RISHI LASER LIMITED

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22nd February, 2024
RLL/81/2023-24

To
Dy. Manager,
Corporate Relationship Department,
BSE Limited,
25th Floor, P. J. Towers, Dalal Street,
Mumbai-400001.

BSE Script Code: 526861

Sub: Transcript of Analyst / Investor Conference Call of Q3/9M FY24

In terms of Regulation 30 read with clause 15 of Para A of Part A of Schedule III of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed the Transcript of Analysts / Investors conference call held on 19th February, 2024 related to Q3 FY24 Earnings Call. The same is available on Company's website.

Please acknowledge and take the same on record.

Thanking You,

Yours Faithfully,

For Rishi Laser Limited

VANDANA JITESH PATEL Digitally signed by VANDANA JITESH PATEL Date: 2024.02.22 11:31:54 +05'30'

Vandana Patel
Company Secretary

Enclosed a/a

"Rishi Laser Limited
Investor Conference Call"
February 19, 2024

MANAGEMENT: **MR. HARSHAD PATEL – CHAIRMAN AND MANAGING DIRECTOR – RISHI LASER LIMITED**
MR. GANESH AGRAWAL – CHIEF FINANCIAL OFFICER – RISHI LASER LIMITED
MS. VANDANA PATEL – COMPANY SECRETARY – RISHI LASER LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the Investors Conference Call of Rishi Laser Limited. We have Mr. Harshad Patel, Chairman and Managing Director, Mr. Ganesh Agrawal, Chief Financial Officer and Ms. Vandana Patel, Company Secretary from management team of the company. Please note this conference call may contain forward looking statements about the company, which are based on the belief, opinions and expectations of the company as on date of this call.

These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict and a disclaimer to this effect has been included in the financial results and investor presentation which has been shared with you earlier and available on the stock exchange website.

As a reminder all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Harshad Patel, Chairman and Managing Director of Rishi Laser Limited. Thank you and over to you sir.

Harshad Patel: Yes, thanks Yashashri, thank you all for taking the time out to join this call and I wanted to take a few minutes of your time to give you a little bit history about the company, the past long term history and as well as the recent history so that the current situation of the company is put in a little bit of proper context. So we started off as a small laser cutting job shop in 1995 in Pune. This just involved cutting parts out of flat steel using a laser cutting machine which was a very new concept of cutting of steel parts in those days and therefore primarily it was only to do more low volume parts where prototyping activity etcetera was involved.

Then over a period of next few years from 2001 onwards we put up, we set up similar plants in Baroda and Bangalore again doing similar activity and over a period of time customers started asking us you know that only cut parts is not enough because then we have to take these parts and take them to other factories for further processing. So why don't you all add other facilities, other processes so that we could get a complete fabricated part or an assembly from you.

So then we moved on to forming of these parts and welding and then to full assemblies. So with this we started adding value to what we were doing in our activity. Earlier there was only one process and activity obviously therefore involving much, much less value addition. As we started adding more processes the value addition improved and in that context we became much more important core suppliers to the companies with whom we were working.

And then later on after 2004-'05 we put up additional plants in different locations, further locations in Gujarat, in Madhya Pradesh and in the north in Haryana to cater to various customers in those areas. The primary reason for putting up plants in various parts of the country was to give better service to the customers.

It was not so much to reduce transport cost but since the entire sales were made of custom built parts assemblies it would be much better if we were nearer the customers so that inspection, first prototyping, all these activities could be done quicker and we could give better service to the customer. And this was, this strategy was fairly successful to see that this is being done in the automotive industry in a very big way but as a general machine fabricator we were the first company to try and look at this model. And this was fairly successful and we had phenomenal growth for a decade or so from 2003-2011-'12.

And those were glorious years, of course Indian economy was growing well. One more tailwind was that lot of large companies when they wanted to expand they realized that they cannot continue to manufacture all these things within their factories so they started outsourcing more difficult value added assemblies to suppliers and there was a lot of hand holding being done in those days because this was, this industry did not have those kind of supplier base at all. So those, that was a very good period.

Primarily the largest sector to which we have been servicing has been the infrastructure equipment manufacturers, that is road making equipment and digging equipment, mining, excavators, earth moving, that became the primary focus. Again I would say that there was no grand vision from the side of the company or anything. We grew depending on how the customer base started expanding and that was the space which was growing the fastest in those days.

And so we started focusing on that and built a very good diverse customer base from there. The facilities are basically very flexible. So the equipments that are installed in the factory actually could be used to make assemblies for any industry.

It could be cement plant machineries for cement industry or pollution control equipment or textile machinery or what have you. I mean you could make stuff for any industry and that is a very big advantage of this kind of a facility because what you have are primary processing equipments of cutting, forming, welding, painting. So you could take up jobs from various different industries and therefore as the new opportunities started opening up we started focusing on that.

One of the biggest opportunities which came by our way was the introduction of metro trains in India and Bombardier was the first company which started manufacturing these train sets in India in Gujarat and we were involved with them for the Delhi metro project right from the time the first coach left their factory and this was in the earlier period as I mentioned the early 2000s and that was so we did a lot of work in the railway coach sector primarily all stainless steel material and that sector again of course it had a setback later on but then it has come back again very, very strongly and today we are working with virtually all of these stainless steel coach manufacturing companies.

So later on in 2012 we had a very severe setback in the company because we had built up a very large capacity and facilities all over the country with about 12 plants set up all over India and we were catering to a large number of companies primarily in the infrastructure sector. So when that sector took a very big beating when the spending on infrastructure came down in the last two years of the previous UPA government after all these scams and scandals had come out.

Lot of infrastructure orders were cancelled and therefore our customers had also severe setback and in turn we had a lot of you know business which was on paper but then finally did not get fructified and so the company had a severe financial setback at that time and then there was a kind of a lost decade from the year 2012 till 2021.

I think this it took us a very long time to restructure and get out of the hole, primarily I would say for two reasons. One was of course that I think as management we did not react quick enough to downsize at that time, because it was I would maybe on hindsight it looks like it was a miscalculation to not I mean to think that things would get so bad. So we were hesitant to downsize and I think that high overhead with low turnover contributed to a lot of losses in those years.

The second reason of course was the very unfavorable atmosphere in the financing industry, because the banks were under a lot of pressure because of their huge losses with big loans and all that. So banks were also not in any kind of mood to sort of restructure loans and look at how to help companies to get out of this and therefore there was no support coming from that side and therefore it took a long time to slowly and steadily work our way through. We downsized from 14 or 15 plants down to about seven plants.

All the facilities which were in rented premises were all closed down and we sort of moved equipments to owned factories and we started doing business from lesser number of plants trying to keep customers intact. The other major decision taken at that time was to get out of the automotive sector, because in those days as we have also mentioned in our past audited financial accounts also that we had tried to diversify our risk in two manners.

One is of course the geographical risk so we were placed in the south, in the west and in the north we had plants so we were that way quite well diversified. The other thought was that as far as customer base is concerned we wanted to have you know four sectors on which we concentrate.

One was obviously the earth moving industry, the other was automotive, third was the electrical transmission and distribution sector and the fourth was the metro trains and railways. And this was going quite well our strategy to try and diversify but we were still too much dependent on earth moving at that time but automotive was a balancing thing.

The reason we decided to sort of get out of automotive was that it was a very large, little larger high volume business with very low margins and that did not fit into our sort of culture of what we were trying to build as a more technological kind of a supplier where we are looking at lower volumes but where there is a little bit of more engineering involved at least on the manufacturing side.

It is not just about having the equipments for these processes in your plant but knowing what is the process, how to you know do it in the right way the first time, there were a lot of prototyping involved which involved engineering so that was our core strength. So while we were downsizing we also thought that you know we should sort of get out of this business and so the automotive business was sort of closed down, automotive component business rather and that also contributed to the downsizing of the company as well as the turnover.

But from 2014, 2016 rather, '15-'16 all this downsizing and consolidation all that was over and then we started on the task of again rebuilding the whole thing. Fortunately our assets were physical infrastructure assets were still all in place and barring one or two small plants which were closed, we had to exit from one of our joint ventures with Larsen & Toubro also in Bangalore which was a plant which was exclusively set up for L&T Komatsu.

But since L&T was also doing some restructuring at their end and getting out of Komatsu so we also decided to exit that joint venture and L&T and us then sold off our stake in that subsidiary to some other manufacturer in 2014, if I remember correctly, '14 or '15. And then we so this last decade as I call it from '12 to '21 it continued, we had a lot of ups and downs during that period unfortunately because there was no consistent demand coming from the customers.

It was always ups and downs, you have 12 months of some good order backlog and then again customers were having some their own issues with demand in the market. So this extended the period that it took for us to get out of this this trouble.

And of course as we were going out or rather coming out of all this COVID struck in 2021 and those two years also were quite difficult, because we had to keep all the people in place and everything and run again at a fairly low capacity. And so that got extended and during all this period our debt which was restructured, the banks had sold off their debt to the asset restructuring company and which was to have been repaid over the next five, six years.

And that has been done and it was all being done through internal generation and maybe some sale of asset, one of the plants in Madhya Pradesh also we closed down and those funds were utilized to pay off some of the debt.

So I think as far as the asset restructuring is concerned it was all done, it is in place and fortunately post COVID business has also started coming back. Last about 15, 18 months back the budget before this one has been the largest capex announced by the government of India with a huge focus on road building, metro trains, railways and defense. So these are all engineering sectors which needed that push from the government and which then started creating demand.

So the post COVID from 2022-'23 demand is definitely improving and every passing half year we see more and more customers looking at, our customers looking for more growth, bringing more newer types of equipments to India and therefore generating new business opportunities for us.

The other of course issue was that because of severe financial constraint of having to pay back all the debt in very difficult condition, company could not really grow the business volume wise that much because there was only so much money available for working capital, I mean to run the business, since we didn't have any banking facilities. But as it turned out I think that was a blessing in disguise because that made us focus much more on value added business.

We decided not to go for high volume, low margin business and restructure our entire way that we provide our services and business. And as it is by design, our company was designed only to sort of work with large multinational companies for supply of these because they were the only ones who would be willing to pay the right price for the kind of services and the products that we were giving.

Most of the either the smaller companies or completely Indian owned companies were too much focused all the time on price and purchase price and keeping quality and other parameters behind. So those were the customers that had to be filtered out and I think today that has borne very good fruit, because we have a very, very strong customer base now and these are customers who've been with us for more than a decade or two and they've stayed with us and they realize the value that we provide to them. So more and more new business is being passed on to us from these customers.

So I think I would also like to give a little bit brief about the business part of the company, business in the sense that what are the kind of industries that we service and companies that we work with. So today our largest area where we do business, maybe more than 60% of the business comes from the earth moving industry, that is which involves road building and machinery, mining, equipment, off-road vehicles, etcetera.

And most of the customers are very big names in the industry. Caterpillar is our largest customer and they are the largest equipment manufacturer for earth moving industry in the world and they have fortunately a very strong focus now on India post COVID. They have taken a decision at headquarters to look at India very seriously. So they are also putting up new plants in Chennai and moving more new equipments to India. So that sector has done very well because of government's focus on road building.

The other areas that other types of companies that we work with are in the metro coach building and Alstom Bombardier. Bombardier of course is now taken over by Alstom of France and we supply to Alstom Bharat Earth Movers for these coach. Also the railway coach factories again for these newer trains, all stainless steel trains that we work with.

So railway coach and metro coach areas. And the other sector is the power transmission distribution sector where again we have very good companies. All of them are multinational companies and the work is both in stainless steel and in mild steel.

So the customer base is very strong now and our idea is to become their -- I mean number one go to supplier and be a very core vendor to these companies and focus on a narrower base of customers rather than have too many customers whom we cannot then service. And this strategy has, which we started working on from way back in 2015-'16 is now finally giving us some results which we are able to see over the last maybe 18 months or so, where turnovers are much lower today even as compared to what they were in 2010. But profitability is improving quite well.

Now the other major thing that happened during all this restructuring was that the breakeven point of the company as far as sales is concerned has been brought down drastically with now virtually zero long-term debt in the company. Our interest burden is extremely low and repayment is really zero. You still see some interest cost which you would have seen in the quarterly result. Those are primarily short-term funding which is done for the debtor financing which is coming as interest.

But there is no long-term debt repayment or interest, which is to be paid which is a very big strong point, because we have the other infrastructure in place as far as land building etcetera. is concerned whereby as and when, as the business picks up we can grow much more with very little sort of capital expenditure that we need to do.

We have five plants as on today, in different locations. Locations are in Pune, Bengaluru, Chennai, Baroda and in Sonepet in Haryana which is near the capital region. The Pune facilities are the largest facility, but our largest business is coming from the south from Bangalore plant because that is where the customer base is the strongest and those customers have grown the fastest.

We have a covered area of about 1.5 lakh square feet more than that plant covered area and more than 50,000 square meter of land which has a lot of spare space for further building as well. The current employee strength is about 600 people. The other one another major factor which also created a lot of problems in the recent past has been the input prices.

Our major input are CR HR steel, flat steels and stainless steel and during the COVID period a huge shortage had been created for steel because Indian steel mills sort of exported a lot of steel and in India there was a shortfall and therefore in those 1.5 year, 2 year period the steel prices more than doubled in India and that was being done in a very difficult period.

So the passing on of those prices used to get little bit delayed and that also contributed to sort of delaying the process of getting into better profitability. But now since the last one year steel prices have been stable and I do not expect those prices to be very volatile now. Huge steel capacities are coming in on stream in India and in fact India in the companies are trying to export steel out of India so that they can get better prices here.

But I think that may not they may not be able to sort of rig the prices the way they had done during the COVID period because even globally there is a reasonable amount of steel capacity in excess including in China. So I think the steel prices are quite benign and the demand side because of asset spending from the government that continuing demand is expected to be better.

Of course last as you would have seen in the we had a drop in sales in this third quarter as compared to the earlier four or five quarters and that is primarily because of our largest customer having shortfall of orders and therefore cutting in production as well as the entire earth moving sector having a slight amount of slowdown which we are expecting it to continue over the next one or two quarters because of I think government spending seems to have been slowed down with the coming of the elections whatever that is the feedback we get from our customers.

But that is just a short term blip as we see it and even at these low levels of such operations of our customers we are at a reasonable profit margin level. So it is it looks like that once those businesses start picking up a little bit more we should be in a fairly decent position to take advantage of the growth in our customers. I think that is all from my side. I will pass on this to Ganesh Agrawal to give some information, number based information of the last quarter and maybe the last year. So Ganesh can you please take over?

Ganesh Agrawal: Yes sir. Good afternoon everyone. A very warm welcome to all of you into the first ever Investor con-call of the company. The Q3 FY results and the investor presentation were uploaded on stock exchange and company's website. Coming to Q3 numbers on the revenue front we have clocked a revenue of INR31.42 crores vis-a-vis INR36.13 crores in the previous year registering a decline of 13% -- 13.04%. This is mainly because of drop as Mr. Patel told and sales of one of our biggest sector that is construction.

Our net revenue for nine months at INR105 crores registered a modest growth of 5% over the previous year. Moving on to EBITDA numbers our EBITDA margin excluding other income for Q3 FY '24 is 7.89% registering a drop of 55 basis points over Q3 of the previous year. This drop of 55 basis point is mainly due to increase in the employees cost which was raised in the month of October by government of India on the minimum basis side. [inaudible0: 30:04] I think the numbers are already uploaded…

Harshad Patel: The numbers are with you all would have seen on the stock exchange. Barring the last quarter the previous four quarters there has been a consistent improvement in profitability of the company. This the third quarter as we have seen there is a drop in sale.

The EBITDA margin has gone down very slightly but the primary concern obviously has been the drop in sale. Now as I mentioned that we are looking at our business with a very long term perspective. It is very important for us to continue to focus on these customers which we have and primarily Caterpillar as I mentioned they are the largest they contribute over 33% of the business of the company and a lot of work is going on as we speak as far as they are concerned with development of new parts.

We are supplying to Caterpillar to their plants in Tamil Nadu in Tamil Nadu in Tiruvallur, Hosur as well as a plant in Maharashtra in Aurangabad and also supplying components for export. Now export so far export was also doing was moving up but primarily it was going to their Indonesia plant and Indonesia also is having elections in the just as we speak going on and so that period has been a little slow for them there itself.

The major development as far as Caterpillar is concerned is that they want to buy parts from us to supply to United States to their plants in Illinois and Michigan in Decatur their major plants in Decatur US Illinois and some parts have already gone and been approved.

Just last week also there was a there is a delegation which had come to visit us and then we are expecting a further team to come down. So while this period is current business is slightly slow but the future business potential from this customer is very, very strong and that is the kind of homework on which it is keeping myself as well as our top team manufacturing team busy.

The message we get from them as well as two other customers also both of them are American one is based in Gujarat and another is based in Tamil Nadu is that they want to they've started looking at India very seriously and they want India to become a plant not just for the Indian market but also to look at India to export out of the country and I think this is the most exciting thing we are seeing. Unfortunately in India for the earth moving equipment we are not we are not exporter of these equipments from India.

So what is going to happen is it's primarily I see it will be more of component exports from India rather than equipment and that suits us fine because we are in the in the component business but the fact that they are looking at India and they've shortlisted a very small bunch of suppliers on whom they want to focus and see that they are capable enough to be supplying because supplying to the United States is a very different thing the logistics time that it takes one of the reasons they are also doing this is that during the COVID period they had a lot of supply chain issues from different parts of the country locally also within the US as well as from China.

So they feel that if they can bring India on board their supply chain issues supply chain could be strengthened and in that context they are looking at a long-term two three year kind of horizon where we need to work together to set up some processes which are specifically designed automation with regard to robotics etcetera, which are designed for their American requirement and that is the sort of work on which we are focusing now.

And in in one way it is good also that we are getting the time to do all this at this period and that should I think bear very good should give us very good results maybe 12 months down the line from now.

And yes I think yes that's it from my side. So I will in case there are any questions etcetera we can sort of move on to that.

Moderator: Thank you very much sir. We will now begin the question and answer session. We have a first question from the line of Chetan Cholera from Pragya Equities. Please go ahead.

Chetan Cholera: Yes, thanks for doing a call first time. Just two things I wanted to know. One is the promoter's take is very low. And is there any thought process to increase it? And another is, what is your vision for next four to five years?

Harshad Patel: Yes. So should I answer this question and go one by one to the next? So the promoter's take, you know, in the past, as I mentioned to you about our growth phase post 2003. We were growing very rapidly and there was a lot of need for equity capital to balance the debt also that we were building. So we had two major dilutions in equity where there were preferential allotments made to large investors. And at that time, the promoter stake dropped drastically.

As it happens that right from the beginning, the stake of the promoter has not been very, I mean it is not that we started with 75% or 60%. So we had a promoter stake which was, you know, around under 40% to start with and when those dilutions were made, promoter stake has gone down drastically.

Now there was a, that was a time when I had to take a call whether we should do this or whether we continue to grow at our own pace with internal accrual and keep the promoter stake high. But at that time, I was of the opinion that it is much better to induct capital when it is required and therefore that was inducted and the promoter stake was reduced.

Promoter stake has remained low since then because I think I could not have any, could not get any opportunity to increase the stake since then because immediately after those dilutions, of course the stock prices were very, very high and during the dilution we could not also have promoter matching that equity because that funding was unavailable with the promoters.

Now, obviously, I assume this question is coming from the point of view of whether the promoters would be really interested in running the company to its best potential in spite of the stake being low. I think, in my opinion, this is a, yes, obviously the stake being higher would have benefited me only because of more wealth creation, but because of unavailability of finance available with the, because of the background of the promoter, it is as it is.

And I think if you see the performance of this company as well as we have another group company which is also a listed company which was listed way back in 1985. And we have been around in the listed space that way for more than 30 years, gone through lots of ups and downs. And the commitment of the promoter as far as management is concerned can be seen by the working of the company and the way we sort of deal with the business.

I am a professional, I am a chartered accountant by education and I have not, I mean, come from a sort of background of wealth, personal wealth, and therefore that could not be pumped in at the right time. And somehow or the other, post 2014-'15, when things were very bad, and that was a time of course when stock prices were low and more promoter state could have been built, that also could not be done because of my personal availability of funding was also not there.

So I think it is remain low and I don't see in the near future looking at an opportunity to increase the stake. But as far as management philosophy is concerned, my philosophy is, and it may sound like a cliche, you know, that this is what every management would like to say, but it is for you to believe it or not, but I look at myself in the management as more of a trustee and a person holding this position just like a professional would hold it and run the show.

And that is how we have managed our company in a very professional manner with a very high level of corporate governance. If you can see even in the good times or the bad, there has been, whether it is related company transactions or any other kind of thing, it is absolutely very clean and straightforward management.

And the other side, I can also point out that we have seen so many, of course it is, these things, please take it in the right spirit, that you know even where promoter holdings have been very large, you have seen the kind of corporate governance failures that have taken place. So I think this, we should, I look at it as a kind of a detached thing.

Yes, promoters increase in stake would help increase my wealth and ultimately, you know, 90% of my personal wealth is my stake in the company. So, you know, my, that way my wealth growth is also completely directly related to the company's growth in spite of the holding being low.

The vision for the next four, five years is, you know, in the past, this, during this last 10 years, the last decade as I called it, we've unfortunately not had consistent market visibility for consistently for two to three years. It has always been since 2016, up and down 12 months of a decent demand, then again, six months down, then again, very good demand.

After a long time, you know, last 12 months, things have really looked up for the first time. Two major things, one is of course government spending on infrastructure and the second which is just in the initial stages but I think it will grow is the larger corporate sectors primarily in the United States who are looking to India now very seriously.

Up to now that was only lip service that oh we will buy more from you and this and that. But now they are very, very serious. And this seriousness is seen in the amount of time and energy that the senior management is spending. They send their teams over to India. And we've had supplier conferences outstation where their management teams from US or Singapore or whatever, they all attend. They give the vision of their company.

So it is exciting times for the, as I look at for the next five years at least. We are reasonably well placed as far as taking advantage of this movement to India if it takes place as is expected. Reasonably well placed in the sense that we worked with all these customers for a long, long time. There is a very deep relationship with them. And they have a trust and faith in our abilities.

And therefore, we should be able to – the business is therefore quite sticky in the sense that these businesses are very difficult to get. But then once you are – once you get it, it sort of tries and remains with you. The work that we need to do is to strengthen our base in two areas. One is the number one area would be human resource.

And I think personally, in my opinion, that is the number one sort of strength that a company should have. And we had a very, very strong base of management talent and engineering talent, but that was also destroyed to some to reasonably large extent during the downturn because of layoffs and you tend to lose people.

And I think that is what is the work which we have to do to sort of be ready for the upturn, which comes and the business which comes from overseas. The second thing where we had become little bit weak is on the process technology. Because of lot of financial constraints and the way the business was running, we could not upgrade and be ready with the latest processing technologies in cutting and welding as we had been in the past.

And therefore, that is the area where I am focused on these two areas primarily. Number one is human resource. Number two is upgradation of technology. So with these two things, which I expect to be in place in the next 12 to 15 months, I would see that business, to grow the business from here, of course, the base is quite small.

So to grow the business from here, manifold should definitely be possible. And we are not yet 100% ready, but I would say we are 75% ready for that. Balance, we should be ready in the next 12 months or so. I think I hope that is sort of a satisfactory answer. Can we go to another question please, if there is someone?

Moderator: Yes, sir. The next question is from the line of Gunit Singh from Counter Cyclical PMS. Please go ahead.

Gunit Singh: Hi, sir. I have a couple of questions. Should I just say, state all of them, or should I go one by one?

Harshad Patel: No, please, please state all of them.

Gunit Singh: All right, so what is the peak revenue potential of the company at current capacity? And what so you mentioned that the demand has been fluctuating over the last 10 years where we saw a demand in couple of years and then a lull period. So I mean what gives you the confidence of demand in future? I mean do we have any order book visibility? Can you state the current order book of the company?

Also I would like to understand the pricing of our contracts. So I mean fixed price contracts or are they flexible? Do we pass on any fluctuation in raw material prices to the customers? And finally, I would also like to understand, what is the outlook for FY '25 next year in terms of top line and bottom line? And what kind of margins do we expect to maintain going forward?

Harshad Patel: Yes. Okay, thanks Gunit for these questions. So, you know, when we look at capacity or capacity utilization in an industry like ours, see we have these, as I mentioned, there are different processes which is, you know, cutting, forming, welding and painting. Now, these capacities, both in painting and in cutting a little lumpy in the sense that you cannot expand them in a very small incremental fashion.

You have to grow them in a certain size, because of the limitations of the equipment. But these are not the constraints as far as capacity. Capacity depends on your infrastructure that means that your building facility how much it is geared up how much space you have your crane, because engineering business requires a lot of infrastructure as far as buildings and other things are concerned.

So we from that angle you know today if we look at capacity utilization of the company as a whole, we may be doing something like, I would say about 50% -- 50% to 60% capacity, not even 60%, I would say 50% of the company as a whole. Now, this also is a little bit, you know, distributed in a little different way in the sense that the South plants are have a much better capacity utilization of close to 70%, 80% in the previous few quarters, when we were doing better, 80% or so.

And the Pune and Gujarat plants, which are larger plants, are running at fairly low capacity utilization, like about 30%. So to that extent, I would put it that the company has the potential to increase, I mean, if the right kind of orders are there to increase sales with the existing facilities, with some balancing equipment, tooling, etcetera, some small investments here and there to increase turnover by about 70%, 80% or even 100% from the current levels. So that is the kind of peak revenue I would put it at that.

The one more thing which I mentioned in the previous answer to my previous question, to another previous question was that. We are looking at automating some of the processes by putting robots and putting more modern equipment. So what will happen with that is that with the existing space and manpower, you can do much more business with those newer automation that we do.

So as we go along, the potential revenue from these existing facilities, maybe 12, 15 months down the line could be even higher than 100% increase from here. So maybe let's say if we do today INR150 crores, last year we did about INR134 crores, this year based on nine months, some we project into the next, we may end up doing INR140, INR145 crores if you add it up.

From here, one can do double the turnover with very marginal levels of investment is how I would put it as for revenue potential. As far as this question of demand fluctuation and order book, they are actually tied up in one way. Order book, what happens is that you, once you start working with a customer, you are an OEM supplier to him.

So those components, after you develop them, you supply the quality is accepted, then the company decides whether they want to buy 100% of those components from you or a share of 50%, 60% or whatever and then based on their volume of sales you will be given monthly or quarterly schedule. So a price is decided based on a particular steel price at that time and the order is placed.

And then every month they will give you a schedule that, okay, this month you supply so much of X part, so much of Y part, etcetera, etcetera. And there is a pass through virtually in about 80% to 90%, 80% of the business, the steel price is a pass through because this is a continuous business. So if the steel price varies more than 3% to 5% in the month, then in the next month's orders that price change is made based on the steel price fluctuation.

Now as I mentioned earlier in another in my earlier comments as well during the COVID period this became little difficult because the price increase was relentless every month there was a 5%, 10% hike so month after month after month so when COVID started maybe steel prices were something like INR37 a kilo and it went all the way up to INR85, INR90 a kilo in different grades.

So then there was a lot of fatigue on this price increase. Yes, it is a part and parcel of this but sometimes they could delay these price increases and all that but fortunately our customers are have been very good as far as that is concerned. That was also one of the reasons why we had also filtered customers during the downturn and got out of automotive business.

Because what we found in the automotive was that customers used to take an unduly long time to pass on these price increases. And that created a lot of uncertainty. And you didn't know whether it would come it would come back dated or whatever. So as far as price fluctuation is concerned, pricing is concerned. It is my larger pass through now order book also is dependent mainly on the business that the customers are having.

For example How the excavator market how much road building is happening how much demand is coming for their machines and accordingly, our demand is generated now. Yes, the very valid question about demand fluctuation and what gives us the confidence that this? See to great extent the earth moving industry is very cyclical.

Globally it is very cyclical and the larger the company in fact Caterpillar being the largest company in the world in this space they have a very cyclical business and you know their turnovers can go up by as much as 35%-40% down in a bad year and then come back but with most of the cycles it, I mean, many of these companies have been improving.

We had a lot of fluctuation problems primarily because of two reasons. One was that the demand in India itself was not very consistent because spending either on metros or on railways or on road building was not consistent even with this new government coming in post 2014.

But if you see from 2014 till 2019 or so, I mean, it has been growing but not to the extent that it took place after that. And then these one or two years COVID also created its own sort of issues. But I think it looks like that the government is serious about infrastructure building. So that gives us some sense of confidence.

The second sense of confidence for business is to try and get into the supply chain, global supply chain of some of these companies, some of our customers that are there. Now that is, it's easier said than done because in our case, since this is not a mass supply item, this whole getting into the global supply chain is a very long process.

It takes anywhere between 12 to 36 months to really become a proper full-time supplier. But a large part of that period, I would say more than 50% of that period has already gone past us. So we have a smaller bridge to cross to become part of the global supply chain. We are already part of a global supply chain in case of some oil drilling equipment companies globally, again, American companies, where, you know, we don't, whenever the requirement is there.

What they do is that, in this global supply chain, once you are an approved supplier, they put you on the list with the buyers all over the world. Then you are, I mean, any buyer from that company, the price and the what parts you are approved for is there on their computer. So they know that, okay, I have to buy from these people only, and this is the pricing base.

And so orders come to you continuously. So in the long run, being a part of the global supply chain is going to be, I think quite important, not only for growth, but more than growth, I feel for profitability. So that is, I would say the answer to this demand fluctuation. There is going to be some cyclicality in this, just like it happens in the heavy trucks and automotive business.

But two ways we could try to reduce it. One is that the non-earth moving equipment business we have to try and grow so that today it's a very small share in just 25%-30% of our business. We could try to make it about 50%. So those cycles are different from the earth moving cycles. So to some extent those fluctuability can be reduced.

Outlook for the next year and the margins. Now this is a little difficult thing because this next six months are looking slightly uncertain in the sense of sales. Margins, I think I don't see much as a problem. Margins will be maintained because by design we have decided as I mentioned earlier to have a narrower base of customers, but customers who are very demanding in terms of quality and delivery.

So these customers, it takes a very, very long time to get into them and get under their skin. And once we are there, then you know, you are by and large likely to be there and they are not as price conscious -- price conscious may be a wrong word, I'm sorry, but they the price is not that number one focus in purchase, their focus is on quality and delivery on time delivery.

So they are much better, you know, at giving you your rightful margins as compared to companies. You know, I feel bad to take some of the names of our Indian large groups, but They are all the time only, you know, their buyer is all the time first asking for price and then talking about quality and other things.

But those are not those are not our customers now. So margins I expect to remain, as I said earlier, the steel prices, I expect them to be benign and customer the customer base is such that we are doing value. We want to do more and more value added work. So the margins get retaken. So maybe the growth in top line may not be spectacular, like 25% compounded over five years or whatever. The CAGR on top line may be a little bit lower but the profit margins will definitely be retained or it will be it will improve. In fact in my opinion, I think, I have answered that to best of my ability. If there is anything any other question please.

Moderator: Thank you we have a next question from the line of Sunil Kothari from Unique PMS. Please go ahead.

Sunil Kothari: Thanks for the opportunity sir. It was really a very very elaborative and very detailed discussion on your experience your judgment failure or whatever of your experience during last 10-12 years. We as investors also are expecting so many things to happen in India, which was not happening and hopefully things going to happen. So just my question is to ask you is looking at your experience and looking at the possibilities, what type of investment you want to make over say next year or two which gives you comfort to grow, which gives you comfort to penetrate with this construction equipment global measures, global supply chain.

And related to that another question is railway also seems to be now happening. Some years back we were talking about one metro line one metro happening at somewhere. Now lot of metro trains are happening Vande Bharat is also now possibilities and clearly visible. So how you see opportunity in this rail related matter. Power is also one of the sector you were catering since long so with your so many years of experience and conservatism you sustain. You maintain your capability or relation your customers how you see next three four years opportunity.

May not be in terms of size but in terms of possibilities and what type of investment you will require in terms of say some crores or what? Thank you sir.

Harshad Patel: Yes thanks very much Sunil bhai. So I would say as far as investment and capex is concerned as I mentioned, we have a lot of infrastructure in space in place rather. So it would be mainly related to depending on what kind of business flows to us so it would be little bit dependent on specific areas of business. So one of the largest investment that we had to make or rather we have to make now we started with -- we were the pioneers in laser cutting of steel in India as you are aware, came in very very early and those days.

The equipment cutting was done by a laser process -- laser light was generated by a process of co2 gases, but that process has now become outdated at least about five years ago. Latest new technology has come in whereby this laser light is generated by led and fiber optics. So that has improved that has taken a quantum jump a technological leap in the industry it is virtually. I would equate it to you know the old tube lights that we had and now the led lamps that we have in terms of energy efficiency in terms of longevity etc.

So the new generation laser machines are much more productive they are one-third power consumption. And since they have much less number of parts it's just like an EV versus an internal combustion engine. So large number of moving parts are removed because of this led and fiber optics. So earlier the light was delivered with mirrors and this and that and which used to have breakdowns and maintenance.

Now it's fiber optic cable, so less chances of it going bad and if it goes bad you just replace the cable. So our major investment that we will we have to do on an ongoing basis is to replace the entire cutting facility with this modern equipment that we have. We started this process about one and a half two years ago, so it has in spite of all the financial constraints etc. about 50% of our capacity is already converted to the new technology, the balance 50% I am hoping also that in another one year to 15 months we'll be able to convert.

So we'll have our entire process will be done by the latest modern technology. So that will require a little bit of capex, barring that the other part of capex will be one is that if we want to modernize our processes. So that for two reasons we have to do one is you know improve productivity reduce cost. Second is as a necessity to get into the global supply chain, because global people when they audit you they are looking at your processes in a in a little different way than the same Indian group does in India.

They wanted to be much more robust more reliable more much better in quality than. So that obviously involves automation robotics etc. So some investment will have to take place in that. So by and large I would put say this year our capex would have been something like INR3 crores, INR3.5 crores capex. We would do in the current year next year maybe we may need to do about INR5 crores of capital expenditure, which will include modernization replacement of the old machines with new as well as some part in robotics to improve process equipments and all that.

Over this is all that we are seeing as on today over and above this if we have to do it may arise due to some new things which may come up. So for example if India starts making railway coaches out of aluminum today, it's all made out of stainless steel but Alstom is a pioneer in aluminum coach building and Alstom is very strong. Now in India they may want to export out of India they are not, they may want to -- they are exporting out of India.

So if they go in for aluminum coaches or if some customer wants some other things is something brand new which we've never been doing in the past. That may involve some capex but that is not something that is visible right now that. As and when it is required we'll have to look into it the other one opportunity which is also arising in India. You would be seeing that a lot of companies overseas are looking at contract manufacturing in India. So far you would be seeing some of these big companies doing air condition assembly and so many other things whether it's phones or this or that similar kind of contract manufacturing could also have it's happening in a very small way.

But it could start happening in some of these engineering equipments as well so looking at the Indian market they could make some for the Indian market and balance for the export. So one another opportunity for which we are on the lookout but nothing has fructified as on today, is whether we make some equipment on a contract basis for some of these big customers that we have. And they like Caterpillar today is making some backhoe loaders in Goa on contract manufacturing with somebody.

So some such opportunity if it comes our way we may need capex requirement or capital requirement, but as on today there isn't any large kind of capex requirement or funding requirement which is there. And you mentioned about opportunities from the railway and metros, yes so metro is a very big space, because large number of metros are being built simultaneously.

And metro business should continue there of course we had a setback though we were the pioneers in this and we've supplied a lot to the Delhi Metro. We worked with bombardier for a number of years, unfortunately bombardier had a very big downfall and they didn't have any business for about three or four years. And in in that time we were working with BEML but Alstom then started coming up and then we did a little bit of work for Alstom, but our Pune facilities were the only facilities approved to do this kind of stainless steel and welding work.

And we Alstom was insisting that you have to have a plant in the south. Their plant is based in three cities which is bordering Tamil Nadu and Andhra or Telangana. Now I don't know which state but so they wanted us to move our supply from Pune to the South. And that was happening during a little bit of a difficult period and while we were moving COVID struck and then Alstom itself had a lot of shutdowns. Alstom and both the railway coach factory in Chennai during COVID they were working four weeks closed for four weeks and those kind of things.

So too many up and down happened and somewhere they also had a lot of restructuring happening. We also had our own issues with our Chennai facilities, so we could not grow the metro business the way it could have grown in a better times there. But that business is now slowly and steadily coming back, so I think metro business should remain robust. And as you know new railway coach there are three railway coach factories today one is in Chennai, one is in Punjab and another one is in Raibareli in UP.

The Punjab facilities are the oldest Kapurthala and that is a den of corruption and it's very difficult to work there, but the other two facilities are better we did a quite a lot of work with Integral Coach Factory for these stainless steel Rajdhani coaches as well a little bit of Vande Bharat work. Unfortunately there also in COVID these plants did not operate properly. So they were running way way behind schedule and they've not been doing as well and they are not running at the capacities at which they should be running.

So -- and what has happened in the railways also is that the railway coach factories these Vande Bharat trains are not in addition to the older trains that they were building, what they did was that they stopped building the stainless steel coaches. And they've gone into these Vande Bharat coaches so it is a not an incremental business, it is a more of a replacement business. And therefore that growth did not come to the extent which was being anticipated, but now a new coach factory is also coming in Maharashtra which as I understand is going to be completely given out to one of the private sector companies to build trains.

I forget I think it's a Calcutta based company they will be building those. So railway business will also be there but there are two problems with the railway business. Railway coach factory business one is that it is entirely tender based business, so now problem with tender based business is that one year you could get the tender, next year you may not get the tender, because it's all on pricing who the lowest price orders are given.

And no doubt there are technical qualifications and all that but the lowest bidder always sort of in some way or the other controls the whole bidding process. So one is the continuity is a little bit at a risk, second is that they have a very bad policy of having fixed price contracts. So for example I mean people who had taken these orders during COVID times and the steel price is more than double. So you could either take a very big loss or you could stop supplying and be blacklisted, and a lot of people did get blacklisted.

And we I mean I am not comfortable working with nine months or 12 months fixed price contracts. We do some fixed price contracts with Bharat Earth Movers they are also public sector company. And but that's those orders are a little smaller and they're also unfortunately during that period of large stainless steel increase we got stuck with some orders and did have to take some hit on profitability. So railway coach factory unless it is privatized or they change their thinking it is not that exciting as it could be, yet there is potential.

But I think it's still I mean we have to see case by case basis. So I would put it like this that if we have other businesses to fill our factories at a profitable rate, I would not prefer to work with the railway coach factory. But if we don't obviously then that is an area that there is definitely work available. There power sector again, you know we are in the distribution space not in the power generation area so which is okay, because the power generation plants those things have taken a big hit in the last seven-eight years, whereas generation part is still okay the medium voltage sector primarily.

So that is -- as our overall grid will grow and with more and more solar and wind coming into it, they'll have to modernize the grids to be able to take care of all these fluctuations in power. So that sector could generate very good business going forward as of today it is better than in the previous years but it is still not at the level that we are seeing like we see in earth moving industry where there is huge growth which is coming in the distribution sector again.

I think that the government is not buying they are also buying certain months some tenders comes all our customers have good business for six months then those things get little delayed. So it is still a little bit up and down business there is growth but the growth is still not I mean not to my satisfaction.

Sunil Kothari: Sir so lastly from my side is please proceed, if possible please continue with this call very useful as an investor for us.

Harshad Patel: Yes sure. It is an opportunity for us also to be connected with the investors and yes during bad times your mind doesn't work, so you forget that how important your investor is. So I think I have to keep that in my memory that is definitely there and it is and it's a good thing. So I would also like to tell all the people who are on the call today, that in case they want to reach out to us at any time myself or Mr Ganesh Agrawal our coordinates, you can get from our Company Secretary.

And you can reach out to us at any time in case you want to have any discussion or you want to understand a little bit more deeply about the business or maybe even have a plant visit we could definitely arrange those things

Sunil Kothari: Thank you sir

Moderator: Thank you we have a next question from the line of Manoj Dua from Geometric. Please go ahead.

Manoj Dua: Good afternoon sir. Very nice and candid discussion it is very high quality input but the presentation could be much much better. I think a very less amount of data was given in the presentation my question is that you have pinpointed the pitfall in other industries apart from earth moving industry. Why you are not there so going forward how we can avoid the cyclicality of earth moving industry by? I think in terms of increasing the number of customers where we are and how we can reduce the this part, so that no problem comes in the future? Thank you that's my first question yes

Harshad Patel: Any other questions Mr. Manoj?

Manoj Dua: I may have come up with follow-up.

Harshad Patel: Okay. So this actually cyclicality is definitely an issue and as I mentioned, though in the past we had consciously worked on this. And tried to have four sectors with 25% this thing but that that also when that last downturn came in in 2012, unfortunately everything had gone down at that time. So yes we could try to reduce our risk to some extent not to a great extent, I would say if we can get into certain other sectors or to look at even export a little bit more aggressively. And my own view is that in what I have seen at least in the last since those 2000 heydays of 2003 to 10 is that as a country we have never invested seriously consistently.

If we compare India and China and of course today every dog and his owner talks about 5 trillion 20 trillion growing at 10% per annum 30 years and all that. But none of them know what they are talking about because if you want to really do that, then there are a lot of others a lot of serious things have to be done and put in place. So as far as Indian market is concerned I still find that it is very very narrow and small, second is that the kind of investment that has to be made on a consistent basis -- I even today in spite of the previous 18 months of huge government spending in spite of that I don't see it to be that aggressive.

So somewhere or the other I think the captains of the industry have to get their act together. According to me now whether that is possible or not obviously is very difficult to say but if we want to take the economy somewhere -- I think we all are agreed that infrastructure is going to be a very very important part of that, without building that it's not going to happen now. How serious we are going to remain consistently on that we have to see?

It appears to be that we are serious but that is -- I mean we it's still we have to see how long it my own view is that it would be much better if we are able to de-risk by getting more into exports and balance at least have you know 30% business export out of the country that would be de-risk us a little bit better because export -- those foreign countries have their different cycles, of course most of them are advanced economies, so they are not growing very fast but neither are they having this kind of volatility.

They have their own challenges because as you are seeing today Germany, Japan both are de-growing. And they have -- they are also, but in one way that could be better because Germany manufacturing is taking a very, very big hit post Ukraine war the cost of manufacturing in Germany has just gone ballistic.

And they are finding it very, very difficult, so many companies which had never looked at getting out of their country to make high-tech stuff outside Germany are now seriously looking at moving things out. So, I think over the over the medium term export as an area if we can get our act together. And I mean I cannot say with 100% confidence that yes we will definitely be able to succeed in that. But I think that is the best opportunity to sort of de-risk the business.

And to be more profitable as well and to get out of a little bit cyclically of our Indian market. See the Indian market my observation is that we have a very shallow manufacturing base. So what happens is that if little bit business comes it looks like everything is gung-ho, everybody has too much business but if little bit business, 10% goes down everybody's in the dump, there's no business, cut the price, do this, do that.

Need business, businessmen panic and all that so our base in my opinion is very narrow and hopefully in the next five-ten, five years, ten years is bit long but last two three years what we have built and if we continue to do that we our base may improve a little bit but I think the base is little narrow and that creates its own this high volatility. If we had a bigger base I mean just to give you an idea we in India may be making about under 25,000 excavators a year. China makes more than one and a half lakh excavators.

One single plant would be making 25 excavators same thing in, you talk in terms of railways, you talk in terms of metros, now high speed train is a huge, huge business in China whereas in India from 2014 we are talking of a train it will come up in 2026, 2028 the train will be imported from Japan then it will be indigenized. So, point I'm trying to make is that we cannot grow faster than the country or the market in which we are sitting, unless we go out of the country. So, we do get limited because of all this.

And the growth if you see in India, what you see in telecom and in some of the other industries. There definitely growth has taken place as good as any I mean better than any other country in the world. But in hard manufacturing this is definitely not the case, it's still, we are very small and we are somehow unable to overcome some of the some of the drawbacks that we have. And my opinion is that the government is not serious about manufacturing in this country.

So, and we happen to be in manufacturing obviously we do not want to look into any other space because this is our core strength area. So, I would say the risk factor, if I have to put it and that you will be able to analyze much better than I can. Is that, what do you see happening in India as far as the space in which we are in. If you feel that those things are going to compound then definitely our path will be easier.

If it doesn't then, and obviously we have to work on the basis of assumption that it is not going to happen. And that's why I'm talking of exports and all that. But if it does then I think what capacity we have in India of fabrication is nothing, it is very narrow. So, little bit of growth comes and everybody will have business and they will not be able to supply. That's the kind of unfortunate situation that we are in.

But the bigger challenge even bigger than this challenge is the challenge of human resource. Our technical strength in manufacturing as far as people is, area is concerned is very, very poor. And so the, as and when growth takes place, the challenge will move from the market to our internal factories of whether we can, we have those kind of teams in place which are ready to be able to deliver and these kind of products because if you look at automotive the components or any bulk manufacturing.

The major part of the work is done when you set up the plant, the automation levels -- the kind of setup everything after that it is by and large just controlling our process. It's much more an easier kind of business than discrete manufacturing like what we do, we are -- I mean in our case yes, one can say, you are also making parts for machines. They are also making but they are, there you are talking of large volumes, very less variation.

In our case we are talking of lower volume and large number of components for example Caterpillar today, we supply something like 2,000 components to Caterpillar India. Now that 2,000 component generates the business of INR5 crores, INR6 crores, INR7 crores. So, the complexity is very different and the way of increasing business is, the challenges are very different. But yes it all comes down to ultimately, we can sort of overcome all challenges if the demand is consistent.

What happens is that if demand comes up and down, you cannot hire the best people, you cannot retain them all the time. And then you rely on contract labor and that has its own problems, you don't invest in the latest technologies of robot -- in India we are quite weak even in robotics. So, which is now the way to go, because a lot of new things have come in the robotics in the last five years which has made the -- those processes cheaper and much more productive and effective.

So, I would put it like this, the bottom line is we are still a work in progress both as a country and in and us as a company. So, we will have to be slightly reactive and tactical in our response to how the market moves. And it's not that today I can say that, railways let me put up a separate factory only to build coach parts or will do this and that to the coach, that is very risky because if those businesses, either they are tender based and you don't get the next tender you are you are at risk.

Or those businesses itself if government spending goes up and down you are at risk. So, and in the past actually one of the reasons we suffered also was making those kind of bets which ultimately did not play out the way we expected. So, I don't have a firm answer to this to be to be honest with you. But definitely a lot of thought is going into this and we are also concerned as to how to make a company much more sort of robust, so that the cycles impact us less.

To great extent from the balance sheet size with very low to negligible debt, to that extent we are protected in terms of downturn that we are not stuck with very high amount of debt on balance sheet which we have to service. So that part is de-risk and we don't see very serious amount of debt building to be done because that kind of capex also is not required. So, capex requirements are fairly balanced.

So, downside risk is much less, now we have to see upside to what extent we can capture the opportunities as they arise. I mean this is -- I'm not sure whether I have been able to sort of answer properly but this is how I think.

Manoj Dua: Okay thank you for the detailed answer. Now I have three, four question about reply. So what I'm not able to understand -- definitely if we add the opportunity size of export to a country of our size definitely opportunities grow multilayered, there's no doubt about that. So, let's first come to the India then I will come to the export part. So, are we are in a very niche area even the size of our company even we have, government has done phenomenally well in terms of capex.

And we can't expect multi-fold from here that kind of economy we are as of now in terms of capex. My first question is are we only dependent on the government capex per se or private capex can also help? Second are we in a very niche area that even with the size of the country of India we have done so we cannot grow that much? I thought we had our own problems that's why we didn't grow that much?

My third question is, why we are not able to grow is that this industry is too much fragmented and for an individual company it is difficult to grow, these are my domestic questions. And export definitely I understand when you add this opportunity it grows multiplier, so where we are in that part as on that journey? And what are we doing for that?

Harshad Patel: Brilliant I think yes, thanks for those questions, you've really sort of -- as far as the market is concerned you just hit all the right sort of points. One is, see by design market okay, let me start one, we are not dependent on government capex alone. Actually government capex will be the driving force that's why I talked all about road building and all that. But as I mentioned we have very flexible facilities, so suppose there's a large increase in capacities for example for cement.

So, we have FLSmidth as a customer who is a cement plant equipment supplier. So if they start getting, then in the past we did a lot of work for German companies which supply automotive inter-shops to all these big auto companies. So, they offload a lot of work, they primarily -- these are all German companies which do all the design and all that. And then buy all the stuff from here, some of the components are imported.

And then they directly assemble it at the customer's place, that was a large part of business of ours also at least 15% of turnover in some of the years in the, better years in those days. So business can come in a big way from private sector as well. But today the private sector business is coming from private sector but they are dependent in turn on business which is mainly coming from the government like roads and other things.

Again in mining in India, mining is all, sometimes it happens, sometimes it doesn't and we with all this coal that we have, we are still importing coal. And we don't have railway lines put in place, so that's why I say it's a work in progress, it can happen, it should happen I would say. But it's happening in bits and starts. And that is what is a big challenge, the other question which you asked is absolutely very, very valid that with this kind of increase in turnovers of so many engineering companies which are either in railways or wagons or defense and all that.

So, what are we talking of I mean from INR150 crores we are not even talking do this every three years, double it every two years, yes that is definitely possible. I don't say it's not possible but then we have to change our way of working and thinking. And also start going in for a little bit higher volume businesses and a lower value addition. So, which could be a kind of a product mix or to as I mentioned we got out of automotive for certain reasons at that time but if we want to focus on high growth and high profit both.

That is a more of a challenging, so somewhere we have to compromise, now there is also another possibility that we do both the businesses. So, we can have separate plants which are doing the kind of business with better margins and low volume. And we can do larger volume and lower margins. Now all these thought processes because of the last seven eight years or this decade last decade. And our financial problems etcetera.

There's many parts or many types of businesses we have really not looked into many opportunities because of where they -- how the Indian market of engineering was evolving. And where more than that where we were in that space, that's why I also wanted to give right at the beginning a context of why we are, where we are. So, answer to your question is definite if one wants, one can go in that kind of a model also.

There are a few private limited, I mean closely held companies in this space which are which have been growing in last few years at fairly high growths of 25% compounded, a good amount of volume also. And it is, there is also a possibility but I -- so far we have, I mean that's not an area which we are looking at right now. But again it is possible that we could, there are certain opportunities in, only in processing of steel itself.

And again only doing up to the cutting and bending state, don't do the entire value chain. And there's a very large demand in market in that, which is completely fragmented. And very inefficient and the way it is done. So, there is a kind of a Amazoning I would call it, a kind of an Amazon type of model which could blow out all this fragmented market and some big players could come, that is how it is done in Japan in United States and others.

And I mean I've been studying that model in the past and there is a space in that. But today it is not something that is right in the front of my mind but if it is -- if it turns out that yes, that is also something to be added then that we could add but there are -- so the bottom line here is that yes, there is a possibility to grow much faster. And at a good reasonable profit also there that it is there, it is not that market is not there.

Yes, we have by design gone into too much of a niche, we could broaden the niche that is possible. And I think as of today my view is that, it's better to remain in this niche and try to go deeper and deeper into the niche. So, that the advantage of that is, that there is some kind of a difficulty for competition to get into that because of the time it takes to get into these niche businesses or niche supplies.

Whereas these large volume businesses and all that, quite often, it is more about muscle power of your capacity and your finances. Overall it becomes a business of managing your capital well and doing large amount of processing. That is also another business model which one can follow, if one wants, but it's not on my sort of horizon at the moment right now. So, I think this will tell you about which part of the market was fragmented.

And where the growth possibility then government versus public sector niche. I think I have answered most of it. If I missed out anything you can tell me.

Manoj Dua: Export part.

Harshad Patel: Export right, export yes, so now export is very, very challenging because export also had its own cycles and this COVID was a big disruptor. But I think it's a disruptor for the positive because what I am finding now more and more foreign customers especially from United States, not yet so much from Europe who are now re-thinking their entire strategy of supply chain as compared to what it was primarily because COVID disrupted and also China. And China is a -- China was very well integrated into the American supply chain.

And they are now very, very fearful about that part of the supply so I think and this, you must be sort of reading in the news also that there is a big opportunity here and all that. But I think again India as a country as a whole and companies also are failing in grabbing this opportunity because either we are too busy doing our own businesses here and letting go of that because that is that doesn't give you result right away.

It takes its own time and so I don't find many companies focusing on the opportunities which are coming from outside India is my view. So, I think we need to focus on that. And that may require as I said, some specific related investments or you may even, some companies may also want you to have a plant dedicated only to their supply etcetera. At one point in time we were also talking to Caterpillar before this downturn came and before COVID.

They were asking us to also put up a facility exclusively for them in Singapore to supply to their Indonesian plant. So, the export there are many things happening but India is very well positioned as far as cost could be concerned. We are a little bit backward in technology and our base is too small. So, we have to get out of this and think a little bit larger and be able to supply to these people.

So, now there again we have only started working on this since the last maybe nine months or so. And I think another, it may take us another 12 months more to get ourselves to get that business to become a little bit important part of our business as far as -- now export there is another type of business also which could be more transactional, in the sense that, certain types of fabrications, which are low value-added, many companies look to India to only buy the low value-added things which are little price sensitive. You can get quite a lot of business from there.

But that in the past we had done some such business with United States also but those were little troublesome again because those again are businesses which come and go. I would always prefer to do a business which is once you are in, your virtually consistently going to be with them, you know, because it takes too much energy for the buyer to shift his vendor from one to the other.

And I would prefer to work in that sticky kind of a business even if it takes its own time. And till now we did not have the luxury of many ways. Now fortunately we can look at long-term strategies because of lack of -- we don't have that kind of pressure that yes we have to have this business to repay this loan or this or that. So we are able to look at long term much better now with more clearer eyes than before.

Moderator: Sir, we have around five participants in the queue. Will we be taking all of them?

Harshad Patel: I'm okay if the others are not fatigued actually, including you.

Moderator: I'll be fine, sir.

Harshad Patel: So let's take one or two more at least if they are overlapping then we need not worry, let's see. Because I thought we've already covered quite a lot of ground.

Moderator: Okay, sir. I'll take the next question from the line of Keshav Garg from Counter Cyclical. Please go ahead.

Keshav Garg: Sir, I'm trying to understand that 12 years back we were doing INR154 crores revenue. Now in trailing 12 months we are doing INR139 crores. Our EBITDA is one third less than what it was 12 years back. In nominal terms adjusted for inflation, it would be less than 20%. So basically we are losing market share, the long and short of it is that we are losing market share. And then you are alluding that government is not spending enough on capex.

And if we look at every casting company, every capital goods company is making -- clocking all-time high revenues but somehow in our case the government spending is still not high enough and sir I don't know what kind of niche business we are in wherein we are doing a single digit margin, our return on capital employed is in low double digits. So I'm not able to understand that what exactly do we require to grow this business?

Harshad Patel: So your point is absolutely correct. It is not -- we are definitely losing market share because what has happened is that what business we were doing when we were growing very fast, we were -- virtually they were the similar customers whether it was Komatsu or Volvo or Caterpillar or whatever, but there we were also doing more -- we had large number of, I mean bigger components and small. The mix of business that we were doing was different.

Your point -- let me say that I'm not saying government is not spending enough. Please if that's the message I gave you, it's wrong. That's not what I meant. There is a lot of spending happening and that is why the market of this is growing. The earth moving industry market has definitely grown, but our space in that we could not keep even that market share.

It was primarily because we had to leave certain space because of our downsizing and all that and we could not come back in when the market turned post 2013, '14, '15, we still had our own financial problems and other things due to which we had to be very restricted to the kind of work that we could do and therefore by design we had to be -- we had to be restricted to that size, because we did not have any banking facility at all so there was no working capital facility and there was some repayment to be made without any banking facility. So the financial constraint by design made it such that we had to restrict ourselves to lower volume and a little bit better kind of business.

Now yes, when you mentioned profitability was much better even at higher volume that definitely happens with volumes. Even today our operational leverage available is very high, so just a small difference in a quarter of INR3 crores to INR5 crores in a quarter has a substantial impact on profitability if you would look at the last four, five quarter numbers. So your point is well taken. I am not at all saying that expenditure is not big enough or this is not happening. Within this space also, yes, there is a lot of work which can be done. But the certain part of the market that we have lost now to regain that market has its own cost.

These are marketplaces or these are the items which are sort of, let's say, big items like buckets or certain other undercarriage parts, etcetera. They give you very good volume of sales, but these are very, very tightly priced and being bought by these totally Indian-owned companies which are too price sensitive which we had to vacate just because we just could not supply due to availability of finance, etcetera. So that is the reason why these numbers has happened. So obviously it is more of a situation which created this rather than one wanted to downsize and let that business go away.

Now yes, if one wants one can again become aggressive and get into those businesses. It is not that it is not possible, but now I think my view is that no, that boat has sailed and I don't want to -- I'm not really looking at that -- now whether that is the right decision or not, I don't know. But the reason we are not setting these kind of aggressive targets for growth, definitely this size of sales it's a very minor -- you mentioned about INR154 crores about 10 years ago.

Actually at peak with our subsidiary joint venture with L&T, we were over INR200 crores actually. So from INR200 crores we went down to about INR94 crores and then we have slowly sort of built back. And this process of sort of coming out from the ICU to the general ward of the hospital and now we are out of the hospital, so it is only now that we are looking at or rather we are able to look at some of these things. So I am not -- don't misunderstand me, I'm not saying that there's no market in India.

Yes, there is a market in India but we are not really -- now as of today I'm not looking at getting aggressive in some of these areas where there are already fairly well entrenched suppliers in some of these space. So that is to your point 100% correct. We've lost a huge amount of market share and therefore now whatever areas that we are in, those areas only we want to become more and more stronger where we actually have gained share in the area that we are doing.

Like, for example, during COVID, quite a lot of smallest supplier base of all these big companies had to close down. So automatically that business has gone to the remaining vendors that are there. So in the space that we are in, we are trying to see that we remain relevant in that space and that is the reason the last -- even post-COVID period we have not been able to take advantage of how good the market has been.

Keshav Garg: Sir, I'm trying to understand, is our capacity fungible between our various divisions like earth moving, electrical, T&D, metro and rail. And sir, if so, then sir what is the reason for capacity utilization being 50% today when there is no financial constraint, when there is no working capital constraint. And sir, I am not able to understand that had we been doing 20% margin in our current business and then have you been saying I don't want to do low margin business, then it would have made sense.

But somehow even in our so-called high value-added business, niche business, we are doing single digit margin and then you are saying that I don't want to do low margin business. So what else is low margin business?

Harshad Patel: Correct. See, the capacities are not totally fungible though the process, equipment wise it is like that. But what happens is that plants which are -- where you are working for a certain industry, for example, if you are working for railway coach industry from a particular plant where the people, the processes, the certifications required to be able to supply to that industry, all that is in place then that is the plant from which you will be able to do that. So in one plant and also obviously the customer should also be willing to buy from the plant from which you are able to supply.

So quite often now, what is happening is that customers are now not willing to also in spite of, you are delivering at the same cost, they are not willing to, at least private sector, in case of public sector that's not the problem, in case of private sector they are not willing to work with plants which are far away. So it is not really fungible. But over a medium term yes, over 6 months to 1 year you can sort of move if the demand arises for that or if you -- by design want to do it, yes, you can get into that business.

Now, there are no constraints to that. That has happened absolutely recently, as recent as September. Even our last debt repayment took place in September, and we paid off all the debt. Till that time, there were no banking facilities -- no banks. were willing to finance a business in spite of business being profitable and huge asset base with the company with the company. I mean, you know, asset of let's say, fixed assets of about INR50 crores, even to get a loan of INR3 crores to INR5 crores from the banking sector was not possible till the entire debt was repaid.

So the constraints have -- were there or have been there till now. It is only now that these constraints are going away. So going forward these constraints will not be there. It is not that the constraints were not there for the past two years, past 1.5 years.

And your point again is very correct that when I am talking of niche business or more profitable businesses, I am -- now there are businesses in -- the higher the volume type of business you go for, the lower the margin per Rupee, but then the volume you get is much more so your profit, the number profit would start improving and that also starts in turn improving ratios also.

So we are at a point which is just about coming out of -- just a little bit about breakeven and that is why the profitability sort of looks low. Why the capacities are unutilized at some places and why they are, is partly again because we were restricted to the type of customers and the type of business which we could look at because our working capital cycle also had to be very tight.

So we had to only work with a certain type of customers where the entire cycle from the time you buy the raw material to the time you get your funds back, has to be very tight and that you could see -- you can see from the balance sheet also. And so these constraints have just gone off.

So it is -- the market is there and yes one can go for much faster growth, that is possible. Maybe it also needs a rethink on our part, but as of today you know this past baggage is also definitely, it's just gone off the back of the company and therefore this kind of thought process is continuing.

Keshav Garg: Sir now finally another concern is that now steel prices have been falling, sir so these margins might be cyclically high and when steel prices again move up a little bit even these mid-single digit margins might go to low single digit margins so what is your opinion on that?

Harshad Patel: It is it is possible. I don't rule it out completely, it is possible. But steel is looking, I mean all the experts are saying that, yes, but experts can go wrong but the experts feel that steel globally there is a surplus in capacity because as you are seeing in the west also there is a lot of downturn. So there is an excess capacity from China India has also surplus capacity. So I -- it doesn't look like that steel could be a major area of concern.

And again, as I said that till there is a increase of 15%, 20% in prices you know passing on it's just automatic it's when in a short period of 18 months to 24 months if it goes up by 100% percent then all kinds of problems happen because the customer has his own pressure of passing on his price increase and then this price increase difference. In stainless steel the risk I see is much more than -- CRHR steel I am not seeing much of a risk. In stainless steel yes there are there are concerns.

Pricing is a concern and in fact that is why I do not like to be stuck with annual orders at fixed prices in in the stainless steel products, but otherwise mild steel I am -- as of today at least I don't see a problem.

Keshav Garg: Great sir. Sir I hope that the performance of the group improves. Thank you very much.

Harshad Patel: Thanks Keshav. Thanks a lot for pushing back on my on my answers because yes I am not trying to say your point is very correct because see ultimately whatever I may say, it's the numbers which have to talk. So yes, the ROCE has to improve your fixed asset turnover ratios have to improve and to some -- I mean to quite a good extent it has and I am -- my major reason for being a little bit more positive is that we do have assets in place and balance sheet is now strong in the sense that there is no debt. So now we will be able to grab opportunities that come our way a little bit better according to me. Thanks once again yes.

Moderator: Thank you. Should we take one last question sir?

Harshad Patel: Yes please, one last one.

Moderator: We'll take a last question from the line of Vivek Kumar from Bestpals Research and Advisory LLP. Please go ahead.

Vivek Kumar: Thanks sir. It was very insightful we would urge you to continue to have this concall. My question is on the export you said, because you wanted to small size and good decent margin until the capacity, so are we having that because of the downturn you said we have not our processes and what is your view on -- are we competent enough to bid and get and be part of that supply chain if at all this move to India happens, let's say in the next three, four, five years?

And what all you have to do and how probable are you thinking that you can get your decent share there and have a continuous business because of the downturn you may not have invested and even there you may be looking at other Indian players doing better than you? So any -- that is my first question sir.

Second question is, can you list all the clients in your presentation, I'm not trying to criticize the presentation but it would have more seriousness and more work in terms of what who are the clients because today's business may be construction equipment, who are the clients you have been working with where you are entrenched and you can do a better presentation and really great concall. Thank you sir. Thank you, for these two questions if you can answer?

Harshad Patel: Yes, thanks Vivek. So yes you're right presentation Manoj also said that, that needs to be improved and we'll definitely work on it. I think that was that has been neglected. It's also part of this we have also not been connected to investors all this while, so we just made a beginning we'll definitely give much more information and detailed ideas so you can evaluate the business of the company much better in the future.

So export, yes, again I have I have myself said that we have not been able to invest in the in some of the areas that we need to be stronger in and that is what we are working on as we speak. And as and when we get more feedback from the customers that this is lacking, this is what we have to do, this is -- that's what we are working on.

And just as we speak just last week as I mentioned the CAT delegation was there at our Bengaluru plant and he pointed out certain things and he was very surprised that you know we had already looked into it and we could show him that this is what we are working on, we are automizing this, we have already worked with the suppliers. The first parts have already been automated. This is for export of fuel tanks and hydraulic tanks to the caterpillar decanter plant.

So even when -- currently we are doing it in a older process but the automation part of it -- the work had already started three months ago. So he didn't see it so he asked us that oh this is not this is not going to work out, but when we showed him all the things what all work had been done to do that, so he was very pleasantly surprised.

So yes, we need to work on that it will be it is it is little challenging but we are working on it and both on the hard resources of equipment and also on the human resource side for training and for them to be able to understand all these things, take it to the next level etcetera. So it is a work in progress, it will take a according to me about a year to really become that competent so that the some significant business starts flowing because even initially when the business flows it will be only -- they will be doing it more as an insurance kind of thing, okay you buy a little bit, keep it this, slowly grow the fellow.

Till they have that kind of the kind of confidence that their domestic plant has on us that still the international people they have their own you know ways of evaluating and all that. So that that will that will take about a year's time. But I now don't see that as -- that's the challenge we can overcome because these are areas maybe our company has some very good tacit knowledge inbuilt in in the company because of the past years of being able to supply and work with some of the best people in the world. So there is some kind of knowledge base with the company which we have to strengthen. We don't have to start from scratch and therefore that is there.

And also your point is very correct that whoever takes the lead here and who's quicker is going to get the business because you don't have the luxury that, I will do it at my own pace and you know because they don't have time. So they have only shortlisted, let's say, CAT has only shortlisted five or six people in India and we are one of them.

And also incidentally, we must also mention that last year they had a global -- they had a ceremony in in the US where their best suppliers from all over the world were called and only two suppliers from India were called for this and one of them was us. So we have that kind – and that's the kind of depth in which we have to -- there's another company also in the Ingersoll Rand and with whom we are trying to work at the at the similar level. They are also putting up a huge plant in Ahmedabad, INR100 crores new facility, virtually doubling their asset base and again getting more businesses from different parts of the other factories of the world China and others to India that also giving rise to business.

So yes, we have to move in pace with these people because if you are slightly slow or you don't meet up to their standards, you you'll be just thrown by the wayside. It's a tough thing, but I mean that's why that's why we are sitting here, I mean that's our job actually. So I think we should be able to do it.

Vivek Kumar: Sir, can you put up the list of your clients -- large clients or in your presentation or if you can share?

Harshad Patel: We'll put it up in the presentation as well but the large clients are Volvo, Komatsu, Caterpillar Areva, Schneider, Ingersoll Rand. So all the -- I mean then there are a couple of other German companies, Ganesh what is that, the water processing or pumps, Gujarat? So these are these are the major clients. I think these customers which I mentioned would take up about 60%, 70% of the business of the company.

Vivek Kumar: One last question, so the chain of opportunity is more because the volumes want to shift not because we are more competitive because they should be having much larger scale changes right? So it's understanding right, that US guys want to shift, it is not because and we have to match up to the competencies by investing in processes and people?

Harshad Patel: It is it is a pull coming from the customer more than push and which is the positive thing and that's where the real challenge lies because you know unfortunately as I mentioned Indian market being quite narrow. Again don't mistake me, our market has grown, but still in the size of the global this thing we are still too small.

So their worry is, when they look at India is, our ability to scale up and to meet the quality standards. So quality standards to some extent they get satisfied because you are working with their Indian facilities. But volume is, where you know way if you need to invest in equipment you need to have a big space setup and all that is, where many times we tend to go a little slow and which doesn't suit them.

So I think that is where we have to up the game and unfortunately in India a lot of because of fragmentation there are a lot of companies of ours even smaller sizes than us INR30 crores, INR40 crores, INR50 crores which we try to do this and then they don't have the wherewithal to immediately invest the large amount of money in -- not only in capex, but in people and then let the business come 12 or 24 months down the line and that is a little bit of a challenge. But yes, they are looking at India very seriously and that's the good thing.

Vivek Kumar: So now, last I'm not asking a question sir, just understanding is according to my understanding, you are more inclined to invest more in export and the next opportunity in India rather than now going for volume gain? So you will see this as the strategy for the company and you are confident that export opportunity will be able to crack it in next one to two years?

Harshad Patel: Right, right. That's correct understanding, yes.

Vivek Kumar: So you are not open to the volume gain in India?

Harshad Patel: No, no actually I am. Let me again, we have a business model uh for that also. As I mentioned that earlier we had looked at that and that also -- but it is not at right -- it's not at the top of our agenda. It is – I am still I feel that we need to try and work on this. Actually both can be done parallelly also. They are mutually exclusive. It's not that if you are doing one you cannot do the other. There are two totally different ways of approaching.

But the other one I think at least I would, I would put it that, maybe one year from today, if that also looks better and we have that kind of bandwidth -- management bandwidth as well as financially also we are able to have raised that kind of debt and capital because that will require a little bit more working capital requirement because you're talking in terms of serious volumes, INR200 crores, INR300 crores kind of volume where you are attacking the fragmented market in India and consolidating that business, that can be done because the fragmented suppliers are very inefficient, primarily in their purchasing and their processing both because they are very small factories.

So if a large player -- and somebody else could do it, I mean not me -- surprisingly nobody in India is looking at that very large space which is available and there is one company – Japanese company which has put up such a facility in Chennai, but they are only focusing on Japanese customers here in India.

But that kind of a business model high volume and reasonable I mean low margin but good profitability is also o possible it's a low hanging fruit. But I think it's something that as on today maybe we don't -- I am not yet confident of our overall management capability or balance sheet capability to handle that.

Vivek Kumar: So given the current context and strengths you want to go after this export and…

Harshad Patel: Yes, yes.

Vivek Kumar: Sir please continue the concall sir, even if the times are not as great, so that we at least get the strength.

Harshad Patel: Thanks so much Vivek. If we can we can conclude or?

Moderator: Yes sir, any closing comments?

Harshad Patel: I just want to thank all of you all for taking the time and attending and I welcome any suggestions at any time, please feel free. Whether I agree, disagree with something it is immaterial, but i am always open to any comments or any suggestions that you all have at any time. You can, you all can reach out to me as I mentioned earlier. Thanks very much once again.

Moderator: Thank you sir. On behalf of Rishi Laser Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.