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March 15, 2024

Ref: Sec/Sto/2024/03/07

Corporate Relationship Department
BSE Limited
Phiroze Jeejeebhoy Towers Dalal Street,
Mumbai – 400001

Subject: Transcripts for the Analysts / Institutional Investors Meeting held on March 11, 2024

Ref : Kennametal India Limited - [Scrip code: 505890]
Our Letters No. Sec/Sto/2024/03/01 dated March 5, 2024, Sec/Sto/2024/03/03 dated March 6, 2024 and Sec/Sto/2024/03/05 dated March 12, 2024

Dear Sir / Madam,

In further to our above letters, we enclose herewith a copy of the Transcripts of video recording of the meeting held with the following Investors / Analysts on Monday, March 11, 2024:

1. Nippon Mutual Fund
2. Mahindra Manulife Mutual Fund
3. LIC Mutual Fund
4. Baroda BNP Mutual Fund
5. White Oak Capital
6. SBI Mutual Fund
7. UTI Mutual Fund
8. ICICI Prudential Mutual Fund
9. Haitong Securities India Private Limited
10. Spark PWM Private Limited
11. Finvest Advisors
12. Envision Capital Servies Private Limited
13. Equirus Securities Private Limited
14. Family office of Mr. Jatinder Agarwal

KENNAMETAL

The said Transcripts is available on the Company's website at: https://www.kennametal.com/in/en/about-us/kil-financials/press-release---investor-calls.html

Kindly take the same on record.

Thanking You.

Yours faithfully,
For **Kennametal India Limited**

Aditya Kumar Jain Digitally signed by Aditya Kumar Jain Date: 2024.03.15 19:26:33 +05'30'

Aditya Jain
Compliance Officer

Encl.: As above

Management – Kennametal India Limited	Mr. Vijaykrishnan Venkatesan, Managing Director Mr. Suresh Reddy, Chief Financial Officer Ms. Swastika Mukherjee, General Manager - Strategic Marketing Mr. Aditya Jain, Compliance Officer
Investors / Analysts	
1. Nippon Mutual Fund	Mr. Amber Singhania
2. Mahindra Manulife Mutual Fund	Mr. Renjith Sivaram
3. LIC Mutual Fund	Mr. Yogesh P
4. Baroda BNP Mutual Fund	Mr. Sandeep Jain
5. White Oak Capital	Mr. Neeraj Prakash
6. SBI Mutual Fund	Mr. Bhavin Vithlani
7. UTI Mutual Fund	Mr. Karthikraj Lakshmanan
8. ICICI Prudential Mutual Fund	Mr. Saif Gujar
9. Haitong Securities India Private Limited	Mr. Chintan Modi
10. Spark PWM Private Limited	Mr. Jainis Ketan Chheda
11. Finvest Advisors	Ms. Vartika
12. Envision Capital Servies Private Limited	Ms. Alisha Mahawla
13. Equirus Securities Private Limited	Mr. Harshit Patel
14. Family office of Mr. Jatinder Agarwal	Ms. Ishpreet Batra and Mr. Jatinder Agarwal

Aditya Jain

Good Morning, with your consent, we have started recording the proceedings of the meeting.

I am Aditya Jain, the Compliance officer of the Company. I have with me Mr. Vijaykrishnan Venkatesan, Managing Director, Mr. Suresh Reddy, Chief Financial Officer and Ms. Swastika Mukherjee, Head of marketing.

I would like to commence the call with a disclaimer:

We will not be making any forward-looking statements on this call, and we would be restricting our talk to publicly available information only. Nothing stated during this call should be inferred or construed as a forward-looking statement from the company. All details and data that may be discussed and deliberated during this call shall be strictly historical and based on market estimates on publicly available reports. Any statements made during this call, if construed as a forward-looking statement, might involve risks and uncertainties, and the participants in this meeting are cautioned not to place undue reliance on these statements that speak only as of their dates.

Before we open the floor for discussion, I request the participants to tell your name and the Company you represent.

Chintan Modi

Yeah.
Hi everyone.
Myself, Chintan Modi from Haitong securities.
We are sell-side broker and I represent myself as a senior analyst to you.

Aditya Jain

Go Ahead Jainis.

Jainis Ketan Chheda

Good morning, team. Good morning to the management of Kennametal. Hi, I'm Jainis Chheda from Spark capital, Spark PWM Private limited. We have been covering Kennametal for since November 2022, and we are sell-side broker and we, our clients have active interest in Kennametal.

Vijaykrishnan

Thanks, Jainis.

Jainis Ketan Chheda

Thank you.

Aditya Jain

Since we have a larger group, I would request to tell us only your name and the company that you're representing, in the interest of time.

Harshit Patel

Sure sir, I'm Harshit Patel.
I represent Equirus Securities.
I'm a sell side analyst and covering this sector for the past seven to eight years.

Aditya Jain

Thanks Sir.
Yes Amber.

Amber Singhania

Yeah.
Hi, this is Amber Singhania.

I represent Nippon Mutual fund.
Thank you.

Vijaykrishnan Venkatesan

Thank you.

In the interest of time, since a lot of people are there, what we can do is when you go around the table with the questions, probably they can state the name for people who are not introduced yourself, state the name and which organization you're representing before the question. What we thought is, since there was lot of requests from people this time, we will start with Nippon and then LIC because they were the ones who, either restored first or sent us some written questions and then we will go in the sequence which Aditya will read out.

I hope that is ok.
We make sure that everybody gets an opportunity to ask whatever questions and having gone through this for the last four years, I believe that a lot of questions would be overlapping. So, Nippon, I don't know, Amber, whether you're going to ask or somebody else is going to ask, but please go ahead.

Amber Singhania
Fine Sir.
Thanks a lot for this opportunity.
Just on a broader sense, a couple of questions.

One, if you can take us through how the overall industry is shaping up both domestic as well as export side as well as the segment per say, because in the past we have seen certain hiccups, we have seen on the export market. You know how the China is panning out from the machinery side, and at the same time we also targeted on our tool side on the MSME. So how those initiatives are shaping up?

One more thing I wanted to understand is from the CNC machine side, what kind of opportunity we are seeing in India per se, because there is a lot of buzz about the Capex happening across the industry. Are we seeing a good opportunity for CNC machines in India and how are we going to address that opportunity, apart from China as such.

Vijaykrishnan Venkatesan

Yeah. Thanks amber. So, I think it's a very broad question. So, I'm going to go ahead and give a more elaborate answer. So again, you are all of you are covering, I think manufacturing in one way or the other. So, you would have already heard there is a lot of robustness when it comes to Indian manufacturing sector. We continue to see private sector capex expansion staying the course like what I said when I met you during November, some of you who I met during November during the AGM, we're seeing the course either is due to capacity expansion where there's a lot of investments or there is a replacement cycle which is happening of the machinery due to driven by modernization. So, if you look at whatever published data you have, especially the off late, you already have a traditional one listed company in the machine building space. The second one came into the market recently and there is a lot of some amount of data now starting to form in the capital equipment side from a public domain. But there is robustness in the order book. There is robustness in terms of machines being invoiced and commissioned in the country and we expect not to stay the course, ok for the reasons is very simple right? The economy continues to, I'm not forecasting here. I'm just saying that the projections clearly says that the economy is going to remain strong, manufacturing sector will remain strong irrespective of even how export market does the domestic consumption will still drive a lot of manufacturing whichever sectors we take or be it automotive, be it auto components, be it construction, mining, infrastructure, aerospace, electronics, everything is driving expansion. So, what's happening is the consumption driven capex expansion is going there to stay. And now when we talk about exports, export is still soft, right? China hit the bottom. We have not seen much recovery when it comes to the China market, which again this is data available in the public domain. While it is not worsened, but we have not seen significant sequential improvement, it is definitely not dropping anymore. From what we are seeing, right, but it's what we expected is that whether it will be a V shaped recovery, no, it has been a L, right? It dropped and it's moving in that pattern at this point in time. US continues to do well, Europe still struggling a little bit. Now, you talked about exports. Now exports is where we had a lot of headwind over the last 12 to 15 months and you would have seen that in the last four to five quarters of our performance in our commentary that exports are little bit of a struggle for us. Now that's driven because of softening of demand in the developed countries and China. And while we are not seeing further erosion, it's still not, I won't put it that, we are seeing a substantial recovery in that space, ok, it's recovery is there, but it's not like a week, right? And it's not L either. When I combine Europe, US and China together, there is a recovery, but sequentially it's very slow. OK, now coming to CNC machines now China remains to be soft and that headwind continues. But when you talk about domestic, definitely domestic market is for example last year again in the AGM, we commented domestic growth on CNC machines was 46%, right. And we never used to see that kind of growth in the domestic market. The domestic market is really good. Exports if we look at China, China remains soft and we continue to see a lot of robustness in summary manufacturing sector in India. I personally I don't see any concerns hope I answered all the 10 questions you asked in one question.

Amber Singhania

Yeah.

So if you can just quantify a bit broadly the opportunity in India both for the machine side as well as hard tool side and where do we stand in the overall scheme of things and what are our long term, let's say three-to-five-year targets on that?

Vijaykrishnan Venkatesan

I think we have answered this quite many times, but I still go ahead. I think roughly again, I'm going by secondary data what we have. The machine tool business in India is probably Nexus of 20,000 crores and obviously we are at only 150 crores but addressable market for us could be probably 1/4th. You know, maybe between 1/4th and 1/5th of the market is what we are looking at and the other area is something which we have not. There's no syndicated data available, right? And we can take anywhere between 5000 - 6000 crores. Again, there's no syndicated data, so I want that to be taken with the disclaimer.

Amber Singhania

OK.

Any long term, three-to-five-year horizon target which you can share, where do we see ourselves?

Vijaykrishnan Venkatesan

I can't do that Amber.

Amber Singhania

Fine, fine, fine, Sir.
I'll come back to the queue later on, yeah.

Aditya Jain

Sure. I'll request LIC to post questions now.

Vijaykrishnan Venkatesan

Once we cover LIC, I think there are a lot of hands up, so I'll go with that.

Yogesh P

Yeah, yeah.

Good morning, everyone and thank you very much for giving opportunity. Sir, considering your last four quarters, you rightly highlighted is exports, it largely due to China effect and domestically we slowly getting traction. So, considering the last four quarters, what are the steps you have taken to improve the performance and whether domestically things are changed for us. So how do we actually capitalize the next growth level? Let's take a firm demand coming from let's take aerospace, defense, and most of them manufacturing, especially in aerospace is happening at first time, right. And in the last interview, I think in some one of the forums you mentioned about the machining of titanium products which requires a higher tool consumption. So we want that what we are done as of now and how things will progress from here because we see a defense, manufacturing is increasing and from let’s take last year use, let's take a your exposure to defense is X to what could be this year is it 3X-5X because of the small size that is one part and probably we can ask for that.

Vijaykrishnan Venkatesan

Yeah.
So Yogesh, let me start what we have done, will tell you if you look at the last four quarters, again, I'm going to talk about numbers. You have seen a sequential improvement in our PBT, right?

So, the how that is driven and this is and we have been very transparent about the whole thing, right? We said we had a large capex cycle inventory which was again communicated over spoke to us four years, four quarters back. Now our operations are running very streamlined and there is a better utilization. So, obviously you see a cost absorption come through very efficiently in the sequential improvement of the last four quarters and that's what we told also will happen, right. And we didn't.

And we are just staying the course in terms of operational excellence and you see the improvements and cost absorption show up in the PBT one, even though our top line has been sequentially not at the same growth rate.

So, we from an operational excellence side, yes, we are comfortable on what we said we will do and we have done that and we continue to look upon on the sequential improvement on the operation side. Now when it comes to our segments, especially what you spoke about, aerospace continues to grow very fast as a sector while base is very, very, very small in the country. But there are more and more investments and we are very, very strong in that space and this is something which again I've been very consistent to all of you globally we have very, very well pushed when it comes to aerospace because we are one of the leading suppliers when it comes to aerospace components worldwide and this helps us when there is more and more components are getting localized.

It could be that it's just not titanium. There are other materials too, and these require high end solutions which were pushed very well and we continue to see the benefit of it, right? I can't give you percentages, but even though on a small base that is our best performing and the fastest growing segment for Kennametal India, so it's aerospace definitely yes, but exports, you ask the question about exports, whether it will be 3X 4X exports, I don't see.

Again, I'm if you're covering the manufacturing sector, you might hear a very similar commentary. It's still a little soft when it comes to all the uncertainties in Western Europe and China. US as a market is ok, right? But when you look at Western Europe and China, yes, still seeing some softness, some uncertainties, some disruptions, supply chain one issue or the other has been happening, right, thanks to the recent ritzy issues. Now it's a longer supply chain, so all this is still a lot of uncertainty when it comes to Western Europe and China, right.

I hope I covered all your questions, because again, you also build multiple questions in that one question.

Yogesh P

Thank you very much.

What are the actions we have taken to diversify the export or any other geography or any kind of product? Or do you think that existing export we are actually will continue to remain like this or we have identified certain new geographies or maybe products to actually notify the effect of China?

Vijaykrishnan Venkatesan

So, what we have done is we have increased our focus because obviously, India is the best performing market in the world currently. So, we have gone a little more deeper in terms of because Market is growing reasonably strong here across all categories. So, we found a little more deeper. Again, given the new LODR regulations, I can only comment and products what we have launched because I can't just comment here and not inform the Stock Exchange. I think we did introduce a product called VTL. It was a new category for us. It's a large category in India, so we did introduce that category. We will be announcing some of the next six months. Whatever is launching, you will come to know when we announce it in the stock market. So, what we're looking at as an approach, you asked about what we are doing, especially in the domestic market, we are expanding our relevance in the market. When I say relevance, there are categories where we would have not played in the past, but that's a larger opportunity. So, we are looking at one or two of those opportunities, how we can look at in the country and we will be again when we are ready to announce that to the street, you'll also come to know on some of the new product launches we will be introducing to take advantage of the large and growing markets in the country. So those are the mitigations, I think a significant amount of strength is going to come from domestic, which because we are seeing a very strong momentum for few years in the domestic market when it comes to export, there are other countries we have started to look at, but nothing yet concrete. But there are some geographies which are getting very attractive. So again, something which you will come to know once we are introducing those.

Yogesh P

Sir, I agree.

We know we cannot discuss the product at this point of time, but products for which industry that we at least we can actually communicate for which industry or segments in manifest.

Vijaykrishnan Venkatesan

It's going to be broad based; it would be for example, tier suppliers of oil and gas valve manufacturing because a lot of valve manufacturing in the country, it would be going into energy sector, and it'll be going into auto component sector. So, all three are very large.

Yogesh P

OK, it's based on last four quarters of conversation with market, and with the customers and distributors, for next 2-3 year which industry can drive the price growth for us?

Vijaykrishnan Venkatesan

Come on Yogesh, you know this better. Everything is growing.

Yogesh P

For us, see there will be strong areas for us.

Vijaykrishnan Venkatesan

Tell me which is not growing.

Yogesh P

There will be strong areas for us, weak areas for us because there is a competition everywhere. I know, but see, the aerospace is definitely one, but apart from the aerospace, any other segment which is not contributed to the past, and it expected to well in future.

Vijaykrishnan Venkatesan

Let me put it this way.

I think the sectors which are going to drive in terms of percentages, one can say that something like an aerospace something like energy, something like oil and gas will be higher, right? just in percentage terms. But when it comes to quantum, I still feel the entire tier supplier is in the transportation sector. When I say transportation, I'm going to qualify this very clearly because our bigger place in tractors, commercial vehicles and cars, right? We don't play significantly into wheel space, so even the EV transition in two wheel will not or rather doesn't have much impact because we don't play significant manner on the two wheel industry. All but we also seeing significant area drive because of off road vehicles, off road covers, mining, off-road covers, defense, off-road covers construction equipment industry and that is that is the sector which is really we are something which we are looking forward.

Yogesh P

Ok.
And what is the impact on basically rates issue like because we are importing raw material any negative effect or maybe positive effect from because some of the competitor is also importing final product so is there any opportunity or any loss in terms of margins something you can share?

Vijaykrishnan Venkatesan

Not significant, not better enough for Yogesh, just that it takes more time to go around Africa? and some shipments might be taken by air but it is not material enough.

Yogesh P

OK.

Vijaykrishnan Venkatesan

It's not material enough to make an impact, OK.

Yogesh P

OK.
Thank you very much, Sir.
And all the best.

Vijaykrishnan Venkatesan

Yeah.
Thank you, Yogesh.
Can you go by the sequence of people who have raised?

Aditya Jain

Ok.
So next is Harshit Patil from Equirus Securities Private Limited.
Yes Harshit, good morning.

Harshit Patel

Ok, sure. Thank you, Sir.

My first question is, in the annual report you have mentioned that machine exports to China when impacted last year and hence we expanded into newer geographies of Thailand and Vietnam. So how have we failed so far in these geographies and what would be your outlook on this same? Also, if we are very competitive in the Chinese market, then we must be very competitive in the local Indian market just because of the sheer difference in the pricing. So, do you think that we would be able to increase our local market share very substantially going ahead?

Vijaykrishnan Venkatesan

Yeah, Harshit.

I'll answer some of it because the market share question is something which I can't answer directly of. So, we are looking at even though this also alludes to the question which both I think the questions which came prior to right what are the nearest geographies. Let me go ahead and answer that right.

There is Southeast Asia outside of China, and then there is Middle East, right, Middle East is getting when I say Middle East, only restricting to areas of UAE, Saudi, Oman with those countries right not going into North Africa, those are getting very interesting and all of you are again tracking. There's a lot of localization, lot of manufacturing investments that are getting interesting now. Yes, Vietnam is continuing to be very, very attractive because of the volume of production, which is going into Vietnam, Thailand is again very slow.

You're asked about form to do. Yes, there are product lines where we are competitive and that's why those product lines we do well in India too, okay, Now we are a small way. I don't know whether there are categories where we are very strong when it comes to, let's say, our Eco green tool and cutter grinders, which is what we export to China. And that's a category where we have a reasonably strong hold position in India too. And there we only compete with global brands. There are other categories which are very large, which just streamlining and entering into those categories.

OK, so I can't give you a market share percentage, just that we are we are a very small tip of the iceberg when it comes to the market.

Harshit Patel

Understood. So, second question is on our imports. I think our imports are very significant. So, if I go by the numbers of FY23 out of the total raw material cost of close to 600 crore last year we have imported close to 470 crores. So could you throw some light on this as to whether these are only basic raw material imports like tungsten carbide, cobalt, etc. or a substantial parties also towards finished goods. What I'm trying to understand is that what the proportion of our manufacturing, at least the end products are basically localized in India.

Vijaykrishnan Venkatesan

I would ask my CFO to answer portion of the question and whatever gaps, I will come on.

Suresh Reddy K V

Harshit, this includes import of finished goods. We don't have all the finished goods manufactured locally because there are some high-end products which requires a different type of equipment which is not worth investing for. The size of volumes that we will have locally here. So, it is much beneficial for the local entity to import and sell in the domestic market. So large chunk, is there still we do have most of close to around 40-50 or close to 50% you can say, we will be importing from global locations and materials. Tungsten Carbide oxides are also getting imported, so that's completely coming in from outside.

Vijaykrishnan Venkatesan

Yeah. So actually, I'll just add a little more color to what Suresh mentioned. Obviously, Tungsten we import ok, then we do imports about the finished goods. When you look at, let me split this a little clearer when it comes to machines, there are some critical components which has to be imported. There are no capabilities in the country and that's applicable to any machine built in the country. It's just not us but finished product. Everything is built here, ok? When it comes to hard metals, there is probably, I would say.

Suresh Reddy K V

Overall, approximately can they give 50% including everything put together on totality and import.

Vijaykrishnan Venkatesan

So, because if you take a finished goods plus raw material and all that, half of it would be imported significant portion is the raw material because everything is made of tungsten and that we import. Yeah. So, and also answer the question which you're not answering because that question will come from somebody else. But locally, utilization has been increasing over time. OK, I’ll put it that way.

Harshit Patel

Understood.
Thank you very much for answering my questions.
I'll get back in back.

Aditya Jain

Mr. Bhavin Vithlani from Sebi Mutual fund is next.

Bhavin Vithlani

Good morning gentlemen and nice to see you back.

Vijaykrishnan Venkatesan

But you're on mute, your voice is very feeble.
No, we can't hear you, Bhavin.

Bhavin Vithlani

Uh, am I audible now?

Vijaykrishnan Venkatesan

Yeah, yeah, yeah.
How are you doing?

Bhavin Vithlani

Very well thank you.
Hope you're doing good as well.

So, the first question is if you could just help us understand there was this confusion in the AGM which I took forward. There is a large manufacturing facility which has come up in Vietnam for the parent and India and Vietnam are kind of competing for the exports market. Both of these facilities and that's one of the reasons why our exports have suffered.

Vijaykrishnan Venkatesan

I am about and I don't think we've ever made that commentary, so I'll let me let me answer that question anyway we don't compete, the reduction in what you see in exports, there are two sides to exports. One of the machines which are impacted from China on the hard metal side, most of our exports are in two either Europe or the US and the market softness is what resulted us having a decline in our export volume. And this is again, you know what happened over the last 12 months, especially in, the especially the developed economies, right, inflation, flatness in the GDP growth and all that. Now the just to answer your question because Vietnam is out of scope, right? Because this is Kennametal India Limited discussion, but all I can say is that does that no impact on what you see as Kennametal India results, OK?

Bhavin Vithlani

OK, fair. With the second question, if just go a little bit deeper on the end market spaces. So, electronics is a segment which is making headlines every day and the one of the listed companies which is which also happens to be a customer has got significant order flows from the electronics market. If you could just help us understand a bit while we understand that Kennametal India currently does not have the product portfolio to cater to, but the parent does, if this market becomes large enough, is there a possibility that we could get the products which are for the electronic segment which can benefit the Indian entity?

Vijaykrishnan Venkatesan

Yeah. So about and today you are right, you are understanding is right, we today don't play in the electronics while it's emerging as a very, very large or the fast and large fast growing large opportunity. Today we don't play in that space and it's the electronics is either all in or you don't step in, right? It's very different from other sectors. What we play in today, but it's going to get very interesting because the electronics consumption of micro drills, what we call it's a tungsten carbide tooling, it's micro drills, it's significant volume because anything in electronics, especially when you're talking about tablets and mobile handheld devices on the site today we don't play, we are still evaluating it as what I can say because I can't confirm that because it's something which is still not something we have clear and I can't make a forward looking on that.

Bhavin Vithlani

That's just a follow up on this. Is there technology within the group that if at all we take a decision that technology will not be a barrier?

Vijaykrishnan Venkatesan

See, it's going to be yes or no answer. I'll tell you why. The drills which are used in electronics go from a particular size to a particular size. OK, let's say I'm not going to give you the actual size. Let's say it goes from 10-1 right. Today probably we can make, let's say from 10-5 OK, right. 5-1 we may not be able to because we overtime it's not. How do I put it, theoretically its possible, right? But we have not played in that space. It's at the end of the day, it's around 2 long tungsten carbide. It's not a different material. But we have stayed out of it, right? So that's how I put it.

Bhavin Vithlani

The second thing is, I mean this is the question that we've been kind of checking across historically our end market break up in terms of automotive used to be very significant. If my memory serves me right, it was about 65%. In the AGM you mentioned that the other sectors which were dead for the last decade have now come back with vengeance. So, what is it that we are now seeing as an end market breakup for automotive and what's the kind of non-auto if you could give us little flavor on the non-auto side, which sectors have grown, what's the kind of auto to break up for us?

Vijaykrishnan Venkatesan

And I won't be able to give you exact percentages. Like, again what I have communicated in the past are auto dependence. Probably now is probably less than 50% from what it used to be. It's not that it has not grown, ok? It's not that that has declined, ends the percentage, but the other sectors have grown faster. Obviously, I'm keeping construction equipment industry outside of automotive because that doesn't come under the definition of automotive and that has been doing well as all of you know, energy sector is doing well. Mostly energy is component which goes into a wind. Some of it is conventional, but mostly its rail is doing well, defense is doing well. You know, Aero is doing well and obviously the sector, which is doing the best, we are not participating yet, that's the electronics.

Bhavin Vithlani

So, I mean in the exports this is something that we had also kind of discussed that China is now going through a tough time. We don't know when its pickups, but if you could just help us understand in terms of we initiatives that we would have taken to develop new market view did speak about the Middle East as a market, but if you could speak about the initiatives that we have taken in terms of self-help. So, whenever China recovers, they recover, but we should be able to kind of start growing from your own.

Vijaykrishnan Venkatesan

Bhavin again, I'm going to be a little brief on this because I can't get into details till, we are done with it. Right. So obviously we have done market assessments in certain geographies. We have done what products fit, so usually the assessment work is completed, and we have prioritized some of the areas where we can look at and each market is going to be different because what product fits that market is slightly different based on the industry. What is there, right. Because when the moment you look at Saudi and UAE, it's going to be online yes, another party, the type of machines which go into that. And so that gets interesting. And whereas when you look at Thailand and Indonesia, Sorry, its Thailand and Vietnam, it's going to be very traditional sectors, which mirrors India. It's auto tiers. Vietnam also has electronics, but it's predominantly going to be auto tier and again all this is restricted to the machines, not the hard metals, hard metals predominantly. It's either sales in India or its exports to intercompany. We don't do a direct export when it comes to hard metals.

Bhavin Vithlani

Understood. Similarly, could you also talk about initiatives for India in terms of enhancing our sales strength, enhancing our distribution, so that the time to?

Vijaykrishnan Venkatesan

I can give you that yes, that I can be a little more detailed. So, because that's definitely in the public domain. So, what we've done is we have launched a series of customer touch points or other. I would say we have amplified significantly probably 5X to 6X in terms of our outreach programs in India.

Bhavin Vithlani

About 6X.

Vijaykrishnan Venkatesan

So, we have started a sequence of what we call technology days in all the prime markets of the country, and we have been running that beat plan. Probably we have probably six months into it where we have large customer events. Let's take for example. Chennai is a large market. Pune is a large market. NCR is a large market and obviously there are many other markets, right you can, you can start picking then you get into Ahmedabad, you get into Pune, Nashik, and all that. So, we are doing something we have not done, probably more than a decade, right? So, our team goes, we explain all the new products. It's a mostly a technology discussion. It's not about selling a product, right? We gather all our decision makers from our customers who come in and we do this both for the hard metal side and we also doing for the machines, OK, that's. Two we have amplified a digital outreach, digital campaigns and what we do in terms of demand Gen campaigns. Again, this is specific for India that has been amplified quite a bit. A trade show participation has increased again, so we are investing a lot in the front end, mostly on the demand Gen activity to generate more leads. Because the most vibrant market is here at this point in time. So, we have been amplifying that significantly the front end, that's what is our effort to increase our sales Pipe.

Bhavin Vithlani

Correct. So for us, I mean, so the notion that I carry is our products have great level of stickiness and resistance to change because it's easier said that, done for you to change from A brand to the B brand and do are you actually seeing that sand wick comes a lot embedded in fitted with the CNC machine that the customer buys and then for you to and get entry because it becomes a little difficult.

Vijaykrishnan Venkatesan

Yes, it does.
It does, yes.

Bhavin Vithlani

So, are you seeing an increased attraction, increase acceptance in terms of brand switching from Sandvik to you know?

Vijaykrishnan Venkatesan

Yeah, but now I won't get into specifics of competition brand names, but I just want to give a data that when you're talking about machines which comes with the tooled up and they say when OEM buys is less than 5%, right, most visions, most of the machines comes bare machines, right? So, what happens is the more Capex happens more what we call projects that coming up from customers. So, prove out happens when they're after the machine lands, it doesn't come with the tools, right? Because we also participate in that market with all the OEMs, we try to tool the best way for anybody. But most of the customer behavior is traditionally they buy a bad machine and ask the tooling supplier to come and throughout the machine, along with the tools which needs to go for the particular process. Now what happens is that is a stage when you have to be quite connected with the customer, right? The initial first run off the machine, and that's where our teams are very well connected because we have a huge network, a large, very large sales team and more than 225 distributors will cover. Actually, we cover every industrial marker which is available. So, and we reach out to customers. So, we have a very robust project tracking when it comes to new projects in the country. And once you're there after that, stickiness happens, right? You're right about this product. There's a very it's good for the business. Let me put in that.

Bhavin Vithlani

And could you talk about competitive landscape because when we speak.

Vijaykrishnan Venkatesan

Bhavin, this has to be your last question because there are some 30 people on the call, OK?

Bhavin Vithlani

Okay, so I have two questions. So, one is this, on the competitive landscape, because we hear Sandvik and others have also doubled the capacity and last is, what's the kind of capex outlay that you have for the next two to three years slightly longer-term basis?

Vijaykrishnan Venkatesan

First one, again, don't want to comment on competition because but we have been, we are adequately, I would say we have kind of adequacy of capacity to cater to the demand and like every time we honor for whenever we meet weekly, communicating that every time there's an increased demand, we because today we have the real estate space, right. We have expanded the plan in the last three years and there is enough footprint available. It's modular from now on for us as we keep seeing the volume entry, we just add machines. That's all we do. We don't need like, a massive new building required because we have enough space available to keep adding modular for all the product lines. That's what we created. So, we have just a plug-in play now, just get the machines and plugged in to increase the capacity. So that you wanted to comment on the CapEx.

Suresh Reddy K V

No, no, absolutely. You covered Vijay, so that is the stage where we are now, and we don't see as of now any new or a major capex that is required which we have already invested. Now it's only going to be modular depending on the capacities that we would require.

Vijaykrishnan Venkatesan

And it's a very, that way more efficient, right?
You build the real estate once there is floor space available.
All you need is you just keep adding the blocks as a volume grows up.

Bhavin Vithlani

Sure great.
Thank you so much.

Vijaykrishnan Venkatesan

Yeah.
Thanks Bhavin.

Bhavin Vithlani

Thank you so much.

Vijaykrishnan Venkatesan

We need to go to the others.
Yeah.

Aditya Jain
OK.
Next is Mr. Chintan Modi from Haitong securities.

Chintan Modi

Yeah, sir. So, thank you very much. So, first question is from the perspective of competitive intensity, now we follow a model wherein Kennametal branded products are imported, and we make Widia in India and we do exports as well. But the positioning of both the brands is different and when we look at more from a competition, say Sandvik or IMC, the brands which are positioned against these, our brands, Kennametal and Widia, do they have similar kind of a model and say for example, Kennametal is imported but a brand by Sandvik is positioned against Kennametal, is manufactured in India, does that change the competitive landscape significantly in terms of pricing for us?

Vijaykrishnan Venkatesan

Chintan first is again, I'm going to avoid answering because this is a this is something which is going to be uploaded, right? So, I'm going to stop not use any of the brand competitive brands here. So let me tell you there is a correction in your understanding. Bangalore plant makes both Kennametal brand and Widia brand, and we import both Kennametal brand and Widia brand based on what so the ratio of what we make would be different between Kennametal brand and Widia brand out here in Bangalore plant, but we make both. I just want to be clear to everybody that it's not Kennametal. We import everything. We still make a significant portion of Kennametal branded products out here, so that way we are positioned well. The products what we import usually are the higher end differentiated, whether volumes are still small right for example, when you when you supply something to an aerospace component, there could be 250 studs which is required to make that component and each would be anywhere between let's say somebody wants 50 inserts, 2 drills, right? So, what happens is that the suboptimal to make those and there are plans which make the same drills in volume, right? And this is applicable both to Kennametal brand and Widia brand. Okay. I just want to clarify that hence we import that right when the volumes are very low, higher volume, steady market applications, we make it, your, both for Kennametal and Widia and both are portion extremely well as a from a price value standpoint, OK. It's not about just price, price, value standpoint. So, Chintan, honestly, that's not something which I would be concerned because we have been also what about volumes have been picked up and with the support of Kennametal parent, we have been consistently localizing what is required. On both the brands. OK, so I just want to give the clarification.

Chintan Modi

Got it. Secondly is with respect to the royalty agreement renewal that you recently announced. One is if you can share what is the percentage that you pay as per the new renewal of that agreement. And there is also some talk about the Worldwide License if you can highlight a little bit about this and what else is there a major change compared to the previous agreement?

Suresh Reddy V K

OK, so first thing is on the percentage. We were earlier at 4.75%, in the new agreement, which is effective from 1st of April, it would be 4%. The worldwide is just that we have renewed the contract. So, we want to keep it wide open if there is a requirement anywhere in the world by the group, and if you are able to manufacture, we would like to manufacture and supply to them. So, it is more to keep it open, not to have a restrictive arrangement there on the licensing part. And in terms of technology, there is a constant review on technologies which as per our R & D team which can enhance the performance of tools that technologies will keep getting transferred to our manufacturing facilities here and hence this will cover all the technologies which would eventually get transferred. So that's going to be an updated run because the old one was long back updated. This is a refreshed one so that every year we keep updating it with new technologies which keep coming up, which would keep our product profile. Local product portfolios are also updated and relevant to the market.

Chintan Modi

Sure. Third, question is with respect to the tungsten prices, I was just referring to some prices on Bloomberg. I think there has been a fall of about 8 to 9% over the year. Generally, how do we react and how does the competition react to such a price fall? And do you believe that considering there is a global slowdown and as per my understanding, large part of the tungsten is also goes into cutting tools. So, because of the slowdown, whether there will be a further fall in the prices.

Suresh Reddy K V

So, I mean, it has been at the pricing prices have dropped down over a period now it's not just immediately in the last 2-3 months, but over a past I can say 6-7 months, it has been a dropping and then stabilized over a period now. So, we don't see an immediate trend of this falling further because what we do is we keep every month or tracker from the corporate as well as locally and keep monitoring the prices. Of course, as we would have been communicating to you in all our AGM’s as well as other interactions wherever possible, when there is a price escalation, we do revise our pricing to ensure that we mitigate some of the rise in prices in the same way is whenever there is a price drop, the customers do come back to ask for a price reductions or whenever most of our business is also on special products. When we offer the pricing itself, it would cover up with the newer prices that we are importing on.

Vijaykrishnan Venkatesan

Just to also see, it's so transparent, right, every, that's not all of us who make products which are coming out of tungsten. All are customers also track the prices, so it's a very transparent system, right? It's not that one will edge out the other because everybody buys at the same price.

Chintan Modi

Yeah. So, my question was more from the perspective that since then, do we pass this on through some discount scheme or is it the pricing change that we have to? I mean the pricing cuts that we have.

Suresh Reddy K V

So, it would, it would be an arrangement, see if some of them, not all products are standard products for us. Ok, so wherever it is, the standard also customers may come up and ask for additional discounts. So, they may come up because it would be competitive. Competitors will be offering them discounts, so hence we have to be relevant to the customers and hence we may also have to offer discounts.

Vijaykrishnan Venkatesan

Yeah, but just to answer that another way, Chintan, we don't make a list price change, OK?

Chintan Modi

Sure. Secondly, we recently in the last AGM you mentioned that we have launched a vertical machine on the machine side and there will be, you will be also launching a horizontal machine. Now how does that change our TAM in the overall market of the machines business in India?

Vijaykrishnan Venkatesan

Yeah. So, I'll give you an estimate because again, we don't have clear data. The TAM would be increased by another. Let me translate. I have my figures in dollars or millions, so let me translate, OK. Probably another anywhere between 1200 to 1500 crores.

Chintan Modi

So, by 1200 to 1500 crore, your TAM will increase.

Vijaykrishnan Venkatesan

TAM will increase, yes.

Chintan Modi

And overall market size, we are expected is about a $1 billion today in the country.

Vijaykrishnan Venkatesan

Addressable, right, because the machines you're talking about machines are already at 20,000 crores.

Chintan Modi

OK, got it.
thanks a lot.
That's it from my end.

Vijaykrishnan Venkatesan

Thank you,

Aditya Jain

Mr. Neeraj Prakash from White Oak Capital.

Neeraj Prakash

Hi sir, am I audible?

Vijaykrishnan Venkatesan

Yeah Neeraj, go ahead.

Neeraj Prakash

Yeah, thank you for taking my question. Just wanted to understand in terms of the competition, how are the imports in cutting tools because we have been hearing from some other consumable players that there has been a rise in imports again post COVID. So, are we seeing an increase in density of imports in cutting tools?

Vijaykrishnan Venkatesan

Neeraj Honestly, I don't want to comment, but I guess which industry you're talking about. But again, this is a recorded meeting. I know where, because I've also seen that news. We did see in once one of our portfolios intensity increase which probably would be like 1.5% of our revenue top line where we saw a significant increase in competent intensity because of products being pushed from one country into India. But broadly, if I take especially on the arbitral side, we haven't seen any change in the competitive intensity because for one reason, right, the tungsten carbide pricing, it's a very consistent and we can track since the raw material is where the play can come significantly. And then it obviously are talking about operational efficiencies, your plant, over it's how well you do your operations, but otherwise I won't say that because of any of the changing global landscape, but 90 to 95% of our product lines have not seen an impact, OK, on competitive intensity, 5% is what I would say we did see a very unlikely shift in terms of competitive intensity where the prices were really, really low coming from an imported, coming out of the country into India. So, I would say 5%.

Neeraj Prakash

Sure. Understood. And so, you mentioned that generally the products are quite sticky with the customer just trying to understand, what is the customer decision making criteria and who is the decision maker you know is it done at a corporate level for your customers is done at a plant level? And how many vendors on average would your customers use and what would our relative wallet share be if let's say there are two players are send someone else with our key customers.

Vijaykrishnan Venkatesan

Yeah Neeraj, So the first is the decision-making process, right? The user is the primary decision maker. When you say user, it's the engineering or operations team in a plant. So, let's say there is a large manufacturing company which has 200 machines. There are usually two or three departments which get involved in terms of selection of the product. I'm talking about selection of product, not the pricing at this point, right? It is the manufacturing hit under them. It will be the line supervisor people who operate on the machines. Two is the NPD teams in terms of how the whole product is because you have to make sure that once the product works right, when your, machining the desired outcome is required when you machine it. So, they are the primary decision makers when it comes to technical side of the product selection. If it's a new project, then the engineering team and to some extent the OEM who installs the machine comes into play, but still the predominant technical decision making isn't the operation side of the company, which is the manufacturing team of the plant in a customer, then comes obviously purchase team when it comes to the price. You know, if it's a technical product, obviously the technical side of selection is much higher. But if the standard product, then you have to be competitive, provided that the shop floor team only wants your brand right when you said whether two players, usually it's not two players in a plant, you usually you will experience four to five brands in a shop floor because not one, there's no one player who can supply all the different products which are required when it comes to machining. There are different forms, and some are good right. So usually, you'll find 4 to 5 brands. Share of the wallet depending on that particular customer and application can range anywhere from 5 to 40%. And it's applicable to any of the large five players. So that's the range. Or it could be even 100%.

Neeraj Prakash

OK.

Vijaykrishnan Venkatesan

I'm not saying you can't be, but there are customers where you could be a 90% plus because, technically you're a particular brand is a superior, more superior and that's the well accepted for that application. Then it could be even a 90%, but usual to see is let's say 10 to 40% when there are four to five players.

Neeraj Prakash

OK, well understood. So secondly, just wanting to understand, In the global team of Kennametal's operations, how important is the India entity and if you can elaborate a bit on the relationship that we have with the parent in terms of how much decision making is done at the India entity level versus the directive from the parent and what are the key KPI for the top management in India?

Vijaykrishnan Venkatesan

See India is a priority for Kennametal and that's why we are a region. We report directly into the US, which clearly states the importance of what is given into, so the way Kennametal global is structured, we have Americas, which it's the North and South America. We have EMEA, we have APAC without India and India is a region, right? And that clearly states the importance of what they give for India, and two is India, Indian team is quite empowered in terms of what we need to do in terms of making sure we create shareholder value and say shareholder value 25% is minority, 75% is Kennametal, right. But both are at the end of the day shareholders. So, I think to that extent there is enough empowerment in terms of local decision making when it comes to what we need to do for the Indian market, and for delivering our results. Our KPS are obviously revenue top line growth, OK. So, the second PBT and EPS, those are the metrics. So, if you want to add anything.

Neeraj Prakash

Sure, No, I think.

Venkatesan Vijaykrishnan

So, those are the metrics and direction when it comes to the overall global strategy. and Neeraj just to say we have a very stable leadership team. It's not that we had a turnover or something, so we are a very, stable leadership team and I think there's a lot of continuity and hence Kennametal really leaves all those what we need to do out here with us, OK.

Neeraj Prakash

Look, just last question for me, Sir. Just trying to understand the genesis of the CNC machine business that we have, because it doesn't seem like we have the manufacturing outside of India and we're also exporting from India as well. So, if you can just elaborate a bit on what is the edge that we have in this business, that's the last question for me. Thank you.

Vijaykrishnan Venkatesan

Like you know, there are certain, but again, I can't. I'm the only person I've always said it's competitive intelligence. We can't share what we exactly make an export and what we import, because that's something which is not available in the public domain. So can Kennametal globally decides based on the plant, both in terms of technology what we have and the cost position. There are global supply chain decisions which happens based on what needs to be done there, right? And I can't give any further details when it comes to which specific product lines, we make an export and which specific product lines we import from a specific country. I would avoid that question and I hope you will understand the reasons for it.

Neeraj Prakash

Sure sir.

Vijaykrishnan Venkatesan

Thanks Neeraj.
We keep moving on because there's still a lot of people on the call.

Aditya Jain

Jainis from Spark Capital is next.

Vijaykrishnan Venkatesan

Jainis, please go ahead.

Jainis Ketan Chheda

Yeah, good morning. So, my question is I understand you cannot talk a lot on the competition, but with respect to Kennametal, what is the market share that you used to command, say 3-4 years ago? What is the current market share that you have in the machine tools space and what is the market share that you aim to achieve in next three to four years at least that will give us some bit of understanding on where and how we are going and what is the strategy to increase the market share that you are focusing on?

Vijaykrishnan Venkatesan

That's a question I can't answer for sure. And this is a question we have not answered for years now, right? Because it's not available in the syndicated database and it also gives out a lot of forward-looking statements. So I'll just give you a little bit that we did improve our market share by probably 250 to 300 basis points in the last three years and we would continue to strive because obviously when you categorize the market, especially in the hard metal there are only three large groups which play in the market and all of us try to get the best for the customer. Our aspiration, as I've stated, is to be at 1.2 to 1.3. It's the market growth and that is what we have been focusing on when it comes to the hard metal side on the MSG side, which is a machine, there we can't talk about percentages or anything because we are a small player. All there is about how do you increase your presence in terms of product lines and also customers. So, I would leave it that Jainis, because there's a question we can't answer, OK.

Jainis Ketan Chheda

No, I completely understand that a bit of a guidance would have helped us. Anyways, coming to the margins, bit on the segmental basis? Yeah, under margin based on the segmental basis, what is the margin that you are looking for at a sustainable level due to the implement in the manufacturing process in the machine tool space and of course in CNC machines will vary. We understand that, but on the machine tools consumable space, what is the sustainable margins that we are looking for or the aiming for?

Suresh Reddy K V

So, Jainis, on cutting tools, In the last year we have seen the Q3-Q4 we had some amount of inventory corrections, and which impacted us. So, you can see an improvement there for the cutting tools business because if the leverage that comes through from the volumes can easily give us at least 2% to 3% of a benefit there. On MSG, that's our machine business. It all depends upon the volume. It is heavily manpower intensive, the more we do, the more we get a leverage and depending upon the product that we manufacture as well as the end markets. So earlier we used to have China market where our margins were good, but now it is domestic market, and the margins are slightly lower than the China market. So again, here it varies between which market we play. So that again varies anywhere around 5% it can fluctuate.

Jainis Ketan Chheda

Understood.
Thank you.
I'll join the queue.

Suresh Reddy K V

Sure.
Thanks so much.

Aditya Jain

Next is Ms. Ishpreet Batra from the office of Mr. Jatinder Agarwal is next in the line.

Vijaykrishnan Venkatesan

If the person is not there let's proceed to the next person.

Aditya Jain

We can go to ICICI prudential mutual fund who is next.

Vijaykrishnan Venkatesan

There is Harshit Patel whose hand's is up.

Aditya Jain

Next, we can go to Mahindra, Manulife Mutual fund if ICICI is not available.

Suresh Reddy K V

I think by now most of the questions are answered because it was all very detailed.

Vijaykrishnan Venkatesan

In fact, yeah, I've given a lot of detailed answers. Let’s go with hands if nobody is answering.

RENJITH SIVARAM

Yeah.

I am Renjith. Just one small query I think and like you said, the fact that in the Asia Pacific market in Kennametal. So, will India be one major geography? So apart from India, is there any other major competitions for us in the Asia pack where they will be also striving to get some attention from the parent and is there any major market for the Kennametal US apart from India in Asia.

Vijaykrishnan Venkatesan

Renjith, I'll answer your question but saying there's nothing called trying wave for attention because it's driven by the market opportunities and growth opportunities. Historically China has been a major geography for Kennametal and so India, right? So those are the two large when it comes to APAC and again, it's the same for everybody, because China being a second largest economy and India being a very fast growing. While we are fifth largest, but we are extremely fast growing. So those are the two, there's nothing called waving for attention. I won't put it that way, so because we get what we need to get. I don't think there is that extent we should worry about that.

RENJITH SIVARAM

And the reason for asking is that for every other U.S. Company like Cummins or Caterpillar or all these companies, we feel that we generally data shows they are in China which is more competitive in terms of costing. So, that is the reason why some of the products parent company might want or like to have a production facility. Yeah, but for given this, the scale is the major determinant for products like you. So, in that context that he said something like the parent also will look everything together in terms of their own global margins and market share. So is that some reason that for some of these portfolios like parents will still prefer to be manufactured in a Chinese entity where the cost competitiveness is much better and then subsequently it can be shipped to India. So, is that something which was there, and which is changing now, or you are seeing that this is still continuing?

Vijaykrishnan Venkatesan

Renjith, I don't want to comment on the other two. Probably let's not get into the other two brands which you mentioned because both of them are our customers. This industry is slightly different. First, let me start with that. As all you know, most of our products, what we tried to import and again I think we publish where we import from right, It's going to be predominantly from USA or Germany. It's not coming from China for us and that's not driven by cost, its driven by technology. So, we are different from what he just described as scenario for us it's very different and from a cost competitive standpoint where I don't want to compare, we are very well positioned in Bangalore, India is very well pushed.

Suresh K Reddy

Generally, our capacities globally also are invested for the market.

Vijaykrishnan Venkatesan

So, it's not only we only invest for in country, for in county in all cases, unless there is a technology line which we will say that, OK, that would be one or two plans which will supply for the globe. But I can tell you, Renjith, that's not the scenario for us.

RENJITH SIVARAM

OK. And Sir lastly, one thing like aerospace and the difference is one area in India which is where we are expecting a huge growth in terms of the manufacturing outlay which HAL and all the other data advanced systems is talking about. So, in that generally when we talk to these companies, they are government Companies which has already have some market share leadership resting with some other Korean or some entity. That's what we were made to be. So, there we able to make some inroads into this segment because that is one large price which is expected to grow in a huge way. That is one and another thing which we are seeing a huge growth is a CNC machines where Apple has put up a plant and they are now placed an order with one Indian company and likewise the huge requirement for Apple related CNC machine will come. So, are we also one of the suppliers of machine tool for such kind of solution?

Vijaykrishnan Venkatesan

Yeah, Renjith So two things. One, when it comes to Aero's, I think we are well positioned, and I've been repeating this commentary for quite some time because of our solutions. What we offer for the component machining, so that's a good space difference. Again, relatively we have a lot of solutions which go into defense irrespective whether it's a public sector unit or a private player. So, those are all growth segments. what we continue to focus. So, now electronics, it's not a product which we have in our stable. So, we don't participate in the CapEx cycle of their electronics manufacturing today. I hope that answers I'm going to now move on because a lot of people who are waiting to ask.

Aditya Jain

Ishpreet Batra from the Office of the Jatinder Agarwal.

Ishpreet Batra

Hello.

Vijaykrishnan Venkatesan

Yes, go ahead.

Ishpreet Batra

So, sorry I was unable to mute. Thank you for the call. Just one very basic question that we had is you know the CNC growth like you mentioned has been like upward of 40%. But when we look at the cutting tools growth in the last one year has not been as much and we've also gained market share. So just wanted to understand how is it that sales happen and where is the disconnect?

Vijaykrishnan Venkatesan

Let me talk about 40% plus just to qualify what we said that our domestic MSG machine sales group does not. The industry grew at probably 10% and 11%, and if you write so hard metals is also growing. But where we had impact on our exports because we combine export of hard metals into it and that had a significant headwind, we almost drop 15-16%. So that net growth rate was impacted.

Ishpreet Batra

Right.

Vijaykrishnan Venkatesan

So, if you dissect the data, in domestic we doing well?
But overall, when you do a segment report, the export part of the hard metals impacts.

Ishpreet Batra

So, ideally the CNC sales should reflect in the cutting tool sales growth.

Vijaykrishnan Venkatesan

Yes and no, I'll tell you why. The CNC machine growth is driven by two parameters. One is Greenfield, which is absolutely capacity expansion on new projects which are coming in and replacement cycles. So, it depends on how much is replacement cycle.

Ishpreet Batra

Right.

Vijaykrishnan Venkatesan

That means there's no capacity addition, hence there will be no increase in consumption of tooling. OK, so even if we split half and half, let's say 11-12% of growth, 6 to 7% growth is what we are seeing because of the new tool consumption and then the volume growth. So you will see a mid-single digit to a high single digit growth when it comes to the hard metal.

Ishpreet Batra

Got it.
Understood.

Vijaykrishnan Venkatesan

Yeah, very specific.
That's about domestic.
Our reporting includes exports, OK.

Ishpreet Batra

OK, sure.
And the other was the VTL and the HTL machine that we are coming up with. What would be the pricing segment that we are targeting at for these machines?

Vijaykrishnan Venkatesan

Pricing would be a wide range of split.

Ishpreet Batra

Right.

Vijaykrishnan Venkatesan

If, it’s one to hundred, we would be at 65^{th} to 70^{th} percentile, because we don't compete in value segment as a brand pushing for Widma. 65 to 70 percentiles.

Ishpreet Batra

Better. 65 to 70 percentiles right and the margins of this versus cutting tools would it be materially different?

Suresh K Reddy

Yeah. So, these are machines, it is always negotiated order to order. Competition would be intense and not like they're cutting tool.

Ishpreet Batra

OK.

Vijaykrishnan Venkatesan

Yeah, the hard metals will always, again, if we take segment report, hard metals will have a higher margin and it's the industry nature.

Ishpreet Batra

Yeah, we get that and largely over the next 5 to 7 years could we see like a major change in terms of the share of hard metals machines and probably the other new segments that you said you were targeting, or would it buy in large something very similar?

Venkatesan Vijaykrishnan

See a hard metals in terms of market opportunity, machines will always be larger than the hard metals. That's a given, Ok. Because capital equipment sales would be and I'm going from the global market opportunity sizes, right, machines are always bigger.

Ishpreet Batra

Correct.

Vijaykrishnan Venkatesan

But in terms of positioning for us, since we are a leading player in the hard metals. I'd given the tailwinds what Indian economy seeing, especially on the manufacturing side, hard models continue to have a robust growth. I can't give you a percentage. What we're looking at, will remain at a robust growth and it's good for us because that comes at a higher gross margin, relatively.

Ishpreet Batra

Correct, Sure.
Thank you so much.

Aditya Jain

Thank you.
Next to line is we have Mr. Sandeep Jain from Baroda BNP mutual fund.
OK.
And we can move to UTI mutual fund.
Is there somebody from UTI mutual fund here?

Karthikraj Lakshmanan

Yes and no questions for myself.

Vijaykrishnan Venkatesan

OK.
Thank you.
OK.

Aditya Jain

Next is ICICI Prudential Mutual Fund. Any representative from ICICI fund?

Saif Gujar

Yeah. Hi, this is Saif from ICICI, so most of the questions are covered. Just one thing, when we look at the parent level presentations in their segments, they have metal cutting and infrastructure and then they also talk about ceramics. So just what is infra piece for them and what is ceramics division and does the Indian entity has any role in that division?

Vijaykrishnan Venkatesan

Saif, we have slightly differently structured, we report 2 segments when it comes to Kennametal, India, the hard metals include what the parents says as metal cutting and infra is not what we define as the infrastructure market, OK. The reason for inference is we supply a lot of various distance solutions which goes into oil and gas industry, road construction, mining, foundation drilling. So hence we call it infra, but from a Kennametal India standpoint, our reporting of what parent says that metal cutting and infra is combined into hard metals because we also have another segment called machines which parent does not have. Two ceramics which is not something which we handle in Kennametal India. It's a global business because it's very few large OEMs which are expected. So, that is not part of Kennametal India listed entity. We don't handle that at all, OK?

Saif Gujar

And just this machine division for us, where the parent includes that.

Vijaykrishnan Venkatesan

They include that in the metal cutting.

Saif Gujar

OK.
And this second one is, you explained how the contracts usually work, right? The procurement team of a factory, etc. But what is usually the distribution model? Is it directly B2B contracts with the end customer or there is a piece which is through the distributors as well?

Vijaykrishnan Venkatesan

I'll split when it comes to our machines, it's all direct in domestic market. Export sales is through channel partner. Hard metals 85 to 87% of our sales is through a channel partner and 10 to 13% could be because the large automotive OEMs or large steel plans which are large energy companies which would prefer to deal with us. So, if you look at it, majority of our hard metals business and that is a significant portion of our top line comes through distribution channel and it's a very stable channel. It's not that we are looking, like expansion because it's technical selling. Hence what happens is you have to train the Salesforce and it's a significant presence also for us, right, we have a very large sales application team in hard metals in the country and the outreach which we do through our channel partners is 4 times of our sales force and we have one of the largest sales forces too. When it comes to add middles in the country, and so hence, we would prefer that model because of the large customer base which exists in the country.

Saif Gujar

Sure. Thanks.

Aditya Jain

No, there are three more entities.
The next is the Tata Mutual Fund.
Do we have somebody from Tata Mutual fund.

Vijaykrishnan Venkatesan

We have only 15 minutes,

Aditya Jain

So, if nobody's there, we can move to Finvest advisors who are next.

Venkatesan Vijaykrishnan

OK, I don't hear anybody.

Aditya Jain

Next Alisha from Envision Capital.

Alisha Mahawla

Hi Sir, good morning. Thank you for the opportunity. Most questions have been answered just to bookkeeping questions. Is it possible to say what is the contribution from exports and each one for us?

Vijaykrishnan Venkatesan

Hold on Alisha, what is the contribution of exports for each one? I think we declared it for Q1 and Q2. OK, Alisha, is there any other question? Because my CFO will check the numbers. What we publish and you will give it to you before, before we finish the call, any of the questions.

Alisha Mahawla

Just wanted to understand something that was being discussed earlier with that there is a manufacturing of presence in Vietnam also for the parent now, but we're saying we're not competing. Is it possible to understand what is the difference in products that they're doing versus we're doing and any chance of getting more of those kind of products from the parent to India? Why it can come to India just some qualitative color.

Vijaykrishnan Venkatesan

OK, at least let me put it just to rest this issue with all of you. Let's say we are making a Kennametal India limited factory that say we are making fifty different product lines but what we make in our found in the other country is just one product line, OK. It's specifically for a particular market which is being done. So I don't think we should be really concerned with this, OK.

Alisha Mahawla

OK, sure.

Vijaykrishnan Venkatesan

Yeah.

Alisha Mahawla

Great.
That was the only question I had.
Thank you.
If you can just shut the exports for that one would be helpful.

Vijaykrishnan Venkatesan

Yeah, my CFO will give you exports and the tooling side, then we will be done. She wants percentage to the Top client.

Suresh K Reddy

OK, as a percentage to the top client it would be.

Vijaykrishnan Venkatesan

No, we published it.
Ok, Alisha in between I'll take 15 minutes.
Once the answer is ready, we will give it to you.

Aditya Jain

Next, we have a request from the Jatinder Agarwal

Jatinder Agarwal

Yeah, Am I audible.

Vijaykrishnan Venkatesan

Yes.

Jatinder Agarwal

Perfect.
So there's one question, if you could talk on railways as a sector, how big is it for us and what do you see in that segment that will be good?

Venkatesan Vijaykrishnan

Yeah. Good question. Yeah. So, railways have been a very strong segment for us over the years, especially because we have been one of the first players or I would say one of the early players in the country. So, we have been working with all the public sector units for RCF and FWP all these customers and the private sector quite well and our solutions are well positioned when it comes to railways. Obviously, railways next 10 years look very good. We are happy about it and it's a good segment for us. That's how I'll put it.

Suresh Reddy K V

Alisha we are same around 16% overall for each one.

Alisha Mahawla

Thank you.

Jatinder Agarwal

So, just to continue this, sorry, but so just to continue my colleague's question. So, we hear of machines that sell for like 30-40 lakhs and there are some higher end machines that sell for like two to five CR and you earlier explained that you're in the 60-70 percentile. So, in which range? So, is it upwards of 3 1/2 or is it upwards of like 15 which is extremely high and low in terms of individual one machine?

Vijaykrishnan Venkatesan

Yeah.
So, the thing that it depends on the product line right when I said because see let's talk about a turning machine could be anywhere between 20,00,000 to a small turning machine is between let's say 20,00,000 or 40,00,000 right.

Jatinder Agarwal

Right.

Vijaykrishnan Venkatesan

We don't play in that machine. Small machining center can come between 25 and 40 lakhs.

Jatinder Agarwal

OK.

Vijaykrishnan Venkatesan

We don't build any of those machines, right?
We only operate in segments which are high end and specialized machines.

Jatinder Agarwal

Right

Vijaykrishnan Venkatesan

For example, turn cutter grinders, the lowest model could start from 90,00,000. The topmost model goes to two crores, right?

Jatinder Agarwal

OK.

Vijaykrishnan Venkatesan

Are VTL's could start from let's say the smallest can be, let's say 50-60 lakhs. But we also make VTL's and our strength operates between our own what we call 21.2 meter, 2.5 meter, 3.3 meter and 3.5 meters stroke. Those large ones can cost anywhere between 3 or 4 crores of machine.

Jatinder Agarwal

OK.

Vijaykrishnan Venkatesan

So, we operate each segment we operate at the top when it comes to the machine capacity and the capability.

Jatinder Agarwal

Got it.

Vijaykrishnan Venkatesan

When we look at the pricing and we compete with imports there we usually we don't compete with this because we have a particular spot in which Widma plays and we predominantly play Visa Via international competition. That's why it said that 65 to 75th percentile low price.

Jatinder Agarwal

Got it.
And most of these machines are actually import substitutes as it.

Vijaykrishnan Venkatesan

Yes, you're right.

Jatinder Agarwal

And because of the make in India, is it incrementally what you see as a bigger opportunity where you could play, is that true?

Vijaykrishnan Venkatesan

Yes. we see, good customers are more interested if the same quality and performance can be given by machines made here, we do see a preference from our customers to buy from you.

Jatinder Agarwal

That is very helpful.
So thank you.

Aditya Jain

Thank you.
Next is Mr. Sandeep Jain from Baroda BNP.
As he was not there earlier, he has requested again. Sandeep you can proceed.

Sandeep Jain

Thank you for taking my question. Two questions from my side. 1st is in the energy, so we have exposure towards the coal energy also how we are looking at this segment right now or we are thinking that the you know kind of demand for our tools or kind of demand or the machines are increasing in the next probably one year or two year and 2nd what is our outlook on the EV space that we are providing the EV solution and all these two sectors are these two are the my questions currently.

Vijaykrishnan Venkatesan

Yeah, Sandeep, we don't have direct impact because of coal, because what we said is when we say energy, it is about, let's say, turbines. If it's a wind turbine or a regular thermal hydro turbines is where the components where machining happens. So irrespective of what the mix is, we continue to as energy requirements increase in more manufacturing happens. We are very well pushed when comes to energy, so it doesn't impact us irrespective what coal because we don't go into a coal mine. And again, if you're tracking Kennametal, parent earnings all or any of the communications we have been communicating quite a bit when it comes to solutions. What we offer to EV, and we are very well positioned when it comes to EV components both globally and in India, and any component manufacturers today making a EV component. We are present, so it's just another component because there's nothing significant changes in terms of the machining process. Whatever. EV components are there, and we are there, OK?

Sandeep Jain

Are we increasing our market share in this component?
What is the percentage of sales in that if you can disclose something on this?

Vijaykrishnan Venkatesan

We can't say about market share, but EV still as a person is very small Sandeep. If you're also reading the latest news in terms of what is the penetration of EV's? See, let's understand the two wheel is always very low in terms of number of components to be machined, right? The real play is passenger vehicles. Passenger vehicles, still majority, is either a hybrid or it is. Mostly it's IC and then hybrid, then electric. Right now, when you're talking about sales, the growth is very high. So, while we are positioned for a transmission or gearbox, we still will be supplying for an EV component, but it's still as a percentage is very, very, very small.

Sandeep Jain

OK. Thanks.

Vijaykrishnan Venkatesan

I'm talking specific to passenger vehicles in India.

Sandeep Jain

Yeah. So, globally you are quite a decent in this kind of segment, if I remember correctly.

Vijaykrishnan Venkatesan

Yes, we have been developing a lot of new solutions to cater to the to the EV segment. We are tracking the parent, and the same solution is bought to the country here.

Sandeep Jain

So, the technology and all these things, there is no such kind of issue in terms of the transferring the technology or something.

Vijaykrishnan Venkatesan

No.

Sandeep Jain

OK, sure.

Vijaykrishnan Venkatesan

I think it's a very smooth transition when it comes to all the technology transfers.

Sandeep Jain

OK.
Thank you, Sir.
That's it.

Aditya Jain

And do we have anybody from Tata Mutual Fund or Finvest advisors, these two entities left out.

Vijaykrishnan Venkatesan

Otherwise, we'll have to go back.
We have only 8 minutes.

Aditya Jain

OK, Chintan, you are in the queue. You can post your question.

Chintan Modi

So, thanks for the follow up. So, first question is can you share for the first half, the growth in cutting tools for domestic as well as exports and similarly for machines domestic and exports. And second question will be with respect to where resistant solutions business, how much is that as a proportion of our sales and where does that stack up in terms of margins compared to other businesses?

Vijaykrishnan Venkatesan

Yeah, Chintan, that's something which we will be and not be able to give because there is a specific reason why we group it as segments under Hard metals here are definition is only hard metals and that's the number, we will be able to give because of nature of competition that becomes more granular to give between cutting tools in where the distance solution. So, it's combined as hard metals and that's the data we'll be able to give. But it's one data combined which we can give because it's public data we can share it later. And then if you don't mind, we'll circulate the data because anyways, the public information which we have know both the Q1 and Q2, we will share it with the team in terms of hard metals, domestic hard metals exports, MSG exports, and MSG domestic. So, we'll share the data.

Chintan Modi

Sure, Sir. And just last question based on some client feedback that I've got, are we in process of getting the company listed on NSE?

Vijaykrishnan Venkatesan

No, no.

Chintan Modi

OK.
Sure, Sir.
Thanks a lot.

Aditya Jain

Bhavin you are in the queue next.

Bhavin Vithlani

Yeah. Thanks for the opportunity again. So, this is the way resistant which is the metal forming industry, is where we see Kennametal much stronger. Could you talk about it? What guides this chain and competitive benefits and 2nd, what's the kind of growth that we are seeing in this and are we seeing some confrontation cache?

Vijaykrishnan Venkatesan

See I'll give you a slightly higher view, because it's part of the hard metals. I know we report it differently than the parent right now. Some solution where it goes right? It goes, let's say, steel mills, it goes into die making. It goes into processing plants. These are segments which as you know, is all growing very fast in the country, right? And what is a common advantage is that there are not many people who make these products locally.

Bhavin Vithlani

OK.

Vijaykrishnan Venkatesan

OK. And we have a fully end to end manufacturing capacity when it comes to these products in Bangalore. So that there's positioning is very different. So, there is still most of the products we make out of Bangalore. So, it's of one of the two players who are there in the country. Unlike the other sides, it's definitely the smaller opportunity than the tooling, but it's a very interesting solution because we are competitively, we are very well pushed in that space.

Bhavin Vithlani

It isn't fair to say that given the lower competitive intensity and localize manufacturing, the margins relatively much better off than the inner middle brand, which is largely imported versus the way which is largely domestically manufactured.

Suresh Reddy K V

Yeah, but can you repeat that?
We couldn't hear it clearly.
Your audio was not clear about it.

Bhavin Vithlani

Yes.
so are the margins in the way better because it is locally manufactured and lower competition versus the Kennametal inserts which are largely imported as we spoke about earlier in the call.

Vijaykrishnan Venkatesan

I don't think we'll be able to give a margin spread because we are not declaring this information in the public domain.

Bhavin Vithlani

Just disclose higher or lower, no need of exact number but just the direction higher or lower.

Vijaykrishnan Venkatesan

See, it's a mix because there are both groups which have multiple product lines, right? Whereas distance of multiple product lines, so is the tooling and both has high margin products and both as low margin. I'm afraid I won't be able to give the data because we are working in the interest of the investors. I also have to worry about competition and I'm talking about such data and it's not going to help both of us by me giving that information.

Bhavin Vithlani

I know it's this last, is for the Capex. This is the question I'd asked. Will it now be almost in line with the depreciation, which is the maintenance and the kind of CapEx we did? What's the kind of incremental revenue that can support?

Suresh Reddy K V

Yes, you can say more or less, more or less.
Again, depending upon yeah, at that point in time, what we may have to invest slightly, it can move maybe with five crores up and down.

Bhavin Vithlani

Understood, So, like what level of revenue that we need to think about a significant CapEx visit, will it be 2 weeks of the current size or mean just to get directionally when should Capex start moving up?

Suresh Reddy K V

If the machine tools grows very fast, then we may need to have a relook at our investments. The mission business, because that requires space.

Bhavin Vithlani

Thank you. Understood

Aditya Jain

We just have two more minutes left and we have to conclude at 11.

Bhavin Vithlani

Yeah, that's it from my side. Thanks.

Vijaykrishnan Venkatesan

We have a last request from Mr. Harshit. If we can wrap up in a minute saying so, Harshit.

Harshit Patel

Yes, thank you.

Vijaykrishnan Venkatesan

Yeah. That's the last question we can take one question probably.

Harshit Patel

Thank you very much for the opportunity again, Sir. So my question is, are there any white spaces in our product portfolio maybe in terms of geographical coverage that we have in the country, maybe certain chemistries of machine tools, certain raw materials where we are not present, certain segment of the market, which is very price conscious that we don't operate into.

Vijaykrishnan Venkatesan

Yeah, I get your question. You don't need to finish. The answer is yes, for example, the question somebody asked about electronics, right. Electronics is a white space. It's when electronics speaks up in any country that turning requirements is significantly large and we have seen that in China. We have seen that in Taiwan we have seen that in Korea it's very large. So that's a white space chemistry, for example. there is something called Ceramic Tools. There something called PCG tools, which are all, part of the same machine process but different chemistries which finished the product. Right? So, there are white spaces, but if at all we are looking at those white spaces, we will obviously communicate to you different when we launch. I know there's a lot of interesting questions. I hope we were able to answer. We tried to answer most of it very honestly and transparent manner to make sure that you get information what you need. So, thanks a lot for the interest in Kennametal India, and thanks for spending the time. It's 90 minutes, probably a long call. Thank you.

And we are done on time. So, thanks a lot for today's conversation.

Chintan Modi

Thank you very much.

Vijaykrishnan Venkatesan

Thank you.

Suresh Reddy K V

Thank you.

Aditya Jain

Thank you.

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