“Nelcast Limited

Q3 and 9M FY '23 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day, and welcome to the Nelcast Limited Q3 and 9M FY '23 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 star and then zero 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. Thank you, and over to you, Ms. Sonia.

Sonia Keswani: Thanks, Myron, and good morning, everyone. On behalf of Nelcast Limited, I welcome all of you to the company's Q3 and Nine Months FY 23 Earnings Conference Call. I am Ms. Sonia Keswani from Ernst and Young and we are the IR Partners to Nelcast Limited. You would have already received the Q3 and nine months FY '23 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, the Managing Director and Chief Executive Officer, and Mr. S. K. Shivakumar, the Chief Financial Officer of Nelcast Limited.

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 risk 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 email addresses 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. Good morning, everyone, and thank you for attending this call. On behalf of the Nelcast team, I would like to wish you all a very happy New Year. May this year bring you happiness, peace and prosperity.

Talking about the numbers for the quarter gone by, our total revenues stood at INR 334 crores in Q3 FY '23, which was a growth of about 41% year-over-year and about 0.6% quarter-on-quarter.

So, this was another record quarter of revenues, which is now I think, four quarters in a row. And the year-on-year performance was driven by volume growth that stood at 21,513 tons, up about 22% year-over-year. We saw strong demand from the commercial vehicle segment and from exports. However, we did see a decline in the tractor segment, which is in line with the seasonality that we typically see for the segment. Quarter-on-quarter only saw a marginal increase due to the disruption of the company's operations for a week due to a temporary shutdown of power supply, which led to lower volumes.

On the margin front, our EBITDA stood at INR 21 crores in Q3 of FY '23, up 38% year-over-year, but down 29% quarter-on-quarter. The year-over-year performance was driven by growth in sales volumes and better realization due to increase in the exports, but quarter-on-quarter performance was impacted due to lower sales tonnage as well as one-off cost related to the transformer failure, which resulted in the power shutdown for little over a week in one of our plants and additional hiring to bring in additional people for the new and existing plants as we are preparing for some new program launches ahead.

Our EBITDA per kg for the quarter stood at INR 10. And for the nine months so far stands at INR 11.9 per kg in the nine months of FY '23.

Moving on to the segment wise situation and the outlook. The tractor segment witnessed a large dip compared to last quarter, which is impacted, I would say, by normal seasonality in the industry. We do still expect that seasonality to remain in Q4 of FY '23. And we expect, again, based on seasonality, Q1 of the FY '24 to be a substantial quarter-on-quarter improvement going forward. The M&HCV, which is our Medium and Heavy Commercial Vehicles, continue to demonstrate strong performance. We expect that growth momentum to continue as we move to Q4 of FY '23.

On the export front, demand remains strong. We recorded a revenue of INR 91 crores this quarter and INR 246 crores overall for the nine months of FY '23. So this already eclipses what we have done in our entire FY’22. The new product launches, some of them are in the final stages of ramp-up and will reach production towards the end of this quarter or early next quarter. This will ultimately boost our revenue from exports to exceed the INR 300 crores that we had mentioned on previous calls in the current year.

Our segment wise revenue contribution for the nine months of FY '23 saw the largest share coming from Medium and Heavy Commercial Vehicles, which made up 37.7% of the total revenues, followed by tractors, which was 31.3%, Exports at 26% and Off highway equipment at 1.7%, Railways at 3% and others at 0.3%.

We expect the overall performance to be better in Q4 of FY '23 when compared to Q3. So we do expect to see quarter-on-quarter growth happening in this quarter, driven by the strong momentum in M&HCV as well as exports.

Looking a little at the overall year, we do envisage a decent demand opportunity which should be driving this growth, and considering the nine month performance, we believe we can achieve in excess of 85,000 tons for the year with an EBITDA per kg of approximately, you know, INR 12 per kg in FY ’23, which is in line with what we had stated in our previous calls.

Looking forward to FY '24, we expect double digit top line growth in revenue, driven by continued strong demand in M&HCV. We do believe there will be a pickup in tractor sales next year as well, boosted by strong rural economy and growth will also continue in our export markets, on the basis of strong order backlogs. There are still large wait times on some of the larger trucks. So, we do believe that that order backlog will remain healthy for the next year.

With that, I think we can now open the floor for any questions that anybody might have. Thank you.

Moderator: We have the first question from the line of Dhiral from PhillipCapital.

Dhiral: So my first question is about the drop in the gross margins. So what has led to the correction in the gross margins on a Y-o-Y as well as quarter-on-quarter basis, this was despite, the steel prices was down during that period.

P. Deepak: So I think there were a few different things that impacted the gross margin. I think one of which was on some of our export businesses, we did see that the price reductions that we had to pass on based on the global indices that we have for steel scrap prices. There is a greater reduction in those prices globally than in India. Again, I think I may have mentioned this in past calls that typically when we see this lead or lag between the Indian and global markets, it is temporary and tends to converge back within a quarter or two. So that was one.

We did pass on some price reductions also to our customers. And I think over and above that, I think from a cost perspective, we did see a couple of other things. One, some additional hiring that we had done in our plants envisaging some growth that we expect that we will see in the next couple of quarters. We did see also increase in power cost that was done by the Tamil Nadu Electricity Department as well, which is in the process of being passed on to the customer. So there were a few different cost factors I think that did impact us in this quarter gone by.

Dhiral: Sir, going ahead what will be our sustainable gross margin going ahead in the coming quarters?

P. Deepak: So, I think what we are seeing in terms of in terms of gross margins are still, largely in line. I think we will see perhaps 1% to 2% difference in gross margins, nothing substantial. But I think, on an overall basis based on how the price has normalized, we do believe that this INR 12 per kg average that we have for the nine months will certainly sustain into the fourth quarter as well.

Dhiral: And sir, you are talking about the new product ramp-up. So at the peak levels sir, what kind of revenue it will generate? And what will be our export outlook for the next year?

P. Deepak: So, at peak levels for a full year, right now with the products that we have already -- that are already launched as well as are currently launching. So we see somewhere between about maybe about INR 100 crores to INR 110 crores per quarter being the norm. I'm talking about just the products that are launched and currently under ramp-up.

We do believe that there are some further opportunities that we might get a chance to in the upcoming year. But right now, we see between about perhaps about INR 100 crores to INR 110 crores per quarter being what we could achieve once the products are fully ramped-up.

Dhiral: So this will be the starting from Q1 FY'24, INR 100 crores kind of our export run rate revenue?

P. Deepak: Yes, I think we do believe that that's certainly the case.

Dhiral: And sir, lastly on the other income part sir, if I look at our other income, it has gone up sharply on a Y-o-Y as well as quarter-on-quarter basis. So, so what has led to this, sharp rise in the other income, sir?

P. Deepak: So I think one of the things that does come into other income is gain on foreign exchange. So I think one of the things that we have been fairly prudent about is how we have managed our hedging and how much we have left open. So I think with that, we've been able to realize a better dollar rate than what we had originally envisaged.

Dhiral: So what was the portion of sir, forex income in that?

P. Deepak: Maybe about 75% to 80% something in that range, perhaps might be forex related.

Dhiral: So will this continue in coming quarters sir, or this was like one time gain?

P. Deepak: We can't exactly say that because we're not experts on the forex market. But I mean, I think some portion of it will certainly continue into Q4. But we'll have to see how the forex moves as well.

Dhiral: So, when you talk about the EBITDA per kg of INR 12, so does it include other income also or you are talking about excluding, other income and the pure operating profit?

P. Deepak: It includes other income as well.

Moderator: We have the next question from the line of Amey from Banyan Capital.

Amey: Just a couple of questions from my side, sir. Firstly, in the presentation, you have mentioned guidance of 85,000 tons for the full year, which was earlier 90,000 tons. What was the reason for this revision in guidance?

P. Deepak: So I think if we look at what was the impact of the transformer related issues, that number is probably around 2000 tons or so is the impact of that. I think what we expect this year will be between 85,000 tons and 86,000 tons. So, 2000 tons is probably the impact of that. Another 2000 tons is, I think if you look at the fall in the tracker segment, while it is in line, I think this year we did think that there would be a slightly lower fall, so perhaps another couple of 1,000 tons because of that. So I think that's why we believe between 85,000 tons and 86,000 tons is where we 'll end up for this year.

Amey: So tractor was better than expected, right?

P. Deepak: Yes. So overall for the year, I think tractor has been, slightly better than the previous year. But I think for the previous quarter, the fall was a little bit more than what we had expected. Because typically in a good year, it doesn't fall off as much because OEMs do tend to, try to build their inventories a little bit more. Unfortunately, that has not happened. But what we have done is in the plants that, producing more of the tractor parts, we've actually moved some of the commercial vehicle parts over into those plants as well, so that, we'll be able to get a little bit more tonnage in the current quarter.

Amey: And sir, you mentioned the 2000 tons was because of the power issue that the production was less. So what is the tonnage that comes out of the Gudur per quarter? I think it's around 7000? Correct me, if I'm wrong.

P. Deepak: Gudur, I believe it would be around 8000 tons or so approximately.

Amey: So in three months, if 8000 tons comes out of Gudur and our plant was shut down for just a week. So then, how is the impact of 2000? I'm not able to connect the dots?

P. Deepak: So let me explain, so what happened was, as a result of the transformer failure, it was about eight days of production loss that we had. But in addition to that, so we had then installed a replacement transformer, which worked temporarily, while the transformer was getting a permanent repair. So that replacement transformer doesn't have the 100% capacity of our original transformer. But unfortunately, that was what was available and to avoid further loss of production, that's what we had to install. So that replacement transformer is currently being replaced. Our original transformer has been fully repaired and is currently being installed and will get into operation from today. So that is also part of that impact.

Amey: And so, we will end this year with good export revenues. So basically, you mentioned that INR I00 crores to INR 110 crores export for FY '24 per quarter, you said will start with Q1. And for overall, what are the volumes that you expect in FY '24?

P. Deepak: So I think overall in FY '24, we feel pretty comfortable, I mean, what we said was – you're talking about just export or overall volume?

Amey: Overall volumes?

P. Deepak: So overall volume, compared to, let's say, I think we feel pretty confident. We said double digits on the commentary, but I think we feel pretty confident a number of something around 20% or so would be where we would end up. I think that we feel pretty confident about.

Amey: So about at least a 100,000 tons next year?

P. Deepak: Certainly I think 100,000 tons. We certainly believe absolutely, we will absolutely cross 100,000 tons.

Amey: And sir, any guidance on the EBITDA for next year?

P. Deepak: So I think at this point, we don't yet have. I think, we will try to get you a little bit more clarity perhaps on the subsequent calls. But at this point, I think our focus is making sure that we achieve the INR 12. I think there are a few things that we are working on, especially in the new plant with new product launches and all of that. So we do believe we can do better next year. But I don't have any specific guidance on that.

Amey: And lastly, what was the utilization of Pedapariya and Gudur plant?

P. Deepak: So the Pedapariya plant, last quarter we had achieved actually a utilization of about 23%. So I think it's higher than the previous quarter, which was, I believe, around 20%. And the Gudur plant, of course, because of this impact, we did have a drop in the utilization. So Gudur plant, I think currently stands at about 45% utilization.

Amey: And Ponneri running at optimum, right?

P. Deepak: Yes.

Amey: Sir, Pedapariya, if I'm not wrong, maybe it was 25% last quarter?

P. Deepak: No, I think this quarter was actually higher than last quarter by quite a bit actually. So I think right now, it was about 23% is where it was last, the previous quarter was a little bit lower.

Moderator: We have the next question from the line of Aman Agrawal from Carnelian Asset Management.

Aman Agrawal: A few questions from my side. First on the FY '24 guidance, and we said we would be doing some more than 100k tons in volumes next year. So what kind of volume are we looking at in terms of export, if you can talk about that?

P. Deepak: So I think on the export front, this year we have done INR 246 crores so far. And we think somewhere around that for INR 400 crores to INR 450 crores is the value. So I think perhaps maybe about 30% or so we might see an export, at least this is based on obviously what we're seeing as demand from our customers today.

Aman Agrawal: And any new deal traction, you are getting in export like, any talks?

P. Deepak: There are some fairly advanced discussions happening. Don't want to put the cart before the horse. But I think there are some discussions that are happening for products that might launch towards either the end of CY '23 or in early CY'24. So there are some, fairly serious discussions going on that we think we've got very good opportunities including a couple of projects in the electrification. But I think it's too premature for us to count our chickens before they hatch.

Aman Agrawal: Europe side, we have been talking about some traction from Europe in the past. So any idea on how the situation is in Europe and are we getting good conversions in Europe now given the energy issues they had previously?

P. Deepak: So I think it was pretty clear for us that whatever they were looking for would be probably closer for next winter than it was for this winter, considering the reservoir levels they were able to maintain of natural gas and the fact that they also had a milder winter this year, which was fortunate for them. But I do think there's a very strong opportunity in Europe, driven both by the energy crisis as well as the labour crisis that foundries in Europe seem to be facing.

But I don't think there's anything specific that I would pinpoint right now towards Europe. But we do have some couple of serious discussions that we're having on products for Europe, and we are starting to see more urgency, right. It was a little bit surprising that we hadn't seen that urgency from the purchasing teams in Europe on given the kind of energy situation and labour situation that was there. We're starting to see a little bit more. We're having some visitors come to see our plants, more RFQ’s is coming in, but we do believe that most of these things, I think the decision will probably be taken over the summer.

Aman Agrawal: So, on the raw material cost impact, like we have seen some decline in steel prices, so is it completely passed, or they would see some more impact in our revenue in terms of raw material costs?

P. Deepak: So, I think some portion, I mean, as the increase-decrease happens, right, because we work on a quarter lag basis. So as the increase-decrease happens, we're able to we will pass it on, right. I don't see anything substantial impacting in Q4 right now, on that front.

Aman Agrawal: And on the power cost, it was impacted this quarter, so we expect this kind of impact to continue in next few quarters or so or do we see some moderation in power and fuel costs, given we were also talking about some decline in power cost through some of the arrangements we have done on the renewable energy side and all in the past?

P. Deepak: Yes. So, I think you know specifically, on the power cost side, if you look at it, I think from a renewables perspective, right, wind especially, the peak season is actually Q2, right? So you get lot more generation of wind happening in Q2. Some of it obviously depending on which project and whether the power generated have banking facility and whether it can be banked and used later part of the year.

So, the generation of renewable units in Q3 is typically a little bit lower than in Q2. Q4 also is a little bit lower and then starts to pick up in Q1. But that being said, we are adding more-and-more renewable sources. For our current situation, I think last time I said about 55% was the amount of renewable. We are currently at 63% that we're getting to. And certainly, I think it will get better. I think our target is to be at about 80% within the next couple of years.

Some of the impact of this power cost also, as the raw material price is declining in that price adjustment, the impact of the power cost is being added in.

Aman Agrawal: So on this final question on the Pedapariya plant, like we are operating at 23% utilization. So when do we expect to increase this utilization and reach PAT break even, at least for that plant?

P. Deepak: So I feel actually, we've made quite a bit of progress in the last couple of months, especially on the larger Kunkel Wagner line, which gives me actually quite a bit of confidence that next year we can hit 40% and certainly have a positive EBITDA and PAT contribution if we do that. So that's something we actually feel extremely good about. We've narrowed it down internally to about only four or five action points, all of which can be completed within the next four to six months. So we feel extremely, extremely confident that, for the year ahead that, 40% is what we can achieve.

Aman Agrawal: And this we can reach by Q2 of next year, so like in six months?

P. Deepak: Like I said, perhaps about maximum, we're looking at about six months or so to have all the actions in place.

Moderator: We have the next question from line of Chirag Shah from Nuvama.

Chirag Shah: Just one question, I had that on the Pedapariya plant, how should one look at the ramp up of EBITDA? Because the ramp-up seems to be slightly slower than expectations. So why is it so and how should we look at the ramp-up? Are the orders that we have are still trial orders or proof of contract, or which is happening right now and when actual orders will start flowing on or there is a delay at that client end in launching those products or platforms?

P. Deepak: So, I think, there's two aspects to it. I think one aspect to it is the orders and the testing and all of that. So out of all the products that we have, I would say, now in terms of the envisaged volume, I think 90% of the products, the testing and approvals have been completed and are now in the ramp-up stage as of maybe in the last month or two.

So I think from a product and demand perspective, in the last couple of months, I think we've seen concern on the demand side go away. So now it's more a question of the operational side and us achieving the necessary numbers, which we've got, as I mentioned about four actions that we have planned, which will make sure that we will have this plant running at above 40% and that, 40% is a number that we believe we can achieve for FY '24.

Chirag Shah: The second question is, how should we look at your EBITDA per kg? I know your aspirational numbers are going up to INR 15 per kg, is Pedapariya plant the key driver for that?

P. Deepak: Yes, I think it will definitely be a key driver, right. Because it will add to it rather than subtract from it. I think if you look at, as we may have mentioned in previous calls, the export margins are better overall. And I think in spite of Pedapariya, pulling down the overall number, we've been able to achieve INR 12 per kg for this year. So we see that if you know Pedapariya actually contributes to this. It would certainly push the number up in the in the upcoming year. And I have a personal belief that perhaps within the next two years to three years, the Pedapariya plant will be the highest, the biggest driver in terms of EBITDA gain per kg, right. I believe that will be the plant with the highest number that we will have across all three plants. So that's something that maybe it's a confidence that I have that certainly we can achieve that in the next two years to three years.

Moderator: We have the next question from the line of Nilesh Doshi from Green Lantern Capital.

Nilesh Doshi: My question is mainly on the margin side. So if last quarter we did about INR 13 per kg and this quarter we did INR 10 per kg. Now you did try to explain based on that the production loss at one of the plant, because of transform failure and some passing on of the price to the exports market. But if you look at the revenue side, we have the same revenue last quarter versus this quarter. And that’s what, it's something a question that why is such a big drop in the margin? Because your revenue has been more or less same.

P. Deepak: So, if we look at in terms of production also there was about a 1000 ton decrease in terms of our production numbers, which is, part of the issue and about a 500 ton reduction in terms of sales compared to the previous quarter.

Nilesh Doshi: So like almost 5% of the revenue, I mean, the production loss or 5% of the sale loss in terms of tonnages make so much difference in terms of margins?

P. Deepak: So there was, as you said, 5% drop in terms of volume, quarter on quarter. In addition to that, the power cost increase that was there in Ponneri and as I mentioned earlier, also some passing on of the cost reduction. In addition to that, the employee cost also has gone up in the quarter based on some hiring that we had done based on some new product ramp ups that are currently going on. So until the ramp ups are complete, you won't see the full absorption of this, you know the employee costs into the margins.

Nilesh Doshi: So do we expect at least from Q4, I mean, we don't see such failure on machines. I mean, the transformer or any such thing. Bearing such unforeseen situation, do we believe that we can start coming back to INR 13 per kg from Q4 as a run rate?

P. Deepak: So I think as of now, I think what we've been stating from the beginning of the year has been, you know, a INR 12 per kg for this year. And I think that's the number that we will stick to for the time being, we hope we can do better than that. But I think that's the number that we that we feel comfortable talking about.

Moderator: We have the next question from the line of Raj from our Arjav Partners.

Raj: So, I want to know that looking three years to four years down the line, how much of the sales you can do for the existing expansions, I want to know the peak sales?

P. Deepak: So, if I was to look at the existing plants and look at, you know, our capacity there, our installed capacity is 1,60,000 tons a year. So roughly at about 80% of that, you know we would be looking at about 1,25,000 tons to 130000 tons. In addition to that, I think we've also mentioned on previous calls that there is a potential that we could add another 50,000 tons to this capacity, which means, let's say, another 40,000 tons or so off of what we could achieve.

So I think somewhere around with the existing three facilities with a little bit of investment, we're looking at a number that's perhaps somewhere in the range of, you know, like 1,60,000 tons-1,70,000 tons is kind of the best we could achieve.

Raj: Then looking at the sales figure, so on these expansions, so how much would be the sales amount?

P. Deepak: So, I mean, it's a little difficult to project, obviously, because there is some raw material up and down and all that. But I think roughly speaking, with the product mix that we see, we expect maybe it would be about INR 150 per kg or so, so I think anywhere between INR 130 per kg to INR 150 per kg, I think is a fair estimate of what top line would run into if you multiply that with.

Moderator: We have the next question from the line of Saket Kapoor from Kapoor and Company.

Saket Kapoor: When we look at your nine month other income number that works out to around INR 14.14 crores. So will it have the similar component in the similar percentage of 75% to 80% from the forex foreign exchange there?

P. Deepak: Yes, it will be similar.

Saket Kapoor: And what factors did it contribute to sir. How are we able to create this number? The rupee has depreciated over this period. So just if you could explain to us how we were able to do this?

P. Deepak: So it's just an increase in the exchange rate, right. It's the depreciation of the rupee is what contributes to that chunk.

Saket Kapoor: We have an unhedged part, whatever export we have, which is since we have the same receivables in dollars. So it is kept open?

P. Deepak: Right, and what we try to do is, I think based on the currency movement, you know, we don't have a specific percentage that we hedge or unhedge. I think we look at it more opportunistically. And when we feel the opportunity is right, we might hedge a little more or hedge a little less.

Saket Kapoor: Just to happen on the point that there will be years when the currency may also appreciate. So that would be a year where we will be having losses on this line item or how will our business profile align to an appreciating rupee?

P. Deepak: So I think whatever we would see in those scenarios, we don't believe that, at least we haven't seen years where there've been significant appreciation of the rupee. I think we've seen depreciation of the rupee or a relatively flat rupee. We've seen at times for short periods of time where there is a small appreciation. But I think that's something that again, so how we've managed hedging, I think we've never seen a negative number here in the other income.

Saket Kapoor: And just firstly to sum up. You did mention that in your printed release that 85,000 is the tonnage we are expecting for FY’23 and a double-digit growth in the tonnage closer to 100,000 to 102,000 for FY'24. And therein we are expecting a run rate of export quarterly run rate of INR 110 crores and export contributing total 30% to the tonnage. These numbers are correct. As you said right now.

Moderator: Ladies and gentlemen, we have the management reconnected. Sir over to you.

P. Deepak: Yeah, sorry, Saket, we lost you a little bit. There was a lot of interference in the background, so we couldn't hear you.

Saket Kapoor: I just yes, I will repeat sir. What I heard over the call. I will just repeat that fact and please correct at any point. Firstly, we are closing this year with the tonnage close to 85,000 tons. For the next year, we are expecting a tonnage in the vicinity of 100K-102K. And for export front, we are expecting a run rate in the vicinity of INR 100 to INR 110 crores per quarter and the tonnage of export to be 30% of the total tonnage. These are the broader numbers you have given.

P. Deepak: Yes. So the INR 100 crores to INR 110 crores per quarter is also based a little bit on the peak volumes, right, which is at least based on what we are seeing today as demand from our customers. That's what we see peak pretty much through the CY'23.

Saket Kapoor: And we are looking for them, then the EBITDA margin to be in the INR 13 to INR 15 band, that would also be the likely event and not on the lower side.

P. Deepak: So yeah, I mean, we would not expect EBITDA margins to get lower than the current year for sure. I think it's still a little bit early for us to put a projection for next year, but certainly, we would expect that next year our EBITDA margin would be on a per kg basis, would be better than it is for this year. At least that much I can indicate to you.

Saket Kapoor: Now coming to the sir, if you could give me the net debt number. What is our net debt number for as on 31st December? And also the cost of funds. Our finance costs have remained at INR 8 crores?

P. Deepak: So our net debt number is that to about approximately INR 240 crores. And our average cost is 8.65%.

Saket Kapoor: What should be the number we are looking for the closure of this year? This will remain at INR 240 crores. And what is the target for the next year target for the FY '23,'24 for the net debt number?

P. Deepak: So, I will come back to you on the FY'24 number, but I think we will be largely in line with this at the end of the fourth quarter, for the full year on 31st March, we will likely be at the same net debts level.

Saket Kapoor: On the fuel cost front, you did expose that, that is one line area line item where we need more rationalization and the loading of the cost. So, I think so other than this cooling off with the renewable sources what else are we doing for the longer term, so that this line item will be an inherent part of the business should start aiding to the profit rather than being reverse of the same. So what steps are in the anvil, sir?

P. Deepak: So on the energy cost, certainly, I think there are activities going on in terms of energy conservation, right, where we are actively trying to reduce our consumption of energy. Part of that is also, as our volumes go up, our energy consumption per ton also will come down because we will have some portion of the auxiliaries that group will not increase and at the same time, even our melting energy, if we are not holding metal at molten metal, will improve. So we do see that, you know, we do see that happening. Going forward, that will be improve on in terms of the consumption side, also in terms of the cost side, you know, as I mentioned, there are investments we are making in renewable energy that will help lower the cost as well.

Saket Kapoor: What are the plans for that? How much are we investing in the renewable source portfolio?

P. Deepak: So I think our goal is to be right now, as I mentioned, we are at about a 63% or so was our, you know, in renewable portfolio. Our goal would be to get to about 80%.

Saket Kapoor: So out of the total requirement, 63% is renewable

P. Deepak: It is already renewable right now out of today's total requirement, 63% is renewable. But obviously, with the growth happening, you know to stay at 63% itself will require additional renewable sources. In addition to that, our goal is to get to about 80%.

Saket Kapoor: This quarter did have this one-off items and a lot got cushioned because of the other income component. So if you could quantify for us, had this been a normal quarter in terms of production, the impact that it had on the bottom line? A ballpark number in absolute terms.

P. Deepak: Yes. I think it's a difficult question to answer. But you know, perhaps I mean, it's a very speculative answer. I think I don't want to give you any wrong figures because it would be coming out of just gut feel. I don't think it would be coming out of a real number. Right. but certainly, I think something in the range of, you know, maybe we could have done better by about four crores or five crores or something like that, is what I think.

Saket Kapoor: Because sir, when we look at the other expenses line item that has gone up from INR 92 crores to INR 96 crores and Power and fuel going up by two crores and then they employ cost also going up by two crores. So easily we could see a six crores, seven crores impact here. And then top of that we lost production. So, if you could just rethink and give us some more understanding because these six crores to seven crores happened on Q-on-Q basis. Does the other expenses line item have the impact of the production loss?

P. Deepak: I mean, it's part of everything, right? Because at the end of the day, production is how the cost is getting absorbed into the product. So, if the production takes a significant hit then. So I think even during the last call, right where we were talking about numbers, we had achieved numbers in excess of 13. I think our guidance still stayed at 12 and we did not revise our guidance because I think we did see some one offs that we had anticipated for this quarter and certain one offs that benefited us in the previous quarter. So it's a little bit of an adjustment. So again, as we stand in the same position as where we stand last quarter, we still feel that for the full year or INR 12 is a is a fair guidance.

Moderator: We have the next question from the line of Aman Agrawal from Carnelian Asset Management.

Aman Agrawal: So thank you for the follow up. Just one question on Pedapariya plant, like that has been a drag on our overall EBITDA. So if you can quantify the absolute amount of EBITDA loss, we are taking from that plant for this quarter end?

P. Deepak: I do not have that figure in front of me at the moment.

Aman Agrawal: I will take it offline sir. Another thing on the production volume, like what was the production volumes for this quarter?

P. Deepak: So the production volume for the quarter was 21,240.

Moderator: We have the next question from line of Chirag Shah from Nuvama.

Chirag Shah: So just one clarification, so like, other income and this forex gain, if you could explain it a little bit better, because as our exports are likely to go up, this component can see variability, significantly. So it would be helpful, if you can explain it a little bit better, if not now later on, because it's more of an accounting issue, what comes in other income and what comes in revenue in terms of cash flow, hedges and all that?

So it would be really helpful, if you can explain, how do you look at your hedging? What kind of hedging in terms of percentage, what duration you look to hedge yourself? It would be really helpful. And in case possible in presentation to give out a special disclosure of this forex gain, which is in other income.

P. Deepak: We'll look into the point what you mentioned about the forex gain. But I mean, basically, see hedging, honestly, we don't have a specific guideline in terms of how we do the hedging on the receivables front. I think in terms of any kind of liabilities, we make sure that we fully hedge them so that there is no potential risk of rupee depreciation that might happen on an import of any material or capital goods or anything like that, which is, in any case, small or even in terms of any external commercial borrowings.

But when it comes to the receivables and how we manage the hedging, so we don't have a specific strategy. It's a little bit more based on, I would call it, opportunism, right, where we feel that if there has been a significant depreciation of the rupee perhaps is a good time to book some hedges. And if there seems to be relatively stagnant rupee, maybe we don't. But one thing that we do make sure that for hedges longer than a few months, we never take a hedge of more than maybe 50% of our exposure. Typically, it would be 30% to 40% is what we would take.

So, the simple way of looking at it is also on the day that we invoice the customer, if the exchange rate was INR 79, and the day that we receive the payment from the customer, the exchange rate is INR 82. That shows up. And that INR 82 could be for a variety of reasons. It could be through hedging or through leaving something unhedged or whatever it may be. I believe that's how that gets, that's the number that how it fits in.

Chirag Shah: Yes. So if it is unhedged, it would come as a part of your revenue because it is what you realize and if it is hedged, it would come as a part of your other income, is it?

P. Deepak: No, I don't believe that's the case because so when we recognize the revenue, where it's a $100, we recognize the revenue, when the invoice is generated to the customer at INR 79. So it would be INR 7,900. And similarly, when we receive the payment, we've now received a payment against our invoice of INR 7,900, we've received a payment of INR 8,200. That INR 300 would actually come in under other income. Because that's how that works. Because our invoice is actually in dollars. But we recognize the revenue at that point in rupees. So that I think is a very-very simplified explanation from a non-chartered accountant about this.

Chirag Shah: Absolutely fair. But because why people are asking so much of this, because the EBITDA per ton, including and excluding other income, there seems to be huge variation many times. So that is the only reason. If you can just give a slightly better disclosure around that, it would be helpful.

P. Deepak: We will look into that.

Chirag Shah: And just one more question, if I can squeeze in. So there is a jump in staff costs. You report that, you have hired more people. Now this hiring is for what purpose, if you can indicate.

P. Deepak: Some of this is based on the growth that we are, we have some new product launches that are happening that we believe will drive that growth that we expect to see next year. And we also do believe that we will have some increase in production that will be happening, you know, going forward quarter on quarter basis. So we did do some additional hiring to make sure that we are prepared for this growth.

Moderator: Thank you. Due to paucity of time, that was the last question. I would now like to hand it over to the management for closing comments.

P. Deepak: Thank you. Thank you very much. Thank you, everybody for your time in attending this call and for the thoughtful questions.

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