"Nelcast Limited

Q3 FY24 Earnings Conference Call"

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MODERATOR: **MS. SONIA KESWANI – ERNST & YOUNG**

Moderator: Ladies and gentlemen, good day and welcome to Nelcast Limited Q3 FY24 earnings conference call. As a reminder, all participants' line 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. Sonia.

Sonia Keswani: Thanks Manuja. Good morning, everyone. On behalf of Nelcast Limited, I welcome all of you to the company's Q3 and 9-month 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 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 email address 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 for joining us today for our Q3 and 9-month FY24 earnings call.

I would like to start with the business developments in Q3 FY24 followed by our outlook for the next couple of quarters. On an overall basis, while we continue to see strong performance in our export business, performance in the medium and heavy commercial vehicles and the tractor segments was subdued and ended up impacting our revenue growth for the quarter. Total revenues stood at INR323 crores in Q3 FY24 which was down 3% year-on-year and 11% quarter-on-quarter.

For our export segment, we continue to sustain quarterly run rate of excess of INR100 crores and did close to INR118 crores in the quarter and around INR339 crores in the 9 months of FY24. While the 9-month figure now already exceeds what we have completed in the entire FY23, this gives us the confidence to comfortably meet our FY24 export revenue guidance of INR400 crores. Going ahead, the growth trajectory will continue to remain strong, driven by a robust order book and new product launches.

On the other hand, underperformance in the M&HCV was due to reduction in production in the overall industry. Tractors suffered from muted demand in the rural economy. We expect

M&HCV to recover on the back of pickup in construction activity and infrastructure spends. However, tractors are expected to report only a modest growth next year as well. Talking about the sector-wise breakup of revenue for the 9 months, revenues from M&HCV stood at 38%, exports contributed 35%, tractors was 21%, railways was 3% and off-highway equipment and others contributed around 2%. EBITDA per kg for Q3 FY24 stood at 12.1 rupees per kg, which is a growth of 21% year-on-year, driven by an increase in contribution from exports that have higher margins as well as the normalization of raw material prices and operational efficiencies.

For the 9 months of FY24, EBITDA per kg was INR13 per kg, which was in line with our guidance of about INR12 per kg for FY24. Going ahead, we expect our margins will continue to improve on the back of our growing export business as well as the recovery in the domestic segments and improved operational efficiency.

In the last earnings call, we outlined our detailed strategy around improving profitability through four key levers. To reiterate, there's been a conscious shift from manufacturing basic components to higher margin value-add components, which is supported by our state-of-the-art manufacturing capabilities. Second is our focus on our fast-growing export business. Third is the improvement in capacity utilization levels and removing bottlenecks. And fourth is overall cost optimization. While we remain focused on our strategy internally, we've been recognized by prominent customers as well as institutes. During the quarter, we were awarded the 'Best exporter of the year' in the large foundry category from the Indian Institute of Foundrymen. Tata Motors awarded us for our cost competitiveness during their Annual Supply Conference in 2023. And Automotive Axles recognized our efforts to setting up the Peddaparia plant by rewarding us with our 'Excellence in new facility creation in castings'. We are immensely grateful and appreciate the faith our customers have in us and are committed towards delivering quality.

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

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Namita Arora from Indgrowth Capital. Please go ahead.

Namita Arora: Thank you for the opportunity. Deepak, thank you for the helpful opening remarks. My question is specifically on exports. Could you give us some color, firstly, on the new product launches that you are planning for H1 FY25? Some color on what kind of products and where you are in terms of the development cycle for these products? And secondly, you know, in terms of customers, are you looking to go deeper and get more wallet-share from your current customers? Or are you also in the process of breaking through with some new customers, specifically on the export side? Thank you.

P. Deepak: Sure. So I think on the exports front, we do have several products that are slated for launch. I think there's a couple of products that are in the EV space that was actually slated for launch in H2 FY24 that got delayed by the launch of the actual end product. The vehicle itself got delayed by General Motors apparently due to the UAW strike that was there. So, they postponed the launch of the vehicle by about six months. So, we believe that, that should more or less in the first quarter of FY25, come into production.

So that's some new products that are already there in the pipeline and that should have been launched. Other than that, there's some other products, again, for the US market that we are anticipating to launch towards the end of H1 of FY25. So those are in the, we've received an LOI for development as well as we've started, all the technical reviews and all of that is currently going on.

The tooling development will perhaps start in another two to four weeks or so is what we anticipate there. In addition to that, there's a couple of other products that I think were in the approval stages. So, we expect that also to launch perhaps at the start of FY25.

So we have several products that are there. Different products have different development cycles as well as launch cycles in terms of depending on their testing requirements and all of that. So some of these might get slightly delayed.

We don't know exactly, but we expect that, you know, in terms of an annual run rate for new business, you know, where we expect to be perhaps by the end of FY25. So this is over and above the businesses that we have today. We think that something around INR150 crores a year kind of a number, compared to where we are today, we should have that kind of an additional run rate by the end of FY25.

And in terms of wallet share was your second question. We're trying to do both. We're trying to improve our wallet share with our existing customers. Fortunately, we've done that quite successfully in the last few years, and I think we will continue to do so. But we are also working on new customers. There are some new products as well for new customers that we are working on. And hopefully if those do materialize, then we are quite excited because that gives us a lot more opportunities as well.

Namita Arora: I've got it. Thank you, Deepak, for a very detailed and helpful comment. I have just one more question that was on the Indian infrastructure space.

I recognize there has been some sort of a slowdown, especially on commercial vehicles, but do you expect that post-elections, you know, sort of the focus on infrastructure and the spend might come back and your customers, you know, may be ramping up their volumes. And from a product suite standpoint, to cater to the Indian infrastructure opportunity, are you well-positioned or are you looking at adding some more products? I'm just looking at sort of the five-year period post-elections in the middle of this year, next five years. How are you positioned on the infrastructure opportunity in India, and what are your thoughts about the potential of that? Thank you.

P. Deepak: I think within the M&HCV space, a bigger chunk of what we do actually goes more towards the heavier trucks, specifically the Tippers, which are used a lot more on the infrastructure spends, construction, shallow mining, these kind of activities. So, we've got a lot of products and a much higher share of business in these kind of products. So, we are quite eager to look at India's infrastructure going to the next level in terms of the kind of investment that's going to happen, and we will undoubtedly benefit from that.

And we are continuously updating our products as well to make sure that we are part of that story.

Namita Arora: Got it. Thank you, Deepak, and all the very best to the entire team. Thank you.

P. Deepak: Thank you.

Moderator: Thank you very much. The next question is from the line of Rehaan Phophalia from Sikomoro Advisors. Please go ahead.

Rehaan Phophalia: Yes, hi. Good morning, all. So, congrats on a set of good numbers. I think the revenues declined but the margins were sort of maintained. Can you just help me with what is the top line growth you expect in FY '25? And what is your EBITDA margin expectation given the number of new products that you'll be launching in the next financial year?

I think you said an additional INR150 crores of exports is what you expect year-on-year in the next year. So if you can also help me with how much growth do you see on the domestic business side?

P. Deepak: Yes, okay. So, I think next year is going to be a challenge, slightly more challenging in order for us to project out, mainly because of the elections that are coming up. And, you know, that's creating some level of uncertainty, at least in terms of understanding, you know, not just continuity of government, but also the other part is the kind of expenditures the government is going to undertake over the next year, right?

So it's a little harder to estimate, we would certainly aim for a number that is in the double digits in terms of top line growth. That is something that we do intend to aim for. And we do have some new products in the pipeline that I think will help us with that.

In terms of the export growth that I mentioned, that INR150 crores, I'm just talking about, you know, where the exit run rate would probably be at the end of next year versus where we are today, right? It doesn't, I've not necessarily, you know, I want to make sure that from a clarity standpoint, I'm not stating that next year, we expect to grow INR150 crores in export, but I'm just talking about the exit with the new product launches that will happen, you know, during the course of the year, right? So that's that.

And then in terms of the EBITDA growth, which I think was the other question that you had, we do intend to continue growing, we think that with the growth in exports as well as with better capacity utilizations, we've said that in the next two to three years, we'd like to get about a INR15 per kg. So right now, in the last quarter, we were at about INR12, the year so far, we are at about INR13. So, we think something in that 13 to 14 range is what we will be targeting for an EBITDA number for the upcoming year.

Rehaan Phophalia: Sure, thanks. Also, given that tractors are a large part of your revenue, I think 21% in nine months ended FY '24. How do you plan on replacing the segment since you don't see that much growth here?

P. Deepak: Like I said, I think tractors in the long term is probably a low to mid-single digit CAGR kind of industry growth that we're seeing right now. And that's what's being projected by, you know, the CRISILs and the ICRAs all these other agencies that are doing the research.

So I think we believe that there will be, you know, more M&HCV growth, but I think exports is going to be really the biggest lever that we can, that we can utilize the opportunity on. And there are some really, you know, great opportunities that are there. And we are working on trying to break through on some of those opportunities.

Rehaan Phophalia: Okay, sure. Just last two questions. One question is, what is your plan with respect to the current level of debt on the balance sheet? Are we looking to maintain it or reduce or what is the plan?

P. Deepak: So largely, it will be a maintained kind of a thing, perhaps for the next year or two, because we will see our working capital needs go up, you know, if we have the right kind of growth, and we grow our exports, which we do intend to. So, we will see some increase in our working capital requirements. And we will also, you know, as we pay down term loans as well, we will expect to see some term loan debt come down. So over the next two, three years, I think the next couple of years, I think definitely the debt level will stay similar, but I think the mix of it will, of the debt will change. And it will, I would expect that it would be more of working capital, where the increase will happen, where it will be justified based on business growth.

Rehaan Phophalia: Sure, that helps. And finally, can you just help us understand the exceptional item? You know, what's the location of the land and what was the purpose of the sale?

P. Deepak: Sure. So the land that we sold was an excess piece of land. This is something that we had purchased in 2007, in the state of Andhra Pradesh. It was intended at that particular time, for setting up a foundry at that point of time. However, I think we don't feel that that was the appropriate location to set up a foundry, and we didn't have any specific use for that land. And therefore, we decided to dispose of it.

And we were able to find a buyer and a price that gave us that, you know, INR17.28 crores, which is reported as an exceptional item in the P&L.

Rehaan Phophalia: Sure, I think that helps. Thank you so much and best of luck. Thank you.

Moderator: Thank you very much. The next question is from the line of CA Nihar Shah. From Crown Capital. Please go ahead.

Nihar Shah: Good morning, sir. One small question on the guidance we had given in Q1 of FY '24 for that company is expecting double-digit top-line growth for the entire year. But in nine months, we have seen growth of around 2%. So how are we planning to achieve it? Do you want to give revised guidance on that?

P. Deepak: Yes, so I think, unfortunately, you know, at that point of time, we were expecting the tractor market also to stay fairly robust. I think we were expecting a 4% to 5% growth to happen in the industry versus what now looks like it might be a 3% to 4% degrowth that we might end up seeing in the industry right now in tractors. And also, M&HCV, we were expecting a fairly strong push happening in M&HCV. We think Q4 in M&HCV will be fairly okay. But overall, we think M&HCV is going to be flat compared to last year. I think on the export front, what we expected to grow, we have managed to do a little bit better than that. But I think this was a tough year for the industry, both tractors as well as M&HCV overall. And so it looks like, the projections and the forward-looking statements at that particular point of time with the data available then, unfortunately, have not panned out.

Nihar Shah: Okay, okay. So, what kind of growth, what's the top line we are expecting for this year to be in FY '24 for the entire year?

P. Deepak: So I think largely where we expect the fourth quarter to be is, we think it will be, perhaps in terms of revenue, it will probably be marginally better than the third quarter and, perhaps somewhere between, the second quarter and third quarter in terms of the revenue numbers, right? So roughly, that's where we see it, panning out, which puts us at about, maybe roughly speaking, maybe about a INR1300-ish crores kind of revenue from, against, 1268, I think, was roughly, was last year.

So, you know, we would expect a marginal kind of low single-digit growth at this point. That's what we have seen.

Nihar Shah: Okay. That's all from my side. All the best. Thank you.

Moderator: Thank you very much. The next question is from the line of Rusmik Oza from 9 Rays EquiResearch. Please go ahead.

Rusmik Oza: Thanks for the opportunity, sir. Wanted to know what is the current capacity utilization of ours and in the presentation, you have mentioned, you know, that you can increase capacity by 50,000 if required with minimal investment. So wanted to know if you have to do this 50,000 capacity expression, what could be the incremental cost for this capex going forward?

P. Deepak: Yes. So, our capacity utilization right now, if I look at it for the whole nine months, it's about 56% or so. For the last quarter, it's about 58%. And, you know, the additional tonnage addition that we were talking about is really addition of additional melting furnaces and some other, balancing equipment and all of that.

So that is about, I think it will vary depending on the exact capacity and the exact investment we'll need to make. But the best estimate we can make at this point is perhaps something to the tune of maybe INR60 crores to INR80 crores kind of investment.

Rusmik Oza: Okay. So another question is on the railways, you know, because that really accounts for only 3% of our revenue, but we've seen huge CAPEX coming from the railway side. So any push or initiative on this, on the railway side to increase the business?

P. Deepak: So there is something that we're working on in terms of railways. There's primarily two businesses that we do on the railway front. One is we produce the brake discs that are used on the, what they call the LHB coaches, right? Which are the coaches used on the Rajdhanis, the Shatabdis and these kind of what the Indian Railways call the high speed coaches. So we produce that as well as we produce base plates for a lot of the metro rails across the country. We are working on expanding the portfolio of brake discs to other trains as well.

There were some constraints earlier that did not allow it to do it. Something to do with, you know, the specific chemistry that's required, which we had other automotive business on that line, which we could not use that chemistry for. But now we've done some work on that. And so we are looking at some increase, but I don't think it would be anything that would make a significant difference to the overall top line, right? Because the base is still fairly low.

Rusmik Oza: And the last question, sir, is regarding exports. We do ductile iron and grey iron castings right now. But any thoughts of getting into, say, a bigger opportunity like aluminium casting for exports, because that could be a big segment for us. Any diversification beyond the ductile iron and grey iron in terms of casting?

P. Deepak: At the moment, no. And I don't see that happening perhaps for the next, you know, year and a half or two years. We leave the door open to the right decisions beyond that. But I think certainly for the next year or two, I think our focus is going to remain squarely on our core business, which is the iron castings.

Rusmik Oza: Okay. And with exports going up in the next one or two years, do you expect the utilization levels to go up from the current 56% to around 80%-85%? Or what could be the max utilization levels we can achieve with this current gross block?

P. Deepak: Yes, you're right. 80% is the number that is certainly on the cards. And that's what we would target within the next two to three years. That's a number that we definitely want to be at.

Rusmik Oza: Okay. That's it from my side, sir. Thanks, and best of luck.

Moderator: Thank you very much. The next question is from the line of Mahesh Bendre from LIC.

Mahesh Bendre: Hi, sir. Thank you so much for the opportunity. Sir, the domestic market seems to be soft now, as of now, but our export side we are doing well. And you further mentioned that we could add incrementally INR150 crores of revenue next year. So, in the near term, or maybe in next year, do you think the export could form a 50% of our sales?

P. Deepak: 50% would be, sorry, 50% would be, you know, quite a tough number. We hope that the domestic will also pick up. Right now we're at about 35%. So, let's move up to 40% and then look at growth beyond that.

Mahesh Bendre: Maybe two years down the line is possible, sir? Two, three years down the line?

P. Deepak: Certainly, right. Two, three years, we're working towards it. We're also trying to work towards some new things on the domestic side as well. So, hopefully, we hope those will also pan out.

Mahesh Bendre: And, sir, you mentioned that capacity utilization, I think 55% to 60%. If we move to 80%, 85%, then obviously margins should move significantly from here?

P. Deepak: Yes. So, I think that's what we've talked about is, you know, we're looking to get too close to INR15 per kg EBITDA margin from, you know, the 12 to 13 that we currently are at for the year so far. So, we think that that's, certainly very much on the cards if we get to a higher capacity utilization, something in that realm of 75% to 80%.

Mahesh Bendre: Yes, typically, we have seen that whenever in foundry business or in a forging business, whenever the utilization goes up, there is a disproportionate benefit that accrues in the income statement?

P. Deepak: Yep, that's what we're working for, right, for sure.

Mahesh Bendre: Okay. Sir, last question from my end. At macro level, are we benefiting? I mean, is there any China plus one, not China plus one, plus Euro plus one or any kind of more sourcing coming from international arenas in terms of inquiries?

P. Deepak: Yes. So, I think if we look at, you know, a lot of the business that we've won, especially in the last three years, right, during COVID and after COVID, a lot of it was, earlier was actually domestic plus one. When I say domestic, let's say in the US market, you know, they might have been sourcing locally within the US and then they added as a supplier. And then, you know, due to different constraints, capacities, costs, variety of things, inflation, variety of things that were happening there, we were able to gain a much greater share of business. And in some cases, in most cases, I would say, we went from being the plus one to being the primary, right? So, we went from being some other supplier plus us to being only us supplying the components. So, we certainly benefited from some degree of offshoring that's happened on the products that we do.

In terms of the China plus one, a large amount of the work that was being done in China was, you know, kind of a lot of it was a higher volume, but much lower in complexity and much more, you know, pricing driven kind of product, which we weren't necessarily there in. And, you know, a large chunk of our strategy has been to be in more complex, the higher value work. So, there is one specific product where we have one business as a China plus one, I don't think it will make a significant difference to the overall top line or bottom line of the company because it's not very big business, you know, something to the tune of, you know, INR10 crores to INR15 crores a year kind of thing. But largely, we've been competing against local foundries, whether it's in US or in Europe, and winning business accordingly.

Now, I think there's going to be a lot more within Europe of a Europe plus one. I think there's a lot of question marks and concerns regarding the health of many. Financial health, as well as, you know, some of the environmental restrictions that are going to come in for foundries in Europe. So, we think that that's going to be a very strong opportunity, you know, to play out in the next, you know, two to three years.

Mahesh Bendre: Okay, sure. So, last question, capex plan for next two years?

P. Deepak: So, I think we would, we would look at, you know, largely most of it would be a maintenance capex, there might be a few, you know, upgradation to equipment as well as we continue to grow our exports. So, I think, in total, you know, I would say, you know, next two years, right, FY25 and FY26 put together at this point, I would expect that, it would probably be about a INR60 crores kind of number for both the years put together.

Mahesh Bendre: Thank you. Thank you so much, sir.

Moderator: Thank you very much. The next question is from the line of Prolin, an individual investor. Please go ahead.

Prolin: Yes. Hi, Deepak. Thank you for all the update about the company. You know, you mentioned that you have an aspiration to reach about INR15 per kg in terms of EBITDA per kg, the margin part. Is this largely driven by increasing capacity utilization or there is a product mix also which will help you reach there, in terms of INR15 per kg margin? And what is the timeline that you're looking for in terms of reaching that INR15 per kg?

And also, just wanted to understand that, I mean, how should one look at your business, right? I mean, there would be lots of products which would be, let's say, for example, right now you're earning INR12 to INR13 per kg. There would be some products which would be below INR10. There would be some which will be above INR15, INR16. So, do we want to move large part of our business towards a higher margin and exit some of the business which is low margin? So how should one, how do you as a promoter of the business look at this metric and where should this number be, let's say, not in the next couple of years, but in the three to five years kind of time when it comes to EBITDA per kg metric?

P. Deepak: Yes. So, getting the EBITDA per kg to that, you know, 15-ish kind of a number is something that, you know, we'd ideally like to be able to do it within two years. You know, perhaps it might push to three years, but something in that two to three year range is what we would like to do that, right?

There are two things. One, of course, as you said, and as one of the, you know, the other investors had talked about earlier, it will have to do with capacity utilizations and, you know, better operating leverage coming in, right? But beyond that, there's many things we're doing on the cost front, whether it is, you know, cost of energy, cost of materials, a lot of optimization that we're continuing to do, and the product mix, right?

The product mix also will play a role, especially in our newer plant in Pedapariya, we have the ability to make significantly more complex parts, larger parts, where it's, you know, less competitive pressures. So certainly, I think that, you know, it will be a mix of all of these, we will take up blended numbers. Coming to the question of, you know, are there businesses today that we have that where the margins are lower?

Absolutely there are. And what's the correct call to do on those? It's a very difficult and complicated question to answer, because we can't, I don't think there's a, you know, answer I can make that kind of carte blanche on it, mainly because, you know, some of these are businesses that, you know, while the individual product may not necessarily be so profitable or ideal, as a strategic decision, those are products that we may want to do, right?

So sometimes we will have to make those hard calls and have to, be willing to walk away from some business. But I think largely a lot of what we have today is strategic, and we will continue to keep looking at it as an overall basket rather than an individual product.

Prolin: Sure, that is very helpful. Deepak, just to double click on that, you mentioned that in Pedapariya plant, a relatively newer plant, you make a far heavier kind of, I mean, you know, Casting there. So just to understand, what would be the margins that we earn from some of these products there would be in the range of 15 to 16 even today also, is that a fair way to look at it?

P. Deepak: So right now, Pedapariya, being the newest plant also has the lowest capacity utilization, right? So that definitely hurts the margins that we have over there at the Pedapariya plant. And there's been a lot of new product development, a lot of stabilization activities that are happening over there.

So, you know, so I think right now might not be the best time to comment on it. But certainly, with the product mix that we have and the expected costing structure that we have, once the capacity utilization is ramped up, we would expect to have Pedapariya probably at a 15 plus number, which kind of what would be a steady state.

Prolin: Great. Thanks a lot, Deepak. That's it from my side.

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

Saket Kapoor: Yes. Namaskar, Deepak sir and Siva Ji. Sir, firstly, if you could give what was the total realized value from the sale of land? How much have we sold the land for?

P. Deepak: So, let me get back to you with that number. It's the profit number is the 17.28, which is what we reported. The investment at that time must have been, I think, INR7 crores or INR8 crores, I think was the actual investment in back in 2007. So, approximately...

Saket Kapoor: So, net sales, we have got around INR25 crores-INR26 crores.

P. Deepak: Yes, something in that approximately. Yes.

Saket Kapoor: And that has gone to our working capital book, exactly, when we have lowered our working capital requirement by that amount. That is what the utilization of fund is.

P. Deepak: Yes.

Saket Kapoor: Okay. Sir, you have mentioned the four levers, if I could just, on slide number seven, value-added products, export business extension, improving of capacity utilization levels and cost optimization. So, on all these four verticals, what steps are in the anvil and what steps would culminate going ahead that would add to the revenue and the profitability going ahead? If you could just elaborate on how have we strategized on these four parameters?

And on the Pedapariya unit also, sir, if you could, I requested last time also, if you could have mentioned unit-wise utilization levels in our presentation, that would give us an indication on how currently the units are faring up in terms of order capacity and all. So, sir, give some colour on these four strategies going ahead. And then I'll have two more questions.

P. Deepak: Okay, sure. So, I think, on the four strategies, I think, one, the value-added products, which is more complex products, which I think is something that's played out, I would say, over the last almost 12 years now, the kind of product mix that we've done, the realization per kg has gone up quite significantly. I think this is something that will continue to happen.

I think the fortunate thing seems to be that because people are looking to optimize designs, I think products that may have been simpler 10 years ago have become more complex today because of weight reduction goals and things and optimization that's happening in the design of the components. So, I think that's one. The other thing is also, of course, the larger size components being, I think we're fairly uniquely positioned to manufacture these larger size type of components with our new Pedapariya plant.

Exports, I think, is the story that we've talked about and that we've been growing.

And capacity utilization is going to be an important step. Our capacity utilization overall, as I mentioned, was about 58%. Specifically, you had asked about Pedapariya plant. About 25% was our capacity utilization last quarter.

In terms of cost optimization, I think there's many things that we are doing. I think one of the things that we have talked about also in the past is in terms of managing our energy cost and having a lot of activities that go both into energy conservation as well as investments into renewable energy.

Saket Kapoor: Sir, on the tonnage front, how much have we done for the nine months and what should be the tentative number, how are we going to close this year and going ahead next year? I think Pedapariya was around 40%, if I'm not correct, for the second quarter. So, have we seen any lesser amount, lesser number of orders being dispatched or why have the utilization levels gone below the last quarter number, correct me there also sir?

P. Deepak: Utilization in Pedapariya is marginally less than what it was last quarter, but only marginally, right? I think it's only like 1% or 2% kind of less, not much more than that. Just a couple of percent lower, I think it was in comparison to last quarter. And that specifically, I think some of the decisions that we did take in order to cut back on the number of working days based on certain demand, because I think in the last quarter our production efficiencies were slightly better.

And the demand, unfortunately, especially mid-December, we saw a sudden dip in demand from M&HCV, I think largely driven by cutting production to control their inventory levels. And January, I think they kind of come back to the normalcy. So, we didn't want to build too much more inventory than what we had built. So, that's one of the reasons why we had also cut back on some of this intentionally.

Saket Kapoor: So, sir, Pedapariya is 60,000 metric ton is the installed capacity as per your presentation. So, 25% is what we are, what should be the exit rate for this year and going ahead, say, for next financial year, what should continue in terms of utilization levels? I think the Ponneri and Gudur are, well -- sir if you could give the tonnage-wise breakup also, that will give us an understanding how the other two units have played.

P. Deepak: Yes. So, I think, you know, overall, if I look at where we are right now, I think overall, we've got Gudur at about a 60% kind of utilization. Ponneri is running slightly higher than 90% utilization. And, Pedapariya is at about a 23%, 24% kind of utilization. So, I think Pedapariya, we can certainly have it, well above 30% within the next two, three months with some actions that are being done. But I think probably by March, we will be in a position where we can get it up to about a 30-plus-percent kind of a number.

Saket Kapoor: And sir, that tonnage-wise, sir, what is our nine-month tonnage number and for the last quarter what is our scheduled tonnage that may happen? Taking exports also into account?

P. Deepak: So, I think for the nine months so far, our sales tonnage number is 62,700 tons. And as I mentioned, because there was a dip in some of the productions, we did have a build-up of stocks. We actually have production number which is actually closer to 67,000 tons for the nine months. And I think in this quarter, we expect that it will be somewhere between probably 21,000 and 24,000, something in that range is what we are expecting for this quarter. Okay.

Saket Kapoor: And the key reason was that from the lower demand from M&HCV that you have just articulated?

P. Deepak: I mean, as I mentioned, normally the seasonality of the tractor in terms of their production numbers start to slow down, post-Diwali. But this year, it started a little earlier. So, there's a little bit of a hit on tractor at the beginning of the quarter. And towards the end of the quarter, normally, people ramp up production in December a little bit more to ensure that their Q4 sales numbers can be met. But December, I think they wanted to do some inventory correction. And so, there was a drop in December production of trucks. So, that also had an impact.

Saket Kapoor: Just not to hasten more on it, but Pedapariya investments has not yielded results to us, maybe 2017-2018. After that, the downtrend and also Corona and many factors that have played out. But when can we anticipate reasonable return on our investment from this unit? Even at 35% also, I don't think so it will cover the fixed costs. So, at what level will it be a break-even investment for us?

And sir this INR12 EBITDA per kg for this quarter should be the bottom only and we should be somewhere in the vicinity of 13-14 for the next quarter that we should work out because of the normalization of the raw material or 12-13 is the appropriate band?

P. Deepak: So, I think right now, I would say for the current quarter, I would think it would be largely in line with that 12-13 kind of a number. I think for next year, we are looking at taking it to that 13-14. We see the opportunity there. I think some of the things that we needed to upgrade in Pedapariya to be able to handle the larger parts and all of that, we are doing. Pedapariya also, I think at about a 40% utilization level, we will be at a break-even at a PBT level that's there. So, that's also something that we are working towards, and we would like to be able to have that starting Q1 itself of next year.

Saket Kapoor: Next year, so for Q1, we can expect 40% and above utilization levels from Pedapariya units?

P. Deepak: I mean, we are targeting to move towards that level and hit basically the break-even there. But I mean, it will depend on some of the new product launches. So, perhaps that activity, I think we should see the results starting in Q1 and perhaps by Q3, we should see the effect of those results.

Saket Kapoor: And sir, for export, lastly, you mentioned that our run rate will go up to INR150 crores per quarter from what existing INR120 crores it is currently. That is what you are giving us. So, we can…

P. Deepak: Over the next four to five quarters, that will roughly become, we expect to see, our run rate.

Saket Kapoor: Every quarter, INR150 crores?

P. Deepak: Yes.

Saket Kapoor: And lastly, on the renewable segment, if you could give what steps are we taking to lower our power and fuel cost? I think some work was in the anvil for the renewable category also.

Moderator: Sorry to interrupt, sir.

Saket Kapoor: Yes. Sir, you may answer it and then I will join the queue.

P. Deepak: Okay. So, I think on the renewable side, there is investments that are happening, I would say some that are on the anvil and some that are in various steps of progress. We will see investments that we will make in this renewable space in FY24 as well as FY25. So, there is more happening right now. I think we are at about a 55% to 60% kind of a renewable mix.

We would like to take that up to 80% and that 80% on a higher capacity utilization obviously means it's a much bigger impact that it will have. But that is something that we will continue to move towards, and I think 80% is kind of the target that we are looking at for renewables.

Saket Kapoor: Yes. Thank you, sir. I will join the queue again.

Moderator: Thank you very much. Due to shortage of time, we will take that as the last question. I now hand the conference over to management for closing comments.

P. Deepak: Thank you everyone for joining us today. We appreciate your faith in our performance and remain confident of the opportunities that are there ahead. Thank you all again very much. Thank you.

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