"Nelcast Limited Q1 FY25 Earnings Conference Call"

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MANAGEMENT: MR. P. DEEPAK – MANAGING DIRECTOR AND CEO

MR. S. K. SIVAKUMAR – CHIEF FINANCIAL OFFICER

Moderator: Ladies and gentlemen, good day and welcome to Nelcast Limited Q1FY25 Earnings Conference Call.

As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference to Mr. Abhishek Bhatt from EY Investor Relations. Thank you, and over to you, Mr. Abhishek.

Abhishek Bhatt: Thank you. Good evening, everyone. On behalf of Nelcast Limited, I welcome all of you to the Company's Q1 FY25 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 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 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's 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 evening, everyone. Thank you for joining us today for our Q1FY25 Earnings Conference Call. We appreciate your continued interest and support in our Company.

During Q1FY25, we have observed a persistent softness in the demand for commercial vehicles in India. This trend is not limited to only our domestic market, but also our export markets in the U.S. and Europe both experienced a decline in the commercial vehicle demand. These challenges are largely attributable to prevailing macroeconomic headwinds and political uncertainties surrounding elections.

Despite the conditions, we see a silver lining. Production constraints, especially in the EU, primarily due to stringent environmental norms, present a significant opportunity for Indian manufacturers. We believe we are poised to leverage our capabilities to fill the gap and meet that demand that the EU counterparts will be unable to satisfy.

During Q1FY25, we made a cautious choice to reduce our inventory levels, which led to a decrease in production volumes. This strategic move is part of our ongoing efforts to ensure a robust balance sheet and to prevent the buildup of surplus inventory.

Despite this reduction in production, our revenue has stayed consistent and we have managed to preserve our profits. This is attributable to enhanced production efficiencies that have driven our increase in EBITDA per kilogram.

Furthermore, we have seen a solid 10.5% year-on-year increase on our export sales during the quarter. Focusing on the introduction of new offerings, we have developed many products tailored for the electric vehicle sector. Some of these are in the early stages of launch, but when we look at the market, the market is still evaluating whether to commit fully to electric vehicles or to favor hybrid variants. We are keeping a close watch on these industry dynamics to guarantee that our product lineup is in sync with the evolving market preferences.

The U.S. elections will have a fairly significant impact on how this roadmap plays out. Looking ahead, we are cautiously optimistic about a performance revival in the second half of FY25. Our efforts to streamline operations and enhance efficiency are expected to bear fruit, and we anticipate an increase in EBITDA per Kg from the current levels in the second half.

While FY25 looks like a consolidation year for us, we are laying the groundwork for what we believe will be robust demand growth in subsequent years. Our strategic initiatives and investments are focused on positioning us to capitalize on these future opportunities.

Lastly, commenting on the financials for Q1FY25:

The Company reported a modest revenue increase. So, we had Rs. 302.3 crores, which was up 2% year-over-year amidst a challenging market with soft demand for commercial vehicles, especially in light of the elections that were happening.

EBITDA saw a slight year-over-year decrease to Rs. 22.4 crores, but improved 16.2% from the previous quarter, thanks to enhanced operational efficiency, resulting in a healthier EBITDA margin of 7.42%.

Profit after tax rose to Rs. 8 crores, showing strong growth of 10% year-on-year and 56% quarter-on-quarter.

Thank you. And I will now open the floor to any questions you may have. We can now open the floor, Shlok. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Bhavesh Chauhan from Aditya Birla Money. Please go ahead.

Bhavesh Chauhan: Two questions from my side. Sir, we say that FY25 is likely to be a consolidation year, but what makes us so hopeful for FY26? It looks like we are very, very optimistic about FY26.

And the second question is on exports. We have seen a very strong growth in exports. So, what going forward, is that, you know, we are becoming more and more competitive in the global market and we should have more and more exports as we move towards FY25 and FY26?

P. Deepak: So, thank you for your questions, Bhavesh. I think FY26, we believe, one, I think it's an anticipation that there will be a bigger rebound happening in the domestic market. I think this year, especially the first half of the financial year, we do expect the commercial vehicle market at least to be quite soft given the elections and then the post-election kind of pickup of activity that is there. So, we do anticipate that the second half will be better than the first half. But next year we expect it to be a little bit more normal.

The second trend, I think, that also makes us confident on why FY26 would be much better year is because we believe that they will be the initial signs of the pre-buy that will happen in the North American market. In January of 2027, there is a new emission law that will come into effect in North America and specifically the U.S. And so this change is going to have actually a fairly significant increase in the price of new vehicles. And therefore, there is an anticipation of a fairly significant pre-buy likely to happen in the calendar year 2026, some of which is also anticipated to spill into calendar year 2025, because the expectation of the price increase, which will potentially drive the pre-buy is fairly significant. So, that's the second part of it.

I think the third part of it is they are making a lot of progress in terms of a lot of new products that have been awarded to us in the recent past but might not get into production until the end of this year. So, that's one more portion of it.

And then the last one is regarding European business. We are incredibly confident the more and more that we are looking at Europe and talking to customers there, given a variety of reasons, one is the financial conditions of various competitors based in the European region is extremely weak. And many of them have to spend a significant amount of money in order to comply with a lot of these decarbonization regulations and other environmental regulations.

So, it looks like we do anticipate that there will be significant capacity reduction that will happen in the European region over the next three to four years. And we believe that we are well poised to take advantage of that, and we should start to see the efforts and results of that perhaps, you know, at some point next year.

Bhavesh Chauhan: With regards to exposure, again, it's mainly because of Europe, right?

P. Deepak: Yes, so we believe U.S. will also continue to grow, but we think that we will have a very big chunk coming from Europe. U.S. is already about 80% of our exports right now, and Europe is only about 17%18% of our exports. So, we believe Europe will have a much bigger jump that we will see. U.S. will also continue to see growth.

U.S., we have been working on a few EV programs that are created for launch in 2027. And these EV programs, the only uncertainty that's still there, that's preventing the OEMs from committing to a decision is also the U.S. election results, because the U.S. politics will have a fairly significant impact on how much of a push on EVs will be there versus how much of a relaxation on EVs and decarbonization in general.

Bhavesh Chauhan: And sir, lastly, we expect our EBITDA per Kg to go up. So, can you explain what could be the drivers for that?

P. Deepak: So, I think we have talked about this in our overall strategy that was in the presentation. But there are a few different things that we believe will drive our EBITDA per Kg. I won't get into all of the details, but the biggest drivers will be the increase in capacity utilization that we will see, especially the operating leverage coming out of the increase in capacity utilization of the Pedapariya plant, and also the product mix as our export mix continues to grow.

There is also some new avenues that we are exploring in the domestic segment as well, which we believe will be a more profitable business than the current average domestic business. So, there is a few different, on the product mix as well as on the cost side. There are avenues that we are looking at, but I think in our presentation, you should see more information regarding our overall strategy, including the points I have touched upon.

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

Vidit Shah: Just a few from my side. Firstly, in the current quarter, we have seen a 5-odd crore sequential reduction in power and fuel costs despite us toning down production and volumes remaining somewhat flat. So, can you explain what has driven this reduction in power and fuel costs and do we expect this to remain at these levels? I mean, just want to understand if this is solely driven by pricing of power or is it also driven by some efficiency gains that we have had?

P. Deepak: So, it's a little bit of mix of the two. There are few points I want to highlight on this power and fuel. One, we installed a 1-Megawatt solar power plant inside our Pedapariya premises in the first week of April. So, because of this we are seeing some of the results of that impact in terms of power.

The other part of it is, if you look at a portion of our power comes from wind energy and typically, I will say, probably May to June onwards and these next couple of months are the peak season for the wind. That also helps us a little bit specific to the quarter.

But overall, if you look at how we have done in terms of our efficiencies in power consumption, we have gotten better, albeit marginally, and we actually anticipate over the next couple of quarters that our efficiencies in terms of our power consumption will actually get better. We have made a couple of investments in our plant and equipment specifically in our melting area to drive a reduction of power consumption, not just in terms of price but also the power that is consumed.

Vidit Shah: So, just a follow-up on that. What is the sense on power saving that we anticipate in terms of unit consumption?

P. Deepak: I think it would be very hard to put a specific number to it, but I think what we would try to target is maybe something in a couple of percent or so is what we think would be the impact of it.

Vidit Shah: The other one I had a question on was the FedEx orders that you mentioned in the opening remarks that are likely to begin by end of the year. So, that would mean by Q4FY25. Would that be right?

P. Deepak: So, the orders have just begun. However, the volumes right now that we are talking about is maybe about the equivalent of perhaps 180 to 200 vehicles per week, whereas the order is supposed to be for 600 vehicles, 590 vehicles a week to be more precise. So, there is a ramp up process that is there, but currently, very recently over the last month or so that has started and it's currently only at about perhaps about 180 vehicles a week. It's still a long way to go for it to reach a meaningful number, but it has started.

Vidit Shah: And when you say that the market is still contemplating between EV adoption and hybrid, would that have any impact on this one particular order or is it possible that this order changes from 590 to something else?

P. Deepak: So, I don't believe it will have an impact on this specific order, but there is a lot of new business that we had started quoting earlier this year as a lot of the OEMs, especially in the pickup truck SUV segment, a lot of them were working about a year ago on their EV strategy and the platforms that they are going to start. And most of these platforms are slated for a beginning of 2028 or mid-2027 launch. So, they had designed the vehicles and all of that. And then, in the last eight or nine months, we have seen suddenly EV sales drop, resale values of EVs come down, all of that.

So, many of them are rethinking their strategy a little bit. And I think the key piece of the strategy is also government and legislation and what's going to happen. So, I believe that elections will have a significant role to play. So, they do believe that they will have to move in that direction because TAFE norms do mandate certain fuel efficiencies and all of that. But they are just waiting to see before they fully commit to a strategy.

A year ago, they were fully committed to say that we have to go EV and GM had even publicly and Ford had both publicly said that by 2035 and 2037 respectively that they would no longer be producing internal combustion engines. I think they have now walked that back a little bit and they are letting the market dictate rather than mandate dictate the phase in phase out.

So, there is still a question mark whether these next generation vehicles that get launched in 2027 or 2028, whether they would be pure battery electric vehicles or they would need to be plug-in hybrid vehicles. But this is not for this particular product. This is for new potential, new orders that we are discussing that might be very, very significant business for us looking forward in terms of the next four or five years.

Vidit Shah: And just out of curiosity, hybrid products are more towards our traditional ICE products that we manufacture, or they are more in terms of content per vehicle or it's more towards the EV products that we are designing right now?

P. Deepak: It's more towards the EV products. It is a little closer to the EV products, just slightly less because you don't have the same kind of torque requirement in a hybrid that you do in an EV because you also have your ICE engine to kind of kick in and give you a little extra torque for the absolute necessities.

Vidit Shah: Just one last one before I get back in queue is could you quantify the impact on the inventory level drop that you mentioned? What was the typical inventory that we would keep and how much have we got it by?

P. Deepak: So, in the quarter, we cut our inventory by about 1,000 tons, and this is something that was built up over the last year. Unfortunately, last year we were not, while we were not trying to actively build up the inventory, something that did happen especially, because our anticipation of sales in Q4, especially in M&HCV was higher than what the market ended up being, especially post 10th of February, we saw significant dips. So, we were intending to dilute stock in Q4, which we couldn't. So, we chose to do that here. So, it was about 1,000 tons that we had diluted.

Vidit Shah: And are we expecting to dilute it further?

P. Deepak: We will dilute it further, but perhaps not to that extent. It might be a little bit more gradual. Perhaps over the next three quarters, we might look at maybe diluting another 1,000 tons or so to what we believe where we should be operating.

Moderator: Thank you. The next question is from the line of Ninad from Subnis Financial. Please go ahead.

Ninad: Sir, I have few questions. So, first would be I think you have elaborated in the start of it, but could you just retouch on the order book status as of now?

P. Deepak: So, for the quarter as a whole, from a tonnage perspective on sales was 20,000. 19,977 was the actual sales quantity for the quarter and this is largely in line with what we had indicated in the last quarter as well. At the end of last quarter, given the uncertainties, we had said roughly we expect the Q1 and Q2 to be in that twenty thousand-ton range and we expect 23,000- 25,000 tons, perhaps something in that range in the second half. That's what we had roughly indicated. We still believe that that's largely the picture for the current year.

Ninad: So, following up on the previous question, you mentioned liquidation. That is accounted for in this guidance you just mentioned, right?

P. Deepak: Yes, so this was sales quantity. Our production quantity was about, 980 tons or something that we liquidated approximately 1,000 tons lower.

Ninad: But I am just trying to assess how would that impact the margin?

P. Deepak: So, obviously, there are two factors in which it impacts the margin. One is positive, and one is negative. So, I mean, fixed costs are spread out over a smaller quantity which is the production quantity. So, it has a negative impact on margin, but you are also selling product out of your inventory. So, it has some positive effect as well.

Ninad: Yes, because that would speed up like free up our working capital. So, that would be positive.

P. Deepak: So, it has both effects. Yes, not exactly clear on how we can separate these two effects out. As, both of these are the realities of what's happening.

Ninad: My next question is, there has sort of been a muted demand on the CV segment, but despite that we have performed well and even though, like, how would be the outlook since we are getting better going down the calendar year or we will see the same pattern continue?

P. Deepak: I think we see the same pattern continue that we will perhaps outperform the market. Commercial Vehicles, the one thing that we have to be little cautious about when we compare our numbers is one is Q1 is actually when tractor is bigger impact. Because this is the season, the tractor production levels are a little bit higher. Pretty much from April all the way until perhaps October-November is the peak reason for tractor production. So, that's something.

Even on a year-on-year basis if you see, we have done better even though perhaps tractor production we believe is up only about 3% or so for the year. So, I think we have done better than that. Even CV we have done slightly better, but also typically most of the reports that you see on CV will be on the sales. Sales quantity of CVs.

I think the production quantity in this particular quarter was also marginally higher because 31st March the inventory levels at the OEMs were very low. So, they needed to bring it back to some degree of normalcy. So, that has also helped, I would say, but certainly our market penetration also headed in the right direction.

Ninad: Fingers crossed. The monsoons are going well. So, hopefully the demand should also pick up going forward.

P. Deepak: Yes.

Ninad: We certainly hope so and monsoon is something that I never thought about, but we have been tracking very closely for the last decade.

Ninad: Great to know. Just one more question, like the last question. I am going through the slide which you have given in the presentation. That's a very nice development it looks like. So, we see that we are on the exports front, we are very optimistic, and we have already done very well in this quarter and potential growth is nice. So, going forward for the rest of say FY25 or even somewhere into early FY26, are we seeing traction or demand coming in from the U.S. and would that market really help drive this export growth or is that some other market?

P. Deepak: Yes, so I will answer. One thing is the market itself has actually gotten quite weak. So, if I compare on a year-on-year basis, it looks like the U.S. market will be in the calendar year 2024, the U.S. market will probably be down about 10%, I am talking about commercial vehicles and Europe will probably be down about 30%. This is the indication that we have been given. But there is an anticipation of growth in 2025 and 2026 from that base and 2026, the belief at least for the U.S. market is it's going to be a record year. So, I think that to some extent will drive some of our same business growth, same product growth.

In fact, we have had customers coming to us and talking to us about what the capacity requirements 12 months from now will be. And in some of the cases of some of the products, they are talking about 30%-40% higher than even what was there last year. So, obviously it's a product mix difference. It's not all the products that it's happening. But on some products, they believe that compared to what they procured from us last year, their requirement in 2026 will be 50% higher. So, this is a discussion that has already started with the customers and in fairly advanced stages because they need us to be prepared and there might be some tooling, some validation and all of these things that will need to go in for this.

So, that's the picture on the U.S. market. Other than that, there are some new business orders also that have come in and some in development and some in later stages of development where perhaps by the end of this year will be into production and some perhaps early part of next year, will be into production.

As Vidit had asked, I think it was Vidit who had asked the question about the FedEx trucks that GM trucks specifically. So, those vehicles also just started the ramp up and it looks like it will be a fairly slow ramp up that will happen. It's not that the GM has had a capacity of 600 vehicles a week and from day one, they start doing at 500 and then go up to 600. It looks like they are starting off at about 150-200 and then they will gradually go up over the rest of the ramp-up.

And I think the other part that I alluded to a little bit during my opening remarks was regarding Europe. So, we believe there is a huge amount of potential in Europe and a lot of that is driven by the current market conditions. And the current market conditions include a few guys that have actually shut down capacities in the last 12 to 18 months. There have been some capacity shutdowns that have happened as companies have shut.

There is also a few large companies that are in financial distress and some of them even to the extent of going into administration, what USA might call Chapter 11. So, they are still running, but there is a big question mark on their future.

So, there is, I think we are seeing that opportunity just start to materialize now and I don't recall if I made the statement in the last investor call or not, but I think what we have seen in terms of RFQs that we have received from customers in the last six months exceeds the value of the RFQs that we have received perhaps in the last two or three years.

So, we are starting to see that interest come in. We anticipated that we might see this interest come in about a year ago or so. But a year ago or so, people were, I would say, interested, but slightly muted. I think they thought perhaps some of these energy issues, the Russian war, all of these things, inflation, some of these things might be a little temporary in nature and I think now as they realize what the direction looks like.

And in our specific industry in manufacturing iron castings in Europe, there is a lot of questions on the future of the viability within Europe. I think we have started witnessing a lot more interest and we have seen that interest now translating into RFQs. We are quite confident that over the next 6 months, 12 months, 18 months this will actually translate into actual business awards and then into actual business turnover.

Ninad: Yes, so the sales cycle is absolutely picking up. Sir, just a small clarification. You just mentioned the number, the demand is 15% higher or 50% higher from the U.S.?

P. Deepak: 50%..

Ninad: 50, okay.

P. Deepak: On some specific products. Not the entire catalog of products.

Ninad: Yes, absolutely. Of course, not the entire.

P. Deepak: That is the 2026 numbers in comparison to 2023 numbers, which 2023 itself was a record year. But again, at this point, these are forecasts, but this is what the OEMs are saying.

Ninad: I am thankful for your insightful responses. That was very enlightening. And I also appreciate the strategic initiatives you are taking, even the one you have just previously described on power savings. So, all these factors really go a long way in getting a good outcome going down the line. All the best for the rest of the year.

Moderator: Thank you. The next question is from the line of Darshil Jhaveri from Crown Capital. Please go ahead.

Darshil Jhaveri: Sir, just wanted to ask FY25 maybe is more of a consolidation year. So, in terms of volumes, if you indicated the first, in terms of our EBITDA per Kg, like in Q1, we did around 11.8. So, what could we expect for the end of the year because we might have more power savings and a better utilization in H2FY25. So, any kind of guidance on EBITDA per Kg you would have?

P. Deepak: Only that it will improve. Only that we intend to improve it. And I think in a two-year period, we are trying to see how we can bring that all the way up to 15. So, I don't think it will be a linear line and some quarters will obviously be better and some will be worse than other quarters in comparison to that. So, I don't have specific guidance, but certainly I think we will in the second half, we do anticipate and expect that we will push in that direction.

Darshil Jhaveri: I just wanted to know, sir, in terms of like FY26, what volumes can we anticipate? Because I think we will have even a higher utilization in FY26, right, sir?

P. Deepak: Yes. So, I think that is certainly the expectation. And it's a very slippery slope trying to predict, forecast what the volumes look like. Because there are so many factors that can have a negative impact on it. And I realize that sometimes it's harder to predict even what the next quarter is going to look like because the demand pattern, the kind of product mix, all of that can change very quickly.

But we would be targeting somewhere around 110,000-115,000 tons, we hope that we can get there. And with the right kind of initiatives, from government side as well as from in the export markets and from our side, I think certainly it seems it should be possible. Maybe we would look at a number that's, let's say roughly 30% higher than where we are today. That's the hope. I think there are many things in that hope that are beyond our control and we hope that they line up.

Darshil Jhaveri: Sir, I just wanted to understand one more thing, maybe for people who are not maybe in the market. What could you suggest as maybe a turning point or where you can begin for the demand revival? Is there something that even we could track or something that you could just point out to, you know, this feels like a turning point towards a higher demand?

P. Deepak: Yes. So, one of the things will be in terms of further pickup of all of these infra projects. So, as the projects get awarded and you see more and more roads getting built, bridges getting built, all of that, a lot of our products end up into these construction equipment tippers.

So, there I think is one very clear indication that we will see is that that activity starts picking up. I think it's only a matter of days or weeks before we can actually see significant demand pickup as well. So, I would say that from a domestic market standpoint, that's one.

On the agriculture side, perhaps monsoon is one of the factors. And the other thing is also rural health in terms of how the rural economy is doing. And I think in terms of exports, it's going to be driven both by how that market grows. As I said, this year looks like a year of de-growth for the market, both in U.S. and Europe, but further years do look like they will be having some growth. The next two years look like they will be having some fairly strong growth prospects that are there. And then the other part of exports is also new product wins and that's an area that we are actively working on as well.

Moderator: Thank you. The next question is from the line of Pradeep Rawat from Yogya Capital. Please go ahead.

Pradeep Rawat: So, my question is around the export opportunity only. So, I wanted to know what is the comparatively margin profile and payment terms as compared to our domestic customers in the export market?

P. Deepak: Yes, so I will give you slightly average numbers. On average, I would say that in the domestic market on an EBITDA per Kg basis number would be closer to Rs. 10 per Kg or something like that. And on the export will be Rs. 15 or Rs. 18 per Kg. It's just a kind of a blended. Obviously, product specific things can be different. And in terms of payment terms, domestic can be anywhere between, 45 to 60 days typically, whereas export is probably closer to 150 days.

Pradeep Rawat: And my other question is along the same line. So, are you expecting some kind of duty on companies like ours to make a level playing field for the EU players who are compliant with their environment norms?

P. Deepak: Yes, so there is something that will come into effect from 2026 called CBAM. It's a cross-border adjustment mechanism as a carbon tax. We do believe that we will be fully compliant with CBAM and that we will not have any tariffs that will be applied to us. So, the idea there is to say that, okay, we are pushing European industry to decarbonize. So, if there is an industry outside of Europe that is pushing, making the same product and trying to sell it into Europe, we should make it a level playing field.

But what we believe is if you look at it from a decarbonization perspective, we are actually far ahead of where most of the European competitors are. If you look at how much green energy that we are using as well as our overall carbon footprint that we have now recently started to track as well, we will be far ahead of where the competition is in Europe as well as where the norms will be, even though the norms are not clear yet.

But given that we believe that we will be far ahead, we don't believe that any such thing will impact us. But how these things get implemented and all that, there is still a little bit of fuzziness to it. But I believe this is going to be into effect from 2026.

Pradeep Rawat: And I missed the utilization part. So, what was the volume for this quarter?

P. Deepak: So, the production volume for the quarter was just a few tons shy of 19,000 tons. And the sales volume was about just a few tons shy of 20,000 tons.

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

Saket Kapoor: Sir, firstly, as you mentioned that both the geographies of U.S. and Europe will be de-growing for this calendar year. So, what should be our export trajectory? We did 98 crore this quarter, and I think 445 was the number for last year?

P. Deepak: Correct.

Saket Kapoor: 445 was the number last year.

P. Deepak: Yes.

Saket Kapoor: So, where we would be eyeing, sir, this financial year to exit?

P. Deepak: So, I think we are certainly looking at growth, despite degrowth in the market. I think with new product launches, we are anticipating that for the full year we will still have a growth. Perhaps the growth would not have been as robust if the market had not dropped. But we still expect that we believe that we can beat that 445 number this year, for sure. The exact number we will have to see based on how the market plays out, as well as there is a little bit more uncertainty.

I think last year, we were a lot more comfortable. We gave the guidance that we will cross 400. In this year, there is a little more uncertainty because we have more of these new product launches, as well as some of the products I already talked about. So, the exact ramp-up pace is not very well defined right now. So, some of this business could ramp up very fast or very slow.

So, we are a little cautious on providing how much growth we think will be. But certainly, we believe that we should still do better than last year, in spite of a degrowth in the market. So, we would hope unless there is a substantial de-growth that happens now in the second half of the year.

Saket Kapoor: And since the deliverables are scheduled for this spring quarter, Q2, so we must be in line to give an understanding that 445 numbers should be done. This is what the understanding is.

P. Deepak: Yes, this is based on the visibility that we have today and from the customers that yes, I think 445 does seem to be something that's in line. But again, we will have to just wait and watch a little bit. We do expect that third and fourth quarter that this is what was told to us will be slightly better than the first half of the year. But I think we are also seeing some slightly negative signs on the current quarter as well. So, we are just monitoring it very closely.

Saket Kapoor: Negative signs on?

P. Deepak: In terms of some layoffs happening within the industry, so in the U.S. So, that's while we have not seen any negative guidance in terms of volumes, we are seeing some people in the industry doing some layoffs and all of that, which is something that we are watching closely just as a potential sign that even though the volume is not, we haven't gotten any volume reduction guidance on that, that might be something that might happen. So, we are just a little cautious on that.

Saket Kapoor: And for the tonnage part, sir, what was our total tonnage last financial year, sir?

P. Deepak: So, for the last financial year, I think our total sales tonnage was 82,000 tons.

Saket Kapoor: And now, as you have already mentioned, Q2 will be similar in line to what we have done for Q1, that is closer to 30,000. What should be the likely number we should work for this financial year?

P. Deepak: So, I think my anticipation, perhaps, again, there is a lot of speculation in the statement that I am making, but I think we do expect that there will be a pickup in the second half and maybe somewhere between 23 and 24 per quarter in the second half is what we think it looks like at the moment. But obviously, this is based on some forecast that we are getting from our customers showing better revival in the second half.

Saket Kapoor: And, sir, you did allude to the fact that for H2, the EBITDA per Kg will definitely inch up with higher volume. So, that understanding is correct.

P. Deepak: That's correct, yes.

Saket Kapoor: And how has the raw material basket behaved, sir? How are the scrap prices currently? And two more questions on the other income and the finance cost front, sir. We find that, firstly, the other income has gone down sequentially also and also year-on-year also. So, what explains this reduction, sir, the nature that has led to?

P. Deepak: I will let Sivakumar actually answer this, the first one in terms of raw material prices. We are seeing relative stability, but I think, Siva, if you want to explain.

S. K. Sivakumar: Raw material prices are stable in the first quarter. So, there was no much speculation in the prices. It was stable in the first quarter.

P. Deepak: Yes, relatively stable. On a year-on-year basis, we have seen a reduction in raw material prices, but I think perhaps fourth quarter to first quarter was relatively stable. And then I think the second…

Saket Kapoor: And now on the finance cost and other income.

P. Deepak: Yes, finance cost and other income. Siva, you want to explain? You want to elaborate on something?

S. K. Sivakumar: Mainly, last year, we had a FOREX income, but currently, if you see the last three months, more or less, the exchange rate is stable. So, the FOREX income was more or less not in that direction what we earned last year. In the case of the interest cost, because of the increase in working capital to carry the inventory in receivables, slightly the interest cost is more for the quarter.

P. Deepak: So, even though inventory did come down…

S. K. Sivakumar: The receivables slightly increased

P. Deepak: Yes, the receivables went up slightly.

Saket Kapoor: What is our net debt number, sir?

P. Deepak: Net debt, just give me one second. Siva, you have that?

S. K. Sivakumar: Yes, it's about 254 crores.

P. Deepak: Net debt is 254.

Saket Kapoor: And the cost of fund, sir?

S. K. Sivakumar: Cost of fund, about 9.3%.

Saket Kapoor: 9.3%. Sir, Deepak, you did alluded to the fact of bringing in efficiency in terms of power cost. That is evident in the deduction. Other than that, sir, what are the other efficiencies, parameters of improvement or the efficient factors that we are working, and especially how is our Pedapariya unit going to perform going ahead? Or what is the strategy going ahead for the revival, if you could give outline, sir?

P. Deepak: So, I think in terms of other efficiency factors, I think we are working on improving our capacity utilization even at our Gudur plant. What we had identified was that the biggest bottleneck that we have is the synchronization between our ability to melt the metal as well as utilize the metal into the molds.

So, we did make some investments specific to that to create a buffer through a holding furnace. So, that investment is something that we have made in the current quarter, and that installation has just been completed over the last month. And so, this is something that is under monitoring. We believe this will help us in our power reduction as well as in terms of improving our production output in our Gudur plant. So, this is something that we are doing as part of that initiative to reduce costs as well as unlock some capacity.

In terms of Pedapariya specifically, we had identified about a year-and-a-half ago, that there were some six critical actions that we needed to complete in order to make sure that the unit is running completely the way that it should run and that we can eliminate some of the waste that was there. Out of those six actions that we identified, we have now completed five of those actions in every way, including three of those actions that were just completed in this past quarter.

So, that's something that I think looking forward, as we complete the last action as well as stabilize things, I think operationally, whatever the challenges that we had in that should be looking a lot better in the second half.

In terms of the demand front, I think one of the things that we are actively working on is to develop some new products. One of the products that is still in the design stage is that for the majority of the tipper market, we would like to offer the cast axle housing so that the life of the axle, the warranty cost, all of these are benefits to the OEMs as well as the end user. And we believe that there is a very strong market for this because this is the product that really runs in Europe. All the axle housings are cast and that was our intent when we set up this line.

So, we have started working towards that direction, towards being able to offer a solution to the customers, perhaps for that to get homologated as well as approved and all and get into production. That might take perhaps about a year or so. But when I look at that particular product, I believe that that product coming into the product mix in Pedapariya could be the complete game changer for the plant, in terms of the utilization as well as profitability. We expect that we should make very, very significant, I would say, zero to one kind of a move on that.

Saket Kapoor: And when will that we will fructify on that? I missed your point coming up.

P. Deepak: I think that the product, that particular product, I would think between design, making samples, testing, approval, would probably be about a year is what we anticipate at this point. But we believe that the market acceptance for this product will be very significant and we believe that we would experience a steep ramp up if the market acceptance is significant.

Saket Kapoor: And that is totally export.

P. Deepak: That is actually, that is totally domestic at the moment.

Saket Kapoor: Domestic market?

P. Deepak: At the moment, yes. We do have some serious discussions happening on exporting similar products, but those are not as high volume. We think the domestic potentially by transitioning something that is today done in a welded format into a casting product will have a significant impact on the ability to overload the vehicles, which a lot of these tippers are done, especially in construction sites and mining, while parallelly also reducing any risks of warranty and all of these for the OEMs. So, we believe that there will be a significant pull on the market for this.

Saket Kapoor: So, this is catering to the off-road segment?

P. Deepak: So, this will be catering to tippers. So, mainly construction and mining, which are used a little bit on-road but yes, a lot of this is moving heavy materials that are overloaded.

Saket Kapoor: And last point is on the exceptional item also, sir. You mentioned the profit on sale of land. So, how much have we realized? And I think we have booked earlier also in the March quarter.

P. Deepak: So, this is also part of the same transaction of the land. I think the registration of the land was done in a few different steps and tranches. So, this is still part of that same transaction that we talked about in the, if I recall correctly, the third quarter of last year. So, this is the same thing. So, about 2 crores I think was the number this quarter that was there as a profit. And it's almost done. There is still a very marginal amount that is still left to be done, which we anticipate will happen in this quarter. But by and large, I think majority of that is completed. I don't know if Sivakumar wanted to elaborate on that point.

S. K. Sivakumar: That's okay. That's correct. There are some small portions that will be completed in this second quarter. So, with that, all transactions will be completed.

Moderator: Thank you. So, ladies and gentlemen, due to time constraints, this was the last question for the day. I now hand over to the management, Mr. Deepak, for closing comments. Over to you, sir.

P. Deepak: Thank you. In closing, I would just like to reaffirm our commitment to driving value for our shareholders. We are navigating through some very challenging times, but I believe we have a clear strategy and a focus on long-term growth. We thank you for your trust and look forward to updating you on our progress in the coming quarters. Thank you all very much for your time.

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