"Nelcast Limited
Q2 FY2023 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to Nelcast Limited's Q2 FY2023 Earnings Conference Call. 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 Ms. Sonia Keswani from Ernst & Young IR Practice. Thank you and over to you Madam!

Sonia Keswani: Thanks Vivian and good morning everyone. On behalf of Nelcast Limited I welcome all of you to the company's Q2 and H1 FY2023 Earnings Conference Call. I am Sonia Keswani from Ernst & Yong IR Practice and we manage Investor Relations for Nelcast Limited. You would have already received the Q2 and H1 FY2023 results and investor presentation which is also available in our filings with the BSE. To discuss the company's business performance during the quarter and outlook we have with us today Mr. P. Deepak - Managing Director and Chief Executive Officer; and Mr. S.K. Sivakumar – Chief Financial Officer of Nelcast.

Before we proceed with the call a disclaimer, please do note that anything said on this call during the course of the interaction and in our collaterals which reflects the outlook towards the future or which should be construed as a certain forward-looking statement, must be viewed in conjunction with the risks the company faces and may not be updated from time-to-time. More details are provided at the end of the investor presentation and other filings that can be found on our website www.nelcast.com.

Should you have any queries or need any further information at the end of this call, you can reach out to us at the e-mail address as mentioned in the company collaterals. With that I would now like to hand over the call to Mr. Deepak. Thank you and over to you Sir!

P. Deepak: Thank you Sonia. Thank you everybody for attending this call. We really appreciate your time.

Before I proceed with the quarterly performance, I hope you are all doing well and enjoyed the Diwali festivities with your families and season's greetings to all your families from all of us here at Nelcast.

I am pleased to share that we continued with the growth momentum and reported record revenues for the third consecutive quarter. Our Total revenues stood at Rs. 332 Crores in Q2FY23, which is a growth of about 37% YoY and close to 11% QoQ. This growth was primarily driven by volume increase that stood at 22,090 Tonnes, up 15% YoY coupled with better realization due to increase in exports and growth in the Commercial Vehicle segment.

On the margin front, our EBITDA stood at Rs. 30 Crores in Q2FY23, up 81% YoY and 29% QoQ driven by strong demand and coupled with softening of raw material prices and Nelcast, as a result of benefitting from the lag in the pass-through was able to achieve some better performance in the quarter. I am happy to share that our EBITDA/kg stood at Rs. 13.5 in

Q2FY23 and if you take the entire H1 of FY23 it stood at Rs. 12.9. This perfectly aligns with our guidance of an EBITDA of Rs. 12/kg for FY23, as stated in the past.

Moving on to how we have done segment-wise and our outlook for coming quarters.

Tractor segment performed well on the back of strong production numbers among customers. However, going forward, we see October to be mildly impacted by seasonality and the full impact is expected to be felt from November onwards. Hence, it is highly likely, that volumes for tractors in Q3FY23 and Q4FY23 may be lower than Q2FY23.

M&HCV which is our Medium and Heavy Commercial Vehicle segment demonstrated a strong performance as well. We expect that going forward the growth momentum will continue in the second half of FY23.

On the export front, demand remained strong and we recorded a revenue of Rs. 83 Crores this quarter and Rs. 155 Crores in H1 of FY23. Majority of the new products that we will be launching are in their final ramp up stage. Given our growth trajectory and upcoming new launches, that will hit the markets in the next quarter, we expect to achieve our target of Rs. 300 Crores of revenue from exports in the current year.

Our segment-wise revenue contribution in H1 of FY23 saw a large share coming from the M&HCV segment which was 35.9%, followed by Tractors - 34.0%, Exports were at 25.0%, Off-highway equipment at 1.8%, and Railways at 3.0%.

Moreover, we are on track to meet our guidance of about 90,000 Tonnes in the current year as we did 22,090 Tonnes in Q2FY23, and 42,248 Tonnes in H1FY23.

Besides our strong quarterly performance, I would like to highlight that we were felicitated with two awards. One from Tata Motors for ‘Extraordinary Support’ and another one from Automotive Axles Limited for ‘Excellence in New Product Development in Castings’. This serves as a validation towards our strong product portfolio and our best-in-class service to our customers.

To sum up, looking forward to FY23, we see strong demand coming in from the M&HCV & Export segments with tractor segment facing a slight slowdown in H2 as the typical seasonality kicks in. Overall, in terms of revenue, we expect performance in Q3FY23 to be largely in-line with Q2FY23 followed by a stronger performance in Q4FY23, on the back of new launches in the export market and typically a strong Q4FY23 performance of the CV segment. With this, I think we can now open the floor for questions. Thank you.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Abhishek Tiwari from Omkara Capital. Kindly proceed.

Abhishek Tiwari: Congratulations Sir, for phenomenal set of results and more so exactly delivering on what we guided during our Q1 call for the Q2 results and also very heartening to see very detailed presentation which covers outlook for third and the fourth quarter as well. Coming on the questions I have three questions. My first question is regarding volume visibility for FY2024 are we looking to cross magical six-digit mark that is 1 lakh tons of sales in FY2024 or we are looking to even surpass that meaningfully?

P. Deepak: I think the answer to that would be yes certainly there are factors beyond our control that could hinder that or that could accelerate that but certainly that is what we would hope to do in FY2024 would be to do better than the 1 lakh ton market you are alluding to.

Abhishek Tiwari: My second question is bit broader it is regarding the replacement value. So, today we are having capacity of almost 160,000 tonnes and with minimum Rs. 50 odd Crores of capex we can go up to 210,000 tonnes so what is the kind of capital investment one has to incur to set up the kind of capacity and capabilities that we have considering 210000 tons of capacity, any replacement value or per ton basis guidance that we can give?

P. Deepak: I think typically speaking just give me one second, I need to scribble down some numbers, I will answer that question in a second.

Abhishek Tiwari: Shall I ask my third question meanwhile?

P. Deepak: Yes.

Abhishek Tiwari: My third question and last is regarding debt. So, today we are having Rs. 300 odd Crores of debt and we are incurring Rs. 30 Crores annual finance cost, so there is significant jump that can come in the bottomline from a reduction of the debt, so we have some kind of timeline by which we see a meaningful reduction on the balance sheet in debt or becoming a debt free on net basis?

P. Deepak: In terms of what our current repayment schedules are, so the repayment schedules are approximately I think between Rs. 30 and 38 Crores a year going forward, for the next few years in terms of our long-term debt. I think in terms of the debt figures about more than half is working capital related and a smaller portion is the term loan. So, like I said, the term loan repayment stands at between 30 to 38 Crores for the next few years.

Abhishek Tiwari: The debt part we were discussing, and that replacement question is pending.

P. Deepak: I think replacement on the capex replacement would be approximately between Rs. 850 to 1000 Crores would be the replacement capex if I was to look at it and then of course in addition to that there is also the working capital element to it. The last question you have was regarding the debt, I think I was saying that but perhaps you could not hear approximately 30 to 38 Crores is the repayment schedule that we have on the term loan but I think in the next couple of years, go as what we project, there is a possibility that we would look at bring that ahead all is well but that would depend on a variety of factors certainly the market doing what we expected to do and what we would likely to do and at the same time I think it also depends on other plans including capex and other things that we would plan depending on of course the kind of growth that we continue to see.

Abhishek Tiwari: Thank you so much Sir and all the best for the coming quarters and years.

Moderator: Thank you. The next question is from the line of Kaushal Shah from Dhanki Securities Private Limited. Kindly proceed.

Kaushal Shah: Thank you Sir, for the opportunity. Congratulations on the great set of numbers. If you can share with us what was the utilization level at the Pedapariya plant?

P. Deepak: For the past quarter, it was just a tick above 20%.

Kaushal Shah: Given that the demand scenario looks pretty buoyant. where do you think will that number be by March 2023?

P. Deepak: I think we are looking at a number that would probably be about 35% or so, that is what we are targeting to be at by March.

Kaushal Shah: Coming to the RM and specifically on the scrap prices what were our average scrap price, let us say on a per kg basis, for the second quarter?

P. Deepak: So exact price is difficult to talk about but if I was to look at what it was compared to the first quarter maybe about Rs.4 a kg lower I would say.

Kaushal Shah: If the current sort of benign price scenario continues will there be a possibility that maybe one quarter down the line there could be a scenario where we will have to pass on even the lower prices to the customers, so optically is there a possibility that our realizations could dip on a quarter-on-quarter basis?

P. Deepak: As we mentioned, I think that is why if you look at what our guidance of Rs.12 per kg is well even though we have done better than that in Q2 we are not revising that upwards but we do not really know what might happen in the raw material price market but that being said I think if you look at how much raw material prices have come off in other geographies whether it is Europe or the US and how much we have come down in India, I think we have come down a lot less than what it has across the world, so there might be potential that raw material prices may come down or we never know it could also strengthen or stabilize. So that is a variable that we are still not fully aware of.

Kaushal Shah: On the export front, we have been maintaining a very good growth momentum and numbers are actually justifying that some thoughts on how you perceive the US market and the Europe market and maybe an outlook for the next six months or so based upon the feedback that you are getting from your customers?

P. Deepak: I think what the feedback we are getting from customers is they are expecting extremely, extremely strong 2023. In fact, the forecasts are a little bit higher than what they expect to achieve in 2022. When I say little bit higher, I mean about 5% or so higher and I think this was also reflected, as recently PACCAR which I think is a second largest truck manufacturer in US, have their earnings call and they also made a similar statement where they expect 2023 to be extremely strong. There is a strong backlog of orders. In addition to the strong backlog of orders it looks like the last couple of months the order intakes have also gone up.

Kaushal Shah: Sir you were sharing about the exports outlook.

P. Deepak: I think we expect the US market everybody seems to keep thinking that, on the commercial vehicle front. they are going to have an extremely strong year in 2023, a little bit better than 2022. driven by a little bit of easing up of the semiconductors, of course but in addition to that the strong demand backlog is there and if you see the last couple of months, I think the new truck orders also has been quite good. So, 2023 seems to be shaping up to be a fairly good year, there might be some drop off that might happen in 2024 but I think it is too early to tell about that but 2023 looks to be shaping up to be a very good year that is what we can tell based on the information that we are receiving in the North American market.

The European market also seems to be quite strong, there seems to be quite an order backlog on trucks, so I think that is something that is also surprisingly positive, especially considering everything we are reading in the newspapers about severe recession in Europe and all of that but the forecast and the mood there seems to be actually quite positive on that front even I think, the OEMs seemed to be projecting about 10% to 15% growth. So, we have to wait and watch obviously but right now from the projections we are getting from customers seems to be quite positive.

Kaushal Shah: The final question from my side, going by the utilization level at the Pedapariya plant it seems likely that the Brownfield capex which the earlier participant also spoke about that may not be required in the next calendar year so would you be anticipating some additional capex on that front for that additional 50,000 tonnes capacity by maybe next December?

P. Deepak: I think it is too early to tell, we need to see how the scenario plays out and how the situation progresses over the next few months to really take a decision on that but it will depend on couple of things, one is of course the overall capacity utilization improvement but also certain segments and certain products and products of a certain size and how we forecast that to happen. So, I think that is the decision that we will probably take in the month of February and March, as we are budgeting for next year.

Kaushal Shah: Finally, any new order wins or any new customers or maybe even an increase in our relationship with existing customers, any color on that?

P. Deepak: Yes, I think we are working on several new programs and that are may be a little bit earlier in terms of stage, in terms of the quotation stage, where we are going through technical reviews and all of that, where there is I would say perhaps a pretty good likelihood of order wins. I think no specific order wins that I would like to talk about or that needs to be highlighted, but I think the more important thing that is happening right now is the order wins that we have are being executed on and I think that is the important part, the kind of ramp up that we will go through on those programs that we are now in the process of execution.

Kaushal Shah: Great, thank you so much.

Moderator: Thank you. The next question is from the line of Anupama Bhootra from Arihant Capital. Kindly proceed.

Anupama Bhootra: Congratulations for putting such strong numbers. I have couple of questions, first is like what is the order book in terms of like not backlog but this quarter inflow and the other question is revenue contribution from new products this quarter, if could you quantify little bit on that?

P. Deepak: So, I think in terms of order book I think as I alluded to in my initial comments, we expect that for our sales this quarter will be largely in line with what we did in the previous quarter and the fourth quarter will be better right, so roughly where we think that we will be for the current quarter and the next quarter. Perhaps I think as I said overall, we still think that something around that 90000 is the number that we would achieve, and this current quarter should be largely in line with the previous quarter.

In terms of the new product breakup, I do not believe I have that information currently with me. I think that will be slightly more pertinent question to talk about perhaps in the next call because we are going through a lot of that initial ramp up that has just started in the last few weeks.

Anupama Bhootra: One more thing, can you give some information regarding machined mix like how much products are totally finished or machined and the other ones?

P. Deepak: Roughly I think about 65% or 70% we supply as fully machined condition.

Anupama Bhootra: Thank you so much.

Moderator: Thank you. The next question is from the line of Riken Gopani from Capri Global. Kindly Proceed.

Riken Gopani: Hi Sir thank you so much for the opportunity and congratulations for great results during the quarter. First question is to try and understand while you have given an outlook on how people are expecting the export business, if you could talk about any new order wins or your own internal expectations of the export business traction that you are seeing and how the pipeline is shaping up for potential new client wins in that segment and a related question to that, is we have mentioned that we could comfortably complete Rs. 300 Crores guidance on the export but given our current performance and our expectations of 100 Crores run rate from Q4 we could actually do 350 plus Crores kind of export, can you please clarify on that as well?

P. Deepak: Sorry could you repeat your first question?

Riken Gopani: How is the pipeline looking like what new order wins or client wins could we see and based on that what could be the outlook for exports in the next few years?

P. Deepak: I think outlook for exports in the next two years based on order wins, including what we already have and the orders that we are executing, I think we will see the pipeline already of business roughly about Rs. 500 Crores or so, in terms of the order wins that is I am talking about where we expect to be towards probably FY2024 kind of period, that is roughly what we can see based on order wins today. There is a lot of programmes that we are currently quoting or having serious technical discussions on, so it is a little too early to talk about it, even though we believe that we may have a very good chance in many of those, but I would not like to quantify that or talk about that this early. Like I said perhaps there might be an opportunity to talk about this in the next quarter if we do get some of those wins that we think we might get and it is done by that time.

Riken Gopani: On the export revenue guidance the Rs. 300 Crores number what I was asking?

P. Deepak: Certainly, we think we could do better than Rs. 300 Crores for sure, I think 350 is a little too high but perhaps somewhere in between that I think is a fair estimation.

Riken Gopani: Just a follow up on exports, you did mention that the newer orders are now ramping up so do you see that there are any initial costs which are impacting in some way or the other or the export margin a little bit here and there and once you sort of fully ramp up there is a potential for the export margin to see some improvement from that aspect or are the current margins normalized in the export and it does not get influenced by the ramp up?

P. Deepak: No, it will undoubtedly get influenced by the ramp up because once we ramp up and stabilize, some of the quality costs as well as some of the optimization will take place and we will certainly be able to do better jobs than what we are in the initial stages, which is where we are right now. So certainly, there will be some improvement, I do not think it will be substantially different but certainly there will be some improvement that we expect to achieve.

Riken Gopani: That is something that we can expect in FY24 or Q3, Q4 of FY23 where you see there is improvement panning out.

P. Deepak: I think probably more of FY2024 because Q3 and Q4 will be the ramp up stage as it is happening so FY2024 will probably be more of the kind of stabilization space.

Riken Gopani: Just lastly on the domestic piece as well, while you have outlined that Q4 is where you see relatively stronger performance given the seasonality but overall how are things shaping up there and overall are there any new order wins that could help us grow significantly better than the overall market and therefore the outlook for next year also?

P. Deepak: I think there are some order wins in the commercial vehicle segment domestically, but these products are still under testing so perhaps I do not know if they will impact us in Q3 and Q4 it will depend a little bit on the testing timeline which is in the hands of the customer more than in our hands. But I think on the CV space as well we are looking at new businesses and new products and growth in that direction.

Riken Gopani: So FY2024 is where these order wins could transpire for you to come through?

P. Deepak: Yes, that is what we expect.

Riken Gopani: Understood. I did not get these points but maybe I am just asking again but if you could help me understand that based on whatever are the current raw material trends in the market, do you see your realizations, while obviously there could be volatility, but based on how things are today what is it that could happen to our realizations and EBITDA per tonne?

P. Deepak: This is a factor this is beyond our control right. If the raw material prices go up again then certainly there is a negative effect that comes there. What we have seen on a global front is we have seen a huge drop off in raw material prices compared to what was the peak, which was probably between May and July, comparing that period to now there has been a huge drop off in global prices. To be fair we did not see the same kind of increase what was seen globally during that period, but I think compared to where we believe that the domestic market should be in terms of the scrap price it is certainly higher so we hope that it will come down and we will get benefited by that in the same way that we were hurt by it in the previous financial year, but it is something that is beyond our control and we will be watchful but we expect that softening should continue and we do not anticipate it to increase.

Moderator: The next question is from the line of Saket Kapoor from Kapoor and Company. Kindly proceed.

Saket Kapoor: Namaskar Sir and thank you for this opportunity. Sir firstly, many congratulations on not only a good set of numbers but on the path towards providing us more information in the form of revamped presentation, we hope for the continuity of the same. Firstly, there was line disruption, so I am just trying to sum it up. You mentioned that on guided tonnage of 90,000 tonnes for FY2023 we can look forward for a 1 lakh number for FY2024 taking into the account any unseen or foreseen circumstances is that understanding correct for the next year?

P. Deepak: I think we would like to do better than that but that is something we believe is certainly possible.

Saket Kapoor: So that 1 lakh numbers is a conservative number we have even a better outlook than that is good understanding and secondly about the raw material part, you mentioned that the scrap prices internationally have corrected more and impact of the same here is lesser, so going ahead also there is a very likelihood of softening of the prices, is that understanding correct?

P. Deepak: That is the hope, yes. If we look historically typically if you look at how, on a currency converted basis, how the scrap prices in the Indian markets versus let us say other markets in the world work. There is sometimes a lead or lag of maybe about 3 months but overall, in the medium to long term they are more or less lined up, that is what we have seen historically. Obviously, these are very different times globally, but we would hope that reversion will happen for sure.

Saket Kapoor: What is the take on the freight market, I think in the freight market also the prices have corrected haywire, so what would that impact us especially for our export segment or are we neutral on the same as well?

P. Deepak: There is a softening in freight prices for sure. I think what we have seen is a dramatic drop if you look at, let us say from China to the US but from India it looks like demand is still reasonably strong in terms of export to US and Europe so while we are seeing some softening in freight it has not come down substantially. We expect that it will continue to happen in the next few months, and it will keep coming down. When the freight went up, we did get increases from customers so when the freight does come down, there will be some amount of that reduction also passed back to the customers, so that is something that will happen whether there is a lead or a lag or what exactly that is and what will depend on a variety of factors.

Saket Kapoor: Sir if we take away these factors this lead time and the lag time effect, what other steps as an organization are we taking to bring in fixed cost reduction, so that even when these vagaries of raw material mix and the freight moves out we are able to maintain our EBITDA per kg. This quarter we had a benefit of raw material price correction which may not be there in the next quarter so the other aspects like power and fuel and also on the finance cost, what steps as an organization are we taking so that we can get permanent benefit from these two aspects going ahead leaving aside these raw material vagaries?

P. Deepak: I think on the fixed cost, the primary thing that we were doing to ensure that we maintain better EBITDA irrespective of these factors is the increase in volume, so we are ramping up, we do have good order visibility, so I think our focus is to ramp up, to meet the demand and the requirement. The second thing on the power cost as you mentioned is a major cost for us after raw material that is our second highest thing in our list of cost and as we have mentioned we are procuring more of renewable sources through the group captive method which is investments that we have made. I think right now we are at about 60% for the company as a whole in terms of our renewable consumption of power as well. Other than that, we are working on operating efficiencies as well and trying to get better productivities and all of that, which is also happening.

Saket Kapoor: The point I am trying to understand is this Rs.12 EBITDA per kg today is dependent majorly on on the raw material front, that lowering raw material prices, so what steps are we taking that will start reflecting in a permanent EBITDA per kg in the double digit number, keeping aside the other factors, where are we in that?

P. Deepak: Saket I think in terms of what we have said I think our goal and what we are aiming for and trying to target in the next 2 to 3 years is to get that number up to Rs.15 per kg as EBITDA and the way that we are going to do it is going to be a mix of couple of things. One is certainly on the cost front in terms of bringing down energy cost in terms of improving efficiency, second one is also in the terms of the capacity utilization front by improving our production and the third one, is in terms of the model mix and improving the model mix. So, I think these are the three things that we have talked about also in the past to move and we believe that it is certainly possible for us to move from where we are today, which is what we are guiding towards Rs.12 per kg to approximately about Rs.15 per kg, in the next perhaps two to three years.

Saket Kapoor: Right Sir I will come in the queue Sir and thank you for the elaborate answer.

Moderator: Thank you. The next question is from the line of Dhiral Shah from Phillip Capital. Kindly proceed.

Dhiral Shah: Good afternoon, Sir. Thanks for the opportunity. Sir you just mentioned that our ultimate EBITDA per kg target is around Rs.15 per kg in the next two to three years so can we expect like Rs.1 improvement in EBITDA every year?

P. Deepak: That is what we will certainly want to do, we will want to work in a linear fashion and I do not think there is a magic pill that all of a sudden we will jump from 12 to 15 after this thing but certainly we would want to make improvements but the improvements may not necessarily be linear, but certainly I think we will not expect that all of a sudden we will do three years of 12 and jump to 15 I think that is a fair expectation that you have and it may not be exactly one for each of the years.

Dhiral Shah: I am asking despite the fall in the realization our EBITDA per kg even for the next year definitely will be better than FY2023?

P. Deepak: I think we believe that is possible, yes.

Dhiral Shah: Okay and Sir my second question is regarding on the export side so earlier may be two to three quarters back we were guiding like achieving Rs.400 Crores kind of an export revenue by FY2024 and now when you have almost Rs.500 Crores kind of an order book on the export side so maybe we can do even better than Rs.400 Crores in FY2024?

P. Deepak: I think it is possible but some of the things that we are talking about in the order book have the start of production days that are November of 2023 right so I think that is the last in terms of the confirmed orders that we have, some of them have a production start date in November 2023 when I talked about the Rs.500 Crores figure, so may be not all of it would come into FY2024 but certainly I think there is some chunk that will come in.

Dhiral Shah: Okay, but at least Rs.400 Crores kind of revenue we can achieve in FY2024?

P. Deepak: That was our earlier guidance, yes probably.

Dhiral Shah: Sir at what percentage of capacity utilization we breakeven at our Pedapariya plant because it is still running at 20% kind of a level?

P. Deepak: What I said earlier was we expect that by March we should be at about may be 35% or so utilization.

Dhiral Shah: So, at 35% we breakeven?

P. Deepak: Yes, at 35% we would breakeven.

Dhiral Shah: Okay got your point Sir. Thank you so much.

Moderator: Thank you. The next question is from the line of Aman Agrawal from Carnelian Capital. Kindly proceed.

Aman Agrawal: Good morning, Sir and thank you for the opportunity. We have a total EBITDA of Rs.13.5 per kg so was there any-off commodity price gain or forex gain improvising this EBITDA because your commodity prices are slightly decreased and also the INR has depreciated against USD, so if you can just really talk a bit on that?

P. Deepak: I think if you were to wipe it off, we believe in terms of raw material impacts and forex impacts certainly the numbers that we are talking about would be somewhere around that Rs.12 as against Rs.13.5 I think that is roughly where we think where the number would be. We do not have a precise detailed calculation for you but roughly around Rs.12 right, which is why that is what we are guiding for the rest of the year, even though in the current quarter we did see better numbers.

Aman Agrawal: Got it Sir and in terms of forex, how much is our hedge percentage right now and how are we planning to hedge our forex going forward given having deprecation in INR?

P. Deepak: I think our decisions on hedging forex are largely tactical and relatively short term in nature right. I think we will probably typically look at only six month period of time or so and we avoid hedging anything more than 50% of what we expect to receive, just to make sure that we are not ending up in a situation where our coverage on the hedge, in terms of a forward contract is higher than what we might receive even in the worst case scenario of market drop, I think that is good hygiene and good practice that we do. But it would vary quite substantially, I think when we saw the rupee go to Rs.82 we took a little bit of coverage, similarly, so this is something that we do not have necessarily a clear direction on what percentage we hedge. We try to be more tactical about it and try to do the best that we can but like I said we would not hedge more than 50% to 60% of our expected receivables for that month.

Aman Agrawal: Got it Sir. Sir if you can help me with the production volume numbers for this quarter and the export volume numbers for this quarter?

P. Deepak: The production volume for the quarter was 22,366 and the sales volume as I mentioned earlier was 22,090.

Aman Agrawal: The export volume?

P. Deepak: Export volume I do not have it in tonnage. I have only in terms of value of about Rs.82.8 Crores.

Aman Agrawal: Got it and in terms of working capital, with the freight rates declining and also some commodity prices declining, so do we see a decrease in realization and decrease in working capital for us going forward, given we basically make profits on per kg basis so ideally our return on capital employed should improve with the realization increase, so any outlook on that, are we seeing any reduction?

P. Deepak: I think that is a fair statement that you are making right in terms of an improvement in ROCE if there is a decline in raw material prices and while that may be the topline does not grow as fast the reality is it means that ROCE will be better because working capital will come down. Certainly, I think that is realistic, but I think we will have to wait and watch the next two to three quarters to see that play out.

Aman Agrawal: If you can share your outlook on the CV cycle like how are you seeing the cycle basically playing out in terms of your connection with the clients, what kind of volumes we are seeing in the later part of this year and next part of FY2024 and also specifically touching on the tipper segment given we have a higher content on that side basically?

P. Deepak: I think the tipper segment typically also does better in Q3 and Q4 mainly because Q2 gets impacted quite a bit by the monsoon and Q1 is generally a slightly more sluggish quarter in the general context of seasonality within the M&HCV. So that is the second part of your question. The first part is what we see in terms of the cycle, we are hearing a lot of positivity and lot of optimism continuing in. We think Q3 is going to be strong and Q4 is also continuing to be strong. Typically there is a much bigger jump that happens in Q4, we do not think that as big a jump will happen this year between Q3 to Q4 and I think last year's Q4 numbers were also fairly elevated, so we might not see a big bang of excitement I would say in Q4 compared to either on a year-on-year or a quarter-on-quarter but certainly we think Q4 is going to be a very good quarter and certainly better than last year, certainly will be better than Q2 and Q3 of this year and the outlook seems to continue to be strong. I think even for the next year they do anticipate that there will be fairly strong double-digit growth in M&HCV in FY2024 over FY2023. Now FY2025 I think with elections in 2024 there is some question mark if that will have any impact on government spending and other things but certainly, I think the forecast seems to be quite strong for the M&HCV space.

Aman Agrawal: Understood Sir. Just a final clarification Sir given we are expecting good volumes in some CV segments in Q3 and Q4 and we have slightly higher margins products, so ideally, we should do better than 12 per kg in Q3 and Q4, right? Also, the export share will be increasing given the volume ramp up in the order bookings?

P. Deepak: So hopefully we can do better than, but like I said there are some factors that are beyond our control including what happens with the raw material prices and other things, so I do not want to comment too much on it but we will certainly strive for that.

Aman Agrawal: Understood Sir. Thanks a lot for answering my questions. It was really helpful Sir.

Moderator: Thank you. The next question is from the line of Sahil Sanghvi from Monarch Network Capital. Kindly proceed.

Sahil Sanghvi: Good morning, Sir. Congratulations for a very good set of numbers and majorly executing on what you had guided. I had primarily questions on the export side Sir. First, for a similar product, the margins that we make on exports how much would that be greater than domestic?

P. Deepak: I think typically what we have said in the past is roughly speaking exports between Rs.18 and Rs.20 a kg roughly and domestic perhaps around Rs.10 which kind of brings that average up to about Rs.12 is roughly what we have been seeing in the last few quarters. Obviously, there are certain quarters where it is spiked and values are there so I am just kind of averaging it out over what we expect over a normal period.

Sahil Sanghvi: Right so it is fair to understand that if we ramp up the proposition of exports in our total mix there is good expectation of margins to increase?

P. Deepak: I think that is a fair expectation right and I think that is one of the factors that we believe will also help us move closer to Rs.15 per kg EBITDA.

Sahil Sanghvi: Right Sir and secondly the new products that we are developing from January 2023 we expect to roll it out do we have any kind of volumes which are already booked or any kind of orders which are booked, I understand you gave us the number of Rs.500 Crores but I think that is total export number right now, so from this new volumes do we have any kind of commitments right now that you can give us?

P. Deepak: I think roughly we did relatively small volumes in the last quarter but I think as we ramp these up the new products that we are talking about perhaps would contribute to I think it will be about maybe Rs.15 Crores a quarter or something like Rs.15 Crores to Rs.20 Crores a quarter right so I think that is the gap between where we are currently at which is at about Rs.82 Crores to Rs.83 Crores, Rs.82.8 Crores to be more precise and about Rs.100 Crores which we think we can get close to in Q4.

Sahil Sanghvi: Got it Sir. Congratulations again and thank you Sir for your answers.

Moderator: Thank you. The next question is from the line of Suraj from Axis Bank. Kindly proceed.

Suraj: Good afternoon, Sir. Just wanted to understand what kind of raw material inventory do you maintain like is it for couple of months or it is sourced on spot; or is it sourced entirely from domestic market, or you import as well?

P. Deepak: Raw material, we maintain anywhere between 15 days to a month, I think it depends, again here we try to be a little bit tactical based on what we forecast in terms of how the prices will move but typically about 15 days to one month is the range that we maintain in terms of raw material. In terms of sourcing of the raw materials primarily in terms of steel scrap and pig iron, most of it we source it domestically. Our sources in some cases might choose to import it or procure it domestically but as long as they meet our quality requirements, we do not go one way or another. There might be some very small amount of other materials such as carbon or something else that might be imported but if you look at our overall material spend 99% is domestic and less than 1% or so if you are looking at our last year's annual report it would be imported material.

Suraj: Understood Sir. Thank you. That is it from my side.

Moderator: Thank you. Ladies and gentlemen that was the last question. I now hand the conference over to Mr. Deepak for closing comments.

P. Deepak: Thank you everyone. Thank you for joining. I think since we had a quarter that I would consider to be a fairly decent quarter and we hope that the market continues to remain strong, and we continue to execute, and we look forward to continue interactions with all of you. Thank you very much again for your time and look forward to talking to you also.

Moderator: Thank you. On behalf of Nelcast Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.