HAPPY FORGINGS LIMITED

February 19, 2024

To

BSE Ltd. Floor No. 25 Phiroze Jeejeebhoy Tower, Dalal Street, Mumbai – 400 001	**National Stock Exchange of India Ltd.** “Exchange Plaza”, Bandra-Kurla Complex, Bandra(E), Mumbai – 400 051
BSE Scrip Code: 544057	**NSE Symbol:** HAPPYFORGE

Dear Sir/Ma’am,

Sub: Transcript of the Earnings Conference Call for the Quarter ended 31st December 2023 held on Monday, 12th February 2024.

Ref: Intimation of Earnings Conference Call Invite to discuss operational and financial performance of the Company for the quarter and nine months ended 31st December 2023.

Pursuant to Regulation 30 of the Listing Regulations, kindly find enclosed the copy of transcript of the Investor call held on February 12, 2024 at 10:00 a.m. (Indian Standard Time) on the unaudited financial results for the quarter and nine months ended December 31, 2023.

Kindly take the same on records.

For Happy Forgings Limited

BINDU GARG Digitally signed by BINDU GARG Date: 2024.02.19 15:14:46 +05'30'

Bindu Garg
Company Secretary & Compliance Officer
Membership No.: F6997

Happy Forgings Limited

Q3 FY24 Earnings Conference Call

February 12, 2024

Disclaimer: E&OE - This transcript is edited for grammatical and other transcribing errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on 12th February 2024 will prevail. In case of any conflict of factual information with published data in the Investor Presentation, the later should be considered to be accurate.

MANAGEMENT:	**MR. ASHISH GARG -- MANAGING DIRECTOR** **MR. PANKAJ KUMAR GOYAL -- CHIEF FINANCIAL OFFICER** **STRATEGIC GROWTH ADVISORS -- INVESTOR RELATION ADVISORS --**
MODERATOR:	**MR. AASHIN MODI – EQUIRUS SECURITIES**

Moderator: Ladies and gentlemen, good day and welcome to Happy Forgings Limited Q3 FY24 Results Conference Call hosted by Equirus Securities. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone.

Please note that this conference is being recorded. I now hand the conference over to Mr. Aashin Modi from Equirus Securities. Thank you and over to you, sir.

Aashin Modi: Hi, good morning everyone. On behalf of Equirus Securities, I welcome you all to the Q3 FY24 Post Results Conference Call of Happy Forgings Limited. From the management side, we have with us today, Mr. Ashish Garg, Managing Director, Mr. Pankaj Kumar Goyal, The Chief Financial Officer.

So without further ado, I hand over the call to Ashish sir for his opening remarks. Over to you, sir.

Ashish Garg: So, good morning and a very warm welcome to all of you to Happy Forgings Limited Q3, 9M FY24 Earnings Call. With me, I have Mr. Pankaj Goyal, who is the CFO of our company and Strategic Growth Advisors, our Investor Relations Advisors.

Let me start by thanking the investor fraternity for our warm reception to Happy Forgings Limited IPO. We are very grateful and humbled. For the Q3 results, we have uploaded our presentation on the exchanges, and I hope everybody had an opportunity to go through the same. Since this is our first earnings call post listing, we would like to share some brief information about our company and an overview of our business performance followed by financial performance for Q3 and 9M FY24.

Coming to the business overview, Happy Forgings is a more than 40-years-old Indian manufacturer specializing in manufacturing and supplying complex and safety-critical heavy forge and high-precision machined components. Through our vertically integrated operations, we are engaged in engineering, process design, testing, manufacturing and supply of a variety of components to domestic and global OEMs.

This business was started by my father, Mr. Paritosh Kumar Garg, who is our CMD, with the intention to forge bicycle pedal arms and since then this business has emerged from a bicycle pedal manufacturing company to the second largest manufacturer of high horsepower diesel engine crankshafts in the country.

Today, we manufacture safety-critical components with approximately 85% revenue coming from complete machined products, which is the highest in the industry. Our facilities manufacture a wide range of heavy forged and machine products, which include crankshafts, front axle beams, steering knuckles, differential cases, transmission parts and other suspension parts, wall bodies across the diversified base of our customers.

Over the years, we have expanded our capabilities to offer a diverse range of products and serve a wide range of businesses for industries and customers across geographies. In the automotive sector, we cater to the commercial vehicle sector and in non-automotive sector, we cater to manufacturers of farm equipment, off highway vehicles, manufacturers of industrial products, machinery for oil and gas, power generation, railways and wind turbines.

Today, we are the fourth largest engineering-led manufacturer of complex and safety-critical components, heavy forged and high precision machined components in India and have emerged as a leading player in the domestic crankshaft manufacturing industry with the second largest production capacity for commercial vehicle and high horsepower industrial crankshafts.

We are a supplier to each of the top five Indian OEMs for market share in the MHCV space and four of the top five Indian OEMs in the farm equipment industry for market share. In FY23, we believe that our long-standing relationships with our customers has positioned us as a trusted supplier for several Indian and global OEMs.

We own and operate three manufacturing facilities with a total annual capacity of 1,20,000 tons in forging and total machining capacity of 51,000 tons. Over the years, we have continuously invested in machinery and equipment to expand our forging and machining capacity to seize growth opportunities in the market.

Talking about our business performance for the year, the global forging market is expected to grow to $100 billion at a CAGR of 5.1% by FY29. The global machining market is expected to grow to $70 billion at a CAGR of 5% by 2029. At the same time, Indian forging and machining market is expected to grow at CAGR of 7.1% and 8.4% respectively by 2029.

At Happy Forgings, we have been able to grow our market share over the years through adding new products and clients, expanding wallet share from our existing customers, and also adding new customers in different geographies. We believe this strategy will continue to drive growth going forward as well.

We have an established track record of consistent revenue growth and profitability over multiple periods. In the last 5 years, our revenues have grown at a CAGR of 17%, while our EBITDA has grown at a CAGR of 20% and PAT at a CAGR of 29% and this is all including COVID years.

Our EBITDA margins have expanded from 24.9% in FY2018 to 28.6% in 9M FY24. As of December 2023, our return on capital employed (ROCE) stands at 24.4% and ROE at 22%, which is one of the best in the industry.

What sets us apart from the competition is our focused strategy on adding value to our product offerings and continuously staying relevant to the industry trends. This upward trend owes much to several key factors. Firstly, our shift from forging to complete machined business. From 67% machine components to almost 84% in 9M FY24, underscores our ability to deliver complex, precision-engineered components.

Moreover, our ability to cater to diversified industries has been pivot. Leveraging in-house design capabilities, fungible production lines and advanced technology adoption including robotics, we have diversified our customers' base with a increasing focus on industrial applications such as power generation, oil and gas, railways and wind turbine sectors. Value-added industrial segment which contributed just 2% to our revenues in FY18 is now almost 14% in 9M FY24.

Our global footprint is expanding rapidly with exports growing at a remarkable CAGR of 40% from FY18 and now contributing almost 20% to our revenues in 9M FY24. With India's burgeoning stature as a manufacturing hub, we anticipate even greater growth, fueled by increased exports and the global shift away from China.

Furthermore, our enduring relationships with the top 10 customers, some spanning over 20 years, facilitate increased wallet share and cross-selling opportunities further solidifying our market presence. Typically, global industry leaders are highly selective in qualifying new suppliers with respect to critical products, given the high cost and risk of switching suppliers, especially where product reliability is critical.

We believe that the critical applications of our products along with their heavy weight, close tolerances, and stringent quality requirements of OEMs serve as an entry barrier for new players to enter the market.

Over the medium term, we remain fairly confident to achieve 15%-20% revenue growth in line with our historic performance backed by increasing utilization of our existing facilities, addition of capacity with the ongoing capex, and addition of new customers both domestic and in international markets. We have a price pass-through mechanism with our customers and hence on an annual basis, we remain confident on our margin profiles. To conclude, our engineering capabilities coupled with machining capabilities and advanced technologies that we deploy as a part of our manufacturing operations position us to capitalize on the opportunities presented by large domestic and global players.

Now I would like to hand over the call to Mr. Pankaj Goyal who is our CFO for the quarter.

Pankaj Goyal: Thank you. I am this side Pankaj Kumar Goyal, CFO of the company. Good morning everyone. We are pleased to report the financial performance for Q3 and YTD 9 months for the current financial year. Starting with Q3 FY24 versus Q3 FY23 performance, with a volume growth of 20% on a year-on-year basis, revenue stood at INR342 crores versus INR294 crores, having a growth of 16% on a year-on-year basis.

EBITDA stood at INR95 crores versus INR73 crores, a growth of 30% on a year-on-year basis. EBITDA margin stood at 27.8% versus 24.9%, a growth of 295 basis points is there on a year-on-year basis. Profit after tax for the quarter stood at INR58 crores versus INR42 crores, a growth of 39% on a year-on-year basis.

So, PAT margin also stood at 16.9% or approx. 17% versus 14%, a growth of 280 basis points on a year-on-year basis. This is about the quarterly performance. Now, I will come to the 9M number.

For the 9M FY24 versus 9M FY23 performance, we would like to highlight that in 9M FY23, the corresponding previous year's 9M, the company recognized a government grant of SGST incentive, that is one-time income pertaining to earlier years of around INR23 crores. After adjusting the same in numbers of 9M FY23 period, the comparative figures are - Revenue stood at in the current 9M INR1,015 crores versus adjusted revenue of previous 9M INR871 crores, witnessing a growth of 17% on a year-on-year basis.

And EBITDA stood at around INR290 crores versus adjusted EBITDA of the previous 9M og INR232 crores, witnessing a year-on-year growth of 25% with respect to the adjusted EBITDA. EBITDA margins stood at 28.6% versus adjusted margins of 26.6%, so witnessing a growth of 200 basis points year-on-year basis. PAT stood at INR177 crores versus adjusted PAT of INR141 crores, witnessing a growth of 26% on a year-on-year basis.

So PAT margin also stood at 17.5% versus adjusted PAT margins of 16.1%, witnessing a growth of 130 basis points year-on-year basis. So this is all about the 9M number. In Q4, Q4 is generally a strong quarter for Happy Forgings, however, it is pertinent to I would like to mention that the current Red Sea crisis will have some bearing on sales due to delay in receipts at customers end as most of the delivery terms are on DDP basis. And a brief about the IPO, the company concludes its IPO on 27 December 2023, just four days before the closing of this quarter, when the quarter is almost closing, you can say.

We raised primarily capital of INR400 crores, which is utilized for first repayment of certain portion of the borrowing, around INR153 crores. Same has been utilized in repayment of debts within the quarter and post such repayment, debt stands of INR139 crores as at the quarter ending. For the purchase of equipment, plant and machinery, we allocated around INR171 crores. Since it's only been only three or four days, we only spent INR3 crores in the capex.

Balance is kept in the FDRs with the banks. The unspent money will be used in both forging and machining capacity additions, largely during FY24-25. For the GCP, general corporate purpose, from the balance allocated funds, INR76 crores, INR28 crores is being used towards the IPO expenses and sundry payments. Balance INR48 crores is lying with the bank by way of FDRs. That is all from our end. We now leave the floor open for the question and answer.

Thanks for my side. Thank you.

Moderator: Thank you very much. The first question is from the line of Lakshminarayanan from Tunga Investments. Please go ahead.

Lakshminarayanan: Thank you. A couple of questions. In the exports, what is your mix of sales across various types of customers?

Ashish Garg: So, sir, in exports, we have exports coming from commercial vehicle sector, farm equipment, industrials and off-highway today. And the major part of export is coming from Europe today. And this is spread across all the sectors. And industrial is one sector which is growing faster for us in exports.

Lakshminarayanan: And the mix of this in the exports, is it like 41% to commercial vehicle? What is the mix?

Ashish Garg: So, sir, out of 41%, roughly around 26%, 27% is domestic and balance is exports.

Lakshminarayanan: Okay. And in terms of the EBITDA, if you look at your company-wise EBITDA, what is the machined EBITDA? How higher the machined EBITDA is? How is the non-machined EBITDA?

Ashish Garg: So, sir, normally, we don't evaluate it separately between forging and machining. It depends, even within the machining, it depends on what type of products we are machining. Because starting from INR180 per kg, the machining product realization goes up to INR400 per kg. So, it is very difficult to actually give a number to it. But definitely, the machining business definitely contains a better margin than the forging business, because the value addition content is more.

Lakshminarayanan: Now, usually, what it is like 30% more, let's say, if your EBITDA is around 100 for regular, is it machined at a blended level? Would it be like 130, 140? How to think about it?

Ashish Garg: So, roughly, if you see, sir, in the realization front, if we can see, it depends on the value addition content in the business. So, if we see that, you know, if the gross margin in the product is 75%-80%, then 50% of the gross margin is converted into EBITDA, which is a thumb rule. So, if on a INR1,000 product, if the gross margin is INR800, so probably on that product, you know, the EBITDA margin will be around 40%.

Lakshminarayanan: Okay, this is on the machined one.

Ashish Garg: Yes, and it also depends on the type of products we are shipping, because product to product, this will also vary.

Lakshminarayanan: Okay. What has been the price of steel in the last nine months on a blended basis per tonne for us at a procurement level?

Ashish Garg: It is around INR72 to INR73 a kg.

Lakshminarayanan: Okay, okay. And when compared to last year?

Ashish Garg: There is a correction of INR3.5 to INR4.

Lakshminarayanan: Okay, from INR76 it has come to INR73. Okay, okay. And what is the cumulative tonnage done in the machined things and what is the cumulative tonnage done in the regular one for the last 9M? The tonnage output I am saying.

Pankaj Goyal: Just around 32,000 tons for this 9M.

Ashish Garg: So, in machining it is 32,000 tons in machining? You are talking about the machining volume?

Lakshminarayanan: I am talking about the last 9M. What has been the output machining in tonnage as well as output in your non-machining? You give that number in terms of 86% and 14%, right? I just want to know what the 86% is -- 84% on a tonnage point of view, what does that translate to? And 15% on a tonnage, what does it translate to?

Ashish Garg: So, basically, on the machining front, as I can say, the capacity utilization today is around 87% on the machining tonnage. And the machining capacity today stands at 51,000 tons. Whereas, for the forging, the capacity stands at 1,20,000 tons and the utilization is around 60% for the 9M FY'24.

Lakshminarayanan: Okay. So, can I assume that it is like 60% of 1,20,000 plus 87% of 51,000 is what it is? Because there is, you know, you forge and then you machine also, right?

Ashish Garg: We forge, and we machine because only 15% of the revenues comes from forging now and 85% is machining. So, we forge and machine. So, you cannot add and see it separately.

Lakshminarayanan: Got it. And then what is…

Ashish Garg: You can refer to the Slide 19 of the presentation.

Lakshminarayanan: Yes. So, how much of forging goes to machining, sir?

Ashish Garg: So, everything is -- whatever we machine, everything is forged in-house. So, 85% of the total forged product in-house is getting consumed in machining.

Lakshminarayanan: Okay. So, then I can assume that 87% of 51,000 is there and then the balance would be sold as…

Ashish Garg: Yes. There is nothing machined in-house which is sourced from outside today. Everything is forged and machined in-house.

Lakshminarayanan: And do you? You don't forge and send it outside. Whatever you forge, you actually consume it.

Ashish Garg: So, only 15% of the sales that we do as forged, it goes outside, sir.

Lakshminarayanan: Okay. Fair enough. Thank you. I'll come back in queue.

Moderator: The next question is from the line of Abhishek from Dolat Capital. Please go ahead.

Abhishek: Thanks for opportunity and congrats on strong set of numbers in tough time. Sir, as domestic revenue is highly dependent on CV factor and off-highway vehicles, where we see slowdowns. So, what would be the growth figure for the domestic business going ahead? If you can throw some more light on the new plant acquisition, product addition and plan to enter in passenger vehicle segment.

Ashish Garg: So, as you have already said that there is a slight slowdown in the CV and the -- in farm equipment industry. So, we have already seen some slowdown. But despite of that, company has witnessed a strong growth. Going forward as well, we are seeing growth coming in from the new products that we have introduced in the last couple of months.

So we are seeing largely -- the new product development is helping us out over here. So we are increasing our wallet share. We have added the new business in the CV sector as well, a new product, front axle beams. And on the industrial side, we have witnessed a very sharp growth from almost 3% to almost 14% now. And the export business has grown almost 70%, as you can see. So, we are seeing growth coming from exports.

On the domestic side, we have entered into the PV sector, especially in the SUV sector. We are expecting around 5% to 6% revenues coming from this sector in next financial year. So, we have already started manufacturing for these products. And PV is going to be a meaningful share for us going forward.

So, in the CV side, as I already mentioned that we have increased our wallet share -- we will be increasing our wallet share as we have introduced new products. Also, there are certain programs which are running for new CV clients, which will probably help us in adding in domestic business.

And as far as off-highway is concerned, we are seeing good growth in that sector. And the off-highway business is also growing for us domestically, whereas industrial sector, the wind power is also growing for us domestically.

Abhishek: And if you can throw some more light on the new client acquisition in the last one year which can boost your revenue growth.

Ashish Garg: In exports, we have today 66 clients in total. So, largely, almost 30 clients have been added in the last 4-5 years. So, the business, it takes a lot of time for these businesses to actually start. So, there is a lot of new clients which are in pipeline where this business is growing. And going forward, we see exports to be a considerable share for us as 60% of the new businesses that we have in hand is coming from export sector.

Abhishek: Okay. And your revenue from North America is very negligible, which is one of the larger markets for the other forging players. So, what is your plan to expand the business in particular geography?

Ashish Garg: So, we are entering into North American market as well. But the type of products we offer, we are seeing a fairly rich demand coming from Europe. But definitely, we have more scope to grow even in the American market.

Abhishek: Okay. And, sir, what sort of the inorganic opportunity are you looking to boost your top line? Because your top line is very, it's around INR2,000 crores. So, just wanted to understand what's your plan to make it INR4,000 crores to INR5,000 crores organic and inorganic opportunity. So, your top line is just INR1,400 crores. So just wanted to know around what is your plan to make it a INR3,000 crores kind of thing.

Ashish Garg: At the moment, we are growing organically, if you see, in the past. And going forward is -- well, we'll be growing organically, but for inorganic opportunities as well. So, company will be seeing opportunities. If you look at the company profile, the debt profile, it's negligible today. And we're sitting off enough cash. So, going forward, we will be in the position to actually -- we are seeing some opportunities, but it will be too early to comment on it.

Abhishek: Okay, sir. And my last question on your capacity.

Moderator: Abhishek sir, can you come back in the queue for follow-up questions?

Abhishek: Thank you. Thank you so much.

Moderator: Okay. Thank you. The next question is from the line of Jinesh Gandhi from Ambit Capital. Please go ahead.

Jinesh Gandhi: Hi, Ashish. A couple of questions from my side. One is, what would be total tonnage of sales of finished products in this quarter? And secondly, if you can talk about the order book, which we have on our hand, how it has been trending? Those are my two questions. Thanks.

Ashish Garg: So, Jinesh, on the tonnage, right, you're asking on the machining tonnage, what we have delivered in quarter three?

Jinesh Gandhi: The total tonnage on the finished products, right? Machining, you've talked about 32,000 tons for 9M. If you have similar number for the total tonnage on the finished product sales.

Ashish Garg: So, Jinesh, it is 42,000 tons in 9M.

Jinesh Gandhi: 42,000 tons in 9M. And what would be for 3Q?

Ashish Garg: Yes, just checking 14,400.

Jignesh Gandhi: Developed total finished product.

Ashish Garg: Yes. Total.

Jignesh Gandhi: Got it. And on the order book side, how are you seeing that shaping up?

Ashish Garg: So, new developments and projects are on track. So, there are some launches, the products which are under testing are planned from quarter one of next financial year. As already mentioned, we have also entered into PV sector, which is a new sector for us. And we are expecting 5% to 6% market share in that sector, 5% to 6%, revenue share to come from that sector in next financial year. It is a fairly large business that we have already started, supplying.

And the major growth will probably start coming in from April in this business. And then we are increasing our wallet share in CV sector because of the new product introduction as we have launched front axle beams, which are under testing for some of these large OEMs. And in terms of exports, we already have the new, businesses, which we are in development for industrial sector as well as for off-highway sector, which are in development phase and also ramping up month-on-month basis.

So, these all, looks, robust and good at the moment, wherever we are doing. So, going forward, we see that, even on the PV side, we will have a meaningful share going forward by in next 1.5 –2 to 3 years.

Jignesh Gandhi: Okay. And on the existing order side or the new orders, which are getting into the ramp-up mode or production mode, are you seeing any bit of delayed or slower ramp-up because of customers asking you to defer? Because some of your peers, both on forging and non-forging, have been talking about some of these new orders getting pushed back. Are we also experiencing similar kind of pushback?

Ashish Garg: No, there is no pushback as such for the businesses that we are doing. Yes, definitely there is some slowdown. There is some delay in capacity creation because of the Red Sea crisis, like by one month or so, one and a half, two months in terms of capacity creation, like over 6,300 ton line is probably getting delayed by two months and also some of the grinding machines that we ordered from UK and Germany. Otherwise, if you see the ramp-up is all planned and is lined up.

Jignesh Gandhi: Great, great. Thanks Ashish and all the best.

Ashish Garg: Thank you.

Moderator: The next question is from the line of Mithul Shah from DAM Capital. Please go ahead.

Mithul Shah: Sir, thank you for the opportunity. And the first question is on non-auto industrial side. Our contribution, revenue contribution has gone up significantly in first 9M from 4% last year to 13%.

So, can you throw some more light in terms of which are the segments and any major new segment addition and growth, from where the growth is coming and what would be this contribution 13%, 14% going forward in next two years?

Ashish Garg: Thanks Mithulji. So, the contribution coming from industrial side has definitely gone up significantly in this financial year. It's majorly coming from wind turbine sector and large industrial engines.

So, both the sectors are doing well for us. We have started our 14,000 ton press line in last financial year, in the third quarter of last financial year. So, it's almost one year now. And from, because of this line, we have started doing products from 90 kg to 250 kg. So, earlier, if you see, our manufacturing capability was up to 90 kg. But because of this press line, we are now able to forge parts up to 250 kg.

And this has happened just in the last 9 to 10 months. And so, we are ramping up on this line. And the way our capacity utilization will increase, more business is coming on industrial side on this line. So, it is going to grow, as the capacity utilization of over 14,000 ton is improving.

Mithul Shah: Okay, sir. And second question on overall revenue growth, wherein we are still seeing positive indication. So, what is our assumption for the underlying industry, particularly commercial vehicle or MHCV cargo segment for next two years? Or I'll put in other words, if at all this industry declines by 8% to 10% over next two years, still we are confident of recording on overall basis healthy growth?

Ashish Garg: So, sir, our growth is largely dependent on the production of commercial vehicles as well as tractors. But at the same time, we have a large new product development, which is undergoing. If you see, even in this year, CV as well as farm equipment is not doing so well.

And despite of that, there is almost 20% growth in our volumes, despite of falling steel prices. So, going forward with the new product introduction, we are confident of maintaining this growth. And if we see the sectors coming back, say third quarter of next financial year, like particularly farm equipment sector, definitely that will add up to our growth.

But company is increasing its market share. That is what we kind of focus on by adding new domestic farm equipment as well as domestic CV clients. So, that is the focus today. And that is what we are doing.

Mithul Shah: So, last question on balance sheet side. Now, we have decent cash on balance sheet. Moreover, capex is not very aggressive going forward. So, next 2-3 years, we will be able to generate decent cash flow. So, what would be our thought process in terms of utilizing it either in terms of organic growth or dividend payout? What is our thought process for next 2-3 years on cash side?

Ashish Garg: So, now on the fixed asset side, probably there will be capex of almost INR200 crores on annualized basis. That is what we are seeing. And beyond this, yes, you are right that we will be having enough cash. We will be also looking at inorganic opportunities. So, and we are evaluating. So, definitely if we have clarity going forward, we will be definitely communicating the same.

Mithul Shah: Okay, sir. Thank you and all the best.

Ashish Garg: Thank you, sir.

Moderator: Thank you. The next question is from the line of Naga Brahma from NB Investments. Please go ahead.

Naga Brahma: Good morning, sir. Sir, I had two questions. The one is regarding the export market. In general, we are hearing a lot of dropping demand on the recession happening in and around Europe and USA. Our major export is to European countries. And you are sounding bullish on the order inflow and also future demand potential from the European market even in the coming years.

Just wanted to know how we are able to get better orders. What makes you to sound so positive and very bullish about the export market?

Ashish Garg: So, thank you, sir. So, in terms of exports, if you see, if you compare, our share for exports is fairly small. You know, if you look at it, we were largely a domestic supplier a few years back. But our exports revenues have grown nearly 6x in the last 4 years.

And direct exports now contributes almost 21%. So, going forward, as rightly said that, Europe is witnessing some slowdown. But this again is because of the high energy prices and high inflation. But at the same time, we are seeing a lot of large projects being shifted to countries like India.

That gives us enough opportunity to actually grab businesses at this time. So, on a long term basis, we see that this will be a positive for the Indian market. And we are witnessing the same for us. And this export share will definitely grow to around 30%-35% going forward in 3 years to 4 years.

Naga Brahma: Sir, my second question is regarding, you know, the domestic PV market. You mentioned that you are expecting around 5% to 6% of our sales to come from the PV segment. Now, what puzzles me is most of the domestic PVs are all quite established ones and have been in the market for a longer time. And they must have already have reputed and dedicated vendors for all their products.

What makes them to shift to Happy Forgings now? Is it price or is it service or quality? What makes them to shift to Happy Forgings from the existing vendors for their requirement?

Ashish Garg: So, sir, on a PV side, particularly for us, it is a SUV sector which is growing very rapidly in India. And some of the OEMs, large PV OEMs, they have their own machining lines. But for the growing sector in SUV, the way demand is going up, some of these large OEMs are not having their own capacities.

And the way this demand is coming up is catching up in SUVs. So, basically, the new business is developed in that sector for us. And these are very high precision components because India has witnessed the fastest migration from BS3 to BS6 norms. And in BS6 norms, particularly, there's a requirement of – there are the standards and the specifications and the tolerances are very tight.

So, the equipment's and the investments that we have done in the last four years, if you see in the last four years, we have almost doubled our block, so, today, we have the capability to develop those products which are required in those sectors. And that is the reason we are able to gain a faster share because of the increased demand in particularly SUV sector.

Naga Brahma: So, you mean to say this is the additional or the increasing demand that these companies, you know, for making SUVs are getting. So, they are giving part of that increased business to Happy Forgings, correct?

Ashish Garg: Yes, yes.

Naga Brahma: Okay, sir. Thank you very much and wish you all the best.

Naga Brahma: Thank you.

Moderator: The next question is from the line of Lakshminarayanan from Tunga Investments. Please go ahead.

Lakshminarayanan: Yes, so, you mentioned that SUVs are – but in terms of your automotive in terms of your revenue breakup, you say that it is automotive commercial vehicles, non-automotive farm, off-highway vehicles and industrial, right? So, where does the SUV thing come in the whole thing, sir?

Ashish Garg: So, SUV is a new sector for us. So, we have just started. That is the reason I mentioned that it will be around 4% to 5% of our revenues going forward in next financial year.

Lakshminarayanan: Got it. Okay, okay.

Ashish Garg: Yes.

Lakshminarayanan: And if you just look at the overall, you know, forging industry, so there is a large player Bharat Forge and then there are players like you, MM Forgings and Ramkrishna, right? So, what is your competitive landscape looks like? I mean, of course, you have detailed in your RHP, but in the current scheme of things and with respect to the domestic market, what is your market share and who typically competes with you in the domestic?

Ashish Garg: So, sir, if you see today, we have the press lines that we have. So, we have today three 8,000 tonne press line, 14,000 tonne and press line and 4,000 tonne press line. So, almost 70%-75% of our total revenue comes from heavy product sector. So other players might have one or two lines, but the contribution from heavy side will not be that much.

So, our contribution on the heavy forging front is 75%-80%. And then in terms of crankshaft, if you see, we are the second largest now in terms of our capacities and production. So, over there, we are the second largest. And so, that's, you know, that's the main business for us. And we compete against only one player in the country today on that side.

And today for us, if you look at it, we are majorly into machined component business. So, 85% of our revenue comes from machine products. Also, the industrial business, which is kind of gaining share over there as well, we are competing against one player. So, that's how, that's what I want to say.

I don't want to name some of the peers in the call.

Lakshminarayanan: Got it. So, from an industry point of view, are we seeing that one larger player is actually looking into other markets, and then there are, there is a lot of smaller players are actually winding off, or they are actually moving away. Does it make the industry more lucrative and concentrated in the hands of three or four players, which is in the range of somewhere plus or minus 10%-20% from your size, right?

Is that something you see that industry would actually go through?

Ashish Garg: That's not the case, sir. Everyone is growing. India's growth story is very different. We are seeing a lot of business being shifted to India. And the type of capability required to forge and machine those parts, and some of the players who are in the sector for the last 40-50 years will probably enjoy that.

And with the type of machining capabilities that we have possessed and we have developed in the last couple of years, I think we'll be able to gain a lot of market share because of the machining capabilities. Because it's not that you invest in the capacities. A lot of players have actually tried investing in this business, but they eventually failed.

So, it's a business which is for the critical components, and it requires a lot of long testing period and a lot of business culture to actually produce and supply these parts. So, I would like to comment, I don't want to comment on what others are doing, but overall situation is that, yes, India will witness a good growth in this sector.

Lakshminarayanan: And you are a Tier 1 vendor to Indian companies as well as the global, or you actually supply to a system aggregator and then that person actually…

Ashish Garg: No, we are direct suppliers. And in some of the cases with Dana and Meritor, probably we are Tier 2 where we supply them and they supply to Volvo and IVECO. But besides that, we are direct suppliers to almost all OEMs.

Lakshminarayanan: Got it. Thank you, sir.

Moderator: Thank you. And the next question is from the line of Sagar Sethi from Sethi Investments.

Sagar Sethi: Can you please share the details about capex for coming months?

Ashish Garg: Can you come again, sir? Your voice is not clear.

Sagar Sethi: Can you please share the details about capex?

Ashish Garg: I can hear you, the capex and what you are asking. Can you come again, sir? Your question is not clear.

Moderator: The line for the current participants has been dropped. The next question is from the line of Amber Shukla from Motilal Oswal. Please go ahead.

Amber Shukla: Thank you, sir. Thanks for the opportunity. You talked about the 14,000 ton press. Can you tell us the utilization rate of that press and by when do you think the utilization should reach 100%?

Ashish Garg: Sir, thanks for your question. Current utilization is around 40% and we plan to increase it to 80% going forward in next 15 to 18 months. The optimum utilization on the line is normally 75%-80% and we are 50% utilizing it at the moment. There is a lot of development which is ongoing on this line and the plan is to utilize to almost 75%-80% going forward in next 15 to 18 months.

Amber Shukla: Okay. And secondly, we have earlier talked about the new press line. So, is there any change in those timelines or should we expect it to come by FY26?

Ashish Garg: Sir, there is one 6,300 ton line which was expected to arrive by March. But there is a delay by one and a half months because of Red Sea crisis. We are expecting the line to reach by May and June. So, which will probably impact a quarter, that's it. And we will be able to forge parts up to 35 -40 kg on this line. And there is another line which is ordered which we are expecting in FY26.

So, whatever plans are there in terms of capex are all in place.

Amber Shukla: Okay, sir. Thank you.

Moderator: Thank you. And the next question is from the line of Manish Goyal from Thinqwise Wealth Managers. Please go ahead.

Manish Goyal: Yes. Thank you so much, sir. Sir, in the results released, there is a mention about HFL Tech Private Limited which is a newly formed subsidiary And it is looking to invest INR100 crores for manufacturing auto components. So, if you can just give us more understanding on what is the plan for this. Are we looking to acquire some company through this vehicle or it's a new company for in-house production?

Ashish Garg: So, it is part of our organic growth. we will be in a process to apply for certain things it will be in a different state. And probably we will have more clarity on it in the next one or two quarters. But definitely, it will be part of our organic growth. And it will be majorly in machining. And it will be 100% owned subsidiary of Happy Forgings.

Manish Goyal: Okay. So, is it that we probably want to take advantage of the lower tax regime for new companies? We are putting this capacity in a subsidiary.

Ashish Garg: Yes, sir. Definitely, the tax rate will be better in that. And definitely, there is some benefits of investing in that state. We will have more clarity going forward in one or two quarters.

Manish Goyal: And sir, you just mentioned about one 6300 ton press coming up in near future. And there is another line. What will be the capacity of that?

Ashish Garg: 6300 will add nearly 10 to 12000 tons of annual capacity. 10,000 tons of annual capacity.

Manish Goyal: Sir, I was also asking in terms of one more press line which you expect to come next year. So, what is the size of that and when is it expected to get in shop? Apart from the 6300.

Ashish Garg: So, that will probably arrive at the end of next financial year and probably be up and running in FY '26. And will give us a capacity of almost 20000 tons on an annual basis.

Manish Goyal: And this is 10,000 ton press?

Ashish Garg: Similar capacity.

Manish Goyal: Right, sir. And sir, coming to the industrial, the 14,000 ton press, what production it can give, sir? I know there is a wide range in terms of product profile. But average, what kind of production can we expect from this fresh stuff and average realization, sir?

Ashish Garg: So, sir, if you do large batch sizes on a CV product, then you can probably touch 25,000 tons-30,000 tons.

If you do a mix of industrial products with small batch sizes, then it will be in the range of 20,000 tons-25,000 tons. It depends on the batch sizes and the industries we serve on this line.

Manish Goyal: And sir, how is the realization difference for a CV or for an industrial?

Ashish Garg: It is INR20-INR25 a kg more on the industrial business. If you compare it with CV products.

Manish Goyal: Okay. So, again, industrial, all the products what we sell are completely machined and largely for wind power at the moment?

Ashish Garg: For wind power as well as large industrial engines. So, it is all machined.

Manish Goyal: Okay. And, sir, just in terms of whatever production we do in the codes.

Moderator: Hello, Manish sir. Can you come for the follow-up question?

Manish Goyal: Sure, I will come. Thank you so much.

Moderator: The next question is from the line of Aashin Modi from Equirus Securities. Please go ahead, sir.

Aashin Modi: Hi, thanks for the opportunity. Sir, I just had one question. So, one of the key reasons for the reduction in margins compared to last year was because of lower government incentives. So, could you help us with the government incentive number for the quarter and also for the scrap sales during the quarter? And how do you see this government incentive going forward?

Ashish Garg: So, the government incentive of SGST that we have received is an ongoing incentive which is roughly 0.8% to 1% on the revenue. And in last year, the incentive that we have received was pertaining to the last two financial years, which was of almost for INR23 crores. But the incentive that we have will be ongoing for next 10 years going forward as well. It will be in a range of 0.8% to 1% of the domestic business.

Aashin Modi: And what was the scrap sales during the quarter?

Ashish Garg: 8%. It is around 7% to 8% of the total.

Aashin Modi: Sure, sure. I will join back. Thank you.

Moderator: Thank you. That was the last question. I would now like to hand the conference over to management for closing comments.

Ashish Garg: Thank you everyone for joining the call and thanks for your questions. So, with the legacy of innovation, a commitment to excellence and a relentless pursuit of customer satisfaction, we are poised to write the next chapter of success in our journey. With this, I would like to thank everyone for joining the call.

I hope we have been able to address all your queries. For any further information, kindly get in touch with the SGA team, our investor relations advisors. Thank you all.

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