“Nelcast Limited
Q4 FY2022 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Nelcast Limited Q4 FY2022 Conference Call hosted by Batlivala & Karani Securities India Limited. 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 '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Harsh Gemavat from Batlivala & Karani Securities India Limited. Thank you and over to you, Sir!

Harsh Gemavat: Thank you. Hello everyone. I would like to welcome you all on the Q4 earnings call for Nelcast Limited. We have with us from the management of Nelcast, Mr. Deepak who is the Company MD and CEO and Mr. Sivakumar who is the CFO of the company. So, first of all congratulations to the management on a great set of numbers and with that I would like to hand over the call to the management for their opening remarks. Over to you, Sir.

P Deepak: Thank you Harsh. Good morning, everybody. Thank you for your time and for joining us for this earnings call. Just a few comments I would like to make from my side before I open it up to any questions that there might be.

I am happy to report that the quarter gone by is the highest ever turnover that we have achieved and subsequently also for the year that has gone by, that is highest ever turnover that we have achieved. We achieved for the year a turnover of Rs. 927 Crores. That is the revenue from operations and for the quarter what we had achieved was Rs. 267.9 Crores. For the full year this represents a growth of about 50% over the last financial year, which is quite a substantial amount of growth, and this growth was driven by a couple of things. One was the increased sales realization as well as the increased tonnage for the year. So, the tonnage for the year what we had achieved this year was 71,905 tonnes was the sales tonnage against 58,550 tonnes in the previous year. The rest of the growth came due to improved sales realization from two angles. One is an improved product mix with a greater growth in exports and the second part of it is the pass through of raw material price increases that has happened through the year. So, as a result of that as I mentioned the exports what we have achieved is the highest ever in the company's history Rs. 221.5 Crores. This is substantially higher than the previous year where we at about Rs. 126 Crores for the previous year. There is almost a Rs. 95 Crores increase in export revenue that has happened in this past financial year.

Looking at the margins, the margins in terms of the EBITDA margins for the quarter were at about Rs.10.5 per kg in terms of EBITDA margins and for the full year was at Rs.9.1 per kg, so this is again an improvement in terms of the operating performance in the Q4. In the Q4, there have been a couple of things I have been talking about in the last couple of quarters that have impacted margins, which is the continuous increase in raw material prices and the lag at passing it on. It looked like the Q4 for the first half of the Q4 all the way up until the end of February, we in fact saw a stable raw material prices with a softening trend happening. Unfortunately, once the war in Ukraine had started, we saw a substantial increase in raw material prices so perhaps we could have had better result if not for that unfortunate incident that has happened.

I would like to talk a little bit more about more about the revenue mix from the different segments. In FY2022, the largest segment that contributed to our revenue was the medium and heavy commercial vehicles at 36.7%, which in comparison to the previous year was only 31.5%, so there is an increase in the mix, and this is related to a couple of things. One the recovery that has happened in the M&HCV segment, especially towards the end of the year and second the slowdown in the tractor segment. The tractor segments this year was at 32.2% of revenues in comparison to 40.1% last year. Of course, exports also have grown from about 20.7% to 24% and overall, we continue to see strong demand as we look forward. Q4 specifically we saw good amount of strength in the commercial vehicle segment, so we saw a pretty good recovery especially in the months of February and March. We saw pretty good numbers for the commercial vehicle segment; however, tractor segment demand was quite weak driven primarily by excess inventory that was being held at various tractor manufacturers.

Looking forward a little bit into Q1, we are seeing that medium and heavy commercial vehicles demand remaining strong. Typically, from a seasonality perspective, we normally would see a 20% to 30% dip in commercial vehicles in Q1 compared to the preceding Q4. Fortunately, I can say that we have not seen that happen this year and they seem to be flat and potentially even on an increasing trend, so that is a very positive sign and the numbers that we are hearing from our customers in the commercial vehicle space in terms of what they are forecasting for their production numbers for the next few months seems to be extremely encouraging and we believe that somewhere around 20% or so is the M&HCV industry growth that we will expect to see happening this year.

On the tractor segment, we have seen a huge bounce back of demand starting in April, so there is a lot of good numbers that are being projected by all the tractor manufacturers. April sales everybody was bullish about a 40% increase in the overall market, but they are seeing real demand as well. Some of it is driven by global factors as well an increase in global wheat prices and a variety of other things, but it does look like tractors at least for the next five to six months we are seeing very strong projection in terms of production volumes that all the tractor companies are planning at their factories.

Exports, we believe we will have another strong year. We will see a year of pretty good growth again. This is going to be driven by a couple of things. One there are significant order backlogs that the OEMs in the US have whether you talk about the Class 8 trucks or even the Light vehicle trucks and clearing this backlog, the bottleneck has always been chips. There seems to be an improvement in terms of the quantity of chips available now. The worst of what we saw was perhaps October of last year and things have been gradually improving since then. So, as that improvement happens, the production is going to keep getting ramped up at all of our customers and we believe that is one of the things that is going to drive growth this year on our existing products. In addition to that, we have got several new products that we will be launching over the next six to nine months and that we believe will help us drive growth to a much higher level.

We are quite excited about what this current financial year holds, and we are happy that we were able to end the previous financial year with a pretty good growth of 50% as I said, and we are hoping that we will be able to deliver strong growth in the current year as well and that is all I have in terms of my comments. I will be happy to take on any questions that there might be.

Moderator: Thank you, Sir. We will now begin the question-and-answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. We have the first question from the line of Archan Pathak from Centra Advisors LLP. Please go ahead.

Archan Pathak: Good morning, Sir. Just one question regarding your raw materials. As you might be aware the export duty was leveled on the steel and that may lead to reduction in the steel price. So, just wanted to get an idea as your main raw material is scrap steel which you acquire from the domestic producers, so are you going to benefit out of the lower steel prices if it happens in that way?

P Deepak: This is all new information. All information came in over the weekend in terms of the new export tariffs as well as the removal of certain import tariffs on raw materials that happened over the weekend, so it is still relatively new news. I can tell you what I think would logically happen. I do believe that there will be a reduction in steel price, that is happening, but it is still early days to figure out what the quantum of that reduction is going to be. Since we do have a pass-through mechanism for raw material prices with a lag, I mean whatever lag to some degree that has been hurting us a little bit with the continuous increases that has been happening. As this reduction happens, there will be a marginal short-term benefit similar to the kind of negative impact that has been there. It will help us in the short term, but in the long term a lot of this will get passed through to the customer as well. What we would ideally like to see in the long term is the stability in terms of raw material prices. That is the most important factor that we would like to see but certainly a reduction in steel prices will impact a reduction in steel scrap prices, which will give us some short-term benefits, yes absolutely.

Archan Pathak: Okay Sir, thank you and just another question. How is the Pedapariya ramp up going on? Is it done now? What are the tonnages we are able to get out of there?

P Deepak: The ramp up is still going on. We have got lot of new products that we have developed and some that are still under the final testing. If we look at how we did in terms of a full year basis, we were at about 16% to 17% was our utilization for the full year, whereas if we come towards where we were at the end of the year, the Q4, that number was closer to about 25% or so. We believe that we should be able to get that plant by the Q4 of this year somewhere between 50% to 60% or so utilization and that will make a big difference in terms of our absorption of fixed costs and the bottom line.

Archan Pathak: Okay Sir, that is it from my side. Thank you so much.

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

Saket Kapoor: Good morning, Sir and thank you for this opportunity? Firstly, coming to the point where you just spoke about Pedapariya capacity moving up to 55% to 60% by Q4 end of this year, so what is the nameplate capacity currently sir and how much is the workable number in terms of utilization?

P Deepak: The nameplate capacity that is there at Pedapariya right now is 60,000 tonnes per annum and about 5000 tonnes per month is the nameplate capacity. Realistically, what we believe we should be able to achieve is something to the tune of about 4000 or so right about 75% to 80% is roughly what we believe is a realistic achievable capacity.

Saket Kapoor: Okay and by the end of the Q4 we will be achieving somewhere closer to 2000 per tonne on a monthly basis?

P Deepak: Certainly, that is what we believe we will be able to achieve.

Saket Kapoor: Okay Sir, as you were telling about the raw material price impacts, scrap prices have been trending lower in the last few months or so. Scrap prices, the availability and the price trends are trending lower; is the understanding correct?

P Deepak: No. Actually, it was starting to trend lower, I would say late January and early February we started to see them trend lower. Unfortunately, after the war happened there was a huge spike. There was a sudden increase a fairly substantial increase in scrap prices that had happened at the end of February and beginning of March and then we started to see it kind of stabilize or maybe even marginally soften in the last week or 10 days and now of course with this announcement hopefully that happened over the weekend, price discovery will happen fairly soon. We expect to see a good amount of reduction that will happen now going forward.

Saket Kapoor: Sir when we look at the volume number, as mentioned in the press release, it was 19,389 tonnes for Q4?

P Deepak: Correct.

Saket Kapoor: It was slightly lower than what we did for Q4 FY2021?

P Deepak: Correct.

Saket Kapoor: Your press release, commenting on the performance speaks turn around year for us has been articulated by you in the opening remarks, so if you could give us some more color. What kind of tonnages are we expecting and as earlier also you have alluded to the fact that Rs.12 per kg is what we are looking forward, so by the end of this financial year is the EBITDA per kg of the Rs.12 achievable, Sir?

P Deepak: As you pointed out and we did disclose this in the press release that the tonnage for the Q4 was more or less flat, from a tonnage perspective. Of course, there was increase in export, which helped drive the revenue up a little bit and of course pass through of raw material prices and overall model mix also helped increase the revenue. So, it was a 20% growth in revenue even thought it was almost a marginal or flat kind of a volume number. Now the reason for that if you look at Q4, I alluded to that in my comments is that Q4 was hit primarily by poor demand from tractor industry. What had happened last year was there was a huge expectation of a fantastic year because we are talking about three consecutive good monsoons, we are talking about overall things looking good in the rural sector. All of that was what we were talking about 12 months ago, so there was a huge anticipation of sales that had happened and as a result of this forecast that they had of being able to have possibly their best year ever, again that drove the tractor manufacturers, all of them, to increase their production of tractors prior to the peak season, so that they would have adequate inventory to sell during the peak season. Unfortunately, the peak season sales were extremely poor, so they overall ended up with a whole bunch of inventories and they did not want to build additional inventory, so they all reduced their production numbers quite substantially. If you look at where we were in the in the peak of last year in terms of tractor production at all the OEMs versus what the Q4 looked like. I am talking about production of tractors, Q4 production numbers I believe was something to the tune of about 40% of what it was at the peak. Typically, we would expect it to be around 60%. It was unfortunately because of the factors that I had mentioned it was down to 40%, which was the exact opposite of the year ago. The year ago, the tractor industry production was still quite strong because everybody was coming off a great year. Everybody felt that if they had more inventories, they would have sold more in the previous year because of supply chain constraints. Everybody felt that they had lost market share. A year ago, the tractor industry was going quite strong. This year the tractor industry in Q4 decided that they wanted to reduce their volumes because of certain uncertainty. Of course, we are seeing that change quite drastically in the tractor industry. We are seeing huge amount of demands coming in from the tractor industry that we have seen over the last month to month and a half. There is a lot of demand coming from all of the OEMs, again I guess forecasting a pretty good year this year. From a growth perspective, we believe tractor industry perhaps might grow something to the tune of 10% or so or 8% or something along that line. Certainly, we believe it would be high single digits if not maybe marginal double-digit kind of thing. That is what we believe, is the number that we are hearing. On the commercial vehicles front, we are hearing numbers typically ranging from anywhere from about 17% to 25% and they believe there is still upside beyond that that is possible, so let us see what happens, but we think maybe 20% to 25% is what we believe will happen and based on the demand that we are seeing right now, it certainly seems like it is on the cards. I believe we will beat that and exports also we expect to see strong growth, so reasonably speaking perhaps from a top line perspective, we would expect to see growth that beats the market. If you believe that the market growth that we expect to see would be 10%, 20% and perhaps even in exports maybe 30% or higher we would expect that we would beat that and we would look at a number that is certainly higher than 20% and hopefully much higher than that.

Saket Kapoor: Okay, so a top line in the vicinity of higher than 20% for the year as a whole?

P Deepak: Certainly yes.

Saket Kapoor: Okay Sir, just on the tonnage front, we did 72,905 for FY2022, so depending upon the schedules of the OEM part, what kind of the ballpark number or the trajectory we should end the year with utilization levels at the new facility also ramping up?

P Deepak: Like I said better than 20% for sure. That is what we feel quite confident based on today's scenario. Obviously, there is volatility in the market and factors beyond our control, but based on our visibility today we feel that higher than 20% growth is something that we should be able to target and achieve.

Saket Kapoor: That is what we are seeing in the Q1 only? You have mentioned in your release also that we are seeing very strong demand in Q1 FY2023, which constitute more than 90% of ourselves in all the segments has been articulated here. This is what it is already happening currently so that is giving you the confidence that there is a very likelihood of continuity going forward?

P Deepak: Yes, typically if you look at our history in the M&HCV segment, what our 37 years or so in the industry tells us, is M&HCV if it is strong in Q1, it is strong throughout the year in terms of their production numbers. The only exception that I have seen to this rule is when in 2018 when the axle load norms got changed so there was an external factor that came in and hit us, but otherwise in any other year whenever we have seen a strong Q1 for M&HCV, we have seen a very strong year for the entire segment, so that is a positive sign. Tractor demand also seems to be extremely strong. The production numbers that we are hearing from the OEMs that they are targeting, are to the tune of about 10% higher than they were last year in the first half. Where in the first half actually their production numbers were extremely strong, so we are fairly positive even on that segment.

Saket Kapoor: Right and your outlook on the EBITDA per kg any thought process you want to give? By the end of this year can we move in our long-term target?

P Deepak: What we have talked about of being able to achieve 12, we believe that is still possible. Obviously, there are external factors beyond our control, but certainly we believe that is possible and that is what we will be targeting to achieve by the end of the year.

Saket Kapoor: Sir on the cost front if you would like to share something. As we have seen as a percentage of raw material to sales, it is at around 52.5% for this quarter and averaging to about 48% to 49% earlier. So where is this mix going to get settled and also on the other expenses part and on the finance cost part because we find both these line items significantly higher, although there is an increase in volume, so this is a variable part. Speaking into this account, when is the operating leverage is going to kick in for the company? Q4 onwards we can expect this operating leverage, since the new capacity would be ramped up and would we be having utilization levels of 50%, the operating leverage will start kicking in then only? These were the three observations.

P Deepak: I will answer the last question first. The operating leverage, we expect that this will be a good year. It is not that we will go from 25% to 50% just in the Q4, as we gradually go up, we will start to see operating leverage also benefit us in terms of improvements that we expect to see in margins. Regarding the percentage of raw materials to sales, it is a very difficult question to answer because I do not think any of us a year ago saw steel prices going to this level and I do not know, this kind of volatility and continuous increases are things that I do not think we have ever seen. With that knowledge trying to look forward and say what it might be in a year from now is a difficult question. With that being said, we would like it to be stable. Stability is the best thing for us. We hope that there is some reduction in steel prices. We believe it will happen now with these announcements that have come in from the finance ministry over the weekend and that will give us some short-term benefit with whatever lag that we had experienced with pass through of increases. We had suffered something from it because of the lag so hopefully now with that lag, we will enjoy something from it at least for a short term, but it is very difficult for us to put that into any kind of numbers or direction because honestly, I do not think any of us fully really understands how the steel market is going to go and the scrap market is closely correlated to the steel market and whatever happens in the steel industry. The other question what you had was regarding.

Saket Kapoor: The other expenses and the finance cost parts. These two are also trending much higher. On the finance cost part, I have a couple of bookkeeping and then I will come in the queue to ask my rest of the questions.

P Deepak: Finance cost, one of the things, if you look at the previous financial year, half the financial year around, I think the September 20th or 30th somewhere between there is, when we commissioned the additional capacity at our Pedapariya plant, so some of the finance costs that were classified as preoperative expenses in the first half of last year would have gotten classified under preoperative expenses. So, when you see the difference in finance cost, part of the reason is for that on a full year basis. In terms of other expenses, there are a couple of things; one it is in line with increase in volumes. Second there might be certain other components where we have added the machining operations, which might be outsourced things like that so those also get added both in terms of top line in terms of realization as well as in terms of expenses, so that is the only difference and there is nothing abnormal in the expenses.

Saket Kapoor: Sir on the cost realization part what steps are you taking to reduce your cost of production whether in terms of power and fuel or other costs and I will come in the queue with my follow-up. Please allow me to give an opportunity again. Thank you.

P Deepak: There are a couple of things; one as you mentioned with operating leverage, we will see costs come down. Other than that, there are a variety of things that we always pursue for cost reduction. We have you know variety of projects that we are doing, including in terms of power consumption and optimization of power consumption as well as the cost of the power and variety of things. So, these are all things that we are continuously pursuing, including adding more captive power and other such means. It is difficult for me to summarize everything that it might take me three hours just to talk about that subject. I will try to keep it as short as possible.

Saket Kapoor: Thank you Sir. I will come in the queue for my follow-up.

Moderator: Thank you. We have the next question from the line of Dhiral from Phillip Capital. Please go ahead.

Dhiral: Good morning, Sir and congratulations for the good set of numbers. Just a follow up with the earlier participant, wanted to know so what was the fettling expense for the full year?

P Deepak: The manufacturing and fettling expense for the full, Siva do have that number.

Dhiral: I also have a question on the power and fuel side? You said you are also targeting the captive power, what is the current status right now for that?

P Deepak: Okay. Fettling and other manufacturing expenses for the financial year is Rs. 137 Crores.

Dhiral: Okay and on the power side so what we are doing, as you talked about captive power?

P Deepak: There are a couple of things. One if you look at where we are today, I would say about 55% to 60% of the power that we are consuming. Obviously, it varies from a month-to-month basis in terms of consumption and generation. But 55% or so of the power that we are consuming is coming from captive sources primarily wind and a little bit of solar, so this is our current utilization. We are looking at how we can increase this. We are evaluating various proposals to go through in a group captive mechanism or a captive mechanism.

Dhiral: Anything which we can do in FY2023?

P Deepak: We are working on it. We have signed an MoU, but we have not yet signed the final agreement that should hopefully get done within this quarter. So, at that point we will be in a position to talk about it a little bit more, but we are working on it. We are working on increasing our captive power, which is a two-fold benefit. One is of course in terms of cost, but second is of course in terms of the environment. We would like to have more and more of our power coming from renewable sources.

Dhiral: Okay and Sir what is the status of the new product launches that we were planning to launch in FY2023? Did we launch any new product?

P Deepak: Out of the critical products that we are looking to launch, some of the products that are going into the US market on the light vehicle, all approvals are done. They are in place. Some of the smaller equipment that are required as balancing capacity to meet these are all being put in place. The start of production at our end is going to start perhaps in the month of August and September.

That is when we will really start our production here and start ramping up and from a production standpoint we should be fully ramped up by October and November.

Dhiral: This will be three projects that you were talking earlier or it will be maybe earlier maybe one or two projects that you are talking about?

P Deepak: It is the big projects on the light vehicle that we are talking about. These are the components that are going into the pick-up trucks as well as some of the classic trucks. One of the new products that we are launching is on the classic truck, in fact, we have just started production of it last month. A lot of these products that we are talking about will be in rapidly ramped up production by November. It is not as sizable a project, but we are quite excited, we have got a new order for electric vehicle component a relatively smaller size component only about a 9-kilo component. This will be used in an electric delivery truck, of which I believe FedEx has actually placed a quite a large order of trucks for this so this is also something that we will be productionizing in the current financial year again around that October time frame, so it is exciting to be in the EV space as well for us.

Dhiral: Lastly what is the revenue contribution across the category for FY2022?

P Deepak: 36.7% came from M&HCV, 32.2% from tractors, exports was 24%, off highway equipment was 2.4%, railways 4.4% and others was 0.3%

Dhiral: Okay. Thank you so much Sir.

Moderator: Thank you. The next question is from the line of Pranay Jhaveri from JNJ Holdings Private Limited. Please go ahead.

Pranay Jhaveri: Good morning, Sir. Thank you for this opportunity. I have basically two to three questions. One basically our nameplate capacity is 1,60,000. What is the maximum capacity that can be utilized?

P Deepak: 75% to 80% is what is the maximum capacity that can be utilized out of the nameplate obviously because of efficiencies and all of that. It is not possible to run any manufacturing unit at 100% efficiency, so we believe 75% to 80% is a realistic number right now.

Pranay Jhaveri: Okay and there is a plan of increasing the capacity by 50,000 tonnes as and when required and what would be the capex for that?

P Deepak: The capex for that would actually be slightly smaller. What we are looking at is, the 50,000 tonnes increase we could do it perhaps something to the tune of around maybe Rs. 50 Crores to Rs. 60 Crores. It depends a little bit on steel prices and few other things, how they are in the prevailing markets, but we believe something around Rs.50 Crores to Rs.60 Crores would be the investment that we would require at the appropriate time when we need to do this capex.

Pranay Jhaveri: But we have a long way to go as we are currently at about 72,000 tonnes so to reach to that 125,00 to 130,000 tonnes, we have a long way to go right?

P Deepak: Right and hopefully that will happen sooner rather than later that is what we are expecting certainly with a strong market hopefully this year and next year. We believe that we can probably get closer to that number in the next two to three years kind of time frame.

Pranay Jhaveri: Okay and Sir if you can just throw some light on basically newer customer addition as I think our top three customers contributed about 45% to 50% of our top line, so how do you see that going forward if you can just throw some light that would be really helpful? Thank you so much.

P Deepak: We have actually added a couple of new customers in this last year and year and a half. Two of them are CNH as well as Carraro, so these are both manufacturers. CNH is of course a large global manufacturer of tractors. Their Indian plant is in Greater Noida and Carraro is a manufacturer of aggregates that they supply to the tractor and off highway industry and in India they are based out of Pune. Of course, both of these companies CNH and Carraro are subsidiaries of their parent companies in Italy, so these are a couple of companies that we have added. Again, these are the products that we have added here are the axle housings, which are the longer axle housings for four-wheel drive tractors as well as off highway equipment for the monolithic axle housing. Our entry into the customer happened because these were components that were being imported into India from China because they did not believe and I certainly do not believe that capability to produce those components existed prior to our investment in our Pedapariya plan. Now that we have entered into the customer and we have been approved by the customer, we are now in the process of also developing other components that are their regular components not just these specialty components in terms of size and weight, so that is something that is a good opportunity for us that we are looking to grow on in terms of addition of new customers.

Pranay Jhaveri: Thank you so much.

Moderator: Thank you. We have the next question from the line of V.P. Rajesh from Banyan Capital. Please go ahead.

V.P. Rajesh: Thanks for the opportunity. Deepak if you can talk a little bit more about the export business, what are you hearing from the customers there and what is the kind of growth you expect in the current financial year, that will be helpful?

P Deepak: Rajesh, good morning. Thanks for your questions. It is largely very positive. I actually had a lot of meetings with them over the last few weeks and there is an extreme amount of positivity driven by two things. One there is a huge backlog of orders that is there. The second thing that there is there is some easing. Certainly, they do not have as many chips as they would like but there is an easing in terms of their ability to get more chips to increase their production, so a couple of the products that I will talk about. One of the products that we are going to have a component on is General Motors, the Chevy Colorado platform. On this one we have actually seen the customer has come back to us and has increased their volume. Originally when they sourced this program in 2019, their expectation of volume for this particular project was at 173,000 trucks a year. That was their estimate that they had in 2019. They have now revised that upwards to 215,000, so there is certainly a very good demand that they are expecting and certainly if you were to go to the dealership today and I did this a couple of weeks ago. If you go to a Ford Dealership and you ask them, I would like to order this truck. They would give you a waiting time that might be up to 12 months or they might tell you sorry I cannot take this booking because there is no production slots available even 12 months from now. That is really the extent of the shortage of vehicles in the US and as this chip shortage and other supply chain issues start getting worked out, I believe their production ramp up will happen in a very accelerated pace and that is quite a positive thing. This is what we are hearing from across the industry is that they believe that perhaps towards the end of this year maybe as things will get really accelerated and they expect next year to be an even better year. So, Rajesh I hope that answers your question. We are hearing extreme amount of positivity. Similarly on the Ford Super Duty Program as well, we have seen about a 15% increase in their volume projections over the next five years so that is something that seems to be very heartening for us to see.

V.P. Rajesh: Right, that is quite helpful. What kind of growth do you expect in this financial year given that we grew so nicely to Rs. 221 Crores, could this number be let us say approaching Rs. 300 Crores this year?

P Deepak: This year will be a little bit harder to put a precise number on mainly because sometimes launch of a program can get postponed by a month or a week or it may launch even a week ahead, so there is some possibilities of any of these things, so putting a precise number on this year will be a little bit more challenging. But as you indicated perhaps something around Rs.300 Crores does seem to be possible. We believe that we could be from our current run rate of a little over Rs. 55 odd Crores a quarter. We believe we could be closer to Rs. 80 Crores to Rs. 90 Crores or so next year Q4, but for the full year perhaps something in that range that you mentioned of something around Rs. 300 Crores does seem to be likely.

V.P. Rajesh: Okay wonderful and my second question was that on the margin side, you did mention that we may have a short-term bump because of the pass through. But what is your sense where you will be in terms of EBITDA margin or EBITDA per kilo by the end of this year? The revenue growth will definitely be there and since our capacity will get more utilized therefore you will get some efficiency gains and then the operating leverage also will kick in so if you think about all these three levers then where do you think the margin can look for this current year?

P Deepak: What we are looking at is trying to get it to a number of around 12. I believe that is something that we have been talking about for some time that we believe is achievable when we achieve a reasonable amount of capacity utilization over and above where we are and certainly, there is variety of things that we always work on the cost side of things, but also in terms of volume ramp up, there is a lot of operating leverage that will kick in as we ramp up the volume. Typically, we talk about energy consumption as a variable cost, but the reality is your energy consumption is a lot more efficient when you are running at higher production levels and higher utilization levels because you have lesser stops and starts of the furnaces and things like that, so that is something that we believe, which should help us drive to that 12 number by the end of the year.

V.P. Rajesh: Right, just asking the same question a different way what is the capacity utilization at which level do you think you can get to this 12 EBITDA margin?

P Deepak: If they we running at let us say maybe 1,00,000 tonnes for the year or something like that would put us at a quarterly rate of about 25,000 odd tonnes. We will be able to achieve that.

V.P. Rajesh: Understood. Great thank you so much and all the best.

Moderator: Thank you. We have the next question from the line of Somnath Paul, an Individual Investor. Please go ahead.

Somnath Paul: Good afternoon. Thank you for allowing me to join the call, so I just wanted to know can you just provide some sense on the power cost to sales for the gone by quarter as well as for FY2022 verses FY2021 percentage?

P Deepak: Sure, just give me a second, I will just pull up that number and share that with you. The power cost for the whole year was Rs. 102.6 Crores, that is the whole year power cost that we have done. Rs. 26.91 Crores is for the quarter gone by.

Somnath Paul: Sure, thanks for providing that number. I would just like to also ask who would be our like-to-like competitors or people in the space or whom do you compare with especially for Indian context?

P Deepak: In the Indian context, we actually compete with many different people depending on the customer. Let us say for example when we supply to Tata Motors, we might be competing with a lot of foundries that are located in that Eastern region. Similarly, when we supply to Ashok Leyland, we are competing perhaps with guys who are located either in Coimbatore or in Kolhapur. So, again a variety of different competitors but if you want to look at on the listed space kind of thing, it is very difficult to get a like-to-like comparison because a couple of others in our field that you might be able to see. One would be Kirloskar Ferrous, but they have a very large pig iron business as well, so unless they are able to split those two and a good chunk of their business comes from engine blocks and cylinder heads, which is actually a component that we do not supply and our biggest chunk of business comes from ductile iron, which they do not do, so it is not a very equal comparison to do. In terms of ductile iron, perhaps Mahindra CIE might be one of the companies you could look at, but then again, they have got a very large forging piece of the business that is there. But for us from a competition standpoint, we find a wide range of competitors again depending on the customer and part of the reason for that is because we are a full service supplier, so we are able to do components in many cases that are two to three kilos and going up to components that are even 300 to 400 kilos, so we are able to provide that entire range and produce both ductile iron as well as gray iron. Typically most of our competitors are only in a narrower slice of it and probably more geographically closer to our customers for a variety of reasons.

Somnath Paul: Thank you for providing a landscape overview of things. The name you mentioned first the reason why I was asking you coincidentally I also worked on some numbers provided by Kirloskar Ferrous and I mean just to get some sense on the power cost is to sales you gave numbers as Rs.27 Crores approximately for the quarter and Rs.102 Crores that works out to where around 8% to 9% of the power cost of the sales, I mean somewhere around that figure. Secondly, when I went through specifically casting business, they have a realization of about Rs. 90 to Rs. 100 per kilo whereas we have a target of Rs.100, even though I do not consider the backward orientation where we do a lot part of pig iron and lot of economy, but still I think a 10 times difference is quite big and especially on the power cost as well when we are considering we are doing 55% of renewable energy sourcing, so would you want to throw some light on what are the gaps or how should I perceive it if I am not reading it correctly? Thank you.

P Deepak: I cannot speak necessarily for them, but I can just tell you what my understanding is a little bit of what I understand, so please do not consider this to be perhaps the most accurate information you might need to do your own research on this. One of the things, so as part of their pig iron manufacturing and they have a blast furnace where they do cogeneration and generate some of their own power. The other thing is some of the pig iron that they are creating they are able to utilize that pig iron as liquid metal, so they have certain benefits that they are getting out of that so that is my understanding of them and of course, as I mentioned between our mix of ductile iron and their mix of being entirely gray iron, there is a difference in the products that we make between us so it is a little difficult to compare precisely.

Somnath Paul: I understand. There is a lot of points you have shared, so basically the last question would be you also mentioned some fact about the pricing and this year seems to be a good year for M&HCV. From your understanding of the history of business, when does it come out to be a good year in terms of all the engines firing in terms of M&HCV, tractor and probably raw material under control if I would say so? Could you throw some light on when does a good season come out to be thank you?

To repeat, I was just wanting to ask you given your history of business so when do you think we are able to fire on all the cylinders in terms of M&HCV doing good, tractors also doing relatively good and raw materials also being under control, like you said M&HCV looks to be a good year as of now?

P Deepak: As of now, the projections we are seeing from tractor are very strong, M&HCV are strong and we have got a lot of new product launches that will be happening this year and perhaps towards the second half of the year. So hopefully, if they remain strong even next year, next year will be an even better year. This year we are very optimistic about how the trajectory looks so far based on the visibility that we have, the trajectory looks excellent. But I think really for us to be standing at the higher level perhaps, hopefully that will be next year and obviously not saying anything, this will be a good year as well.

Somnath Paul: Thank you Sir. All the best.

Moderator: Thank you. Due to time constraint that was the last question. I would now like to hand it over to the management for closing comments.

P Deepak: Thank you everyone for joining us. We had pretty interesting few years. It does seem that last FY2022 was a turning point where we see the companies move towards exports that we have been working on for several years really take a giant leap upwards and similarly we started to see the recovery in the M&HCV segment as well, in spite of some weakness in the tractor segment, we were still able to record pretty good growth. We are very excited about the current year. We believe it is going to be a year of again extremely strong growth and this year we believe that with the growth that we will be getting we should see a good amount of improvement in margins as well that will happen. So, as we are excited for this growth story to continue, we hope that you will continue to track us and watch as the next saga unfolds. Thank you very much.

Moderator: Thank you. On behalf of Batlivala & Karani Securities that concludes this conference. Thank you for joining us and you may now disconnect your lines.