"Nelcast Limited
Q4 and FY24 Earnings Conference Call"

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MODERATOR: **MR. ABHISHEK BHATT - EY INVESTOR RELATIONS**

Moderator: Ladies and gentlemen, good day and welcome to Nelcast Limited Q4 and FY24 Earnings Conference Call. As a reminder, all participants' 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 Mr. Abhishek Bhatt from EY Investor Relations. Thank you and over to you, Mr. Abhishek.

Abhishek Bhatt: On behalf of Nelcast Limited, I would welcome you all to the company's Q4 and 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, Managing Director and Chief Executive Officer, and Mr. S. K. Sivakumar, Chief Financial Officer of Nelcast.

Before we proceed to the call, a disclaimer, please do note that anything said on this call during the course of 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 address mentioned in the company collaterals. With that, I would like to hand over the call to Mr. Deepak. Thank you and over to you, sir.

P. Deepak: Thank you, Abhishek. Good morning, everyone. I would like to thank you all for joining us today for our Q4 and FY24 Earnings Call.

I would like to start by emphasizing that the company has accomplished substantial export growth in the fiscal year and also realized a vigorous compounded annual growth rate of 40% over the last seven years, culminating in FY24. We've also taken a noteworthy step in sustainability by launching a one-megawatt solar power plant at our Pedapariya facility, making a pivotal move towards reducing our carbon footprint and embracing green energy. This initiative is set to significantly lower carbon emissions and reinforce the company's commitment to environmental responsibility while also contributing to substantial cost savings.

Now, let's begin with an update of performance of our key business segments followed by our outlook for the upcoming year. I'm pleased to share that our performance in the export market has been a pillar of success with a remarkable growth of 35% year-on-year from INR 329 crores to INR 445 crores in FY24. While we continue to see strong performance in our export business, the performance of the medium and heavy commercial vehicle segment was subdued and ended up impacting our revenue growth.

Total revenue for the quarter stood at INR299 crores in Q4 of FY24, which was down 5% year-on-year and 7.3% quarter-on-quarter. This is witnessed due to the significant drop in demand, which is influenced by the ongoing general elections, which has led some of the customers to postpone their purchases. However, we are optimistic about the substantial rebound post-elections and monsoon season, and we are projecting a strong upswing in the second half of FY25.

On the other hand, the tractor market also experienced an overall downturn in the industry during the quarter, but now stepping ahead into Q1 of FY25, we're seeing good traction due to the normal seasonality that we see in the segment, and we're quite confident that this will continue for the year. Moving towards our export segment, as I mentioned, we did manage to grow 35% year-on-year and crossed our target, which was INR400 crores for FY24. The growth was fuelled by launches of new products as well as increase in volume of existing offerings.

For the upcoming year, despite the forecasted 10%-15% downturn in the US commercial vehicle market this year, we remain committed to maintaining strong export business growth in the coming years. Talking about sector-wise revenue breakup for FY24, the largest share of revenue was contributed by M&HCV, which stood at 38.6%, followed by exports at 35.4%, tractors contributed 21.1%, railways was 2.2%, and off-highway equipment was 2.3%. Going forward for FY 25, we expect our EBITDA to be largely in the same range, which was about approximately INR12.5 per kg, and we believe that we should have fairly stable EBITDA with potential for some improvement.

We believe that we see a lot of potential for growth in exports and several new product launches are aimed at the North American region, as well as we are working on several new opportunities in the European market as well in the coming years. The domestic commercial vehicle industry is expected to pick up in H2FY25.

Strong GST collections by the government indicate good public investment on infrastructure, which will boost the CV segment. Additionally, this segment includes the construction equipments, tippers, which are part of our portfolio, that will see rise in the demand. So we remain quite optimistic about our performance and remain focused strategically to navigate the challenges and capitalize on the opportunities ahead.

With that, I'd like to open the floor for questions and address any queries you might have. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Abhishek Agarwal from Prithvi Finmarth, Private Limited. Please go ahead.

Abhishek Agarwal: Hello. Thanks for the opportunity. So, my first question on the export numbers, we have witnessed good export numbers the quarter and for full years as well. So how do we see this upcoming next two to three years, export revenue as a percentage of total revenue and what will drive this growth?

P. Deepak: So, thank you, Abhishek, for your question. So, I think the exports, we do believe that exports will continue to be a growth driver for us iny the medium and the long term. It's becoming more and more advantageous. India is a sourcing hub for buying of castings. So, a big chunk of our export growth has been driven by the US market. Is the current year we are seeing some slowdown, at least in the first half of the current year, we are seeing some slowdown in the demand for heavy commercial vehicles, the Class 8 and such.

But we do believe that things will pick up a little bit towards the end of the year, as well as the forecast that we are seeing for customers is for a strong FY'25 and perhaps an all-time record in '26, because there is going to be some pre-buy effect because of some legislative changes that will come into effect in January of 2027. So, we do see the US market remaining fairly strong for us. And we also have a lot of new programs that we will be launching over the period of the next six months to one year.

And I think that will also continue to drive the export growth. We believe the US has led the majority of our export growth over the last seven to eight years. But we believe that there's a great opportunity that is happening in Europe right now. We've seen a few companies in Europe that are in the casting phase actually closed down over the last year or so. And we believe that there is a problem with profitability in Europe, and there is a problem with energy, there's a problem with labor. There's also a problem with environment.

So, we believe that there's going to be a big opportunity that is right around the horizon in Europe as well, within the next couple of years. So, we'd like to keep growing our exports, we want to take advantage of the opportunity. At this point, I don't think we're in a position where we can lay out a clear number yet. But we believe that export growth will remain strong for the next two to three years.

Abhishek Agarwal: Are we getting into any new sector like defense or aerospace for our casting division?

P. Deepak: At the moment, we don't have really anything in defense or aerospace that we are working on, but we will continue to evaluate opportunities as they come along and if they are suitable for our kind of products.

Abhishek Agarwal: So, we'll continue to be in auto components casting?

P. Deepak: Largely, yes.

Abhishek Agarwal: Okay sir. And sir what is our current capacity utilization for the Pedapariya plant?

P. Deepak: Our current capacity utilization if you look at the utilization for the full year the capacity utilization was about approximately 25% for the full year.

Abhishek Agarwal: In the last call we have guided to achieve some 30% capacity utilization from this plant. There can be various reasons to not achieve this it's okay, but what action are we implementing to increase the capacity utilization of this plant?

P. Deepak: So specifically, one of the things that they are across all of our plants in the last quarter is we did actually reduce the number of working days that we were working because we did want to reduce our inventory levels. So on purpose in the last quarter, we have reduced our production in order to reduce our inventory. Unfortunately, the market also had a fairly severe downturn especially in the M&HCV they cut their production schedules quite severely in the last quarter.

So that has impacted it. Otherwise, I think we could have hit the 30% last quarter. We're expecting that some bounce back will happen. Typically, in any given year normally about 35% of the production in M&HCV happens just in Q4 whereas this year that did not happen. It was much lower than even Q3.

So that's something that was very unique about this year perhaps related to the elections is what we're being told. But it may also be related to some inventory reduction activities that the OEMs have taken up, but we believe that this year we should see it bounce back and 30% is something that we do believe is possible to achieve. Also, a little bit based on some of the new product launches and ramp ups that are happening there.

Abhishek Agarwal: Okay. And sir last question on the broader question what I have like as we know that in entire auto industry whatever product we are supplying, auto industry moving more towards hybrid and EV. Definitely some of the product what we use in this and we're supplying to this industry. So definitely it will have some impact. So overall, how do you see that, how we will compensate our business which will be gradually reduced in the near future?

P. Deepak: Yes. So, I'll try to answer it in two different ways. One, if you look at it we don't really do too much in the passenger vehicle space. Most of what we are doing when we talk about automotive is commercial vehicle and tractor. We don't believe that there's any significant impact that electrification will have on tractor. Perhaps, hydrogen might have an impact in terms of the tractor, but we don't believe electrification will really have any significant impact.

And the other part is on the commercial vehicle. So, on the commercial vehicle what we're seeing is, yes, the quantum of castings per vehicle will come down, but the type of castings that get eliminated like for example, the engine blocks,, the cylinder heads as well as some of the transmissions and things like that.

Those kind of products that are linked to these type of vehicles contribute maybe less than 5% of our revenue. So, majority of what we are doing is more on the axle space as well as maybe some suspension related products. So, these kinds of products actually don't go away. In fact, these products become a little heavier and also more complex because they have some additional functions that they have to fulfil in an electric vehicle that they don't have in a traditional vehicle.

So if you go to an electric axle the motor gets mounted directly onto the axle. That's what the technology that seems to be coming up today and that actually means that the rigidity as well as the complexity of the parts that are on the axle goes up.

And we believe that this will actually benefit us rather than hurt us if it happens. Of course, there's also a little bit of a change of mood in the last 6 months where the pace at which electrification is happening seems to have slowed down across the world and I think it will happen at a more natural progression over the next maybe 15 years or so.

So, I don't think it's going to be a very quick transition as we may have been as most people may have been expecting as recently as maybe even 6 months or 8 months ago.

Abhishek Agarwal: And sir last question do you have any capex plans for near 2 years to 3 years?

P. Deepak: No, no major capex plans. I think the focus is going to be more on optimization, debottlenecking. So, we'll do a lot of maybe smaller projects in the upcoming 2-3 years, but no major capex. At this moment just for the next couple of years we don't see any new lines or any new Greenfields or anything like that.

Abhishek Agarwal: Okay, that's all from my end. Thanks a lot for answering all the questions.

P. Deepak: Thank you.

Moderator: Thank you. The next question is from the line of Poonam Sanghavi from Progressive Share Brokers Private Limited. Please go ahead.

Poonam Sanghavi: Yes, hi. Thank you for the opportunity and congrats on the decent wrap that you've had to FY 24. Sir the kind of layout that you've given in terms of what you're expecting out of the exports I think in the previous concall you indicated that you would be having an increase in the quarterly run rate about INR150 odd crores.

So you think you will stand by that particular number or should we tone down that a little bit on the quarterly run rate? So I was just talking about the layout that you've given us in terms of what you think the exports would be for FY 25. And in the previous call, you had indicated that we could up our run rate on the quarterly run INR150 odd crores. So you think we should be taking that number or we should be toning down at least for the first half?

P. Deepak: No, certainly, I think for the first half we won't be on that number. I think what I mentioned perhaps before was that with all the new product launches that we have lined up and this is assuming there are no delays in terms of launches and all of that by towards the end of the year we should be getting to that run rate maybe probably close to the Q4FY24.

Our goal will be to get to that run rate. But I think for the time being certainly in the first half of the year, we do expect it to be a little bit slower than just given the market conditions and the fact that these programs are yet to launch. And typically, you never know when there is a launch happening there could be a couple of months delay or something like that is very much a possibility. So which is also why we're a little hesitant to put a number to this year just because we've got a few launches that might have a little bit of ambiguity on exactly when the launch month might be.

Poonam Sanghavi: Okay. And secondly sir the new plant you had indicated the breakeven is somewhere around 40% on the capacity utilization.

P. Deepak: Yes.

Poonam Sanghavi: And now you've indicated that 30% is what you're looking at in FY25. So, is this plant actually going to breakeven on the capacity front in FY25 or we'll have to wait and see on that?

P. Deepak: Yes, I think we will expect that perhaps towards the end of the year that we will get to that breakeven number. But I think like I said a lot of this will also depend on some new product launches. I think from our operations side we did have some challenges given that this is a very unique facility and there were things that had never been done before in the Indian industry for products of this size.

We believe that we've addressed those challenges that we had internally. So now I think it's more a question of some of the product ramp ups that will happen. The biggest chunk of products what we've been doing in that plant is actually axles that go into the four-wheel drive tractors, the front axle that goes into the four-wheel drive tractors.

And now as of just last week we've been approved also for product for the commercial vehicles, the heavy commercial vehicles that we just rec eived that approval last week. So we believe that there's some good opportunity there and there's a potential market transition that we can see on the dippers to go from fabricated axles to cast axles.

So that's something that we are working on. So a lot of these new product launches will in my view have a fairly significant impact on the ability to ramp up. Like I said we did have some technical challenges internally, but we believe that those technical challenges we have now resolved those.

Poonam Sanghavi: And sir lastly it was EV products that were actually delayed, are they back on track in terms of coming to production this financial year?

P. Deepak: So those products which should have started perhaps I think 6 months ago or 8 months ago,the production has just started from the month of May at our end. So there is a startup production that has happened and there is a ramp up. However, it does look like the ramp up will be slower than what was initially projected. But yes, those programs which are on hold have been restarted.

Poonam Sanghvi: Okay. And one last, if you may allow, can we give a cumulative INR60 odd crores of capex for FY '25-'26? Do we stand by that number still?

P. Deepak: Yes, cumulative between FY '25-26, yes. That would roughly be the range our capex would be at. So, both years put together.

Poonam Sanghvi: Okay. Thank you so much. Thank you and good luck for FY '25.

P. Deepak: Thank you.

Moderator: Thank you. The next question is from the line of Vidit Shah from Spark Private Wealth Management. Please go ahead.

Vidit Shah: Hi. Thanks for taking my question and I hope I'm audible. So my first one was just a clarification to what you just said in the previous question on the production starting from May for the EV products. If I understand that correctly, this is the delivery van order that you all have, which has been delayed by a bit, right?

P. Deepak: Correct. Correct. So there was about a six-month delay. We were told it was also, that this was one of the reasons that they chose to make this delay was also related to the UAW strike. I'm not sure exactly what the details are, why they chose to delay it, but it was about a six-month delay and so it should have started perhaps six, seven months ago and, but it's back on track now.

Vidit Shah: Got it. So when do you think this will fully ramp up by the second half of this year? Can we start seeing a meaningful contribution from this order or like will the entire order be fulfilled by the end of FY '25 or will there be any spillover in FY '26 as well?

P. Deepak: So, this will be an ongoing order, an ongoing production. I believe I could be off by a year, but I believe it's a four or five-year program. So, it will be an ongoing business that will continue continuously for the next four or five years. I think the forecasted sales volume that they were looking at is, I think about 2,500 to 3,000 of these delivery vans a month. That I do not know. Obviously, there is some slowdown in electrification pace, especially in the US. I don't know if it will take a little bit longer to ramp up to that demand, but that's the anticipated volume and that volume is expected to last for, like I said, four to five years.

Vidit Shah: Got it. And in terms of the volumes, I believe, I mean, despite the calculation of the reported EBITDA per ton, we believe that we've done about 18,000 tons of volume this quarter. How do you see this both in the short-term and the long-term or the medium-term? As in, like, when you say that things will be challenged, do we remain at these levels for the next six months and then go to the 25,000-30,000 levels by the end of the year?

P. Deepak: So we believe the second half will be stronger, certainly. The number that we're looking, I think that we were at in the previous quarter in terms of, production was around 23,000 tons and we did, production numbers came down to about 18,000 plus tons and sales quantity was around 19,000 tons. So I think perhaps one more quarter, I think we would be looking at, this current quarter, perhaps something in the 20,000 ton range is what we're expecting this quarter to be.

But when things do pick up, we do believe that, 24,000-25,000 tons is what we would like to, we expect at this point, at least based on forecasts, to be at in the second half of the year on a quarterly basis.

Vidit Shah: Got it. And the next one was on the margins. Now, we've seen a very, very decent growth in exports in the year. And even during this quarter, when you look at Y-o-Y, there's been good growth while domestic has been subdued. But even then we've seen, the EBITDA per kilo go down from 8.8 in Q4 last year to 8.5 this year. So, if you could just help and explain what has led to this reduction in EBITDA per kilo?

P. Deepak: I think the biggest impact is the volumes. We actually cut the volumes, quite significantly, right. If you look at it on a Q-on-Q basis, from about 23,000 tons of production, we've come down to about 18,000 tons of production. This was driven by the market as well as our own desire to cut down on inventories rather than building. So, this is, I think, one of the probably the biggest factor in terms of what impacted kind of margins that we could achieve in the quarter.

Vidit Shah: Okay, understood. And just the last question on the CWIP, we have about INR56 crores of CWIP that we've reported on the balance sheet. What is the nature of this CWIP and where are we spending the money?

P. Deepak: Yes, so there are two areas which probably form the majority of that CWIP. One is there is a modernization project that we took up in Ponneri because I think for the next couple of years of export growth, there was some modernization that we needed to do. So this is at our Ponneri plant where we were installing one modernized line as well as we're also installing some additional holding furnaces at our Gudur facility and this is intended to improve our production efficiencies within the existing plant. So these are the, I think, the two major things that show up on the CWIP.

Vidit Shah: Got it. So, I mean, just as a matter of reference, like what is the efficiency that we can improve by? I mean, will this INR12.5 per kilo once, the Gudur efficiency is improved, can this go up to, 13 or 14 or where do we cap this?

P. Deepak: Yes, so I think that's what we're looking to do, right? I think we've clearly stated we'd like to move towards the 15 and I think these are part of that, these will help us achieve that. It will also help us increase our efficiency in our production, right. So, whatever we're producing today, our target will be about approximately 10% to 15%, we believe we can increase our production out of the same lines by with those holding furnaces that I mentioned as well.

So, I think these are, I think what you're expecting or anticipating are, I can't put an exact number to it, but it moves us in that direction towards the 15 that we've been talking about as our kind of midterm ambition.

Vidit Shah: Got it. And just the last one from my end, is in the export market now, you mentioned that America or North America is expected to be a little challenged and we're looking at expansion in Europe. So do we see any growth in North America in FY25 or do you believe that North America will kind of remain sort of flat for most of the year and whatever growth that we see will come out of Europe?

P. Deepak: So, I think we will. See our expectation is, that existing product, if you look at, what was our volumes in FY '24, for the same product in FY '25, we do expect to see a reduction that's there. But we do have some products that, including the EV1 that you mentioned, as well as some other products that we have just recently launched that will go through the ramp up, right. So we will see some growth that will come out of new products and some degrowth that will come out of existing products, just purely based on market.

So we believe that, we would still, at this point, it's a little early to tell, but at this point, we still expect to see growth coming out of North America, but probably not as strong as what we, what would have otherwise been. And like I mentioned, we think FY '25 will be a good year, probably close to the level of last year, which was a historic year for North America on the commercial vehicles. And the belief is that FY '26 will be, a record year, in terms of what they anticipate.

Of course, some of that record year numbers will be driven by a pre-buy, which will, of course, hit the calendar year '27 numbers. So, we expect a couple of years will be strong. This year, while we do expect to see growth, the growth will be, driven by new products and there will be some degrowth on existing products, just based on market volumes.

Vidit Shah: Understood. All right. That's it for me. Thank you so much and all the best. I'll get back to you if I have questions.

P. Deepak: Yes, and I think you mentioned about Europe. I'll just add to that. So, Europe, there's a lot of new business that we think, we expect that we will win the business this year. And some of those business may or may not translate into revenue within this year. Some of it might become revenue in the next financial year or some of it we think there's a chance we'll even get converted into revenue in this year. But we believe that there would be a significant amount of order wins that happen this year in Europe.

Vidit Shah: Okay. Thanks. Like regular updates of those would be very useful.

Moderator: Thank you. The next question is from the line of Himanshu Singh from IDBI Capital. Please go ahead.

Himanshu Singh: Thank you, sir, for taking my question. My first question is what are your projections for CV and tractor industry growth for FY25?

P. Deepak: Okay. So, we think tractor by and large will be kind of a mid-single digit growth. CV we believe will be probably a tail of two halves.

We think the first half will be a little slow up until at least the monsoon. We believe and we believe there's a very strong pickup that will happen in the second half of the year. But overall, perhaps maybe we'll be looking at about a 10% growth. That's what we are able to translate currently.

Himanshu Singh: 10% growth for the entire CV industry for FY25?

P. Deepak: That's what we are we're expecting. Yes.

Himanshu Singh: Okay. That would be even higher than this year.

P. Deepak: Yes. So, this year, actually, I think, especially the Q4, in terms of the production numbers of what the CV manufacturers made, they cut their production quite dramatically after the 10th of February, I think based on whatever sales projections got revised. We don't expect that that will happen next year. And we expect the numbers, especially in Q3 and Q4 to be stronger than what they were in FY24.

Himanshu Singh: Okay. Thank you. And so what would be your revenue expectation in terms of a target for the next two years? And margin levels, which you would target to achieve? Because in the past, we have had margins in the double digits as well. So what are your targets on revenue and margins over the next, let's say, two- three years?

P. Deepak: S,o I think in the next couple of years, I think our expectation in terms of revenues, what we would like to target is to try to push our numbers perhaps to about INR1800 crore kind of a turnover, which is a fairly big jump, I understand that we're talking about almost maybe a 40% something growth in two years. So maybe it's a little optimistic, but I believe that's what we are working for. And that's what we'd like to be able to achieve. And in terms of the margins, I think we've stated this publicly as well as to move towards the 15 per kg margin.

Himanshu Singh: Okay, sure. And so your current order books, can you like disclose what is your current order book?

P. Deepak: So, I mean, currently, in the current quarter, we anticipate somewhere around the 20,000-tonnage kind of a number in terms of sales for the current quarter. The way that I guess the order books work is we don't necessarily have fixed orders. As the market keeps changing, we keep getting orders that keep getting dropped. And so, the way that we work is we have these purchase orders with customers, which is basically a price agreement. And then based on their monthly production schedules, they keep giving us monthly orders. So, I think trying to put a bigger number on the order book is not possible.

And typically, a lot of these products have multi-year life cycles, in some cases, multi-decade life cycles as well. I mean, we have some products that we've been producing for almost 20-30 years now as well.

Himanshu Singh: Okay. So if you look at your revenue sector wise breakup, we have very high exposure to cyclical industry as an M&HCV, tractor. So, what is your strategy to move away from cyclically, like very high cyclical industries and maybe have some stable revenues or exposure? So what is your thought process on that?

P. Deepak: So I think our view on cyclicality and this is, I would say, been fairly consistent over the last decade, is to have more diversity in our product mix, so that we can overcome cyclicality. We understand we can't control the cyclicality, but we believe diversity in product mix will help us. So if you look at that in terms of what was our product mix 10 years ago to what our product mix is today, the biggest changes that you will see is you will see that we've had a fairly significant increase in exports.

So we've, I think that's been one of the things that we hope that the Indian market and the European market or the American market are not exactly following the same peaks and valleys in their cycles, right. So that's one thing that we have done, and I think you can see that consistency. The other thing that we've tried to do is also we have introduced a little bit more on the off-highway side, albeit it's only a couple of percent even now, but it didn't exist 10 years ago.

So we are trying to add more diversity, and as I mentioned also, right, we're looking at growth in terms of exports in Europe, and that is also something that I think will, again, exports is not just limited to US, not just limited to one segment, so we also do in off-highway exports as well as commercial vehicle and passenger vehicle exports. So, we're trying to build as diverse a portfolio as possible to overcome cyclicality, even though the individual segments might be cyclical, I think as a whole it will adjust itself out.

Himanshu Singh: Okay, and in terms of electric vehicles, how do you see the portfolio spanning out in the next one,-two years? Do you see it contributing significantly, maybe like 5%-10% in the next two years to your revenues?

P. Deepak: So, I mean, this is obviously based on forecast and in terms of how much of the product that's going to sell. So, these are, I'm just going to base this purely on the numbers that our customers have given us is what they expect to sell. I don't know if it'll take longer for them to achieve it or not, but on the programs that we have already been awarded and we have also produced samples and submitted samples to customers, this includes some products that I think Vidit was talking about a little bit earlier that got delayed in terms of launch and are getting launched now, as well as some products that we expect that will get launched into production in about a year.

So if we just take the numbers that the customers have given us as their projected volumes, we believe that our revenue from EV-related products, parts that goes into specifically EVs, will be in excess of about INR100 crores a year and I'm only talking today about products that have been awarded to us. There's also a good number of products that are in the pipeline in various stages of development and quoting that have not yet been awarded to us that could add to this, but at the moment, I think these are what we have visibility on.

Himanshu Singh: Okay, and this is in the next two years, you are saying?

P. Deepak: Yes, like I said, this is based on projections given to us by customers. Of course, I think the market has its own decisions to make when a new product is introduced whether the product sometimes sells better than expected and sometimes worse than expected, but this is what the expectation is at this point.

Himanshu: Right. Thank you so much. I will go back in the queue.

Moderator: Thank you. The next question is from the line of Aashav Patel from Molecule Venture PMS. Please go ahead.

Aashav Patel: Thank you for the opportunity, sir. My question is regarding the tractor segment, you have explained very well how we see the robust demand in the export outlook, but Y-o-Y tractor sales tractor sales as a percentage of total sales is down from 30% to 20%, largely because of domestic slowdown. So, can you please throw some more light on that particular tractor segment and how do you anticipate it to pan out in FY25?

P. Deepak: I think we will, in terms of tractors growth, we do expect that we will grow this year in tractor. We think that this overall industry will have a small growth and I think that's something that we will grow. Last year, the overall industry in tractor was down and we were also down a little bit more because there were some specific products that we chose to kind of deprioritize. So, that had some effect as well. But I think this year we will expect to see some degree of moderate growth to happen in the tractor segment.

Aashav Patel: Okay. And sir, can you please quantify it? Because I am asking this question because there is a clear mismatch in between the outlook given by the casting players at the same time the OEMs, even the MNC OEMs are trying to set shops for the first time in the tractor.

The existing players are giving a robust outlook when it comes to over next two years-three years, whereas in the ground reality, which we are hearing from the casting segment, there is clearly some slowdown. Because at the start of the financial year, FY24, we were seeing a very robust demand in the tractor segment. But towards the exit of the year, there was a significant slowdown.

P. Deepak: You are absolutely right. I think at the start of last year, we were also expecting to see a fairly good year for tractor. In fact, I think some of the conversations that I had with some of the senior executives at the tractor OEMs, they were talking about how there are certain economic indicators that are tracked and that they track.

And out of the 15 indicators that they track, which typically have a pretty good correlation with how tractor sales perform, out of 15, I think 12 were positive or something like that. So, they were expecting a strong year last year. So, I think at the beginning of the year, our indication, our expectation was probably a 7%-8% kind of growth.

I think as the year, especially post Diwali, I think the numbers got revised quite significantly downwards. And, down to about maybe a negative 4% kind of growth. So, a big growth of 4%. So, it's definitely something dynamic that happened during the year. And I think it reflects the uncertainty in the market, in terms of, just forecasting sales.

And a lot of tractor, because of the seasonality of tractor, happens within a very short period of time. So, if in that, peak season, the sales doesn't happen, it can have a fairly significant impact on growth for the whole year. So, I think that was evident last year, especially in the tractor industry.

And, we think that things will be better in the current year. But, obviously, that level of uncertainty always exists until we actually get a clear picture of the peak season sales, which we get during probably the Dussehra, Diwali period of time. We won't really have a clear picture on what the full year looks like.

Aashav Patel: Got it, sir. That's all from my side. Really thankful for the detailed answer.

Moderator: Thank you. The next question is from the line of Rehaan Phophalia from Sicomoro Advisors Pvt Ltd. Please go ahead.

Rehaan Phophalia: Hi, I hope I'm audible.

P. Deepak: Yes, Rehaan.

Rehaan Phophalia: Hi, good morning, Deepak, good morning, Mr. Sivakumar. First of all, congratulations on a good EBITDA per kg number for the full financial year and pretty strong export numbers. A couple of questions. One question regarding other expenses, which has been steadily rising and as a percentage of revenues closer to 35% now, up from about 25% in some quarters last year. Is this because of increasing exports or what is the reason for this?

P. Deepak: Yes, so other expenses will typically include outsourced activities. The biggest chunk of the outsourced activities that are probably there in the other expenses that you're referring to is machining charges. So, in the case of a lot of our exports, as well as a lot of even our domestic product, we do supply to our customers in a fully machined condition, but we do outsource this activity to various vendors. And the other expenses basically reflect what we pay for those services.

Rehaan Phophalia: So, given that volumes have been relatively flattish, what has been the reason that other expenses have increased?

P. Deepak: So, this will be also related to the product mix. and some of it is exports. Exports are all machine products. So I think it's more a question of product mix than anything else.

Rehaan Phophalia: Okay, good. Thanks. And secondly, I think you've addressed most of it, but the commentary from CV companies that have posted results so far has been cautious on the volume front for the entire FY25. More or less flat volumes are expected year-on-year. So just wanted to understand what our plan is to take to beat this growth. And you spoke about cast axles. So, do you see the launch of this product boosting margins in this year?

P. Deepak: So yes, so I think the CV guys have been muted. I think they have a tendency to be a little bit more muted towards investors and extremely bullish towards suppliers. So we're trying to find the balance between the two when we make our estimates and our projections. But we do believe that H2 will be strong.

We do believe that there's a lot of pent-up demand that is there in terms of some of the delayed purchases, especially on the infrastructure, which I think will have a bigger impact on us. And specifically, if you look at Q4, up until maybe about the 7th-8th or the 10th of February, the projections were actually quite good.

And there was a fairly drastic cut that was there in the second half of February as well as in March in terms of their production numbers. But we are seeing actually their production numbers pick up in April and May. So I think we're a little bit more optimistic than what they may have publicly said. But we'll have to wait and watch. I think what we feel is post-monsoon, we are expecting good numbers.

Rehaan Phophalia: Got it. Thanks. And just finally, in terms of exports, are we seeing any impact of freight costs compared to last year? Or is this normalized now?

P. Deepak: So, last year was probably the end of the rollercoaster in terms of the freight costs or so we thought Because I think at the beginning of the year, freight costs were still high, but then they kind of came down through the year and normalized just before the whole Red Sea crisis blew up again. So, we are seeing the effect of the Red Sea on the cost of freight.

But as in the last time when we had this rollercoaster of freight, we were able to pass on the increase in the freight cost to the customers. And so those are discussions that we are having now, and we believe we should be able to pass that on as well.

Rehaan Phophalia: Okay, great. That's all from me. Thank you and best of luck.

Moderator: Thank you. The next question is from the line of Saket Kapoor and from Kapoor Company. Please go ahead.

Saket Kapoor: Yes. Namaskar, Deepakji. Namaskar, Siva sir. Thank you for the opportunity, sir. And thank you for the detailed discussion. Just a bit and pieces which I missed during the call. Let's get it updated. Firstly, on the FedEx delivery part, sir, we are anticipating that to kick in from Q3 or Q1. And what is the size of the order in terms of tonnage, if you could give?

P. Deepak: Sorry, which delivery?

Saket Kapoor: That FedEx EV part of the story.

P. Deepak: Yes. Delivery van.

Saket Kapoor: Yes.

P. Deepak: So right now, it's very difficult to put an exact ramp up on the volume. We are starting shipments of that product in the month of May. But it will be a ramp up. And at this moment, we do not have full clarity on what the pace of the ramp up will be. But there is a ramp up, so it is not that May and June, we will get to the full numbers.

I think from what the forecasted value of what the final level that we are prepared for it, which is what we have quoted for, that number will be, I believe, somewhere around. It's difficult to put a number to it because it's a stepped up number. Let me see if there's more information on that which can be shared.

Saket Kapoor: Okay. Only just to understand, sir, when you are looking at a, INR400 crores plus of top line from export, what percentage would be this order? Will it be mini square? It is only a name shape for us so that we can, we are just doing it to get an entry in the EV segment. What should we take this order as? A symbolic one or an important one in terms of tonnage?

P. Deepak: So actually, once it is fully ramped up, which may take a couple of years it will be a significant number. But I think there is a lot of, especially what's happened in the last six months in terms of EV slowing down, I think there's a lot of question marks on what the pace of the ramp up will be. But once the ramp up is done, I believe this business will be a INR50-60 crore kind of a year revenue. It's just a question of when we get to that stage.

Saket Kapoor: Sir, you did alluded to tonnage being lower from 23K to 18K for on Q-o-Q basis, and this moving in the band of 20K for the first quarter. This understanding is correct? And we have taken steps to lower the inventory?

P. Deepak: Yes. So, we will do some lowering of inventory even in Q1, at least that's our goal that we're working for. But yes, that your understanding is correct.

Saket Kapoor: But sir, on the value terms, the closing inventories are at INR190 crore only. So, what explains this? In the value terms, when we look at the closing inventories, it is at 189.70, wherein last year it was INR158 crore.

P. Deepak: So, there's about a INR30 crore increase, which is something that we'd like to reduce.

Saket Kapoor: Okay. So, more work is needed to be done for reduction of inventory.

P. Deepak: Yes. So, we believe that we're going to do that more aggressively and try to bring that back to similar kind of a, maybe a INR160 odd crore. So our goal will be to at least reduce maybe INR20 crores of inventory in the first half of the year.

Saket Kapoor: And sir, you spoke about installation of some line at Gudur and that I missed that point also, if you could repeat for me.

P. Deepak: It is a holding furnace that we are installing in Gudur. So the purpose of the holding furnace is, that we use our furnaces for doing the melting. So, and once the metal is ready and melted, we then transfer it and we pour it directly onto the lines.

What we find is, one of our biggest bottlenecks that there is sometimes when you're running a product that requires a lot of metal, the line keeps getting stopped or waiting for metal. And there are other periods of time where we are losing energy efficiency, as well as product output, because when we are running a light job on the line, the metal is in excess. So, what this does is it acts as a buffer in between.

And we believe that it will improve our efficiency at melting. And yes, there will be a cost of energy here at holding, but we believe that trade-off is in the right direction. But it will help us improve our productivity on our lines by about 10%. So that's the investment that we're doing into these holding furnaces.

Saket Kapoor: When we look at the capital work in progress, that has given significantly. Closing balance is closer to INR43-44 crores. So what are these investments that is going into this capital work in progress? Or if you could just quantify for us, this is a substantial amount of INR43 crores.

P. Deepak: As I mentioned, there are two things. One, we are installing two of these holding furnaces at Gudur plant. In addition to that, there's a modernization project on one of the lines, the older lines that is there in Ponneri plant, so that we can get that one also, plant also ready for some of the export orders that we expect to win in the next couple of years.

So these two together make up the bulk of this capital work in progress. All of this will be translated out of the capital work in progress and will be commissioned within the first half of the year.

Saket Kapoor: Okay. And just to dwell more into it, last year's closing balance on console level was INR13.5 crores. So what is this closing balance in the consol for capital work in progress? If we add that number, the closing number is INR56 crores on a consolidated level. So this is an opening balance in the consol part.

P. Deepak: So I think the consolidation is at the subsidiary level. So I think it's the same thing that has basically been carried forward, what was there last year as well as this year.

Saket Kapoor: So what is that spending, sir? This INR13 crores is attributed to what category in the subsidiary?

P. Deepak: Okay. I think this is probably related to NC Energy, but I'm not exactly certain about last yearend. We can take a look at this, but I believe this is related to the NC Energy work because it's at the console level and that's the only subsidiary that's there.

Saket Kapoor: Two small points. Again, sir, can you give us a roadmap? What pillar I am getting from today's remarks and the way forward is that the processes are in place wherein we can improve our EBITDA per kg and also a volume ramp up depending upon the market conditions and looking for a turnover of around 1800 Crores, which you mentioned, for FY '26-27.

So that understanding is correct. And if you could give us some further understanding, when can we expect, sir, improvement in our PAT margins? If you look at the PAT margins, which we are posting is, for this quarter it was 2% because of this inventory and all other costs moving up.

But still, sir, our employee cost is 6%. And I was coming to my employee cost question also, there is a significant increase in the employee cost for this financial year, although our tenants are down from INR64 to INR74 crores. So kindly explain this part of the story also and then a small point?

P. Deepak: Okay. So I think in terms of employee cost, this is a reflection of two things. One is, of course, the annual wage increases and the wage inflation that's there. The second is, of course, in terms of number of people also, we have added additional people in order to get our Pedapariya plant ready and ramped up, And also, I think that's probably the biggest chunk of what you're seeing in terms of employee benefit expense that's there. And the other question that you had was?

Saket Kapoor: Sir, how are we, what steps are we taking, sir, to improve our margin profile? Sir, I can understand the vagaries of the market. And as mentioned by earlier participant and you also, that you get one set of understanding from the OEMs when they speak to you and one set when they speak to the investors. So there may be a dichotomy in that. But taking into account the experience that you have garnered over the years, and you are also, it must be of the opinion that these are not the margins for a manufacturing organization. There should be commensurate, for the work you do, and that should commensurate to your investors also.

So, would like to understand, sir, because Pedapariya has been a drag for us from day one, sir. And even today for Q4 exit and for March '24 also, we are unable to get it in the right proportion. And at 25% utilization levels, we know that breakeven is still away. So, how are you going to correct this situation, sir? Whether we have that method to correct it, or we have to depend on various other factors when they will turn in our favour, then only we can expect this. Because the numbers are a drag, sir. We must accept the reality, sir.

P. Deepak: That's a fact. I agree with you on that, Saket I think Pedapariya our expectation on how quickly we could ramp up that plant has not been met. I will agree with that statement. So, I think there are two things when we talk about- One is operational difficulties and challenges that we've had. And the second is in terms of the market. And specifically in Pedapariya, the market is a little bit different, because we're trying to enter into these new products as well as that we've never produced before, as well as we have this goal as well.

We believe that this transition into these cast axles will happen on the commercial vehicle sector, especially in the tipper segment that will happen. So, I think one, whatever were the issues that were there from our side, and there was a learning curve that was undoubtedly there. There were issues with some of the equipment, and because of the size of the products being substantially different, some of the changes that we had to do in terms of equipment, in terms of layouts, all of these things in order for us to solve operational issues.

We believe that we've now completed that in the last few weeks. So, now I think the question is really in terms of the ramp up of the products. So, that's what will be our focus, is to add more products as well as ramp up the existing products. And hopefully, some of these what I would call breakthrough products, like getting into these commercial vehicle axle housings, would be something that I think can really drive Pedapariya. I firmly believe, I know there's a lot of work that has to be done, but that could be our most profitable plant in five years from now. That's really what I strongly believe.

Saket Kapoor: Yes, sir. Already six years are gone.

Moderator: I'm sorry to interrupt, Saket sir.

Saket Kapoor: Please, ma'am, I'm not asking any questions, just a humble feedback to sir, that six years are already down with the commercialization of the plant when we conceived in 2018. There are factors, sir, definitely, and I adhere to your being a very responsible promoter. But, sir, look at the steps wherein we can lower the finance cost also. And Siva sir, during the call, please look to answer why there has been a higher tax outgo of INR16 crores, where our profitability is also down. So, if you could explain, and I'll join the queue for a very small two question. Thank you.

P. Deepak: So, I think tax-wise, it's because of the, it's coming from the exceptional items also. That is there.

Saket Kapoor: Yes. I missed that point. And to lower the finance cost, Deepak ji, you being the promoter, you are holding 70%, if I'm not wrong, equity in the company, more than 70%. And the finance cost is a significant line item. When you can expect our margins improving, the business sentiments improving, this could be a right time for you to give an opportunity to new set of investors. And at the cost of your dilution, one can look at lowering the finance cost, repaying the debt, so that when the cycle turns and when you are anticipating a good time for Pedapariya unit to continue, it will contribute significantly to the bottom line. Yes, ma'am, please allow me to complete.

P. Deepak: Thank you.

Saket Kapoor: My point, sir, kindly take my point on board, sir. It's for the interest of the shareholder community, including you being the largest shareholder. And all the best to you, sir.

P. Deepak: Thank you, Saket.

Moderator: Thank you. The next question is from the line of Shivam Vashi from Inga Ventures Privates Limited. Please go ahead.

Shivam Vashi: Sir, just a quick question on the capex. You say we are doing INR60 crores capex for two years FY25-26 and what is it. Just a clarification does this include the two furnaces that we are adding in the Gudur plant and the modernization of at Ponneri plant, or is it different capex altogether?

P. Deepak: No, sir. That was actually last year's capex budget. And I think the equipment also did get delivered in the last year. So that shows up already in the CWIP.

Shivam Vashi: Okay. So there's no more fresh capex apart from this, correct, sir?

P. Deepak: No. So the regular maintenance capex and some improvement, some automation, those kind of things we will have in the next couple of years.

Shivam Vashi: Okay. Perfect, sir. This was a clarification. Thank you so much, sir.

P. Deepak: Thank you.

Moderator: Thank you. As there are no further questions from the participants, I now hand the conference over to Mr. Deepak for closing comments. Please go ahead, sir.

P. Deepak: Yes. Thank you, everyone, for joining us today. We appreciate your faith in our performance and remain confident of the opportunity ahead. 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.