ador
peace of mind™

AWL/SEC/SE/2023-24/32

12th June, 2023

BSE LTD.
Phiroze Jeejeebhoy Towers,
1st Floor, Dalal Street,
Fort, Mumbai – 400 023
Company Scrip Code: 517041

NATIONAL STOCK EXCHANGE OF INDIA LTD.
Exchange Plaza, C-1, Block G,
Bandra-Kurla Complex
Bandra (East), Mumbai - 400 051.
Company Symbol: ADORWELD

Dear Sir / Madam,

Sub: **Transcript of the Analysts / Institutional Investors Meet**

Pursuant to Regulation 46(2)(oa) of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, this is to inform that the **Transcript of the Analysts / Institutional Investors Meet**, which was held on Friday, 09th June, 2023, through the electronic medium of video conferencing (Zoom Platform), is attached herewith.

The Transcript is also available on the website of the Company at:
https://www.adorwelding.com/wp-content/uploads/2023/06/Transcript.pdf

We hereby request you to make a note of it and acknowledge its receipt.

Thanking you,

Yours Sincerely,

For **ADOR WELDING LIMITED**

ADOR WELDING LIMITED FORT MUMBAI 400 001. REGD. & CORPORATE OFFICE

VINAYAK M. BHIDE
COMPANY SECRETARY

Encl.: As above

“Ador Welding Limited Analyst Meet”

June 09, 2023

MANAGEMENT: MR. ADITYA TARACHAND MALKANI – MANAGING DIRECTOR– ADOR WELDING LIMITED

MR. VINAYAK BHIDE – HEAD - HUMAN RESOURCES, COMPANY SECRETARY, LEGAL AND ADMINISTRATION

MR. SURYAKANT SETHIA – CHIEF FINANCIAL OFFICER - ADOR WELDING LIMITED

Aditya Malkani: So, good afternoon everyone. We're going to get started quickly with a short presentation and we'll leave it open to questions. In case there's some technical issues we are facing today, In case it get increases please go to the text box or reach out and we'll sort it out accordingly. Okay, great. Let's get started. Please can you upload the presentation? Okay, good afternoon everyone. Thank you for taking the time to attend our investor presentation today.

A quick overview like we give every time on the status of where we are. Okay, now it's working. All right. This is the overview. So, there are six people in the waiting room. So, I think someone needs to accept the people pending in the waiting room. So, can you please have that done wherever it is technical issues.

Okay, business overview. Quarter 4 sales, INR285 crores as you all would have seen. These are not even announced and the quarter 4 PBT figures at 12.4% and fortunate enough that market conditions are good, allowing us to have our best ever quarterly performance. And as compared to earlier, we were at 10.2%. As we've discussed before, strong market remains fairly strong in this demand as well as the resilient economic growth, especially in the sectors in which we are focusing.

As a company, internally the things that we are focusing on right now are the capacity enhancement in specific product lines, the product mix of the types of products we are selling, the markets in which we are selling them in and try to get better realization as well as volumes. Internal digitization programs, especially that are focused on B2B supply chains and distributor supply chains and in the international business exploring new markets as well. The international business we've been talking about sometimes is very important and growing business segment for us.

And we have fortunately done well last year for various factors that are not only internal changes that have been made in the leadership team doing well, but also related to global factors that are more encouraging for that or do well in the Middle East, Americas and Africa. This is data that I'm sure all of you are aware of, the PBT and capital employee data that we track quite closely going forward. Working capital data as well.

We expect this year on the ROCE level, we expect this year the ROCE level to be called flat. The ROCE level, we expect the borrowing figure to be also flat. A little bit because of the projects and stuff that are coming up, we expect a little bit of growth to happen on that and the debt to equity ratio will accordingly move a little bit like that.

Our segment performance, consumables, which is a very strong, a strong segment, has done well, missing some benefits of scale and product mix. The equipment has actually been doing well where we are today in the Indian welding market, approximately 80% of welding equipments are imported out of the balance, 20%, almost 50% to 65% of that is manufactured by Ador. Our volumes have done well.

There have been some supply chain issues that have led to a little bit of margins sort of being lower than expected. Plus, we also have automation division, which had a few things that needed to be cleaned up over the course of last year, which is why we're seeing slightly lower margins than we expected. We expect this to improve over the course of this year. Our flexible process equipment division, we talked about this a lot, a lot of changes that are happening.

We have the Uran project plus a few other projects that are going forward and turning the corner over here, it's done quite well in Q4. Again, this year, the Uran project in the second half of the year will be the larger part of the billing. The first half of the year will be a little more subdued, and then it'll lead into the second half of the year. We have some ESG initiatives which are new, which is related to the environmental changes that have been made, whether it's stopping the use of thermocol, the reduction in plastic consumption by 30% in one of our plants.

And the most important thing is actually the reduction of water usage, which we've been tracking very closely, which is 50% less in one of our plants and 20% less in the other plants. The merger application has been submitted by the CRT, convened a shareholders meeting at the Ido welding on the 10th of August, Ido funding on the 11th of August, and we expect that this merger process will be completed by the financial year 2020. Okay, can we stop sharing this presentation? And now we need to open the questions.

Management: You can start typing your name in the chat box and our moderator will continue to work on it.

Aditya Malkani: Just remove this stop sharing this presentation. Okay. Someone's moderating? Pooja, you're moderating this?

Moderator: Yes. Good evening, everyone. I'm your moderator for today's Q&A session. Our first speaker for today is Mr. Ankit Gupta. Mr. Ankit, you are now being placed in the meeting. Please proceed to ask your questions. Mr. Ankit Gupta.

Ankit Gupta: Yes, Yes. Are you guys able to hear me?

Aditya Malkani: Yes, now I can hear you. Go ahead.

Ankit Gupta: Yes. Thanks for the opportunity and congratulations to Aditya and the entire team for a wonderful set of numbers, not just in Q4, but the entire year has been pretty good for us. So, you know, Aditya, in consumables, if you can talk about what has been the volume growth for Q4 as well as for the entire year and the subsequent question on consumable is the kind of margin improvement we have seen over the past, two quarters. How sustainable is this, you know, going forward, 15%-16% kind of EBIT margins on the consumable side. So, if you can talk about that?

Aditya Malkani: Yes, sure. So, last year, if you remember, we've done this, I think we've had two meetings since then. If you remember, Q1 was very, very quiet last year in terms of volume because of all the commodity prices and supply chain issues and inflationary factors that were taking place. So, the overall volume, I think for last year was pretty much almost flat. For Q4, we had growth of about, sorry, we had growth of exactly, sorry, about 4, so that's about what? About 4%-5% we had volume growth versus in Q4 versus Q4 the year before.

Now, remember Q4 the year before, there was tremendous volume push because prices were moving up. So, you were comparing versus that period of time. In terms of volume growth going forward this year, we expect volume growth to be in the region of 10%. I think that should be fair in terms of volumes and that's what we were planning throughout. In terms of margin, what you've seen in FY2, Greg, what you've seen in FY2 is pretty much along the lines of what we continue to focus on.

I hope that answers your question. Hello? So, just to clarify, you expect to have 10%, we expect at least a 10% volume growth in the consumer segment over the course of this year and we expect our margins to be in line with what was in HY2.

Ankit Gupta: On the equipment side, Aditya, margins have remained subdued for past almost two years now. We have been facing some supply chain issues that you have highlighted in earlier calls. Although revenue growth has been decent, but margins have remained under pressure. And in our calls, we have stated that the equipment margins can also touch 14%-15% kind of EBIT when things normalize and our margins improve. So, what is the outlook on the margin as well as growth on the equipment front, if you can talk about that?

Aditya Malkani: The equipment, I expect there to be a similar level of growth as you can see in the consumables in terms of quantities going forward. One thing that we keep talking about, it's a very confident decision by Ador, is that we want to do a Make in India part. And Make in India part allows us certain benefits, but at the same time, has a slightly lower margin than I expect leading players who are importing a very large bulk of global sourcing will do. So, that's the sort of conscientiousness that we take.

Having said that, I think the margins last year were a little lower than we should have done. And there is room for improvement. It will take over the course of a year. It will not change drastically in a quarter. But we are doing things related to supply chain, better rationalization of manufacturing, better sourcing, product mix issues over the course of a year. You will see changes happen over the course of this year. Closer to what you indicated. I don't think I'll be able to hit that number this year, but definitely closer to that.

Ankit Gupta: Thank you. I'll come back in the future. Thank you.

Moderator: Thank you, Mr. Gupta. Our next speaker for today is Mr. Viraj Mehta. Mr. Viraj, you are now being placed in the meeting. Please proceed to ask your questions.

Viraj Mehta: Yes, thank you. Thank you for taking my question. My first question is regarding the players division. You said the majority, I mean, a significant portion of our players project business that we got would come in the second half. The kind of margin profile that you would have expected or that you accepted this business at, can you tell us what would be a rough expectation of the business, of players business in terms of margins?

Aditya Malkani: Give a rough estimate.

Surya Kant Sethia: Grossly we are expecting at least 18%-20%.

Aditya Malkani: 18%-20% on a gross level basis is how we look at it. That's pretty much in line with how the project is going at the moment. The project, it's a 24 month execution on that project. And the bulk of the execution will start in HY2 and run through until HY1 of next year. But we look at it along those levels, we are tracking it very closely and we seem to be in line with that expectation of those figures.

Viraj Mehta: Okay. Okay. And in terms of just the cash flows, we see a significant or reasonable jump, both in terms of receivables going up from INR93 crores to INR125 odd crores and even inventory is going up from INR90 crores to INR116 crores, which is hurting our working or it's increasing our working capital. I don't say hurting, but so do you think these are normalized numbers or there was some one-off in these working capital numbers?

Aditya Malkani: Good question. And it's very important. So one part is I think on the inventory, these are not normalized levels. These are certain high levels that we had in this, but you're not trying to effort over the course of this year to reduce that. I think last year we were just, there was so many supply chain talks that seemed to be normalized a lot now, more comfortable than we were at any point over the last one year.

That I think we'd be in a position to start getting our inventory a little more in a better position. We definitely agree with you that that was a little slightly bigger position than we wanted. And we would improve on that. On the receivables front, there are two, three elements to it. Our end user business and the domestic welding business will increase the life of very large contractors and companies. So some part of it will happen, which is happening, is reflecting already and that's okay. And we will show that rotates quite well and everything like that. And that's part of the nature of doing business that we have to do that.

There's a certain part of the international business that also happened as we increased, but most of that is very, very secure. So we're not too stressed about that at all. And the last part is of course with the players business coming in, you'll have a little bit of that as well. So it's not like we're not tracking it. I think a certain amount of ballooning will happen and you're seeing a more normalised receivables for the end of this year. But as far as inventories goes, there's definitely room for improvement.

Viraj Mehta: Sure. Sure. And, and, and just my last question is, is regarding when you, when you said 20%, 20% gross margin, I mean, would it entail the cost at the site and all of that? So which will mean the margin would be. So then if I don't include the HO cost, then that would roughly mean that entire 20% flows to our bottom line. That's a fair understanding.

Surya Kant Sethia: No, no, we are talking of the direct cost directly related to the project. So there are sitting fixed cost.

Viraj Mehta: Okay. Okay. Thank you so much and best of luck.

Aditya Malkani: Thank you.

Moderator: Thank you very much. Our next speaker for today is Mr. Dhwanil Desai. Mr. Desai, you are now being placed in the meeting. Please proceed to ask your questions.

Dhwanil Desai: Hi, good afternoon, everyone. So, I think my first question is, you know, if I look at our consumable business, we grew our revenue by 15%, but you said that the volume were flattish. So is it largely coming because of the higher steel prices or, or it's the product mix and to tie in with this, you said that next year we're expecting around 10% volume growth. So, with the product mix changes and steel prices being lower, how do you look at the revenue calculations?

Aditya Malkani: I think you have to keep in mind we had a very odd first six months of last year, that sort of masks and changes the entire profile of what last year was. We are pushing on volumes. We are definitely pushing on volumes and volumes to the extent that you feel can fall up and very good and much closer to the utilization that we're looking at. We're adding more product lines in capacities for more diverse product lines and we expect to bend out capacities as well.

Look, we're a steel intermediary, you can't really think about the input price. So you basically have to do what you play with, but we definitely want to increase the pushing volumes while ensuring that minimum margin level is maintained and that in the market is different. I think, look, if you look at last year, it's very hard to keep looking at that data last year for the HY1 because it's not indicative of normal growth period.

So that's why I'm very careful. And the quarter before that, Q4 of the year before, is when people were picking up very large volumes that were just being sold. So I feel like there's a nine month period that is very hard to look at as a historical factor. So I think you have to look more from October onwards and then start seeing how does that accurately reflect demand supply scenarios.

Dhwanil Desai: Okay. Got it. The second question, Aditya, is so, in consumable side, I understand that it's a very decent gross margin business. And with the volume growth coming in, generally the operating leverage plays out, but you are guiding for very similar margin profile. So are we looking at any cost line items going up other than the normal inflationary part?

Aditya Malkani: Basically, are you saying any of our variable costs will increase?

Dhwanil Desai: Yes.

Aditya Malkani: We will have a few small increases. They won't be very, very significant because I told you that I may not have explained this in detail, but once again, I think from a business development perspective, when it comes to the international market, exhibitions, when it comes to the Indian market in terms of new product lines being added, trial and error, technical costs, technical development costs, people costs, a little bit of all of that, I think investing for the future will be there this year.

However, I think the upside, not only over time, but I think this year itself, the potential is there to be able to absorb that within the margin levels we need. So I'm not too stressed about it. We are making investments in it because at the end of the day, we have to grow the brand accordingly and we have to keep looking in the future. So Yes, we are taking on costs that you wouldn't normally in any year. But given the economic scenario, the potential for where we want to go, I think it's worth taking on.

Dhwanil Desai: Okay. And last question from my side. So, I think from whatever that we are hearing from other people on the taproot side and the infra side, things are very robust on the ground. And also we are trying to increase our business on the export side. So putting both this together, can we do more than 10% volume growth because the entire environment is very favorable and we are trying hard to grow.

Aditya Malkani: I'm in agreement with you and we have some of our sales heads on this call and they all know that 10% is a very conservative estimate that we're working with. It's just that I'd like to not get into anything more. Yes.

Dhwanil Desai: Okay. Got it. Thank you.

Moderator: Thank you. Our next speaker for today is Mr. Mehul. Mr. Mehul, you are now being placed in the meeting. Please proceed to ask your questions.

Mehul: Good afternoon, sir. Thank you for the opportunity. I had one question because I'm following this company very recently. So what is the rationale for merging the two companies, Adoe Welding and Ador Fontech?

Aditya Malkani: Sure. So just to give a very specific synopsis, they both basically started off as one and they both legacy from the Olicon days before 1951, when we had a joint venture with Olicon, where basically these two companies, one is in the fabrication welding business, one is in the repair and reclamation business primarily related to welding but also in other parts and diversified and improved from that portfolio onwards.

We then decided a year ago in evaluating for some time before that not only us but many large players globally have started consolidating these businesses because they see a lot of benefit from the back end to consolidate manufacturing and various other costs while ensuring that the distribution and the sales remain fairly separate on the front end. And we also thought, it's a good opportunity to increase the value of the company. So we decided to do that. So that's the rationale.

Mehul: I have another question. I'm sure, I don't know the exact number of years but Ador Welding has been operational for more than 20 years now.

Aditya Malkani: 70 years. 71 years.

Mehul: 71 years. So just in your presentation you mentioned that almost 80% of the services in this industry is from outside by foreign companies and 20% is by Indian companies. Was that a correct understanding?

Aditya Malkani: It's a welding equipment business line, welding equipment, welding power source business line. As for the data we get from the import export data, approximately 80% of welding equipments in India that are sold have been imported. Yes.

Mehul: Okay. My question is more from a legacy standpoint. Since the company has been operating for 70-plus years, still the company has no competition which is, I mean, is it a correct understanding? We don't have any competition for our company so far?

Aditya Malkani: No. We have a lot of competition. It's just that our competitors in that specific product line are more imports than necessarily domestic manufacturers. However, they are domestic players and they are very well structured large companies also.

Mehul: Okay. Sir, actually I was trying to say that no domestic competition, is that correct?

Aditya Malkani: No. That's not correct, sir. What I want to know, they're branded, these people, these companies. First of all, we have a lot of competition and we have a lot of competition that is not only large, Tier 1, Tier 2, Tier 3 type of competition that exists. We have a lot of competition. A lot of players in the welding equipment space, which is fine, is nothing so great in it, import their product and sell an imported product under their own brand name. And we have a domestically manufactured product in our brand name for the bulk of our supplies. That's the only difference we're talking about.

Mehul: Okay, got it. And sir, one question or you can throw some light on how do you see the company? Because it was a surprise to me that the company has been existing for 70-plus years. So how do you see the company in the next decade, after a decade or so? Because you have the pedigree, you have the experience as a house.

Aditya Malkani: Yes, it's a good question and there's a lot of thoughts that go into it, but I think I'll give you a very, I think vague answer. So I don't think I'll give you a precise answer because I don't think that would be fair. But look, we believe that we should come out as a very, very strong player at the end of this capex cycle at the top. And that's what all the efforts that we're putting in.

I don't want to put a number to it, but in terms of the product lines that we operate in or the services we operate in or the segments we operate in, we want to be number one or number two by a very significant margin in those. And we're working towards that. I'd like not to quantify it, even though internally we do, I prefer not to quantify it here, but that's the philosophy that's driving us. Yes, post-mergers.

Mehul: Okay, thank you so much, sir. Thank you.

Aditya Malkani: Thank you.

Moderator: Thank you. Our next speaker for today is Mr. Harshil. Mr. Harshil, you are now being placed in the meeting. Please proceed to ask your questions.

Harshil: Hi, sir. Sir, I want to understand is after the ONGC order, do we have any such kind of big orders in the pipeline or in the bidding stage as of now?

Aditya Malkani: Yes, we do have inquiries that are at a fairly advanced level and we are working on a few of them and trying to convert them. The team is trying to convert those. So we keep the order book churning throughout and we keep the shop floor busy and everything like that. So yes, very much so, there's a lot of work going on in that.

Harshil: Okay. And will it be of kind of the same size or maybe?

Aditya Malkani: Similar type of size, similar type of product profile, similar sort of work like that. Yes, very similar.

Harshil: Okay. So secondly, what I want to understand is, if a player buys an equipment from you, what would be the life cycle of the equipment and when does he change the equipment or?

Aditya Malkani: So there's a tremendous variation in that because you can buy very cheap, easy to, sorry, quick use, at site use and dump type of machines that could be 9,000, 10,000, 20,000 that you use very fast like that. There could be applications, for example, where you run it through three, four years. I would presume most people, the bulk of it would run it through a three, four, five year cycle. And then there are equipments which we know are in the field for 30 years and 25, 30 years as well. The workhorses that continue, so it varies a lot.

But if you're talking about the general large contractors who buy for sites, they try and depreciate the value of the machine over the course of that project. That's the way they look at it.

Harshil: Okay. But then too, they might be using the same equipment at some other site of theirs or some other project.

Aditya Malkani: Yes. All those things are there. Correct.

Harshil: Okay. So, thirdly, I want to understand, you said that in the international business, we are investing heavily in all exhibitions and to create a presence in all these markets. So, till what tenure do you see that these investments might continue after which we might see a respectable or reasonable margin?

Aditya Malkani: You should see the margin this year itself. I don't think we're going to allow the margin to get compromised, but we will see. I think this year is a slightly more big ticket kind of spend on business development. We don't have it chopped out over three, four years. I think this year is going to be a bit bigger than that. But I don't see a tremendous impact on the margins.

Harshil: So, you might see some kind of a gradual increase from Q1 to Q4?

Aditya Malkani: Some sort of a which increase? Gradually increase it? In international sales or margins?

Harshil: Margins.

Aditya Malkani: From Q1 to Q4?

Harshil: Yes.

Aditya Malkani: I don't want to answer that question right now. I'll just answer you from the perspective of FY. From the last Q4 perspective. So, Yes, it should be okay. I can't comment on Q4 right now.

Harshil: So, my last question was on optimizing our working capital cycle. You said that the inventory levels might come back in a reasonable range. But looking at the receivables and payables, what kind of improvements can we do? Or is it just because of the ONGC order which we've started executing which has led to an increased working capital cycle?

Aditya Malkani: It's not a very large increase because of the ONGC. It's a slight increase on the ONGC. It's a slight increase on the international business front, it's a slight increase on the end-user front. Which we keep monitoring and keeping track of. We look at ratios overall as a percentage of total sales. On the inventory front, I think there's a larger scope. As far as ratios go, the receivables is fairly okay. Correct? The ratios are more or less okay. I think the inventory ratios were something we were not happy with at the end of the year. So, that's something we're definitely looking at how do we improve a lot on that.

Harshil: Okay. So, one last question is with the current plan, what kind of big asset turnovers can we do? And are we envisaging any capex going ahead?

Aditya Malkani: We have a significant capex going ahead this year in terms of new product lines and stuff like that. Normally, the ROI is between 20% to 25% is what we look at. We have a significant ROI which I've been talking about for some time in various meetings, whether it's AGM or whether it's Investor Meet. Our capex last year was very flat because we have a spill-over effect that comes into this year. And we're looking at some, like I keep saying, product lines and stuff like that.

Harshil: Okay. What would be the capex number for this year? Any budgeted figure?

Aditya Malkani: Capex figure would be, have we decided fully or have we chosen it fully? I think we're looking at an addition of approximately INR30 crores.

Harshil: INR30-odd crores would be the capex this year.

Aditya Malkani: I think that's what we're trying to push towards because we had a little bit of a spill-over where we expected it to be about INR24 crores, INR25 crores last year. We ended up INR15 crores. So, you have that spill-over effect from there, you're carrying that through as well. So, I think we're trying very hard, we had a project that I wanted to execute last year and then get executed in -- this year itself. So, a little bit like that. So, I think that figure of INR30 crores would be a little more of what we want.

Harshil: Okay. And so, do we see any product gaps in our portfolio that we are still not presented and can be filled going ahead?

Aditya Malkani: There are a few. There are a few small, small pockets. Look, we have 5,000 SKUs. So, there's always some little small, small, small. There's no very large product gap except for I feel in the automation space, we are a little bit lagging behind where we should be, which is a large gap. Everything else is sort of incrementally small product gaps that we keep plugging with our technical velocity.

Harshil: Okay. Can you just brief a little bit on the automation product gap, on the curve?

Aditya Malkani: It's more to do with just the comprehensive execution that we can do in terms of projects and stuff like that. It's not a specific product line or anything like that. It's just in terms of our capability to execute larger-and-larger and more sophisticated projects.

Harshil: Okay. Got it. Thank you.

Aditya Malkani: Thank you.

Moderator: Thank you. Our next speaker for today is Mr. Kush. Mr. Kush, you are now being placed in the meeting. Please proceed to ask your questions.

Kush: So, my first question was on the consumables. What would be our capacity utilization or what can be the turnover that we can do from our current capacity?

Aditya Malkani: On average, depending on product line to product line, on average we have somewhere in the region of 80% right now. 75% I'd say. 75% to 80%

Kush: Okay. And my understanding was that we were about to do a big cost rationalization program and we had a lot of areas where we could reduce our cost. Our current margins, I feel, have increased more to do with the operating leverage. So can you still help me understand that is the most part of the cost rationalization program pending and there is a lot of scope further to increase the margins?

Aditya Malkani: There is scope. I think it's going to be scale. I can keep saying it's a quarterly thing. I've always said this in every meeting, quarter-on-quarter, we keep studying and analyzing how we can make small incremental improvements in margins and we keep doing that. That will continue and there's some quarters where a raw material input might hurt us versus something else. But in general, when it comes to just the way we operate, we keep quarter-on-quarter understanding how we can be more efficient in doing work. So there is definitely an upside but it's not going to happen tomorrow morning. It's a long story and we keep playing this out.

Kush: In terms of cost rationalization, I thought we had six, seven factories and we were rationalizing to one or two factories. Has that been done or?

Aditya Malkani: We do not have six, seven factories, sir. We have three factories and we are in the process of exploring different options as we go forward from there. And that is also due with the merger being approved and everything like that, at that time we will be in a position to analyze things a little bit. And you're right, but you're right that rationalization is contributing on our mind as to how we can be more efficient in our costs. But no, it doesn't stop and it happens a lot of the manufacturing space more than anything else. Yes.

Kush: Okay. And in the equipment side, if you can help me understand, we did sales of INR166 crores in FY '17. Our sales in FY '23 are around INR115 crores. What went wrong and why?

Aditya Malkani: It's actually just a different set of grouping. Until FY '20-'21, we used to group the welding equipment and the flare and the process equipment division as one. And after that we separated the two out. So if you look at the historical data prior to that, to compare, it's a little bit difficult. We had our highest ever welding equipment sale last year, by far.

Kush: Okay. And our expectations for exports and in FY '24 and what was the exports figure in FY '23?

Aditya Malkani: I think FY '23, we closed exports at about INR58 crores, INR59 crores, INR61 crores we closed and we would expect to do anywhere in the region of approximately more than that. I think we're looking at 20% growth is what we should be looking at least….

Kush: Okay, okay. And in terms of our blended margins, so consumables margins have recovered to kind of earlier levels or the best levels. There is scope in terms of equipment and flares also. So do you feel that in a year or two, all this together, including Ador Fontech, which has 18-20% margins, so our blended margins can maybe increase to 13%, 15% kind of range or is that possible directionally?

Aditya Malkani: It's what we are working towards.

Moderator: Our next speaker for today is Mr. Akshay Kothari. Mr. Kothari, you are now being placed in the meeting. Please proceed to ask your questions.

Akshay Kothari: Yes. So what was the volume growth in the equipment division?

Aditya Malkani: Almost 30%.

Akshay Kothari: Okay. And is this number sustainable going forward?

Aditya Malkani: Look, I don't give a forecast of where we can go forward. I think right now the economic conditions is what you're looking at. I think right now it's fairly feasible with the economic conditions. We don't comment on where we see the economy going beyond that.

Akshay Kothari: Understood. And regarding the distribution network, has there been any expansion of distribution network on the domestic side?

Aditya Malkani: We do a little bit. When we do expansion in the domestic welding network, it's all about where the regions are, where we want to chop and change, do we want to work with a different partner or is it some other reason that we're needing the large sort of end user that requires it. Otherwise, in general, we have a very strong, fairly strong base that's there and it's sort of incremental changes on the side.

Akshay Kothari: And sir, there are these startups which are coming up, you know, there is a B2B place called a Zetwerk. So do we have any tie-up with these startups or places?

Aditya Malkani: We do, depending on the startup and the requirement, we do in fact we supply to Zetwerk. So it varies on case to case basis. But Yes, there is a lot of B2B stuff coming out in which we participate in some, we don't participate in some. But Yes, there is a little more that happens.

Moderator: Thank you. Our next speaker for today is Ms. Nitiksha. Ms. Nitiksha, you are now being placed in the meeting. Please proceed to ask your questions.

Nitiksha: Sir, I would like to ask that going forward in FY '24, from which particular sector are we expecting growth kind of like infrastructure or heavy engineering or automobile? So which particular sector do we think will be strong and will be beneficial to our company?

Aditya Malkani: Okay, good. So I think the railway sector, whether it's the wagon manufacturing or the infrastructure in terms of heavy infrastructure that takes place around railway lines or stuff like that seems to be at the moment a very big ticket talk and we are seeing it on the ground. General heavy engineering and contractors and stuff like that that are doing EPC kind of work, heavy engineering projects, that's the second biggest that we're seeing.

We're seeing a lot of work in sort of cement expanding also taking place, that third line is also coming up. Oil and gas is mixed back depending on certain product lines at certain places. But I think these are the top three right now that are on our data in terms of big level growth.

Nitiksha: Okay. And sir, one more thing that is there any margin differential when we supply to different sectors, I mean, as per the product mix?

Aditya Malkani: There is, there is. It does happen. There are certain products that are, look, it depends where you supply, what sort of product line you're supplying. If you're going to auto on very large volumes, but then you're automatically on a margin cycle, the bank could.

On the railways, it's a mix again, in some segments larger volumes, so smaller margins, in some segments you can get a better mix. Oil and gas, heavy engineering, all of that I feel has a slightly better margin mix for us. And that's why we keep balancing that out as we go.

Moderator: Our next speaker for today is Mr. Chetan. Mr. Chetan, you're now being placed in the meeting. Please proceed to ask your questions.

Chetan: This is Chetan from Alpha Invesco. First of all, I mean, congratulations for a great set of numbers and remarkable work done by you and your team over the last two, three years. So the quantitative numbers are pretty much visible. But Aditya, if you can talk about the qualitative changes or some structural changes within the organization that we have initiated since you have taken over.

I mean, for example, let's say if you have incentivized the way, if you have changed the way we are incentivizing our sales team or our cost structures, or let's say how our product mix has changed from a certain type of products to a newer type of products. If you can just throw more lights on that, lighten that.

Aditya Malkani: Yes, sure. Why not? I can give you a sort of generic overview of a few things. I may not cover it all, but a few things. So one of the things we have, okay, since you brought up HR, that's a very interesting subject, Mr. [inaudible 0:39:30] what we've done on that. We now have a system whereby a minimum of 10% of anyone's package in the company is variable.

A minimum of 10% of anyone's package, anyone, whatever level you are, a minimum of 10% of your take home, all the way up to 35% for the bosses, for all the senior managers is variable, which never used to be the case. Of that, a minimum of your variable package, a minimum of anywhere between 15% to 40% is linked to the profit of the company.

So that's one big change we've made and we're kind of seeing the benefit of it. We're seeing a lot more people more clearly aligned towards that. That's one. I think one big thing we're doing is we're trying very hard to create more and more ownership of the company. As I keep saying, it's a 70-year-old company and it has its own, it's a big shift. When you want to turn it, it doesn't turn just because one person says, don't it has to require all the stakeholders to buy in.

And I think we've been working a lot of time and effort with all the bosses, all the bid managers, take more and more ownership. So I think that's a very big part of what we're trying to drive. And I can't quantify that, but that's qualitatively what we spent a lot of time and effort on. We are investing in people that can add technical expertise or business development expertise.

I think we're doing a lot of those two elements in everything we're looking at. So that's from the HR perspective. From a product line perspective, improving the product makes getting, taking gambles in terms of areas that are more imports, sort of bringing that more in terms of domestically and stuff like that. Invest in a bigger way, take those chances over there. So that's a big part of what we do.

And Yes, I think that comes in. There's a lot more we do. I don't want to bore you guys with all those details, but that's pretty much along the lines and essence of what philosophically we try and drive towards. I hope that helps in some way.

Chetan: Yes. So, I mean, when I look at our product realizations, so if you compare it with, let's say, the largest player in the Indian market. So realizations are around 15%-20% lower ballpark, compared to them. So is it because of the product mix or the pricing or the way our distribution is managed? I mean, what is it that is leading to this?

Aditya Malkani: I don't like to comment on another company and I'm credited to them. I mean, globally, they're very, very strong and so are they strong in India. And we're not that far away from them, especially on the market where we fight, it's not that far away. But there are two, three, I've used their numbers and I don't have the details of, so I can't comment, but they have a fairly large service business, which is servicing their own group international companies, like a knowledge or X.

This is what I read about, this is what I hear. There's a fair amount of that business that's there, where they're basically doing engineering outpost work or something like that. I don't know what the margins are, the sales, I don't know anything on that. I presume that's different to the normal typical margins we want on supply of product.

Second thing is they do have some products where they made some acquisitions globally, where they have those product lines that are in specialized metals and stuff like that. So that's also there for them. And thirdly, I think they have a little bit of global sourcing benefits as well that come in. So that's it.

And I think it's just a slightly different game in that sense. When you said that, it's not that we can't bridge that gap. It's just a question of moving and acting in a fast manner and getting it done. But at the end of the day, look there and see that there's a couple of billion dollars and we are who we are. So you have to pick and choose your fights and figure out how you can, where you can improve and where you sort of, where it doesn't make sense to predict that. But that's where we are. But I think that gap will be bridged more and more. That's definitely a possibility.

Chetan: Okay. So there is a room to improve our realizations and gross-margins?

Aditya Malkani: For sure. It's just not going to happen overnight. It's going to be, it will play out. But for sure.

Chetan: Okay. So let's say through this cycle, can we expect a significant gross-margin expansion? I mean, not asking for any particular number?

Aditya Malkani: I can't give you a number on that, but through the cycle, definitely. I'd be disappointed if I didn't do it. Definitely.

Chetan: Okay. So secondly, on our exports, what are our export volumes versus the domestic volumes?

Aditya Malkani: Export volumes, last year, I would say on average, they must have done somewhere in the region of -- 3000 tons, last year, 4000 tons. Last year, it was not properly. So Yes, that's -- and that will grow, that will grow this year.

Chetan: Okay. Because I think on one of the earlier calls, you had mentioned that our exports in 2021, 2022, were less than the exports which we were doing way back in 2002, 2003. So my question...

Aditya Malkani: We were way better in 2006, 2007, and all that. I remember that we were now. No, no, we've caught up that and we've reached that gap. By the way, you jumped beyond that. Last year, we've crossed that gap and gone beyond that already.

Chetan: Yes. So my question is, what is leading to this revival in exports? Is it because of the demand from North Africa or Middle East markets? Or is it that we have set up some offices overseas and that is leading to this change?

Aditya Malkani: I think it's very simply two or three things. The first is we've made massive management changes in the world that are beginning to pay off and have done well. I think the second thing is that we just restructured the entire way we set up in those markets that are helping from the management perspective.

And the third is definitely without a doubt is globally, Indian supply chain is in a very different position than it was vis-à-vis our global competitors and more favorability. I think that's giving the impetus as well. And lastly, look, in the Middle East, in certain markets in Africa, Ador is a very strong brand that was undersold. I've always said it's an undersold brand.

And now the league is being aggressive in actually converting those sales. So I think we're utilizing our brand power much more effectively and the opportunity to grow this even more. So I think it's a host of factors that are playing in our favor. We should keep working hard and smart and the opportunity will keep coming.

Chetan: Okay, what would be the opportunity size for us, let's say in Middle East and North Africa, if you can quantify it in volumes?

Aditya Malkani: South Africa is not that big by the way. The Middle East is critical. Saudi, UAE, Oman, those are all critical aspects of the Middle East. South Africa is a little bit. Now we're entering the Americas, we're getting a little more aggressive over there. Trying to see opportunities over there as well, but the market size is huge. I don't think it's a market size question. What is the addressable market size that you can look at? And that's a couple of X of where we are today.

Chetan: Okay, but we can export to Europe and U.S. as well. Logistics is not a major.

Aditya Malkani: It's not a major. It's a little bit in the product line. I think there's something like approval, certifications. There's a whole bunch of stuff that we're looking at. I wouldn't say EU is our priority at the moment. I'd say the Middle East, the oil and gas economies of the Middle East, the North African part of that, the Americas are a little more priority at the moment.

Chetan: Okay, so over the next five, six years, let's say, can exports become, let's say, more than 20% of our sales?

Aditya Malkani: Over the next five years, let's say, Yes, we can get there. we can get close to that. Definitely, we can get close to that. Why not?

Chetan: Okay, okay. Okay, so my last question is, I was just looking at some North American and European markets. In those markets, they're using very less number of, let's say, stick electrodes. And primarily, they use G-saw welding and flux core welding those products. So why there is a difference between the consumption pattern of these electrodes, let's say, in India versus the other markets? And can India also transition towards, let's say, G-saw welding going forward? And what are the implications for our product portfolio and margins?

Aditya Malkani: So the transition happens, it's happened globally, it's been happening for a long time. Transition is primarily related to the cost of labour and productivity. And what you're talking about is GMAW and SAWs are basically more continuous welding processes, where the deposition of metal happens on a continuous basis and for a longer period of time, it can be done through semi-automatic, automatic processes, robotics, stuff like that, rather than hand-held.

And there are certain applications, which can't escape hand-held, even globally. It happens in India. So in developed economies, the ratio is around 55% on the continuous side and 45% on the non-continuous sort of segment, whereas in India, it's at 70%- 30%. 70% is on the non-continuous and 30% is on the continuous. But that ratio has changed drastically over the last 10 years. It used to be 90%- 10%, now it's 70%- 30%. I think in some way we reached a, India will be somewhere in the region of 65%- 25%, 60%- 40%, even at the end of this capex cycle. I don't think, you're going to see it jump very drastically from that angle.

However, as the cost of labour increases, as the jobs increases, as automation comes in, that's why, I'm quite keen on answer the Automation portfolio, over the next 10 years, this will keep transitioning. There is no doubt about it. But it stops at a certain level simply because of the application.

Chetan: Okay. But we have the product portfolio and we are present in both the segments, so it will not really disrupt the…?

Aditya Malkani: That is, we always have the potential to incrementally add, but we are fairly okay at the moment.

Chetan: Okay. And so my last question is, what is the capex plan for the next two years- three years, if you can quantify it, and for which products?

Aditya Malkani: Over the next two years, we're looking at an event of approximately 40-45 over the next two years is what I have given an indicator of that. And this year is likely a higher part of that. That's what I indicated earlier as well. And most of this is product line related to the welding business, just welding consumer goods [inaudible 0:50:15].

Chetan: Okay. That's it from my end. Thank you very much and all the best, sir.

Aditya Malkani: Everything is pretty much welding consumer goods. Correct.

Moderator: Thank you. Our next question is a follow-up question from Mr. Ankit Gupta. Mr. Gupta, you are now being placed in the meeting. Please proceed.

Ankit Gupta: Thanks for the follow-up. I think, you can give some broad views on, how our things shaping up on Fontech, how has been performance last year and how do you think, FY '24 will shape up for the company?

Aditya Malkani: We made a few changes in Fontech from HY 2016, we've seen better and better results. I think we're a little bit just a tad below, where we could have been in terms of our sales for FY23 Q4. But that's also due to product line changes. Their product lines are related to the plasma cutting and all of that, where the base effect was supporting them a little bit. We made kind of a few small changes over there. I think the cost of this year will be interesting to see, how they really are. I think it will be quite in line with the industry expectations, if not in a position to improve better than that.

Ankit Gupta: Sure. So can we expect a 10% kind of volume growth over there or it will be lesser?

Aditya Malkani: In Fontech, we don't discuss volume growth as much as we do in welding. In Fontech, it's more about value growth that we keep looking at because the product is still designed. So it's more on that side. I don't want to comment on the value growth specifically, but the engineering of that company is more value growth oriented and volume growth oriented.

Ankit Gupta: Sure. And secondly, on the consumable part, if you look at our revenue growth, we have grown by almost 15% with hardly any volume growth in FY '23. So, there will be a big element of realization increase and also some product mix improvement. So if you can specifically talk about product mix improvement, which has happened in last year, and what are our plans for product mix improvement for FY '24 as well?

Aditya Malkani: Product mix improvement is an incremental thing. It happens in small, small stages as you keep entering more and more special segments and more and more high specialized metallized techniques. It's not happening incrementally in a very large space and neither can it happen in any other company. So that's been happening gradually. A lot of what you see is the HY1 inflationary impact in that 15%. That's a very big part of it. So you have to keep that in mind. The product mix will keep going through small, small changes, but look at the end of the day, you're still intermediary. If the price of steel fluctuates, wait, that's the least of, what we can do. So you're playing around that aspect as well.

Ankit Gupta: So last year's growth was largely driven by realization increase, the inflationary thing on steel price?

Aditya Malkani: Not in HY2 so much, more in HY1, yes.

Management: Because of inflation, second half was, what it is.

Aditya Malkani: And product mix in second half was better.

Ankit Gupta: Sure. Okay. Thank you. Wish you all the best.

Moderator: We have another follow up question from Mr. Dhwanil Desai. Mr. Desai, you are now being placed in the meeting. Please proceed to ask your questions.

Dhwanil Desai: Hi, Aditya. Thanks again. So the first question is on the export side and slightly looking three years, five years out. So I wanted to understand from you that, we are tapping the Middle East market, I understand, because we were there present and it's a low hanging fruit. But how difficult it is to tap into large markets like North America? And are we thinking in terms of, tapping that larger market in terms of bandwidth, in terms of capability to compete with guys like Lincoln and Esab in their own shop?

Aditya Malkani: So, it's definitely a slightly different ballgame, when you go into America, Central America, South America. It's a different ballgame, no doubt. However, this is, where the global headwinds towards favouring an Indian supply chain come a little bit in your favour. So I think that's, a lot of people who are looking at India as an alternate supply source. And that's encouraging this conversation to happen.

So you're seeing a much more open door policy towards this. And that's helping a lot. It will happen over time. It will take time. This is another, over the next two years, three years, you'll see results. I still think that, when it comes to value mix and brand margin pull, the Middle East, the oil and gas markets of the Middle East have a larger potential. But as we grow the entire country altogether, you need the volumes that, will slowly come out of those markets in the Americas as well.

Dhwanil Desai: So let me put it differently. So in our aspiration to get 20% out of exports, whatever, three years, four years, five years out, if Middle East and the current markets are good enough to reach that aspiration?

Aditya Malkani: The markets, we intend to establish this year, like I keep repeating, this is the Americas and the Middle East and North Africa. These three markets have the potential to give us that number. It's not like every year, we need to go and create new geographies, which are very far away.

This is pretty much the roadmap over the next few years. Establishing the roadmap with this year, a lot of investing will help a lot to get that number. Yes.

Dhwanil Desai: Understood. And second question is on the flares. This year, we did around INR45 crores, INR50 crores flare business and ONGC order 60%, 70%, will get executed. Probably, more tilted towards H2, but in FY '24. So this base business of INR45 crores, INR50 crores, on top of that, the flare from ONGC, that is how, we should look at it or it will get replaced by ONGC order?

Aditya Malkani: I got a little confused over that, that maths…

Dhwanil Desai: Sir, should we add that 60% from ONGC into the current business of INR40 crores, INR50 crores?

Aditya Malkani: No, it's not like that.

Dhwanil Desai: Okay. So it's mostly the ONGC for flares this year.

Aditya Malkani: Sorry? Most of the revenue this year, yes, is related to the ONGC project. Correct. Yes, you're right.

Dhwanil Desai: Okay, got it. Thanks.

Moderator: Our next question is also a follow up question from Mr. Harshil. Mr. Harshil, you are now being placed in the meeting. Please proceed to ask your questions.

Harshil: Okay. Hi, sir. Sir, I have a few questions on the Ador Fontech business. So firstly, what I want to understand, when you said it's more of a value business. So currently, what kind of value addition do we see over the next two years or three years? Like will it be something major that we are doing in terms of tech or there will be any low hanging fruits, which you can just explain?

Aditya Malkani: So I'm not going to go into excess detail on Ador Fontech because it's a separate sort of thing and it will emerge as true. I don't want to, but it's on a call. I'll wait to give you an overview on that. They do solution oriented selling to enhance the life of industrialized companies. So the question is the product mix, the applications you're talking of, how you sell the applications, the customers you're talking to, the reach you do. All of that and the way you sell, will allow you to keep enhancing your value. So you can keep adding to it and doing it. I think, it's again a question of, at least I feel the same story is that, it's an undersold brand.

And even in that part, the team, the sales team has the potential to utilize the brand power and its application power, grow the value or the mix or the volume, either which way you keep doing it. The application is tremendous over there. So that's where the issue is. And we're working on it. We're trying every quarter-on-quarter to keep improving that. There's a lot of work going on. And this is service. This is by the way, we do a services business as well. A lot of it out of not good and a lot of exciting all that, which is also, we are sensing a much healthier sort of order book building over there.

Harshil: Okay. So is it okay if I add a few questions on the Ador Fontech business? Just to understand…

Aditya Malkani: I'll take one more question because it wouldn't be fair for me to answer too much on Ador Fontech. I'll take one more question on Ador Fontech [don't worry 0:58:53].

Harshil: No problem. So the same question that I asked for the welding business, are we seeing any kind of product gaps that have been filled up in the Fontech business, which are kind of your low hanging fruit going ahead? Or do we have a full product profile in the Fontech business and we just have to go and sell in the market?

Aditya Malkani: Sorry, we have massive product gaps. We have incremental product gaps that can be added in a little bit to it. We have one specific area, which is related to a sort of application of spray technology that, we're kind of looking at. But in general, there's no massive product gap that exists in terms of the portfolio, we work with.

Harshil: Okay. Thank you.

Management: We have four or five questions left.

Aditya Malkani: We can take two more or three more, very quickly, whatever is left. Three more questions, if you don't mind, and then we'll close this out. Thank you very much for your time and I appreciate everyone. But let's go on very quickly, if you don't mind, the two-three next questions.

Moderator: Our next follow up question is from Miss Nitiksha. Miss Nitiksha, now being placed in the meeting, please proceed to ask your questions.

Nitiksha: Yes, sir. My one more question is regarding, basically our customers. So do we even supply to shipbuilding? Because presently…

Aditya Malkani: Yes, we supply to shipbuilding definitely. And in fact, over the coming next cycle, that's going to be a very interesting play. Especially commercial shipbuilding besides its naval part, definitely.

Nitiksha: Yes, because a lot of defence orders are going to the Mazgaon docks and Cochin shipyards…?

Aditya Malkani: So, we're involved in some part of it and not involved in some part of it. There's a whole mix of stuff that happens over there. But it's not only the defence element, it's even the commercial element from both parts. I think yes, you're right. There is, the cycle for that is in fact about to start picking up, the way, we view it. Let's see how it plays out now.

Nitiksha: And power plants, sir?

Management: Power plants, we are involved, wherever the contractors are in the capacity expansion, any sort of work like that, definitely we are involved over there.

Nitiksha: Okay. And sir, when there is an increase in raw material cost, we pass it on to our customers. So when there is a cooling off, do we kind of reduce the prices or?

Aditya Malkani: You pretty much have to give this, pretty much open incubation and like reducing the CO2, there's only so much you can play with. It's not going to be a one month lag from both sides, it's what we play around with.

Nitiksha: Okay. And sir, regarding our competitiveness, so how do we kind to, try to bridge our gap between the largest player and ourselves? Like in what direction do we try to compete with them and be better? Increase the market share?

Aditya Malkani: It's not always a head-on battle, I don't think, it's always a head-on battle. It's from the public markets, it's easier to do that because everyone, the larger public market companies in this space. We have our own path that we sort of charted out in terms of, where we want to go and there's a free opportunity to bridge the gap. But it doesn't mean that, it's always head-on with them, no, not at all. There are many different elements that, we keep looking at.

Nitiksha: Okay. Thank you, sir. That's all from me.

Moderator: That was the last question for today. Over to Aditya, sir.

Aditya Malkani: Okay. Thank you very much for your time and I appreciate everyone logging in. Thank you very much. We'll be in the next quarter again. All right. Thank you very, very much. Thank you.