“Nelcast Limited
Q1 FY2023 Post Result Conference Call”

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Moderator: Good morning, ladies and gentlemen, welcome to the Nelcast Limited Q1 FY2023 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. Annamalai Jayaraj from Batlivala & Karani Securities India Private Limited. Thank you and over to you, Sir!

Annamalai Jayaraj: On behalf of B&K Securities, welcome to Nelcast Limited 1Q FY2023 post results Conference Call. From the Nelcast management we have with us today, Mr. P Deepak, Managing Director and Chief Executive Officer and Mr. SK Sivakumar, Chief Financial Officer. I will now hand over the call to Mr. Deepak for the opening remarks to be followed by question-and-answer session. Over to you, Sir!

P Deepak: Thank you Annamalai. Thank you everybody for attending this call. We really appreciate your time. I will just start with a quick overview of the quarter gone by. The quarter gone by in terms of revenues was our second consecutive quarter in a row of record revenues. Our revenue from operations for the quarter was Rs. 295.2 Crores, so this compares very favorably with the same period last year where it was about Rs. 185 Crores, so that is recording a growth of about 80% on year-on-year basis. Even on a quarter-on-quarter basis, typically Q4 is the best quarter of the year and in spite of that in Q1 we have grown 10% on quarter-on-quarter basis. Exports continue to be one of the drivers for the company as we have talked about in past conference calls. We recorded export revenue of Rs. 72.5 Crores which represents a growth of 48% on year-on-year basis and 33% on quarter-on-quarter basis, so this was broadly in terms of revenue how things played out. On the M&HCV front, 38% of our total revenues came from M&HCV, 31% from tractors, export was about 25% and off-highway and railways and others made up the remainder of the sales. This compares quite favorably to last year when we saw very low numbers in M&HCV, which is only about 27% of revenue so in fact last year's Q1 was led by tractors at 39.6% and exports at 26.7%. I think one thing to keep in mind about last year's Q1 though when we are comparing is that last year's Q1 was impacted by the second wave of COVID so while these growth numbers do look good, we believe that 60% growth might be a tough task to maintain through the year. So, we saw this growth coming from both volumes as well as better realization.

We saw about what we were able to sell in this quarter was 20,158 tonnes was the net sales and we were actually able to produce 19,158 tonnes so there was about 1000 tonnes of WIP that we converted into finished goods and into sales during the quarter. This was necessary and I think this was something that was a good performance from the standpoint that we faced operational changes because of the severe power cut that was imposed in Andhra Pradesh as well as higher-than-normal summer temperatures which impacted productivity as well as health of employees. So, looking forward to Q2, on the operational side we have seen these challenges start to mitigate as we have gone through the month of July. The demand still seems to be reasonably strong I think typically Q2 has a higher demand than Q1. We do not believe that will be the case so in the current Q2; however, I think we will be able to better fulfill the demand here and we are continuing to see growth in export led by new product launches that I have talked about also in the previous conference calls. So, I think this gives us much greater confidence that our performance in Q2 would likely be better than our performance in Q1. On the margins front, our EBITDA what we were able to achieve was Rs. 23.3 Crores, so this was achieved through a variety of methods. One was of course through the volume increase which we did see. The second is continuous increase in raw material prices have been abated since probably mid to late May after government intervention through the introduction of export duties so that is a positive trend that whatever we have seen I will say probably the last six quarters of continuous commodity inflation seems to have moderated and so we were able to only really enjoy the benefit of that for the month of June. So, we hope that material cost continues to soften as it seems to be the trend and we hope that will continue that way. So, with that we were able to achieve a PAT of about Rs. 7.8 Crores for the whole quarter. That is briefly where we are today. I would like to open it up to any questions that any of you might have.

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

Saket Kapoor: Thank you for this opportunity and congratulations firstly on walking the talk, whatever you were explaining over the previous calls are now bearing the fruits and those are visible in the numbers. Firstly, a small understanding you did mention that the growth of year-on-year is noncomparable and it will not be repeated that is the only point you are trying to say and Q2 looks better in terms of the deliverable schedule as well as the margin profile, my understanding is correct Sir?

P Deepak: So, I think while we do expect strong growth to happen this year, I think 60% does seem to be much more challenging because of the challenges what we have faced in last year's first quarter because of the COVID second wave. So, that has bumped that percentage quite substantially for this year, but we do still expect to see good growth through the year that is our expectation for the rest of the quarters as well.

Saket Kapoor: When we look at your raw materials to sales percentage it has remained in the same vicinity of 52 to 53% Q-o-Q as you have told that March is the strongest quarter but is it the product mix that has resulted or the amending of inventory that has resulted in slightly higher profit Q-o-Q or what have been EBITDA per kg if you could give that understanding, how did we clear for March and June quarter?

P Deepak: If I look at it from a production perspective right EBITDA per tonne of casting produced the numbers for the first quarter come up to Rs.12.16 per kg in the fourth quarter it was Rs.10.48 per kg, so that is the difference in the specific numbers. In terms of how that played out between material prices and other things, so material prices we did see an increase in material prices happening in April and probably until the beginning of May right, I think it was the first week of May or so when the announcement came in from the Finance Ministry regarding export duties and variety of other measures to control commodity prices. Since, then we have seen some reduction that has happened so I would say that any reduction activity whatever we have seen we have probably seen it in the month of June, in terms of the result. But if we take the last quarter as a whole, I take the average of raw material price for last quarter and compare it to the average of raw material price for the previous quarter they would be largely in line. I do not think there is any change really, so whatever increase that we saw happened through the last quarter we probably saw that similar kind of increase happen in this most recent quarter.

Saket Kapoor: For this quarter the trend for the raw material if we take the average of June quarter will also be slightly lower since it has higher prices of April & May?

P Deepak: Of April especially. I think if you look at the current quarter of July, August, September then we believe the raw material prices will have moderated. After they have moderated down, we have seen them stiffen up also a little bit more, but we are not anticipating the kind of increases what we have seen in the last probably six quarters or so, that has just been very surprising and very unprecedented.

Saket Kapoor: For the coming quarter this Rs. 12.16, is there a likelihood of further improvement or is it more likely to maintain these numbers, going forward?

P Deepak: It is little bit difficult to put full numbers to it but we believe that our goal would be to maintain this through the year right, so perhaps again depending on how raw material movement goes maybe some quarters might be higher and some lower, but I think for the year as a whole I think we feel that it could be a good target to maintain for the year, and I think that is the number that we have been talking about, as our short medium term target.

Saket Kapoor: What should be the likely full year tonnage that we are expecting for FY2023, a ballpark number?

P Deepak: It is challenging depending on volumes. I think if you had asked us last year about how tractor looked after the first half, we would have said fantastic, and then unfortunately we saw the second half really crash. I'll try to give you some ballpark but may be somewhere around 90,000 plus tonnes I think is what we believe that we should be able to achieve in the year. Hopefully, better than that but maybe I think that is something a little bit of a ballpark.

Saket Kapoor: One more point, you mentioned about these electricity cuts having an impact on your operations so if you could quantify on absolute numbers what would have been the impact for the first quarter and if you have to buy from the grid at higher price or what was the impact did it affect the operational performance also or was it in terms of the higher cost per se?

P Deepak: It affected the operations because it was a power cut, we did not have the option of buying more expensive electricity at that point of time, so it was a restriction on how much of the maximum demand we could utilize, so that restricted how much castings we could produce out of two plants in Andhra, so that had an impact. But one of the things that we did do was, we were with multiple lines running, we did some activities to make sure we could run on Sundays as well as of course, as I mentioned earlier, we did dilute some stocks as well from our work in process to try to push things through. If I had to say what might possibly be an impact maybe it is to the tune of 5% or perhaps more we could have done in terms of the sales, but it is a very difficult thing to quantify.

Saket Kapoor: But that is deferred only Sir, we will be able to make up for the same going ahead and has the situation normalized now or the factors that affected this cut cropping up again or now with monsoon, do annual things look very different?

P Deepak: So, whatever were the challenges and the cuts I think were related primarily to availability of coal, price of coal, variety of things. I think the necessary steps have been taken to ensure that is not repeated. We will have to see whether next summer due to intense summer heat weather the demand might shoot up even more and create some issues, but we are already preparing for next year's summer, so that even if something like this happens our impact will be minimal.

Saket Kapoor: On the scrap price, I missed your commentary how are currently the scrap prices trending post this imposition and also on the power and fuel mix, what steps are we taking to reduce the cost? I think through the renewable energy sourcing on a pooling basis was also considered earlier, so on these two aspects if you could apprise us?

P Deepak: Roughly speaking from the peak price of steel scrap, which is our primary raw material, we have seen about 7 to 8% reduction from the peak. End of April perhaps would be the peak, so compared to that point of time we are seeing about 7 to 8% reduction in steel scrap which is our primary raw material. Sorry Saket what was the second part of your question?

Saket Kapoor: Second was for the power and fuel mix what steps are we taking to mitigate the higher cost of power and fuel and I think the renewable energy sourcing, pooling of the availability of renewal energy I think was also in the anvil, what steps are we taking to improve our mix on power and fuel front?

P Deepak: From a renewable energy standpoint, I think one of the things that we are doing, the first one that we talked about that we had implemented for our plants in Andhra Pradesh that came online in the month of January onwards, so we have some amount of renewable energy that is tied up which is primarily a wind-based generation. We are in the process of having several more discussions with other wind manufacturers or windmill providers who will help us manage this cost better. The other part of it is, as we improve our production, I think as the efficiencies improve which is what we expect to see in the upcoming quarter, so as our efficiencies, as we get better in terms of our productivity, even our energy efficiency gets better, so we believe that should also help us bring down the cost of energy.

Saket Kapoor: Anything on the anvil for the land which we hold in our subsidiary wherein we are looking for any solar installation or monetization of the land, any step we look going forward?

P Deepak: The update is largely in line with what we have talked about last time, so I think we are evaluating all the options including evaluating if there is a good buyer available who would be interested in that asset and similarly, we are also evaluating whether a small solar unit or something that would be beneficial for us. We are looking at variety of options, but I think update is largely in line with whatever was there last quarter.

Saket Kapoor: Do we have any proposal and offers from any of the parties who are intending to set up or to provide us a payout for the land or are we still evaluating, because that would make a difference? Whether proposals are there, and you are evaluating the proposals or you are evaluating the situation of what would be the best step to go ahead?

P Deepak: I would say probably somewhere in between the two points what you are making. We are evaluating certain proposals that would look at it as a group captive under boot basis, the other one is, we are open to evaluating sale of the asset but I think for us to get value from the asset perhaps it might be a couple of years to get a better value from the asset considering the development that we anticipate will take place in the next few years.

Saket Kapoor: Thank you Sir and Siva Sir, if you could just give me the net debt levels and how has the cash flow been for this quarter, how the cash flow fares for this quarter and what is the net debt level?

SK Sivakumar: The net debt is about Rs. 220 Crores as on June 30, 2022, so on the working capital cycle yes, we are expecting the receivable side because the more and more export we do automatically you know that the receivable period will also go up, but anyway we are managing better to improve the receivable cycle.

Saket Kapoor: What is the receivable number, any ballpark number you can share?

SK Sivakumar: Right now, our net working capital cycle varies about 60 to 65 days.

Saket Kapoor: 60 to 65 days for the whole entity domestic and exports?

SK Sivakumar: Yes, total.

Saket Kapoor: Deepak Sir for the M&HCV segment, you very categorically mentioned that how we opened the last year with tractor and you guiding us that Q1 would be heavy from the tractor side and that is very much evident in your revenue mix. So going ahead, how is the CV cycle going to play out and also for the export front if I am not wrong I think you spoke some order from the Fedex part also wherein they were looking for some EV operated buses, correct me there I am just having faint idea of what you spoke earlier on the call, so just correct me there and what is the update on the same what is the size of opportunity on these buckets so if you could throw some more light on this?

P Deepak: On the EV products, yes Saket we have a couple of products that we have been awarded, the end customer for this is General Motors and they have got a large order from Fedex for these vehicles. These are delivery vans, not buses specifically delivery vans for delivering packages and things like that, so that seems to be coming along. Our first product will go into production in the next couple of months here and we have one more product that will go into production perhaps another six to eight months down the road so we have couple of products that are lined up for launch that will go into the electric vehicle and more specifically the EV vans, the delivery vans which seem to be make a lot sense to convert to electrification because lot of these vans there is a central place that they will always come back to at the end of the shift or the end of the day, so there is a certain radius that they cover, so it seems to be a very good fit for electrification and there seems to be very strong demand from what my understanding, what I read in the news that this particular vehicle that GM is going to start producing at their plant in Canada from January they have already sold out their entire 2023 production to various customers so they do not have any production slot left in 2023 so that is indicative also of very, very strong demand for that particular product, so we hope that will continue. I think this is our first big step into components for the EV segment.

Saket Kapoor: I will come in the queue and thank you for this extended opportunity. Thank you.

Moderator: The next question is from the line of Dhiral from Phillip Capital. Please go ahead.

Dhiral: Good morning, Sir and congratulation for the good set of numbers. We are seeing energy crisis in Europe and other regions, so do we foresee any shift of casting business to invent here like us?

P Deepak: I think there is two parts. I think one is, what people believe might be temporary which is a substantial increase and the second is, what will be more permanent right, so I think the temporary increase is extremely significant. I think energy cost in Europe have probably surged three or four times compared to, whether you call it pre-COVID levels or pre-Ukraine war levels, so compared to that, probably three to four times the energy cost has gone up. The question that people are trying to figure out and answer is, once things stabilize which we do not know when it is going to be, but once things stabilize, I think everybody is pretty clear that there is likely to be, even if it is not three or four times, it is likely to be a 30 or 40% increase in energy cost in kind of the permanent state if Europe wants to get away from Russian gas. So, I think that is something that in my view in the next three to four years or five years will drive a good amount of revenues for us coming from Europe. I believe that there is a lot of potential there and I think in the next few years we will see that potential also to start to translate into numbers.

Dhiral: So, do you think this is a long-term opportunity for us right?

P Deepak: I believe the energy cost going up in Europe is a good long-term opportunity for us. Europe to be honest also was also a lot more competitive in terms of pricing for castings in comparison to North America so now I think this is going to eat away on that competitiveness that was there previously.

Dhiral: What was the utilization of the incremental capex that we have done in September 2020, the utilization of that plant?

P Deepak: Unfortunately, because of the power cut that impacted that plant as well I think we were trending towards 25% is what we would have expected it to have been, unfortunately because of the power cut and all of that we were only able to achieve about 15%. We would have hoped to have that closer to 25% but some of the power cut issues prevented us from being able to do that.

Dhiral: Have we launched any new product as we are planning to launch three new products in FY2023, so have we launched any new product till date?

P Deepak: We have launched some of the new products that go into the export market, domestic market of course there is lot of new products also that we are launching but some of them will obsolete the old products as well, but in terms of export yes I think one of the product that we are supplying will go to the Class 8 trucks in North America that has already been launched with some customers there has been some increase in share of business and therefore, the numbers what we have seen for the quarter of Rs. 72.5 Crores or so of export has come from that. Some products are yet to be launched; they will be launched over the next two quarters so we will see I think continuous growth in exports going forward in the upcoming quarters as well.

Dhiral: What was the amount that we have booked from the new product in the export market, you just said it I missed the number?

P Deepak: I unfortunately do not have that specific number with me but I would say from the new products, may be something in the tune of about 10 Crores or so will probably be coming from the new product and some amount came from increase in volumes on existing product also but I do not have the exact data with me I am just estimating that it will be roughly about maybe 7 to 10% of our export sales came from new products.

Dhiral: Lastly, we are hearing recession in US and Europe so do we envisage any kind of slow down in the export revenue going ahead?

P Deepak: We have got enough new products that we will bring on and that we will launch, so the one thing that we believe is today if we look at the supply chain situation whether it was semiconductors or whatever that has been there for the last 12 to 18 months one of the things that has happened is a significant backlog of orders that has been built in the system so we do not anticipate any kind of slowdown in demand perhaps for the next 12 months or so and I think perhaps into all of 2023. Beyond that, we cannot really see the picture exactly how it will be, even the top economists seem to be divided on the recession and how severe and all of that but what we can see right now is perhaps for the next year and the number seems to be quite strong. Our hope also and what we are doing with all the new product launches that we have coming that even if there is a slowdown in existing products, the new product launches that we will be doing, will in fact fill in that gap that might be there.

Dhiral: Thank you so much, Sir.

Moderator: The next question is from the line of Chirag Shah from Edelweiss. Please go ahead.

Chirag Shah: Hi, thanks for the opportunity. Is sequentially Q4 tonnage marginally lower than Q1?

P Deepak: On a sequential basis, I will actually give you the number, from a production standpoint yes sequential it was a little bit lower and as I mentioned that was because of the power cuts but actually on the sales number sequentially we are higher so our sales tonnage for the fourth quarter was 19,389 and for this first quarter was 20,158.

Chirag Shah: Second question is how much of this steel scrap pricing benefit will be retained by us because we have a pass through arrangement with OEM, so is there still a way that we can retain some of that benefit?

P Deepak: So, the pass through that we have with the OEMs is based on a quarterly average formula, it is typically how we pass it through on the increases or decreases, so there is a lag effect that is there that we will get to temporarily benefit from if there is hopefully continuous reduction of raw material prices.

Chirag Shah: So, I presume if they have not given you complete pass through, then the initial benefits could be retained by you is that the way of looking at it and then the normalization process starts?

P Deepak: Actually, if you look at the way that Q1 worked out we saw increase in raw material prices in April and pretty much till the first week of May and then we started to see some reduction so if you look at it as an average there was not significant difference between the average of Q1 and the previous Q4. We believe Q2 will be at a lower level so there will be some lag that will be there in the pass through. The challenge in trying to renegotiate all of these is that you never know which direction it will go and so if you try to gain something for a benefit right now it might hurt you in a different way in the future, so I think we prefer to try to stick to the established norms as much as possible unless there is something nearly some existential crisis that comes out.

Chirag: Sir lastly, I had a question on other expenses. If you look at the absolute run rate now it has stabilized at around Rs.70 Crores to Rs.76 Crores so how should we take into account the inflationary impact because even in this quarter now it will be one quarter data so sequentially our sales is higher, there our other expenses are largely flattish or it is more into production that is how we should look at it and excluding power because power is understandable, the movement in power?

P Deepak: So other expenses I think when you look at is related to a couple of things. One is related to maybe some outsource machining activities that we might be doing. The other part of it would be other parts of the work that are contracted out and one such activity is settling right, so there are certain parts of activities that are done by our subcontractors on a job work basis for us. This is what is coming there. So, I would expect that to be largely in line with the tonnage. In case our machining quantity goes up substantially, which it might, as we supply more and more machine products and all of our exports are going in machine condition so in such scenarios then you will see it both come into the topline and the bottom line, so I think that is largely a variable cost whatever we are seeing in terms of these other expenses that you are observing in the P&L.

Chirag: Sequentially, there is a significant reduction as a percentage of sales given that the cost that the other expense line item is largely flattish and our revenues have seen a significant jump, it is a commendable thing that is why I am enquiring whether this trend can continue or not? Lastly a strategic question on the export side, now we have indicated there are mix reviews, is it possible to indicate that revenue contribution of the products that we have launched in the last 12 months in overall exports, do you track internally like that because that is what will be most immune to any so called recessionary risks or slowdown risks, is it possible to understand that new products that you introduce on a rolling basis, how much they contribute to your revenue?

P Deepak: We that do not tract it that way Chirag to be honest. We look at it as an overall basket and we are seeing the overall basket grow because in some cases it might be new products and in some cases even on existing products we have been awarded additional share of business right so with do not distinguish between these two, but perhaps we can look at that and try to dig up that information.

Chirag: Thank you very much and all the best.

Moderator: Thank you. The next question is from the line of Bhargava Perni from Emkay Global. Please go ahead.

Bhargava Perni: Thanks for the opportunity. Sir my question is just a broad-based question on exports, so just wanted to know you have told that for the next 12 months your order book were zero exports and everything looks good but just on the recession thing and all the order backlogs that have been like decreasing in Europe, how do you see those risks going forward given that your exports is the major share of your revenue?

P Deepak: Exports are growing share of our revenue I think right now as I said about 25% of our revenue is coming from exports and yes you are right. There is a lot of talk about recession due to a variety of reasons. Different economists have different views on whether they believe that recession is going to be short and soft or a hard-hitting recession. I think in general the consensus seems to be that Europe will be more hit severely by the recession mainly because of the impact of the current state of relationship with Russia and the sanctions seem to be hitting them as hard as they are hitting Russia or perhaps even more so with how Russia is controlling the gas flow into Europe. There are various economists who have deferring views, I am not qualified to talk about that particular subject that is not my area of expertise. But I do believe that our exports will continue to grow. I think if Europe does get hit, I think one we do believe energy cost will go up but the second part of it is potentially if they do get hit with a more severe recession, I think there could be also some bankruptcies within our industry being an energy intensive industry. I think there could some companies that are teetering that might not survive the next few years that might create more opportunities again in the medium to long term. So again, I do not want to make any predictions for the future, but this is how I see a potential situation in Europe play out.

Now majority of our revenues from our export is actually coming from North America and in that scenario, I think most people do believe that the US is likely headed for a recession but a fairly mild one and it seems like the Fed's objective is to make sure that they can get inflation under control by trying to create some breathing room between the supply and the demand side which has gotten overheated. So again I do not know how severe it might be but I think we would be in a reasonably good position to handle it and I think the auto industry specifically, whether it is commercial vehicles or passenger cars, with the backlog of orders hopefully by the time that the economy is recovering from recession the backlog is cleared out and the situation normalizes, so I think I have more hope and positivity message than in do in terms of having a very clear picture of what might likely happen.

Bhargava Perni: Thanks, and just on the raw material side you have said that 7-8% reduction in the scrap, which is your major raw material, any other raw materials that you are seeing an increase of yours or all your raw materials have seen a decrease, can you just throw some light on that?

P Deepak: Like I said steel scrap is between 7% and 8% what we have seen the decrease. Most of the other raw materials I think there is two things. One is they only form a small percentage of our utilization; the biggest chunk is coming from here. The other part of it we are seeing some small reduction even in other alloys, I think in the overall picture and what we have as a formula with the customers many of these are already part of that same pass-through formula that are there.

Bhargava Perni: So, most of the hit has been taken in Q1 or do I see a lot of hit coming in Q2 also?

P Deepak: No, I do not see that there will be any hit in Q2 and in Q1 also honestly, we did not really have much of a hit, like I said. We had a hit in April, and we had a benefit in June so more or less it canceled out I would say, may be a marginal benefit that we may have gotten in Q1, but Q2 we do not see any hit right. We see potentially if there is lag in pass through perhaps there is some upside that might be there in Q2 temporarily.

Bhargava Perni: Thank you for the opportunity. Thank you. That's it.

Moderator: Thank you. The next question is from the line of Amey from Banyan Capital. Please go ahead.

Amey: Just a couple of questions from my side, so like you mentioned that you have a strong visibility for a strong demand for at least this year and now that all the three engines are fired up in terms of M&HCV, exports and tractors so how do you see your volumes ramping up over the next three quarters?

P Deepak: We do believe that we will see growth in this quarter in terms of volumes right, on perhaps a sequential basis we would expect to see perhaps at least a 10% growth in terms of volumes on a sequential basis and that is what I see right now. While we expect and overall, I think I had already mentioned when Saket had asked the question I think we should be doing perhaps something around 90,000 tonnes or so for the whole year right, perhaps a little bit more if all goes well. I think there are a few variables and X factors that we need to understand. The production numbers for tractors are good, but I think the only thing giving us a little bit of caution about tractors is what happened last year where everything looked good for the first half and then just collapsed in the second half. We do not anticipate that will happen this time around, but it makes us a little cautious in trying to be very aggressive with the numbers that we are putting out to you. But we do believe that this will be a pretty good year and I think certainly this upcoming quarter we do believe or the current quarter that we are currently in right July, August, and September or something where we believe it will be a quarter that will keep the trend going in the right direction of increased production.

Amey: So basically, sequential increase approximately of 10% for the next three quarters, that is what?

P Deepak: I would say that least certainly for this quarter we are seeing that we believe that we should get at least a 10% sequential on this quarter. I think next quarter we will have to see how depending on how the tractor industry turns out but our goal as I said I think we should be, if we continue along that path, 90000 tonnes this year would certainly be something that we believe that we should be able to exceed.

Amey: In terms of tractor demand, what is the visibility that you have? How many months or quarters?

P Deepak: What we are seeing is in the current quarter we see very good strength. I think we will see growth in the tractor segment also, which is typical. From a seasonality standpoint, this is the peak seasonality, up till perhaps the end of October or so will be the peak seasonality for tractors. So we are seeing very good visibility up until then. I think November onwards we do not really have too many projections on what is anticipated and to be honest I do not think even the OEMs really fully understand what will happen post November, but up until September there is very strong projections and numbers that we are being guided to by our customers.

Amey: Got it. Sir if I heard it correctly so your volume impact was to the tune of 5% due to the power issues in Andhra Pradesh right so basically 1000 odd tonnes you lost because of the power issue?

P Deepak: Yes.

Amey: In terms of EBITDA per kg, so Rs. 12.2 for this quarter comes on the production basis basically so should not we calculate that on the basis of sales volume instead of production volume?

P Deepak: So, I think the reason why we typically do it on production volume also is because how the costing works, the fixed cost gets spread over the production volume right, so that is typically why we have done it that way in the past and I think that is why we continue today.

Amey: So, this Rs.12 EBITDA per kg number that we are targeting for the full year is on the basis of production, right?

P Deepak: Right but I think largely speaking for the full year we expect production and sales to be roughly in line. We do not believe we will see significant increase or decrease in stock that will happen through the year.

Amey: So, for the full year I think 12 looks reasonable. So just two questions from my side, what is the ideal export share that we would want in the medium to long run, considering the fact that it will reduce the cyclicality of the business?

P Deepak: So, I think a number of 30% to 35% is something which is roughly a third, so I think that is something that we would feel very comfortable with. Obviously if the opportunities are there to grow more domestically or if the opportunities are there to grow more in exports, I don't think we would shy away from those opportunities. But I feel from to be able to battle out the cyclicality of the domestic market whether it is M&HCV or tractor I think 30% to 35% would be a good number to be at.

Amey: Just lastly on the delivery vans that you spoke about of General Motors so we have got the order to supply some of the castings to them and as you mentioned that the whole of FY2023 production has already been booked, so how does it typically work so since we got the order now so can expect that probably for all the delivery vans we will be the only supplier for those castings?

P Deepak: For this particular model that they are launching, yes for all of the vans for that particular component we will be the supplier. There is another new product that will get launched in the following year in mid-2023 and there is a different product from that vehicle that we will be the only supplier to. That is pretty much all the visibility that we have today on these numbers, but it makes a lot of sense for the guys who are doing delivery within a certain radius to move to electric and these vehicles seem to be in quite good demand.

Amey: Got it Sir. That's it from my side. Thank you.

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

Saket Kapoor: Thank you for the followup. In terms of the delivery vans, what kind of casting requirement will be there for vehicle in KV terms?

P Deepak: You are talking about the electric?

Saket Kapoor: Yes Sir.

P Deepak: For the electric van right now for the model that we are talking about that will be launched in the next month or so, it is about a 17 kg roughly per vehicle that is the product and we will be supplying.

Saket Kapoor: The size of the order we have from them, the total order book is?

P Deepak: I think for this particular vehicle their projection is somewhere between 27,000 and 30,000 vehicles a year.

Saket Kapoor: We will be catering to the entire thing?

P Deepak: Yes.

Saket Kapoor: Sir the finance cost is also a line item that also needs some rationalization, I wanted to understand is our business model shaped in a way that we will be coming up with finance cost of Rs.6 Crores to Rs.7 Crores on a quarterly basis or we are looking for even reduction on this front?

P Deepak: So, I think finance cost will be largely in line with whatever we saw this quarter that is what we anticipate for the rest of the year. Obviously, there are a variety of other factors including rate hikes by RBI and subsequently passed on to our banks that might impact it but I think finance cost we expects largely to be in line with what we saw last quarter. I think I had already mentioned this, our endeavor is to try to, we will be paying down roughly I think about Rs.30 Crores or so of term debt in the current year and however with the increase in exports and other things we believe that we will be adding about Rs.30 Crores or so of working capital so all in all I believe finance cost should be largely flat and in line for the next four or five quarters or so.

Saket Kapoor: What should be the maintenance capex Sir for us for this year?

P Deepak: I think the maintenance capex that we will be looking at is probably somewhere around perhaps about Rs.12 Crores or so I think is what we are looking at. We are looking at a fairly minimal maintenance capex for the current year.

Saket Kapoor: Sir I think for the new unit part you did speak about earlier also that aligning with the product certification, how has been the utilization level for the new line at Pedapariya for Q1 and what are the expected utilization levels from the unit going ahead?

P Deepak: So, as I mentioned I think in Q1 it was only 15% and probably which was unfortunately we expected that number to be closer to 25% but because of the power cut we were little bit limited in terms of what we could do for a couple of months. I think our goal would be to bring that up to about 45% to 50% capacity utilizations by the end of the financial year, so by Q4 we would like to be at about 45% to 50% capacity utilization on that line.

Saket Kapoor: Sir in tonnage terms can you give the number what was the number for this quarter from the new unit contribution from there?

P Deepak: I do not have the precise tonnage Saket right now in front of me but this roughly you can calculate this out.

Saket Kapoor: So, the increase in volume which we are expecting going ahead and this 90000 tonnage which we are expecting, there will be a good contribution from the new unit and therefore, the margins will also be better as you have told that it is a more mechanized and the costs are lower there, is it a good understanding?

P Deepak: So Saket I think there are two things. We expect that the increase in volume will happen largely in two places. One will be our Gudur plant where we have recently completed the modernization project in the month of March right, so lot of these export products that we are talking about will be produced at Gudur, so we will see better utilization coming out of Gudur as this new modernization project where we have put in a new automated line and replaced the old manual line, so we will some improvement coming out of our Gudur plant. In Pedapariya also we will see some improvement coming but the improvement you will see in Pedapariya that are coming will be more because of better absorption of fixed cost as you said there is more automation, but a lot of these products what we are producing as I mentioned earlier we are producing this for the first time right so these are large heavy products that in the history of our company we have never produced, so we are now in a position where we are now ramping up those products and certainly it will take us a little bit of time to have everything fully stabilized and operational at peak performance. But certainly, we believe in a kind of probably medium term to long term basis right perhaps may be three to five years that this plant could potentially be the most profitable plant that we have. I think the way we have envisaged the plant and designed the plant we certainly believe that potential exists.

Saket Kapoor: So, at peak capacity Sir what should be the revenue? It is far away, three to five years is a long time and then it is a cyclical business and then again, the disruption from technologies, there are many variables to it, so looking that into account what has been our investment I think Rs.170 Crores will be invested in the new facility?

P Deepak: Both lines together in total in the Pedapariya facility investment was Rs.250 Crores.

Saket Kapoor: So, going ahead you are telling that at optimum levels or at the peak utilization levels what kind of revenue taking today's price into consideration we can envisage going ahead? And when do we start seeing these things on ground? When will the number start flowing into it, this three to five year is a long time to get into it?

P Deepak: Like I said, I think our goal is by the end of the financial year we would like to be at that 45% to 50% kind of number. 45% to 50% kind of number on what is 60000 tonne capacity is roughly about 30000, so let us call it about 25000 tonnes or somewhere between 25000 and 30000 tonnes per year right and roughly speaking it is hard to put a number to it right now but based on current things may be even at Rs.150 a kg average I think that will work out to perhaps something around to perhaps something around Rs.400 Crores or something in that ballpark right. Roughly speaking that is what we see the run rate perhaps what we should be at by the end of the year or so we hope.

Saket Kapoor: Thank you Sir for all the elaborate answers Sir. I will join the queue.

Moderator: Thank you. The next question is from the line of Amey from Banyan Capital. Please go ahead.

Amey: Just one follow up question, so you mentioned that because of the power issue we lost 1000 tonnes and basically at the new Pedapariya plant the utilization could have been 25% but it is 15% so basically 10% shortfall and 1000 tonnes shortfall so can you just help me connect the dots where I am going wrong?

P Deepak: So, the 1000 tonnes would represent perhaps both Gudur as well as Pedapariya unit because both were impacted by the power cuts, so that would be roughly I would say perhaps may be around 500 tonnes or so in each place roughly speaking, may be a little bit more but because we were able to dilute the 1000 tonnes of stock may be that would have been the other part of it right. We would have actually produced that additional 1000 tonnes, so in terms of the sales impact perhaps you know what we believe.

Amey: So, assuming that we launched 500 tonnes at Pedapariya and we lost 10% equalization so then it comes to 5000 to 6000 tonnes capacity, I am still not able to get it Sir?

P Deepak: No, it is not just Pedapariya right the loss that we are talking about, so if you look at Pedapariya the total capacity whatever is there right, the capacity that is there in Pedapariya is actually 60000 tonnes a year right, so if I divide that out into a quarterly basis it is at about 15000 tonnes or so.

Amey: Got it. Thank you, Sir.

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

P Deepak: Thank you everyone. I think we have closed the books on Q1. We are quite optimistic and really looking forward to what Q2 holds. I think a lot of the things that we have been talking about for the last few years and working on seem to be coming to fruition and so we are excited to continue on this journey. We really appreciate your time to get to know us as well as ask the questions which clearly show that you have been tracking us very closely and following us and we really appreciate that, and we look forward to continuing the conversation next quarter. Over to you Annamalai!

Annamalai Jayaraj: Thank you.

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. You may now disconnect the lines.