“Nelcast Limited Q1 FY24 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Nelcast Limited's Q1 FY24 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 "*" 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, Ms. Sonia.

Sonia Keswani: Thanks, Zico, and good morning, everyone. On behalf of Nelcast Limited, I welcome all of you to the company's Q1 FY24 earnings conference call. You would have already received the Q1 FY24 results and investor presentation, which is also available in our filings with the exchange. 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. Sivakumar, the 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 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. I would like to thank you all and welcome you to our Q1 FY24 earnings call. I'd like to start with our quarterly performance. Our total revenues for the quarter stood at Rs. 296 crores, which is down 1.1% year-on-year due to subdued demand in tractors and lower than expected performance in M&HCV. Our export business reported a strong growth of 23% year-over-year, and we did approximately Rs. 89 crores of export during the quarter. As stated in the previous call, our EBITDA per kg was impacted last quarter due to divergence between international and domestic raw material prices in indices. However, we saw that converge this quarter. This has led to significant improvement on quarter-on-quarter basis and a more normalization in the EBITDA per kg at Rs. 11.7 per kg. Besides this, increased share of exports where we have better realizations also helped us achieve this EBITDA per kg. \

During the quarter, the segmental revenue was that M&HCV contributed 39% of our overall revenues. Exports was 31%, tractors was 25%, railways and off highway equipment contributed close to 3%.

Looking at the future, we expect M&HCV segment to have a strong year, especially in the second half. This is based on the demand forecasts of our clients and the infrastructure spends by the government. So, the infrastructure spend increase generally means an increase in demand for tippers. Tippers generally have a tendency to have a greater requirement of casting content and our share of business in these castings is also higher. So, we expect to benefit from this.

We expect the overall tractor industry to remain flat in the quarters to come as well. This is primarily due to some, I would say, tightness in the rural economy.

Our export business will continue its growth trajectory on the back of a strong order backlog. We expect some contribution from new product launches as well because we've now undergone the full ramp up now as we go forward, and one or two new product launches are also planned towards the end of the year.

Based on these factors, we expect that the performance will improve in the second half of FY24 and will definitely be on track for achieving a double-digit topline growth for the full year.

Just a quick statement from me and I would now open the floor up for any questions.

Moderator: Thank you very much. We will now begin the question-and-answer session. Our first question is from the line of Saket Kapoor from Kapoor & Co. Please go ahead.

Saket Kapoor: Sir, when we look at the EBITDA trajectory, it remains flat at Rs. 23 crores and as you are alluding to the fact that H2 we will be having a higher proportionate of export share as the deliverables are scheduled. So, what should be the EBITDA trajectory for this year and what was the EBITDA number for FY23?

P. Deepak: Saket, I think to some degrees, H2 numbers are still forecasts but the forecast looks extremely strong, right. I think we are seeing, from our customers, generally their forecasts tend to be optimistic, but this is incredibly optimistic, I would say. So, we do believe that this is going to happen. We also believe that normally the practice in terms of tipper sales is they generally have a tendency to pick up after the monsoon because a lot of the construction, shallow mining activities slowdown during the monsoon season. So, we think that H2 is going to be extremely strong. I think our customers are giving us a lot of confidence on this. Difficult to project exactly how the EBITDA is going to be. I think what we've said I think last year we did the full number figure for last year in terms of EBITDA per kg was 11.34, I think this year we had said that we believe that we should do in excess of 12. I'm a little cautious about committing a number bigger than that, but I certainly hope that we can surprise you positively on that.

Saket Kapoor: Sir, on the tonnage front, it was 19,145 tonnes for Q1. So, depending upon that your deliverable scheduled for your customer, how the current quarter should shape up in terms of the tonnages and for the full year what should be the ballpark number we should work with?

P. Deepak: So, I don't want to stick hard numbers down. But I think what we had said was certainly for the full year we do expect double digit growth, which was last year at about just under 85,000 tonnes. We think we can do, significantly get into maybe the mid-teens or so. In terms of the tonnage for this quarter, we believe that on quarter-on-quarter basis, right? So, basically, as you mentioned 19,000 or so right now, we believe something around 22,000 to 23,000 might be a ballpark for the current quarter.

Saket Kapoor: 22,000 for Q2, that should be the ballpark.

P. Deepak: Yes.

Saket Kapoor: And the EBITDA per kg of 11.70 is more or less also the trajectory that we should look forward because the other variables are not negating the impact of the same.

P. Deepak: Possibly we can surprise on the positive side, but I think something along the same lines is what we expect. We don't expect something dramatically different.

Saket Kapoor: Sir, on the raw material front, if you could throw some more light, you spoke about the convergence in the import prices. So, more color if you would like to share how the market is shaping up? And have we taken any price revisions also downward because of the raw material trending. Sir? If you could give some more color.

P. Deepak: So, I think we've seen relatively stable prices, may be very, very mild reduction in price, but largely stable domestically. And as I mentioned, maybe a mild reduction and whereas in the indices and in US and Europe have shown an upward trajectory trends, so pretty much, I would say, normalized at this point. And coming to the question about passing on any reduction in prices, yes, I think that's something that we've done in some cases, but there's also some increases to certain materials which were relatively smaller costs in the past, so they weren't part of the normal formula. So, there is some discussion going along with customers on recovery of those increases also which haven't been recovered in the last couple of years and have gone up significantly. So, it's not done yet, but it will be done shortly, right, in terms of the impacts for the current.

Saket Kapoor: The point is that that keeping into mind this softening of the raw material prices, we are factoring that into our trajectory of Rs. 12 plus EBITDA per kg. This is what we can conclude.

P. Deepak: I think we're looking at roughly a flattish raw material prices when we're talking about this, we're not talking about any kind of impact of that, right. So, if there is some benefit that may come for that or a negative pressure that may come from that? Our objective would be to try to negate that as best as possible and certainly try to maintain a 12.

Saket Kapoor: Sir. I will join the queue, but do speak about the variable part also on power, fuel, employee and the finance cost that is affecting our EBITDA margins. What steps are in the anvil to improve the EBITDA margin and as a percentage of PAT margin as the PAT is at 7 crores and the EBITDA margin of 7.8% closer to 8%. These three factors, I think this power, fuel, employee cost and the finance cost are also trending upward. So, with the improvement in the volume, what should be the percentage mix and what steps are we taking to increase the EBITDA margin at the net level also. Sir, I'll join the queue. Sir, I have a couple of follow ups. I request the moderator to give me an opportunity at the penultimate stage. Thank you.

Moderator: Thank you. Our next question is from the line of VP Rajesh from Banyan Capital Advisors. Please go ahead.

VP Rajesh: My first question is on the export side. I just wanted to understand what has been the experience in the first quarter and if the export is looking in line with what you were expecting 3 months ago or 4 months ago and is it better or worse? Just trying to understand the trends you are seeing in the export business?

P. Deepak: Sure. Good morning, Rajesh. Thank you for joining. So, in terms of exports, I think we are seeing pretty good strength right now. I think on the commercial vehicle segment right from maybe Class-5 to Class-8, we're still seeing extremely strong demand coming from our customers, coming for variety of reasons. I think the biggest one being the order backlogs and easing of some of the other supply chain constraints that have been there. So, we are seeing quite strong growth in exports even coming into this quarter. We do foresee at the moment that exports will remain strong all the way until the fourth quarter of the current financial year. So, that I think is a fairly strong confidence that we have. In fact, we do believe that there's an opportunity to grow the exports quite a bit from here on out as well. So, that's I think the overall trend in exports still looks strong. I think what FY25 looks like is still a little unknown, but at this point we feel very, very positive about how exports looks like for this current financial year.

VP Rajesh: So, can I infer that your export order book and your confidence in the estimates you have for FY24 has only gone up over the last 3-4 months?

P. Deepak: So, I think we were fairly confident on the numbers, but I think as we see the numbers coming in, I think it just reinforces that confidence. I think perhaps earlier we might have been confident for nine months and now suddenly three months later we're still confident for the next 9 months. And hopefully three months from now I'll be confident for the next nine months also. As we look out, I think that horizon of how long we are confident and about that the strength will remain, it looks to be going further and further out which I would consider to be a very positive sign.

VP Rajesh: And any more new customer wins or program wins on the export side that you can talk about?

P. Deepak: I don't think there's anything specific. There's obviously a few products that are under the development process and a few that are in negotiation, and some know where we've been told we're being awarded the business but of course until the contract comes and the order comes, we can't really count that as a business win. So, there is certainly positive momentum I would say, but there's nothing specific in this last quarter that I can talk about, right. I think in the previous quarter I did mention about some electric vehicle class-8 programs as well that we had won. So, that development is going on but nothing in these last three months that I can specifically point to and that will impact in any significant way.

VP Rajesh: And just last question on the capacity utilization, where did you end up in this quarter? If you can just give some commentary around that with respect to each of the plants.

P. Deepak: So, approximately about, the production was about 19,500 tonnes which puts us at about a 50%, just under a 50% capacity utilization against what we believe is an achievable fair target of about 75% to 80% is the number that we've always talked about achieving. So, we're at about 50%. So, we still have a little bit of headroom to go in terms of what we can achieve?

Moderator: Thank you. Our next question is a follow-up question from Mr. Saket Kapoor from Kapoor & Co. Please go ahead.

Saket Kapoor: When you were speaking about the improvement in utilization levels from 50% last year to closer to 70%-75% for this financial year? I missed your comment, sir.

P. Deepak: No. So, I think what we're talking about the 75% to 80% I talked about is what we can get, right. I think we'll probably be able to get that towards the next financial year, not in the current one, but our goal is to get close to that number perhaps by the end of the financial year, right, fourth quarter is where we believe that there will be incredibly strong demand and that we want to be quite close to that number, right, obviously depending on how strong the demand is, but certainly we would want to be well in excess of 60% or 65% in the fourth quarter. That's what we would aim for.

Saket Kapoor: This year, fourth quarter, we should be ending with 65% utilization level?

P. Deepak: That's what we're hoping for. Obviously, we'll have to look at how the market plays out, but at this point, we believe the market will support that.

Saket Kapoor: Right. And sir, about the new unit Pedapariya, how has its utilization improved over the quarter, if you could give the trajectory?

P. Deepak: So, I think if you look at last year, we did have every quarter we kept going up and improving. Unfortunately, in the first quarter, we did have some setback in terms of the production. One of the reasons for that is in order to increase the capacities in output further, there were some certain maintenance activities and certain projects that needed to be executed in terms of layout changes and things like that. So, because of that, there was a small set back in terms of the utilization down to about 21%, which was the same as the average for the year. But I think Q4 we had actually achieved I think it was about 27% or something like that, if I recall correctly. In comparison to the fourth quarter, the first quarter was a little slower. But I think whatever actions that we have taken and there's a couple of actions that we are planning to take in the current month that will help us improve the output of the plant.

Saket Kapoor: So, Pedapariya utilizing levels was 21% for Q1? And this was down 5% to 6%. The course correction has been done and Q2 onwards only, sir, it will again trend to closer to 30%?

P. Deepak: Yes, we will see an improvement in Q2 certainly, but I think the biggest improvement we will see in Pedapariya will happen in Q3 and Q4. We expect to see fairly significant improvement. And this reduction, whatever we saw in Q1 is also based on certain planned activities that we have taken up for maintenance. So, there were a certain number of days when we have taken either a re-layout or a major maintenance related activity to help improve the production.

Saket Kapoor: And what would be the likelihood of ending the year in terms of utilization levels of Pedapariya?

P. Deepak: I think that's a difficult question to answer. I think we're looking at the overall utilization levels and the market. But you know certainly we'll be aiming to try to get back to maybe 40% to 50% kind of a range, something in that range. I know it's a wide range, but there's a lot of variables also because of some new products that have been developed there, but the testing and validation cycles do take some amount of time. So, there is some amount of variability there.

Saket Kapoor: And sir, what was the utilization for Gudur and Ponneri. They were in the 80%s for the first quarter?

P. Deepak: Ponneri was close to 90% and Gudur was just a little bit above 50%. That was also driven by some model mix changes and other things again maintenance related activities that are there. So, we're seeing improvement in Gudur in the current quarter as well.

Saket Kapoor: So, we're factoring in the ramp up for both Gudur and Pedapariya for Q2 onwards. That gives us an inclination of 22,000 metric tonnes plus volume for Q2. This is what the understanding should be.

P. Deepak: Perfectly. Your understanding is perfect.

Saket Kapoor: And on the line item which I spoke earlier on the employee cost, finance cost and the power and fuel, what steps are we are taking for it to rationalize?

P. Deepak: So, employee, power and fuel and finance cost. So, finance costs, I think you know largely speaking it is related to interest rate increases that have happened outside of our control right due to the increase in the repo rate by the RBI. So, the banks have also hiked their rate. So, we've seen that obviously have an impact. In terms of the employee cost and the power and fuel cost, I think we are working on that, but the biggest impact is going to come, is going to come from increase in volumes. So, that will help us on a per kg or per tonne level to try to bring those costs down. Certainly there's going to be some amount of new recruitments that will be there for the increased volumes, but in a much smaller scale. And of course, annual performance increments and all of that will also happen in the current quarter. So, I think the biggest impact that's going to come there is going to come from the volume side.

Saket Kapoor: Sir, on the other expense, is there any one-off here because that has remained at Rs. 90 crores and it is not commensurate to what the trend has been, what is the major component here, sir?

P. Deepak: So, I think the major component in other expenses comes from outsourced activities which include machining. So, the machining cost that we incur because in most of the cases we supply as a fully finished product, and we outsource the machining for that. So, I think that is probably the biggest chunk of the other expenses, more than 50% of that is coming only from the machining and a few other outsourced activities.

Saket Kapoor: So, that is the product mix sir, but because last year it was only Rs 76 crores, on the lower tonnage. So, it is on the lower tonnage, it has gone up significantly.

P. Deepak: That's correct, Saket. It is on the product mix and similarly if you see reflecting the product mix in terms of the realization on a rate per kg on sales also has gone up.

Saket Kapoor: So, this is the trend likelihood in the existing order book also that the machining or the significant part and this is likely to be in the same or will it moderate.

P. Deepak: So, it will depend obviously on the product mix. But yes, I do think you can consider that that I don't think we'll be going backwards in this. I don’t think we'll go back to the first quarter obviously because also the increase in export volumes which are supplied in machine condition.

Saket Kapoor: But sir, just out of enquiry, why are we depending on this outsourcing work? Why are these not done in-house? We would be saving them a lot of profit here also. If you could explain the rational, why this didn't happen earlier and why is it happening now?

P. Deepak: So, I think there's a couple of different reasons why we've chosen to do this. I think the first one philosophically is a little bit more about core competence and we believe casting is our core competence and that's where we would like to keep our focus for the time being. The second is also about resources. So, we believe that there's going to be a great amount of growth that is going to happen in our industry and there's a lot more opportunities for growth that we have and so we'd like to focus our resources whether that's time, money, management focus, all of these things towards what we believe is our core competence. And the other part is we have machining partners we are working with who are able to deliver what we require of them. If that were to change and we were to lose business because we couldn't offer what the customer wanted, then we would certainly look at it. But at the moment we don't see that issue.

Moderator: Thank you. Our next question is from the line of Rehaan from Sicomoro Advisors. Please go ahead, sir.

Rehaan: Good morning. So, my question was on the debt level, what is the current debt level as of this quarter and what do you project it to be by the end of FY24? Also, if you can throw some light on the interest cost similarly?

P. Deepak: So, the current net debt level at the end of the first quarter is Rs. 195 crores. And regarding the interest cost, approximately 9.25% is the average interest cost blended.

Rehaan: And what are the plans for FY24 and FY25 with regards to the debt?

P. Deepak: So, I think we expect that debt will remain largely flat in this current year. There might be if I mean as we are forecasting, we do expect growth happening quite a bit in the second half. So, there might be some increase in working capital. But largely we expect April-May relatively flat. I think if you look at, what the principal payments look like over the next few years or the current year. In the current year, we've already repaid about a term debt of about Rs. 7.38 crores. We have another Rs. 26.24 crores that we will be repaying in the current year. The next two years the repayment cycle is about 30 crores. So, that's what the obligations look like in the current year and the next couple of years for the term loan.

Rehaan: And is this debt all sourced from India or is it offshore as well?

P. Deepak: So, there is a ECB component to the debt, but that is a fully hedged ECB. So, for all intents and purposes for us, it is an INR loan.

Rehaan: Thank you. And another question in terms of expansions in terms of I wanted to ask, are we looking at any other segments in the domestic market? Because I think last quarter you had said tractors would see slow growth. But is there any other segment that you're looking at that is seeing traction in terms of the demand side or are you even looking at some other geography?

P. Deepak: So, I think the Off Highway segment is something that is growing and there's more and more, bigger machinery going in. As India is starting to get more productive, in terms of road construction and mining and all of these other things, productivity has become a much more important part of the corporates there. So, I think Off-Highway will do well, but it's on a fairly small base and the total demand is fairly small. I think the three segments that we are in will continue to be the dominant segments for us, certainly for the next 5 years at least, which are medium and heavy commercial vehicle, tractor, and exports. I think these three segments we think will still make the biggest chunk of what we do in the next three to five years. I don't see that changing in any significant way.

Rehaan: Just coming back to the debt question. What would be the value that is ECB and at what rate would that be?

P. Deepak: I think the ECB debt is Rs. 59 crores. I don't have the exact interest rate on that particular component of the debt.

Moderator: Thank you. Our next question is from the line of Jayesh Gandhi from Harshad Gandhi. Please go ahead.

Jayesh Gandhi: My question was, actually I've joined little late, so I don't know whether it's already answered or not. I just want to sales in terms of volume for this quarter and what is the expectation for the entire year that you have, if at all you have any?

P. Deepak: So, I think the sales quantity for this quarter was 19,145 metric tonnes. I did answer this question a little while earlier in terms of our current quarter, we do expect that we will be somewhere around 22,000 tonnes or so. For the full year, I think it's still a little bit early for us to make a full forecast, but certainly double digits in terms of growth and certainly we would hope that that number would be into the teens.

Jayesh Gandhi: And are we expecting Pedapariya to improve utilization to more than 50%-60% this year?

P. Deepak: No, not in the current financial year. But we do expect that we will have somewhere in excess of 40% or so by the fourth quarter, 40% to 50% by the fourth quarter.

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

Amey: So, you said that the MHCV is expected to do well in the second half of this financial year. Any ballpark number you would want to give in terms of growth over FY23?

P. Deepak: I don't have a full ballpark number. I think even within M&HCV, I think we think that the tipper segment is going to do very well in the second half. Generally speaking, I think when you look at an M&HCV market, right, I think this is a fairly, in a normal year, what we would expect to see is that about 60% of their sales happen in the second half. And even within that, 60% of the sales are happening in the fourth quarter, so about 35% of their sales happens in the fourth quarter. So, we think that overall, perhaps it might mirror it, but especially in the second half we do believe actually September and beyond we do believe that the Tipper segment is going to increase quite a bit after the monsoon slows down.

Amey: So, sir, what would be the contribution of tippers in the M&HCV segment?

P. Deepak: I think I mentioned this in the last call. It's very difficult for us to actually remove our contribution out because some product go both into tipper as well as into tractor trailer might also go in to rigid. Overall, I believe 20% to 21% of the total M&HCV sales is tipper. It varies from year to year; I think two years ago it was much lower and now it's at that about 20%-21% figure.

Amey: Sir, on the exports front, we have reached a Rs. 90 crores quarterly run rate in Q1 and looking at the order book and what you have been guiding, we feel that going ahead there will be Q-on-

Q improvement. So, like we mentioned in the last call, are we still on that Rs. 400 crores-Rs. 450 crores revenue target for in this year?

P. Deepak: So, we still think we're tracking towards that number. I think we should be in that ballpark only.

Amey: So, just the last two questions, sir. What would be the EBIDA per kg difference in domestic and export? If you can give me a number.

P. Deepak: Obviously a lot of this is based on volumes and all of that, but generally speaking, exports is a better realization. It is a better EBITDA figure. There could be again, it depends specifically on the product and obviously export has a few other X factors to it including freight, including how the raw materials move and all of that. But generally speaking, we will see an expected realization of maybe 20% to 30%-40% higher in terms of EBITDA on the exports.

Amey: So, maybe just a ballpark, so maybe domestic is Rs. 10 then maybe this exports is Rs. 14 or Rs. 15, is that?

P. Deepak: Something like that. I think that's a fair estimate, yes.

Amey: And lastly sir on the new products that you have introduced, so can you talk a little bit about those products, when do you expect commercialization, full-fledged commercialization of those products and whether the margins of these products are higher than the current export margins?

P. Deepak: I can't speak to specific product margins, but certainly I think it's our goal that any new product that we get you know that we do take it with better margins considering the volatility and variability that we have seen in the near past. But I think in terms of the launch timings, I think there is two projects that are yet to be launched in those programs. One is going to happen towards the end of the year and the other one is likely to happen in the middle of the calendar year 2024, so probably close to mid-2025. That's a completely new product and a new vehicle launching in the market, in both of these cases actually.

Moderator: Thank you. Our next question is from the line of Sriram R, who is an investor. Please go ahead.

Sriram R: Sir, I just want to know how are you placed with respect to the EV transition, like if you can give some color on how your products would fit into E-tractors or E-trucks, that would be helpful.

P. Deepak: As you're aware there are two major segments that we are part of, right, both in domestic as well as in export. That is the M&HCV as well as in terms of the tractor segment, which is primarily domestic. The M&HCV what we've seen is when they move towards electrification, we've actually seen the casting content on the axle go up, right. So, if there is a reduction in, let's say the weight of an engine block, it completely goes away. Your transmission becomes substantially smaller. Maybe if you're doing E-axles, your propeller shaft goes away. So, there's a lot of things that get eliminated. But from the design concepts and philosophies that are there today on E-

Axle, there is an increase in casting content per vehicle that goes into these carriers which we are I would say specialized in and have a very significant market share. So, we've seen this certainly, we think that if there is a transition, it is something that could potentially help us, especially on the M&HCV side. That being said, most of the OEMs do believe that at least in India and few other countries for the heavy commercial vehicles, the likely pathway is towards hydrogen ice, which might be 10-15 years away from being, you know, a normal, commercially viable product. But people do believe that's one of the directions things may go in. In terms of E-tractors, I don't think any of the tractor manufacturers are particularly bullish in terms of the how the volumes are going to be of any significant number over the next decade. But I mean they do have some smaller specialty models, right. So, perhaps if you were to look at 9.5 lakh tractors that they sold last year, there might be 100 or 200 electric tractors that they might have sold not significantly, more than that perhaps 1000 at best. So, it also seems like that adoption would be extremely slow or that might also move towards hydrogen internal combustion. I think in terms of passenger car I think the move towards electrification is going to be very fast. I think in terms of light commercial vehicle, 2-wheelers, 3-wheelers, their move is going to be very fast. But I think certainly on the heavy commercial vehicles as well as the tractors, the belief is it's going to be slow and when it does get there, there's also a very high possibility it might move more towards a hydrogen internal combustion rather than a battery electric.

Sriram R: Sir, but as of now, you're not working on anything on that side, right?

P. Deepak: That's not true. So, we actually have one product that we have launched that is going into a delivery van in the US market that's being delivered. One more that I had just alluded to a few minutes ago, that we will be launching at the end of the year, also goes into a delivery van for again for the US market. And there's the third product that I'd mentioned that we would expect SOP in mid-2024 that is for electric class-8 trucks in the US. So, overall, I think once all of these are fully commercialized in about a year, year and a half from now, we would be looking at annualized maybe about Rs. 150 crores or so revenue coming only out of products specific to electric vehicles.

Sriram R: And which is that product, sir, can you specify that?

P. Deepak: Three different products on the delivery vans, but all going into the axle where the drive axles that are there, but all three are actually different products. Class 8 is a differential carrier cover input housing combination, so there's a lot of different products. But this is largely like I said, two areas, right, delivery van, which is the last mile delivery in the US and the other one is the regular Class-8 truck.

Moderator: And sir just one small suggestion, if you can include a volume and EBITDA per kilo for the last four quarters in your presentation that will be very useful.

P. Deepak: Let me look into it. I know we do include it every quarter in the presentation, but sure we'll take your feedback. Thank you.

Moderator: Thank you. Our next question is from the line of Ruchit Shah, who's an investor. Please go ahead.

Ruchit Shah: Sir, I just wanted to understand how much visibility or certainty do we usually have when we look at different segments, say exports and tractors and when we expect a certain growth from there, because from what I recall, we have expected 4Q to be a little flattish for the year and we had expected a little more growth from tractors. So, if you could just elaborate a bit on how much visibility do, we usually have and how certainly does it play out?

P. Deepak: To be honest, even the OEMs have some sort of a limited visibility as well, right? Because there is a variety of factors, government spending, government programs, financing availability, finance costs, maybe some raw material prices, a few legislative changes, a lot of things and of course the monsoon, the overall sentiment, variety of things, right, infra spend that go into what the sales look like, right? So, it's very hard to put a very clear projection and I don't just mean for us, I think even from the OEMs. But I think it's easy enough to at least directionally estimate that things are either on a growth path or the headwinds are significant for the growth part, right? So, again, based on their demand, their model mix also, not just the numbers, but their model mix also might change. Just to give an example, the sale of rigid vehicles had come down earlier this year and the sale of tractor trailers had gone up substantially. So, these are the kind of things that sometimes we don't have more than a month or two visibility that these kind of changes are happening, but I think the market keeps everybody on their toes, right, including the OEMs who are trying to forecast their own demand and us who are trying to meet that demand and demand that can sometimes keep changing.

Ruchit Shah: Earlier, I think you mentioned that you look at like next 9 months kind of visibility or I got the impression that we at least have from our customers or based on the orders that we get at least like a 9-month kind of visibility. Now what I understand is a lot more dynamic and it can change from month-to-month if that understanding is correct? And also, just wanted to further allude on, so on a broader level, currently our focus will be on increasing the volume and capacity utilization. So, that's just kind of a play out the operating leverage. If you could comment on any further plans in playing out the financial leverage or when do you see that happening?

P. Deepak: So, I think what I was referring to earlier when I said the things look very strong for the next nine months, I was specifically talking about exports in that context and also, I think in the second half of the year, right, I think September and beyond, we're seeing extremely strong numbers from forecast from the truck OEMs on the tipper sales, right? So, these are I think the two things that I did mention, and I think the signs, and everything seems to be there. I think the US market is a lot more built-to-order, so if you could walk into a dealership and you can say, listen, I want this truck, but I want it with this engine, I want it with this axle, I want this gear ratio, I want these features, I want a sleeper cab, I want the extra aerodynamic package all these kind of things, right, and then they would build it for you. So, there's a little bit of a order backlog and that order backlog is still quite strong. I think that's the reason at the moment at least because of the strong order backlog, the US market especially in the truck segment seems to be incredibly strong and we believe that that next nine months or so will continue to remain strong. So, that's the background behind the statement that I made. H2 M&HCV, I do believe is going to be very strong because typically H2 is a strong half. In addition to that, with the infra spend, the anticipation is that the tippers segment is going to be doing extremely well and our customers, they talk to their end customers and try to get idea of are you going to place an order for a vehicle next month or what do you see as your forecast, right when they talk to the bigger fleets, the bigger construction, operators all of that. And so, they have some idea. I wouldn't say there is, but certainly how it plays out can be a little bit different from what the indications are today, right. It's not that it's confirmed and firmed.

Ruchit Shah: So, broadly it is like the macro base estimate which kind of gives us a longer visibility and what is happening in the immediate, that influences the quarterly?

P. Deepak: Yes, exactly right. And I mean, most of the schedules that we receive from our customers are based on a monthly on their monthly requirement, which we then plan our production and dispatches based on.

Ruchit Shah: And if you could comment further on financial leverage playing out, if you see that happening in even say the year or later down the road?

P. Deepak: I think I already talked a little bit about operating leverage in terms of the increased volumes and I think in response to Saket’s question, right, about employee costs as well as other fixed costs, right, including some portion of the power cost also getting absorbed better. Otherwise in terms of the other financial leverage in terms of debt or anything like that, I think there will be, because we are anticipating growth, there might be some increase that happens in the working capital side of the debt, but other than that we don't really expect to see any significant difference in debt or interest rates or anything like that.

Moderator: Thank you. Ladies and gentlemen, due to time constraints, that was the last question of our question-and-answer session. I would now like to hand the conference over to the management for closing comments.

P. Deepak: Thank you everybody for joining. It's a pleasure to have you all on the call. We appreciate your time and interest in getting to know more about Nelcast Limited. We're quite excited about what the future holds, and we are looking forward to more and more of these interactions. Thank you very much.

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