Nelcast

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Operator: Ladies and gentlemen, good day, and welcome to Nelcast Limited Q1 FY27 earnings conference call. As a reminder, all participant lines will be in 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, sir.

Abhishek Bhatt – EY Investor Relations: Thank you. Good morning everyone and thank you for joining us. On behalf of Nelcast Limited, I extend a warm welcome to all the participants on the quarter one FY27 earnings conference call. The results and investor presentation have already been shared and are available on our website as well as through our filings with the stock exchanges. Joining us today to discuss the company's performance and outlook are Mr. P Deepak, Managing Director and Chief Executive Office, and Mr. S K Shivakumar, Chief Financial Officer.

Before we begin, I would like to draw your attention to the standard disclaimer. Please note that any statements made during this call, including those in our presentation material that reflect our outlook for the future or may be concluded as forward-looking statements, should be considered in conjunction with the risks the company faces. These statements may not be updated from time to time. Further details are available at the end of the investor presentation and in our filings on our website at www.nelcast.com. Should you have any queries or require additional information following this call, please feel free to reach out using the contact details provided in investor materials. With that, I would now like to hand over the call to Mr. P Deepak. Over to you, sir.

Management: Thank you, Abhishek. Good morning everyone. Thank you for joining us today. Q1 of FY27 was another important quarter in Nelcast's growth journey. We delivered a revenue of 345.4 crores, representing a growth of 2.8% year on year, which was supported by healthy demand across our key end markets. The tractor and commercial vehicle segments continued to witness strong growth momentum, while exports recorded a sequential improvement during the quarter, reflecting encouraging customer activity and demand trends.

While profitability during the quarter was impacted by elevated raw material costs, labor availability challenges and a lag in passing through the higher input costs to customers, we view these as largely temporary factors. We have already initiated customer discussions for price revisions and expect all of those to happen shortly. Importantly, the demand environment remained healthy across both domestic and export markets, giving us confidence in the underlying strength of the business.

One of the key highlights for the quarter is the commencement of production for new products in Q2 of FY27. These programs are expected to ramp up progressively during the year and contribute meaningfully to volumes and revenues during the second half. Beyond supporting growth, these products are expected to improve our product mix, enhance profitability and drive higher capacity utilization as the production gears up.

Exports remain a key strategic focus area for Nelcast. Export revenue improved sequentially to 113.3 crores during the quarter, supported by improving customer activity and encouraging demand levels. Nelcast remains well positioned to capitalize on these opportunities through its established customer relationships and manufacturing capabilities. We are also making steady progress in expanding our customer relationships and strengthening our presence in international markets. Our efforts in Europe continue to advance and we have secured additional business opportunities that support our long-term growth ambitions. More importantly, our customer engagement across segments continues to deepen, creating a broader and more diversified growth platform for the company.

Looking ahead, we believe Nelcast is approaching an important inflection point. The foundations laid over the last several years through product development, customer diversification, operational improvement and investments in manufacturing capabilities are now beginning to translate into visible growth opportunities. New product launches, improving utilization at Pedapariya, strengthening exports, a richer product mix and continued customer additions provide multiple levers for growth. We are increasingly shifting from a cyclical recovery to structural growth. We are evolving into a more diversified, value-added, globally relevant casting company with stronger earning potential than in the past.

The progress achieved over the last 5 years provides a strong foundation for the future. With revenue, EBITDA and PAT growing at CAGRs of approximately 17%, 19% and 40% between FY21 and 26, coupled with a stronger balance sheet and lower leverage, this positions us well for the next phase of growth. Our focus remains clear: driving growth through new product development, operational excellence and improving capital allocation. With multiple growth levers now coming together, we believe Nelcast is well positioned to deliver sustainable growth, improving profitability and long-term value creation for all stakeholders in the years ahead.

Now coming to the Q1 FY27 performance. Revenue grew 2.8% year on year to 345.4 crores, supported by healthy demand across key end markets and improving export momentum. EBITDA stood at 20.1 crores and PAT at 5.1 crores. With profitability temporarily impacted by higher input costs and labor availability challenges, exports improved sequentially to 113.3 crores, while customer price revisions, new product ramp-ups and improving utilization are expected to support margin recovery in the coming quarters. The company's strong balance sheet and disciplined capital allocation continue to support the long-term growth strategy. Now, I would like to open the floor for the Q&A session.

Operator: Thank you very much. We will now begin with the question and answer session. The first question comes from the line of Mr. Pramit from SG Investments. Please go ahead.

Pramit - SG Investments: Hi, sir. Thank you for the opportunity. Sir, you mentioned regarding a large order starting production right now. So when do you expect to ramp up to the full scale capacity that you are expecting?

Management: Yes, the volumes are just starting. The first orders are going out in the current month. We expect that we will be fully ramped up on these businesses probably within the next 9 months or so. So by Q4, we expect that these businesses that we are starting to ramp up now will reach mature volume.

Pramit – SG Investments: How many pieces are you expecting at peak volumes that we expect to supply? I think it is essentially a partial assembly where you are doing approximately 100 kg. So just to understand, how many pieces would you be supplying to the customer at peak volumes?

Management: I think rather than pieces, referring to pieces is a misrepresentation because it is actually three different programs that we are referring to and multiple parts that have different sizes. In terms of the revenue potential once the ramp-up is completed, we believe that number is in excess of about 200 crores a year. That is what we expect to get to towards the end of the financial year on these businesses.

Pramit – SG Investments: Got it. And sir, you also mentioned some more order wins in Europe. Are they in the line of these large castings or are they more traditional in terms of the commercial vehicle segment like you are doing already?

Management: The order wins from Europe are more traditional parts. These are market-based larger casting parts.

Pramit – SG Investments: In terms of order demand generation for these large parts, where would you be looking next? Would it be continuing to be in the Agri space, or would it be somewhere else?

Management: The order book for the large parts is shaping up quite well. In the Agri space in the US where they have the largest tractors, I think it is a great opportunity that we are in the process of becoming well-entrenched in. Other than that, there are large castings even for the European market that we are starting to do, but I would say that those are probably not in as large a volume.

We are also getting more of the truck axle parts for the Indian market as well. There will be a very good diversification across geographies on these large parts going forward. At the moment, Europe does not look like it will be a very large percentage of it, but there are certainly opportunities there we are exploring as well on the large parts.

Pramit – SG Investments: You mentioned that axle parts are getting more incremental share. But I thought you were already supplying a large share to most of these customers. For most of them, you were probably the largest, at about 80% or 90%. So what are these additional parts that we are able to supply to them?

Management: If you look at axles specifically, we can break axles probably into two separate segments. One segment is the front axle of the four-wheel drive tractors. This is a segment where the entire market itself is growing rapidly. The growth in the four-wheel drive segment in tractors has really taken off, and part of the reason has to do with the structure of the market. If you have a tractor that is higher than 50 horsepower, the requirement of the emission norms is much more stringent and it requires more expenditure, so the cost of the tractor goes up.

What people have realized is that you can do the work of a 50-plus horsepower tractor with a 45 horsepower tractor using a four-wheel drive because the application of torque is better. We have seen a fairly dramatic shift in the Indian market towards four-wheel drive in the last few years. So first, there is market growth happening in the tractor segment for four-wheel drive.

The second thing is in commercial vehicles, specifically heavy trucks and large tippers, there is a conversion from fabricated housings to cast housings. A year ago, we had developed our first couple of these parts for the Indian market. Today, we are in the process of completing the development for all the OEMs in India for their high-end tippers. This is a segment that we expect to grow. From approximately two part numbers that we had developed a year ago, we have got some samples that will be going out in the next couple of weeks. When I add all that up, we actually have about 12 part numbers that we have developed, and many of these will go into production in the next few months once the validation trials are done.

Pramit - SG Investments: So basically, it is incremental growth from 2 to 12 parts, an increase of 10 more parts. Is that right?

Management: Yes, exactly.

Pramit - SG Investments: Understood. Earlier, we were only catering to one of the truck OEMs in India. Do we now cater to everyone?

Management: Yes, we cater to everyone. All of these parts are single source. This is an extension of their product strategy. Fabricated axles are being converted to casting because in a casting you can do a lot more in terms of section thicknesses in key areas where the stresses are high, which you typically cannot do with a fabricated axle because you have to maintain a standard section thickness across the entire axle. Therefore, on heavy-duty applications, a casting is much more resilient to abuse and heavy loads. So on the higher end of the market, all the larger tippers are moving towards cast axles from fabricated.

Pramit - SG Investments: In terms of the final demand, do you see the OEMs putting an effort into getting a higher class of vehicle? Are cast products the segment where the market is growing?

Management: Yes, I think the offerings that are there today are actually quite low. With these products that are being developed, it is going up quite a bit and it will continue to go up.

Pramit - SG Investments: Understood. Regarding order visibility and resilience of orders, how has that changed over the last few years? How was it 5 years ago, and how is it now?

Management: Order visibility is a challenge. Over the last decade or decade and a half, the volatility in the market has gone up quite a bit. While there is order visibility, there is a lot of variation that comes with it. A lot of this is schedule-based. We typically get a firm schedule for about a month and some order visibility beyond that, but both are subject to change. For example, even in this current month, one of the truck OEMs increased their production plan by about 10% a week into the month. Based on the market scenario and the demand scenario, there is a degree of adjustment that has to keep happening to the schedule. We do get visibility when the market is looking good, but it is a little shorter when there are more questions in people's minds.

Pramit - SG Investments: By the end of the year, where do you think you might end up in terms of tonnage and revenue? The last three years, even though the product is changing and getting more profitable, it has not shown up in the numbers because costs have been going up equally and revenues have not grown.

Management: From a tonnage point of view, we believe we are expecting to end the year at about 1 lakh tons. Obviously, we depend on the market and how that moves, but achieving 1 lakh tons this year is in line with our current expectations. From a revenue perspective, the number is approximately Rs. 150 per kg. It should be a little over 10% growth given the current cost scenarios and the cost pass-throughs that are happening as we speak.

Pramit – SG Investments: In the last call, you mentioned effort into reducing working capital, specifically receivable days from exports. How has that been so far from the customer side?

Management: With the new contracts we are getting, we are spending a lot of time ensuring we negotiate lower credit days. It is a lot harder to change existing contracts and agreements. But for all the new ones, this is an area of focus. As we see new products come in and ramp up, we will see that the number of days will come down on the exports.

Pramit – SG Investments: Regarding profitability, on an average basis by the end of the year, where do you think you might end up for this year and next year?

Management: We are confident that this year we will get to Rs. 15 per kg. The results of this quarter are more of a blip, and we are quite confident that we will be able to recover that and reach about Rs. 15 per kg for the year. By the end of the year, we will be well and truly in that practice.

Operator: Thank you. The next question comes from the line of Abhishek Chaudhary from Nivaka Ventures Private Limited. Please go ahead.

Abhishek Chaudhary – Nivaka Ventures Private Limited: Hi, sir. I just wanted to understand the tailwinds you are seeing in this industry and if you are trying to move your product base up the value chain in the future?

Management: When we look at tailwinds, overall domestic volumes are looking quite strong. The tractor industry has done very well in Q1. The commercial vehicle industry, albeit on a lower base from last year's Q1, has also done very well. We expect these two segments to grow for the year as a whole.

Coming to exports, whatever dips we saw last year were primarily driven by tariffs. The tariffs impacted our end customers to the point where the sales of heavy trucks came down. Now, with more clarity and stability on the tariff regime, we are seeing a good amount of pent-up demand and a pre-buy effect for emission norm changes coming in January. Even on the export front, we expect the next couple of quarters to remain fairly strong.

Specific tailwinds for the company beyond the market include the growth in the four-wheel drive segment, the growth in the domestic CV industry for cast axles, and the overall growth in exports from new products that are going into production now. We have a robust pipeline of new business driven by both direct and indirect exports.

Abhishek Chaudhary – Nivaka Ventures Private Limited: Can we expect the EBITDA margins to remain in a similar range?

Management: Our EBITDA margin for the last quarter was about Rs. 9.48 per kg. We believe that is an aberration and we should be back towards our stated goal of about Rs. 15 per kg.

Operator: Thank you. The next question comes from the line of Rohan Saha from RS Investments. Please go ahead.

Rohan Saha – RS Investments: Thank you for the opportunity. I wanted to understand the new product portfolio. How will they improve the company's profitability, for example, EBITDA per kg and revenue? Is there any revenue contribution expected from these products in H2 FY27?

Management: The new products are larger castings, more heavy and complex, where there is not much competition domestically within India. This helps us with a premium on those castings. In terms of guidance, the mature volume in terms of revenue will be in the range of about 200–250 crores a year. It is a gradual ramp-up, so it is difficult to project the exact impact in H2, but we expect to reach that mature level towards the end of the current financial year.

Rohan Saha – RS Investments: Can you throw some light on the scenario of global customers looking to diversify sourcing towards India and the progress in Europe regarding new customer wins?

Management: In terms of customers, there is a very good order book in terms of RFQs flowing through and good technical discussions. The scenario is very positive for the industry and specifically for us. On Europe, the challenge has been that people have been a little slower to move. In the US, they are more aggressive with business decisions. Europe is more circumspect and takes time.

We have won a couple of orders from European customers because their existing source in Europe was going bankrupt and they needed to make a decision quickly. For us, the goal is to get a foot in the door. Once that happens, performance replaces perceived risk. We have won business from a major player in Europe. It is not a sizeable amount yet, but it is an ability to prove our capability so that we are seen as a reliable supplier rather than a risky new overseas supplier.

Operator: Thank you. The next question comes from the line of Ankur Gulati from Gennivity Capital. Please go ahead.

Ankur Gulati – Gennivity Capital: Hi, two questions. Can you quantify the plant-wise production this year? And were there any specific reasons for production volume being slightly lower year on year and quarter on quarter?

Management: In Q1, there were two reasons for the drop in volume. One was the challenge in manpower availability across the industry, impacting us in April and May before recovering in June. Secondly, at our Pedapariya plant, we took a short stoppage to make plant improvements to meet the requirements for the ramp-ups happening now.

Ankur Gulati – Gennivity Capital: Can you give the plant-wise capacity utilization for the quarter?

Management: Our Gudipadu plant was at about 53%. Our Ponneri plant achieved 100% utilization, and our Pedapariya plant was at 21% because of the stoppages for improvements.

Ankur Gulati – Gennivity Capital: Realization went to 152 rupees per kg. Was this because of a price increase?

Management: Yes, realization went up because there was some price increase passed through to customers. For the quarter, it was about 152 per kg as against 146 in Q4 and 150 in Q1 of last year.

Ankur Gulati – Gennivity Capital: In Q2, once you have the full pass-through, is that when you hit at least 14 to 15 rupees per kg?

Management: Yes.

Ankur Gulati – Gennivity Capital: Regarding the 200 crores, will we achieve that annual run rate by Q4 or do you expect to get the entire incremental 200 crores this year?

Management: The 200 crore figure is an annual run rate that we believe we will achieve towards the end of the year from these new product developments, in addition to existing business.

Operator: Thank you. The next question comes from the line of Saket Kapoor from Kapoor Company. Please go ahead.

Saket Kapoor – Kapoor Company: Greetings, Deepak ji, and Shiva sir. You alluded to the confluence of factors that led to EBITDA per kg falling below 10: the labor issue, raw material costs, and the stoppage at Pedapariya. Is it correct to understand these were one-off events for Q1?

Management: Yes. It was not exactly a shutdown at Pedapariya, but a temporary stoppage for plant modifications. In addition to raw materials, freight costs also had an impact, and some of that gets passed through into this quarter's price.

Saket Kapoor – Kapoor Company: Can you quantify the absolute number for those other expenses? And what were the total tonnages for production and sales for Q1?

Management: Total tonnage on production was 21,184 tons and sales were 22,442 tons. Last year's June quarter production was 22,038 tons and sales were 22,073 tons.

Saket Kapoor – Kapoor Company: So on a sales basis, the numbers have been flattish. Are you able to quantify the one-off items like freight that led to the lower EBITDA which should reverse in Q2?

Management: Based on our calculations, we expect an addition of about 4 rupees per kg as the raw material effect that we expect to be passed on into this quarter's pricing.

Saket Kapoor – Kapoor Company: You mentioned the company is at an important inflection point. When you mentioned the goal of 1 lakh tons, that represents 9% growth from FY25 to FY26. From FY24 to FY25, we grew from 83,637 to 91,304 tons, which was also about 9% growth without the new products. In this year as well, you are mentioning that same 9% growth with the new ramp-up at Pedapariya. Am I misunderstanding something, or are you being conservative?

Management: On the new products, we are being a little conservative in terms of volume projection, mainly because of the timeline. This is a completely new product being launched, so there is potential for delays in the ramp-up phase. We know from past experience things can take longer than expected on both our side and the customer's side.

Saket Kapoor – Kapoor Company: You mentioned 200 crores as new business addition. What is the additional tonnage from that new business specifically versus natural growth?

Management: I do not have that specific data with me at the moment, but we can work that out and share it later.

Saket Kapoor – Kapoor Company: On the EBITDA front, we grew from 106 to 124 crores from FY24 to FY25. Taking into account the higher EBITDA per kg and improved tonnage, is it likely that the growth in EBITDA for FY27 will repeat that percentage growth or be even better?

Management: We do expect that this year we will have reasonably good double-digit EBITDA growth. That is our expectation.

Saket Kapoor – Kapoor Company: Regarding renewable energy, you are looking to improve the share from 70% to a higher number. What is the plan for this year?

Management: Our long-term goal is 80%. Right now we are between 65% and 70%. Most of the investments and commitments we have made are now completed. This year we might let it stabilize before charting the next steps of the strategy.

Saket Kapoor – Kapoor Company: On the land bank, any new thoughts on monetization?

Management: We are waiting for the right opportunity. The location of the land is quite strategic, close to the new ISRO facility set up in Tamil Nadu. We think the right opportunity will come soon, but nothing is imminent. We have not done a recent evaluation of the valuation.

Saket Kapoor – Kapoor Company: What is our CAPEX this year, and what are the current borrowings and debt?

Management: Term loan debt is about 90 crores as on June 30. Current maturity is about 30 crores, of which 10 crores is already paid. We expect another 30 crores reduction in the term loan by year-end. CAPEX is about 35 crores for maintenance and improvement.

Saket Kapoor – Kapoor Company: When you mentioned 14 to 15 rupees EBITDA per kg, is that the average for the full year or the exit rate?

Management: What we believe is possible is to achieve 15 rupees per kg for the full year. That factors in the previous blip and implies a higher exit rate for the year.

Operator: Thank you. The next question comes from the line of Praneet from SJ Investments. Please go ahead.

Praneet – SJ Investments: Hi, sir. Most of our renewable capacity is co-generation or group captive. Is there a possibility we put it up ourselves in-house?

Management: We have 1 megawatt located in-house. We might increase that by another couple of megawatts if we have the space. We use group captive for two reasons. Our partners specialize in setting up large wind or solar parks, so we leverage their capability. Secondly, it is easier to do as part of a larger project. We have a 1 megawatt setup at the Pedapariya plant. Beyond that, we have space allocated for approximately 2 to 2.5 extra megawatts.

Praneet – SJ Investments: What is the IRR difference between the captive plant versus the group captive?

Management: It is not an obvious calculation. In group captive, your investment is lower because we take an equity stake of about 26%. Projects are funded by debt and equity, often 70% debt. Because it is not located within our facility, we pay wheeling charges to the DISCOM. In Andhra Pradesh, where Pedapariya is, up to 1 megawatt works on net metering. Beyond that, it is real-time metering, which is much more complicated. One of the things we have done right is acting early so some investments are grandfathered under old rules.

Praneet – SJ Investments: Will the EBITDA improvement be driven by an increasing share of exports or domestic incremental EBITDA?

Management: We expect both. There will be some improvement in domestic, but exports will drive it. Also, overall capacity utilization going up will significantly drive the impact.

Praneet – SJ Investments: When do you expect full utilization of your 180,000-ton capacity?

Management: We think it is probably a 2 to 3 year timeframe to fully utilize our capacity. We are working towards reaching about 130,000 tons in the next 2 to 3 years. If everything goes well, growth beyond 20% is on the cards.

Operator: Thank you. I would now like to hand the conference over to the management for closing comments.

Management: Thank you everyone for your time and interest in Nelcast. We believe we are now at an inflection point and can put Nelcast on a much higher platform in the quarters and years to come. Have a great day.

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