HEIL/SE-60/2023-24

November 10, 2023

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 half year ended September 30, 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 half year ended September 30, 2023 conducted after the meeting of Board of Directors held on November 7,p 2023.

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

"Harsha Engineers International Limited

Q2 FY '24 Analyst and Investors Conference Call"

November 07, 2023

MANAGEMENT: **MR. VISHAL RANGWALA – CHIEF EXECUTIVE OFFICER AND WHOLE-TIME DIRECTOR – 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 Harsha Engineers International Limited Q2 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 touch-tone phone. Please note that this conference is being recorded.

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

Vishal Rangwala: Thank you, and good afternoon to all. Thank you for joining our quarter 2 FY 2024 Investor Call. As per the normal practice, Maulik will talk us through more details about the numbers after I talk about general update on the quarter. However, I'm presuming that you would have got a chance to go through the same.

At the outset, I must admit that this quarter, the number look a little disappointing both from point of view of top line as well as the bottom line. However, let me assure you that while Q2 numbers are not up to the mark, we expect much better overall annual numbers for FY '24, and we should be back on normal growth track from financial year 2025 onwards.

Let me deep dive a little bit on both the negative as well as positive factors. First, if we talk about Romania as well as China, the situation continues to remain adverse from demand standpoint. In Romania, second quarter, we have seen even the demand for industrial products going down quite a bit. It has an impact -- this has impacted the takeoff from our key Romania customer on the semi-finished fasting as well as case side.

Quite obviously, owing to the impact of fixed overhead, there is a sharp negative impact on the bottom line. However, on the positive side, we expect the demand of wind turbine in Europe to revise from quarter 4 as of this financial year, which should see a significant improvement in second half numbers for Romania and that should offset to a large extent negative results of first half. But I'm afraid the year-end position in Romania may still be negative to much reduced level.

Now if you look at China, we had a typical problem in Q2 in line with overall softening of Chinese market, the offtake of cage from our key global customers who are operating their plants in China was also at normally low levels. However, we are in constant touch with these customers. And from the early signs that we are getting, we are quite positive that the situation will start improving from quarter 3 and will reach to a normal level in quarter 4, 2024 -- FY 2024. Thus, the negative position at the end of the year from China will also somewhat be neutralized.

Now talking about India and engineering business. This is continue to operate at approximate normal level. However, there is a mild dip in offtake partly on account of Europe and Chinese demand slowdown. And partly on the fact that even the Indian demand for industry was a little soft in quarter 2. However, in India, we are continuing to work on several outsourcing and development opportunities.

First, the new product development activity continue to be more or less same pace at which we believe -- that will help us get us back into a growth trajectory and giving us a much better visibility medium to long-term perspective. Similarly, if we talk about Bushings, we are anticipating a decent revival in demand for Bushings from quarter 4 onwards. Same is the situation for large size Bearing Cages as well as increasing wallet share from our Japan-based customers.

Thus in India, we are -- we definitely see an improved performance in second half of financial year 2024. And this coupled with much improved performance at Romania and China level should help us reaching quite close to last year's performance. So I'm afraid there will be a slight degrowth in financial year 2024 as compared to financial year 2023.

As I had indicated in quarter 1 call, while this year was practically gone, FY 2025 will be much more promising, and we should be back on track firing on all cylinders. Further, we have frozen our Phase 1 of a greenfield capex plan for creating additional capacities of Bushing as well as large size bearing cages, which we plan to commission by October 2024. I wish to express my sincere thanks to all the investors for continuing to extend their support and confidence in our long-term growth story. And I wish you a very happy Diwali and bright prosperous New Year in advance.

Thank you. Over to you, Maulik.

Maulik Jasani: Hello, everyone, and good afternoon. Thank you, Vishal, for the business update. As you would have observed for the quarter ended September 23, for engineering business at consolidated level, we have achieved a top line of INR298 crores against a top line of INR331 crores in immediately previous quarter and against INR318 crores top line in the same quarter last year. At a consolidated level, our EBITDA is of INR40.5 crores in quarter 2 against INR48.8 crores in the previous quarter and INR51.5 crores in the last year quarter 2. Major impacts on account of the weaker export demand, operational cost increase and the inputs by Vishal.

The company has incurred a capex of INR26.4 crores in quarter 2 at consolidated level, which includes capex of INR5.3 crores from IPO use plan. In Solar Division, we have achieved EBITDA of INR1.4 crores in quarter 2, while overall working capital cycle at consolidated level remain at 134 days against 143 days in the last year's same quarter.

I wish you all a very happy Diwali and bright prosperous New Year in advance. With this brief on the financial numbers, I hand it over the call to operator to take up the Q&A one by one.

Moderator: First question is from the line of Amit Anwani from Prabhudas Lilladher Private Limited. Please go ahead. Mr. Amit, may I request you to unmute your line from your side, please.

Amit Anwani: Hi, sir. Thanks for taking my question. My first question is on the subsidiaries, the Romania and China. Obviously, we have been hoping of a revival in the subsidiaries with ultimate product mix. We went into at high energy cost in Europe. And we're trying our best. What would be the margin level , if at all, there is a turnaround in FY '25 for these subsidiaries. And Second thing, I wanted to understand the high energy costs, which we were facing, what is the status there with respect to utilization, the finished product and Vishal highlighted on the slower demand for the industrial side from there. Just 1 more clarity on the performance in Romania, what is happening?

Vishal Rangwala: Yes. Good afternoon Amit. So primarily, when it comes to energy prices, we have received I would say a very adequate compensation from our customer for that escalation and we are very thankful for our customer. And that's the kind of close relationship we work with our customers on. Having said that, at 26% degrowth in a single quarter becomes a very challenging situation for us to deal with and turn it around positively, very like double-digit degrowth is similar in China as well.

So that being the background, we still remain very positive of about both China and Romania. Having said that, we are also mindful of where we are, what are the different factors going into this situation. And we are, again, fairly confident of revival, but we are closely watching the situation.

Now when it comes to -- I think one of your question was related to industrial product yes, definitely, we are seeing a macro slowdown, specifically in European region and China. We're seeing that in quarter 2 at least and still feeling positive that this situation will improve and is improving in the positive path right now, when it comes to product mix, yes, I think it remains very similar to a large quarter for us. In Romania, I think about 80% plus is semi-finished product and about less than 20% is a finished product cages.

Sanjay Majmudar: So just quickly to add to what Vishal say, this is Sanjay here. So there are 2 scenarios. One is the little optimism, which all management would have generally in this situation that things should start looking up, particularly from the wind side in Europe in Q4. This is one very, very hopeful sign that we are getting from our local Romanian team, and we are we are really hoping that they should start reviving the fortunes of Romania that look from Q4.

Having said that, we are very mindful as Vishal said to also look at the cost structure that is more in our control rather than just the demand part, and we'll try to minimize that cost to the extent possible. However, very honestly, given the fact that Romania as well as China has a very strong strategic roles to play. I think as a management, we have taken the call to wait for at least a couple of more quarters and then take a final call, but we are very optimistic that by next year, at least, there should not be any loss at both the subsidiary level.

We should partly compensate the high-cost mile cost reduction exercise that we have initiated. And secondly, we are hopeful that there is some demand will revive and we will definitely be about breakeven. Now, frankly, it is very difficult for us to predict that what could be a probable EBITDA next year in both the subsidiaries. But surely we will share as we get a little more enlightened.

Amit Anwani: Sure, sir. Sir, next question on the capex plan. So how much would be the amount? And this will increase the bushing capacity by how much, what is the current status if you would like to highlight more on the capex plan.

Vishal Rangwala: So, yes, right now what we are calling it as a Phase 1 investment plan for our third site. Basically, we are planning to invest about approximately INR120 crores into this. Now a big chunk of this will go into primarily the land and building. And with that, we are planning to increase Bushing capacity by further about INR80 crores, INR90 crores to begin with this foundation or infrastructure in place to take it further from there. So that's Phase 1 plan for us.

Management: And INR80 crores, INR90 crores is will be additional incremental top line expected out of them. And then a little bit more from large size baring cages also. Thank you.

Amit Anwani: Right. So how much was the contribution this quarter for bushings?

Management: Sorry. Can you say that again?

Amit Anwani: How much revenue contribution from Bushings this quarter in H1?

Vishal Rangwala: I think H1 was, I think, 20 -- approximately INR20 crores. And we have, I think, in the last call, shared that we are expecting the Bushing to hit the number of around INR40 crores, INR45 crores, somewhere in there for the year, and we are on track for that when it comes to Bushing.

Amit Anwani: So now with this capex, we are actually targeting INR140 crores, INR150 crores peak revenue. Am I getting it right? Maybe next year?

Vishal Rangwala: At least, actually, even further because what we have installed capacity, we can take it further. And then what this investment we are initiating. This will actually, as I mentioned, or we have shared that we will kick in, the productionization will happen in almost third quarter FY '25. So we see almost a one-year time frame to install this. And by that, we are expecting this. On various discussions with our customer, a significant increase in demand on the Bushing side.

Amit Anwani: Sure, sir. Thank you and all the best.

Vishal Rangwala: Thank you.

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

Harshit Patel: Thank you very much for the opportunity, sir. My first question is on the stand-alone revenues. I see we have grown by almost 11% Y-o-Y in this quarter. Could you give some sense on how the volumes have inched up and how the pricing has behaved in this particular quarter?

Vishal Rangwala: Yes. So Harshit, I think maybe some clarification needed. You are correct, we have grown 11% to Y-o-Y on this. However, our this Y-o-Y growth is looking like this because of the solar area growth, which has grown significantly. If we just look at the stand-alone engineering segment, we are actually about, I would say, 4% to 5% de-growth approximately for this quarter. And the rest of the growth reason you are seeing is because a very favorable solar policy or a renewable policy released by government. That has given a good top line boost to our solar division. That's what is resulting in positive numbers for year-over-year as well as quarter-over-quarter for stand alone.

Harshit Patel: So sir, within this 5% de-growth in the core engineering revenues, I mean how would the volumes have grown, I think the negative impact would be mainly on the pricing trend?

Vishal Rangwala: Correct. So primarily volumes are somewhat flat. We are somewhat impacted on volumes and some of our supplies to Europe and China. However, overall, that is countered by positive demand on the Americas and India side. So net-net, we see roughly flat with some de-growth on the sub segments, which we are supplying into Europe or China.

Harshit Patel: Understood. Sir, my second question is on the Japanese customers. I think you had grown very nicely in the last quarter as well, I believe, is high double digit on Q-o-Q basis. Even in FY '23, we had posted some INR60 crores of revenues, one with Japan-based customers. Could you highlight how our performance has been in the first half of FY '24? The quantum of revenues we would have done, how we have grown some incremental wallet share we would have gained from these customers?

Vishal Rangwala: So if I look at first half, we have grown almost 18%, 20%. Now this is not really very optimal right now from our point of view. I've been talking about, this should be a growth in terms of 30% or around that. So from that point of view, a little bit softer than what we would anticipate. Having said that, I'm very positive from a long-term and mid-term point of view because the new order wins, the product approvals, which we are going through with these customers gives me a very positive hope or positive feeling about this percentage change, this will turn around much quicker. And hopefully, we'll see a much faster growth on that.

Harshit Patel: Understood. Sir, just a last question on the ramp-up in the localization initiatives by our customers. So do you see any change in the outlook special in the last three months to four months? I mean, usually, what we have seen across companies is that there has been a little bit of softness in the Indian bearings market. I mean the growth rates have not been as high as what we would have expected less than last year. So has there been any change, any slowness in the overall localization plans by the customers or everything is moving as per drag, and we will benefit hugely, especially from fourth quarter or the next year onwards in the volume terms?

Vishal Rangwala: Yes. So from our customer plan and execution and macro plan point of view, we don't see any changes. Actually, we are seeing some of them making even faster progress than anticipated. So some of the localization projects that you mentioned, we believe that they are on track or better. However, we see that all our customers who whoever was part of their business was export driven that has seen some impact. And we are seeing slightly softer demand for those kind of business or those kind of product. So we see some impact from our customer on a short-term basis. They remain very bullish on mid to long term, continue to roll out the various projects and continue to do the product development process so that they are back on -- they are on track with long-term plans.

Harshit Patel: Understood, sir. Thank you very much for answering my question. All the best.

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

Jason Soans: Thanks for taking my question. So my first question would be that when you look on a consolidated basis, our gross margin in this quarter has dropped to 42% where usual run rate historically is around 46% to 48%. And I remember in Q1, you had booked somewhat of a forex loss up to a quantum of INR24 million or so, in COGS. So anything similar in this quarter as well? Or what are the right reasons for looking at a drop in these gross margins?

Maulik Jasani: Hi, Jason, Maulik this side. One reason, as you rightly said, there is an impact on consolidation of forex. but that is not as high as it was there in the quarter 1 -- in the quarter 2. And second reason is pass-through has triggered in the quarter 2. So quarter 1, we were procuring at a low rate compared to that quarter 2 pass through has happened to the customer. So that's why that has dropped.

So that is the second reason. And there has also been some reason on account of liquidating our some inventories as operational effectiveness, you see that we have reduced our inventory level, and we have liquidated some of the inventories, including re-melting them as and when required. So these are the major reasons on reducing the overall gross margin.

Jason Soans: Okay, but Maulik, just could you explain this liquidation and the pass-through which you just mentioned. Could you just throw some more color on that?

Maulik Jasani: On pass through, it is like in the last quarter, we were just buying at a low rate and supplying at the previous quarter rate. Starting from first pricing pass-through has happened. So my raw material rate and selling rate hasn't been at par. And there is no significant reduction in this quarter to the raw material rate compared to the previous quarter. So that a margin percentage impacted. Liquidation in the inventories are of non-moving material given to a furnace, so we re-melt the material. And once we re-melt, there is an impact on account of our conversion cost.

Jason Soans: Okay. And the forex, by any chance, would you like to give the amount? What is this in this quarter? The forex loss?

Maulik Jasani: Very difficult.

Jason Soans: Okay, sir. And my next question would be, I just wanted to know, I mean, similarly by the capex plans you're pretty positive on the Bushing segment. Now I just wanted to know, of course, I know the primary application of its portion to gear boxes. So I just wanted to know, if that's the primary applications. Are there any other users of the Bushing? Or is that only the primary application?

Vishal Rangwala: So on the bushings which we make as of now as a primary applications to the wheel gear box. Bushings per se, has a multiple users for the product which we size manufacturing in the primary going to the wheel gear box application. Sorry, I'm going back to your previous question, Jason. One more reason is we are looking to the numbers along with the Solar numbers, then you can see that Solar business has grown significantly in the last quarter. And the Solar business has a high raw material cost, almost 75% to 80% case-to-case basis. So that is also reducing the overall RMC percentage.

Jason Soans: Sure. Okay. That's helpful. Yes, that makes sense. Okay. Sir, just one question. I mean you did speak about Romania and Europe slowdown, it will take time to recover. So I just wanted to know, in terms from a China perspective, how are you looking at the situation on the ground? I mean, we hear a lot of commentary in terms of the real estate slowdown and a marked slowdown in China. But the government is taking a lot of initiatives towards like cutting interest rates and easing financing conditions, propping up the real estate cycle as well there. And basically looking to push growth there in the economy. Now how do you see this China situation play out for you as a business, considering it's important for you? So just if you could throw some color on the demand from China, specifically?

Sanjay Majmudar: Yes. So see, we -- what we hear commentary out there. I think we have seen a very strong and life impact of that in quarter 2 on our order book, and there was a significant demand reduction which has happened in quarter 2. And we are also hearing some positive actions run by government, and we are seeing some positive signs on that. Too early to definitely say exactly where it's going, but we are very hopeful. We are constantly talking to our customers to figure out what's -- where it is going? What's the right level? And so on.

So we are right now very hopeful of turnaround and seeing some positive sign but can't predict. And what that for us means from a business point of view, yes, we need to rescale the business if that's the economic and the order book is going to be at that level, then that's what we need to do or and/or look at how we can appropriately approach China business, which actually includes product going from India to China as well as what we are making in China and supplying to China. So that's how we are looking at it as a holistic picture.

Jason Soans: Sure, sir, sure. And sir, if I heard it correctly, you said that this INR120 crores new facility, the majority of that capex will be towards bushings and some towards large size bearing cages and some towards stamping, is that right? So more of the capex is towards the bushings segment right?

Vishal Rangwala: Yes. So I would correct. You're fairly correct. However, big chunk of this INR120 crores, what we are doing is going towards land and building, which has an infrastructure would be used over multiple investment cycle. So I mean, I would say, a big chunk is of foundational infrastructure but then you're correct. Within these three Bushing is the biggest investment.

Jason Soans: Okay. And sir, just one last...

Sanjay Majmudar: We have announced this will go over in phases. So this is just the first phase. But as Vishal explained the land and building will have to provide for utility blocks and everything to cover all the phases.

Jason Soans: Yes. Sure. And sir, just one last thing. You just said that in terms of your bearing demand per our bearing customers, of course, long-term picture is positive. But there is some -- in the near term, there is some softness towards export side, right? That's right, right?

Vishal Rangwala: Yes. From India, yes.

Jason Soans: From India, there is some softness in the exports side. Sure. That's all from my side, sir. Thank you so much.

Moderator: Thank you. Our next question is from the line of Dinesh Ramineedi, who is an investor. Please go ahead.

Dinesh Ramineedi: Yes, thanks for the opportunity sir. My first question is on capex effect we previously announced in the wind Solar project side. So recently looking at the numbers we set looking at orders which have been received by the companies which are performing in the Energy segment are -- we can see somewhat big costs being impacted by the company, operating in the energy segment side. So can we expect that going ahead, the Bushing segment of our company can perform better as the orders which are being taken by the other companies which are operating in wind energy?

Management: Yes. So yes, we expect our order book to improve on a mid to long-term, specifically on the energy side and bushing side. Obviously, what -- when it comes to Busing, what we do is we cater to global demand out of India. So India market is definitely improving. There is some indication on other markets improving. However, once the global market improves, we will definitely see some positive signs of that in our order book when it comes to bushings.

Dinesh Ramineedi: Okay, sir. Got it, sir. And my second question is on the railway capacities are currently happening in India. So these company also present in railway capex -- currently going on or there won't be any benefit from the railway capex to our company? Because mostly the products which share the company's manufacturers are all majorly using the railway segment tools?

Vishal Rangwala: Yes. So Dinesh, I'm sorry, I didn't understand your question fully. However, I understand you're talking about railway segment. In the railway, we are seeing a very positive order book significantly growing there to the railway, we are supplying multiple products, including bearing cages, made with steel, brass, plastic as well as the steels insert. So variety of products we are supplying and we are seeing a significant growth with them. And adding a lot of products in that segment with support of our customers. So we are seeing good demand there. And hopefully, that will continue going forward.

Sanjay Majmudar: Just to add in cages we have, I would say almost 100% market share for the railway segment who serve could be the manufacturer of the bearings.

Dinesh Ramineedi: Okay, got it, sir. Just one last question, sir. Previously, when the Japanese deal has happened, the company has guided, the management has guided that the deal will bring about 40% to 50% current growth. So, are we still on track with the same numbers, sir?

Sanjay Majmudar: No. See, as Vishal explained in the previous question, this year, the Japanese sales to Japanese customers in H1 has grown by 17%, 18%. Having said that, we are seeing a lot of new orders floating in. So we should see a decent growth. A bit early to predict exactly what percent, but yes definitely a decent growth and that trend will continue. But as the base changes, see, I may not be able to grow every year, 50%, 60% as my sales keeps on growing. But it will be much, much more aggressive than the normal overall growth rate of the company.

Dinesh Ramineedi: Okay, sir, got it, sir. Thank you, sir. That's it for now.

Sanjay Majmundar: Thanks.

Moderator: Our next question is from the line of Hemang Kotadia from Anvil. Please go ahead.

Hemang Kotadia: Yes, I have a question on the precision components business. So, what was the growth rate for the first half and is it on the expected line what we had planned for the current financial year?

Vishal Rangwala: Yes, so, I don't have a very clear number with me right now, but it was a very positive about 10%-15% somewhere in that range growth. A little bit softer than our expectation there, but we are still positive kind of product we have developed. What is coming online or on stream on the production side, maturity of order side in next few months. Very hopeful that by the end of the year, we may hit even higher growth number and that's where we are.

Hemang Kotadia: Okay. And in India, basically, a lot of capex is happening and all the bearing companies have a very robust exports and plans. So, what was the particular reason India grew by 4%-5% in value items for the India business? Though we do a lot of exports to other markets, but I just want to ask on the India business stand-alone?

Vishal Rangwala: Yes, so, standalone out of India, we still ship about 50% plus of our product to outside India. So, India per se remained, Indian market per se remained quite flat. As I mentioned that our India business, India to India business had a component of our customer exporting that portion of it softened a little bit.

But beyond that, the rest 50% what we are supplying to outside India and primarily what we supply to Europe, that demand was very soft as well as what we supply to China. So, those kind of impact we saw in our product revenue and that's an impact. Another impact was also what we mentioned part of it, pass through mechanism as the commodity prices come down.

We pass through our, you know, whatever price adjustment based on the factor and that we pass through, we do and that also shows up as a lower sales. So, all those combination factor played into that 5% decoupling.

Sanjay Majmudar: Just to quickly add your question about the new capex plans of bearing companies. Yes, we do believe that we should be a major beneficiary. We are in dialogue with most of them. Most of these products are under discussion, but as you would appreciate, it will take at least a year or two for that to convert it to demand. So, that opportunity remains absolutely intact. It is just the timing part.

Hemang Kotadia: Okay. So, no issues. All the best, sir. And Happy Diwali to the team.

Sanjay Majmudar: Thank you. Happy Diwali to you.

Moderator: Our next question is from the line of Shirom Kapur from Prabhudas Lilladher.

Shirom Kapur: Hi. Thank you for the opportunity. My first question is regarding your solar EPC business. So, you mentioned that, you know, there was some kind of policy on renewables from the government that enabled good growth this quarter and good business in solar EPC. So, does that change your long-term expectations of this business at all? Because earlier you were guided for about INR60 crores to INR80 crores on annual revenue without much growth. But does this change your expectations?

Vishal Rangwala: No. Frankly, I see what is happening that our clear cut decision is not to increase our capital exposure to this business and restrict discrete only 2 smaller projects. However, having said that, if you look at Q1 and Q2, Q1 was actually exceptionally low in solar. So Q2 is partly whatever orders were there, we have built it. Plus, we have seen some new interaction of decent orders not involving much working capital, a lot of small projects coming in because there is a lot of movement happening and a lot of people have lined up for solar.

So there is a little bit of -- so that INR80 crores, INR100 crores -- INR70 crores, INR80 crores may go to INR100 crores, INR120 crores, but that's about it. It will not involve any additional capital, no working capital, no risk. And still, it will contribute a little bit with the same or similar capital deployed.

Shirom Kapur: Understood, thanks. That's very helpful. My next question is -- there's a bookkeeper question. So the EBITDA was mentioned for your stand-alone engineering segment, which would be the India engineering is different from the India engineering EBITDA given in the presentation, I believe it's about INR45 crores versus INR44 crores on there's a small difference there. What could be the reason for that?

Maulik Jasani: Good observation, Sriram. As you know that we have floated the Harsha Engineers Advantage Limited as a wholly owned subsidiary in India. So, the number when we speak engineering India, it is both HEIL standalone as well as HEAL wholly owned subsidiaries of Harsha India. So, there are about INR70 odd lakhs. That is a pre-op expenses which is not allowed to capitalize and hence, it has an expense in the books.

Shirom Kapur: Understood. So for the stand-alone India engineering -- so going forward the presentation numbers, what we should look at as your India engineering EBITDA, am I right?

Maulik Jasani: It will have a subsidiary number also.

Shirom Kapur: Got it, got it. Thanks. And my last question is on the gross margin. So, you mentioned that the pass-through of lower raw material prices has led to a gross margin impact. But typically, from my understanding, if the pricing falls due to lower raw material cost, the margin impact should be positive, right? Because of a lower raw material cost and lower sales overall, while your absolute gross profit might be at a similar range, your margin should see a positive impact instead of a negative impact, right?

Maulik Jasani: Yes. So, what I have said over there, Sriram, is in the previous quarter, that is Q1, I was continuing to sell on the last year's pricing while I was buying at a low rate from the market. So, I was having a benefit in the Q1. While in Q2, my price gets settled and my revision in price has happened because there is a lag of 3 to 4 months as we discussed. So, once my price is settled, my selling price and my buying prices are almost at par on the raw material front.

And hence, that impact little bit on the margin profile. But as I immediately said thereafter, the major impact on the number is not on the engineering products. It is mainly on account of the solar performance. Because if you see, the solar division particularly has done a top line of INR42 crores in this quarter versus INR17 crores last quarter. So, that has impacted mainly on the margin profile. And that is at a very high cost. Very high RMC. So, apart from that, Shirom, that pass-through has got a significant contributor.

Vishal Rangwala: So, I think from a Harsha Engineering India standpoint, a 50 odd percent gross margin is very much maintainable. There is no problem. Not exactly quarter over quarter, but year over year, you should not see any major hiccup on that.

Shirom Kapur: This is 50% stand-alone, including your share of solar EPC or just in the India Engineering division.

Vishal Rangwala: India Engineering.

Shirom Kapur: India Engineering. Okay. So on a blended basis, it should be closer to about 46%, 48% for the historical rate.

Vishal Rangwala: I mean, again, quarter over quarter, if the solar sector changes -- maybe 48 or thereabout. Yes.

Shirom Kapur: Okay. Thank you so much. It was really helpful. All the best.

Moderator: Thank you. We have a question from the line of Chinmay Nema from Prescient Capital. Please go ahead.

Chinmay Nema: Hi, sir. Thank you for taking my question. Can you throw some light on our nature of contracts? Typically, how, and this is about the bearing cages business. So, what is the length of the contract? And secondly, I see that we supply to each of the top six global bearing manufacturers. I see this in your presentation. So, typically, what percentage of this requirement is met by us?

Vishal Rangwala: So, one, on the length of the contract, usually we have a very long-term supply agreement with our customer. They range from anywhere between 5 to 10 years. Obviously, once they allocate a product to us, we remain supplier of that product for foreseeable future, unless something significant changes on the demand side or something like that.

Now, regarding your second question, I think what you are trying to ask is about the pass-through part. What was your second question? Can you repeat, please?

Chinmay Nema: So, just trying to understand. So, for a global bearing manufacturer company, like what percentage…

Maulik Jasani: Okay, okay, wallet share. So, if I look at India, we would have a very, very significant wallet share, except for very limited category of bearing cages. Most of the cages, I think we have anywhere between 70%-80% and above wallet share, if you look at India. Outside India, different countries. So, between these three players, we supply to more than 60-70 plants worldwide.

So, there the wallet share would go anywhere between 10%-20%. Again, a significant part of the requirement is still met through insourcing, so that insourcing their own plants manufacturing cages would be anywhere between 35%-40%. And then we have two other parallel competitors who are actively working with them. So, this is how the scenario is.

Chinmay Nema: Okay. Understood. And lastly, could you help me understand what goes into onboarding a new client? Like how long does it take and like both domestically as well as abroad?

Vishal Rangwala: Yes. So you see usually a big customer who is actually very strong on a quality front. They would actually come in share, what are their expectations, share some technical things then we do some development for them, meaning that we produce the tooling. We designed the tooling so that we get the right for product out of it. And then depending on the situation, being automotive or industrial customer, it may go into an extensive testing process.

So any given day, I would say that onboarding a customer is minimum 6 months process to sometime, it could be 2 years as well. The significant advantage we enjoy since we have worked with our bearing customer over multiple years. is that we continue to have a lot of approved, like we have approved status with them. And if we are approved with one of their facilities that extends to their global facility and then it becomes much easier onboarding process. If we are onboarding another location of that same customer. So all those variations come into picture as it happens.

Specifically, if I talk about our Japan-based customer, we have been working with them since the last 8 to 10 years. And we have talked in the last few calls that have they actually built that confidence with us. They feel quite confident at this point that Harsha provides the right value in terms of pricing as well as quality and delivery and all that. And that's one of the reasons now we are growing significantly with them. So it's a slow and long process, but highly rewarding and highly sustaining in a long term.

Maulik Jasani: Actually, just to add what Vishal says very quickly, today, see all these top 6 Bering companies are our customers, who are the top 6 from Japan, 3 worldwide. All key Indian players are also our customers. It is more of onboarding in terms of their new products and new opportunities that we get either for a major shift from an insourcing to outsourcing, etcetera.

So, it's more of the SKUs that you add, the new products that you partner with, and you develop along with them. They give us a design of a cage, we manufacture the tooling, then we manufacture the cage and show them that this is what we can do and its an ongoing process.

Chinmay Nema: Okay.

Moderator: That is the last question of a question-and-answer session, ladies and gentlemen. I now hand the conference over to Mr. Vishal Rangwala for closing comments.

Vishal Rangwala: So thank you very much, everyone, for attending this call I hope we were able to give some idea about the nuances of our Q2 results and able to give confidence about our long-term perspective. And with that, appreciate you attending this, and thank you very much. Good evening, and happy Diwali to you. Thank you.

Maulik Jasani: Thank you everyone.

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.