"Nelcast Limited
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Moderator: Ladies and gentlemen, Good day and welcome to the Nelcast Limited 3Q FY2022 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. Anand Srinivasan from Batlivala & Karani Securities India Private Limited. Thank you and over to you, Sir!

Anand Srinivasan: Thank you Rutuja. Good morning everyone. Thank you all for joining us today and welcome to Nelcast Q3 Earnings concall. From the management side we have Mr. Deepak - Managing Director and Sivakumar – CFO.

Certain forward-looking statements that we make today are based on management's faith and expectations and beliefs concerning the future development. As you know, the actual results may differ materially from these expectations as a result of many factors.

I now hand over the call to Mr. Deepak who will provide you with further insights on the results. Over to you, Sir!

P Deepak: Thank you Anand. Good morning everybody and thank you for your time and an interest in learning more about Nelcast. I would like to start with a brief introduction of what we have seen in the quarter, what we are seeing in the current quarter and then go a little bit more into the results that we have announced as well as other information regarding the performance of the company.

The third quarter turned out to be actually a much more challenging quarter than what we saw at the beginning of the quarter. The primary reason for this was we saw a fairly large drop in the sales to the tractor industry. This came because OEMs were looking at reducing their production to dilute various amounts of inventory because the sales in the festival season seemed to be lower than what they had forecasted, and therefore this while we are typically seasonal and have a seasonal blip in the tractor industry in H2, the seasonality this year was hit a little bit more than that.

The commercial vehicle segment started to show signs of a gradual recovery in Q3, however, it was slower than what was anticipated and our export segment also witnessed a slight slowdown compared to what we had seen in previous quarters, mainly due to chip shortages that impacted our end customer's ability to assemble vehicles.

As we look forward, the commercial vehicle segment in Q4 seems to be quite strong, we are seeing a lot of optimism in the segment and optimism also converting into a number of orders that we are receiving from customers and while the tractor segment we believe will remain sluggish in the current quarter, we do expect the tractor segment as a typical seasonal recovery happening in Q1 of FY2023.

We also believe that the semiconductor situation is gradually improving, it has improved quite a bit in the last two or three months and this will help boost our exports as well, as our customers catch up on order backlogs. So, given that, we believe that the recovery happening in the domestic as well as the global market as well as our new upcoming product launches give us confidence to say that we will experience strong growth in the next few years to come.

Coming to the numbers, in terms of our sales, our total revenue for the quarter which is the third quarter of FY2022 was Rs. 237 Crores as against a year ago which was a Rs. 188.99 Crores. So, this was a growth compared to last year of about 25.46%. If you look at it in terms of the overall year that we have had so far for the nine months, our turnover stood at in terms of total revenue stood at Rs. 667 Crores as compared to Rs. 396 Crores, so a growth of about 68% approximately.

In terms of our exports, the sales last year for the third quarter were at Rs. 38 Crores whereas this year third quarter we managed Rs. 54 Crores. For the nine months so far, we have done Rs. 166.93 Crores as against Rs. 82.4 Crores last year and in fact on three quarters and in fact the entire full year performance of Rs. 126 Crores has already been exceeded this year.

In terms of the revenue mix for the nine months so far this year, we had 31.5% approximately coming from commercial vehicles, about 36% coming from the tractor segment, exports contributed about 25.5%, railways was about 4%, off highway was about 3% and that compares fairly similar to where we were in the last year other than the fact that there has been a drop of about 4.5% in the tractor segment which has moved towards the export numbers.

In terms of the overall, the financial performance coming down to the bottomline from an EBITDA perspective we were able to achieve an EBITDA of Rs. 15.44 Crores as against the same period last year where we achieved an EBITDA of Rs. 19.98 Crores, for the nine months our EBITDA stands at Rs. 46.5 Crores as against Rs. 29.7 Crores last year.

The impact of the EBITDA was actually there were two areas where the EBITDA got impacted in terms of the margins. The first and probably the most significant factor was the steep increase in raw material prices that happened at the beginning of the quarter, specifically in the material category of Ferro Alloys these are components, these are materials that are a largely produced in China. So even if we are sourcing these locally, the global trade a lot of it the price is determined based on the output of China and in early September when there was a lot of concern about power shortage in China and this took a huge increase in fact the cost of some of these materials doubled in a period of two weeks and that pass-through mechanism with the lag that we typically have with the customers meant that we were not able to recover this during Q3. So that was the primary reason why we saw a drop in our EBITDA performance for the quarter.

In addition to that, the new plant in Pedapariya is also still in its ramp-up process, there are several products that are still under testing and validation and development phases. So, as we come on stream as well, we are fairly confident of improved financial performance going forward.

Our EBITDA margin on a per kg basis as opposed to last year in the third quarter was Rs.11.46 a kg. So, because of these reasons it came down to Rs.8.08 per kg. So that is it from me and I will leave the line now open for any questions that anybody might have. Thank you.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Jeet Gala from Centra Advisors LLP. Please go ahead.

Jeet Gala: Good morning Sir. My first question is I wanted to know what is the ready capacity, as on today is it 160k or is it 118k.

P Deepak: The capacity that we have, the installed capacity is 160,000 tons, but of course that is the what is referred to us is the installed capacity in terms of real production of what output we could expect from that typically would be between 75% and 80% of that.

Jeet Gala: But otherwise the capex for 160 is already done right so if at all whenever you get the volumes back the only thing that you are going to incur is probably your operational activities going up right.

P Deepak: That is correct, the Capex for this 160,000 is already complete. That is correct.

Jeet Gala: From fixed expense angle, I mean are you incurring expenses for the entire 160k or it is just the 80% capacity that you are operating right now, only the fixed portion, basically I am trying to assess the operating leverage part on the company.

P Deepak: If you take a look at it I think in terms of where our capacity utilization was for the previous quarter our capacity utilization for the previous quarter was for the year so far right let us just look at that is about 60% or so is our capacity utilization for the year so far and out of that number, majority of it is actually coming out of our existing plants of Gudur as well as our plant in Ponneri. So in terms of fixed cost addition, for us to be able to get up to the peak capacity which may be about a 120,000 or a little over that. For us to get to that number there is very minimal fixed cost addition that will be there, certain things like for example if we need to increase the amount of power that we require maybe some maximum demand charges maybe a few employees not a substantial number but that would be more on the operating level rather than the management level so there are some costs that would need to be incurred on a fixed basis that would help us get to that number but it is not a substantial number.

Jeet Gala: Sir, secondly I wanted to understand the trajectory of EBITDA per kg number that you have already said so in the previous quarter it was Rs.11 a kg now does dip to Rs.8 a kg. So, sir frankly I have been tracking Nelcast only for last one to one and a half month only so I have not been able to go through your con calls for the previous quarter. So, I just wanted to understand if Nelcast is at all linked to any commodity price cycle or this is just a converter and every price hike or every raw material hike is typically a pass-through to your customer contract with the lag that you said. So, everything is a pass-through or a few portion we have not been able to pass through.

P Deepak: So I would say majority is a pass-through I mean you could call it virtually everything I would not want to make a blanket statement saying everything is a pass through but virtually many most of the critical cost factors that come into the material cost is a pass through and typically the way that this works with most of our customers is based on the average cost of the raw materials, based on a formula that we have for the current quarter so they take the average of the current quarter and then that is applied for the next quarter. So we will see in an increasing scenario of raw material prices because of this lag effect which has unfortunately been the case for the last year and a half or so. We will see that have a negative impact on the EBITDA margins whereas on the flip side of it on a decreasing trend we will potentially enjoy the benefits of this. I think what we would prefer is a very stable raw material price number so I think that would be what we would hope to see.

Jeet Gala: So, we will do one thing I will write to the company and probably connect with you offline for more detailed understanding of your business model.

P Deepak: Sure absolutely.

Jeet Gala: Yes, thank you.

Moderator: Thank you. The next question is from the line of Nainesh Poladia from Centra Advisors. Please go ahead.

Nainesh Poladia: Good Morning. Thank you for the opportunity. Can you provide us the volume that company has done in the third quarter?

P Deepak: Sure. Our sales quantity for the third quarter was 17,570 tons approximately.

Nainesh Poladia: All right okay and can you provide us the volume guidance for FY2023.

P Deepak: So, we do not provide guidance in terms of numbers either in terms of tonnage or revenue, but I think we are reasonably confident that FY2023 will be good because of the reasons I mentioned earlier right. We believe the tractor this year was an anomalistic low year which in spite of three consecutive good monsoons was not quite at last year's level and commercial vehicle we believe the recovery will continue and as I mentioned also I think in the previous call as well as I sort of alluded to we have a lot of new products that are in the pipeline that get into production over the next six months to nine months. So, we are reasonably confident of a fairly strong growth trajectory but we do not as a matter of principle provide guidance in terms of pure numbers.

Nainesh Poladia: Okay and one more question that I had is that we have observed a healthy cash balance in the balance sheet. So, is the company looking forward to paying off the debt or considering any short-term investable opportunities?

P Deepak: I think having the cash balance as you talk about on our balance sheet I think is an area of strength for us in terms of making sure in a cyclical market even in the worst of worst markets that we are a strong and stable company and that is part of why we like to maintain this the way that it is.

Nainesh Poladia: Okay all right and how does the company procure its coal requirement is it from SSA e-auction or imports?

P Deepak: Sorry what are you talking about the coal?

Nainesh Poladia: Coal requirements, yes, the raw materials.

P Deepak: So, our raw materials are primarily steel scrap, our entire melting process is done through electric melting on furnaces. So, we do not actually have any coal requirements at all. So, we purchase steel scrap perhaps some quantity of pig iron these are our primary raw materials and then any alloying elements as required we melt them electrically in induction furnaces and therefore, we do not have any requirement of coal. There is a little bit of carbon that we purchase but that is not in the form of coal that is to achieve the next required chemical composition.

Nainesh Poladia: So, I meant the power sources actually to meet the heating requirements basically.

P Deepak: From a power perspective I think if you look at us right now at this moment I would say about 55% of power comes from renewable sources which is primarily through group captive methodology that is about and primarily most of that comes through wind power and the remaining 45% is purchased from the local electricity departments.

Nainesh Poladia: All right. Thank you so much.

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

Saket Kapoor: Namashkar sir and benevolent for this opportunity. Sir, firstly would like to congratulate the team that you have headed to our request of press release and providing us a lot of input that would have taken a lot of time during the concall and repetitively being asked by us. So firstly, looking forward for this continuity in the business cycle there will be ups and downs in quarters but the format should remain the same going forward. So, congratulations to you Sir and Siva Sir and also to the IR Team. Sir I have couple of points even for the IR team if they can connect with me post the call would be sharing with them. Sir even in the presentation if you could provide us going forward with the unit wise performance also and the tonnage, for the tonnage part coming to the questions for this quarter Q3 the tonnage is 17,570. So, what is the nine month number and the comparative number last year?

P Deepak: So, the nine-month number for the tonnage is the 52,500 and the nine months for last year was 38,690.

Saket Kapoor: Sir, we also see this inventory built up for the nine months to the tune of Rs. 31 Crores. So, what should one read into it and what would be its implication for the fourth quarter?

P Deepak: You are right there is some quantity of inventory build-up, some of that happened because of market conditions and the slow down and some of that inventory buildup is also because the value of the inventory is higher. So, for example if you compare it to a year ago, the cost of raw materials procured has gone up. So, if you compare it from a year-on-year basis it is not actually a very good estimation looking at it from a value perspective because the value of each of the goods has also gone up in both raw materials as well as the finished goods. So that is one part of the inventory question. The second part is yes you are absolutely right in terms of our finished goods and work in process also there is an increase in inventory, we believe that some of this increase will get diluted in the current quarter because the commercial vehicle numbers are looking good so we will be able to sell some of this inventory in the current quarter and some inventory especially on the tractor side we believe that, that inventory will also get absorbed in Q1. So, we are not particularly alarmed by the increase in the inventory it is a fairly marginal increase and but we expect that we should be able to, based on what we see at the moment dilute some of that in the current quarter.

Saket Kapoor: Sir for the tractor part having a comfortable share of 36% with the size of the total revenue, the sales of tractors have been on the higher base year-on-year and so a marginal dip or a bad year because of unseasonal rains and all need to be factored in, in the realm of things, so going forward, looking at what the market conditions are how is the segmented revenue going to shape up sir? And this HCV is the high commercial, what is the full form commercial vehicle and what is the extends for HCV?

P Deepak: Heavy commercial vehicle.

Saket Kapoor: Heavy commercial vehicle is 32 and 36 is for the tractor, so going forward depending upon the deliverable should use how is this mix going to change and how is the tractor industry currently shaped?

P Deepak: So, tractor industry I will address that a little bit, so tractor industry we have typically seen if I look back the last decade or 15 years, we have typically seen that with tractor industry we are little bit more stable than maybe some of the other segments. So, we have seen, perhaps in a bad year it dips by maybe about 10% or so we have not really seen, I mean we will have to wait till the end of this financial year to analyze the current year and give clarity on the numbers. But in over the past 10 years or so we have not really seen it dipping by 20% or anything like that in past years so it has been not such a scary cyclicality in the tractor industry that we have seen over the last decade, decade and a half or so if I would say. Now so tractor industry is I think as long as rural economy remains a focus of the government which I believe it always will be I think tractor industry will do reasonably well, I do not believe that very high growth rates will happen, but I do believe that the industry will do reasonably well. What we are seeing though of course is on the commercial vehicle side.

On the commercial vehicle side if you actually look at where the numbers are now over the first nine months versus where the peak was which was I believe in 2018, so when I compare these nine months to what it was in 2018, the industry is still maybe at only about 50%, 60% of what the numbers were right in the medium and heavy commercial vehicles so there is still a lot of potential to grow just to get back to that previous peak number. So, we do believe that will happen over the next two to three years and therefore we see that the commercial vehicle industry will have a pretty good runway I think for the next two-three years. One of the encouraging signs that we are seeing is that earlier, especially in the early days of COVID, even before COVID actually there was a lot of reduction in freight prices that happened and then beyond that diesel prices started to go up and the transporters were not able to pass it through. Today we are actually seeing the transporters being able to pass through the diesel price and also market rates for freight starting to go up this is what I observed in the last quarter. So, we believe that if this scenario continues that commercial vehicle will actually have a fairly strong ramp up if it is viable to purchase a new truck and of course those people that have delayed replacement of their old vehicles because of overall market scenario of the prices might all suddenly choose to do the same and in such a case we will see a certain uptick in demand which is what we believe will happen the only question is when.

Saket Kapoor: No Sir for this commercial vehicle uptick are you seeing the traction domestically or also for the export market? Somewhere I have also read that there are thousands of trucks lying idle in the United States of America because they do not have the drivers to drive them and deliver the goods because of these Zomato and Swiggy people are being getting hired and paid much more better than the trucks this was a story I have read around a month earlier. So just to get a sense on the optimism you have on the commercial vehicle story is it the domestic one or mainly on the export.

P Deepak: Whatever I spoke about so far is entirely about the domestic commercial vehicle space. In the export space looking both at North America and Europe and probably more so at North America. The order book situation there is actually quite strong so if you let's say I am just going to take 12 months that are the best 12 months which is basically August, September of 2020 to August of 2021 the sale of class 8 trucks was approximately 50% or little more than 50% higher than what is average. So, they have a huge amount of demand and they have a problem with semiconductor availability to the extent where waiting periods are in excess of six months for purchasing a truck. So, there is a lot of demand for new trucks over there as well, driver availability is a little bit of a question mark but what I can see is also cost of transportation there in the US has gone up quite significantly and there is a lot of driver idle time also especially because of traffic congestions happening there and the transporters are able to pass that on to their customers as well over there. So, it seems to be quite a strong market in there but it is again supply chain related issues and primarily semiconductors that seem to be the bottleneck at this point. So, we believe from what we are reading in the press and what we have been told by our customers that the situation has improved but for it to actually get resolved and no longer be considered a problem will probably be close to the end of this year.

Saket Kapoor: Sir, very short point when we say in your press release that you have a very strong comment I am just reiterating quoting you "we expect a very strong recovery to happen from Q1 FY2023 onwards". So Sir, on the premise of that what are they actually be schedule and what preparation have been done by us that we are able to foresee a very strong recovery from Q1 FY2023 onwards, if you could give us some color of the same.

P Deepak: I want to clarify that statement actually and maybe I could have worded it better, but the recovery that we are talking about specific to that statement is in the tractor segment right so we believe that compared to where we currently are right now in terms of production of practice and our sales to the tractor industry from a seasonality standpoint as well as the fact that we are right now below what would be a normal season because of inventory buildup at the OEM end. We believe that Q1 will be quite a strong and this is based on what our customers are telling us and the kind of advanced notice on schedules that we are giving. So from a tractor industry standpoint we believe to the best of our knowledge that the number of trackers produced will actually look to be something to the tune of double in Q1 compared to what it is now in Q3 and Q4 and so that is the statement I was making there perhaps I could have worked a little clearer but that is specific to the tractor segment.

Moderator: Thank you. The next question is from the line of Anurag from Edelweiss. Please go ahead.

Anurag: Thanks for the opportunity Sir. my question is on your margin. So basically, what we have seen is that kindly rectify me also, that post COVID we were kind of you can see in a trajectory where we were seeing close to double digit about 9% to 10% of margins I am talking about EBITDA margins and now we are in the single digit. So, my question is that basically can you just throw some light on how you would like to improve upon your margins and what is the lever for that. For example, either we are looking at let us say some higher value-added products in our portfolio going forward or some more cost rationalization. So, what would be the levers for that, if you can just throw some light because that is very, very important for let us say increasing profitability.

P Deepak: What we like to do Anurag, typically we like to talk about margins also in terms of on a per ton basis or a per kg basis and the reason that we prefer to do that is also because of the raw material pass-through so if you look at purely on a percentage basis if you look in the last year there has been a huge increase in raw material prices that have gotten passed through already at a lag. So, let us say for example if it was something if our average was around Rs.100 last year it is closer to 120 or 125 this year. So, on a percentage basis it would look much smaller than it actually is. Now that being said that is about the numbers per se but I would like to get into the crux of your question as in what is being done to improve the margins. So, I believe one is in terms of the raw material side the pass through happening so we believe that if the raw material regime is a little bit more stable that we do not see any substantial increase or decrease in raw material prices, we believe that itself will have a positive impact on us because things will move in the right direction. The next thing that we have focused on is improving our productivity and our production output so this will have a good impact in terms of absorbing our fixed costs and also certain things such as our power consumption and all improve as our productivity improves because the more efficient that we are some of these so-called variable costs get even better and we are doing a lot of new product development currently and especially over the last six months to a year and many of these products and projects are currently under the various stages of testing and we believe most of these will get into serial production to bulk production over the next six to nine months and that will also have an impact on the overall volumes and margins and better absorption of the fixed cost as well as our productivity increase. Of course, this is also a key part of the fact that we have a new plant that was commissioned less than 18 months ago where our capacity utilizations are still low but with these new developments that are happening we believe that, that capacity utilization also will come to a reasonable number.

Anurag: Just to reiterate again it I just want to rephrase that. So, for example let us say on a per ton basis we are doing let us say or a per kg basis you we are doing x amount of EBITDA per kg. So how much from here on for example let us say something is Rs.10 per kg and let us say the percentage terms what possibly you expect internally if you can just share that okay we want to read from which is Rs.10 to Rs.12 or Rs.10 to Rs.13 per kg if you can quantify it because see where I am coming from is that for example for the casting companies and let us say the companies in your business it becomes very, very important that unless we understand that okay there are some really good some new value-added products coming in ultimately, otherwise the trajectory will remain almost the same and we have to just look from a cyclical perspective of this material cost and the industry performance.

P Deepak: Yes, I can give you a rough estimate and a rough idea of what we would like to do. So, we believe that and this is of course assuming that it is a fairly stable material cost environment. Typically, I think where we have been if you look at us historically over the last few years has been roughly somewhere around Rs.10 a kg or so has been kind of an approximate number that you could take. What we believe is now with the new plant as well as the improved product mix we believe that it is fairly reasonable to expect that we should be able to improve on that by about 20% or so and I would say that our ambitions and what we are working towards both from a product mixed standpoint as well as an internal cost management standpoint is to try to push that as close to 15 as possible which we believe is something that will happen in fact maybe in the medium to long-term but I cannot put any kind of dates on that.

Anurag: Sir, my last question is on the export front. So, we are doing considerable improvement and made considerable strides in last couple of years on the export. So can you just through some light at what kind of opportunities we have especially, are we gaining let us say market share from the existing players or we are pushing our products with our client side and what kind of nature is of this business whether it is kind of we are tier 2 suppliers or we are supplying to some large stockists out there who are into the replacement, what is the nature of that? If you can just throw some light on how things are improving on that front.

P Deepak: I think exports has been a focus of ours for about 8 or 9 years now and we have grown quite substantially in exports I think if you go back to where we were in FY2013 or FY2014 I think we were doing only about Rs. 2.7 odd Crores a year on exports and in this current nine months we have done in excess of a Rs. 166. So, I think it shows very clearly that this is nine years of hard work and efforts that we were focused also on building that customer relationship and developing many products for the customers and that is how we have come to the current level which is on track for exceeding Rs. 200 Crores I would say for the current year. Now looking forward in terms of export our existing customers have a good amount of other products that we are looking at so we are expanding our product range. We have several businesses that have been awarded to us but have not yet come into the start of production. One of these is in North America that goes into the heavy truck segment, two of these are also in North America but going into the passenger vehicle segment, so this year will be the first time that we actually make an entry into the light vehicle segment which is the pickup truck and SUV segment actually to be more precise in North America. So these are some of the new businesses that are coming. So we believe that there is potential to continue to grow our export business quite substantially and we will see these businesses go live and happening over the next six to nine months again. So we expect that once this does happen we will see a significant bump that will happen in our exports.

Anurag: And I am sorry just I want to squeeze in one more and because I'm Delhi based, can the discussion be complete without the EV kind of things. So in your business from just a metallurgy science perspective so are you looking at some of the products in catering to the EV kind of play where possibly there may be some changes in alloys and all that stuff, any reading on that of yours if you have any discussion and will it kind of materially impact what I can say that for example let us say if you are supplying certain products now in your understanding that it is in the LCV side or let us say on the SUV front because a lot of new products development on the EV SUVs. There will be any changes from the metallurgy perspective where people like you can also have the opportunity in providing some new products.

P Deepak: In terms of iron castings and we are pretty much producing almost I would say the entire range of metallurgies that are commercially used in the world so I think from a metallurgy standpoint we do not really see much issue in terms of EV because whatever we have seen in terms of EV products the metallurgy that those products demand are already within our product range. Now in terms of the products specifically so if you look at where our business stands both in terms of domestic as well as exports, broadly the passenger vehicle - LCV or the SUV segment is very small for us. But when we look at commercial vehicle tractor and off highway I think there are two aspects to it right, one is we do not believe that there is going to be a large scale adoption into EVs that will happen in a very short-term but if that does happen right it is possible that there could be a breakthrough in battery technology something like that could happen we actually believe that will be beneficial for us. So, if you look at the commercial vehicle segment the components that we produce are primarily going into the axle or into the suspension this is pretty much I would say true for 90% plus of parts maybe 95% of parts that we are producing for the commercial vehicle space and the good news is neither of these is going away right so there is no threat at least based on the current technology roadmap that the OEMs have that either of these would go away. In fact, I would say the suspensions will probably get strong with more heavy duty because a lot of the motor mounting itself will happen on the suspension so potentially there is an increase in casting content per vehicle compared to before. On the axle side, because the motor is also getting mounted directly onto the axle one of the key products that we make is the differential carrier and we believe that these products will become much more complex than they currently are when this change does happen and as a result of this particular thing we believe that we are poised to gain market share over the rest of the market based on the product range and similar type of products that we are already doing for the same customers. So I think to summarize we believe electrification if it does happen in commercial vehicles would be good for us but we do not see that happening in a very fast manner right away and I think on the second part on tractors I do not see electrification really having an impact but basically the entire body and frame, the design of the tractor is such that the entire body and frame which contains all the gears and everything is made out of casting so I do not see how that will also have a significant impact. So, I think we are not particularly concerned about EV in fact we think that this is going to be a good opportunity for us as actually going forward.

Anurag: Sure thanks. Thanks a lot for the opportunity.

Moderator: Thank you. The next question is from the line of Mayur from Profit Smart Securities. Please go ahead.

Mayur: Thank you for the opportunity. I just missed some parts so what is the outlook for the next quarter can you share your thoughts, please Sir?

P Deepak: So, I think in the current quarter as I have mentioned in my remarks, in the current quarter that we are in we are seeing actually quite a strong uptick from the commercial vehicle segment. Especially in the last few days we have seen forecasts go up quite substantially and orders go up quite substantially just for the month of February and we expect that to continue in March. We are seeing tractor demand still remaining subdued probably similar to the levels it was at in Q3. Exports we expect a small dip in the current quarter it will recover again in the next quarter that is primarily just based on our customers right sizing their inventories because of this shortage of semiconductors. So overall, we believe that on a quarter-on-quarter basis we will see growth on a year-on-year basis also we should be fairly similar or a little bit of growth, but like I said we do not really provide guidance in terms of real numbers. So, we will leave it with that.

Mayur: Yes Sir, thank you for this guidance. Thank you so much.

Moderator: Thank you. The next question is from the line of Praveen Kumar an individual investor. Please go ahead.

Praveen Kumar: Good morning. I have only one question with regard to segment-wise market potential how do you see it, because the company is currently catering to mainly a heavy commercial vehicle and tractor segment and this passenger vehicle is and this other segments have fairly low volume contribution. So how do you see potential of these segments in future, five years down the line and also the second question is the growth in export how is it driven is it driven mainly by commercial vehicle, heavy commercial vehicle, or the passenger vehicle segment?

P Deepak: I will try to answer both parts of the question that you mentioned. So, the first one is in terms of the domestic market and the potential that is there. So, I think we believe that there is strong potential in the domestic market both in the commercial vehicle space as well as in the tractor space. So, we are developing, I think there is two things that we are focused on, one is developing new products and customers and we have been successful with being able to add a couple of key customers in the last year or so and we believe that we have an opportunity to grow with these customers. Second is of course, with existing customers and existing products also growing market share and the third is of course, with our existing customers developing new products as they continually keep upgrading their lines. So, I think there is potential if you were to look at it both in the commercial vehicle space as well as in the tractor space which form a bulk of our sales. In terms of the other segments, off highway is an area that we have been focusing on, the total volumes in the segment are a little bit smaller than they are in the other spaces, account for maybe about 3% or so of our sales. But that being said I think we have got a new product that we have already launched but we will be ramping up actually over the next two or three years which will be used in forklifts. So, this is a new product that was never in the history in our product range so the products are already developed and they are in various stages of testing approval and kind of early stages of production. So, we believe that these numbers will pick up over the next two years to the full potential there. Other than that, in terms of exports what we've talked about, a good chunk of our exports currently are actually coming out of North America and the majority of that is coming from commercial vehicle trucks not just class 8 but also in the other classes class 6, 7, and 8, we have a lot of trucks a lot of material that is going into trucks. This business of the pickup truck, SUV is something that is again new for us and that we will be just launching later this year. It has already completed the necessary testing process and all of that validation is completed. So, it is only a question of the new vehicle launches which will happen later this year in which we will be part of those products.

Praveen Kumar: So, do you see potential in domestic market for SUV and lighter vehicles?

P Deepak: Not so much because I think the size of the vehicles here are also smaller and the volumes are lower so domestically in fact at the moment we do not have any business in the passenger car space or the other light vehicle space domestically we do not have currently any business and we believe the business potential is also fairly low because in those vehicles with being lighter in nature especially there is not as much iron casting content in those vehicles.

Praveen Kumar: And how about this defense segment which is receiving lots of attention from government these days?

P Deepak: We do have some parts that we supply to our customers and they are assembling that into their vehicles or their sub assemblies that go into defense, but in terms of us dealing directly with defense we have not done that at least not at the current time.

Praveen Kumar: Thank you very much.

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

Nitin Gandhi: Just finance related question. If I see your turnover which used to be in FY2019 pre-COVID and what it is today it is more or less same but at the same time finance cost is almost tripled if I look at your borrowings, long term is marginally up 10%-15% maybe because of the new plant so and short-term is more or less flat. So, can you give some clarity on this for tripling of finance cost?

S K Sivakumar: See there are two factors for the increase. One increase in the working capital utilization and increase in exports sales where the credit period is more, so automatically the interest cost will go up.

Nitin Gandhi: Please wait a second, even I checked those figures also they are more or less flat as far as inventory and trade receivables are concerned your gap is made by supplies credit. So, there is not much change in that.

P Deepak: Yes, so let me actually explain I think I understood what you are trying to get at. So, you are looking at our financial numbers from FY2020 I think it is and you are comparing that to our financial numbers from the nine months of FY2022 is that correct?

Nitin Gandhi: Right.

P Deepak: So part of the reason for that is because of the new plant that we had commissioned which was commissioned only in September of 2020 so the new plant that was commissioned then so while the borrowing for investments and all of that was done the cost of the interest was capitalized as a part of that project. So therein I think you will see that, that would be part of the difference of what we are observing. So, since September of 2020 if you see post that right so if you see let us say third quarter of FY2021 and beyond I think you will see that, that is no longer the case. So, you will get the full picture in terms of the interest cost.

Nitin Gandhi: No if you had capitalized finance cost then P&L charge will not be, it will be net off right? So that would have not impact us.

P Deepak: So see I think what I am saying is prior to September 2020 it would have been capitalized post September 2020 right so on, December 2020 onwards in those quarters you will see it not capitalized so it will come to the P&L. So, if you want to take a look at your numbers and if you still have any questions we will be happy to answer them but this would be the major difference I would expect that you would observe between the two.

Nitin Gandhi: No issues I will take it offline. Thank you.

Moderator: Thank you. The next question is from the line of S Paul an individual investor. Please go ahead.

S Paul: Sir, good to go here a lot of comments on how the business is hitting. Sir, as I understand I would like to put it this way what is the biggest risk that you think that you would have probably if you consider probably one year from now what is that makes you lose your sleep I mean in terms of business risk otherwise?

P Deepak: I think what we believe is that we have seen the bottom of the cycle and the cycle is starting to recover it. So I see the biggest risk is potentially some sort of a regulation change I think this is the one thing that caught us a little bit blindsided in 2018 when it happened which was the axle norm change so things like that, that we cannot forecast that will have a significantly negative impact on the overall market is what we see as the biggest risk at this point of time I would say.

S Paul: And Sir on the fact that it is also hurting to hear that the exports are increasing but the previous speaker also put a point wherein the finance cost would increase so I would like to understand both from a business point as well as from a financial point. So is it more like a lucrative margins for you in the exports front or how is it like because otherwise it has a longer lead time and probably if domestic gives you the same margin profile so would you want to throw some light on that?

P Deepak: So export does have a higher return profile for sure the pricing is better, on the exports perhaps except excluding a few parts that were more in terms of entry pricing that may happen there in the past but exports is definitely a more lucrative business purely from a margin perspective but one thing that we do have to keep in mind also is in terms of the working capital cycle for exports is higher than it is for domestic right because it is typically I would say closer to a 150-day period by the time we receive the payment for it as opposed to 60 to 90 days which is typical for domestic numbers.

S Paul: So, you still would think that probably net to net considering the 150 days versus vis-à-vis the 60 days I think you would still prefer exports over domestics or is it like case-to-case basis.

P Deepak: Yes, from a margin perspective I think that is a fair statement to make. Typically for exports though typically in the first year sometimes there are some unforeseen costs of quality and other things till the initial production stabilizes but going beyond that undoubtedly, I believe that, with at least the product profile that we have exports is more lucrative in terms of helping the margins.

S Paul: So, having studied your business for some time I think you do not have any services contribution so do you plan or is there any possibility to have some kind of O&M or perhaps any other services because those are more sticky in nature compared to the product?

P Deepak: Unfortunately, I do not believe we see that potential with the business because most of the products that we supply most of them are not even wear parts, right, most of them are for the life of the vehicle and very rarely fail. So, I think at least in this product line it is not something that makes sense for us.

S Paul: Sir any particular difference between the tractor vis-à-vis the CV margins I mean probably not the exact margins but then could you give me some idea on how and especially going forward as you said that the tractors would probably reduce if I am not wrong I mean as per your sales contribution.

P Deepak: So there is not so much difference I would say between tractor and CV per se for similar kind of products but the products do to some degree are a little bit different. Tractor uses more of gray iron parts which are not as strong as duct iron and the SDIM parts are used a little bit more on the commercial vehicle side which have a slightly different cost profile and also in terms of margins maybe marginally better. So other than that, I would not say that there is any significant difference between the two. We do not expect tractor to drop off in any given year and we do not expect it to shoot up substantially but at the same time I think CV has probably a little bit more cyclicality and we believe we are at the bottom of the cycle, so we do believe this potential for CV to shoot up in terms of the business.

S Paul: The idea was more like going front as you say that if CV is stronger then probably the margin contribution by tractors should come down assuming it stays as it is or goes better the tractor. So probably as an investor probably I should not look it more towards the margin profile it is just your internal the way it is, is that correct, I mean, tractors vis-à-vis the CV.

P Deepak: Yes, I do not think really significant enough in the margin profile to try to stick at it.

S Paul: And Sir if you could probably just share the nine months net debt position that could be kind I think that is missing in the presentation if I am not wrong.

P Deepak: Yes, I think that is typically something that is done on a half yearly basis.

S Paul: I mean if you have the numbers with you could you share that…?

P Deepak: I do not have at the moment.

S Paul: Sure I will connect offline. Thank you Sir, all the best.

Moderator: Thank you. The next question is from the line of Anand Srinivasan from Batlivala & Karani Securities. Please ahead.

Anand Srinivasan: I wanted a broad view on what is the iron content in an M&HCV and a tractor, how different is it? and secondly what is the content difference in an M&HCV in India and say an M&HCV in US with respect to the iron content?

P Deepak: So if I look at M&HCV, so I will talk about tractor first so I would say typically if you were to take a typical tractor that is in the market I would expect that you would see iron content right, ductile and gray iron content that is probably something around 600 kgs or so per vehicle that is roughly what I would expect to see maybe about 100 kg so that will be on the engine side and the rest would be on the transmission and the axle side of it. So roughly speaking that is what I would expect to see is about 500, 600 kgs or 700 kgs per vehicle is a rough estimation of weight. On the M&HCV side, it is actually quite variable depending on the type of vehicle that is, so if you get let us say for example you get a 8/4 vehicle which is a tipper vehicle with a bogey suspension, if you were to take that you could potentially be as high as 1800 kilos or even more than that from a weight perspective or if you were to go for let us say a 14 ton or a 12 ton vehicle intermediate commercial vehicle that number could be as low as maybe around 300-400 kilos. So it is a fairly wide range I think maybe we could consider an average of something around a 1000 but it depends also on the number of axles that are there it depends on the type of suspension that is on it and it depends obviously on the size of the engine so a variety of different factors but from a range perspective probably 400 to 1800 kilos here there is probably closer to maybe about 600 to 700 type of numbers.

Anand Srinivasan: Sure, Sir and I just wanted to know generally the talk is that in electric vehicles battery weight is kind of heavier which makes the vehicle even more heavier but what you mentioned sometime back was that the iron content is expected to increase in electric vehicles which can also add on to the weight right so how does it I mean many competitors are talking around trends like light vehicles where they are shifting to lighter weight materials to provide the same function I just wanted your views on this.

P Deepak: So it is, I mean, what we are seeing does sound a little counterintuitive in terms of the light weighting part of it right. Moving a little bit more towards iron or the iron getting heavier but there are a lot of components that are actually disappearing right so while some specific components that we are doing might get heavier there are several other components that will disappear for example the size of the transmission in an electric vehicle is much, much smaller than the size of an internal combustion engine right. But the reason why we see also our products are going up is because they have additional functionality. Now in addition to just passing power onto the wheels from the prop shaft there is no prop shaft anymore instead there is a, if the motor is mounted and a couple of gears are mounted directly onto the axle itself so therefore, in the product profile that we are in we believe that it will only increase. But that being said as an overall, I mean, especially when you look at engines, internal combustion engine and other things as an overall it might come down. The second part of it is also typically on an electric vehicle with the type of motors that are there and all of that, it is quite exciting the kind of torque they are able to generate so in order to be able to withstand that torque there is also a lot more stability in the part that is required which is provided by iron.

Anand Srinivasan: That was very helpful. Thank you, Sir.

Moderator: Thank you. Ladies and gentlemen this was the last question for today. I would now like to hand the conference over to the management for closing comments.

P Deepak: Thank you everybody for joining us we appreciate your time I think we have seen a fairly interesting quarter challenging for sure. We do see a lot of great potential ahead and we hope that with a little bit of support in the market we will be able to achieve that potential. Thank you all very much and we look forward to continuing to talk to you every quarter.

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