"Nelcast Limited Q1 FY22 Post Results Conference Call"

August 13, 2021

MANAGEMENT:	**MR. MR P DEEPAK – MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER, NELCAST LIMITED** **MR. S K SIVAKUMAR – CHIEF FINANCIAL OFFICER, NELCAST LIMITED**
MODERATOR:	**MR. HITESH BHARGAVA – BATLIVALA & KARANI SECURITIES INDIA PRIVATE LIMITED**

Moderator: Good Morning, Ladies and gentlemen welcome to the Nelcast Limited Q1 FY22 Post Results Conference Call hosted by Batlivala & 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 '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Hitesh Bhargava from Batlivala & Karani Securities India Private Limited. Thank you and over to you, sir.

Hitesh Bhargava: Thank you. On behalf of B&K Securities, welcome you all to Nelcast Limited Q1 FY22 Post Results Conference Call. 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. P Deepak for opening remarks to be followed by question-and-answer session. Over to you, sir.

P Deepak: Thank you Hitesh. Thank you everybody for joining in for our first quarter post result call. I am sure you are aware we had our board meeting yesterday and declared our first quarter results. Before I dive it into I want to just spend a minute talking about Nelcast because I know some of you might be familiar with us in case some of you are not we are a manufacturer of iron castings producing both ductile and grey iron castings and we have three plant locations in Gudur in Andhra Pradesh, Ponneri in Tamil Naidu as well as newest plant is in Pedapariya in Andhra Pradesh. We produce castings ranging from anywhere from half to 400 kilograms primarily for the commercial vehicle sector, for the tractor sector, for railways, for off highways as well as for exports.

I had invite you to learn more about our result through website nelcast.com and with that I will dive little bit more into the quarter that was. So, the quarter that was in the first quarter of FY22 we had a total revenue of 188.25 crore which came from sales of 15,667 tons. Our production was actually a little bit higher at 17,047 tons and this revenue of Rs. 188.25 crore was actually a growth of 182% over the first quarter of last year which I do not think is a fair comparison because of the lockdown there imposed last year and the fact that we had to have our plant shut, many of our customer have their plant shut because of the initial lockdowns due to COVID.

However, this quarter was also impacted by COVID and I think certainly both from our own operation standpoint as well as the operations of our customers and their dealership were also impacted and that had I think did not allow us to really realize the full potential of what we could have done in the previous quarter. However, I think with this 188.25 crore we were able to convert that into an EBITDA value of about 14.53 crores which puts us in EBITDA per kg of about Rs. 8.52 per kg and that translated at the end of the day in a PAT of about 2 crores. So, that is the overall scenario in terms of the financials I think considering the challenges that were faced during the second wave of COVID I would like to thank all of the employees especially for their hard work and dedication to make this kind of growth possible and these kind of numbers possible given how bad things were especially in the month of May and June.

I want to touch a little bit more upon how the company did sector wise. So, just a brief breakup of the sales 40% of our sales came out of the tractor segment which is almost on par with what was our average for the year last year. A 27% of our sales came from the medium and heavy commercial vehicle segment which is actually down from last year percentage of 31.5% obviously because of the greater disruption that happened in this segment due to the second wave of COVID. Our exports actually grew quite a bit so we were able to grow our exports to become 26.7% almost 27% of our revenues for the quarter other than that we had railways and off-highway contribute approximately a little over 3% each.

So, overall, I think given the extremely challenging circumstances that we had to endure I think it was a good quarter certainly we hope that we will see improvement going forward I think we see a lot of positive signs going beyond Q1 of course there is also a little bit of fear of the third wave of COVID and we are being watchful of that. So, overall, I think I would like to now thank everybody who is here on the call and I would like to invite any questions that might be there.

Moderator: Thank you. Ladies and gentlemen, we will now begin with the question-and-answer session. The first question is from the line of Anand S. Please go ahead.

Anand S: Sir, I just wanted to understand you mentioned the production in tonnage was about 17,000 tons right and last quarter we did about 20,000 tons?

P Deepak: That is correct.

Anand S: I was just looking at the sequential decline in tonnage it was only about 14% and given the commodity inflation all realizations has generally been increasing across companies, but the revenue degrowth here is sequentially it is about 17% like can you just throw some light on the realization what is the gap we need to understand?

P Deepak: So, I think the realization is a variety of things since one is a question of tonnage the second is also so I want to also clarify it the production quantity was 17,000 tons whereas the sales quantity was 15,667 tons so it is about little under 16,000 tons. So, if you look at it from that particular standpoint on a quarter-on-quarter basis it would have been degrowth of about 21% in terms of tonnage whereas in terms of revenue it is only about 16 odd percent. I hope that answers your questions that the difference between the production quantity and the sales quantity.

Anand S: So, realization is about 5% improvement?

P Deepak: That is correct.

Anand S: Sir and can you just broadly touch upon what is the key market that we are serving to in exports and how they have performed and I think what is the growth outlook there in these markets?

P Deepak: If you look at our exports I would say biggest chunk of our exports I would say roughly about 50% or so comes out of the North American market and lot of it goes into the commercial vehicle space in the North American market so that particular segment is doing extremely well. As you are aware the order intakes in the class 8 trucks specifically for North America in the last 12 months is about 394,000 trucks is the order intake which is the phenomenal number considering their long term average is probably something around 270,000 and there is a variety of reasons for this growth I would not dwell into that, but what we are seeing is definitely we are seeing a lot of growth from North America in the truck segment and that is helping us drive growth in our sales. Another chunk of growth that we have also comes from the South East Asian markets where we are actually present in the passenger car more of the SUV and pickup truck segments where the numbers seem to be relatively stable and we have some amount that also coming out of the off-highway segment in Europe which is also starting to show growth. So, we are overall extremely positive on that we have also several news products that are under development under testing with various different timelines which will all go live within the next 18 months. So, given that I think we are quite positive and optimistic in terms of the market there and the segments that we cater to I think seem to be showing a good amount of result.

Anand S: Just following up on that you mentioned you have a portion of exposure to LCV and PV I mean what is the semiconductor issue there and how is it planning out can you just throw some light like how is July, August kind of order book?

P Deepak: Can you repeat the question.

Anand S: In exports you are mentioning about exposure to LCV bigger trucks and all I just wanting to know how is the semi-conductor issue planning out how is your order book can we see some sequential drop in production or is it flat or some kind of an indication?

P Deepak: I do not think we have it is a complicated question to answer I know semiconductor issues and issue that has been deeply analyzed by a lot of people. At the moment I do not think we have specific visibility into that, we only have visibility in terms of the forecast that are there and they seem to be relatively stable at this point of time.

Anand S: Can you touch upon what is the outlook in the domestic segment as well I mean tractors have been hitting in the peak volumes last year and this year also is expected to be like how is the outlook for FY23 can we see sustained growth momentum in tractors?

P Deepak: I mean looking at FY22 again I think the monsoon seems to be playing a little bit of hide and seek. I think this is the feedback that I have so there seems to be couple of few ranges of scenario how this could play out, but by and large I think there seems to be conversions towards the fairly flat number this year. I think three months ago we might have been looking at a number you know that was maybe a high single digit growth that is what we were anticipating. I believe a lot of those numbers have been revised downwards and some of those numbers might only be something as small as a 1% growth potentially that means that it could swing either way marginally, but we see tractor industry for the full year roughly has been flat plus or minus 3% or 4% is all that we have we are hearing at this point obviously if things change with the monsoon if things change with policy or just overall sentiments that could change, but at this point of time on the tractor industry we are seeing a relatively flat industry and most forecasts of experts who are analyzing this in a much greater depth seem to be to the tune of around maybe 1% type of a growth rate kind of number 1% to 2% kind of growth rate number so that actually seen a slight downward revision. I would say in the last few months partly due to the second wave of COVID and partly due to the delay in the monsoon as well and I think that is something that we are watching carefully. On the commercial vehicle segment, I think it is little bit more of a complicated answer because I think they are also concerned about the third wave and what potential impact that might have. So, I think the forecast and what is being communicated to us seems to be extremely positive for the second half maybe not so much with the second quarter, but for H2 seems to be an extremely positive outlook that we have been given, but I think there is a little bit of wait and watch happening in terms of especially the potential third wave of COVID that people are concerned about and just to add to that I think commercial vehicle last year sales were just so low that even if we do see growth of substantial growth this might not actually mean much in terms of number because the low base.

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

Saket Kapoor: Sir firstly if you could give us some understanding as you are telling that H2 will shape better than what H1 would probably be what kind of tonnages are we expecting for this year depending upon the order in hand the executable period in your program what is the expected tonnage?

P Deepak: So, Saket I think that is again a complicated question to it is for an OEM to come to a supplier and give them huge number and say that this is what we expect out of Q4, but in terms of the way that the committed schedule works then we typically work on it one month at a time. So, while we do have forecast that might show good numbers for the committed. In terms of what is schedule on us and what is an open order is only typically about a month. So, that is one thing that makes us quite jittery to be able to put out a number in terms of estimating where we think we might be in for the full year. I will just try to give you some indication of what we are seeing in the market just for maybe you can draw a conclusion also on it, but what we are seeing is we are seeing certainly improve compared to Q1 we are definitely seeing growth in Q2 undoubtedly and so we believe the numbers in Q2 will probably come be similar to perhaps the number where we were seeing in Q3 and Q4 of last year and somewhere in between therefore while it is hard for us to and we are just coming out of a quite a week set of numbers in Q2 from the commercial vehicle segment, but still I think in spite of that we are anticipating to see reasonable growth in Q2, but for us to be able to commit a very specific number or even put a very narrow range that would be of any value for the purpose of the discussion it is very difficult for us to do that again because of the vagaries of the market.

Saket Kapoor: Sir I would not be putting any numbers on it just a very brief understanding come to my next point we did 55,706 metric ton for FY21 and 20,000 something you told for I think for this quarter or I missed the number?

P Deepak: For this quarter the production quantity was 17,000 tons.

Saket Kapoor: And sir if we look at the history of the company has been given in the performance statistic in the annual report we did production of 92,913 metric ton in the year 2011-12 with an EBITDA of 82.45 crores so depending upon the visibility which you are articulating to going forward and the product expansion and the increase in wallet share especially in the export segment how conservative it would be for us to reach somewhere near to this figure in what span of time I am talking only in terms of tonnage so that would give us some better understanding because the conversion the steel prices or scrap prices at that time and today maybe very different in different environment all together?

P Deepak: I think Saket to be fair I think 2011-12 the market scenario and the market situation was very different and the company also I would say today is substantially different and with the type of facilities, capabilities that we had in 2011-12 I think achieving these types of exports also would not have been possible and looking at this type of growth. Looking at exports is also would not have been possible because the product range has changed quite substantially as there has been an addition of more complicated products and I think that has been actually a good move because some of the products that were probably a majority of the volume of what we were doing in those days has become more commoditized and as a result of which the margins in those products do not exist anymore. So, therefore I think the last 10 years or so has been a movement towards more complexity and more technology in terms of the product itself as well as the process. So, I think trying to compare to the 2011-12 in terms of tonnage might not be ideal comparison that I would like to draw, but I think that being said I think it comes down to the kind of products that we are doing I think our focus is more in terms of being able to do more complex products which are better value added and I think it helps us that way because as people are trying to optimize their products reduce weights on their vehicle and as they are trying to do have more load carrying capacity etcetera I think it is working out that strategy that we took in 2012 to get into this higher technology play in terms of the type of products that we do and the complexity of the products that we do our upstream to be playing out. So, I do not want to compare it to 2011-12, but I think certainly from a tonnage standpoint this certainly been an addition of capacity with the new product development happening I would expect that maybe in the next one to two years if the market is supportive we should be exceedingly well that is the closest that I can come to giving you any kind of guidance.

Saket Kapoor: And lastly sir on the margins part if you could dwell something more because when it boils down to the margin part of the story if we take this quarter numbers and I think the 3,000 metric ton difference between what we exited the March quarter and the subsequent June quarter, but the profitability has definitely taken big swing because of fixed and variable cost, so going forward sir on a sustainable basis what kind of PAT margin you can give us a ballpark vicinity that this is what we are eying our endeavor is and is achievable going forward?

P Deepak: I think if you look at the margins I think there were few things that impacted margins specifically in Q1. One I think is a raw material price increase so we have been largely successful in terms of passing on the raw material price increase to our customers that is the thing that has been happening fairly regularly over the last one year especially considering how steep the increases have been in the steel scrap. Unfortunately, what does happen is there has been a lag which is normal so the lag means that you suffer a little bit when things are on the way you benefit a little when things are on the way down. So, typically because there is a one quarter lag and we did see a fairly steep increase in steel scrap prices happening in the month of April that was an impact that we had to observe in the last quarter. So, that has some impact on our EBITDA. The other two things that I have an impact on the EBITDA one if we look at the overall production as you mentioned our production last quarter was down to about 17,000 tons compared to 19,660 tons plus in the previous year. So, while we were actually anticipating and hoping that there would be growth over the previous quarter unfortunately this downturn meant that there is some fixed cost that have to be observed as well as the sudden impact of COVID and particularly in the month of May and June also had a role to play in this. I think the third factor that have an active impact on our EBITDA also has to do with the new plant which we started commercial production in the September of 2020 that is still in the process of developing new products and getting to a reasonable capacity expansion where we can actually achieve breakeven. In fact, the initial product that we have developed on that particular plant for primarily for the heavy commercial vehicle segment and because that segment has seen the biggest hit in Q1 and some degree that even continuous in Q2 we are seeing that, that drag us down a little bit. So, what we anticipate going forward is historically if you look at our EBITDA numbers they have typically been in the range of between I would say 9 to 11 so that has been I would say if you go back historically and look at us over the last several years that is typically where you would find the range at least from an EBITDA margin standpoint and that EBITDA margin we believe in the short term will sustain in that range given these three factors being normal and our objective and endeavor who is growing our exports and improving our model mix and improving our product mix is try to push it higher and higher so try to push that 9 to 11 perhaps to close to 12 and 13 and perhaps even in a few years up to 15 that is the long term goal which we believe is achievable from a margin perspective.

Saket Kapoor: A very small point and I will come in the queue firstly sir if the provision we made the Chairman statement be uploaded on the website if that would be feasible I requested for the same during the AGM the chairman statement be uploaded and secondly post this number when you are declaring your numbers is some qualitative and quantitative inputs are also provided along with the numbers that would suffice many of the questions which we invest and analyst would be asking you on a repetitive basis, the comparative tonnage part, the EBITDA per kg, all those FAQs that are very normal if that could be given in a form of press release or a business update after the results were being published that would be very helpful that is a very small suggestion if that being looked into and for the chairman speech to be uploaded kindly look into I will come in the queue?

P Deepak: As you have observed that for quite some time we have been consistently working on improving our communication with investors I think this investor call itself is something that we started since last quarter and something that we intend to maintain going forward certainly we will evaluate and look at how best we can continue to engage our investors and keep them well informed.

Saket Kapoor: What was per kg profit for us?

P Deepak: So, from an EBITDA perspective our EBITDA per kg was 8.52.

Saket Kapoor: And we see an improvement going forward on this with the improved tonnage?

P Deepak: I mean obviously with improved tonnage you will cover your fixed cost better that is one thing to be anticipated, but the other question that is there that has a I would say a bigger impact also at this point of time especially in the last one year is how much the raw material prices go up or down which is beyond our control. So, that we will have to watch and understand.

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

Pravin Kumar: My question I have just one question can you tell us your perspective about the impact of scrappage policy on the industry per se and the segment the company operates?

P Deepak: So, I think scrappage policy as it stands today and what we understand of it does not look like it will have a significant impact on the industry because I think the scrappage policy seems to have two particular prongs to it. One is to incentivize new vehicle purchases after scrapping an old vehicle and two to disincentivize running an old vehicle. So, I think these seem to be the two-pronged approach that the government has taken. It appears the disincentives are more in the form of getting a fitness certificate what is going to be the cost of that fitness certificate. So, basically make it more expensive for somebody to operate in old vehicle. On the other side in terms of the incentives to purchase a new vehicle it seems to me that at least that I understand and that are being spoken in the industry that these do not seem to be adequate incentives to really have it make somebody voluntarily want to go turn in an old vehicle perhaps the resale value of the vehicle that you have is higher than the incentives we are going to get it does not make sense that you would turn it in and considering the fact it is voluntary and not mandatory. I think at this point we are expecting to see only a very mild fairly notional impact of it we do not really anticipate any major impact as what was perhaps anticipated, expected a few years ago when people had been talking about it for quite some time. In terms of the numbers are significant though as more vehicles are getting scrapped certainly that scrap steel that will come into the market has the potential of lowering the cost of our input material which again like I said is largely a pass through to our customers with some lag typically for one quarter lag there is a pass through very rarely it is a two-quarter lag, but whether it is an increase or a decrease by and large majority of the business is a pass through on raw materials.

Pravin Kumar: And currently company is sourcing its raw material mainly scrap steel, is this imported material or in domestic material?

P Deepak: I would say perhaps greater than 99.5% of the material is domestic. So, the scrap steel is typically generated by various industries that are using it for functioning and other purposes so they use the steel and the remaining waste that they have because of the lower yield that gets bundled up and we purchase that typically through wide range of dealers.

Pravin Kumar: So, the company is sourcing 100% scrap material or you have the fresh material as well?

P Deepak: So, majority of what we source is scrap material. There is some small quantity of pig iron as well that we would source at times.

Moderator: Thank you. The next question is from the line of Anand S from B&K Research. Please go ahead.

Anand S: I just wanted to when you meant a one quarter lag just want to clarify my understanding, so when you tell you are going to revise by this from July if you take the average of the previous three months and then pass it on?

P Deepak: That is typically the formula that we have worked out with most of our customers.

Anand S: What is the CAPEX guidance for this year and next year?

P Deepak: I believe CAPEX I think we are not anticipating any very large CAPEX the general estimation of CAPEX is in the ballpark of about Rs. 30 crore. Majority of that we will be doing for general CAPEX as well as modernization of some of our older lines.

Anand S: Sir, what is the status of the Greenfield plan what is the utilization there, what is the capacity added there can you just brief on that?

P Deepak: So, the new Greenfield plant which we commissioned in September of 2020 that plant is still in the early stages of utilization. So, if we look at if you were to look at the whole quarter of last year I think we were only at perhaps about 10% or so in terms of utilization which is going up as we develop more new products going forward.

Anand S: So, we have orders lined up for that capacity right?

P Deepak: We do have certain orders lined up for the plant. Some of the products are we have already produced samples and those samples are currently under testing and validation. Some of the other products have just completed the testing and validation and we will be getting into production over the next few months.

Anand S: Just wanted to understand like what is the scope for enhancing value like currently you are making about 9% to 11% margins what kind of value addition should we do on our cash led components so that we can improve the realization per kg or can we add any value of the components we are currently selling?

P Deepak: So, our focus and we believe our core strength is in terms of castings. So, we are actually our focus and our energy we believe are better spend in our core area which is casting. While we do have many components that we deliver to customers especially all of our exports we deliver to our customers as a machined components. We typically prefer to outsource this machining to well reputed high quality machining venders. So, that is something that I think is a point of discussion has been a point of discussion, but I think we are extremely clear in our minds what our core competence is and what our strength is and where our energy would be best utilized, but at the same time I think when the opportunity does exist our product that is higher value add and supply that to our customers we are able to do that.

Anand S: Sir two more question if you may take sir when you were mentioning about different segments I just want to understand how is the railways picking up I mean generally the sentiment is muted, but once it picks up what kind of a revenue share can we see from railways and how recurring is it, is it frequent what is the frequent you have replacement of component that we get or is it only for the new coaches that are build that we supply I just want to understand in brief?

P Deepak: So, I will just explain a little bit more about the railway business. There are two sub segments of the railway business that we cater to. One is only for the Metro rails typically when they laid on the tracks the tracks sits on a very specific fits on base plate which is where it is fastened on to and we are the suppliers of those base plates. So, I would say that irrespective of which metro you go to across the country you got a very high probability perhaps 90% probability that the metro is riding on a track that is sitting on our base plates. So, this is a very project driven type of a business. So, as more and more metros come up certainly this business will continue to grow, but this business is basically whenever there is a new line being put in because they are fit it forget it type of products and we have been suppliers since Phase-1 of the Delhi Metro and knock-on wood we have got an exemplary quality and safety record. So, this is something that is one part of it, it used to be sir it was a very patchy business you would get this order for six months and then for the two years you would not get any orders, you would get an order for rather six months and then another two years you would not get any order that was between 2010 and 2014 and now what we are seeing is every city really wants to come up with a metro and everyone wants to expand their metros. I think decongesting cities by introducing metros and also the way the metros are funded seems to make a lot of sense that any city that qualifies and where it make sense to have some sort of metro rail in there will actually go ahead and actually implement it the way the funding model is setup between with the government. We have seen in the last five years we have actually seen this business being relatively steady because every year there seems to be a new project and another new project and another new project and where typically two years or three years before the project actually live we get that the tenders comes out and if our customer who supplies the entire track fastening system wins the tender which they have the largest I believe right now we get the business for that and that is how that has been that part of the business has been going for the last few years it has been a very consistent thing I would say for the last five or six years compared to the way that it works for 15 years prior and we anticipate with the pipeline of metros that seem to be visible we anticipate that this will continue. The second part of the business where we cater to railways is comes on the breaking system for the LHB coaches which are finally the Rajdhani, the Shatabdi, the higher speed coaches where you got speed in excess of 160 kilometers an hour that the coach can do. So, here the brakes are actually large disc brakes rather than the traditional type of a braking system. So, here we have seen what we have seen in the last five years is we have seen the Indian railways go completely away from the old traditional coaches and move almost entirely exclusively into the LHB coaches. Here it is mix of both replacement demand as well the new coach building and this potentially I mean they have potential for growth, but that depends obviously on the number of coaches that are being built by the Indian railways.

Anand S: Sir just one more thing what is the new order book size currently like what kind of an order book do we have and any customer additions do you think?

P Deepak: Yes certainly we have been adding quite a few customers I think we have well in excess of 40 different customers at the moment and so we have been adding customers and we have been growing that. The order book is again like I said it is slightly difficult question to answer because the visibility of orders that we have while we might have long term forecast, the visibility of firm orders that we have is much more short term, but in terms of lot of new product development I think one of the things that we are excited about is with this new plant in Pedapariya that we have just commissioned last year in September. It gives us not just the capacity to do more, but also the capability to do products that we earlier could not and because the line is much larger and much more productive than anything else that is there available across the country. It can produce castings in excess of 400 kilos and also castings that are as long as two meters long where typically I do not believe there is really much as in terms of competition domestically. So, I think this is something that has given us a lot of new product development that is happening some of which are actually castings that are being imported into India from China primarily for the purpose of the capacity or capability not being in India and we are currently in the process of developing those castings and we have in fact submitted the castings and are in various stages of approval for variety of the funds.

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

Saket Kapoor: Sir when we take this raw material basket first key raw material input is our scrap and therein we are having this pass on benefit to the customer other than that on the other matrix like power and fuel and other expenses part what steps have been taken or are in the process that will reduce the cost per ton and you also spoke about this wind energy for our inroads in that, so how would that lower the cost of power and fuel if you could throw some more light on it sir?

P Deepak: Saket as you pointed out the raw material is complete a pass through. In terms of other commodities as well steel scrap there might be some Ferro alloys as well as other materials alloying elements such as copper largely these also end up being a pass through. In case of other elements other than the including power and fuel there is generally there might be a negotiation that might happen with the customer if such increases are substantial. In the past at times, we have been successful at getting these increases completely and at times we have been able to successful and getting these increases only partially. Power cost especially because it is set by the state there is sometimes the tendency not to be able to pass on the entire increase if there is an increase and we have not I would say fortunately in the last five years seen substantial increases happening in terms of power cost, but we are certainly working in our own efficiencies in our managed productivity side as well as in terms of the efficiency side to try to offset these cost to the best that we can. In terms of the renewable energy that you mentioned it is still under process of regulatory approval so we are hoping that happens at the earliest, but certainly I mean I think because of the COVID second wave there was a lot of delays with a lot of the regulatory processes, but that is certainly in the regulatory process for a group captive unit of wind dimension.

Saket Kapoor: Sir what is the currently cost per unit for us that we are drawing from the grid?

P Deepak: It is actually a slightly complicated answer again because there are two elements to it. One element is there is a fixed cost based on the maximum demand what we either declare or whatever we draw so that is the first part of it and that is an actually an area where the price has also gone up in the last few years were maximum demand charges and the second part is per unit charge. So, typically I would say so if we were to blend the two and say roughly where it is working out it might be somewhere between Rs. 6.5 to Rs. 7 per unit roughly.

Saket Kapoor: Sir with this wind energy part what portion we will get replace from them what is the capacity we are planning there and what would be the cost I just wanted to understand the delta advantage which we will get going forward just on account of our approval in this JV and the wind energy part?

P Deepak: So, one thing is so I cannot specifically comment on what is going to be the cost per unit because of non-disclosure agreement that we have with them. So, I cannot be very specific, but certainly it is a lower cost than EV, but unfortunately because of this agreement that we have with them I cannot disclose the number, but that being said what it will impact us is roughly in terms of our consumption of units in Andhra Pradesh we believe this should cover approximately between 30% to 40% of that consumption of our plants.

Saket Kapoor: Can you quantify that number of units at least sir I just wanted to understand the savings that is like while I am dwelling on the same how much would be this Andhra unit requirement?

P Deepak: Unless regulatory authorities gives approval no we will not be able to comment on it once regulatory approves because it also depends on the wind generation many factors.

Saket Kapoor: No, I was just looking at our consumption in that Andhra unit what you are articulating now, what is our annual requirement unit wise?

P Deepak: I think approximate figure that we can consider is probably something around maybe 70 lakh units or so.

Saket Kapoor: Sir you have been mentioning that Pedapariya unit is one of its kind and it is only that the unit got commercialize at that time the MHCV market has deteriorated, sir going forward just wanted to understand the potential which we can harness from this specific unit and if you could give sir I missed that utilization part level for this quarter, for the June quarter how has this unit performance and if you could give us the understanding because now our the total asset is around 400 crore, so if you could take that asset to turnover ratio if you get just an ballpark understanding what could be in the near future if the business environment behaves the way we are thinking what could this Pedapariya unit itself may contributes going forward if you could give some more on it?

P Deepak: I mean like I said it is a new unit as you also recognized. September of 2020 is when we have actually commercialized this and our primary focus has been in terms of new product development the three or four products that were developed were more on the heavy commercial vehicle side currently we have a lot off highway products as well as some export products are that are under the development process and in various stages of testing approval and all of that. So, given all of that the capacity of that particular line that is there is about 42,000 tons per annual that is the maximum capacity what we will be able to achieve from that plant assuming perfect efficiency and everything, but in order for us to be to come to a more realistic number perhaps a 70% to 80% kind of a utilization from if I was to look at last quarter that utilization in that line was about 10% because lot of our products are still being developed and getting approved. So, I would say it is probably for us to really reach a fair number we are probably a couple of quarters away, but for us to actually get to what is a more sustainable number right 70%, 85% of the capacity utilization I believe we are about two years away from them.

Saket Kapoor: But this year can we exit around 25%, 30% or that is also not in the vicinity 10% you mentioned about June quarter?

P Deepak: I believe that 25 to 30 is a fair estimation for where we believe this year should go, but obviously it depends on the markets and especially for that particular plant in line it is the heavy commercial vehicle primarily the tipper segment where we have a lot of products in.

Saket Kapoor: You mentioned in the AGM part also that the North America and truck market and SUV pickup trucks these are the two potential from where you are expecting and where if the products are being accepted will garner major of the work so that is where the traction is going to be?

P Deepak: Not necessarily I think this particular line also what we believe will happen is we are seeing a lot of off highway demand as well coming into this line because of the special capabilities that we have that is coming out of this. Some of the product that are under development for the export as well as for the domestic many of them some of them are even happening at our existing plant in Gudur as well as Ponneri and we also have the flexibility of being able to shift products from our existing plants to the new plant as well. So, in case capacity does become a constraint at the existing plant we can debottleneck that by moving the product to the new plants it is a perhaps a two-to-three-month process maybe longer depending on customer, but typically within two to three months we are able to develop a new product, running existing product and shifted to that line as well.

Saket Kapoor: Last two-point tonnage breakage can you give unit wise to us or Gudur and Pedapariya I can get your point it is 10% only, but the other two units what are as per the name plate capacity what were the utilization levels?

P Deepak: I do not have that information available right now Saket, but we will look into that and come back.

Saket Kapoor: And lastly I will just conclude with few observations firstly sir about this investor presentation part of the story so if you want any engagement from our side we have invested and analyst would definitely if we can add value to what exactly we are looking from the company in terms of definition of information we would be more happy to contribute from our side and also sir any way or medium to connect with you other than forum because here is a paucity of time and if we can discuss in length about how shareholder value creation idea can be taken up since there is not lot of awareness about our company and promoter holding is closer to 75% so the free float part of the story is also here and there is lot of scope for wealth creation for investor if they understand the story and they are being guided in the right way so only this part of forum I do not think that will suffice there has to be lot more engagement in terms that can be discussed and sir in our website why we write that the largest jobbing foundry in India my two questions were there, what are the other ways through which we can connect with you Mr. Deepak and exchange my views and other ideas which according to me the company may pursue in creating the journey for a wealth creation for your investor including you the promoter?

P Deepak: I will try to answer one I mean if you would like to connect with me certainly I think if you can send an email to Sivakumar he will be happy to work with our schedules and setup a time. So, if there is a discussion that you would like to have with me I will certainly be more than happy and available to our esteemed shareholders for that. The second thing is asking about the jobbing foundry. So, what is meant by jobbing is that we are not captive so it is not that we are doing any captive consumption or any work internally, all of our business are all external so there is no I think that is a specific terminology that is used there

Saket Kapoor: Can you give some color on the net debt level as on June and what are the current maturities for this year?

P Deepak: So, I think the net debt levels for June would be similar to where we ended the year I think there is only a couple of things right one is in terms of working capital obviously there will be changes in working capital because if you see that there was an increase in our inventories because of the different between the production and the sales quantity so there is small increase that is there from a working capital standpoint other than that current year repayment is 33 crores that is the full repayment for the current year.

Saket Kapoor: That will be easily met from our cash flow only we do not have to bridge any loan for it?

P Deepak: No, we do not.

Saket Kapoor: And lastly sir on the subsidiary our energy subsidiary any updates on the land bank and other thing as was discussed in the last call and you have anything as to say any update on that?

P Deepak: Nothing further to add that is the same status is what we have discussed in the last call we are evaluating all options that are available for that including whether it makes sense to utilize it as a solar or whether we should dispose of the land if we find a right buyer as well. So, we are evaluating all options, but there are no further developments on that.

Saket Kapoor: Sir shipping rates also moved haywire our 26% was the revenue was achievable from export or how have we aligned our shipment and thus the increase in the rates will be affecting our margins?

P Deepak: So, I think the shipping rates are certainly as you mentioned have gone haywire it is a phenomenon felt across the industry irrespective of which industry whether it was import or export related industries. I think we are seeing lot of congestion at the ports, lot of delays, lot of blank sailing and as a consequence of that the cost of freight has also gone up. I think we have been able to discuss with our customers and with the kind of relationships that we have with our customers we have been able to pass on some of that they have agreed to observe some of those increases or in freight at least temporarily. We hope that this phenomenon is only temporary post COVID as we are seeing variety of ports even right now in China having impacted with COVID once we see everything start to settle down we hope that things go back to the way that they were, but you are right it is a challenge and we do have some experts who are really helping us navigate this.

Saket Kapoor: Sir currently it is a pass on you are telling there have been no impact on the margin?

P Deepak: It partially been passed on I would not say the increase have been fully passed on, but at certainly partial.

Saket Kapoor: And going for this year sir this 26% contribution from export mix is going to improve at the end of the year to 35% in that vicinity and this will be constant since H2 will be better as being articulated by you?

P Deepak: So, I think what I can tell you what I personally expect I think that the bounce back in domestic should be better in H2 and if the bounce back is steep enough maintaining this 26% will be hard. So, I do not really know as a percentage it is a very difficult number to talk about because it not only depends on what we do on exports, but also what we do domestically.

Saket Kapoor: So, there is an improvement in the domestic market that is what we are anticipating going forward and lastly on the line item for employee benefit expenses that has also escalated whether it is year-on-year or quarter-on-quarter there is a significant jump the base of 10 crore has gone up to 14 crore, but I am comparing it on the March quarter from 12.30 crore to 13.80 that is also a significant change, so what would be the annualize number and any one-off item here sir?

P Deepak: No, I do not believe there is any one-off item there were rate increase that were the cycle was done effective 1st of April so that is the increase the impact that you are seeing there in terms of the absolute number there. In addition to that also for the ramp up of the Pedapariya project there were a few more people that were hired in order for us to manage that ramp up better so that is really what you are seeing in that line item, but there is no one off.

Saket Kapoor: So, this will be an annualized number now we should work with a 14-crore base for employee cost going forward?

P Deepak: I think that is the fair estimation yes.

Moderator: Thank you. The next question is from the line of Anand S. Please go ahead. There seems to be no reply from the line of Anand I now hand the conference over to the management for their closing comments.

P Deepak: Thank you everybody for joining. I think you know difficult quarter from a health perspective, difficult time that I think has been tided through. I am happy that we are able to deliver some good numbers especially considering the challenges that were faced in the quarter. I think we as a management remain extremely optimistic about what the medium- and long-term future holds and we look forward to continued engagement as we go through this journey.

Moderator: Thank you. Ladies and gentlemen on behalf of Batlivala & Karani Securities India Private Limited that concludes this conference call. We thank you for joining us and you may now disconnect your lines. Thank you.