“Nelcast Limited

Q4 and FY '23 Earnings Conference Call”

May 19, 2023

MANAGEMENT: **MR. P. DEEPAK – MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER – NELCAST LIMITED**
MR. S. K. SIVAKUMAR – CHIEF FINANCIAL OFFICER – NELCAST LIMITED

MODERATOR: **MS. SONIA KESWANI – ERNST & YOUNG**

Moderator: Ladies and gentlemen, good day and welcome to the Nelcast Limited's Q4 and FY23 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 star then zero on you touch-tone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Sonia Keswani from Ernst & Young IR Practice. Thank you and over to you, ma'am.

Sonia Keswani: Thank you, Zico, and good morning, everyone. On behalf of Nelcast Limited, I welcome all of you to the company's Q4 and FY23 earnings conference call. You would have already received the Q4 and FY23 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 the full year and the outlook going forward, we have with us today; Mr. Deepak, the Managing Director and the Chief Executive Officer, and Mr. S.K. Sivakumar, the 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 reviewed in conjunction with the risks the company faces and may not be updated from time to time.

More details are provided at the end of the investor presentation and other filings that can be found on our website www.nelcast.com. Should you have any queries or need any further information at the end of this call, you can reach out to us at the email address mentioned in the company collaterals.

With that, I would now like to hand it over to Mr. Deepak. Thank you and over to you, sir.

P. Deepak: Thank you, Sonia. Good morning, everyone. I would like to thank you and welcome you all to our Q4 and FY23 earnings call. I hope all of you are doing well.

I would like to start by talking about the quarterly performance. Our revenues stood at INR315 crores, which is up 16% year over year and driven by a small increase in volumes, which stood at 20,620 tons in Q4 of FY23 compared to 19,389 tons in Q4 of FY22. Significant growth in export revenue, which was 53% year on year.

On a quarter-on-quarter basis, our revenues were down 5.6% due to operational challenges within the company, which we will resolve within FY24. On the EBITDA front, we saw a drop of 0.4% year over year and 2.3% quarter-on-quarter. So it stood at about INR21 crores. This was due to the reduction volume on the quarter-on-quarter basis, as well as the normal seasonal slowdown that's there in the tractor segment and increased operational costs.

Moving on to the numbers for the full year, our total revenues stood at INR1,280 crores and we crossed the INR1,000 crores mark for the first time and reported a strong growth close to 37% year over year. This was driven by increase in sales volumes that stood at 84,381 tons, up 17% year on year. While we saw demand across all our segments, the strongest demand growth came from commercial vehicles and exports.

EBITDA for the year stood close to INR96 crores, which is up 42% year over year on the back of volume growth, better realization and increase in our export business. EBITDA per kg was at INR11.3 per kg, as domestic raw material prices continue to remain relatively stagnant, but we did actually see a big drop in international raw material prices, which impacted price realizations. However, we're now seeing a mild reduction in domestic prices and a steep increase in international prices. So, we expect these to converge fairly quickly and get our margins back to more normalcy. Profit after tax more than doubled and stood at INR30 crores and the PAT margin was 2.3%.

Moving on to how we performed segment wise in FY23 and our outlook for the coming year. Medium and heavy commercial vehicle segment reported a revenue growth of 47% year over year. This is driven by recovery in the industry as well as strong demand. We expect this industry to continue to grow in the current financial year, FY24, driven by increased infrastructure spend, which should also lead to more demand for tippers. And because tippers contribute materially to our topline, having a higher casting content, we expect our M&HCV segment growth to continue on a strong trajectory in the coming year.

Tractor industry had a strong year as sales touched an all-time high. We reported a growth of 24% year over year, despite the typical slowdown in the second half due to the normal seasonality. We expect the growth to be marginal in FY24 due to what seems, at least in these early stages, to be a slow growth in the rural economy. On the export front, we surpassed our guidance. We generated more than INR329 crores, reported growth of 49% year over year. While the growth was primarily driven by our base business and several new launches that had happened in FY23, we believe most of the new launches that are scheduled have been completed, and there will be more coming towards the end of FY24.

On the back of this, we expect our export business to also grow about 20% or so in the coming year. Our segment-wise contribution in FY23 saw the largest share coming from M&HCV at 39% of total revenues. Tractors was at 29%, exports at 26%, railways at 3%, off-highway and others made up about 2%.

Looking forward to FY24, we expect a double-digit top-line growth in FY24. This will come with growth in M&HCV segment with increased infrastructure spend, pickup in export markets due to the strong order backlog, and the easing of some of the other supply chain problems, including the chip shortages that have plagued the industry for the last few years. And we believe that we will also have some marginal growth in the tractor segment.

With this, we can now open the floor for any questions there might be.

Moderator: Our first question is from the line of Aman from Carnelian Capital. Please go ahead.

Aman: Sir, thank you for the opportunity. My first question was on the volume guidance for next year. So like this year, we have done somewhere around 85,000 tons and for next year, we are seeing 10% to 15% kind of volume growth in our presentation. But then last call only, we were talking about at least doing 1 lakh tons. So if you can tell me what has changed in terms of volume growth, I would like to know if there is any kind of slowdown in export market or is it mainly because of the tractor slowdown which could happen this year?

P. Deepak: So, regarding the volume expectations overall, I think we do believe that we will get close to that number. I think there is a little, the tractor expectations three months ago were actually higher than they are currently. The tractor is still a little bit of wait and watch because obviously the monsoon also has an impact on the tractor sales. So, I think we are being a little bit more cautious right now just due to a little bit of unknown in terms of what the tractor market might look like.

Aman: Understood. And second thing on the margin, like this quarter we have seen INR9.7 per kg as our EBITDA/kg. So what impacted this because we were talking about achieving INR12 per kg this year. So how that was, what led to this and how we see this going forward?

P. Deepak: Yes, so for the full year, the number is INR11.34. For the quarter, you are right, it was INR9.7. So I think we have had a couple of things that I have mentioned that had the impact on the margin. One was operational issues that we did have in our Gudur plant, one of which I think we did mention in our previous call that the replacement transformer was of a lower capacity so we did lose some potential production volume because of that.

The other was also the raw material price difference. We are linked to some global indices in terms of the price recovery for the raw material price increase and decrease and we have seen a fairly drastic reduction happening in the global markets which did not happen in India and now we are starting to see them converge as well.

And historically also it has been a temporary phenomenon, the divergence, but it has never happened to this extent. So we do believe that it is going to normalize and we should get back to more normal margins. But if you look at the last two quarters is where this has probably taken some toll on us.

Aman: So FY '24, can we see like INR12 per kg plus kind of margins. Because even our power and fuel cost which we were experiencing higher, have we seen some kind of customer compensation on that side and if that can benefit us in terms of better margins going forward?

P. Deepak: Yes, so I think definitely, we believe that we would be able to do better than what we have done in this year, next year, so INR12 and our plan kind of in the medium to long term of moving to INR15 is still something that we believe is achievable and we are working towards. But I think that is something and then you mentioned about the power cost as well. Yes, there was hikes in the power price in both Andhra Pradesh as well as Tamil Nadu which is where our plants are located and we have in most of the cases already negotiated and finalized this with the customers.

Aman: Just one final question before I move to the question queue. So this is on export volumes if you can give me outlook for export. Are we seeing any good traction with new customers? Have we signed any new customers or like seen increased take from any of the customers?

P. Deepak: So we are seeing existing volumes going up with existing customers. As I'm sure you're aware there's a huge backlog of orders for trucks as well as cars in the US. And I think that was driven one with all the cash that was out in the market during COVID. But also because of the chip shortage there was constraints in manufacturing as well due to supply chain. So now that those constraints have started easing, we do believe that same customer, same product will have growth in this current quarter Q1 and Q2 happening. We have some new products lined up for launch as well that will happen in Q3 and Q4. So we do believe that we're quite positive on exports.

In terms of new customers there are some serious discussions happening with new customers. And that's something that we will update at the appropriate time. The other thing is I think we've got a new program. It may not be significant volumes for the current year or even the next financial year. But for electric Class A trucks there is a new project that just got awarded to us. So this is something that might be perhaps a 1.5-2 year down the road launch that will happen with maybe only some small samples and try outs happening in the current year.

Aman: Got it, sir. Thank you for answering my questions.

Moderator: Thank you. Our next question is from the line of Ankur Kumar from Alpha Capital. Please go ahead.

Ankur Kumar: Hello sir. Thank you for taking my question. Sir, question is on EBITDA per kg. So in Q3 we had transformer failure because of which we couldn't do production for a week or so. Then we had some one-time issues also. And then also we had INR10 per kg EBITDA.

Now in February call you were guiding that we are expecting to go back to INR12. But disappointingly EBITDA per kg has even come down this quarter. So to the previous participant you did mention. So, can you comment what was one-off in this quarter and can we expect this EBITDA per kg to improve from Q1 only or it will take more time to go back to INR12?

P. Deepak: So if you look at Q4, the transformer failure that had happened in the month of December which impacted us for about eight days was the impact of the transformer failure in the month of December. So obviously we lost eight days of production. But one of the things that happened was because that transformer needed a significant amount of time for the repair. We had actually procured a rental transformer and we had run on the rental transformer which was of a lower capacity.

So we could not operate at the same production level. We had to operate with a reduced capacity because the capacity of the transformer was the limitation that has impacted the volumes throughout. So it's a small impact on a daily basis rather than a 100% impact for one week. So that was part of that impact that had happened on Q4. And now we are running without that impact anymore. The transformer is no longer the constraint. So that impacted the volumes especially at the Gudur plant which prevented us from being able to increase our production to the levels that we would have liked to be at.

And I think the second thing that I'd also mention was raw material prices. On many of our exports we've fixed the prices linked to global indices for raw materials which are very, very aligned to Indian prices. Unfortunately, only in the last two or three quarters that alignment has somehow broken off and fairly significantly. But that's something where they are in the process of getting realigned. And I think by the next quarter we should pretty much be back to normal in that sense.

Just a rough number if you were to look converted into rupees per kg. The international prices actually in the US market specifically if you look at their indices those prices had come down by about INR14 per kg, INR15 per kg on raw material. Whereas in India we have probably seen only something around INR2 to INR3 or so on raw material. So that gap was a short-term impact that was there.

Ankur Kumar: But this happened recently only because we had the presentation and call in February, so that time we were guiding that we were expecting INR12 per kg?

P. Deepak: Yes, so unfortunately, we were expecting some convergence to happen. So that did not happen. I think we were guiding for INR12 for the full year. So unfortunately, that's at INR11.34.

Ankur Kumar: And sir, now we are half quarter past in this quarter also, half of the quarter has passed. So, are we seeing any improvement, or do you think that is more in the later part?

P. Deepak: I don't want to comment on the current quarter. But I think some of the things that we are working on, where I believe our best performance will definitely be in the second half. Because I think we have got some pretty important things that we are working on in terms of our operational efficiencies and all of that that we will really see significant impact in the second half. But I think certainly we would like to make improvements in the first and second quarter. But like I said, some of the more important things where we think we will make significant operational improvements will happen in the second half.

Ankur Kumar: Got it. Thank you.

Moderator: Thank you. Our next question is from the line of Dhiral from Philip Capital PCG. Please go ahead.

Dhiral: Good morning, sir. Thanks for the opportunity. Sir, you just talked about you have seen a INR14 to INR15 price dip in the international market. And that is for the Indian market, it was just INR2 to INR3, right? So, this is for the Q4 or you have seen this in Q1 also?

P. Deepak: So this is in Q4. In Q1, we are actually seeing that gap come down quite a bit. But I think right now, because there is a one quarter lag, I am not sure exactly what the numbers will be for Q1. But we are seeing significant increase now happening in the international market and probably a mild softening happening in the domestic market. So, we believe that maybe by the end of this quarter or so that they will come back to what was the equilibrium.

Dhiral: So, from Q4 to Q1, how much more we have seen the fall in the domestic prices, sir?

P. Deepak: Marginal, maybe again INR1 per kg, INR2 per kg. But we have seen an increase there out of maybe the INR14, INR15 what had reduced. We have seen almost already a INR7, INR8 increase in the monthly numbers.

Dhiral: Okay. So, will this help to improve our margins in Q1 or maybe it will have some impact on the margins?

P. Deepak: I mean this is definitely going to help improve especially when you compare to Q3 and Q4. Where Q3 had some impact but Q4 had the bigger brunt of the pain. But I think that certainly this will ease off some of that impact in Q1. And definitely I think Q2 should be back to normalcy is what I anticipate.

Dhiral: And sir, we source 100% of the scrap steel from the Indian market, right?

P. Deepak: Yes, we source 100% from the Indian market.

Dhiral: Okay. And sir, if you throw some light on how we have grown in FY '23 in tractor and M&HCV versus the industry growth?

P. Deepak: Sure. I can tell you our growth numbers by segment. So in terms of revenue growth, medium and heavy commercial vehicles was a 45% revenue growth. Tractors was 33.9%. Sorry. No. Sorry. My mistake. Just give me one second. I am just looking at the wrong numbers. Okay. Sorry. M&HCV growth for us was 46% last year. Tractor growth was 25%. Exports was 49%. And the railways was zero, actually. It was flat. Even off-highway was flat. That's it.

Dhiral: And sir, in M&HCV particularly, tipper contributes to the majority of the revenue, right? So how much tipper has grown and what is the overall industry growth for the tipper in FY '23?

P. Deepak: I don't have that information. We don't split it by tippers. We only split it by the whole M&HCV segment. So unfortunately, I don't have that number that I can share.

Dhiral: Okay. Thank you so much. That's all from my side.

P. Deepak: It's also a difficult question because we have some products that will go both into tipper as well as into the regular M&HCV truck. So, for us, also to split our revenues between tipper and non-tipper becomes difficult.

Dhiral: Okay. Got it, sir. Thank you.

P. Deepak: Thank you.

Moderator: Thank you. Our next question is from the line of VP Rajesh from Banyan Capital. Please go ahead.

VP Rajesh: Okay. So, I was saying that first of all, congratulations on hitting some important milestones like your INR1,000 crores revenues. My question was this current quarter, is there any impact of the transformer issue in this quarter or this is pretty clean from that perspective?

P. Deepak: Specifically, the transformer issue? No, we don't have that impact in this current quarter.

VP Rajesh: Okay. And then secondly, the price differential that you have discussed in the raw material, so is it something that impact you will realize in this quarter or is that completely lost? How should one think about that?

P. Deepak: So, in this particular case, see normally when we talk about a lag being there, in that lag, it's only a delay, right? In this case, both the indices just kind of went away from each other, which is a fairly rare phenomenon. We've studied almost 15 years of data. This is the first time. So, we've seen small differences and converging within a quarter. This time, the difference was very substantial, and I think fairly unexplainable also. But it looks like they are now converging.

But at this point, it looks like it will be a permanent loss. It doesn't look like there will be an overcorrection the other way around. But again, these are global markets that we don't know how they might react. It is very possible based on some international data that it could go the other way. We don't have enough information to assume that. So, I think the fair assumption is that it will be permanent.

VP Rajesh: I see. Understood. So, let's assume, if we do 95,000 volume this year in fiscal '24, what kind of EBITDA per kg can one expect with that kind of value?

P. Deepak: So, I think as I mentioned, we do believe that we should have significant improvements happening in the second half of the year because we have certain plans that we have from an operational improvement standpoint. But I think, you know, for the time being, what we've got it to in the past of about 12 is something that we still feel strongly positive about for the year.

But I think as these improvements get rolled out and we start to see the impact and we can make further improvements, perhaps in the second half we'll be in a better position to talk about something better.

VP Rajesh: Understood. And then in the US market, how is the backlog looking, let's say, compared to three months ago? Has it come down? I'm talking about the end market, not the new markets?

P. Deepak: So there is definitely a reduction in the backlog and that's driven by improvement in deliveries for sure. There are some mixed signals coming in terms of new orders. So the backlog has come down. That's there. But certainly we feel very strong that, for the next year or so, we don't see any slowdown in production numbers, at least for the next year. So we'll have to wait and watch based on order intake. But I think the order intake now has pretty convinced that we will see very strong numbers for the rest of the financial year.

VP Rajesh: Okay. And in terms of new programs, I think you said earlier that you don't have any new wins in this year, which can potentially ramp up next year. Is that the right way to understand that you're in talks for fiscal year '25?

P. Deepak: We do have some programs that we won last year that will launch probably between Q3 and Q4 again this year, including one that's an electric vehicle program that I think I had mentioned in past conference calls that goes on a delivery van. The kind of van that a Fedex or a UPS might use to do their last mile delivery in the U.S. So there is some of those wins from last year that are in the development and execution stage this year.

In addition to that, there are some, I would say, very serious discussions happening. But again, those would require probably six, nine months of a development time happening. And there's a new win, which I think is significant more from a strategic standpoint, related to the Class 8 truck electrification program. So, there's some castings that we have now been awarded for that. But that's probably a mid to late 2024 launch type of a program. So that would not impact this financial year.

Moderator: Thank you. Our next question is from the line of Nilesh Doshi from Green Lantern Capital. Please go ahead.

Nilesh Doshi: Yes. Thank you for the question. So just a couple of things, because you spoke about operational issues. So, I'm trying to understand because, I mean, we have been running this casting business for more than two decades. And the 60,000 tons new capacity we implemented almost two years ago. So, what kind of operational issues which has come up, which proactively we could not envisage?

Because, I mean, you people are working extremely hard to keep achieving increasing milestones. But when it comes to bottom line at the end of the day, I mean, we are making 1% PAT and still you are not very confident of getting back to INR12, INR13 kg, because now you are saying it could be in FY '24, especially second half. So can you please help us to understand how could you identify what were these kind of issues and now what kind of steps you are taking?

P. Deepak: So, I think, you know, mainly when I talk about operational issues, there were three things that I was inferring to. One is the one that I've already explained a little bit more about, which was in terms of the unexpected problem with the transformer and related to power.

The second is related to a lot of the new product development that we're doing. And a lot of the new products, getting them ramped up and stabilized, was a bit of a challenge. And we are on that path of doing that. Especially when we talk about the new plant, the size of the products and the range of products is something that we have never done in the past.

Whereas, you know, and these are the products that we have gone into the ramp up more recently. So even the Pedapariya plant, which, as you said, has been a couple of years since now we have installed it. The capacity utilization of that in the last quarter has gone up from, you know, 23% to 26%. So it's continuously increasing. And as a result of that, one of the things is also, you know, the kind of manpower that we need to have, the training, the skill, and the experience of the manpower as well in order to be able to meet the requirements, as well as get used to producing some of these new products and optimizing these products that we have been running now.

Nilesh Doshi: So, sir, can we now come to some kind of a clarity on which, from which quarter we should start getting to? Because earlier I remember you also had an ambition to reach INR15/kg kind of EBITDA. Yes. So can we now come close to understanding, since you know the problems, I am sure you and your team is proactively handling those issues and trying to overcome those issues. So, can we now come very close to say that, okay, in Q2 we will achieve or Q3 we will achieve?

P. Deepak: So, I think what we believe is that most of the improvements that we have planned and the root causes that we have identified and the improvements that we have planned, as well as some of these activities that we are doing, we believe we will see improvement, significant improvement in the second half of the current year.

Moderator: Thank you. Our next question is from the line of Nandish from Moneycontrol Research. Please go ahead.

Nandish: So my first question is regarding what kind of capacity utilization have we seen in the March quarter, March 23, for all the three plants?

P. Deepak: Okay. So in terms of the overall capacity utilization for the fourth quarter, right, that's the question, right? Just give me one second. I'll just have that exact information.

Nandish: In case you can give it plant-wise, that would be…

P. Deepak: Okay. So the overall capacity utilization was 54% for the fourth quarter. Out of that, 26% was in the new plant in Pedapariya. And Ponneri was actually above 90%. And Gudur was about 50%, just under 50%.

Nandish: And so my second question is related to the power cost. Since last couple of quarters, we have been trying to reduce that. Where were we in that journey?

P. Deepak: Sorry, you were asking about power costs, then I didn't hear what you said after that.

Nandish: Actually, we were trying to reduce our power costs. By doing some, what you said, tie-up with the renewable players. So where are we in that journey? Because that seems to be at the same level?

P. Deepak: Yes. So, power cost is based on two things. One, obviously, the contracts and agreements that we have versus how much we buy from EB. So right now, if I was to look at the last quarter, it was 62% was the renewable energy mix in our power cost. The other part of it is the consumption per ton. And that also is something that will come down as the capacity utilization goes up.

Nandish: Sure. Thank you. And, sir, what is the capex we are looking for FY '24?

P. Deepak: Sorry, can you repeat the question?

Nandish: Capex number for FY '24?

P. Deepak: Capex number is a regular maintenance capex. Right now, what is on the plan is a regular maintenance capex of about INR15 crores.

Moderator: Thank you. Our next question is from the line of Anupama from Arihant Capital Markets. Please go ahead.

Anupama: Yes. Thank you for taking my question. So, I just wanted to understand now, as I am seeing, railways is the theme right now. So, can you throw some light on your product which you cater to the railway segment? And in FY '22, the share was like 4.4%, which has reduced to 3.1%. So, any plans of expanding in that segment? Because since, the capex that government is planning and if you can just let us know what kind of product you cater to this segment. This is one. And the other thing is, if you can quantify order books as spillover for FY '23 and fresh orders till date?

P. Deepak: So in terms of railways, which was your first question, I don't think we're looking at the products that we do, at least as a significant growth driver for us in FY '24 or at least in the medium term. And the products that we do are primarily two products. One is a base plate that we're doing that goes into the metro rail. This is what the plate on which the actual rail track sits on and is fastened to.

The second product is a break disk that we do for the LHB coaches, as they call them, the Rajdhani and Shatabdis. This is something that we are doing. But obviously, you know, these are two segments that I think we are part of. There's not much else that we do that goes into the railway segment from our standpoint. So, we don't really see, in this area, a significant amount of growth that will happen for us, at least in this financial year. And the second question. Sorry, Anupama, can you repeat that?

Anupama: Order book. If you can quantify like order book as a spillover of FY '23 and fresh orders to date, which we have?

P. Deepak: So normally the way that it works is we get a monthly schedule. So, typically when we get orders, these are blanket purchase orders that we get. And then every month the customer gives a schedule of what they would like to deliver in that month. In some cases, it's on a weekly basis. In some cases, on a monthly basis.

And so, you know, there's no necessarily, I wouldn't necessarily say there's a backlog carryover based on their production plan and how they adjust to that it comes. But what we're seeing right now is we're seeing maybe about an order availability for us to execute of about maybe 8,500 tons or so per month.

Anupama: And one more thing I wanted to ask regarding Pedapariya utilization level. What is the reason for low utilization levels for Pedapariya plant?

P. Deepak: It's the new product development. And I think it's more than anything else it's just a ramp up on the new product development as more products are getting approved, and we are starting to do more of the ramp up. Also, there's a couple of equipment that I think from a design perspective we have realized need to be replaced. Not any big ticket items, within that capex number that I've already mentioned of INR15 crores overall, that we are also executing to make sure that they can handle the higher load.

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

Saket Kapoor: Firstly, if you could explain me the reason for this other income going down from INR7 crores to INR2 crores. And correct me here, sir. When we take your raw material to sales percentage, it is lower on a quarter-on-quarter basis. So if we omit the line item, the reduction in profit is mainly attributable to the other income part. If you could explain the reason for that?

P. Deepak: So the biggest chunk of other income, right, as we talked about in the last call, the biggest chunk of the other income comes from forex. So some of it is because of the difference in the price of the forex at the time of shipment to the customer versus at the time of receiving the payment. So that is the biggest chunk of it. Other than that, there is some interest income and that's there. That's pretty much the two chunks of that. And as I mentioned, the forex is the biggest chunk. And yes, so obviously the delta between the forex that was there in the beginning of the quarter to the end of the quarter was smaller. It was a much bigger jump in the previous quarter.

Saket Kapoor: You were explaining that, I missed the earlier comment, wherein you were explaining that the reduction in the raw material prices globally was significant than what was procured domestically. But even if we remove that aspect, our raw material to sales percentage has gone down by 200 basis points from Q1-Q2 basis. Is that understanding correct?

P. Deepak: Yes, so there is, like I said, there was a reduction in raw material prices domestically as well, but not to the extent of what was the reduction that had happened globally. So your understanding is, ideally correct.

Saket Kapoor: So for the sake of repetition, how are things now looking up? Because whatever reduction will be a pass-through, and since there is a lag effect, how are margins trending going ahead from Q1 onwards?

P. Deepak: So the raw material prices, I think probably since the month of March or so, have started going up quite significantly in the US. So I think that gap has narrowed quite a bit. I'm not exactly sure what that impact is for Q1, but I think we should see relative normalcy in Q2. I think the difference will only be marginal in Q2.

Saket Kapoor: Other than this forex impact, I was just trying to understand this EBITDA margin part, when you are putting a number of INR12, you are not factoring in the forex because that is not controllable by us.

P. Deepak: So there is some amount of it that we try to manage either through hedging or through other things that is there. So there is some portion of it that we believe will come and it will happen. And yes, there is some portion of it that is beyond our control on this.

Saket Kapoor: So Q1 onwards, there will be improvement from Q1 itself or from Q2 onwards?

P. Deepak: So I think we believe definitely we would like to improve compared to Q4 continuously. But as I mentioned earlier, we believe the second half will be a very good half of the year for us.

Saket Kapoor: So two small points. Firstly, on this other expenses component and the interest cost. So what steps are we taking to lower the absolute number or even as a percentage? So year on year, it has gone up from INR26 crores to INR31 crores. And also on the other expenses, other expenses may be commensurate with the increase in volume. But Q1-Q2 also we have seen a jump of INR2.5 crores, INR3 crores. So if you could explain these two line items and steps taken to lower our finance cost?

P. Deepak: So I think in terms of finance cost, it is unfortunately because of the interest rate hike that has happened over the last few years. So the interest rates have gone up by about INR2.5 crores in the recent period. So that has obviously had some impact in terms of those numbers. As well as for the increased sales, there was also increase in the working capital throughout the year. Fortunately, I think towards the end of the year, we were able to get some good collections and all of that. So the year-end number was actually quite good. But I think the finance costs are more linked to the interest rate as well as something in terms of the working capital that we had through the year.

In terms of other expenses, other expenses include some of the machining costs of parts that we are outsourcing the machining on. So that is something that machining, I think it also includes freight also, right? Machining, freight, things like that fall into other expenses.

Saket Kapoor: Sir, last point is on the Pedapariya utilisation. By the time, it is very likely to be understood that new capacity, ramping up, getting these products accepted takes time. But still, I think from 2018, I think 5 years down the line, we are moving only in the vicinity of 20%-25% in terms of the utilisation levels. And I think so, the delta in our earnings would only start appearing once this unit starts contributing in a meaningful way. And I would like to understand from you, when exactly do you think that the contribution from this unit would be significantly flowing back to the numbers? And what is our net debt number, sir, as on 31st March?

P. Deepak: Sure. So I think, Pedapariya also, we believe it will be the second half of the year. We have seen continuous improvement in Pedapariya, you know, if you take through the year. You know, two quarters ago, it was about 19%-20%, last quarter 23%, and then this quarter we are talking about is at 26%. We believe we can make a pretty big jump on that during the second half. And that's what we are working for, and we believe it will definitely happen. In terms of the net debt number, the net debt number is INR198.92 crores, so just under INR200 crores.

Saket Kapoor: And sir, when you say it will be meaningful, what should we be factoring in from 26% it will go to 50%?

P. Deepak: Sorry, from when?

Saket Kapoor: Sir, for Pedapariya, you mentioned it will be a meaningful jump. So, for a number of 26%, what should we define meaningful? 26% to 50% would be meaningful or 26% to 30% would be meaningful?

P. Deepak: Let's say, you know, I would say 26% to maybe 40% would be meaningful, right? That's what we would want to...

Saket Kapoor: Sir, in your outlook part, you did mention about Tipper contributing significantly to our top line and have a high casting content. So, if you could give us some break up, what was it out of the total revenue contribution or out of the tonnage, how much was from the Tipper side and what are we expecting for this year?

P. Deepak: So, like I said, from medium and heavy commercial vehicle, overall it was 39%. The Tipper, as I said, it's a little bit difficult to split it out because some of the components can go both into the Tipper as well as into a regular M&HCV and it's very difficult for us to actually split between the two because we don't know the end use, right, because the customer is buying the same product from us. So, that way, specifically splitting into Tipper is a little difficult and also some of the components that go into Tipper also might go into, let's say, a tractor trailer and things like that. So, it's not -- I don't think it's possible for us to actually break it down as an exclusive Tipper. So, I don't have a number for that.

Saket Kapoor: So, but the mix, can you provide, sir? Medium and heavy was 39% of the total price. So, what is it likely to shape up between this and export? Export guidance you gave was 20% on a top line of 330. It will be closer to 400 for FY '24.

P. Deepak: Yes, that's roughly what we believe will be there, yes.

Saket Kapoor: And what would be the likely mix in the revenue? And also, sir, for this year, you guided for double digit revenue growth and 10-15% volume growth. So, this double digit, what should we be factoring in? 20% should be the number on our top line of INR1,260 crores?

P. Deepak: Yes, so I think Tippers... I mean, sorry, M&HCV, I think certainly it looks like we have the potential for a 15%-20% in M&HCV also seems to be the indication. Of course, typically, the first quarter is the slowest quarter for M&HCV. So, we will just have to wait and watch. But one of the signs that we are seeing that's a little bit unique about the M&HCV market now is we're seeing an increase in the tractor trailer market. I think there's a couple of -- seems to be a couple of different reasons driving that. And I think as we go more and more into this hub and spoke model, I think the transport between the hubs, the tractor trailer will have a significant benefit on.

Moderator: Thank you. Sorry to interrupt, Mr. Saket Kapoor. May we request that you return to the question queue for follow-up questions as there are several participants waiting for their turn. Thank you. Our next question is from the line of Mr. Rehaan from Sicomora. Please go ahead.

Rehaan: So, I was just curious about the other expenses portion of fettling and other manufacturing costs as it makes up a significant portion of that. So, I wanted to understand what does this include and is this outsourced or done in-house?

P. Deepak: Okay. So, you're talking about the heading of other expenses or..? So, it includes all the outsourced expenses that are there, right? So, this includes fettling. This also includes machining. It includes freight.

P. Deepak: Yes. And in the last year, obviously, because of the one, the growth in exports, but also the increase in the freight cost that had an increase fairly significant also, of course, in terms of, you know, machining. But if you're talking about specifically about fettling and other manufacturing expenses, it's primarily anything that's contracted out. Most of these activities are subcontracted out to our suppliers. So yes, fettling and machining are probably the two biggest heads under this.

Rehaan: Okay. Thank you. That gives me clarity.

P. Deepak: So, I was looking at other expenses in total, but yes, in fettling and other manufacturing expenses, it's these two.

Rehaan: Sure. Thank you.

Moderator: Thank you. Due to time constraint, that was the last question of our question-and-answer session. I now hand the conference over to the management for closing comments.

P. Deepak: Thank you. Thank you all for your questions. Really appreciate your time. Definitely very challenging quarter for us, but we are, still extremely positive on what it looks like. We do have some clear action plans in terms of improving our capacity utilization, which I think will have, significant impact both in terms of top line and bottom line. We have several of these projects running and we feel very good about the second half of the financial year. So, we are extremely optimistic on what the scenario looks like and the demand scenario also looks extremely strong. So, we're hopeful that we can continue to execute and continue to improve. Thank you.

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