"Nelcast Limited

Q2 and H1 FY24 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to Nelcast Limited Q2 and H1 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 star 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 EY Investor Relations. Thank you and over to you, Ms. Keswani.

Sonia Keswani: Thanks, Michelle. Good morning, everyone. On behalf of Nelcast Limited, I welcome all of you to the company's Q2 and H1 FY24 Earnings Conference Call.

You would have already received the 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 the 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 reflect 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 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. I would like to thank you and welcome you all to our Q2 and H1 FY24 Earnings Call.

Let me start by giving you a glimpse of how the quarter went and our expectations for the upcoming quarters.

We had a strong quarter, primarily driven by exports and decent contribution from medium and heavy commercial vehicles. Total revenues stood at INR363 crores in Q2 of FY24, reporting a growth of 9% year on year and 22% quarter on quarter. Talking about exports, I am pleased to share that we had our best ever quarter as we surpassed the INR100 crores mark quite comfortably and did close to INR130 crores of revenues, which is a growth of 58% year over year. Over the years, we have been able to forge some really good partnerships to grow our export business and that has allowed us to build a strong order book. This is evident in the exponential growth we have been seeing and we have been able to report on a year-on-year basis. We do expect a mild impact of the UAW strike in Q3 of FY24. However, the segment will continue to grow at a steady pace in the quarters to come. M&HCV sector is expected to pick up in the second half as construction activity kicks off and demand for tippers increases, now that the monsoon is behind us.

Tractors on the other hand, we expect to remain subdued and it will continue to be so in the second half of FY24 due to muted activity in rural economy.

In H1 of FY24, sector-wise breakup of our revenues had M&HCV contributing 37%, exports contributing 34%, tractors was 23%, railways was 3% and off-highway equipment contributed a little over 2%.

EBITDA per kg improved in Q2 FY24 and stood at INR14.9 per kg as compared to 13.5 last year. This came on the back of normalization of raw material prices, increased contribution from exports that tend to have better realizations. We expect raw material prices to remain at current levels going forward.

I'd like to now take a moment to outline our existing strategy to aid margins.

We started by manufacturing components that were basic in nature. However, over the past 10 years, we have moved towards producing castings with medium to high complexity. We moved away from playing the volume game and shifted our focus to castings that allowed us to get a premium, resulting in improved margins. We went on to enhance our manufacturing capabilities to make these kinds of products by upgrading our manual ARPA process to fully automated state-of-the-art high-pressure moulding lines. We also enhanced our product capability by installing a 2.1 meter by 1.2-meter size line and became one of the very, very few casting companies in the world with such capabilities.

Our second strategy has been geared towards strengthening our export business. Cost competitiveness compared to local manufacturers coupled with our exceptional manufacturing capabilities have made us the chosen partner for various international OEMs and Tier 1s who are leaders in their respective markets. Going forward, our focus will remain towards executing on our existing orders, expanding the long-standing relationships by increasing business share on existing products and launching new products. We further aim to forge new relationships and expand diversity in our geographies and sector splits.

Our third strategy has been towards improving the capacity utilization levels by enhancing the operational efficiencies by getting rid of redundancies and by continuously launching new products.

Lastly, our fourth area of focus has been cost optimization, part of which is related to the capacity utilization levels. But beyond achieving better economies of scale, we will be able to reduce the impact of cost considerably and aid margins. Power cost has been one of our key expenses and we are focusing towards bringing it down through energy conservation and by making investments in renewable energy.

With all these levels in place, we are confident of improving our bottom line and maximizing the return for our shareholders.

We can now open the floor for questions and address your queries. Thank you.

Moderator: Thank you very much, sir. We will now begin the question-and-answer session. We will take the first question from the line of Anupama Bhootra from Arihant Capital. Please go ahead.

Anupama Bhootra: Thank you for taking my question and congratulations for good set of numbers. My question is, any new product launch this quarter or can we expect any new product launch in the near future and what are going to be its markets?

P Deepak: So I think one of the things is we were expecting that there would be a couple of new products that would get launched in the current quarter. However, our customers have informed us that they are postponing the launch of the vehicle by about six months. So I think probably closer towards Q1 of FY '25, we expect at least of any sizable new product launches happening. We don't expect to see over the next two quarters any significant new product launches that will happen.

Anupama Bhootra: Okay. And one more question I had. What's the current utilization level which we are operating at?

P Deepak: So overall, our utilization levels for the half year stand at about 55%. I think for the quarter by itself, it's 60%, a little over 60%.

Moderator: Thank you. We'll take the next question from the line of Saket Kapoor from Kapoor Company. Please go ahead.

Saket Kapoor: Thank you, sir. We have reported such good set of numbers as guided by you and the team earlier also. So, when we look at the quarterly numbers for last quarter and this quarter, there is a similarity that Q2 looks like it has been better.

So how should we look at this operationally and can we see this as the new normal going ahead since you have outlined various factors that gives a belief that these numbers, we can look forward for cementing on these numbers going ahead. So if you could give us some understanding on the quality of the numbers and the probability of the continuity of the same.

P Deepak: So I think there's a few things that are certainly in this year's Q2, right, which was also there in last year's Q2. One is typically when you have investments in wind energy, wind is a little more prevalent in Q2. So there's a little additional cost benefits that we get out of it in the second quarter because there's more of it that's generated. But all of these and I think the other thing is also raw material prices were a little bit muted, which is a positive. But we're quite optimistic. I think we are quite positive about what the future holds and I think we hope that maybe there might be some consolidation along similar lines in this third quarter. But we think we can keep continuing moving forward in terms of growth beyond that.

Saket Kapoor: So, sir, in terms of then if you take H1 tonnage, what's the combined number for H1 in terms of tonnage? We mentioned Q2 at 22,953? So, what was H1, sir? How much?

P Deepak: So H1, so let me just tell you the production numbers for H1, right, and the sales numbers. The sales numbers was 42,100 and our production quantity was about 43,700.

Saket Kapoor: And, sir, how should H2 shape up in terms of the tonnage part?

P Deepak: I would expect that H2 would be stronger than H1, but probably a little bit in line with maybe what we've done in Q2 and slightly better than maybe some small improvement over Q2.

Saket Kapoor: Okay, So we should look at a run rate of about 23,000. That should be the ballpark.

P Deepak: Yes, approximately, yes.

Saket Kapoor: Okay. And, sir, for the EBITDA per kg moving up to closer to INR15, so what should be penciling in, sir, going ahead in terms of EBITDA and does it have any other income components embedded in it, sir, or these are all operational numbers?

P Deepak: So there is other income, but I mean, normally I think that's how we've been talking about it, but the other income is not as significant. I think there is some general forex benefit, which I think has been fairly steady throughout the years, right, and it has to do with the export business that we're doing. I think there was a small, you know, sub INR1 crore acquisition of land by the NHAI for some other thing, but that is, again, less than INR1 crore, right, so relatively small number, extremely small numbers, but largely this is all operational.

Saket Kapoor: Okay. And, sir, what should be the EBITDA now going ahead? Can we look now that INR13.5 to INR14 should be the new normal moving up from INR12 now?

P Deepak: Yes, I think that should. I would hope so. I think that's what we expect as well, and, you know, as we increase our capacity utilization, yes, I think that range of, you know, hopefully 13 to 14 is something where we will be able to sustainably perform and hopefully continuously improve on.

Saket Kapoor: Okay. Sir, you mentioned in your press release also the strike situation in the US, so if you could elaborate slightly more what has been the reason and what kind of deferment or postponement in revenue we are expecting that would happen in H2?

P Deepak: Yes. So, I think the date, if I recall correctly, was September 14th that the UAW went on strike at the same time against GM, Ford, and Stellantis. This is regarding, I guess, their union contract for the next four years. It was a very aggressive strike and, you know, fairly bitter, but I'm happy to report that as of last night, the news has come out that even GM has reached an agreement. So, all three automakers have now reached agreements with the UAW as of last night. There's still a little bit of technical procedure that's still left in terms of, you know, I think the Ford was the first one to reach it. The national UAW committee for Ford met on Sunday to vote on it, then it goes to the members. But in the meantime, they're all going back to work. So, I think the strike is now over. It lasted roughly about six weeks, I would say. Right?

So, in that strike, there were the first set of plants that were impacted. One of them was the Wentzville facility for GM, which is where the Chevy Colorado is manufactured, for which, as I mentioned in the past, we do supply components to our customer who assembles the axle and supplies it to GM. So, there is some impact that we will see in the current quarter, primarily for the month of October. Now that everything is clear towards the restart of the plants, the plants unfortunately have not been running for about six weeks, that particular plant. And therefore, there will be a little bit of maintenance, maybe another week or so. I would think that people will have to come in, they'll have to reset all the robots, you know, do all the kind of maintenance they have to, and they'll start running. I'm fairly certain their goal will be that whatever is the lost production, they will make it up in the next few months and come back to normalcy. But we'll have to see, you know, their own ability, how quickly they can ramp up after being at zero for so long. You know, who the suppliers are going to be the constraint, because many of them may have also laid off some employees. And so, trying to bring them back after the layoffs, we will have to see.

So, there's still a little bit of murkiness in the situation in terms of, you know, what that impact is going to be for the current quarter based on how quickly they can ramp back up. But it seems pretty clear it's going to be more of a postponement, because all the stocks that they've depleted in the pipelines and maybe some backlog of orders that they have, they'll want to recover that as soon as possible. So, we believe we might see something temporary in the current quarter that will be an impact. But we don't foresee that it will be anything permanent.

Saket Kapoor: So, you have factored your 23,000 tonnage after this event itself?

P. Deepak: Correct. But you have to realize, I think this event basically happened in the second half of September, right? So, practically, all of it didn't really impact last quarter. And this quarter, it will only impact the month of October, right? And then again, depending on how the ramp-up goes, we'll have to see the impact beyond October. But I think whatever might be that impact that we see in this quarter should get made up in the next quarter.

Saket Kapoor: So, sir, in terms of that…

Moderator: Mr. Kapoor, I'm sorry to interrupt, sir.

Saket Kapoor: Only, what sir is telling, what sir is explaining, I just have a follow-up and then I'll join the queue. I can understand. I won't be taking much time. Sir, can you quantify to us, just quantify to us in value terms or in tonnage terms that may get affected or postponed because of this event?

P. Deepak: It's, again, it's very hard to quantify specifically. But just a ballpark figure, maybe somewhere in terms of top-line revenue would be INR5 crores to INR10 crores for the quarter, right? Again, depending on how it all plays out. That's roughly what we see as the impact. But we'll have to, again, we'll have to see how quickly they ramp-up and that's what we might see in this current quarter. So, just a very basic estimate.

Saket Kapoor: Okay, sir. Thank you once again.

Moderator: Thank you. We'll take the next question from the line of Ashish Chauhan from RV Investments. Please go ahead.

Ashish Chauhan: Hello, sir. Good morning. Congratulations for a great set of numbers. Actually, I have three questions for you. The first one is, in the quarter 3 of FY '23, you said that you're going to launch EV segment products. So, are we in line with that?

And the second question is, you have said that tractors market is subdued, but the growth of the tractors is growing. So, can you shed some light on that? And the third question will be on the railway segment. Are we expecting something in future in railway segment?

P. Deepak: Okay. Sorry, the first question I didn't catch.

Ashish Chauhan: Well, you said that in quarter 3 of FY '23, you said that you're going to launch some EV segment products. So, are we in line with that?

P. Deepak: Yes. So, I think I mentioned that a little bit earlier when Anupama had asked the question. Those were the products I was referring to. Those were scheduled for launch in quarter 3, but the launch of that vehicle has been postponed by GM by six months. So, there's about a six-month delay in that launch.

The second question you had was in terms of tractors being subdued. I think you'll have to wait and watch for the full season to be done. I think from our side, what we see is more tractor production numbers rather than tractor sales numbers. So, it looks like the forecast was much stronger, and so they built more inventory.

But it looks like currently they've downward revised their forecast, and therefore, they're diluting some of that inventory. So, therefore, tractor production numbers have taken a hit compared to what the forecast was rather than maybe necessarily the final sales. So, I think we'll have to look at this perhaps after the festive season and then look at what the picture looks like, which I think we'll have a good idea probably by the mid to end of November in terms of what the fully attractive figures will at least roughly look like.

In terms of railways, no, we don't really see any significant growth or inroads that we're going to look at making into railways in the near future, not in the next few quarters at least. But, I mean, if the right opportunities do arise, we will undoubtedly want to take advantage of that.

Ashish Chauhan: Okay, sir. And what about, you have said that you're going to achieve double-digit growth. So, are we in line with that double-digit top-line growth?

P. Deepak: Yes, I think we are. I think that's what we're aiming for. I think if we do a similar along the lines of what we've done this quarter for the next two quarters, we'll get close. And I think our goal will be to try to do a little bit better to get there.

Ashish Chauhan: Okay, sir. And one more question. At what point of time can we expect that our capital utilization reaches to 80%?

P. Deepak: So, I think, some of it is, of course, going to be dependent on the market. But I think we see that probably happening in somewhere between a year to a year and a half from now, I think, is our best estimate at this point.

Moderator: Thank you. We'll take the next question from the line of Mahesh Bendre from LIC Mutual Fund. Please go ahead.

Mahesh Bendre: Hi, sir. Thank you so much for the opportunity. Sir, our exports have grown up significantly. I mean, if I look at FY '19, we were doing INR90 crores of exports. And now the annualized number for this year could be, maybe INR450 crores, 5x what we had in FY '19.

So, what is the outlook for the next two, three years? I mean, looking for a short term, I mean, what happens this quarter, next quarter, if I look at the next two, three years, how this number can move up or in terms of tonnage, what kind of growth we're seeing in export side?

P. Deepak: Yes. So, I mean, exports is a very interesting market. I think this is something that I think we've been talking about for quite some time. I think we took this as a priority in 2013, and which is when we started laying the seeds, started meeting customers, started quoting businesses, all of that. And then we started small with a lot of customers. And then we've grown quite significantly in terms of the customers that we've built really strong and deep relationships with. So, that helped us with this growth.

You know, looking, I think you're absolutely right. In FY '19, we were at about INR90 crores. If you go back to all the way to FY '15, I think we were at INR2.7 crores, right? But that's been an area of focus for us. It's an area that we wanted to grow for a couple of reasons.

One reason is related to, of course, better margins. But the second reason is also to have some diversity in our product mix so if we're extremely dependent on just one segment in the domestic area that especially M&HCV, there is cyclicality to it. So, that was the reason why we chose to do it. And I think we've been able to execute on what we had in mind.

Now, looking forward, it's a little difficult for me to give you something a little more precise because we have some export projects, where we get into production within a year of even getting the RFQ, and some that may take three years. But that being said, I think we have a significant opportunity to grow. We believe that we will continue to see at least double-digit, if not much higher year-on-year growth happening in the years to come.

Certainly, I think, with what we have right now, I think we can see in a couple of years that we should be reasonably higher than INR600 crores. But beyond that, projecting becomes a little more difficult because sometimes projects of our customers do get delayed, and sometimes we get opportunities that we had not even mapped out even a few months prior.

Mahesh Bendre: Sir, in the presentation, we have mentioned that the sourcing machine castings from India is now becoming an attractive option for global customers. So, I mean, we have been talking about China + 1 and Euro + 1 and so on. So, how is the feedback or the inquiry flow from the international market for machine castings for us?

P. Deepak: I think it's extremely strong. I think China + 1 is a very, very small part of what we're seeing. You know, in my view, I'm talking about maybe annual revenues will be sub-INR10 crores, right, maybe even sub-INR5 crores, sub-INR10 crores, yes, sub-INR5 crores to INR10 crores kind of a range of what I would consider to be an opportunity that's come because of China + 1.

Everything else is products that we are winning against local suppliers within either US or Europe. And that's driven, I think, based on value proposition, right, being able to offer a combination of quality, cost and delivery. And I think that we have a very strong value proposition. And that's the reason for the growth that we've seen. And that's the reason I feel extremely confident with the growth that we will see.

Mahesh Bendre: Sure. So, we have grown significantly well in last many years. But now the competition seems to be intensifying. I mean, even forging companies are also entering into a casting space given the demand and outlook. So, any view on the industry competitiveness?

P. Deepak: So, I mean, I think one of the things that we've tried to do is try to move more towards this higher complexity range of products, right. So, anybody who enters the market, I don't believe will be in a position to target these products, certainly not for several years until, they've build their competencies and strengths and all of that. And I think that gives us a good amount of time to kind of leapfrog things to the next level.

You know, I think there is undoubtedly a large opportunity in the market. I'm sure there's more than enough for everybody. But at the same time, I'm not particularly concerned about that impacting our business.

Moderator: Thank you. We'll take the next question from the line of Saket Kapoor from Kapoor Company. Please go ahead.

Saket Kapoor: Yes, sir. So, in continuation, you mentioned the figure of INR600 crores. I missed your subject on the same. The INR600 crores is for the export number?

P. Deepak: I think the question was more about, what might exports look like in a year or two years right now in the kind of medium-term future. And that's just what I put in terms of, what we see in terms of, the order wins that we have right now in the bag.

Saket Kapoor: Sir, when we look at the exit rate for this quarter at INR130 crores and the annualized number at INR520 crores. So, is INR600 crores a conservative number on the premise of INR130 crores as the base for this year, of this quarter? Is INR600 crores a conservative number or how should one look into it?

P. Deepak: I prefer conservative numbers, but, we never know, right? I think there are a lot of variables and factors in the market. It's difficult for us to understand all of those. And it looks like sometimes it's difficult to understand some of these factors that are going to be two months out. And obviously, it will be even more difficult to understand where they might be two years out, right?

But these are numbers based on, what projections given to our customers by orders that we've won. And perhaps, going forward, there might be new orders that we win that will, bump that number up. But this is, I think, I don't want to, put a crystal ball in front of me and say, okay, this order I'll win, that order I may not win. Or in some cases, we might not even seen the RFQ yet. So, we might have some opportunities that we don't even know about.

Saket Kapoor: Sir, first quarter, our export number was, sir? I missed the number.

P. Deepak: Approximately INR90 crores, INR89 point something crores. Approximately INR90 crores.

Saket Kapoor: Sir, INR220 crores is what we have done for the first half. And closer to INR260 crores, INR270 crores should we look, depending upon the deliverables for the H2, sir?

P. Deepak: There are factors that we don't fully understand. We think export will be largely in line with where we were in this past quarter. But obviously, there is some, maybe some impact of that because of this UAW strike in the current quarter. And we think Q4 is going to be strong again. But it's too early for us to put too many numbers, right?

So, largely in line with last quarter is roughly where we expect maybe, INR120 crores to INR130 crores kind of a thing perhaps might be what we might do in the next couple of quarters, right? That's what we think.

Saket Kapoor: Right. Sir, when you mentioned in your outlook part in the presentation, when you mentioned that the products that were scheduled to launch in the current year will happen in FY '25 as the OEM's decision to delay their model launch by six months. What kind of tonnage, sir, postponement we are expecting or the size of the order, if you could provide us with?

P. Deepak: Good question. I don't have that exact data with me, Saket. But, roughly speaking, on an annualized basis, it would have been, maybe something like $5 million or $6 million. I'm not absolutely certain on these numbers. But just a rough ballpark, will be something in that range on an annualized basis. It will just get pushed out by about six months.

Saket Kapoor: By six months. And it was getting to which product, sir? I mean, any EV part of, which part of this?

P. Deepak: That was the EV product used on those, the delivery vans for GM. Yes.

Saket Kapoor: Yes. Sir, we have been hearing and reading about this sintering process also coming up as a competitor for the casting story. So, how should the sintering process look and it being a competitor, being in competition to us, sir, going ahead?

P. Deepak: I'm not familiar exactly with what you're reading. But I don't see, at least the kind of mass manufacturing products, right, in terms of, commercial vehicles, tractors, cars, I don't see it being a serious, while powder metallurgy has obviously been around for decades. But I don't see it really anything significant. I see maybe more in terms of perhaps, aerospace and applications like that. Maybe there is some more opportunity. But I have not really seen any of our customers or any of our products where this has really come into any kind of a serious discussion.

Moderator: We'll take the next question from the line of Shubham Bapurao Thorat from Perpetual Capital Advisors. Please go ahead.

Shubham Thorat: Yes. Sir, congratulations on the good set of numbers. And we had, reported strong numbers on export side. So, I just wanted to get some more insights on what geographies and what kind of customers are driving this kind of strong growth in the export market for our company. That would be my first question?

P. Deepak: Okay. So, if you look at the geography, the biggest geography out of what we're supplying is actually to North America, both US and Mexico. That probably constitutes about 80% of our export revenue. Other than that, we've got, maybe about 15% or so going into Europe and very little going into, Southeast Asia, primarily Thailand and a little bit of Indonesia. So, that's the geographic mix. Within the US, we have a mix of commercial vehicle as well as light vehicle, right, which is the pickup truck SUV segment. And so, we've got a little bit of diversity there. In Europe, we've got a mix of commercial vehicle and we've also got some off highway, which is more construction equipment and that kind of products as well.

Shubham Thorat: Okay. Thank you for that. And my next question is, you guided to reach around 80% of capacity utilization in the next one year, one and a half year. So, I just wanted to ask, what factors do you think will help you to achieve those kind of utilization numbers, going ahead?

P. Deepak: So, obviously, there's two aspects to it, right? One is the market and the second aspect is our ability to do this ramp up, right, and to increase our output by eliminating bottlenecks, right? So, we are already very much working on the second one.

On the first one, we do have some opportunities that we are exploring in terms of growth for domestic, which is a mix of, increasing our share of business and products that we're already doing, as well as some new products that we'll be launching even in the domestic market, right? And so, we feel pretty confident that the opportunity will be there.

The other thing that we do see in the domestic market is, I've mentioned in the past, that we believe that the tipper segment is going to do extremely well in India over the next, five to ten years as we ramp up our infra spend. And our strong position in these particular products will help us, enjoy good growth as well. So, and then of course, on exports, we've seen how the story has played out so far. And we believe that there's still strong growth on the anvil for the years to come.

Shubham Thorat: That's it from my end. Thank you and wish you all the best.

P. Deepak: Thank you very much.

Moderator: Thank you. We'll take the next question from the line of Vinay Nayar from Emkay Global. Please go ahead.

Vinay Nayar: Yes, thanks for the opportunity. Just wanted to understand, what is the amount of capex we have envisaged for the next two years or three years, considering that we are at 55% capacity utilization, and we have a strategy we have mentioned about, increasing the, ramping up the value-add products. So what is the capex, we have envisaged for that?

P. Deepak: Cumulatively, if I was to say, over the next two years, three years, cumulatively right now, what we have in plan is, maybe to be approximately about, INR20 crores a year or INR25 crores a year, which is largely in line with the depreciation number, right? I think that's a good measure that we try to compare against.

Now, obviously, things go really well and we, capacity utilization is at 80% and we need to invest more in a new plant or a new line, then that might go up. But largely over the next, two years, three years, we think somewhere between that, INR20 crores to INR30 crores, maybe approximately on average about INR25 crores a year might be the capex.

Vinay Nayar: Just a follow-up question. Looking at the amount of cash equivalent you have in your balance sheet, how do you plan to deploy that? Because almost INR100 crores plus and your capex amount seems to be minimal. So is there any plan to maybe pay back to the investors considering over the next two years, three years to four years there? I mean, you don't seem to have a significant capex lined up?

P Deepak: Yes. So, I think one of the reasons, there's a couple of things that we look at the cash and cash equivalents. The number is significant, as you mentioned, it's about INR92.5 crores in our balance sheet that we just published yesterday. So, the purpose of having that, I think, is two-fold.

One, I think it is important for us to keep this number, one, as a rainy-day fund. So in case, you know, there's a repeat of COVID or something crazy happens in the world that we can't even imagine today, we want to make sure that, the company is well protected.

The second thing is also opportunities, right? If we get the right opportunity, whether it might be, a greenfield type of an investment, organic, or it may be inorganic, I think we want to make sure that we have that flexibility to go after it. So for the time being, I don't see us diluting the cash and cash equivalents. But perhaps in the future, if this continues to grow, then we can certainly look at all options, right, including, how best to utilize it and whether that returning to shareholders is the right option, that we'll have to look at on a different day.

Vinay Nayar: Okay. Thanks for the answer.

Moderator: Thank you. We'll take the next question from the line of Rahil Dasani from Mittal Analytics. Please go ahead.

Rahil Dasani: It's Rahil Dasani with D. So first of all, good morning, sir. According to your previous statement, the tractor sales currently are going well, but the new production is somewhat taking a hit. So what exactly is the reason? Is it like channel inventory or is it end demand?

P Deepak: So I think it's the forecast of end demand. That would be my best guess because, I mean, what impacts us is obviously the production numbers. I think sales numbers, we'll have to see what they come out tomorrow when they report their numbers. But I think sales numbers, if you look at September, were a little muted. I think that's why there might be some concerns on what festival sales may look like because a big chunk of tractor sales can be very lumpy and a big chunk of it happens during the upcoming festival season, during now, right.

Basically, from Navratri to Deepavali is when a big chunk of sales happens. So I don't know if this is a leading indicator that tractor sales may be down or if it's just a question that they've built too much inventory and they're trying to dilute the inventory, right. So, I don't specifically know the answer to that. But what we are seeing is that tractor production numbers are down.

And so why that is this a couple of reasons. It could be any of those reasons that I mentioned.

Rahil Dasani: Okay. Got it. Secondly, one of your peers have recently come up with a plant using lost foam technology. So compared to your production technology, when we compare to lost foam, what do you think about it in terms of cost savings, in terms of efficiency, in terms of quality?

P Deepak: So, I looked at lost foam, I would say we looked at this maybe about seven or eight years ago. We looked at the technology. It's a fairly prevalent technology in China. But it's really nowhere else in the world that it's really taken off and done well. I think I'm not really sure why. I mean, there have been attempts to do this in the US as well and they've been unsuccessful.

And even in China, if you see that, all the big, large volume players don't go with lost foam, they go with green sand. But yes, you're right. I mean, there are investments happening in lost foam in India. But I would say that everybody is still now trying to figure out, you know, what's wrong with it. I do know that quality is a little more challenging on lost foam. There are, some technical factors associated with that.

So we'll have to see how that plays out because, there are people, I would say at this point, there are people that are dabbling only in lost foam. I don't think it's anything significant enough. But we'll watch this market very closely. But like I said, this is a technology that we evaluated seven, eight years ago quite closely and chose not to pursue it. But we'll obviously keep our eyes and ears open.

Moderator: We'll take the next question from the line of Ashish Chauhan from RV Investments. Please go ahead.

Ashish Chauhan: Hello, sir. Actually, I have two questions for you. The first question is regarding the debt level. In the previous quarter, you said that debt level at the end of quarter one was INR195 crores. But we could see a debt level of INR295 crores. Can you throw some light on this? And the second question is, at what timeline can we expect that our debt will be zero and we could be a net debt free company?

P Deepak: Okay. So the number that we talked about, Ashish, was net debt. Right. So if you look at the current balance sheet that we uploaded to the exchanges yesterday, the net debt is actually INR199.52 crores. So there's a gross debt of 292 and a cash and cash equivalents of 92. Right. So that's along the lines. Right? So the net debt is largely the same as it was in the previous quarter. Right. So I think that's the difference in the number that you might have been seeing where I was talking about net debt last quarter and I think you might be comparing it to the gross debt for the quarter.

The second one is talking about being debt free. I actually don't know the answer to that because I think there is going to be significant amount of growth. I think we will have periods of time, especially I would hope over the next year or two, we hope that we will, with the kind of increase in capacity utilizations, we might pay down some debt. And then we might see some great opportunities for growth where we might need to take on some debt. Right. So, it's a very, you know, it's too forward a forward-looking statement for me to make to talk about being zero net debt. Right. I don't know how? I don't have that number.

And also, as we continue to grow, you know, we will need more working capital as well. And that's something that also shows up on that debt column. Right. So it's a long answer to say to say the words I don't know.

Moderator: Thank you. We'll take the next question from the line of Aman Saifee from iWealth Management. Please go ahead.

Aman Saifee: Yes. So, sir, I just have one question. Is that the craftsman has been putting up the foundry line for the backward integration. So you being his customer for machining, how do you see competitiveness increasing? Because the customer base for you and craftsmen are the same. How do you see this?

P Deepak: So actually, to be more specific, right, the kind of investment that they are making is a completely different process, which is a no big process. It's not a process that we intend to go into. And so I don't see that as a competition. I do not see them coming into our kind of products and just purely based on the kind of relationship and agreement that we have.

Aman Saifee: Understood, sir. So you mean to say the product is altogether different what you do as the craftsman which he will be putting up right now?

Moderator: Thank you. Ladies and gentlemen, I would now like to hand the conference over to the management for closing comments. Over to you, sir.

P Deepak: Thank you. Thank you everyone for joining us today. We are confident of the opportunity and appreciate your faith in our performance. Thank you once again and wish you and your family a very happy Diwali. With that, I'd like to hand the call off for the day.

Moderator: Thank you, members of the management. Ladies and gentlemen, on behalf of Nelcast Limited, that concludes this conference. We thank you for joining us and you may now disconnect your lines. Thank you.