guidance for their tractor numbers that were in the single digits and our dependence on the tractor industry is on the higher side, so what gives you the confidence that a tractor will continue to grow going forward also and that is the question?

P. Deepak: So I think tractors certainly I think last year was an unexpectedly strong year given what happened with COVID, that I think the forecast for last year was that it was going to be an excellent year and primarily that was driven based on other availability of water and we have now had two continuous good normal monsoons, there is a forecast for another normal monsoon, my understanding also was water levels at all reservoirs are at pretty good levels, in addition to that I think the minimum support prices that are in the industry from what I am told are favorable and therefore these were some of the tailwinds we were seeing in the tractor industry last year and we could see that in spite of having a month and a half lock down they still managed to grow about 26% for the full year, so given such a large growth last year, we are still expecting growth this year, but do not expect that it will be a double digit growth, we think perhaps it will be 8% growth or something like that perhaps along the lines of what Mahindra has also projected and forecasted, but we have to remember that the base completely changed last year when there was such a substantial amount of growth that happened, so that I think one of the things that we feel the tractor industry is good and the other part of the tractor industry there is also new products that we are developing in the tractor industry for our existing customers a they launch more new models which I think will help them also gain some market share.

Saket Kapoor: Sir, now on the expanded capacity of 150000, we did around 80000 for FY2021, or lower than that?

P. Deepak: No, our number for FY2021 what we did was actually 58550 was the full year number considering the lock down, for the quarter four, we did 19857.

Saket Kapoor: Depending upon, it is very uncertain now to give a perspective about what the tonnage would be, but we are going by the preparation which you have done in the export segment and the new product introduction which you have articulated earlier what should the likely be exiting the next year on 59000 average, what should be the bare minimum that we are looking to exit the next financial year?

P. Deepak: It is a very difficult.

S.K. Sivakumar: Let me answer this, it is based on the product mix, so it will vary month to month because of the product mix. We will not be able to assess exactly what would be figure, anyway we will update you after six months, we will see how it goes.

Saket Kapoor: Right, Sir and the last one on the working capital requirements, we have seen the trade receivables moving up significantly and what would be our current working capital requirement on the peak capacity level, what should be that and what is our receivable day cycle if you could elaborate on the same, Sir?

P. Deepak: Sure, so I think there is a couple of things right, so when you talked about the receivables so in fact you know part of the reason the receivables have gone up if you actually compare the receivers over the full year period, if you compare it the full year period certainly it looks like the base of receivables have gone up, but if you actually consider the fact that the bulk of the sales that is if we look at it in terms of Q4 220 Crores plus of sales happened just in Q4 so much more than a third and in that also if we compare March was perhaps the best month of the year, so therefore it is actually not an increase in terms of the number of base, but that we have we have seen actually even though it looks that way when you compare the full year figures to what you see. The second part of it is also in exports as we have seen a substantial amount of export growth and the realization in exports is a longer period of time, so overall I think as a blended number I think what we anticipate to see something around 70 to 75 day kind of mark and we believe that that is what we are doing slightly better on than.

Saket Kapoor: As there things that we have a lock down in the country, so that has definitely affected the production for the month of May and April was a normal month, if you could give us the production outlook for April and May?

P. Deepak: So, I do not believe I am permitted to share with you April and May, but I can just give you a rough idea of the impact rate, there has definitely been an impact in the month of April and certainly a slightly bigger impact on the month of May and due to various COVID restrictions, due to customers being closed due to COVID restrictions, other supply chain disruptions that are there as well as you know the health of our own employees as well, which creating an issue of absentees and the manpower availability, so there is definitely an impact, we do believe that, that impact hopefully will not continue beyond June, that is our hope, but we do not know how this virus works even though we are nearly a year and a half beyond the point where we first discovered it, so I think we will have to wait and watch and see how the government response as well as how the economy responds.

Saket Kapoor: And going forward, do we look at the continuity of this investors conference or is it a one of our annual events that be invested and analyst is tracking the company?

P. Deepak: So, I think it is our intention to be better connected to the investor community and this quarterly call is something that we would like to continue every quarter, in fact this a feedback that we have received from of a couple of the people who have already invested in us and they have requested that this is something that they value and therefore it is something that we intent to continue.

Saket Kapoor: We do look for continuity that is more important and I think the press release on the opening note part also that would be articulated with the result giving a business environment and the tonnage part, which has the normal FAQs from investor that would be really, really helpful and we look forward for the continuity, lastly what are the current year maturity for this year, how much is the debt that is going to done and the next year also for FY2023?

P. Deepak: So in terms of long-term debt, Siva will give the exact number, I believe it is about 30 Crores that will of debt repayment attributable towards the current year and the total outstanding term loan is 141.

Saket Kapoor: Come again, Sir?

S.K Sivakumar: As on March 31, 2021, the long-term debt is 141 Crores and the working capital is about 76, so total debt is about 214 Crores.

P. Deepak: Out of the 141, the repayment portion for the current year is approximately 33 Crores.

S.K Sivakumar: Current year we have to repay 33 Crores..

Saket Kapoor: And Sir, 2023-2024, the next financial year?

S.K Sivakumar: It will be another 35 Crores.

Saket Kapoor: Sir, in the cost of funds currently what would the blended cost of fund and any ratings the changes that will lead to lower have we anticipating that going forward with them and one number is now?

S.K Sivakumar: As of now there is no change in the rating, so we have to see.

Saket Kapoor: Sir, what is the cost of fund, the blended cost of fund?

S.K Sivakumar: Cot of fund depends upon the market because we do a mix of long-term or short-term.

Saket Kapoor: I wanted to know what is the current cost of fund for us?

S.K Sivakumar: It will be about 8% to 8.5%.

Saket Kapoor: Including both working capital and term loan...

S.K Sivakumar: It is average.

Saket Kapoor: And the subsidiary commission investment in the subsidiary, any update on that 40 Crores to 45 Crores, so I think will be investment there in that business, how are you going to deal with it?

P. Deepak: So at present we are not looking at making any further investment in the company, we are looking at for the purpose of the company was set up was to evaluate the possible setting up of a thermal power plant in Tamil Nadu, I think at the moment that is not a viable option, we are evaluating all other options including solar as well as other things, but at the moment we are not envisaging any further investment and we will also evaluate if the right opportunity comes along to dispose of the asset, there is in excess of 400 acres of land that available in the company so there is an asset in the company as well, but that we will either utilize it appropriately or try to get some value out of it.

Saket Kapoor: Monetization can also happen that is what you can?

P. Deepak: Yes.

Saket Kapoor: And that is in the Nelcast or in the subsidiary, Sir?

P. Deepak: That is in the subsidiary.

Saket Kapoor: And our total investment in the subsidiary as on March 31, 2021?

P. Deepak: Siva?

S.K. Sivakumar: Yes, it is about 40 Crores.

Saket Kapoor: Right, Sir. We hope for the continuity and all the best to the team. Thank you for the opportunity and all the best that is our wish. Thank you.

Moderator: Thank you. The next question is from the line of Pravin Kumar an Individual Investor. Please go ahead.

Pravin Kumar: Congratulations first for presenting a good set of number that too in this challenging environment. Most of the questions are answered, I have only one question that I am interested to know how much is the power consumption for all these plants and how do you meet these requirements and what is the rationale for going up for renewable power plant?

P. Deepak: I think, would you like to know in terms of number of units or total cost?

Pravin Kumar: Total megawatt consumption and per unit cost, how much it is at present and how do we envisage, what should we pay and do you produce currently any captive production is there and what are the challenges basically for power consumption?

P. Deepak: Yes, Siva you can talk about numbers if you want approximately.

S.K. Sivakumar: Roughly number of units for all the plants put together is about 80 to 90 lakhs, we have three plants, two is in the Andhra Pradesh and one is in Tamil Nadu, so Tamil Nadu, we have a group captive power mostly we tied up with the long-term windmill and then solar, about 80% to 90% we met through windmill the rest we draw from the board. Currently, in Andhra Pradesh, we draw entire power only from the board, we have plans to go for windmills through group captive it means we will not invest directly, we will go for group captive, which is advantage . So in the next one year we will go for the windmill for Andhra Pradesh plant. We do not have any issues in the power it means we are all able to meet through board all the power in both states.

Pravin Kumar: So the power consumption and cost is at optimum level?

S.K. Sivakumar: Correct.

Pravin Kumar: Thank you.

Moderator: Thank you. The next question is from the line of Mukesh Saraf from Spark Capital. Please go ahead.

Mukesh Saraf: Good morning and thank you for the opportunity, so you answer actually most of the questions that I had on the company, so I have now the question on the CV cycle because obviously CV cycle impacts you have we have the good exposure there, so you did tell that the sales expected to be good, but we are also seeing OEM took second plant shut down now, Ashok Leyland said that even in June there will be shutdown for most of the time, so do you see that there is a very high channel inventory or plant inventory already in the system and hence that way the demand can be low for some of the products that new supply?

P. Deepak: I think it is easy to talk I think broadly about CV industry, but you know the way I think that we look at it is in few different buckets, so if you look at the last year and we break it down into multiple buckets for the CV, so the ICV segment last year did fairly well primarily driven by e-commerce right, so we saw I think last year the ICV segment numbers were looking fairly good. We saw probably the multiaxial vehicle numbers, which are primarily used of haulage segment, we saw the haulage numbers look fairly bad and I think we saw towards especially the second half of the year, the number for the tipper and the other construction mining vehicles that number was doing fairly well. I think this is what we saw over the last year especially the last six months. Going forward, we think it will be somewhat similar especially we think because of the infrastructure spending the government does go forward with the spend as it has been envisaged, we do expect that the tipper segment will do fairly well. The multiaxial vehicle segment for haulage is a function of the demand of the vehicles, so unless there is good amount of demand for the movement of goods that segment is not going to do well and I believe in my view for that segment to recover it will take a little bit longer time because one the demand has to come up which it still has not yet come back to the levels that was there prior to the actual norms in 2018, which just introduced a glut of supply into that segmenti by increasing the tonnage carrying capacity, so I believe the haulage vehicles in the multiaxial vehicle demand is still a little bit away because we only start to see that as freight trade start to increase, so I believe that that segment which typically accounts for maybe more of the numbers might be a little bit slower, but I think the overall positivity that we have is towards the tipper segment that is there and used in construction and mining, so I think that segment is hearing positive thing, but like you said there is a fairly severe disruption in terms of production that happened in the month of May and certainly the forecast for the month of June is also quite severe in terms of the number of working days that are being planned at the OEMs.

Mukesh Saraf: Right, so it is not a function of inventory, it is just a function of supply chain?

P. Deepak: I do not believe that inventories are at extremely high levels at least not to my knowledge, but certainly when we consider inventories we cannot just talk about sheer numbers, we have to talk about bad days of inventory, so if the overall numbers are less than even a few a quantity of vehicles, might represent a greater number of days of inventory.

Mukesh Saraf: Right, understood, so basically tipper could be about 30% of overall in the CV so that should do well and the remaining 60% tax payers 70% used to get a better percentage?

P. Deepak: Right and for us as a company with products that we have as well as the tipper in itself has a much greater percentage of casting that we will do it and our market share there is substantially higher, so I think assumed that that is something that will aid us on that.

Mukesh Saraf: Sure. Thank you. That was the only question I had.

Moderator: Thank you. The next question is from the line of Nitin Gandhi from KIFS Trade Capital. Please go ahead.

Nitin Gandhi: Thank you very much for the question. I just wish to know when you planed this third unit which is just commission in September, when do you see optimum capacity coming and when do you see because of the complex product curve, which you were planning, it can start earning 14% to 15% that case margin per kg which you are expecting can it be opening in two years times or do you think there is some more time?

P. Deepak: So I believe realistically I think for us to really get through an optimum number we are probably two years away from really getting being able to fully optimize that have all the products developed, but that being said I think we should start getting close to that perhaps over the next three quarters to a year, because we have a lot of new products that are under development that are these type of products that I mentioned that are unique to our ability to manufacture these and certainly we expect that most of these products will go into production over the next 6 to 9 months, so certainly we will see improvement and then we will have to work on our own optimizations of the new plant once the product mix there is up and running, so we believe that I think a two year period is probably when we will really start to see the best of what we can achieve.

Nitin Gandhi: How was the realization before for the complex products, are they significantly dependent on realize what you have, margin I understand per kg Rs.3 to Rs.4 different?

P. Deepak: So, realizations are better and certainly both for exports as well as for these complex products realizations are maybe 5% to 10% better than what we might have on a typical domestic product.

Nitin Gandhi: This continuing the trajectory as last question, can you tell me precisely what is a cost per unit for power for Tamil Nadu and Andhra Pradesh that you are blended, whichever way you are comfortable?

S K Sivakumar: Per unit cost?

Nitin Gandhi: Cost per unit for the power?

S K Sivakumar: In Tamil Nadu it is about Rs.6.5 per unit, whereas in Andhra Pradesh less about 50 paisa, that is Rs.6 per unit.

Nitin Gandhi: And the last question, as this 400 acre land which is lying on the subsidiary, can you use the same for renewable energy like solar or wind development?

S K Sivakumar: We are evaluating all options for that including specifically also we are evaluating solar investment there.

Nitin Gandhi: And what is the current cost of buying land over there if you proposed to buy another 100 or 200 acres?

S K Sivakumar: A lot of changes in the market price. Really we do not know because we did not do any purchase for last two to three years so we are not sure about it.

Nitin Gandhi: So, two to three years back what was the last purchase you had?

S K Sivakumar: We purchased few years back ut, I do not remember, we will letyou know later.

Nitin Gandhi: Is this 45 Crores investment in subsidiary?

S K Sivakumar: No, I said 38.6 Crores is the investment, 38.6 Crores is the investment so roughly 400 acres, so it is about 10 lakhs per acre, the average cost what we are having 10 lakhs per acre.

Nitin Gandhi: But I think recent price more than 2 to 3 types of this, right?

S K Sivakumar: See these are current market price, so we have no idea.

Nitin Gandhi: Okay. Thank you.

P. Deepak: We do not want to speculate on the current market price because it...

Nitin Gandhi: No, I am not speculating I am just looking from the return perspective when you put a solar plant or something from that perspective what is the cost I am trying to, I am not trying to work out the replacement cost of the land, I was just trying to see where the arithmetic will fit in, when it makes viable. Anyway maybe once you freeze the plan, please share this details.

P. Deepak: Sure.

Nitin Gandhi: Thank you very much and all the best. Sorry, one last question, I think in all probability you can be close 1000 Crores FY2024 revenue?

P. Deepak: We hope we will do it sooner than that and we will call that a positive surprise.

Nitin Gandhi: All the best for that. Thank you.

Moderator: Thank you. The next question is from the line of Saket Kapoor from Kapoor & Company. Please go ahead.

Saket Kapoor: Thank you for the opportunity against. Sir, for the railway front, what are the inroads we have made and what portion of our current year revenue is attributable to the railway?

P. Deepak: So, railways, if you look at it in the previous year, so the year that we just completed was represented 4% of our revenue so railway that primarily two products that we contribute to the railways, one product goes to the metro rails, which are the best plate on which the track systems are fastened and we have been the largest provider of this all across the country since the days of phase 1 of the Delhi metro, so that is one of the products that is a project based type of a product that is there so whenever there is a new metro that is getting launched this typically a tendering process that is done by our customer and we are not directly on the tender, our customer which is Waslo is the one who applies on the tender and once they win it, we supply the base plate to them and they supply the entire system, which includes the clamps as well as the fasting anchor boards and all of that, so as more and more metro rails come up so that part of the present depends on the projects that are executed for the metro rails, so we have seen in the past few years we have seen actually quite a good amount of growth in terms of the number of metros coming up and therefore we have seen some advantage of that of course in the last year due to COVID that number had come down, we think that this year will also be a fairly good year because I think a lot of those projects are taking off again, but it is hard for us to project because one it depends on the different project and you know how they are in terms of the timeline, also depends on whether our customer who supplies the complete system gives the order or not, so it is a little bit difficult to project, but for the previous year the total contribution of railways was about 4%. The other part that we supply is also the brake discs that are being used on all the Rajasthani and Shatabdi train, so basically what we call the LHP coaches, which is now the predominant coach manufacturing that is happening all across the country, so depending on how much ICF and RCF manufacture in terms of their coaches, our demand will be dependent on that?

Saket Kapoor: As we see in the manufacturing segment there are the fixed cost and the variable cost and at an adding capacity utilization level the fixed costs just goes in and then comes the variable cost part after a second utilization level, the way our industry work in our plants are designed what is the debt points for our utilization level from where the fixed cost would be frozen and the incremental EBITDA would be flowing down, so just wanted to understand that matter?

P. Deepak: If you look at it the overall selling price cost structure maybe 45% or so of our costs are coming roughly out of raw materials, it varies and if you look at the last couple of years it could be any number between let us say 40% to 48% depending on how the raw material price movement is, so this portion of it is completely variable because if you are not producing parts then you do not really need to buy the raw material, so it is almost entirely a variable cost. The second part which is the next biggest expense that is coming, is coming from the power cost, so the power cost what we are seeing is, has both the fixed as well as a variable component that is attached it, so there is fixed component related to the fact that there is a certain amount of maximum demand charges that you need to pay or certain amount of commitment that you have to take power and the variable costs are largely for the per unit consumption, so even though it is a purely a variable cost the per unit consumption the more we produce the less number of units we consume per tonne just because of efficiency so as we go forward, as we ramp up our production certainly we will also see a number of units being consumed per tonne will also start to come down and that is what we are expecting and we hope to see, but other than that you know many of the other costs like when we have some other costs that are related to just other manufacturing expenses, which are typically contract work it might be machining, it might be some other grinding work things that are outsourced, so this is almost entirely a variable cost so if you look at our overall cost structure I believe about 75% of our cot are entirely variable, so this one of the benefits I believe that is for us even at fairly low numbers we can still be reasonably profitable even in EBITDA basis even if the other numbers are low, so the primary fixed cost that is there that we has to do with depreciation interest as well as employee expenses in terms of salaries, I think largely these are the three fixed costs and other than this most of the costs are largely variable.

Saket Kapoor: Sir, since the raw material dependence is totally on the scrap, so over a period of time, how are being the availability of the raw material and the price change, I think this is with the increase in the steel prices that must have been deflected on the scrap also so going forward what is our strategy since I was coming to the raw material parts as we have seen that over a period of time with increase in steel prices, the material for scrap also must have gone up in addition to that and we are currently at only 50% of our utilization level so going forward what is the strategic regarding the working of raw material, the availability and the pricing, any steps you are taking for backward integration going forward when our utilization levels would much higher than what currently they are?

P. Deepak: I think majority of what we use is steel scrap, so this is typically steel cuts have already been punched and used once and that it gets bundled and sent to us and we remelt the steel, so backward integration is not really an option that we have from that angle, so the small percentage of that we use, but I think to be honest it does not make sense for us look at backward integrating, for the purpose of backward integration, it does not make sense for us to look at doing that. In terms of availability of scrap there has largely never been any problem of availability I think it is only a question of price, and I think as we grow I think volume will certainly help us have better negotiating power in terms of purchasing, but I do not see an issue of availability and certainly price with the kind of a pass through mechanism that we have for our customers albeit with a minor lag, I do not anticipate that to be at raw materials as a challenge as we grow.

Saket Kapoor: As the second wave not hit the country and the industry in this time, what was the envisaging for this year, you must have worked for the business plan for the current financial year, so if you could give us some understanding on the same?

P. Deepak: I think right now with the current situation that is there and I think overall there is some degree of positivity I think around the second wave that you know post the second wave that they will be some sort of bounce back besides that I think it looks like there is some improvement in terms of states getting the second wave under control and might start using up perhaps by late June or July, so I do not think while we think it will definitely have an impact on Q1 and to some degree on the whole year, I think the overall our estimation which was to do better than a double digit growth in the current year. I think we still believe that that is very realistic and that is something that we believe we can achieve.

Saket Kapoor: On a double digit growth on the base of 5900, yes I got your point. Thank you, Sir.

Moderator: Thank you. The next question is from the line of Hitesh Bhargava from B&K Securities. Please go ahead.

Hitesh Bhargava: Sir, can you please help us with our train concentration and how is the revenue coming in from three clients and also help with what is the share of business with **inaudible 52:33** that is my first question?

P. Deepak: So, if I was to take let us say, you want you would like to say, let us say the top three clients or would you like me to look it from at that point of view?

Hitesh Bhargava: Yes, Sir, the three top client anything which is comfortable?

P. Deepak: So the top five clients that we have account for about 48% of our sales last year.

Hitesh Bhargava: And you can help us with share of business with these clients?

P. Deepak: So, share of business is slightly complicated because they do out of the entire range of castings, they might have certain parts that are might be too small for a product range of something that we may not do as a matter of interest, so it is slightly more complicated number to answer but I think in some cases in terms of our largest customer, or largest customer and in terms of the heavy casting requirements I believe that their spend from us is our share for the heavy casting requirements is probably in excess of 30%.

Hitesh Bhargava: Sir, can also help with the product wise market share?

P. Deepak: I think that is actually very, very hard for us to evaluate I think because there is just so many different types of products and not everything is the same, so I do not believe that that information that we have or information that will be able to share because of how fairly fragmented it is.

Hitesh Bhargava: Sir, can talk about markets like what is the long-term targeting export and also so in the recent time there is also going on with considering China is a leader in casting segment and did you see any growth in our market share after this China movement, which happened over the last one year after and our exports long-term target?

P. Deepak: I think there are two things, one I think exports or something that you can focused as I said in my opening remarks, we were are sub 3 Crores if we go back to FY2014, so from there we have come to about 126 Crores now. We believe that that is still substantial growth in the export segment, we believe that we have got an opportunities with several customers and we have proven ourselves and we have also several new businesses that have already been awarded to us, but the official business in some of these cases starts perhaps as late as late 2022 or early 2023, so we have got businesses that have already been awarded to us that are like that, so given that I think our goal that we would like to work towards certainly is over the next three years we will be to do better than 50% growth in exports and you know that that is something that I believe is very realistic and very possible and it is something that we believe at least with the current orders that we have is something that we will definitely achieve. Now, we are obviously trying to do even better than that and we hope that that we will be able to do that. The next part you asked about was regarding China, so in a lot of the businesses that the parts that we do for export we have actually very rarely competed with the Chinese company, I would say a reason for that and this is purely my opinion is the level of complexity of the products that we serve, I think that our capabilities and complexities of products that we serve is something that makes us probably less likely to compete with the Chinese supplier because you know we are not in this low value, mass market, high volume kind of work that we are doing, we are doing a lot more of that in a medium volume type of work where there is a lot more product complexity that is there, so we found at least it has been very rare, I am only aware of perhaps one or two occasions where we have actually had to compete with the Chinese supplier, but I think they are definitely looking at right now the post-pandemic situation and the growth that is happening in the western markets, as they exit the lock downs and the economy continues to bounce back, we anticipate that definitely there is going to be constraints in terms of capacity that are there domestically whether we talk about North America or Europe and that will also give us some further opportunities coming up in the next year to come or so.

Hitesh Bhargava: Thank you. Sir, can you help us understand what are the things which the company did in last one year to become more fitter or leaner considering like this is a time when many companies across India have worked on reducing their break even level, so can you just talk about how is the break even levels have shifted in last one year or so and considering that we have added new capacity and fix that and I think that will be higher, so how do you deal with this break even levels currently?

P. Deepak: So like I said I think one of things structurally for us to the company and to some degree for the industry as a whole is that because of a large percentage of variable cost that is there in our cost structure, I think with our break even is we are able to manage with the much lower break even then you know perhaps maybe some of the other industries which might be substantially more capital intensive, so I think this is something that we have done, I think over the last year we have really taken, not just the last year, but I would say actually the last 2 years, we have taken a real big focus in terms of cost and managing and micromanaging each cost and I think there is something that if you look at especially in the previous year financial results and even last year's numbers I think it is certainly evident in how that compares with the previous year that you have been able to largely protect EBITDA margins in spite of a fairly substantial drop that happen in the CV industry over the last couple of years which obviously the key part of our sales portfolio, so I think overall this is something we have been working on, we have a special program that we do, we review with the plants every month in terms of cost and that is something that I think has given us quite good results over the last two years and we hope that will continue, but certainly as you ramp up capacity in new plant as the new products that are being developed their reach maturity and complete the ramp up, we expect that will be much better at absorbing the fixed costs that are there.

Hitesh Bhargava: One last question from my end, what is the capex or the plans for FY2022?

P. Deepak: For FY2022, we were looking at the capex that is just a little bit over our depreciation value, so we are looking at a capex that is between 30 Crores to 35 Crores and this will be for maintenance capex as well as addition of some equipment as well as modernization of some lines, so this is something that what we expect approximately where the capex will be.

Hitesh Bhargava: Thank you. That is it from my end.

Moderator: Thank you. Due to time constraint we will be taking one last question, which is from the line of Anand from B&K Research. Please go ahead.

Anand: Thanks for taking my question and congrats on a good set of numbers. I just have a short question, when you are talking about power source from grid to windmill, what kind of savings in power costs we see like, currently it is 13%, can it go down to 11% or will it be that?

P. Deepak: I believe so what we were looking at, one it would not encompass the entire power that we are currently consuming, it would only encompasses a percentage of that, so perhaps what we are looking at would only cover about maybe 30% or so of the power that we are utilizing in our plants in AP, so it would not look at 100% in terms of what we are working on, so that is one, substantially impact the unit cost, there is a reduction, the exact details of the reduction I believe cannot be shared because we have a nondisclosure agreement with our partner with whom we are working on this group captive, but that being said it should be a fairly good reductions that is I would say very comparable to market rates.

Anand: Is there any timeline by when we can realize this, let us say?

P. Deepak: We signed an agreement with them, but it is currently in process and it is under regulatory approvals, so once the regulatory approvals are completed, which we do not have a timeline on primarily because of the current COVID situation and some of the officers of the government not operating because of that some of the staff not being there, so we do not have an exact timeline, but we hope it can happen at the earliest.

Anand: I have just a last question, in the current year FY2021, did we have any content increase due to BS-VI like percentage of growth that we had this year?

P. Deepak: Yes, so I think there was, there are a few products that we are making that are produced on BS-VI vehicles that were not there on BS-IV vehicles and so there is definitely an increase in our content per vehicle that has come as a result of the BS-VI introduction.

Anand: Apart from the new product introduction any value enhancement in the existing product portfolio, I just wanted to understand like can we carried forward more than industry growth, how much of a growth can be more than industry growth generations from the new products or want to eliminate this?

P. Deepak: So, it is a very hard thing to do primarily because the casting requirement for vehicle depending on the size of the vehicle, depending on the type of vehicle right whether it is a multiaxial vehicle or whether it is a dipper, we have very different vehicles in the casting requirement for vehicle is also very different, so as a result of that it is very, very difficult to say to directly compare it to industry growth, but I think that being said I think definitely I would think that we should be able to do better than that, certainly if the tipper segment does better than the overall industry then we will also definitely do better than the overall industry as well, so that is one that is one thing and otherwise also some of BS-VI products will also help us to do better than what the industry might do.

Anand: Thank you. That was very helpful and all the best.

Moderator: Thank you. I would now like a hand conference over to Mr. Annamalai Jayaraj from Batlivala & Karani Securities for closing comments.

Annamalai Jayaraj: We thank all the participant on the call. Have a good day.

Moderate: **T**hank you. On behalf of Batlivala & Karani Securities, that concludes this conference. Thank you for joining us. You may now disconnect your lines.