



“Nelcast Limited
Q3 & 9M FY26 Earnings Conference Call”
February 10, 2026



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MODERATOR: MR. ABHISHEK BHATT– ERNST & YOUNG

Moderator: Ladies and gentlemen, good day, and welcome to Nelcast Limited Q3 & 9M FY26 Earnings 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 touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Abhishek Bhatt. Thank you, and over to you.

Abhishek Bhatt: Thank you. Good morning, everyone. On behalf of Nelcast Limited, I welcome all of you to the Q3 & 9M FY26 earnings conference Call. The results and investor presentation have already been shared and are also available on our website and through our filings on the Stock Exchanges.

Joining us today to discuss the company's performance and outlook are Mr. P. Deepak, Managing Director and Chief Executive Officer; and Mr. S.K. Sivakumar, Chief Financial Officer.

Before we proceed, a standard disclaimer. Please note that anything said on the 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 available on our website at www.nelcast.com. Should you have any queries or require further information following this call, please feel free to reach out to us via the contact details provided in the investor materials.

With that, I now hand over the call to Mr. P. Deepak. Over to you, sir.

P. Deepak: Thank you, Abhishek. Good morning, everyone, and thank you for joining us. Q3 has been an encouraging quarter for Nelcast with firm demand in the M&HCV and Tractor segments. The improvement that began in late November, especially in M&HCV, continued through December, driving higher volumes and better operating leverage across our plants. The cost optimization measures that we took after the softness in Q2 are now visible and contributing meaningfully towards our improved profitability.

On the export side, volumes are still below last year. We're seeing clear signs of stabilization. Customer schedules appear to be normalizing. We've added new customers in Europe and the recent tariff relief announcements in the U.S. have lifted sentiment. We expect this to support export demand as we progress through FY26 and into FY27.

Operationally, M&HCV demand remained very healthy on the back of seasonality, freight movement and GST reduction. Tractor schedules stayed stable, supported by rural sentiment and also GST reduction. Exports improved sequentially and early traction in Europe is encouraging. As global emission-norm transitions take effect, the schedules look to strengthen going forward.

A key development in this quarter has been the progress of our high-value product pipeline at Pedapariya. These larger, more complex castings where only few global suppliers operate are moving steadily through the approval stages. Commercialization is expected from FY27 with a ramp into FY28. As these programs scale, we see a meaningful uplift to margins, asset turns and overall utilization at the Pedapariya plant.

And as I've mentioned in the past, the Pedapariya facility continues to be central to our long-term strategy. It houses advanced moulding and automation systems, and we successfully produced India's largest single green sand casting of more than 500 kilograms. As the high-value programs ramp up over the next 2-3 years, we expect the utilization to move towards 60% from the low base that we've had in recent years, supporting both margin expansion and improved asset turns.

Across the company, our priorities remain unchanged. We continue working towards expanding our value-added product mix, strengthening our export relationships and our domestic relationships, improving utilization and maintaining tight cost discipline. Our investments in technology and processes position us well, and we take this opportunity to also continue to advance our sustainability agenda, including the 1-megawatt solar power plant that we have in-house in our Pedapariya plant.

Today, about more than 70% of the power requirement is met through renewables, which is a benchmark in the global industry. Total revenue for the Q3FY26 stood at INR 332 crores, up 11.8% year-on-year. For the 9MFY26, the revenue stood at INR 971.2 crores, which is up 3.9% year-on-year. EBITDA for the quarter was INR 35.9 crores, which is up 56.5% year-on-year with a margin of 10.8%.

EBITDA per kg improved to INR 15.9 per kg, up 35% year-on-year. For 9MFY26, the EBITDA was INR 89.6 crores with a margin of 9.2% and PAT for Q3FY26 was INR 15.9 crores, which is up 166% year-on-year and for the 9MFY26 was INR 33.2 crores, which is up 39.6% year-on-year.

Before I conclude, I want to reiterate that the improvement in Q3 is structural. Our mix is shifting to higher value, higher complexity products, plant throughput is improving, and the export pipeline is strengthening. With domestic demand holding steady and giving a good fill up with growth and exports showing early signs of recovery, we believe Nelcast is well positioned for sustained growth and margin expansion. With disciplined execution, we are confident of building a stronger, more competitive business over the medium-term. Thank you.

Now I would like to open the floor for questions.

Moderator: The first question is from the line of Kunal Patel from Equilligence Capital Advisory.

Kunal Patel: Congratulations on good set of numbers. Sir, two, three questions from my side. First is in our commentary, we mentioned that margins improved because of cost optimization and product mix. So, two parts to it. First, if you can elaborate on the products that had higher margins this quarter, what kind of order book that we have and margins, if you can comment on?

And the second part to this question is how much of this cost optimization is sustainable? Can you quantify it in EBITDA per kg of INR 0.50, INR 1 per kg, what kind of cost optimization that we have done? So, first question is that.

P. Deepak:

Okay. So, I think in terms of the product mix, there has been a slight improvement in our Pedapariya plant. We expect much more improvement to happen in this upcoming year. So, I think the larger castings, the mix has gone up, and that's something that is helping us over there. The other advantage, I would say, also that we got in this quarter is in terms of softness of raw material prices. So that's something also that we have seen.

And in terms of the structural things that we have done, we have actually done a lot of optimizations in terms of power as well as in terms of productivity. So, there's a lot of things that we have worked on, especially Q2 and Q3 when we did see the slowdown, I think we took that as a great opportunity to focus on a lot of these things and make structural changes happen so that there would be sustainable improvements. And there's still more improvements that are planned that are still ongoing.

Kunal Patel:

In terms of order book, the large casting mix that we have, so can you just quantify what kind of order book we have for large castings or even the percentage of the total order book that we have?

P. Deepak:

So, if we were to look, let's say, 2 years or so, the large castings, we believe would probably translate to about maybe 10% or so of our overall revenue in about 1.5 years to 2 years' time.

Kunal Patel:

Okay. And what is our current order book?

P. Deepak:

So, I mean, currently, it's much smaller. Currently, it would be only 3%-4% kind of range. So, we will see that in addition to overall growth happening.

Kunal Patel:

No, no. So, our total order book that we have.

P. Deepak:

Yes. I mean, it's a little harder to project that out because it can vary from month-to-month depending on market schedules. I mean if you were to look at the last quarter, I think from a tonnage perspective, we were at about 22,980 tonnes.

So approximately, that's the tonnage of sales that we did and production was almost similar at 22,550 tonnes. So that's the quarter's order book that was there. But because of seasonality and all of that, there is fluctuation that happens. But there's a good order book of new business wins that's in the pipeline.

Kunal Patel:

Okay. Sir, what is our volume target for current year and next financial year?

P. Deepak:

Yes. So, I think if you look at the current year, we're looking at a number that might be close to about somewhere between, let's say, 88,000 and 90,000 tons for the year. That's what we are forecasting right now.

Kunal Patel:

Okay. And next year, sir?

P. Deepak: So, I think it's a little early to talk about next year, again, it depends on a variety of market forces. But I think next year will be an interesting year because we have a lot of new product launches. So, there's a potential 1-month delay here and there could have an effect. But I would say at the absolute bare minimum, we are absolutely confident of at least 10% growth, and we think that we should be able to easily beat that if all of the projects fall into place without any delays from our customers.

Kunal Patel: Okay. And lastly, sir, one final question. What would be our exit EBITDA per kg this year? And given the order book or the product mix that we have, what would be EBITDA per kg next year?

P. Deepak: So, I right now, what we are looking at in this year, if you see in the current quarter, we were at roughly about INR 15.9 per kg. I think we expect the fourth quarter might be largely in line with it. There's a variety of factors that we also have to see, which is the prime factor, I think that we'd be concerned about on this is raw material prices.

We are seeing some trend of increase in raw material prices. So that's something we just have to watch out for a little bit. But I think we feel that this level of INR 15 per kg should be maintainable given the positive sentiment that's in the market right now. Next year, I think we'll work on improving that for sure as well.

Moderator: The next question comes from the line of Ajit Sethi from Eiko Quantum Solutions.

Ajit Sethi: Sir, as we are expecting good CV momentum going forward, along with export recovery, and we will also be manufacturing high value-added castings going forward. Can we expect the EBITDA per kg to increase to around INR 18 to INR 19 per kg by FY27 or FY28?

P. Deepak: So, I think if you look at all of our previous conference calls, we've always been talking about this goal of getting to INR 15 per kg. We believe we're almost getting there. And I think now we believe we are largely there, right, in a stable market. There will be certain quarters that will be slightly better.

There will be a few quarters that's worse. So, we are at that INR 15 per kg. We will be working on our plan over the next 3 years or so that we'd be working on seeing how we get that INR 15 up to INR 17-18 per kg kind of a time frame, in the next 2 to 3 years, that would be where we could see margins go.

Ajit Sethi: Okay, sir. So, can we expect our existing utilizable capacity of 130,000 tons to be fully utilized by FY28?

P. Deepak: I think we will see perhaps that towards the end of FY28. So maybe our exit at FY28, we might be close to fully utilized. So, from a full year perspective, full utilization would probably be FY29. But by FY28, we certainly believe that when we exit FY28, we will be on track for that. That's our belief at the moment.

Ajit Sethi: Okay, sir. So, what are your future capex then once this 130,000 capacity is fully utilized?

- P. Deepak:** So, we haven't started working on that yet. Our focus has been on getting this to utilization. Whatever project that we do will have a lead time that is about 12 months or so. And so, we will take that call at the appropriate time, perhaps at some point in a year from now or so, we will do our evaluation and take that call.
- But at the moment, there is nothing in the pipeline. It's too early because we will have to also look at the kind of product mix and a lot of other things in terms of deciding what kind of investment would need to be made.
- Moderator:** The next question comes from the line of Maitri Shah from Sapphire Capital.
- Maitri Shah:** Firstly, if you could mention the differential between the EBITDA per kg in the small casting and large casting.
- P. Deepak:** Sorry, can you repeat the question? Your voice was a little garbled at the beginning.
- Maitri Shah:** Yes, the EBITDA per kg differential between the small casting and large casting products.
- P. Deepak:** Sure. So, the reality is the small and medium castings that we do, it's a fairly competitive market. So that EBITDA per kg would typically range from anywhere from as little as INR 10 all the way up to INR 20, within this. Again, depending on complexity, depending on competition and a variety of different things.
- Largely in the domestic, it's roughly around INR 10 and maybe a little bit more now and exports is getting closer to about INR 20 or so. But when we look at these larger castings where there's a little less competition, I think the learning curve is a little steeper, so we might not realize it immediately.
- But as we stabilize production, we would think that, that number would be much higher, maybe even INR 25 or something higher than that also. But at this moment, very hard to put a finger on it right now because in many of these new products, there is a learning curve that we have to go through.
- Maitri Shah:** Correct. Yes. So, you did mention the export differential as well. So, are we exporting any of our large castings currently? Or this is just a domestic market that we're catering to?
- P. Deepak:** Currently, we are not exporting any of the large castings, but there are large programs that will get into production in the upcoming financial year, FY27, that we will have quite a few that will go into production.
- Maitri Shah:** And the new products that are supposed to be launched, like you are ready to launch in FY27 are only large castings? Or are we also launching the small and medium size?
- P. Deepak:** Yes. I mean we have a whole portfolio of parts that will get launched this year, but the big volume and the big launch will be the larger parts, but we also have several smaller parts as well.

Maitri Shah: Okay. That's great. And the exports were a bit muted this year probably because of the tariff. So, are we expecting a higher percentage of exports going for FY27? And if you could set any target for what this number could be?

P. Deepak: Yes. So yes, you're right. I mean the exports were definitely muted due to the tariffs, but I would say more of an indirect effect. What I mean by that is we did not actually lose any share of business with our customers. But the end the market as a whole, if you look at the truck market in the U.S., which is a big part of our revenue.

So, the truck market in the U.S. actually dropped quite substantially, especially in the second and third quarter. And as a result of that, because the entire market was down, the demand for product, the pipeline was also full. The demand for product was reduced, and therefore, whatever we've experienced is a result of that.

So that's more of a structural issue in the U.S. because of these tariffs, having an overall impact on trade and even manufacturing. I think some of the manufacturing data in terms of jobs coming out of the U.S. has not been very good also even recently. So, there is definitely challenges. The market itself is facing. The positive news is that our customers with a long-term view have not really impacted us in terms of trying to find other sources or anything like that.

So, we do expect this year that there will be some bounce back. I think there's been quite a bit written about that, that I have been reading of a potential bounce back of the heavy truck market given that there's some emission norms change that's going to happen in 2027. So maybe some amount of prebuy effect might drive it.

Potentially the new Fed chair cutting rates might stimulate things. But overall, we expect the sentiment of the same product year-on-year to be positive, especially considering the second half of the calendar year being a very, very low base for them. So, we expect growth to happen there.

And like I said, we've got a lot of new products that are launching in this year. Timing is a little bit flexible, so it's harder for us to project. But certainly, I believe we'll get back to reasonably strong growth. And I think we should see most of the effect of whatever we have done in towards Q4 of next year actually showing the real picture.

Maitri Shah: Okay. That's great. And I would say the products that we're catering to are in multiple different sectors like commercial vehicles, railways. So where do you see most of the traction coming from? What kind of segment is the one you're getting the most orders from and like the one that's filling the order book right now?

P. Deepak: So actually, the segment that we're seeing the most amount of growth is actually the large and medium tractors where there's a lot of components that are large and heavy. And in the U.S., they've either typically gotten these from China or even if it is from China, typically from suppliers who are producing these in a more expensive process called the no-bake process.

So, that's something that's where we are seeing a lot of traction in terms of new business. And then we're also developing many products which are the rear axles of heavy trucks. So that's something that we had envisaged when we had set up this larger, more complex line to be kind

of probably the highest volume of what we do there. It hasn't materialized yet, but it is very much materializing before our eyes right now as we speak.

Maitri Shah: Also, these margins going forward would be sustainable if that can be taken, barring if these raw material prices do increase, that can cause an impact.

P. Deepak: Yes, exactly, right. So, other than some fluctuations in raw material prices, which go up and down, and there's typically a quarter lag between when we get it and when we pass it on, both positive and negative, we believe that we should be able to hold these margins in a normal market.

Maitri Shah: That is great. And you did mentioned the current range of 3% to 4% large castings to 10% in 1.5 years or 2. So can we expect a close to 7%, 7.5% contribution from these large castings?

P. Deepak: Yes. Sorry, I think your voice was a little garbled, but I think you're talking about the growth coming from large castings, right?

Maitri Shah: Correct. Yes.

P. Deepak: Yes. So, on the large castings, yes, we believe that these would come to about 10% plus of our overall revenue in the next couple of years.

Moderator: The next question comes from the line of Kairav Sundar from Spark Capital.

Kairav Sundar: Congratulations on a great set of numbers. I want to check with you on the signing of the EU trade deal and how it will help us? Or do you think it will help us in slightly hitting the process of entering the market?

P. Deepak: Yes. So yes, maybe I can touch on both the EU and the U.S. trade deals a little bit. So, the EU trade deal is positive, but I would say it's probably a mild positive. When we look at EU, EU previously used to have tariffs of about 4.5% or so on the type of components that we supply. Now this tariff was put on hold during COVID. And I believe that, that hold was supposed to expire this year. So now this keeps us at zero and doesn't push us to that 4.5%.

It also, helps in terms of new business, especially with clarity that there will be 0 tariffs as against potential tariffs that might come into the future. And certainly, between that as well as where the FX rates are at about INR 105, INR 108, INR 110 to the euro, somewhere in between that now in the recent months, we think that the opportunities that are there in terms of being able to win business in Europe have also gone up quite significantly.

Now regarding the U.S. trade deal, it's still a little bit unclear. So, all of the products that we export to the U.S. today all fall into a Section 232 tariff. So, none of these go into the reciprocal tariff, the ones that are going today. So, these have all not been at 50%. But since November, at least the heavy truck parts also have been at 25%. The automotive parts have been at 25% since April. So, there's not a significant change that's there. It's a little unclear in the wording whether the Section 232 will remain at 25%. The only wording that is there regarding Section 232 is it's a preferential tariff.

Different people are interpreting that in different ways. Some people are interpreting to say it will come to 0. Some people will say it will be at 18%, some people say it might be at 25%. So, there's still some ambiguity there. But whether it is 18% or 25%, I don't think that really moves the competitiveness needle too much. Ideally, we want it to be as low as possible. But I don't believe that that hurts the business, changes the business case dramatically. So, it helps for sure, but I don't think it's a substantial help.

That being said, a lot of the new products that we are developing now are going into the tractor segment and the construction equipment segment in the U.S., those would have been at 50% once they got into production later this year. So those are now will be at 18%. So that way, it's a huge benefit to some of the newer programs that we are launching either directly or indirectly through our customers.

Moderator: The next question comes from the line of Praneeth, an Individual Investor.

Praneeth: First question regarding the overall EBITDA per kg because I understand that the lower raw material prices have helped. Could you quantify on how much of the improvement from, let's say, INR 11.5 to INR 15.5 was a result of what? Because I want some more clarity on what did the cost optimization help us there. And did we also start passing on few costs that we used to absorb? Like could you just give some more idea on what happened exactly?

P. Deepak: Yes. So, there was a small drop, in raw material prices, perhaps somewhere between INR 1-1.5, in that range is the actual effect of the raw material prices in the last quarter. And I wouldn't say it's the biggest chunk of it. The biggest chunk, came out of better operational efficiencies as well as better capacity utilization also in comparison, especially to the previous quarter.

Praneeth: But in terms of tonnage, it is not substantially different, right? So, I was wondering why.

P. Deepak: So, in terms of tonnage, when we compare the second quarter of FY26 to the third quarter of FY26, our production quantity went up from about 20,780 to about 22,550. So, there is a jump that was there on a quarter-on-quarter, sequential basis, about 8.5% or so. So that was certainly a positive as well.

Praneeth: So can we expect substantial jumps as because increase production also because with 8%, we almost increased by 15% to 20% in terms of our EBITDA. So, will that be the same case as we continue to grow from, let's say, 88,000 to 90,000, let's say, 100,000 tons?

P. Deepak: So, I don't think this kind of a jump will happen to the same extent with the better operating leverage. Like I said, third quarter did benefit from slightly better raw material prices. And second quarter was also a little bit of a transition quarter because if you see from first quarter to second quarter, we did have a dip.

So, we were carrying some of those a little bit more heft coming into the second quarter given that there was a lot of uncertainty that was happening. So, I think that way, we won't see such a big jump, but certainly, we would expect to see continued improvement as we ramp up.

Praneeth: Understood. And I understand that you've given revenue guidance, but could you also give volume guidance in terms of where we are at today in terms of domestic and exports? And how are volumes of, domestic is going to grow versus export is going to grow because the prices can be affected by several factors, especially with export of freight charges, the duty like whatever it is. So, could you give some volume guidance specifically?

P. Deepak: So, the 10% that we talked about at the very minimum, is the volume guidance that you can take. I think if you look at the current year, I'd mentioned already that we're looking at about 88,000 to 90,000 tons that we expect to finish this year at. So far, this quarter looks quite strong with especially the M&HCV momentum that's there.

Typically, it's a little harder to project because towards the second half of March, there people start focusing on what their year-end inventories look like. So, there might be the last 10 days of March might be a little weaker. So, it's a little harder to project that, but we think this 88,000 to 90,000 is for sure.

And we think next year at a minimum, we should be able to do 10%, driven by both domestic as well as export. Export, we are holding off on projections mainly because we see some uncertainty with new product launches as well as with this emission norm change that's going to happen in the U.S. and potential prebuy effect. So, it's a little muted in terms of what we're giving as commentary, but we expect that if all goes well, we should quite comfortably beat that.

Praneeth: Understood. Could you also explain, in terms of the large castings we already do, which segment do we right now give it to in the domestic market, you mentioned that most of the large castings go in the domestic market. So, is it MHCV or tractors? And could you also explain in terms of domestic margin specifically, which has the highest margin profile? Would it be MHCV, tractors, off-highway among them?

P. Deepak: So off-highway, is probably only 2% or 3% of our revenue, if you look at it. So, I'll just ignore that for the time being. But I would say domestic commercial vehicle is marginally better, but that's also because the complexity profile is a little higher because most of what we do in commercial vehicles are ductile iron castings versus most of what we do for tractors are grey iron castings.

So, the margin profile, is marginally lower on grey iron because the complexity level is also marginally lower. But even within the grey iron, most of the components we do for tractor are heavily cored and require a lot of core assembly. So, they would be on the more complex side of that. What was the other part of your question?

S. K. Sivakumar: Large castings

P. Deepak: So, at the moment, we're doing more of the larger castings going into the commercial vehicle segment in India and not as much into the tractor segment. Because majority of tractors manufactured in India, probably all of the tractors manufactured in India, are probably a sub-100 horsepower range. So many of these bigger castings don't necessarily fit into that profile.

Praneeth: Understood. And one last question regarding Europe. So, I understand we wanted to start Europe with specifically MHCV. So, do you think tractors might be a much better opportunity at this point of time? Could you explain that since we are entering into the tractor market, and you have also given guidance that tractor might be a much higher growing segment at this point of time.

P. Deepak: So yes. So, Europe, there are opportunities in tractor that we are evaluating. From a volume perspective, the focus is a little bit more on the U.S. because of the opportunities that we have. But no doubt, even in Europe, there are some great opportunities that are there that we are exploring. But we'll keep working on it. And it's not that we don't want to do the tractor.

We see that the opportunities, especially in the M&HCV space in Europe are very strong, mainly because a lot of the local European foundries are struggling with their financials, struggling for labour, struggling with energy transition, a lot of things. So, there's a bigger pie to be taken more easily, I think at the moment is more of the commercial vehicle. But that being said, we are not ignoring tractor.

Praneeth: But in terms of Europe, specifically a little macro, in terms of castings, did you actually see capacity shutting down? Or is the fact that because they're settling, you expect it to come?

P. Deepak: No. We've actually seen over the last 2 years, we've seen actually capacity close down. It's happened in smaller bits. There's been one or two that have gone into administration, which is basically the equivalent of a Chapter 11. It's unclear whether they will continue or close down also, but there have already been some capacities that have closed down. We are aware of at least 3 maybe small to midsized foundries that have closed down.

Praneeth: Which will directly, let's say, product which we can take over those types of foundries.

P. Deepak: Exactly. So, we have been awarded one of the businesses that came out of one of these foundries. So, it's going to happen. And in other cases, it's a risk mitigation. Here, it is a real need. So, while the volume of that business might still be small, it's a great opportunity to get into that market and prove yourself to be a capable supplier.

Praneeth: So basically, always it will not be from resourcing from China. It will be mostly resourcing from, let's say, local destination to us. That will be the way for us, I think?

P. Deepak: Yes. I would say that's probably right, what we expect. And of course, when they are doing the resourcing, they will look at everybody. And I think from a geopolitics standpoint, there is definitely hesitation in trying to source from China.

Praneeth: But has there been any specific parts that they were resourced from China apart from the 500 kg part you're planning on getting into production right now?

P. Deepak: Yes. In the U.S. market, yes, those parts are today made in China, and those are being resourced to us. The European market, no, not yet.

Praneeth: But do you see, let's say, in terms of the casting activity in the U.S. also, there's been a lot of consolidation, but the thing is larger factories are also becoming more optimized and growing

larger a little bit with the fact of putting up large plants. So, I was just wondering how does the company see that particular activity there in the U.S. Will it continue to expect the growth from the U.S. or how is it going to work?

P. Deepak:

So, at this point, we are seeing actually a fairly good amount of growth coming from the U.S., which will happen, I believe, in the next 2-3 years, we should still see a good amount of growth coming from the U.S. And a lot of that is also driven by from a cost advantage that's still very much there. I would argue that if you buy the same castings that we do, if you buy these castings locally within the U.S., you would probably be paying about 40% more.

So that being said whether it's an 18% or a 25% tariff, I don't think it really changes the decision. But it certainly will continue to be opportunities for us to grow in the U.S. And like I said, with the European thing, we see, given the overall market environment, given the pressures that they have, especially around sustainability as well, we think that there's some very large opportunities that will come.

But we have to do our time. We have to take the small opportunities. We have to prove ourselves, and have to be there in that position when the large opportunities come to grab them. So that's where we believe we are.

Moderator:

Mr. Praneeth, you may rejoin the queue for the follow-up question. The next question comes from the line of Kashish Gogar from Prabhudas Lilladher Asset Management.

Kashish Gogar:

Yes. I'm just saying that could you walk us through aspects that would improve cash conversion over time?

P. Deepak:

So, in terms of cash conversion, I think the main effect that's there is a mix of domestic and exports. So, as we have quite a bit of exports and that's been growing, our net working capital cycle has gone up because of that.

However, a lot of the newer programs that we are launching with export customers, we are targeting to receive the payment within 60 to 90 days as against currently, all of our exports are typically closer to about 150 days. So, that is an area we are actively working on, and we do expect improvement to happen there.

Moderator:

The next question comes from the line of Prashant, an Individual Investor.

Prashant:

Yes. So, a couple of questions. One is that you have guided that this year, we may be around 80,000 to 90,000 tons and next year would be 99,000 tons, which is a 10% increase. Am I also to infer that next, the pricing would be the same, and we will not be able to take a price hike or a price revision next year?

P. Deepak:

So, the pricing as per the formula does have increases and decreases every quarter based on raw material price movement that happened in the previous quarter. So that will continue as is. There's no change in that. But we will not be taking an inflationary price hike, at least that's not the intent at the moment, that we will take an inflationary price hike on any of the existing products.

- Prashant:** And is that because of a commoditized nature of the product or intense competition or trying to get market share? I mean, just trying to understand why we would not push for an inflationary price hike or anything of that sort?
- P. Deepak:** So, that's something that I think more or less is an industry standard. If there is something that is real, we've always gone back and gotten from customers. When we've seen the huge hike that happened in terms of freight cost, when there's some increase in power, these kind of things we do.
- But for a lot of the other things like, for example, labour costs and things like that, we typically work on our productivities to manage that part of it. But in terms of any raw materials, power as well as freight, things like that are beyond our control. In those cases, we definitely go to the customer and recover those costs.
- Prashant:** Understood. I mean, so price hike that would help in margin expansion. That kind would not be possible in the next year, is my understanding correct?
- P. Deepak:** Yes. I mean, typically, unless there is something that's gone completely out of whack in terms of pricing, we don't typically do that. But yes, some of it is also you don't want to leave a bad taste in the mouth. It's important to protect the share of business and all of that.
- Prashant:** Okay. In the presentation, you have mentioned that, I mean, our capacity is 160,000 and with minimal investment, it can be increased by another 50,000 tons.
- P. Deepak:** Yes.
- Prashant:** Yes. If we were to do that, I mean, what would be the capex required for increasing the capacity?
- P. Deepak:** So, it will depend a little bit exactly on the product mix and all of that. But roughly, it would be a INR 40-50 crores kind of an investment to get to unlock to the full capacity.
- Prashant:** Okay. And our energy costs are for the 9 months of INR 38 crores, and it is an energy-intensive industry. What would be the share of renewable energy out of our total energy consumption as of now? What are our plans to increase that, if at all? And what capex or investments anything guidance that you can give around that?
- P. Deepak:** So, we are currently at about 70% renewable energy. I would undoubtedly say that this is the benchmark in the world. I don't believe there's anybody else in our industry of this size and scale in these kind of products that is anywhere close to this number.
- So, we have already made a lot of these investments, and these investments are bearing fruit. But our goal would be to push this closer to 80% and to get there, obviously, on a growing denominator, in terms of our power consumption, which will continue to grow as we grow the business.
- Prashant:** And so, this going to 80%, I mean what...
- Moderator:** Mr. Prashant, you may join the queue for the follow-up questions.

- Prashant:** Ma'am, this is just an extension only. This is not a fresh question.
- Moderator:** There are participants waiting, sir. Your next question comes from the line of Saket Kapoor from Kapoor & Co.
- Saket Kapoor:** Sir, you mentioned that for this financial year, we are expecting tonnage in the tune of 88,000 to 90,000. So, what is our number, currently for the 9 months?
- P. Deepak:** For the 9 months is..
- S. K. Sivakumar:** 65,378 production, 66,270 sales qty.
- P. Deepak:** Yes. So about 65,380 is the production quantity and 66,270 is the sales quantity.
- Saket Kapoor:** Okay. So, we will be in the vicinity of this 22,000-23,000 per tonnage we can envisage for Q4 also.
- P. Deepak:** Yes. I think Q4, our expectation this time will be slightly better than Q3 in terms of volume.
- Saket Kapoor:** Okay. Sir, I would just quote you from your press release. Firstly, sir, in your presentation have mentioned about recalibration of costs. So, you said that a recalibration of cost that is a permanent in nature? And if you could just quantify.
- And in continuation to that, you have also written about a key highlight this quarter is the progress on our high-value product pipeline, particularly from Pedapariya facility with commercialization plan from FY27. With domestic demand, CV demand expected to stay strong and a robust product roadmap under execution, we are poised for sustained growth and margin improvement.
- So, if you could just dwell on the aspect and why I was asking sir, the variation in our earnings on a quarterly basis surprises us on both sides. So, if you could just give us some understanding how are we modelling our business as such so that we can also have predictable and similar trend in number, not the type of variation that we see currently. These are my points, sir.
- P. Deepak:** Yes. So, if you look at some of the things that we have done that are structural and that will remain even beyond the quarter is we've actually done an optimization of power. So, we have been able to increase our production with the reduction in our maximum demand charges that we have with the state electricity boards by doing some optimization and some structural changes in terms of how we operate.
- So that's actually one area where we've saved cost, and that will continue. Even at higher production levels, we are able to maintain this with a lower maximum demand. The second is in the area of productivity. I think we focused quite a bit. Used the opportunity of the slowdown to focus quite a bit in terms of our productivity, in terms of output per person and how do we optimize layouts and things like that. And we did a lot of that activity as well, especially in Q2.
- So, we believe both of these are things that will continue to give us benefits even beyond what we might have seen in the third quarter. And especially on the productivity side, there are a lot

more things that are planned that are still ongoing. So, we believe that will aid in some of the margin expansion that we are targeting. And I think the other thing is we're seeing pretty good volume increase also in the domestic side.

I think the GST cut has really given a big push to both tractor as well as commercial vehicle. We're a little uncertain about the exact effect, when we last spoke about 3 months ago, but the effect has definitely been quite pronounced in these last 2 months, especially since we saw M&HCV really take off towards the end of November and December, and we're still seeing it remaining strong.

Now is this a structural shift? Does it move up? Time will tell. But we think that overall, the prices have come down for new vehicles, which makes them more attractive. M&HCV came down from 28% GST to 18% and tractors came down from 12% to 5%. And of course, I think the expectation is, it will stay there for the foreseeable future. So, that's positive. And then definitely, a lot of these new products that are launching in Pedapariya, we're getting to that end stage.

Many of them are in customer testing. Some of them have completed approval. So, we have a lot of this happening and the ramp-ups will start in the next few months and quarters. So, we think that by Q4FY27, we should have most of these products ramped up with some more that will get launched the following year as well. So, we are quite excited about that.

Saket Kapoor: Right, sir. And in terms of the variation that we see in the earning aspect, sir, with the type of processes and recalibration, sir, what should be the way forward?

P. Deepak: So, the raw material part of it will create fluctuations, which I think we had multiple discussions on this topic, especially in FY22 and FY23. But the raw material part will have its fluctuations, which will impact earnings on a quarter-on-quarter basis. I think the sudden drop, especially in the export markets and the recalibration that we had to do, impacted us negatively in the second quarter, but that's probably a one-off thing that we hope we won't really see too much of going forward.

Saket Kapoor: I didn't get you, sir. Last two statement on export and quarter two impact.

P. Deepak: Yes. So, because of the sudden drop in export with the U.S. tariffs and all of that and a lot of uncertainty, the impact of the effect was much more pronounced and exaggerated. Probably very unlikely we will see something like that again.

But we will see raw material-based things going up and down. I think the question is more about what the baseline is that it goes up and down from. And I don't think it will be that big a swing as what we've seen between second quarter and third quarter.

Saket Kapoor: Sir, can I ask a question on export or I join the queue, madam?

Moderator: Sir, you may rejoin the queue.

- Saket Kapoor:** On your export, sir, if you could just throw some light how the revenue have been for 9 months and going forward? That's all.
- P. Deepak:** Okay. On export, the revenue for the quarter was about INR 86 crores, which is compared to second quarter, which was INR 79 crores growth. But obviously, on a year-on-year basis, a fairly big degrowth. Actually, last year, third quarter was poor in exports and then bounced back in fourth quarter. But for the 9MFY26, it was INR 280 crores. For the full year last year, export was at about INR 445 crores, was about INR 318 crores for 9MFY25.
- Moderator:** The next question comes from the line of Praneeth, an Individual Investor.
- Praneeth:** Yes, I just was trying to understand in terms of with us scaling from the 80,000 tons to 130,000 tons, what kind of EBITDA improvement this extra adding this capacity would lead? I was just wondering about that.
- P. Deepak:** Yes. So, we believe that the EBITDA at that scale would be about INR 18 or so per kilogram on a blended average.
- Praneeth:** So hypothetically, let's say, exports were not to scale substantially from the existing levels where remain at like around 40%-50% levels. So, do we expect it to grow like just with the existing mix, do you think it will reach INR 18 or with exports, it will grow from there? I was just trying to get more perspective on that.
- P. Deepak:** It's just based on the general mix that we have that we think that INR 18 is what we should be able to achieve.
- Praneeth:** Today's mix, right?
- P. Deepak:** Yes. With a little bit of a forecasted mix and some of it as unknown. We are forecasting some mix based on new export business that we've got as well as new domestic business that we've got plus growth in the domestic market as well. So just using a, fairly conservative forecast, we think that that will get us to about an INR 18 plus.
- Praneeth:** Understood. But I understand that there has been multiple times the management has guided that you would like the mix of 50% export, 50% domestic. So, would there be ever a case that exports can grow more than the domestic business? And will the company be willing to have that kind of mix?
- P. Deepak:** Yes. I mean, our goal is to grow. If we get the best opportunity, wherever we get the best opportunities, whether that's domestic or export, we will definitely want to exploit those. So yes, if the export market continues to grow at a very strong rate, then there's no sanctity of saying that we will not exceed 50%.
- Praneeth:** Got it. And last question regarding your receivable days, you mentioned that it used to be around 150. Now it's coming down to 60 to 90. What is the reason, are we taking any margin cuts to pay earlier? Like could you explain why...

- P. Deepak:** So, the existing business, which is around close to 150 will remain at the same 150. It's the new business, the new customers that we are negotiating with, so for those guys, we have now negotiated better terms while we are starting the first business itself. Normally, the challenge is once you're already established a baseline, you can't really come down in terms of the days. But before establishing the baseline and it's a new customer completely, we are negotiating hard to establish a lower baseline in terms of receivable days.
- Praneeth:** But how do you see them being receptive regarding it? Because that's a substantial hit to that working capital also, right?
- P. Deepak:** Yes. See at that point it's a lot easier because they are looking at it as an overall picture. They're looking at their cost savings and they're looking at their hit to working capital. So, it's a lot easier sell to make at that point of time as against later. Because the cost savings has already been realized. So only the hit to working capital is there.
- Praneeth:** So, we're actually pricing a small price cut like what are margin reduction so that we'll get the money before. Is that the right understanding with new orders?
- P. Deepak:** Not really. I think it's more of a pure negotiation in terms of negotiating harder. It's just about setting the baseline and the benchmark.
- Praneeth:** But with existing customers, even though we start up new contracts or increase the sourcing, it's unlikely to go down from here.
- P. Deepak:** Exactly.
- Praneeth:** But do we see a substantial change to happen because we already have onboarded the largest customers in the world already are on our books. So how much do you think this will make a substantial impact to our customers in terms of exports?
- P. Deepak:** I think it will on the growth side of it because while we have many customers, there's still many more that we are going after and trying to get. So, it's something that, how big the impact is, how it varies over time, very hard to project, but it is something that we are actively working on.
- Praneeth:** Understood.
- Moderator:** Mr. Praneeth, due to time constraints, we have reached the end of Q&A session. Thank you very much. Ladies and gentlemen, that was the last question for today. I would now like to hand the conference over to management for closing remarks.
- P. Deepak:** Thank you, everyone. Thank you very much for your interest in Nelcast and for all the wonderful questions. We continue to be focused on our execution, and we hope we can deliver many more quarters of great results. I also want to apologize for the technical issue that was there at the beginning of the call with the Chorus team, which slightly delayed the start of the meeting. But thank you all very much for your patience and your questions.
- Moderator:** Thank you. On behalf of Nelcast Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.