HEIL/SE-78/2023-24

February 14, 2024

To,
The Manager (Listing),
The BSE Limited
Phiroze Jeejeebhoy Towers,
Dalal Street,
Mumbai – 400 001
Script Code No. : **543600**

To,
The Manager (Listing),
National Stock Exchange of India Limited
"Exchange Plaza", C-l, Block - G,
Bandra - Kurla Complex, Bandra (E)
Mumbai – 400 051
Symbol : **HARSHA**

Dear Sir/Madam,

Sub : Transcript of Earning Call for the quarter and Nine Month ended December 31, 2023
Ref : Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015

With reference to subject matter and pursuant to regulation 30 of the SEBI ((Listing Obligations and Disclosure Requirements) Regulations, 2015, please find attached the transcript of the earning call for the quarter and nine month ended December 31, 2023 conducted after the meeting of Board of Directors held on February 8, 2024.

The above information is also available on the website of the Company at www.harshaengineers.com

You are requested to take the same on your record.

Yours faithfully,

FOR HARSHA ENGINEERS INTERNATIONAL LIMITED (Formerly Known as Harsha Engineers International Private Limited and Harsha Abakus Solar Private Limited)

Kiran Kumar Mohanty
Digitally signed by Kiran Kumar Mohanty
Date: 2024.02.14 15:26:42 +05'30'

Kiran Mohanty
Company Secretary and Chief Compliance Officer
MEM NO. : F9907

"Harsha Engineers International Limited
Q3 FY'24 Analyst and Investor's Conference Call"
February 08, 2024

MANAGEMENT: **MR. VISHAL RANGWALA – CHIEF EXECUTIVE OFFICER – HARSHA ENGINEERS INTERNATIONAL LIMITED**
MR. MAULIK JASANI – VICE PRESIDENT AND GROUP CHIEF FINANCIAL OFFICER – HARSHA ENGINEERS INTERNATIONAL LIMITED
MR. SANJAY MAJMUDAR – STRATEGIC ADVISOR – HARSHA ENGINEERS INTERNATIONAL LIMITED

Moderator: Ladies and gentlemen, good day, and welcome to the Harsha Engineers International Limited Q3 FY '24 Analyst and Investors 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 your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Vishal Rangwala, CEO from Harsha Engineers International Limited. Thank you, and over to you, sir.

Vishal Rangwala: Thank you, and dear all. Welcome to you in our quarter 3 financial year 2024 investor call. As per our normal practice, our CFO, Mr. Maulik Jasani will take you through the numbers in greater detail. But I presume most of you would have had a chance to go through the same. As indicated by me in quarter 2 investor calls, I'm really happy to report that quarter 3 results are in line with our expectations.

Though the consolidated top line for Q3 looks little flattish as compared to the previous quarter, there is a noticeable improvement in the business and the current as well as the profitability of both India level, as well as our key global subsidiaries in China and Romania.

On shift strategy implemented in Romania and China for cost cutting, we have started seeing a positive outcome in terms of improved margins in new subsidiaries. While China has reported a positive EBITDA and a PAT, there is a marked reduction in operating net loss in Romania, so that on a consolidated performance of both these subsidiaries, particularly, there is no loss in current quarter.

We had definitely expected at least the same or maybe a slightly improved position in quarter 4. So that as per plan indicated earlier, we should be in position to arrest the combined losses of international subsidiaries at H2 level. And in fact, maybe reduce slightly in Q4 when we expect the situation to improve in Romania.

This is in wake of early sign of improvement in the wind market that we have started to witness in quarter 3 and we believe that in quarter 4, there should be some further improvement in the off-take and financial year '24, '25. And hopefully, wind market should return to its earlier normal levels.

In India, our engineering business in quarter 3 saw a slight dip in our topline, which is more cyclical in nature, not reflecting any particular structural trend, except for the slight softening of demand in industrial segment of products and similar things that we talked about softening of -- or continued softening of Europe and China.

However, there is a distinct improvement in EBITDA and PAT margins in quarter 3 partly owing to positive impact of pass-through of the increased raw material cost and partly to the quarter-end inventory adjustment.

Again, we are continuing to work on several outsourcing and development opportunities, which is evident from the fact that in 9 months period leading up to December '23, we have completed the development of more than 200 SKUs, and current development, as well as inquiry pipeline continues to be very robust.

Again, this quarter, we have started to witness a distinct firming up of the Bronze Bushing business visibly in terms of order that we have started to receive whose impact will start in -- start coming up in quarter 4 financial year '24, as well as next year '24, '25.

The stamping business is also reporting a decent growth. Further though the new business of -- take-off is last size bearing cages and business from Japan-based customers slightly muted during this 9 months period ending December 2023 and we firmly believe that this will start catching up in coming quarters and we remain committed and bullish in as much as the prospect of these segments are concerned.

Moderator: Sir, please go ahead, sir.

Vishal Rangwala: So that said, India level also quarter 4 should definitely look better. And as indicated earlier, we should be back on track of normal growth in India, as well as for financial year '24, '25. As far as solar business is concerned, there is a positive push coming in a week of favourable renewable energy policy from government of Gujrat, which encourages both industrial, as well as domestic solar rooftop projects.

As a follow-up, we are seeing positive growth on the topline, as well as our continued focus on making solar a sustainable business is also showing up in the bottom line in the current quarter. However, as indicated earlier, there is no material additional capital allocated to this business. I wish to express my sincere thanks to all our investors for continuing to extend their support and for their continued confidence in our long-term growth story.

With that, I pass it to Maulik to talk about the numbers. Thank you very much.

Maulik Jasani: Thank you, Vishal, for the business overview. Hello, everyone, and good afternoon. For the quarter ended December '23, for our engineering business at consolidated level, we have achieved the top line of INR278 crores, against top line of INR298 crores in the immediately previous quarter and almost similar top line of INR297 crores in the same quarter last year.

We've achieved consolidated EBITDA for our engineering business at INR48.5 crores for the current quarter against INR40.5 crores in the previous quarter and INR54.9 crores in the last year, same quarter, Q3. Major impacts on top line are on account of the weaker export demand and on improved EBITDA, owing to cost control measures, coupled with improved realization due to RM pass-through as discussed by Vishal.

In our solar business, we have achieved EBITDA of INR2.3 crores in the current quarter. While our overall working capital cycle at consolidated level remain at 139 days against 144 days in the previous year quarter 3.

With this brief on the financial numbers, I hand it over the call to the operator to take up the Q&A from the participants. Thank you.

Moderator: The first question is from the line of Amit Anwani from PL Capital. Please go ahead.

Amit Anwani: Hi, sir. Thanks for taking my question. My first question on the Bronze Bushing, you did highlight it sir that, the wind market is coming back. So just wanted to understand what was the contribution from bushings this quarter?

I recollect, I think H1 it was on a lower side. So what is the full year guidance? And now since things are revising and we have been doing capex on Bronze Bushing, any revision in guidance or any outlook now you're seeing for FY'25 on Bronze Bushing's contribution?

Vishal Rangwala: So I will not be able to share the exact numbers for Bronze Bushing this quarter or for this year. Having said that, these are roughly in line with our expectation, what we had shared earlier. And we were expecting that some improvement, which has actually taken place. Second part about next year, we are expecting significant growth at this point in time to give it an exact number would be difficult. However, we are seeing very bullish signs. So with that, current indication is a significant growth.

Amit Anwani: All right. My next question on the subsidiaries, Romania and China. You did highlight that there is an improvement, which you have witnessed because of cost control and a few other things. Just wanted to understand was there any improvement in offtake from Romania and the way we thought from past 4, 6 quarters that the finished product, we will have better opportunity for the large cages getting sold off from that factory?

So any sense because seeing the improvement after the 4, 6 quarters of continuous expectation, now we are seeing some improvement. So can we see numbers improving quarter-on-quarter? Or this is preliminary that we have to again wait and watch just to see the clear trend happening in these two subsidiaries?

Vishal Rangwala: So we believe that we would see improvement going forward on this. However, to definitely say -- to be able to predict what is the market, how the economic situation develop in Europe specifically, which is the market being served by our Romania facility is extremely difficult.

So in general, I would say that, yes, we are expecting positive direction going forward after, as we mentioned, a significant number of quarters of softening. And -- but that's a certain understanding based on whatever customers are talking us. We are seeing the wind market revising and all that input.

Amit Anwani: Sir, lastly, sir, on any guidance revision for FY '24 on revenue and margin and any guidance for next year?

Sanjay Majmudar: So as Vishal explained, in Romania, we don't have any further losses even in the second half. That would mean that whatever losses we've incurred between Romania and China at around a level of around INR14 crores, INR15 crores will remain in the current year, and it should go away in the next year.

And India is continuing to do as it is. We think that in Q4, the run rate of consolidated PAT should improve marginally. And in next year, at least a 10% to 15% overall growth can be expected at India level, which would mean that on a consolidated basis, assuming that there is no loss in China and Romania and no positive contribution, we should expect a much more aggressive more than 20% bottom line growth overall in FY '24, '25. I would say, even a little higher, more than about 20% to 25% bottom line growth next year. This is what we believe is definitely deliverable but let us see.

Vishal Rangwala: The target may not be taken as a guidance but definitely will reverse by the end of the year.

Moderator: The next question is from the line of Jason Soans from IDBI Capital. Please go ahead.

Jason Soans: So sir, this quarter, we have seen a good healthy improvement in gross margin from around 42% last quarter to 45.9% for this quarter. And EBITDA margin also has seen good improvement in bearing cages or the engineering segment as well. Just wanted to know what exactly has gone. I mean is there some raw material softness? Or what exactly is the reason for this?

Vishal Rangwala: Yes. So two things. I believe you were talking about at a consolidated level.

Jason Soans: That's right. That's right, sir. Yes.

Vishal Rangwala: At the consolidated level, it's two impacts. One is material pass-through catching up finally because we have seen a lot of volatility over the last year, 1.5 year on material prices. And there was always a significant lag both ways. So we think that it has now stabilized and then the whole pass-through mechanism catching up to the reality. So that's one part of the improvement.

The other part is some cost reduction, including material costs and other things we started working on it in our subsidiary levels, and rescaling the operations at those subsidiaries to the current market situation. The combination of that has given the overall consolidated margin improvements you are looking at.

Jason Soans: And sir, also, what I wanted to understand is you mentioned in the presentation that the bearing cages cycle has been weak. Now one of your competitors or one of the players in the industry, they have also mentioned and spoken about some weakness in the domestic bearing capex cycle as well, some business there.

So just wanted to know your take on how do you look at the domestic bearing cages. Of course, there are strong plans for various MNC's that -- to see sizable capex in India in terms of localization and other things as well. So I just wanted to know what -- how does your outlook on the bearing cages segment in that light?

Vishal Rangwala: For India, we see a recent robust growth in India market. I will not be able to comment specific to what other companies have shared. However, from our perspective, Indian market remains strong, robust, one of our growth engine. Right now, it's pretty positive. We see that specifically in India, strong growth happening specifically in smaller automotive cages. So we are seeing 2-wheeler demand -- 2-wheeler-related demand also improving and a few other things happening there.

So overall, we think that India is positive now. Most of my customer, we work with, they have continued to invest in India for bearings. And I'm sure you know these customers and they have their plans which are ongoing -- so we see a pretty decent confidence that, that is happening. Maybe there might be a short-term trend or something which I'm not aware of.

Sanjay Majmudar: So I think just to add, you mentioned about the capex cycle. I think the capex plans of all the big companies are absolutely in line with what earlier we were talking about. So we don't see any deferment or postponement of those capex cycles, to my mind. Again, that's more a function of their long-term strategy to position their India additional capex as a China plus some kind of a global supply center.

And therefore from our standpoint as a cage corollary their capex cycle, I think we remain bullish. I don't think we are really a problem. The only thing is, yes, a little softening right now on the industrial side. That's where the soup is actually.

Jason Soans: Okay. So currently, there's a little softness on...

Vishal Rangwala: Everything else is okay. Yes. A little bit on the industrial demand side.

Jason Soans: Okay. Sure, sir. Sure, sir. And sir, just you spoke about this automotive healthy volumes being in automotive. I just wanted to know in terms of, of course, the EV transition as a space and 2-wheelers are the first to go up that ladder, first 2-wheelers. So are we ready in terms of bearing cages solutions for providing to EV vehicles as well?

Vishal Rangwala: So yes, definitely. We have worked on a few solutions when it comes to EV. If you look at 2-wheelers, some of those ball bearings are the one which gets targeted in initial sales. And there, we are working on some of the EV bearings and plastic cases within that. So we are ready with that. We are working with some of our customers for developing those. These are going into some of the ceramic bearings as well and so on. Other part of the solution is low noise, low vibration, it is mainly driven by low dirt content or high extremely clean cages. And that also we -- as a solution we provide to our customers.

So we are working on various fronts when it comes to alternate solutions for cages, which are not better an update to EV conversion. And that's an ongoing program with our customer, we work on.

Jason Soans: Sure. So the same thing, probably volumes will get lesser, but realizations will go higher. That theme stands, right? Probably in these solutions for EV.

Vishal Rangwala: Yes. You're correct in terms of long term. However, short term, we are seeing significant opportunities that conversion has not yet taken place. Industry has to also build up the capability to deliver that. So we are part of the chain and working closely with our customer and confident that we will continue to lead within that. And while we do this, we believe that overall volumes in India will grow to compensate for whatever reduction happens on account of EV because things don't get eliminated, they just -- numbers get reduced and application changes.

So we are ready for the application change and very confident of volume growth so that we can fulfil our capacity with alternate demand. So that's where we are.

Jason Soans: Okay, sure. Sure, sir. And sir, lastly, just wanted to know, I mean, in terms of capex, what exactly and which areas are we investing in this capex? Or first, you mentioned that your first phase is already -- you started implementing it. So in which areas are you investing?

Vishal Rangwala: So current investment we are doing in the large size bearings. One second on the -- in bushing side, we are investing and the third is stamping component, that's our big investment. Fourth one in line with the EV brand, the plastic cages. It's also the area where we are continuing to invest. So these are some of the areas we are currently investing, as well as we are growing up some further plans of investment for the long-term growth.

Jason Soans: Okay. And sir sorry, amount will be how much for FY25, FY26? The capex side?

Vishal Rangwala: '24, '25.

Jason Soans: For FY25?

Vishal Rangwala: **Yes,** so for '25, we are anticipating about INR100 crores odd investment. So that's the rough plan. We are forming of that and may please depending on how fast the market develops and how we see the demand developing. Then we have to form up those maybe a little earlier and maybe amount may increase a little bit. But right now, we are working with an approximate number of that INR100 crores.

Moderator: Our next question is from the line of Harshit Patel from Equirus Securities. Please go ahead.

Harshit Patel: So my first question is our engineering business has broadly three parts. What we produce in India and sell in India. Second, what we produce in India and sell outside. And third, what we produce outside and sell outside. So could you give us a sense on how the volumes have panned out in each of these three parts for the first nine months of FY24? So, where the volumes have grown higher than the other? How has been the overall movement, whether it's a growth or a decline for the first nine months?

Vishal Rangwala: So it is -- I can share one thing. Overall, there is a decline this year now on a macro level. There are macro trends within those each segments and product lines and different things going on. And from India to India, so if I follow the segment, you have created for us, if I talk about India to India, that is actually positively grown on volume side, the nine months this year. And India to outside and outside to outside or what you call -- so all that has actually de-growth.

Primarily, you can see that Europe and China, as an economy, there is a de-growth. At least we believe that's the case. And we are seeing a reduction in volume going to those locations. Basically, demand has softened significantly. So that's the general trend. Overall, considering

Europe, China are very big market for us. Obviously, overall, you may have -- we may see or likely we have seen a little bit of de-growth on a macro level. We are still hopeful of flattish finish to this year, but let's see.

Sanjay Majmudar: Just to add India to outside volume, first thing I wanted to clarify that exact volume is a misnomer in our case. But going by the generality of the concept, assuming that yes, we are talking of general directional volume numbers, India to India as Vishal explained it good, not negative but positive but India to outside little negative, what exact quantification, not possible.

But Europe to Europe, Romania to Romania is more significant to be at least 15%, 20%. And even China to China is about at least 10%. I mean this is just second putting numbers on the top of the head, if you ask me to statistically prove because of the volume itself being a misnomer in our case its difficult, but just to give you a direction.

Harshit Patel: Understood, sir. Very well taken, sir. That is quite clear. And sir, this pricing trend would be negative in all these three aspects, right?

Vishal Rangwala: I see because of the raw material. It is also a function of pass-through. Yes. So we have seen -- to answer that specific question, we have seen a lot of volatility with the reduction coming in, in '23. However, I think we have also seen a spike in the raw material prices and other things. And so ultimately, as I said, even in December quarter, quarter three, we have seen that fluctuation stabilizing and some the impact of that happening. So in general, you are right, but I would say there might be a little bit of volatility within that.

For example, steel prices are reducing, but then brass, copper, zinc prices are trending up now. So all those things are happening. So, difficult to exactly point out a single trend there.

Harshit Patel: Understood, sir. Sir my second question is on the Japanese front. So we have seen quite consistent improvement over the past five to six quarters in terms of improvement in the business from them. So could you highlight how much we would have grown in the first nine months FY24 from these customers. I understand that the base is very low, the kind of base which was there in FY24. But still from a low base, what kind of improvement we have seen?

Vishal Rangwala: Harshit, you mentioned talking about what specific area?

Harshit Patel: I'm talking about the kind of business that we have received from the Japanese customers. I expect the majority of this business is for the Japanese plants only. But still from a low base of FY '23, how much improvement we have seen in the first 9 months of FY '24?

Vishal Rangwala: Yes. So overall, we have seen about 10%, 12% growth in Japanese customer over 9 months. And I think as we have talked earlier that the initial quarter, the growth numbers were good, however, last couple of quarters, it has gone flattish. And we are very hopeful to return back on the variety of aspects.

There are reasons on that front, there is development going on, which got -- there was some impact of delay on that front and so on. So in general, we are bullish on that. However, this year, so far, 9 months number, don't look as our earlier expectation. However, quite confident that they will return to the expected numbers.

Moderator: Next question from the line of Jason Soans from IDBI Capital. Please go ahead.

Jason Soans: I just wanted to know, sir, I mean, your losses that your subsidiary have significantly reduced from 92 million in Q2 to around 3 million loss right now in Q3, which is quite commendable. EBITDA margin also has turned positive to up to 3%, 3.5% odd. Now I just wanted to know, sir, what steps have you taken for improving this performance?

And other thing is, are you seeing any revival in demand also from Romania and Europe? -- sorry, from Europe and China, so that steps taken towards reducing the losses? Or is it only in the cost front?

Vishal Rangwala: Yes. So one on the -- talking about the cost front, we have started tightening our purse there, trying to focus on right product portfolio and improve some of our material yields as well. So all those variety of things were going on and they started giving results.

Second part of this is that we made a difficult call of saying, okay, we need to scale it down in terms of having the right overheads considering the volume reduction in those markets -- so we've taken adjusted those work on reducing those fixed cost type of situation.

So combination of those that and third is a material pass-through that combined is where we are on in terms of turning around those cost facilities are taking -- I mean, making profit there. Now on the demand side, we are seeing right now -- and I would say towards the end of quarter 3 and quarter 4, we are seeing a positive direction on those.

Too early to say how sustainable these are, but fairly confident that work done on the cost side and improving demand should combination give us a good outcome going forward on both these subsidiaries.

Jason Soans: Sure, sir. And sir, one question I just had just from an accounting perspective. So in your presentation, the share of profit and loss from your associates, which is Clean Max and Sunstream has been included in the other income section. Now, just wondered to know -- I mean, isn't that supposed to be highlighted -- mentioned separately as a line item? Or can you club it in other income, just a bookkeeping question I had.

Maulik Jasani : Yes. As of now, we rightly mention, it has been clubbed in the other income and we are following equity method for the bank associates. So that's what is a correct method as we understand from our auditor also. We will revisit if requires.

Jason Soans: Okay. So that can be included in other income.

Sanjay Majmudar: And it has not significant impact.

Moderator: As there are no further questions, I now hand the conference over to Mr. Vishal Rangwala for closing comments.

Vishal Rangwala: Yes. Thank you and thank you very much for all of you to participate in this conference call. Really appreciate your continued interest, and we look forward to a positive future going forward. Thank you.

Maulik Jasani: Thank you so much. Have good evening.

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