



RAMKRISHNA FORGINGS LIMITED

Date: 26 July, 2022

To The Listing Department BSE Limited Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai – 400 001 BSE SCRIP CODE: 532527	To The Listing Department National Stock Exchange of India Limited “Exchange Plaza” C-1, Block G, Bandra-Kurla Complex, Bandra (E), Mumbai- 400 051 NSE SYMBOL: RKFORGE
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Dear Sir/Madam,

Sub: Disclosure under Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 – Transcript of Earnings Call Q1 of FY 2022-23

This is further to our intimation dated 19 July, 2022 w.r.t conference call with the Analysts/ Investors for the Q1 of FY 2022-23 Financial Results.

Pursuant to Regulation 30 read with Part A of Schedule III of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed herewith the Transcript of the Earnings Call for Q1 of FY 2022-23 Financial Results with the Analysts/Investors, held on Thursday, 21 July, 2022 at 16:30 Hours (I.S.T).

Same is also being made available on the website of the Company at www.ramkrishnaforgings.com.

Request to kindly take the same into record.

Thanking you.

Yours faithfully,

For Ramkrishna Forgings Limited



Rajesh Mundhra
Company Secretary & Compliance Officer
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Encl.: As above



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“Ramkrishna Forgings Limited
Q1 FY 23 Earnings Conference Call”

July 21, 2022



MANAGEMENT:

**MR. NARESH JALAN – MANAGING
DIRECTOR, RAMKRISHNA FORGINGS LIMITED**

**MR. LALIT KHETAN – WHOLE-TIME
DIRECTOR AND CHIEF FINANCIAL
OFFICER, RAMKRISHNA FORGINGS LIMITED**

**MR. RAJESH MUNDHRA – COMPANY
SECRETARY AND SENIOR GENERAL
MANAGER (FINANCE), RAMKRISHNA
FORGINGS LIMITED**

**MR. CHAITANYA JALAN – WHOLE-TIME
DIRECTOR, RAMKRISHNA FORGINGS LIMITED**

MODERATOR:

MR. PRATIT VAJANI – ICICI SECURITIES



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Moderator: Ladies and gentlemen, good day, and welcome to the Ramkrishna Forgings Limited Earnings Conference Call hosted by ICICI Securities. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing '**' then '0' on your touchtone phone. Please note this call has been recorded.

I now hand the conference over to Mr. Pratit. Thank you, and over to you, sir.

Pratit Vajani: Thank you, Seema. Good day. Welcome everyone for the Q1 FY '23 result conference call for Ramkrishna Forgings. The company today is represented by Mr. Naresh Jalan, Managing Director; Mr. Chaitanya Jalan, Whole Time Director; Mr. Lalit Khetan, Executive Director and CFO; and Mr. Rajesh Mundhra, Company Secretary and Senior GM Finance.

Now, I would like to invite Mr. Lalit Khetan for his opening remarks. Over to you, sir.

Lalit Khetan: Thank you, Pratit. Good evening, and a very warm welcome to everyone present on the call. We hope and pray for the safety, health and security of you and your loved ones. Along with me, I have Mr. Naresh Jalan, our Managing Director, Mr. Chaitanya Jalan, Whole Time Director, Mr. Rajesh Mundhra, Company Secretary and SGA, our Investor Relation Advisors. Hope, you all have received our investor presentation by now. For those who have not you can view them on the stock exchange and the company website.

We had a strong start for the financial year with revenue increasing by 57.62% in Q1 FY '23 over Q1 FY '22. The growth was driven by both volume growth, as well as value growth. During the quarter, we registered a 221 basis point improvement in capacity to 77.97% as compared to 75.76% in Q1 FY '22.

We believe with the new order wins we'll keep improving our capacity utilization, which in turn will lead to higher operating leverage and margin expansions. During the quarter we won four new contracts totaling to INR 388 crore from Europe and North America, bolstering our order book. Further, our products have been well received and are generating a lot of interest in the international market, which has resulted in new business context from North America as well as Europe. And also during the quarter we have received a new business order for differential housing case, which has enabled us to move up the value chain and diversifying our product portfolio.

In line with our capital allocation strategy, we have reduced our debt for the quarter by INR 30 crore. Whereas on the dividend front the Board of Directors has declared an interim dividend of INR 0.50 per equity share up face value of INR 2 each. In terms of industry dynamics commercial vehicle sales in United States increased in the June quarter when compared to previous year, truck manufacturers are expected to increase production in second half of the year on the back of pent-up demand for new trucks, as well as fleet replacement.

In domestic market MHCV recovery is on track as the freight rates improve and fleet operators gaining financial strength. Demand in the entire CV segment remains strong, which benefits component suppliers like us. We expect Indian CV market to achieve a good grade in the upcoming years. That's all from my side. We can have now open the floor for Q&A.

Moderator: Thank you, sir. We have the first question from the line of Mumuksh Mandlesha from Emkay Global. Please go ahead.

Mumuksh Mandlesha: Congratulations on the good results, sir. Sir, first question is, can you share the outlook for CVs in North America and Europe markets? And how is the traction with the new



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customers there? Also led with China Plus One strategy and supply chain constraints what kind of outsourcing opportunities are we witnessing with the customers?

Naresh Jalan: Right now, both in North America as well as in Europe I think with the chip issue getting sorted out I think there is a good demand, and we are seeing OEMs manufacturing more and more vehicles. And demand for the full year, as projected is going to be robust. And in terms of supply chain constraints, I think, we are seeing lot of supplies moving to India from other places of the world and Indian manufacturers getting benefited with this.

Mumuksh Mandlesha: And sir, can you talk about the opportunity of the Railway segment for both in fabrication and the Component segment side? And also within industry which are the sub-segments witnessing growth? And can you share the outlook for them?

Naresh Jalan: In railway company feels that we will be able to grow 100% on what we did last year. And the pipeline and the order book shows that right now the manufacturing of new coaches, as well as wagons have improved considerably and government allocation for new money into this has become extremely good. So, we feel that demand from railways are going to be very high, and company expects to double in absolute terms, the top line what we did last year and this year.

Mumuksh Mandlesha: And for other Industrial segments, sir, can you share, which are doing well? And what's the outlook there?

Naresh Jalan: We don't have any figures in terms of Industrial segments. We cater to as and when requirement comes. So it is extremely difficult to plug a particular Industrial segment. Overall I think demand side, we are seeing good demand in the Industrial segment.

Moderator: We take the next question from the line of Mr. Abhishek Jain from Dolat Capital. Please go ahead.

Abhishek Jain: Congress for strong set of numbers, sir. Sir, we have seen 330 bps quarter-on-quarter jump in the gross margin despite the geography mix, product mix and the higher power cost. So what is the key reason of the gross margin expansion? And will it be sustainable?

Naresh Jalan: Yes, Abhishek. The gross margin, I think is here to sustain. And I think we can expect this levels to remain elevated for the full year.

Abhishek Jain: Sir, this quarter we got the significant benefit of the change in the inventory of around INR 70 crore this quarter. So, will it be sustainable gross margin in the coming quarters?

Naresh Jalan: Abhishek, that's not a benefit, that's the extra production over sales. So, overall gross margin has improved in terms of as we have improved our overall gross margin by almost 200 basis point, that's why you are seeing this performance.

Abhishek Jain: Okay. So, sir, what is the reason for this expansion in the gross margin despite this weaker geography mix and the high power cost? Because of -- is it because of the better increase in the turnover from the heavy press line?

Naresh Jalan: No, Abhishek, I think it is a premix as new order wins is getting converted into regular production. And as we move up the value-added chain I think there is the reason gross margin is improving.

Abhishek Jain: Okay. And sir, this quarter we have seen improvement in the business from the Europe. So currently rising cost in Europe is a big challenge, so how is the outlook for the export in Europe for the forging companies?



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Naresh Jalan: We expect this full year our sales to both North America and Europe are going to be robust.

Abhishek Jain: And what would be the reason for this? Although the truck sales has a slowdown right now in the Europe because of the many trucks are stuck because of this ongoing war in this Russia and Ukraine. So don't you see there will be impact on it in your business as well?

Naresh Jalan: I don't know about how the impact is on what it is, what you are trying to make out of it. But as far as RKFL is concerned, we project that our sales to North America and Europe are going to remain robust. The order pipeline, which we have and the customer feedback what we have is right now that we continue to write the value-add chain and continue to outperform the segments over there.

Abhishek Jain: So how much growth can we expect in the export in FY '23, sir? Can you give some guidelines?

Naresh Jalan: No, I cannot give you any guidelines right now. But whatever right now you are seeing it is a sustainable performance, and you will continue to see this kind of performance going forward for the entire year.

Abhishek Jain: Okay. And sir, we have seen our sharp fall in the steel prices in India and globally. So what impact do you see?

Naresh Jalan: In automotive steel, in India, there has been no price correction yet. As of 1st April, the price remains as such as of today.

Abhishek Jain: So now the steel prices has gone, I mean the HRC prices has gone down to INR 52,000 versus the INR 76,000...

Naresh Jalan: Abhishek, I think, the HRC pricing is not relevant to the automotive component industry. So, I would not like to comment or I have not be able to comment on HRC products.

Abhishek Jain: Okay. Sir, just I wanted to understand the impact on the top line and the margin side because of the correction in the steel prices. So what generally happens when there is a correction of steel prices? What would be the impact?

Naresh Jalan: Steel prices remain unchanged as was is since 1st October 2021.

Abhishek Jain: Okay. So, going ahead the realization would continue to be very strong in both domestic and the export price.

Naresh Jalan: The current realization is going to sustain.

Moderator: We take the next question from the line of Mr. Mitul Shah from Reliance Securities. Please go ahead, sir.

Mitul Shah: Thank you for taking my questions, and congratulations on a very strong performance. Sir, I have two question on the business side. Though, you highlighted of the Class 8 truck side and overall business performance. What is your view on the LCV segment? And what is our current status in terms of, we were planning to ramp up this segment's revenue?

Naresh Jalan: Already LCVs the product mix change which I elaborated in the earlier question is related to LCV itself. There has been a change in terms of our product mix. And that's already showing up in terms of our realization, and in terms of our top line. And that has a positive impact due to volume growth in LCV segment. And in terms of Class 8, I cannot



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define what Class 8 is doing because we are not a significant player only in Class 8. So overall in terms of North America, I think, we are doing extremely well, and we foresee in near future to do continuously good in North American market.

- Mitul Shah:** Sir, how much would be LCV contribution in this quarter, approximately?
- Naresh Jalan:** About it should be close to 5% to 6% in the export portfolio.
- Mitul Shah:** 5% to 6%.
- Naresh Jalan:** Roughly.
- Mitul Shah:** Yes. And on the non-auto side though you highlighted about the Railway segment, sir, oil and gas segment contribution has almost doubled more than doubled in this quarter compared to last year. So, it is very small in terms of overall it's just 2%. So what is your view and can it become a significant?
- Naresh Jalan:** Yes, oil and gas will continue to grow. And I think probably in this quarter you will see further growth from what we have done. We don't look at things in terms of percentage, but in absolute terms, oil and gas is going to grow further in this quarter. And it will continue to grow for the entire year.
- Mitul Shah:** And this entirely in North America again?
- Naresh Jalan:** Yes, it is entirely North America.
- Mitul Shah:** So, here sir, are we growing with the existing client or we are adding any -- we have added and your major client that's why it has increased?
- Naresh Jalan:** Our endeavor is to add and keep on growing with the existing clients also. So I would not be able to comment on exact clients, but we have already been giving lot of press releases in terms of addition of new clients. So it is a factor of both addition of clients as well as growing into particular existing clients also.
- Mitul Shah:** Sir, you have highlighted in your key initiative EV ESG and all. So can you throw some more light on EV what is our presence at present? And what is the...
- Naresh Jalan:** We have already clearly mentioned in our presentation EV programs, which we are running globally and where we have added. I think in North America, we have added the programs and how many customers, we have both, we have mentioned very clearly. And EV continues to be a very small portion right now of our total business in terms of percentage. But we feel that as the market grows, we will continue to keep on adding EV in terms of our portfolio.
- Mitul Shah:** Sir, the question is around this presentation only. Sir, in case of the realization export realization has come down, volume growth is there but this mathematically it's not matching with our export revenue, which has reported high growth again. For example, export revenue growth is around 13.4%, but volume growth is just 12% and even there is a realization -- volume decline is 4% realization growth just 12.3%. So how this revenue can be 13.4%? Basically revenue growth seems to be slightly higher after doing this calculation of ASP as well as volume. So anything we are missing out on this, sir?
- Lalit Khetan:** So here the total export includes also the freight, which I think you have to eliminate to arrive at the real value. We have to do the adjustment for the freight realized where total export is. This quarter export realization -- last quarter export realization has an element of freight realized from the customer and that adjustment has been arrived at, that's why it will not exactly match.



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- Mitul Shah:** And sir, lastly on this again production in terms of tonnage, as well as sales this time also it is 36.4% is a production whereas sales is 30.5%. So this as a percentage like wastage has come down. It seems like the final output as a percentage of the production tonnage seem to be slightly higher this quarter compared to last year, as well as the previous quarter. So, any change because of the product mix or any process change or is there anything related to inventory?
- Lalit Khetan:** Certainly, it has more to do with inventory only. We can see that there is increase in inventory.
- Mitul Shah:** Okay. So no major change in terms of process or where wastage is coming down or anything.
- Lalit Khetan:** There may be marginal numbers on that side, but major is from the inventory side only.
- Mitul Shah:** Sir lastly, just thought process, in case a U.S. enters a recession next year if at all. So based on your past experience of past one or two down cycle then all these orders of the Class 8 truck and all those, how this cancellation or as a percentage how much have you experienced cancellation goes from the peak level of orders?
- Naresh Jalan:** I think, we don't work with in case in our mind. So I would not be able to tell you what exactly will happen. But as far as projections and other feedback we have from the customer we remain bullish on the current output and offtake by the customers. So we don't foresee any challenges right now for the next three quarters. And we will see as the time arise. I think right now, in case cannot be built in our business plan.
- Mitul Shah:** No sir, based on past experience you must have observed whenever any such thing happens so what has been this percentage of as a cancellation?
- Naresh Jalan:** No, I would not like -- I will not be able to comment on this.
- Moderator:** We take the next question from the line of Mr. Saket Kapoor from Kapoor Company. Please go ahead, sir.
- Saket Kapoor:** Thank you for this opportunity. Sir, firstly, sir what are the key reasons for realization being up for export? Is it the currency part of the product mix, particularly, that gives a difference higher realization for the exports?
- Naresh Jalan:** It is both. It is a mix of currency as well as products change. As we are -- our offtake in oil and gas has improved the realization is better in oil and gas. And as well as light vehicle has contributed higher sales in North American market. And new customers entry at a better pricing in Europe market also has -- it's a cumulative effect of both currency as well as better realization from the customer itself.
- Saket Kapoor:** And sir, you mentioned about order intake of INR 388 crore in your release. So what is the current order book, sir, as on Q1? And what is the export and domestic mix that if you could throw some more light?
- Naresh Jalan:** We don't have any kind of order book right now, we don't maintain that. New order means is basically what Lalit has mentioned, it is basically an estimated annual volume offtake which customer gives us, and based on that, we start the development process. Basically based on that Lalit has given you are INR 388 crore order win. But we don't have because automotive schedules work on basically monthly schedules. So, we don't have any order book concept or we do not have an approximate evolution to that.
- Saket Kapoor:** So, sir, this INR 388 crore order book this is for executable period. When it is going to get executed?



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- Naresh Jalan:** It is samples and productions are going to start. Execution period is going to start from next year and it is some contracts are three years or some contracts are five years. And this is what is our annualized volume, estimated annualized volume.
- Saket Kapoor:** So, this order execution will start FY '23?
- Naresh Jalan:** Yes. We are already in FY '23.
- Saket Kapoor:** For FY '24 sorry.
- Naresh Jalan:** FY '24.
- Saket Kapoor:** '24. Okay. So, sir, this is only an indication that you have given to us. Whatever business we are going to do over this period of time that is different than what this order is giving.
- Naresh Jalan:** Estimated visibility for next year from the new customers.
- Saket Kapoor:** Okay, sir. What is the mix? Is it totally export part or?
- Naresh Jalan:** Entirely export, this is entirely export.
- Saket Kapoor:** Okay. Sir, in your opening remarks, sir, you were answering one question that the railway, top line is going to double from what you did last year. This is what you indicated?
- Naresh Jalan:** Yes.
- Saket Kapoor:** The railway business?
- Naresh Jalan:** Yes.
- Saket Kapoor:** Okay. As it is 1% I think in your presentation it was mentioned. So, what was the absolute number, sir, last year?
- Lalit Khetan:** Last year number for the railway you are looking at correct?
- Saket Kapoor:** Yes, revenue numbers.
- Lalit Khetan:** I think last year number was somewhere in the range of INR 50 crore.
- Saket Kapoor:** INR 50 crore. Okay. Sir, can you give the net debt number sir for this quarter, sir?
- Lalit Khetan:** This quarter net debt number is around INR 1,300 crore.
- Saket Kapoor:** And sir, the split between the same? What is the working capital? What is the long-term and the cost of borrowing?
- Lalit Khetan:** See the total borrowing is INR 1,300 core is a mix, because see if you look at the last quarter number it was around INR 990 crore of the long-term in addition to short-term. Long-term debt has gone by INR 30 crore, and short-term debt remain at the same level almost. And the cost of borrowing has certainly marginally gone up in this quarter by 40-50 basis point. The full impact has not come in this quarter for that.
- Saket Kapoor:** But what will be blended cost of fund?
- Lalit Khetan:** Blended cost of fund, I think it is near to 7%.



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- Saket Kapoor:** Is at 7%. And with rating -- post this rating now interest rate is hiked, so we are not expecting any lowering now. Whatever hike will happen that is moderate.
- Lalit Khetan:** Yes, interest rate is not going to go down right now.
- Saket Kapoor:** And as a percentage.
- Lalit Khetan:** Whatever we can pay further that will have an impact on the borrowing cost.
- Saket Kapoor:** What would be the targeted levels sir, for this INR 990 crore for FY'23?
- Lalit Khetan:** See what we have clearly said in our capital allocation is strategy a major amount of earning will go towards repayment of debt, and we are targeting ourselves to become net debt free in next three years time. So, we are reiterating that and we are working on that. And you can see quarter-on-quarter reduction in debt level. So full year number, I think still we should wait for one more quarter to have a full-year number on the debt side.
- Naresh Jalan:** And basically what, Lalit, wants to say, from operations we want to be debt free in next three years' time. There is no -- he is not building in any capital raising to be debt free in next three years.
- Saket Kapoor:** Okay, sir. And there's also seasonality factor as we have built up inventory this was also evident last June. I think the last June COVID factor was there. So is there a seasonality factor that plays out for us in our business or it is a linear quarter?
- Naresh Jalan:** It is ongoing process and we don't play basically on inventory or anything it is ongoing process. It's in at first-in first-out basis.
- Saket Kapoor:** Okay. So what this inventory built up is indicating?
- Naresh Jalan:** The inventory built up is not be only at the current plant level it is at the warehouse at the customer end, which is our RKFL LLC. So I would not be able to exactly say where the inventories lie right now. So there can be mix of plant inventory as well as inventory lying at the customer end.
- Saket Kapoor:** And lastly, sir, on the raw material basket, sir what constitutes the major raw material and how are we sourcing done, sir?
- Naresh Jalan:** No, it is long products basically forging quality steel.
- Saket Kapoor:** And everything is sourced domestically only, sir. Will depend upon the raw material requirement?
- Naresh Jalan:** Yes. No, we 100% source raw material domestically.
- Saket Kapoor:** And number of players from whom we are sourcing, how many players?
- Naresh Jalan:** I think we will not be able to comment on this.
- Saket Kapoor:** Okay, sir. As you explained to us in your opening remark and also reiterated the fact about debt reduction and continued good numbers or maintaining these numbers. So what are the key risks to your projections? Like you made business plan for current year, so what are the key risks god forbid that may play, may not play out going forward?
- Naresh Jalan:** Basically god forbid if we exist, organization exist performance will come. If we don't exist organization does not exist results will also not be there.
- Saket Kapoor:** Business environment.



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- Naresh Jalan:** We feel that the business environment is extremely conducive. And demand will remain robust that's what we have from our customer end. And that we can ensure the investors that that is what is there right now in pipeline feedback we have.
- Saket Kapoor:** Correct, sir. And for the CAPEX part, how much goes into the maintenance CAPEX currently? And any further capacity augmentation we are looking, sir?
- Naresh Jalan:** No, right now, if you see our full year presentation last year, we have already outlined our capital allocation policy and we stick to that. Based on that whatever cash flow permits, we will go ahead and do CAPEX. We continue to augment capacity, create capacity and grow the company. But everything will depend how the cash flow permits. And based on cash flow permissions post debt reduction, post paying dividends to investors whatever cash flow is there we will plough back the cash to the company to augment capacity.
- Saket Kapoor:** And what is the maintenance CAPEX number, sir? Any numbers absolute number you can share?
- Naresh Jalan:** It should be around INR 70 crore to INR 80 crore, maintenance CAPEX.
- Saket Kapoor:** INR 70 crore to INR 80 crore. And sir, with this reduction of debt and quarter-on-quarter which from the cash flow you would be reducing. As a percentage of sales, how should we look at this finance cost number also, sir? Last year it was -- absolute number was INR 153 crore. So for this...
- Lalit Khetan:** Last year the number was INR 93 crore on the finance cost, right.
- Saket Kapoor:** Sir, consolidated number.
- Lalit Khetan:** See if you look at the consolidated number, the last year number was sorry -- give me the number consolidated number let me get on the consolidated. INR 96 crore was the last year's consolidated number.
- Saket Kapoor:** Yes, sir. Right. Understood.
- Naresh Jalan:** And this is year we have come with INR 26 crore in the Q1. And it looks like to be remain at the current level only. And even if there will be an increase in interest cost we will be able to save that by reducing our debt. So, this will not go up from this level. I think we will be somewhere in the range of INR 100 crore to INR 105 crore for the full year.
- Moderator:** We take the next question is from the line of Shubhankar Sharma from Motilal Oswal Private Equity. Please go ahead, sir. Mr. Sharma your line is in talk mode, sir. Please go ahead with your question. Mr. Sharma. Sir, we do not have any response from this line. Moving to the next question. We take the next question from the line of Smita Mohta from Kredent Infoedge. Please go ahead.
- Smita Mohta:** Okay. So I was asking as the management is saying that the financials next year is expected to be similar to this year's result, if may say so. So which means that the revenue would be rising at near around 67% and the margins at 22%. Is that what the management is meaning? I wanted to confirm the same.
- Naresh Jalan:** I'm not able to understand the question, ma'am.
- Smita Mohta:** Sir, the question is for the full year FY '23, right. So, if you all are suggesting that the financial are expected to be same, so should I assume that as the revenue for the full year has risen, it will be in the similar lines for the next year also?



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- Naresh Jalan:** Ma'am, I'm not commenting on FY '24. FY '23 what we comment right now is that next three quarters are going to be on the expected lines. And we should outperform the expectations. And what results have come out today is sustainable, and it will continue to grow in this fashion throughout the year. In terms of FY '24 we feel that market as today is extremely good. And if this continues, company is going to grow further from where we end FY '23 at.
- Smita Mohta:** Great. So what I was suggesting sir, is, that if we look at the value by revenue it has risen by 67%. So are you commenting that the next three quarters also your revenue would be rising in the similar pace?
- Naresh Jalan:** In terms of percentage I'm not telling anything. In terms of absolute number, yes, we will be able to sustain the current revenue mix, as well as the margins for the next three quarters.
- Smita Mohta:** Okay. Could you bifurcate sir the Class 8 truck sales order that you received from your revenue? Like, what is the percentage of Class 8 truck orders?
- Naresh Jalan:** No, we don't have any break-up in terms of Class 8.
- Smita Mohta:** Okay. And margins for the full year, is it expected to be at near around 22%?
- Naresh Jalan:** We will be able to sustain the current levels of margin for the entire year.
- Moderator:** We take the next question from the line of Mr. Kushal from Motilal Oswal. Please go ahead, sir.
- Kushal Shah:** Sir, regarding -- I wanted to understand regarding the realization, when we say that we expect the current realization to sustain, then, maybe how we are expecting the railway orders to improve to 2x? Is it because of the order flow from the government or we are increasing the penetration in the segment? And the other thing was five factors (**inaudible**) which can be the most contributing to the growth over three to five years.
- Naresh Jalan:** In terms of railways, with the new fabrication facility being commissioned in the previous year, we have started getting good orders from railways. And that is showing up in our balance sheet in terms of growth in railways. And I think we will continue to grow in railways in significant way with the current business environment in railways. So I think for next two to three years, we can comfortably say that railway is going to be doing extremely well in terms of our overall portfolio.
- In terms of 3 to 4 years' growth plan, I cannot say what is going to happen next three, four years. I would be able to comment on the next three quarters and we expect if the economy remains as such what it is today, we will do extremely well in FY '24 also.
- Kushal Shah:** Sir, I'm not telling about the external factors, but internal factors where you are considering the next leg of growth to come over three to five years like.
- Naresh Jalan:** No, internal both in railways, commercial vehicle and we have entered the light vehicle in Indian segment also. And we are trying to penetrate in the passenger vehicle in a significant way. Right now passenger vehicle is insignificant for us. We are trying to grow our passenger vehicle segment, but it is still absolutely very nascent for us to comment on a significant portion in passenger vehicle. And tractor has started doing extreme well for us. So overall, we see the domestic market will outperform in next three to four years time.
- Kushal Shah:** Sir, and the realization sustainability and how we are expecting that?



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- Naresh Jalan:** With the current steel pricing, we are not expecting any prices to go up or go down. We expect the realization to sustain at the current levels for next three quarters at least.
- Moderator:** The next question is from the line of Taral Shah from Kitara Capital. Please go ahead.
- Taral Shah:** So basis your export order book. So the last five, six quarters your volumes have remained at around 10,000 tonnes per quarter. So when we say there is a strong demand from export market so why these numbers are not increasing?
- Moderator:** Sir, Mr. Taral's line just got dropped. We are trying to reach him back. We take the next question from the line of Mr. Dipen from DS Investments. Please go ahead, sir.
- Dipen:** Yes, thank you for the opportunity. I had a couple of questions. Firstly on the fund raise side, we were expecting some announcements from the company about the undraise either by way of bonds or equity. So if you could just throw some light on what should we expect out of that? And the second question is...
- Naresh Jalan:** We have dropped our fund raising plan right now with the current performance of the stock, we feel. And the expected business volume for next three years, we don't expect any fundraising at the current moment.
- Dipen:** Okay. Because I think yesterday you had intimated to the stock exchange, you were going to discuss about fundraising.
- Naresh Jalan:** Yes, we have given a press release today. And in that there is no resolution in terms of fundraising.
- Dipen:** Okay. And the second thing you have partly answered about the current year's growth rate. In the last couple of calls we have heard you telling about 20%, 25% growth in the current year. The first quarter has been way beyond that. So anything further qualitative you can tell us about, what we should expect for the current year? Thank you very much.
- Naresh Jalan:** I think, we have already elaborated that the current performance here to sustain. And we will be able to outperform going into next three quarters also.
- Moderator:** And we have Mr. Taral Shah connected in the question queue. Sir, you may go ahead Mr. Shah.
- Taral Shah:** Got disconnected. So, my question was regarding export volumes. So for last five, six quarters our volumes have remained at 10,000 tonnes per quarter. So, when you say there is a strong order from the export market then why our numbers have remained in this level?
- Naresh Jalan:** I think the product mix keeps on changing. The tonnage becomes insignificant. In terms of overall revenue you will need to see vis-a-vis what is the market condition in the particular geography. While we continue to say that demand is robust, I do not say about what is happening in the country in terms of economy. I can say, what we are doing in terms of our sustained growth in that geography. So we are not talking about the entire country or as an economy or per sector. We say that we continue to maintain sustainable growth in that geography and our demand is robust. So my pipeline is there.
- And product mix in terms of tonnage LCV parts are low weights, oil and gas there are low weight parts, so volumes in that are going up, that may not add volume. And some sectors may not be performing, so their volumes may go down. In terms of absolute number in rupees to see what is the growth.
- Taral Shah:** So for over the next long-term, I mean two, three years export can contribute how much?



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- Naresh Jalan:** I could not understand you.
- Taral Shah:** Sir, for next two, three years currently the export is contributing around 30% or so of revenue, right? So how much it can increase from current level?
- Naresh Jalan:** No, we will -- the way the company is growing right now we can safely say that we will be able to maintain this kind of premix. Maybe 3% or 4% up and down, but 30% to 40% is going to be the range of exports to the top line.
- Taral Shah:** Okay. So the moment your export contribution increase from current level so working capital days will increase or reduce?
- Naresh Jalan:** No, working capital days in exports are higher. We are not doing any bill discounting on anything, so working capital days in terms of exports are higher. And that has been mentioned in last several calls, we have had that the export debtors have at least 110 days to 125 days cycle in minimum. And it can go up 150 days also.
- Taral Shah:** Okay. It can go up to 150 days. So there is no scope for improvement from current level, right?
- Naresh Jalan:** No, in export debtors, we don't see any improvement in terms of debtor days in exports. Unless we start doing factoring or discounting of the business, which is in our current plans right now.
- Moderator:** We take the next question from the line of Sangeeta Purushottam from Cogito. Please go ahead.
- Sangeeta Purushottam:** Good afternoon and thank you for taking my question. Sir, I just wanted to understand your capital allocation policy a little bit. Now what you said is that whatever cash flow is generated will obviously go partly to -- will go partly to pay dividend partly the debt reduction. You will have some working capital requirement from there and the balancing factor will be CAPEX. Had I understood you right?
- Naresh Jalan:** Ma'am we have said, as you can see in my presentation for last full year, we have mentioned the complete capital allocation policy. We have mentioned that part of the cash flow is going to be paid for debt and working capital and then dividend payout and whatever after dividend, post dividend payout remains we plot in terms of augmenting new capacity or in the plant.
- Sangeeta Purushottam:** Okay. So, sir my question is, if that is the case looking at the business outlook which looks quite promising. Not just for FY '23 but according to you for the next two, three years as well, will you have enough funds available to fund the CAPEX requirement or won't you need to borrow fund to do it then therefore debt reduction may not be that appropriate if you're looking at strong opportunity.
- Naresh Jalan:** Ma'am, with the current business plan and scenario what we are working on, we are working on basically debt reduction for next three years, and that's the policy, which the board has evolved in. And whatever cash flow is less I think that should be sufficient enough with the projections, we are working with our marketing team to funnel our growth for next three years.
- Sangeeta Purushottam:** Okay, if I might just ask another question related to this, what kind of capacity expansion are you planning over the next three years?
- Naresh Jalan:** Ma'am, we may not -- in terms of tonnage it may not be significant, I think we are not looking at augmenting a huge tonnage capacity in terms of tonnage. We are looking at adding more capacity in augmenting automation and value-add in the products. So that will improve the bottom lines more significantly than the top line.



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- Moderator:** We take the next question from the line of Mr. Mitul Shah from Reliance Securities. Please go ahead, sir.
- Mitul Shah:** Sir, thank you for giving opportunity again. Sir, just as you mentioned that there the requirement of the tonnage capacity addition. Sir, when I look at your presentation your ring rolling and forging has been always in the range of 100% to 115%, even 125% of utilization. Sir, just want to understand up to what maximum utilization can we go for these three segments, ring rolling, forging and press in terms of above 100% what maximum possible?
- Naresh Jalan:** No, I think, while we say that we are not in terms of adding capacity we also have said that we are working in terms of automation and value-add. So I think that is what is the target of the company for next three years. And in terms of adding capacity in ring rolling or in press I think it's a marketing call. We right now do not foresee any reason to augment fresh capacities in these places. So we will stick to what we have right now. And in case we change our policy or in case there is a new thought process in marketing, we will come back to the investors and inform them.
- Mitul Shah:** Yes, sir. But in this, for example, ring rolling last year same quarter we went up to 125% utilization. So what is maximum possible utilization level in case if demand is high then can we go up to 115%?
- Naresh Jalan:** No, I think it all depends on the product mix, Mitul. I think it does not depend -- if we get all the products on -- whenever we declare capacities at the mean level it's not at the top level. So it depends on if all the quantity comes at the topmost weight level it may go up 130%, 135% also. But it all depends on the product mix we have right now. And we do not have any visibility on a monthly basis. So we cannot change that or we cannot do anything about that.
- Mitul Shah:** Sir, what about machining capacity right now? Utilization?
- Naresh Jalan:** I think right now machining capacity is 100% being utilized.
- Mitul Shah:** So there any ramp up or capacity addition required?
- Naresh Jalan:** That is what I said, we will continue to add capacity in value-add. So, value-add means it's machining or something related to machining only we will keep on adding capacity.
- Mitul Shah:** And sir, in your presentation that you mentioned about key focus area along with the EV and niche products. You stated we will focus more on the high margin segments now. So, which are the higher margin segments or products or can you highlight just two three?
- Naresh Jalan:** No, right now with key initiatives is that we are looking at getting into more assemblies right now or the components, which we are making. And also EV products which are coming into they are high margins, as well as oil and gas is high margins.
- Mitul Shah:** Sir, any plan to come out with the more sub-assembly type of thing rather than only components?
- Naresh Jalan:** We have already started into sub-assemblies and full complete assemblies. So the company always looks at opportunities to improve product mix. So that is an ongoing process, which we always keep on doing.
- Mitul Shah:** That must be a high margin relatively, right?
- Naresh Jalan:** Yes.



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- Moderator:** Sir, we take the last question from the line of Mr. Saket Kapoor. This is a follow-up question. Mr. Kapoor, you may go ahead.
- Saket Kapoor:** What Mr. Harmit was trying to say was the product category in EV sector.
- Naresh Jalan:** I think, product category. We cannot comment right now, because EV is a very, very confidential portfolio for us. So we would not like to comment on what product portfolio we are going ahead in EV right now.
- Saket Kapoor:** And out of the total order book mix or the visibility which you have, what would be the contribution from EV? It will be a very small portion only, sir?
- Naresh Jalan:** No, I think in the last full year presentation we have already given our growth plans in EV. I think, we are looking at close to around -- in terms of percentage if you look. I don't have it right now in front of...
- Lalit Khetan:** It's 3.5% for the full year FY '23 for the turnover we are looking in the EV and 6% in FY '24.
- Saket Kapoor:** Sir, about the other income part if occurrence happens in the first quarter, what is the nature of this other income, sir?
- Lalit Khetan:** It may be some insurance claim or that maybe small claims etc.
- Saket Kapoor:** Okay. And sir, about the earlier participant did spoke about the utilization levels between the products, which is ring rolling, forging and press. Why on the press side, sir, it remains in this vicinity of say 50% to 65% only, if you could explain? Is it -- it depends totally on the product mix that is correct. But this nameplate capacity of 117,000 it is only for the new vehicle purposes only?
- Naresh Jalan:** It is numerical purpose only. And it is based on the product mix. But you will be able to see in continued quarters improvement in press utilization also.
- Saket Kapoor:** Right, sir. And for the FOREX impact, since the rupee has depreciated how do the depreciation of rupee affects our earning, sir?
- Naresh Jalan:** I think we have already -- couple of times we have said this in our calls that for rupee we do not take a call on the FOREX side basically our policy and we follow with the customer that every quarter the FOREX is plus-minus 5% passed on to the customer, whatever may be. It may be appreciation or depreciation is passed on to the customer.
- Saket Kapoor:** Sir come again sir. I missed your last line somehow. The forex is?
- Naresh Jalan:** FOREX is passed on every quarter to the customer plus-minus 5%. So we do not take any call on the FOREX side.
- Saket Kapoor:** Okay. And there is no liability also unhedged part generally. Because everything -- because you are sourcing everything domestically so that does not play out for us.
- Lalit Khetan:** Yes, there is no liability in terms of hedging.
- Saket Kapoor:** Sir, when we look at your last year number for the full year March '22. And the first quarter, the first quarter, do the first part of June was badly affected by the COVID. So it is a non-comparable quarter, June '21?



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- Naresh Jalan:** Domestic market was bad due to COVID on that time. Export was could, because India was impacted by the second wave of COVID. So that having some impact on the sales under domestic side in last year.
- Saket Kapoor:** Because sir I asked this question is because since you are saying, you are exceeding towards that for this quarter, the revenue and the bottom line, which we have maintained that's going to get -- it's going to be maintained, but when we look at your numbers for the last year, it has improved sequentially on a larger trajectory. For posting a INR 253 crore PBT number the second, third, and fourth quarter were indiscriminately very high. But if we even extrapolate or annualized this first quarter number the growth numbers visa-a-vis the March number are not looking very high. So, just wanted to understand how this linearity is going to play out? We would have some big quarters during this three coming quarters?
- Naresh Jalan:** We will continue to grow quarter-on-quarter.
- Saket Kapoor:** Correct.
- Naresh Jalan:** What I have said that we will. To the question, which was asked whether we will be able to sustain? Yes, we will be able to sustain what we have done in this quarter. But I have never said that we will not grow from here. We will continue to grow. Company projects and company envisages that we continue to grow quarter-on-quarter and with the current order book and plans we are very confident to achieve higher growth for the full year.
- Saket Kapoor:** Correct, sir. Sir, when we read your rating analysis there in this high customer concentration part is mentioned. Wherein in Tata Motors as you mentioned...
- Naresh Jalan:** I would not like to comment on any particular customer on or any...
- Saket Kapoor:** It is very well documented in rating reckoner that was I was referring. If you allow I may refer it or if not then that's all for me.
- Naresh Jalan:** No, you can refer it. But we will not -- I will not be able to answer any questions related to that.
- Saket Kapoor:** Because they have mentioned it that they accounted for your revenue of 25% and 27% for FY '21. So I was just looking with this improved revenue which you are guiding to us this percentage this division factor will continue or Tata Motors business will also be equivalent -- you will have the same share of pie. But since you don't want to comment on a customer...
- Naresh Jalan:** No, I would not be able to comment on any brokerage report or report you are referring to. And...
- Saket Kapoor:** I'm referring to India Rating report.
- Naresh Jalan:** No anything on that sort. And I would not be able to comment on any particular customer.
- Moderator:** We take the last question from the line of Karishma Makhija from Motilal Oswal. Please go ahead, ma'am.
- Karishma Makhija:** Yes. Hello, sir. Sir, the gross margin from Q1 '22 to '23 there has been a drop a close to 6%. What is the main reason driving this drop? And two, on the EV segment, which is the sub-segment in EV so from an export perspective we have seen that there will be significant growth in the coming quarters. Is it LCV, is it tractors or trucks or what is your view, sir?



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- Naresh Jalan:** No in EV we are right now working with three-wheeler, four-wheeler and small truck market. But I cannot comment because it's very extremely confidential. So I would not more elaborate on this portfolio. And in terms of gross margin I think you are seeing it vis-a-vis the last FY '21 Q1 in that domestic market due to second wave of COVID was down and that's the reason export as a percentage of sale was more than 50%. So that's the reason gross margins in export realizations are better and that's the reason in absolute term realization went up or gross margins went up. But if you see compare it with the last quarter of FY '22, you will be able to see we have grown in gross margin on Q-on-Q basis.
- Karishma Makhija:** Yes. So, you're saying in Q1 FY '22 the exports were higher versus domestic given the second wave of COVID. And...
- Naresh Jalan:** Q1 '21.
- Lalit Khetan:** Q1 '22.
- Karishma Makhija:** Gross margin was around 60.5%.
- Lalit Khetan:** Yes, Q1 '22 our gross margin was 60% because in exports you have a value of freight also in the realization. That's why raw material cost goes down that's why operating margin looks higher. And as in the entire mix the export was higher than the domestic and in the current quarter it's reverse.
- Moderator:** Thank you, ma'am. That was the last question. I would now like to hand over the conference to Mr. Lalit Khetan for closing comments. Thank you, and over to you, sir.
- Lalit Khetan:** Rajesh could you take it over.
- Rajesh Mundhra:** Yes. We take this opportunity to thank everyone for joining the call. I hope we have been able to address to all your queries. If you have any further queries or information you can get in touch with us or SGA who is our Investor Relations Advisors. Thank you very much for attending our call.
- Moderator:** Sir, should we conclude?
- Rajesh Mundhra:** Yes, we can conclude.
- Moderator:** Thank you. On behalf of ICICI Securities that concludes this conference call. Thank you for joining us. You may now disconnect your lines.