



RACL Geartech Ltd.

Corporate Office

B-9, Sector-3, Noida, Uttar Pradesh-201301, INDIA

Phone: +91-120-4588500 Fax: +91-120-4588513

Web: www.raclgeartech.com E-mail: info@raclgeartech.com

17th December, 2021

**Listing Department
BSE Limited**
25th Floor, P. J. Towers,
Dalal Street,
Mumbai - 400 001

Scrip Code: 520073

Subject: Investor Conference Call Transcripts

Dear Sir/Madam,

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find attached herewith the Investor Conference Call Transcripts that was held on 10th December, 2021 by the Company.

This is for your information and record please.

Thanking You,

For RACL Geartech Limited


Shagun Bajpai
Company Secretary & Compliance Officer
ICSI Mem. No.: A45982

Registered Office

15th Floor, Eros Corporate Tower, Nehru Place, New Delhi-110019, INDIA

Phone: +91 11 66755129

CIN: L34300DL1983PLC016136

D-U-N-S Number: 65-013-7086



TS 16949 : 2009
TS 518901 : 000



RACL GEARTECH LIMITED

Q2 FY 2021-22 INVESTORS CONFERENCE CALL

10TH DECEMBER, 2021

MANAGEMENT:

MR. GURSHARAN SINGH- CHAIRMAN & MANAGING DIRECTOR

MR. DEV RAJ ARYA- DIRECTOR & CHIEF FINANCIAL OFFICER

MR. PRABH MEHAR SINGH- VICE PRESIDENT, FINANCE & BUSINESS EXCELLENCE

MS. SHAGUN BAJPAI- COMPANY SECRETARY & COMPLIANCE OFFICER

ORGANISED BY- MAS SERVICE LIMITED

<p>Shagun Bajpai</p>	<p>Ladies and gentlemen good day and welcome to the Q2 FY2021-22 Post Results Conference call of RACL Geartech Limited. I am Shagun Bajpai, Company Secretary & Compliance Officer of RACL and I shall be your Moderator for this call.</p> <p>Before we start the proceedings, All the participants may please be informed that this Conference Call may contain forward-looking statements about the company which are based on the beliefs, opinions, and expectations of the company as on date of this call. These statements are not guarantees of future performance and involve risks and uncertainties that are difficult to predict. 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, you may post your concern/queries, if any; in the Question Answer box available on the right-hand or they may raise their hands as available in the right hand corner of the screen, if they want to speak during the proceedings. Please note that this conference is being recorded.</p> <p>We have today with us the Management of RACL Geartech Limited, represented by Mr. Gursharan Singh, Chairman & Managing Director, Mr. Dev Raj Arya, Director & CFO and Mr. Prabh Mehar Singh, Vice President Finance & Business Excellence.</p> <p>We will start with brief update on the business through a presentation, followed by Q&A.</p> <p>I now invite Mr. Gursharan Singh for his opening remarks. Over to you Sir.</p>
<p>Gursharan Singh</p>	<p>Thank you very much Shagun. Good afternoon to all my Investors and Shareholders. On behalf of RACL Geartech Limited, I extend a very warm welcome to everyone for joining us on our investors call today. Since some of you may be hearing us for the first time today, we will give you a quick snapshot on our company and then will walk through the operational and financial performances.</p> <p>As some of you may be aware that RACL as an acclaimed gearing solution provider, is recognized worldwide for its well diversified range and quality of products. We offer complex engineering solutions in the field of Transmission Gears & Shafts, sub-assemblies, Precision Machined Parts & Industrial components to domestic as well as global markets.</p> <p>RACL has created a brand image in providing gearing, chassis, braking & suspension part solutions to:</p> <ul style="list-style-type: none"> * Premium Motorcycles & Scooters * 3 & 4 Wheeler Passenger vehicles * Alternative Fuel Hybrid Electric Cars * Medium commercial Vehicles * Heavy Commercial Vehicles * Tractors * Agricultural Machinery * Off Road Vehicles * Light Cargo Vehicles * Recreational Vehicles like sea scooters & snow mobiles, etc. <p>I would like to now handover the call to Mr. Prabh Mehar Singh to take you to the financial performance walkthrough of Q2 and general business scenario.</p>
<p>Prabh Mehar Singh</p>	<p>Good afternoon everyone. My name is Prabh Mehar and I am responsible for operations and business performance and next half an hour, I will try to run a presentation explaining our</p>

business, as we have been getting certain feedbacks, that, some people want to understand more about the business other than just the numbers, so, in today's presentation, we have tried to cover certain basic things about the company, which some of you or most of you would know, but for the ones who want to understand more about our Company, this will be helpful. Then we will cover some numbers relating to what our customers are and what segments we are doing. We'll then talk about the Q2 performance and also the half-year performance for this year, and then some general updates which we would like, all of you to know through this presentation.

So to begin with, we shall give you a quick Company snapshot. We are into business since 1987 and we have our registered office in New Delhi. We have 2 manufacturing locations, i.e. one is in Gajraula, which is a 100 kilometers from Delhi, in the state of Uttar Pradesh and another is in Noida, which is also in the same state with comes under the Delhi NCR region. We also have a corporate office in Noida from where we are attending this call right now. We have a European office as well. We have a subsidiary company by the name of RACL Geartech GmbH in Austria for our European customers, as our last mile support.

All our plants are ISO certified, i.e. ISO 9001 and for automotive compliance we are IATF 16949 certified, for environment adherence, we are ISO 14001 certified and our Gajraula plant is ISO 45001:2018 certified which is Occupational Safety Health & Hazard. So all of these certifications are with us for some years now and it is clear that without these certification, the business we are into is not possible.

Product range wise, as all of you know, gears and shafts are our bread and butter. So we do, transmission gears, shafts, we do some critical sub-assemblies, Sprockets and ratchets, any special precision machining is also done by us.

Product application wise, we are pretty diversified, to some miniscule presence in the aircraft to 3 wheelers from heavy commercial vehicles to recently entering into passenger cars. ATVs, what we call as All-Terrain Vehicles is also one of the product application of our parts.

Sales turnover wise last year, we closed Rs. 208 crore in 2021. We have 500 plus employees on the company role and obviously there are certain contractual as well and that fluctuates as per the demand.

So, this was just a brief information about the company in terms of who we are and what we do.

We tried to put some pictures of the parts. We do some loose gears, some transmission sub assembly, what we call a gear box for a motorcycle, some loose engine timing gears, these go into commercial vehicles, and these reduction gears that would go into an electric vehicle for the reduction of the dock motor.

Sprockets and ratchets are 2 Wheeler parts and industrial gears are switch circuit breakers and other things which we do. These EV parts which we started recently, and some passenger vehicle Chassis parts, also we have entered. So, in terms of product portfolio, we are doing different kinds of parts, sub-assemblies, some loose parts. In totality we are doing around 500-600 kinds of parts every month. And volume should be on 7k-8k parts in a month in terms of number of parts.

Some pictures of our plants. So, this is our main Gajraula Plant. Though, this picture is only a year old, but now we've added some new plant here and some new expansion, we have

done in this area. In total, we have around 26 acres of land and we have good land available for future expansion. This is our another plant in Noida, it is a smaller in size, and we have a smaller team around 50+ people looking after this plant and this is our small office, which we recently opened in Austria and we have a couple of people posted there for providing last minute support to our customers in Europe, as it is our biggest market and that is why this office came into existence around two years back.

List of our customers, we have tried to put into the application wise. In terms of 2 wheelers, we are working with BMW, Germany; KTM, Austria; Piaggio, we are working for India and Italy and Vietnam as well; TVS, again an Indian 2 wheeler manufacturer; Yamaha, India; Kawasaki, India; Moto Guzzi is a Piaggio brand, but we are supplying directly to Italy for their motorcycle.

For tractors and agricultural machinery, Kubota is a Japanese manufacturer of tractors, we are exporting to them in Japan, Thailand and USA regions. SDF is an Italian company and they have a plant in India also and we are supplying both of their locations. Escorts- Kubota is a joint venture between Escorts India and Kubota, so we are working with them also for the Indian applications and recently we added the Escorts also for the domestic application as well. Piaggio is our oldest customer and for their 3 wheeler application, we are working with them for many years now, and also for 2 wheeler.

These are vehicle what we call as ATVs, so BRP is a Canadian company, having plans in Austria and Mexico and we are supplying to them and Kubota for some rural transport for the U. S. MAN trucks, Germany for commercial vehicles and SML-ISUZU is an Indian Company, joint venture with ISUZU and we are supplying for their plants in India. Recently we added ZF through which we are working with BMW and Porsche for passenger car wherein our products will start going. And in industrial segment, we're working with General Electric, Kohler Engines and Schneider.

So, overall you can see, we have pretty diversified customer base and different product application. We are exporting to 11 countries worldwide, including China. So, right from U.S. to Japan, our products are going globally. And, as you know, we are an export dominating organization around 70% of what we produce is for the export market and rest for domestic market.

Okay, so this was regards to the overall company what we do, what we are. Now, we will talk about the Q 2 numbers.

So this quarter ending 30th September, we did a sales of Rs. 69.52 Crore and the domestic sales was around Rs. 16 Crore and Rs. 49.48 was export sales and remaining is other non-operating income, which is part of the total number. Around 71% was exports and 29% was domestic, and this is for half years numbers, not the quarter numbers. So, from April 1st to September 30th, the total contribution from 2 Wheelers is 50% out of our total sales, 20% was tractors and agricultural vehicles, 18% was recreational vehicles and 5% was attributed to 3 wheelers and 5% to industrial and others and 2% commercial vehicles.

So this was the Break up in terms of 2nd quarter. YoY, if you compare the results, then sales wise, we grew around 40%, if you compare the same quarter last year. In terms of the EBITDA, we grew around 17%, so we did Rs. 15.85 Crore this quarter ending 30th September, and we did Rs. 13.5 Crore in the last year, same quarter. Profit before tax, grew by 21% from Rs. 8.13 Crore to Rs. 9.83 Crore, for 2nd quarter.

This is Q1 v. Q2, same year, the growth in sales was around 21% EBITDA margins improved by 19% and profit before tax improved by 41%. Half-yearly results, if you compare last year, 6 months and this year, 6 months, Sales has grown by 74%. Profitability has grown by 58% and profit before tax has doubled from Rs. 8.8 Crore to Rs. 16.7 Crore. If you compare last year, obviously last year, you can see it had a low base effect due to Covid, but II quarter was generally okay as compared to what we usually do. So, this growth, even if you discount that still is good in terms of how we are placed within the other industries.

This was the numbers. There are some other key highlights, which were notable updates, which we want to share with the investors and shareholders.

This year's credit rating, we have got an upgrade. So for the long term debts, our rating is now 'A-' and for short term debts it's A2. So we've got a 1 notch upgrade and I think we entered the A List for the 1st time. And if you go to the past, the company, which was under bankruptcy, 10-11 years back, coming to 'A' credit rating speaks volumes about the hard work the team has put in. So this was one thing, which we are actually very proud of. We want to further upgrade this with the coming year, but now we are somewhere in the A list companies, which I'm sure not many would be there.

We received an award from Dun and Bradstreet under the SME category as the Business Enterprises of Tomorrow. They audited a pool of companies and they had their own criteria of selecting. And only two companies were selected in the Auto Component Segment in the SME and Mid-Corporate Categories. This was again, one highlight, which we wanted to bring to all of you.

Some of you asked, about some EV scooter parts' commercial supplies to start and we would like to inform, that has started. And now our parts are going to that customer which is an export customer, and these parts are now actually being assembled in vehicle and scooters are running with our parts on the road. This production and assembly has started at customer end. ZF and MAN Trucks, two big investments, which we did last year, their sample submission is going smooth. Our parts are actually being now run in certain cars and trucks for these validation, which are going on. So the SOP (Start of Production) of this project is June 2022 at customer end.

The EV Scooter is BMW, the scooter for which we have bagged this order, and we are working. So, BMW Germany has launched this Scooter on 1st of November and this model is now on YouTube and the Model is CE04. And I'm proud to say that our parts are actually rolling on German roads on this EV Scooter.

So for ZF and MAN, the start of production is June, 2022, so, this means my production will start February somewhere, because there is a transit time as well. Accordingly, the things are on track. Apart from this, we are in discussions, as of now we cannot disclose the names, but with the an Indian 2 wheeler manufacturer, for some EV parts, they are going to launch some EV Scooter in India and we are working very actively with them. Along with that, we're also working with a German car manufacturer for some steering and suspension components. So, as of now, majority of our parts are, you can call engine parts or transmission parts, on the suspension steering side, our presence is less. So, now we are opting this as either diversification or de-risking strategy, moving towards these things. So these discussions which are going on, if they materialize, we will definitely update you. These are some of the few things which you wanted to bring to your notice, and this is how things are moving internally.

	<p>This is one slide, which we have prepared again, in anticipation of certain questions we have received. So this question comes up regarding EV, like how are you placed, what are your risks and what are the future discussions? So we've tried to pull out a number, so this year, which we will close 31st March, 2022, the ICE (internal combustion engine) based business will be around 96%. 3% parts will be in the ICE engine, but these are the Chassis and Suspension parts. What it means is, that if tomorrow these bikes or cars or vehicles, convert into EV, these parts will still remain, because these might be some disk mounts or break items or suspension chassis items, which do not change with the type of power is being used, so this 96% is pure ICE and this 3% is not subject to any change this 1% EV is this Scooter, which has been launched. So, next financial year, April 1st, 2022 to 31st March, 2023, our exposure to ICE will reduce to 88% and EV will grow to 4% and 8% will be the Chassis and suspension items. When you say Chassis & suspension, this will not be any risk because of fuel change. So we have a confirmed strategy as to how we are planning to move ahead. This Rs. 500 Crore vision and how we are making sure that we're not totally growing with the fuel based vehicles and this is our de-risking.</p> <p>Thank you. Now we can move on to the Question- Answer session.</p>
<p>Shagun Bajpai</p>	<p>Thank you Sir.</p> <p>I now declare the Question- Answer session open for the participants. I would now invite Mr. Sahil Sharma to ask his questions.</p>
<p>Sahil Sharma</p>	<p>Firstly, congratulations team on a great set of numbers.</p> <p>I'll ask a couple of questions. The 1st one is when we look at one of the big reasons that being such a small company, we are preferred by all the luxury bike makers, one of the reasons that we can see from your commentary and also readings is that even when clients ask for 100 ppm, we ensure the quality is maintained even below 25 PPM. So that quality definitely, high precision is something that we're able to do very well. One thing I wanted to understand is what does it take to do this like, in terms of process or technology? Is it a culture thing? Is it the correct hiring? Is it technology? Can you comment a little bit? Like, what does it take to maintain this high quality standard?</p>
<p>Gursharan Singh</p>	<p>Actually, you know, I always say to all the fraternity that quality is a thing which cannot be injected into the product, it has to be basically a way of life. So, you know, if anybody has a chance to visit our factory, we have put a slogan at the gate which says- 'Quality starts here'. So, when we say the term quality, it is the people, it is the technology, it is the way we think and the way we work. We have to follow the systems and it doesn't build overnight it needs a long and sustained journey to achieve this. And to produce good quality, you take care of the people, so first and foremost is to take care of all people so that they remain dedicated, motivated and committed towards doing their good job. And we provide them with good infrastructure to work. Even in peak summer temperatures, when the northern part of India is heating at 45 degrees of temperature, we have cooled workshops and air conditioned spaces to work.</p> <p>Then we have technology, because we have one of the best technologies. So, it is basically 3 main things- very well groomed workforce, very good infrastructure and very good technology fully supported by systems. Until there is a complete discipline in following the written guidelines, the principles, these 3 things are futile. So, these 4 pillars are actually the strength of RACL and in fact, not only RACL, but for any of the businesses to grow. If it has</p>

	to be an inclusive growth, these 4 pillars have to be take care of. This is how we go forward and we feel happy that our customers are quite satisfied.
Sahil Sharma	My second question is that we have heard in the previous concalls that, if you look at the EV gears, they would be of higher margin and from what we can figure out, an EV Bike might have fewer gears but the requirement for precision is much higher and so the margins will be much higher. I'm wondering that since now you have actually started supplying, can you actually disclose any sort of numbers in terms of how much higher the margins are?
Gursharan Singh	<p>I think maybe I was not able to clarify clearly; it's not the margins, it is actually higher value addition. Typically, in EV gears, precision class is there, so the raw material content goes very low, so, the value addition is very high. So margins, I feel, you mean to say what are the profit margins? Profitability remains the same, but value addition goes really high. To say on the numbers, I will just give you a rough idea from where you can work out that how our valuation addition goes on. When we talk about EV, we do not just manufacture gears, we do some sub-assemblies and some critical parts. Like in ICE engines, there are gears, in EV, we have drive train or drive kinematics. So we're doing a lot of drive kinematics.</p> <p>Just to give you an example, for fuel, ICE Engine, for one particular motorcycle, we are supplying complete package for gears at a rate of around 140 dollars which in Rupee value would be Rs. 10-11,000. For this EV, our package still remains around 11,000 rupees. So our value addition per vehicle is almost the same, number of parts are reduced. For ICE engine, number of parts may be around 40 parts and for EV, there maybe 7 or 8 parts only. So, this is how the evaluation has really increased.</p> <p>For EV, we have really tried to diversify, as there will not be engines or crankshafts but still there will be a lot of rotating parts and it needs lots of precision because an EV noise is a very, very important parameter. So this is how we are trying to diversify as well as keep our valuation addition per vehicle, either at par or at higher price.</p>
Sahil Sharma	So, if you can clarify, you said that number of parts will go down from, like, 40 to 7 or 8, for example. My only question is, in that way, is it the case that our asset turnover will be higher?
Gursharan Singh	It is too early to say, we have already shared with you that in the next year EV will be only 4% of the entire kitty, so it will not really reflect grossly immediately, but he has over the years of time, how the EV business takes forward, it is too early to predict anything, but yes we made a humble beginning and it's progressing.
Prabh Mehar Singh	To add, when we say EV, it doesn't mean, we are not positive on the IC engine as well because it's the same customer who is giving us projections for Electric Scooter and fuel bikes growth for next 10 years. So this is like a stepping stone and in EV, we should not be caught sleeping if the world moves, but we are very positive that this IC engine is going to stay for at least the next 10 years. It will always be parallel and this is how our customers are also reacting to it and we are also cautiously moving in the similar manner.
Shagun Bajpai	Thank you Mr. Sharma. We hope we have been able to answer your questions. The next question is from the line of Mr. Manish Gupta. Please go ahead.
Manish Gupta	You explained, your sources of edge, you said it's quality, how you train your people, how you take care of your people and then you mentioned technology, could you explain, what is this engine technology and how is that edge been created?

<p>Gursharan Singh</p>	<p>The biggest thing is that customer wants solution under one roof. And gear business or this precision components business is a very, very complex product. So, RACL has been actually very unique in defining our strategies for the last 10 years. We invested on the global technologies and build up a completely integrated set up under one roof. You can produce gears by 'n' number of processes, so, we have all the processes available within our company. The reason is that our company produces a very low end 3 wheeler component and we produce some parts for the Aircraft also. So, eventually, we have technologies which suits every product, which suits every customer and which suits every product requirement, or the customer demand so, we are kind of a conglomerate of all the technologies available and, as I said earlier also, this doesn't happen overnight. This is a long sustained effort strategy, which we grew about 15 years back. You know, RACL was the 1st Manufacturer to export gears to Japan in 2005 and in those days, company literally came back, it just came out of bankruptcy. But even then we followed this strategy. From there on, we're investing the way, customer is demanding but we have always invested judiciously. Whatever the customer demanded, we started investing in it, and, of course, every customer had different expectations, different demand. And by and by, we invest in general purpose kind of technology, which is not dedicated for a particular product or for a particular process. The customer comes to us and we provide him all solutions. He's happy. We are happy and we are able to grow continuously with this strategy.</p>
<p>Manish Gupta</p>	<p>Is my understanding right that when you say you have created technologies that you will be able to do something with far better precision as compared to somebody else? So, is the my understanding, right that it is that you have become experts in precision engineering, using a set of tools and machines, you can do that better than anyone else because of the expertise in the process you've developed?</p>
<p>Gursharan Singh</p>	<p>To do a particular job, there are many processes available. And both are doing equal precision, but customers have a different expectation. Some customer wants Process A, other customer wants Process B and 3rd customer wants two products of Process A and two products of Process B. There are many manufacturers in India which the technology, but not many manufacturers who have all the technologies under one roof. So, with us the benefit comes, that whatever the customer wants, we already have it. 2 different processes or 3 different processes, we're able to offer them all 3. So, customer gets more confident or more trustworthy, because he gets all the solutions, under one roof.</p>
<p>Manish Gupta</p>	<p>Two more questions, one is what part of your revenue comes from core development of products with customers. And the 2nd question is that our inventory days seem to be much higher than, a lot of the generic auto, competent peers. So, could you explain what aspect of the business model requires you to maintain more inventory?</p>
<p>Gursharan Singh</p>	<p>We are into premium segment niche market, we have large variety of parts with small to mid-volumes. When we are to produce say, 800 different parts, it's not that all 800 kinds of parts I'm producing every month. Some month, we are producing 100 components of X variety, the next month again 100 pieces of X/Y/Z variety. So, I have to maintain certain minimum inventory levels of our raw material and WIP as in the Premium segment and the volumes are not very high. A 2 wheeler vehicle manufacturer in India, let's say produces 600,000 vehicles in a month, whereas our customer produces 100,000 vehicle in a year. Number of gears in a 2 Wheeler, whether it's 600,000 or 50,000 or 10,000, it will be the same, but still have to make a revenue.</p> <p>We have 20 active customers, with totally different brands so eventually we have a large variety of products, so we have to keep inventories of the tooling and raw material, but our</p>

	product costing is built in all this and we are charging the same from the customer. But as a mass market supplier, your observation is right that our inventory days will be higher, but I'm saying as a mass market supplier. If you benchmark us to the similar variety and similar volume suppliers, we will be better than the industry.
Manish Gupta	And my other question was what portion of the revenue comes from core development of products with customers?
Gursharan Singh	This depends on the year on year basis. Last year was a windfall, we had around 6-7-8%; normally it is 2-3%. It depends on here on a year as to what kind of product we are developing. But it's not a fixed benchmark and it's not really a big number. Our main revenue comes from the sale of product only.
Shagun Bajpai	Thank you Mr. Manish. The next question is from the line of Mr. Dhruv Galada. Please go ahead.
Dhruv Galada	<p>My question is you earlier shared your vision of Rs. 500 Crore revenue and Rs. 80-100 Crore of PAT by FY 2025. Can you please elaborate on your roadmap to achieve that? What are the main factors which have to fall into place to be able to achieve this growth? What are the key hurdles you see?</p> <p>Also, in what way this growth is likely to impact the balance sheet in terms of the cash conversion cycle and debt-equity ratio in next 3-5 years.</p>
Gursharan Singh	<p>The Rs. 500 Crore roadmap is very clear to us. We already have tied up, consolidated business for this. We do not see any hurdle. Only hurdle is after Omicron, I do not know, what lies. So, I don't know when Covid will go away, because this may create certain disruptions, but it will not be RACL specific, rather it will be industry specific or globally. But otherwise we are very clear with the roadmap that our Rs. 500 Crore revenue has to come because we already have the tied up business or business negotiations at advance stages.</p> <p>We have all the 3 different growth journeys, first of all same products means existing customers, existing products. Year on year, even European customers are also growing around 6-7-8%. We have added 2 major customers, as you know ZF and MAN Trucks, so that is going to add by 2025, at least 20-25% of our revenue will come from these 2 major customers. And, of course, then we are diversifying also. And, EV is also there which we feel as an opportunity, not as a replacement, because, how the media may project or how the world may move but I personally feel for the next 5-6 years EV will be additional business and instead of eating up the fuel business, it will add up to the additional business because every fuel bike maker or every fuel car maker is adding EV vehicles without compromising their numbers on the fuel. So, we feel in next 3-4 years, these things have to really grow.</p> <p>For the other question, even, as of today, we are in a very comfortable zone, because even as per industry benchmark, it is 1-1.5 and we are 0.98, and the Debt-Equity ratio will remain almost the same, because we are a capital intensive industry because and we continuously invest on technologies. But, of course, we are repaying year on year, so the net-debt increase in the balance sheet will not be very high, but, I don't foresee any net debt reduction and the Debt-Equity ratio will remain comfortable. For Asset to Turnover Ratio, we are now 1.4 and let us see how fast do we grow, but we are nearer to our targets from what we are today and it will be better than this.</p>

	<p>But as I explained that debt is a continuous requirement of the company but for repayment, we are maintaining very strict fiscal discipline. And our serviceability of debt is always over 1.8 or so. So that's the reason that we are not really too worried about debt as the net debt increase will be normal.</p>
Dhruv Galada	<p>When I was talking about hurdles, I was trying to understand whether like, all the new customers, which we have got, so, is it possible that this business will not scale up as expected or other hurdles in that respect.</p>
Gursharan Singh	<p>Our customers are much much bigger in terms of numbers and size, so, if they launch a product, they have such a strong forecast mechanism that there are not any chances of decline of business. Companies like Porsche, BMW or KTM, they are World's biggest brands. They will not be giving any numbers until they're very clear. So, that way I'll say, I am too small in terms of their sizes. If their forecast can go wrong, then definitely my forecast will go down further. So far, we rely on their forecast and we're working with them for last 15 years and from our experience of working with these customers, we can say we do not see them declining. We are always seeing whatever they have projected, they have always done the same or marginally higher. They have never reduced. And I feel the same trends will go on. But, if there are any global disruptions, so nobody can take care of those things, because in 2020, Covid was there for 3 months, the whole world was stopped. The moment, the Covid situation got better, you have seen the automotive sector grew back. That way, I don't feel much the hurdles, except something unprecedented happening.</p>
Shagun Bajpai	<p>Thank you Mr. Galada. The next question is from the line of Mr. S. Manikanda. Please go ahead.</p>
S. Manikanda	<p>I have 2 queries. One is regarding the revenue split up, so, from the past 5 years, the revenue has been growing in the export direction, i.e. around 50 to 71% revenue has come from exports, so, is this the plan to expand further the revenue in export direction alone, or it includes domestic as well?</p> <p>My 2nd question is recently the acquisition has happened between Kubota and Escorts, will there be any impact in terms of revenue, since RAEL is their supplier?</p>
Gursharan Singh	<p>Both the questions are complementing each other, so, I will answer your 2nd question first. Kubota has done a strategic alliance with Escorts and it will be a joint venture called Escorts-Kubota. It is going to be a big opportunity and not just an impact. We have already got a very big business opportunity, so this will increase our domestic market presence.</p> <p>To be very honest, our own focus is that we should be about a 30-35% domestic and 65-70% should be our export business. But in domestic, unfortunately, our 3 wheeler business was getting a little bit impacted, but Escorts-Kubota is a very big opportunity available to us. So it has given us a positive growth. As far as our exports business to Kubota is concerned, that is going on as per the same schedule and with the same growth trajectory. In fact, in last 6 months, even after forming of joint venture with Escorts, we have gotten many global orders from Kubota, worldwide.</p> <p>Also, domestic business never reduced in terms of absolute numbers, but percentage was going down because our export growth was much higher. But with Escorts-Kubota business coming in our kitty, this domestic market will also improve. And our business with TVS has also started this year that will also add lots of domestic business volumes in the coming years.</p>

S. Manikanda	My last query is that the revenue can be improved either by increasing the volumes or optimizing the efficiency of the process. So, is there any opportunity available in both terms now or the optimization has been done already at the Max level and only the revenue scale up only the available? Which way are we focusing in the future?
Gursharan Singh	I will say improvement is a never ending process. As engineers, we always say improvement has no end and improvement is a continuous process. Of course the top line is important but most important is your optimization of resources. Because there are many companies who focus only top line and they are totally haywire on optimization resources. Those companies do not have a good bottom line. So we, of course, take care of the top line, but real focus is on optimization of resources, our efficiencies and there is continuous focus on them. That is the reason, that in terms of top line, we may not be one of the top, but in terms of bottom line, in terms of percentage, I think we are at the industry benchmark. So this is our focus and is going to remain our strategy for the future.
Prabh Mehar Singh	And also, when Covid was there, a lot of people were in red and despite no sales growth, actually, de-growth last year, our profits remained. Efficiency or optimization has always been our hardcore basis. So, that is why you see a bankrupt company coming to this level is only because of the culture. So, quality is not only with the product, which we sell, it is also about how we do things internally and that is how it gets converted into the product. All system, resources, we efficiently use and that has been our endeavor and that has to keep improving.
Gursharan Singh	I just want to say that we have made it a way of life. Each and every employee in the company thinks the same way the top management is thinking, and this is a collective effort through which we have been able to create a better number at all levels.
Shagun Bajpai	Thank you Mr. Manikanda. The next question is from the line of Mr. Devesh Shrimali. Please go ahead.
Devesh Shrimali	I have a qualitative query- so the way our core business is doing very well, we are well positioned and, like, you called out that, EV would be a top up on the main business, plus we are having new customers. So, do you think this 500 Crore top line guidance that you provided there is a positive side surprise as well possible? Like the new business like Escorts- Kubota coming in and EV topping it up, was it part of your original strategy to 500 Crore or do you think some of these would sort of help us go ahead of the plans?
Gursharan Singh	While developing a 5 year road map, we always have to keep some buffer for extra windfalls and some cushion for failures, because everything you project, it doesn't mean that everything will go the same way. Accordingly, we have to always create some buffers for some windfall opportunities, which we never plan it out. This is a mixture of both the things, but, when we strategize, we always see that how much we should create a buffer and how much we should keep a cushion for failures. So, if you keep a buffer of 50% and cushion for 20%, then you are not going to have very realistic numbers. And yes, this Escorts- Kubota business will come, we had an idea about it since quite some time and we could plan the 2025 journey and of course, EV is quite new but even the EV which I have discussed with you that has been launched in November, I got this order in 2018. It took almost 3 years for the vehicle to be tested. Since this EV is a BMW Scooter, you understand this is one of the biggest scooter and this is the first big product launch with them. You can imagine how much testing they might have done. So this journey was started 3 years

	<p>back. So, of course we know that in these many years, we will have this number. So definitely while deciding this 2025 roadmap, some indications are already there and we have accordingly aligned them. Of course, as explained we always have some buffer and some cushions.</p>
Prabh Mehar Singh	<p>Mr. Karan wants to know that we had very strong performance in H2 last year with Rs. 130 crore revenue and 12% PAT, how does the H2 outlook, in terms of revenue and margin look like given the R. M. volatility over the last 1 to 2 questions?</p> <p>I think if you compare the H1, we did around Rs. 127 Crore this year, H2 i.e. next 6 months, we believe we should be able to do around 10-15% better than H1 and that is how the total year end sale should look like and the numbers are good. In terms of margins, it is not appropriate to comment, but obviously we have to improve and not deteriorate and that is idea behind coming to office every day.</p>
Shagun Bajpai	<p>The next question is from the line of Mr. Anup Apsangi. Please go ahead.</p>
Mr. Anup Apsangi	<p>We have come a long way as a Company from bankruptcy to now. So, I just wanted to understand what drives you now in the direction, which you want to take it up and the 2nd question is who do you idealized in terms of a company, your role model, and you want to take your company in that direction?</p>
Gursharan Singh	<p>I always say to my people that many people have climbed Mount Everest, but not even one has been able to spend the night there. So, it is easier to climb but the air gets thinner, so, until and unless you are really very headstrong to remain over there, one cannot stay. So, our own strategy from the top management is that there's no room for complacency because if after doing such a hard work, if we have been able to make a bankrupt company to a company with glory, and if we again start sliding down, people will say that this glory was by chance, it was not earned. So definitely, we will keep on working harder. I am the first generation entrepreneur in my family, so, for me, life is only one, and so, I made certain efforts along with our team members, to achieve certain things. If we go down from there, people will not remember our success; people will remember the failures, so definitely have to ensure that whatever successes we have achieved, we further improve it.</p> <p>Answer to your next question, I benchmark ourselves to companies like Motherson Sumi and we have a lot to from Mr. Chand. I don't know how he is handling more than Rs. 16,000 Crore turnover from 50 odd locations and I think 18 countries. So that is our benchmark. Maybe in my lifetime, we will be able to get some further benchmarks from them. But these kind of companies which are very professionally managed, and with a very broad outlook are our benchmarks and we are to learn from them.</p>
Prabh Mehar Singh	<p>Another question that we have from Mr. Vivek Chadha- Recent lockdown in European Countries, what is the impact on the business?</p>
Gursharan Singh	<p>This lockdown, although what we see in the Indian media is a little exaggerated. Actually, in Europe it is not that the businesses have stopped. All industries are running. All offices are running. Lockdown is only for restaurants and shops, etc. All of our customers are working day in and day out. Lockdown is not actually impacting our industry per se. Of course, there are sometimes just temporary disruptions due to people getting Covid positive and quarantining themselves. But there are limited cases because all European manufacturers have a very strict protocol regarding this. So, those issues do come sometimes and necessary measures are taken. Otherwise the industry is not closed.</p>

Vivek Chadha	I do have one more question. So, as we can see that, our debt is increasing quarter on quarter. So, when do you plan to reduce that?
Gursharan Singh	It has already been clarified that debt is our need and it's not a bad thing for us. Debt serviceability should be good. So in terms of the industry, we're better than the benchmark. The debt-equity should be 1-1.5 and we are at 0.99. The bankers say that the DSCR should be 1.3 and we're at 1.8, so, we are totally safe. And debt is a continuous process but, as I explained, we will be borrowing fresh, but definitely will be repaying also. And our interest costs keeps going down, year on year. And our coverage ratios are improving and in any case with this, now, A- ratings, things should look better on the interest side.
Shagun Bajpai	The next question is from the line of Mr. Anirudh Shetty. Please go ahead.
Anirudh Shetty	2 questions: 1 st question was that you touched upon, how we are actually a precision engineering company, and, we also do air defense and aircraft. Specific question is, how do we see this aircraft and defense business segment evolving for us in the future and also, what other industries could we possibly do in the future?
Gursharan Singh	We formed this strategy about 3-4 years back, to enter into civil aviation & air-parts business. But, civil aviation business was very tough to enter. Then we found the easier way to start doing, at least this O&M of military and air force business because then there the learning curve was easier. We started doing some miniscule business, but, unfortunately, the civil aviation got worst hit due to covid. So that's went to the back burner. And in between this growth of chassis components and all our automotive business became more pressing, so, we reduced the focus also on the civil aviation. Because even after covid, the civil aviation industry is the worst hit and we don't even know what the road to recovery is. So, I'll be very honest that right now it is not on our real focus area, but we are doing miniscule business with the military and the air force.
Prabh Mehar Singh	So, we are working on it, but in terms of, I think the other question, what other industries can you think? So, I think apart from automotive there is medical, there is railways, in this all those things we have no plans. So, we will remain in this. But, yes, product application wise, as we already told about, that is what we are planning to grow in whatever automotive opportunities are there.
Anirudh Shetty	My 2nd question is that at Rs. 500 Crore top line, assuming we get there by 2025, I wanted to understand how our economics will look like, what will be our gross profit margin, EBITDA margin, our asset turnovers, our working capital are shaping up over the next 4 years.
Prabh Mehar Singh	If you talk about numbers financially, it will not be a right thing to project because guidance is one thing, but giving accurate margins for next 5 years would call for certain stock market provisions. But, obviously, what we are doing now, in terms of margins, or in terms of customer base; my new customer will not be bringing in any higher margins, or they will not be bringing something else on the table. So, obviously, I have to make the things in the same way. So, same input costs will be there into it and accordingly, per part profitability should not change much. It's just that how many overheads behave? What are my salary levels in next 5 years? What are my other fixed costs, which will increase because of other than the debt, because of expansion? Those things obviously be part to certain margin compression, but it should not be something haywire or different from what we are doing today. So, number wise, we cannot give you the specifics, but I hope you get the idea.

	<p>One last question, I think I've read this and we had some emails as well that some people are wanting to visit our manufacturing plant. It is difficult to entertain that for two reasons, one, obviously, there are numerous people who would want to see, so, even if 10 of you or 100 of you may come and then you have some arbitrary information which others might not have. So, which is not a healthy situation for other investors. And also it is difficult to entertain visits.</p>
Gursharan Singh	<p>However, we can do one thing that let us create a small, virtual tour of our plants and in any of our next investor calls, we're going to show that virtual video of maybe 8-10-12 minutes for our investors.</p>
Dev Raj Arya	<p>I heartily thank our investor and thank our Chair and wish everyone a very Happy New Year.</p>
Shagun Bajpai	<p>Thank you Ladies and Gentlemen. This was the last question for today, we hope we were able to resolve all the queries. And if at all there are any queries that are left unanswered, you may send them to us by Email and we'll try to get back to you and answer your queries. On behalf of RACL Geartech Limited, I conclude this conference call. You may now disconnect your lines. Thank you.</p>

Notes:

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