Menon Bearings

Operator: On behalf of Captify Consulting Investor Relations team, I welcome you all to the Q2 and H1 FY27 post-earnings conference call of Menon Bearings Ltd. Today on the call from the management team, we have with us Mr. Arun Aradhye – Managing Director and Mr. Aditya Menon – part of the promoter group. As a disclaimer, I would like to inform all of you that this call may contain forward-looking statements, which may involve risks and uncertainties. Also, a reminder that this call is being recorded. I would now request the management to brief us about the business and performance highlights for the period ended September 2026, the growth plans and vision for the coming year, after which we will open the floor for Q&A. Over to you, sir.

Arun Aradhye – Managing Director: Good morning, everybody. I am glad that, with your best wishes, we could perform better and better every quarter. We are moving ahead. If you see the results, particularly on a consolidated basis, the total income of the company for this quarter has grown by 57% over the same quarter last year. EBITDA has increased by 91-92%, PBT by 122%, PAT by 117%, and similarly, EPS has also grown by 117% over last year, with cash and bank balance, including mutual funds, of 25 crores plus.

Similarly, for the total half year, we have clocked total volumes of 191.56 crores, which is a 43% growth over last year. Whatever projections we have given in the past, we have definitely not only achieved but exceeded the targets that we have already given to you. EBITDA for the 6 months has increased by 63%, PBT by 79%, PAT by 74%, and cash and bank balance, including mutual funds, is 25 crores 69 lakh of rupees.

With this, I feel that we are definitely looking forward to continuing at the same pace in the future as well. The growth expected, of course, depends upon the circumstances from time to time, but there will be more than 30% growth for this year, FY27. Similarly, in 27-28 also, we expect that, if everything is in place, it will again be more than 30%.

The growth drivers are basically domestic, and exports to the USA are growing rapidly. Along with that, our recent Europe tour is yielding a significant increase in business, with potential of more than 35 crores that will be converted into actual sales in 27-28 and 28-29.

Considering the current business pipeline, the commercial discussions, and the RFQs that we have received for 26-27, additional business expected is around 30 crores on a consolidated basis. For 27-28, we expect that estimated additional business will be 131, so the growth rate will obviously be more than 30%.

For 28-29, we have a list of all the customers from whom we expect to get business. RFQs are there, discussions are going on, commercial terms have been finalized, and many of the samples have already been approved. For 28-29, we expect additional business of 157 crores, excluding the potential business of 35 crores from Europe, which we estimate will take a little more time, but we are definitely going to convert that.

These are all forward-looking statements. Our fingers are crossed, but we will definitely try to ensure that we achieve whatever targets and commitments we have assured you of. We will try our best to achieve the same.

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There may be some queries from investors. So far as other income and certain sales revenues are concerned, inter-company transactions have been included in the standalone grossing. At the same time, those have been deducted from the consolidated statements. This is a regular practice as per the accounting standards, and we have to do this when preparing a balance sheet for 6 months and at the end of the year. Therefore, you may find some difference, and Q1 and Q2 will not exactly tally with the total figure for the half year.

These are my clarifications, and now I expect questions from you. Please go ahead.

Operator: Thank you, sir. We will now begin the question-and-answer session. All those who wish to ask a question, please use the raise-hand option. I would request participants to initially limit their questions to two per participant. We will take the first question from Arnav Sakhuja. Please go ahead.

Arnav Sakhuja: Hi. Thanks, sir, for the opportunity. My first question is that, if we look at commodity prices, aluminum prices peaked in May and June and have fallen quite considerably since then, by around 15% or so. Has this benefited the performance of our Alcop segment in the second quarter?

Arun Aradhye – Managing Director: Yes, obviously. The rates of aluminum, which is the raw material, and of various aluminum alloys that we apply as raw material, have come down to some extent, and the benefit of this will accrue to Alcop. However, in addition to that, the prices or pricing of vendors have also reduced in this quarter, so there will be additional profit for us.

Arnav Sakhuja: Understood. My second question was that, if we look at the other expenses in FY26, our sales promotion expenses within the other expenses segment increased from around 4.7 crores to 8.15 crores. Could you explain some of the reasons for that increase?

Arun Aradhye – Managing Director: You see, as you can see, so far as our business in the replacement market is concerned, it has gone up substantially, both in brakes and in Menon Bearings. Considering that, apart from this, we have to incur substantial sales and distribution expenses in exports. Freight for shipments of exports to the USA and possibly other European countries has also gone up substantially, and because of that, sales and distribution expenses have increased substantially.

Arnav Sakhuja: Okay. Thank you for answering my questions, and congratulations again on a great set of numbers.

Arun Aradhye – Managing Director: Thank you.

Operator: Thank you. We will take the next question from Bhargav Buddhadev. Please go ahead.

Bhargav Buddhadev: Good morning, team, and congratulations on a good set of numbers.

Arun Aradhye – Managing Director: Thank you.

Bhargav Buddhadev: Sir, my first question is on margins. If you look at your gross margins on a year-on-year basis, there has obviously been a significant decline of more than 7 percentage points. Despite that, your EBITDA margins have actually expanded. Can you elaborate on the

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savings in other expenses that are visible as a percentage of revenue? Other expenses have declined significantly. Is this sustainable in nature? Could you spend some time on that?

Arun Aradhye – Managing Director: Yes, that is a very good question. In spite of volatility in raw material prices, particularly copper, tin, lead, and steel, the prices have gone up substantially. In spite of that, we have made improvements in our processes. We have substantially reduced the consumption of all these raw materials and input materials. That has really helped us sustain the margins that we have achieved historically and in the past as well.

Apart from that, you can see there has been growth in production, and productivity has increased substantially, by 25% over the last period. That has really helped us reduce overall overheads. Overhead costs have been absorbed to a greater extent, which has helped us, apart from increasing the yield by reducing raw material consumption. Productivity has increased, and that has really helped us absorb overheads to a greater extent. Ultimately, we could sustain those margins, and we will definitely sustain them in the future as well.

There were price increases during this quarter, which were almost 50% on average compared with last year. The process of passing that burden on to the customer is a routine process, and for this quarter, we will get prices revised from all the customers. Therefore, we can definitely sustain that in the future as well.

Bhargav Buddhadev: Sir, my second question is that, if you look at your presentation this time, there is a new slide on robotic automation that the company is implementing. Is it fair to say that, if the business is growing at 30%, employee headcount will not grow at that pace? If you look at your employee cost as a percentage of revenue, it is in the range of 13% to 14%. That is a sizeable employee cost that the company is incurring. Could you spend some time explaining the savings in employee costs through this program? How much capex are you incurring on this program, and what could be the payback?

Management {? Aditya ?}: Sure. Both questions are interlinked. This quarter, as you said, input costs have increased significantly. To put numbers to it, tin has increased by 72%, copper by 50%, and steel by 12%. We are therefore making continuous efforts to improve productivity and absorb this cost. Since last year, and continuing now, we have been undertaking different projects to increase productivity.

Automation is one part of this. We are installing a lot of robotic cells where volumes are higher. We do not want to be dependent on manpower because manpower is going to be an issue in the future. We have been taking proactive measures for the last 2 years, including the capex we are undertaking now and going forward.

In both the bearing segment and the Menon Alcop segment, we are undertaking automation projects. For example, for one machining cell, we require four people for one shift, which is around 12 people for three shifts. If the average salary is approximately 2 lakh a month, we are trying to automate these projects so that we can save time. We also save time and, in terms of return on investment, the ROI is around 3 to 3.5 years. This increases productivity, quality, and saves time. We are focusing significantly on automation because it will help us in the future as well. This is one way in which we are trying to reduce costs.

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Because raw material costs are increasing, we are trying different ways to save costs. As you can see, even though raw material costs have increased, EBITDA margins have increased. A lot of proactive measures are being undertaken by our engineering team and through our R&D. Management is taking proactive measures, and that is reflected in our numbers.

In terms of capex for new machinery and automation, we are also trying to introduce new AI-based systems for quality. Quality is one of our major priorities because a lot of new export-driven business is coming in. Today, we have visual inspection, and all our parts are checked 100% visually. We are installing automated AI visual camera inspection systems. At present, perhaps 1 million parts, or 10 lakh parts, in engine bearings are checked manually every month. These systems are being automated, so we are not dependent on manpower, the processes are becoming faster, and quality is also checked 100%.

However much visual inspection a person carries out, there is a chance of inefficiencies or of some quality issue being missed. We are therefore trying to put all these visual inspection systems in place. Some of them have already been implemented, and some are under development.

In the next 9 to 12 months, a lot of automation and visual systems will be put in place. We will save on manpower and time, which will lead to higher productivity, and quality will receive more focus. As we move into exports, this gives our American and European customers confidence that the quality is good. This also leads to new business development and greater confidence in Menon Bearings and Menon Alcop.

That is a brief overview. I will not say how much we are investing only in automation and R&D, but over the next 2 years, and in the next 12 to 15 months, in Menon Bearings and Alcop, we plan to invest around 5 crores in Menon Alcop and around 4.5 crores in Menon Bearings. These are rough figures. They can go up or down depending on the projects and the business that comes in. This is the investment plan for the next 12 to 15 months. It is 5 crores in Alcop and around 4 crores in Bearings.

Management {? Aditya ?}: These are the investments we have told you about and that we are making to achieve the figures we have discussed. This is the investment we are making to increase productivity and achieve these numbers. Roughly, the ROI should be received in the next 2.5 to 3 years on this investment. Thank you.

Bhargav Buddhadev: Will your employee headcount reduce from here over the next 2 years? Is that our understanding?

Management {? Aditya ?}: To answer that, last year we did 300 crore turnover. You all have the numbers. This year, in 2 quarters, we have done 190. Based on the numbers we have given you for this financial year, if we continue at this rate, we will definitely exceed them. Compared with last year, headcount has increased by hardly 5%. We are growing at 30%, but headcount, or manpower, is not growing linearly.

Management {? Mr. Aradhye ?}: As you can see in Menon Bearings, particularly in bearing bimetal, we have almost 16 such lines on which we produce various bearings. These were all semi-automatic machines, numbering almost 90. On all these lines, we are implementing single-piece flow, so that

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we save almost three people, or three employees, on every line. Considering 16 lines and an average reduction of three people per shift, the total employee reduction will be 50 in bearings alone, apart from bush, Alcop, and everything else.

Bhargav Buddhadev: Great, sir. Thank you very much.

Management {? Aditya ?}: Thank you. Yes.

Bhargav Buddhadev: All the best.

Management {? Aditya ?}: Thank you.

Management {? Mr. Aradhye ?}: Thank you.

Operator: All those who wish to ask a question, please use the raise-hand option, and we will invite you to ask a question. We will take the next question from Vignesh Iyer. Please go ahead.

Vignesh Iyer: Hello. Am I audible?

Operator: Yes, Vignesh.

Vignesh Iyer: Hi, sir. My question is on the Alcop side of the business. I wanted to understand whether we are in line with the guidance of 8% to 10% EV share from the Alcop segment for FY27.

Management {? Mr. Aradhye ?}: Yes.

Management {? Aditya ?}: Yes.

Management {? Mr. Aradhye ?}: It will even be more than that. However, what has happened is that our other domestic and export businesses are also increasing. Therefore, in spite of the increase in the EV business, its percentage of the total will remain more or less constant.

Management {? Aditya ?}: To provide more clarity, if you look at our order book over the last 2 years, most of our growth was driven by exports. However, in reality, exports have remained at 34% to 35%. We had predicted that they would grow to around 38% to 40%. At the same time, our domestic market has also picked up. Therefore, the value has increased, but the percentage will remain almost the same.

In percentage terms, it will not increase because the domestic and other businesses are also growing at a similar rate. The number and value have increased, but the percentage will remain almost the same.

Management {? Mr. Aradhye ?}: But the volumes will increase.

Management {? Aditya ?}: Volumes and values have increased, but the percentage remains almost the same.

Vignesh Iyer: Is that basically because we have migrated to larger or technical products that will contribute to revenue in the next 2 quarters, or is it the same set of products that we are currently selling that will see more volume growth?

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Management {? Aditya ?}: For Menon Alcop, we have developed around 54 parts in the last 2 years, and SOP has begun for all of them. That is why you can see the growth. A lot of new, high-value-addition products have been added to the portfolio. They are now going to different parts of the world. That would be the answer to your question.

Management {? Mr. Aradhye ?}: As usual, these are all critical components that we are accepting, and the value addition is always high.

Vignesh Iyer: Can you specify one or two main products that go into the export segment or the EV segment of Alcop?

Management {? Aditya ?}: In the EV segment, we are a Tier 2 supplier to Concentric. We make electric pump covers for them, which are then exported. For the domestic market, we make products for Taco Prestolite. That is for Tata, including the Tata Punch, Tata Curvv, and Tata {? Jupiter ?}. We make parts for them domestically.

For Eaton Transmission for export to Poland, we are a Tier 2 supplier, and that also goes to Eaton Poland. These are the three products in the EV segment.

For Alcop exports, we are doing a lot of work in housing and automation that goes to the USA for Honeywell. We are doing a lot of work for John Deere, not only for tractors. We are working for John Deere on different applications, such as harvester tractors and seeding and fertilizer tractors. There are a lot of different applications. Those are the driving factors.

Management {? Mr. Aradhye ?}: These are the major key drivers.

Vignesh Iyer: Right, sir.

Management {? Aditya ?}: In addition, our exports are not limited to the area you asked about. We are diversifying. If you look at it, exports account for around 35% of our total business. Of that 35%, we export 80% to the USA.

However, management is also pursuing a different policy. Our senior management and our marketing head have been to Europe in the last couple of months. We are looking at Europe. Our visits to Europe were quite positive. Some companies invited us, while for others we took appointments and visited them. A lot of RFQs are coming from that region.

We are very excited about looking at Europe as a new market because we did not have a significant presence there. Considering the economic and political situation, we have better relations there, and we are exploring the market. A lot of European companies are looking at Indian suppliers in a very positive way. A lot of RFQs and interest are coming from European companies. In the next 1-2 years, you will see a lot of positive developments and new business starting from that continent as well.

Vignesh Iyer: Thank you for the detailed answer, sir.

Management {? Aditya ?}: Thank you.

Operator: Thank you. We will take the next question from CA Garvit. Please go ahead.

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CA Garvit: Hi. Thanks for the opportunity, and congratulations on a good set of numbers. I have two questions. Looking at the earlier conference calls and today's call, you are talking about 30% plus growth for this year, and perhaps for next year as well if things remain favorable.

I wanted to understand the underlying drivers you are seeing for this kind of demand. Which geographies are you seeing demand coming from? Is it because of Europe, as you mentioned? Is it because of the FTAs that we are going to enter into, or because the Chinese yuan is appreciating, giving us a competitive pricing advantage? What macro-level developments are you seeing?

Management {? Aditya ?}: I would say that our Europe business has not started yet. It has not contributed anything so far. When we start a new production, such as at the development or RFQ stage, it takes 9 to 12 months from receiving an RFQ to setting up the sample and starting the business. Therefore, when we talk about Europe, that business will reflect in the next financial year or the year after that.

The current growth is coming from the product development we have undertaken over the last 2-3 years and from exploring new customers and diversifying our portfolio. Currently, growth is coming from the domestic market and exports. If you look at our numbers, we have increased production for domestic OEMs. Exports have risen, and the aftermarket has also grown.

Currently, the avenues are OEMs, merchant exports, and the other areas in which we operate. In the last quarter, we surpassed our previous performance in domestic business, export business, aftermarket business, and merchant exports. These are the four driving factors, I would say.

We have approached different customers. Regarding China, I would not say it is only because of the yuan price. It is more because of the China-plus-one policy and the Europe-plus-one policy, as I have been saying in our conference calls. New customers to whom we were not previously supplying are also coming to India and exploring India as a supply base for the next 4 years and 10 years.

Menon Bearings and Menon Alcop have become household names in the markets in which we operate, so we are also receiving new opportunities from new clients. These are the factors driving growth.

Another factor is that our marketing costs have increased aggressively over the last 6 months. Two weeks ago, I was also in the USA. I was in Detroit and Iowa meeting new customers and looking at opportunities. There are a lot of new opportunities. Our marketing team was in Europe last month. Mr. Aradhye and our marketing team were in the USA and Canada 6 months ago, looking at new customers. A lot of new RFQs and opportunities are coming in, and it is looking very positive for us. These are the growth drivers.

I would not comment on Europe and the policies we have pursued, but Europe is looking attractive because it is more stable. I do not want to comment on different presidents or prime ministers, but the USA has been somewhat volatile because of Mr. Trump's comments, tariffs, and exit policies. That is why we are also looking at Europe as a long-term area for growth.

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However, current growth and next financial year's growth are coming from our strong order book and the parts we have developed for our A-class customers. Thank you.

Management {? Mr. Aradhye ?}: You can see that, compared with the same quarter last year, OEM business has grown by almost 50%, and exports have grown by more than 75%. Considering this, the business pipeline for domestic and export markets, and the fact that we are not including the European market in the 30% growth that we expect, Europe will be additional to that.

Growth could therefore be even better, provided everything remains constant and the geographical and geopolitical situations do not become too volatile. We expect that we can definitely achieve whatever target we have set for ourselves.

Management {? Aditya ?}: This quarter, raw material prices and shipment times have been at all-time highs, creating a lot of volatility. Despite that, we have achieved the best numbers, better than the previous quarter and better than the same quarter last year. We are making significant efforts on our side to achieve this growth and maintain high EBITDA margins.

CA Garvit: Understood, sir. Thank you for the detailed explanation. Secondly, when you say you are seeing robust demand, are you referring only to the auto sector? Are we not looking to diversify into any other sector over the next 1 or 2 years? Is that understanding correct?

Management {? Mr. Aradhye ?}: It is not only automobiles. Home automation, airport applications, and all these areas are also in the pipeline. It is not only auto.

Management {? Aditya ?}: If you look at 10 years ago, we were heavily focused on automobiles, but we have also been trying to diversify our company portfolio. We are working in oil and gas, automation, and the EV sector, and not only in engine-related applications.

Earlier, when we referred to auto, it was only engine-related. Now we are working on different applications. There is significant diversification from our side. We are working on generators, and a lot of development is happening, so there is significant demand from Cummins and the generator sector.

We are looking at air-conditioning applications. A lot of bushings go into refrigerators and air-conditioning systems. We are looking at compressors. There is significant diversification from our marketing side as well.

We are not only related to tractor engines or HCV and LCV engines. We are diversifying our business mix in that segment as well.

Management {? Mr. Aradhye ?}: But as he said, the basic DNA of the company is automotive.

Management {? Aditya ?}: Yes.

CA Garvit: Understood, sir. I think my questions have been answered. Thank you very much.

Management {? Aditya ?}: Thank you.

Operator: Thank you. We will take the next question from Bipin Bhor. Please go ahead.

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Bipin Bhor: Congratulations on the good set of numbers. I would like to understand the next 5-year aspiration in terms of revenue and margins, and how sustainable the current margins are over time.

Management {? Mr. Aradhye ?}: As I already told you, raw material prices are volatile, but we always have a pre-decided formula for increases in raw material prices. We can pass that burden on to the customers, and if prices are reduced, those prices will also be reduced. There is already a mechanism in place.

As far as labor costs are concerned, as Mr. Aditya explained, we are increasingly using automation so that productivity increases. We are also implementing automation for quality, considering timely delivery and the expansion of productivity and capex to meet increasing demand. This demand will be catered to by the expansion we are going to undertake.

As far as infrastructure is concerned, it is already in place. We only have to keep adding whatever machines are required. That is always possible, and there is nothing to worry about.

Management {? Aditya ?}: Regarding your 5-year question, I would not want to comment on 5 years. Just as a brief explanation, if you have been following us for the last 2-3 years, we were supposed to do 270 crore last year, which we—

Management {? Mr. Aradhye ?}: 300 crore.

Management {? Aditya ?}: We did 300. This year, if you have been following us for the last 6-8 months, the expectation was 360 or 370. However, look at the numbers we achieved in the first 2 quarters. Normally, for our industry, the first 2 quarters are relatively slower. The third and fourth quarters are better for us.

Since last December, we have been outperforming ourselves every month, and the next 2 quarters look promising. Therefore, this financial year also, touch wood, we should exceed the number we have told investors—

Management: In a positive way.

Bipin Bhor: Of course, sir.

Management: We have made all the investments that are required. Two years ago, 500 crore was considered a target for 2029-30. We are making significant efforts so that we can reach 500 crore next year, most likely next year or perhaps the year after that.

We were growing at 15%-20%, but now we are growing at around 30%. I would say that 500 crore should be possible next year.

Management: It is possible. It is possible. Therefore, you can perhaps calculate thereafter at a rate of 30% plus, because of the European market that we are tapping and that is already in place. You know that we have received many RFQs from Europe worth more than 35 to 40 crores.

Apart from that, there are many other businesses, and the brake business will take a substantial lead in the replacement market. Major OEMs will also come into our fold, apart from railways. Considering this, we hope that we can grow at a rate of 30% year-on-year for the next 4 years.

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Bipin Bhor: Okay.

Management: We are undertaking all the capex required to achieve these numbers.

Bipin Bhor: So, capex is also—okay, sir. Thank you.

Management: Thank you.

Operator: Thank you. We will take the next question from Atul Jobi. Please go ahead.

Atul Jobi: Congratulations, sir, on a great set of numbers.

Management: Thank you.

Atul Jobi: Compared with last quarter, there is a decline in EBITDA margin. When can we expect the margin to return to the 22% level?

Management: How much?

Atul Jobi: Around 22%.

Management: It is already there. I think you will have to go back and check the exact numbers. We are already there.

Atul Jobi: Excluding other income, I am assuming.

Management: What?

Atul Jobi: Excluding other income, I am asking whether EBITDA margin can be around 22%.

Management: If it is 20% or more than 20%, that is always better. I hope you will agree with that. Okay?

Atul Jobi: Yes.

Management: Apart from that, there is volatility in raw material prices, as you know. Considering the raw material prices, we will have to absorb the impact for a particular period, which is 1 quarter, and that impact will subsequently be substantially passed on to customers so that the margin is restored. This is a process.

It will remain between 20% and 22%, and considering the business pipeline and the growth rate we have achieved and will achieve in the future, we hope that it should exceed 22% as well. Our target for next year is EBITDA margins of about 23%, and we will try to achieve that.

Management: If you look at our competitors and this industry, an EBITDA margin above 18% is excellent. The 20% we are achieving is also a great number. If you check our competitors in our field, you will see their numbers at 15%, 10%, or 7%. Our numbers are therefore excellent, and we strive to maintain them going forward.

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We have always said that we focus on sustainable growth. We are not looking to increase the top line significantly. We want our EBITDA margins and PAT margins to grow from the levels we have now. We focus on sustainable growth. We are focused on growth in our bottom line, and we make sure that the bottom line remains constant.

Management: We have taken several measures to sustain this in the future and to try to increase margins. One is automation. Another is saving electricity through rooftop solar. Third is reducing manpower, increasing productivity, and improving processes.

This is an ongoing process. We will have to follow and continue the measures we have taken in the past, and we will have to take further measures in the future to ensure that we sustain these margins. We will make every effort to maintain them.

Atul Jobi: That is great to hear, sir. I have another question. What is our margin split in the bimetal, Alcop, and brake segments? Could you provide the data?

Management: Sorry?

Atul Jobi: Segment-wise margins in the bimetal, Alcop, and brake segments.

Management: As far as brakes are concerned, margins are 30% to 35%. It depends on the product mix, but they are between 30% and 35%. In Alcop, they are 18% to 19%, whereas in bearings they are 23%.

Atul Jobi: All the best, sir.

Management: Thank you. If you see this quarter, we have achieved the highest profit in the company's history.

Management: The highest profit, all-time-high sales, and all-time-high EBITDA margins—in totality, in the company's history. PAT margins were also the highest compared with peer companies and the auto industry.

Management: I also have to thank our MD and our entire team because achieving a good set of numbers for 1 month is good, but maintaining it for 8 months and breaking the previous month's record every month is a challenge. That is a significant achievement by our team at Menon Bearings.

Atul Jobi: Thank you, sir.

Operator: Thank you. Sir, we will take one question from the Q&A box. It is from Ashish Parikh. He is asking: “Ours is a cyclical business, and there is some slowdown anticipated in the auto sector. How do you see our business from a cyclical perspective? Where do we stand in the cycle? Thank you.”

Management: These are cycles that the automobile industry has been going through for several decades. This may happen this year, next year, or the year after that.

At the same time, you can see that there is a drought-like situation in Maharashtra, so the tractor industry is going to suffer to some extent. However, we are compensating for that business. The

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forecasts and schedules we have received from other customers that are not related to tractors have increased substantially, and we do not see any adverse effect on our industry.

We will continue in the same manner in the future, even in the event of a downturn in the automobile industry, if there is one. At the same time, you can see that HCVs, LCVs, and passenger vehicles have increased over the last 6 months. Our growth rate is almost 14% to 15%, while EV growth has gone up to 20%. We are increasingly entering the EV business through Alcop. Therefore, we do not see a cyclical downturn in the automobile industry as of now.

Management: Normally, when you refer to cyclicality, if you check our history, the second quarter is supposed to take the biggest hit. We have instead achieved our highest performance in the second quarter. Normally, the third and fourth quarters are positive for us.

Management: Cyclical.

Management: This year, we should exceed the numbers we are seeing. If you look at cyclicality only in engine bearings or automotive, 10 years ago, 54% of our market share was tractor business. Now it has become 34%, even though volumes are increasing.

We are diversifying into different applications, as I mentioned, such as generator applications and heavy earthmoving applications, where there are braking systems and steering systems.

Management: Transmission.

Management: Transmission. We are therefore not focused only on tractors. Even though tractors represent our largest growth area for engine bearings, their share has come down from 50% to 34%, while we are still growing. We have gained 16%-17% through different customers and applications.

We also understand the risks of our company, and we are making significant efforts to de-risk it. That is also something you should know.

Management: In spite of the drought-like situation in Maharashtra and perhaps other states across India, it is surprising that schedules from tractor companies are increasing to all-time highs. This is also the case this quarter.

Management: Yes. Perhaps Indian tractor manufacturers are also exporting more, so they are growing as well. The projections we have for the next quarter and the quarter after that look very positive. This should not be a problem for us. Thank you.

Operator: Thank you, sir. All those who wish to ask a question, please use the raise-hand option. Sir, we will take another question from the Q&A box. It is from Anil Parikh. He is asking: "How is the India-EU FTA expected to benefit us? I am not sure whether this question has been answered. Also, are we seeing interest on account of China-plus-one?"

Management: The China-plus-one policy has now really taken effect. It has become more effective because European countries are exploring India as a preferred and reliable supplier. Industrialists and manufacturers in India have improved their cost position by increasing productivity and quality

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as well. They are well prepared and ready to compete with China.

The China-plus-one policy has therefore really taken effect. All European companies are looking at India as a preferred and reliable source, considering the improvement made by manufacturers in India. This will definitely benefit us.

Management: We are not looking at Europe and India's potential agreement only. We are looking at it from a long-term perspective because the USA is somewhat unstable and our visit to Europe has been very fruitful. European companies have shown a lot of interest.

It is not that we had never tried marketing in Europe before. Perhaps earlier they were sourcing from China or Eastern Europe, but the Russia-Ukraine war has also increased prices, and energy prices have increased. European customers therefore have several pain points with their current suppliers.

They are also looking toward India in a very positive way. The visits, communications, and RFQs we have had are looking very positive. We are not basing our decision on agreements. If an agreement happens, that is very good and very positive for us, but Europe is looking like a more stable option for exports as well.

It takes two hands to clap. The European suppliers are also very positive, and the communications and RFQs we have had have been very positive over the last 4-5 years as we have tried to enter that market. Now it has become very positive and easier.

By easier, I mean that there is a requirement from them. When they are in need, they are making the process of new development and RFQs faster. That is what we mean. Thank you.

Operator: Thank you, sir. We will take another question from Mr. Gulam Soni from the Q&A box. “Sir, we have talked about diversifying into the non-auto segment. What is our current share of auto compared with non-auto? How do you see this mix changing over the next 3 years?”

Management: At present, if you break down the revenue segment-wise, automobiles account for almost 60% to 65%, while the rest is engineering and other appliance applications. In the future, we expect the same pattern to continue.

As we told you, although exports are increasing, their percentage of total revenue has remained more or less constant. Similarly, with the increase in both the automobile and non-auto sectors, the business will increase, but the percentage will remain more or less constant in the future as well.

Management: To make it clear, the engine bearing business is more auto-focused. In 2008, as management, we also understood the risk in our business, which is why we started Menon Alcop.

In Menon Alcop, even though we have the same vendors and so on, auto accounts for only around 18% to 20%. We have de-risked there into other applications, industrial applications, home automation, oil and gas, and EV.

When we refer to tractors, we are not only talking about engine applications. We also work on harvester applications and seeding applications. We are trying to de-risk as much as we can.

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In the engine bearing business, as I said, auto, HCV, LCV, and tractors accounted for around 70%–75%. That has come down to 58%, but sales are increasing. We are moving into other applications, not only engine applications, such as braking systems, wherever there is rotation, refrigerator compressors, and transmission.

We are trying to diversify our applications further. We will continue with the same approach in the future. We are not going to let go of our core business. We are also looking to increase the core business. A lot of new tractor companies are approaching us. If we get that business, it will be a significant increase.

De-risking does not mean moving away from the core business. We value the core business as well.

Management: As you can see, our basic DNA is the automobile industry, and we will concentrate on that and improve our share in that market.

Management: At the same time, we are trying to de-risk the business so that we are not cyclically dependent. If the industry goes down, the total sales of the company should not come down.

Management: It will not have an adverse effect on the total revenue of the company.

Operator: Thank you, sir. We will take the next question from Kunal Tokas. Please go ahead.

Kunal Tokas: Hello, am I audible?

Operator: Yes, Kunal.

Kunal Tokas: My first question is: what kind of shipping policy do you follow? Do you follow free on board, or does the customer pay for increasing freight rates?

Management: It depends on the customer. The commercial terms are different for each customer. With some customers, we use delivered duty paid, or DDP. Some are ex-works.

Management: Some are on FOB, or free on board. There are different terms and conditions with each customer.

Management: It depends on their requirements.

Management: We do not have one specific policy or force any particular terms on customers. It depends.

Management: It depends on the product, its complexity, and the customer's needs. For some customers, we maintain a warehouse near their factory, either in the USA or Europe. For some, we use ex-works from the Mumbai port. For others, we ship directly to their factory.

There are different customer expectations, and we negotiate what is feasible.

Management: It differs from customer to customer.

Management: For some customers, we do repackaging. The products go to warehouses, where they are repacked according to the way the customer wants them at the factory. We also work with

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third parties, including third-party warehouses and logistics systems that are partners of the customers. We use different combinations for our exports.

Kunal Tokas: Do increases in freight rates get passed on to customers the next time you negotiate pricing?

Management: As I told you, when raw material prices increase, we transfer that burden to the customer. When they are reduced for a particular period of a quarter, we benefit from that. It depends on the situation and the timing.

Management: The same applies to logistics.

Kunal Tokas: Okay, that was my question. My second question is whether you are seeing greater demand from clients in the USA to stock more finished products in your USA warehouse because of geopolitical conditions, freight rates, or other factors. Will that affect your working capital?

Management: It is affecting us, but before we undertake negotiations and planning, we already establish a minimum and maximum level. We determine how much stock we need to manage at their warehouse and how much shipment time will be required.

As you said, because of the Strait of Hormuz and the war, shipping is taking longer, so air freight is sometimes required. This affects working capital to some extent. However, as a precaution, most US companies already prefer to have 3 months of stock at their warehouse. This is pre-planned, and the inventory carrying cost is also planned. Therefore, it is not a major problem or challenge.

Management: We have included that in our pricing.

Management: The pricing already reflects it.

Management: Apart from that, we are availing ourselves of packing credit limits from bankers, which are currently available at a rate of 4.65% to 4.75% only. Debtors will increase, but at the same time, our working capital requirements are being fulfilled through this facility. We therefore obtain a working capital loan at a very low rate, considering the 2.75% subvention provided by the government. That is always beneficial for us.

Management: Our customers are all marquee, A-list customers, and we supply critical products to them. If our products do not reach their production line, their lines stop. That is also a significant cost for them. They are therefore very cooperative, and we work together on all these matters.

If our products do not reach them, it is a bigger loss for them because their overheads continue while their line is stopped. There is a mutual understanding in this process.

Management: If you go through the company's financials, you will see that last year, whatever the interest and borrowing costs were, they have remained more or less constant despite turnover increasing by 100% and by 55% quarter-on-quarter.

Management: With nearly 30% growth last quarter, our inventory carrying cost and total working capital remained the same.

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Management: Borrowing costs have remained the same.

Kunal Tokas: My last question is on the 30% growth projected for this year and possibly next year and the year after that as well. What would the volume growth be, as opposed to growth from price realizations or inflation being passed on?

Management: We are talking about increased business. This is additional business from which we will obtain growth of 30% plus. Some part of it may be due to revisions in rates, but of the 30% growth that we are expecting, almost 20% plus will come through organic growth.

Management: Volume growth.

Management: Volume.

Kunal Tokas: Wonderful, sir. Thank you very much for answering my questions, and have a good day.

Management: Thank you.

Operator: Thank you. Sir, we will take the last question from Mr. Bhargav Buddhadev. Please go ahead.

Bhargav Buddhadev: My question is on working capital. If you look at your operating cash flow last year, in the first half, I think you have achieved what you achieved last year in terms of operating cash flow. That is a phenomenal achievement given the circumstances.

Is this improvement in working capital sustainable? I see that your inventory on the balance sheet date has not increased in line with revenues. Could you guide us on how sustainable this improvement in working capital is?

Management: What we have done in the past is that, for more than 6 months, we have not availed any term loan. Whatever capex we are undertaking is being funded through internal accruals, which is definitely having an impact on cash accruals. In spite of increasing profits, cash margins have not increased to that extent because we are financing our capex through internal accruals.

Bhargav Buddhadev: I was referring to working capital. If you look at operating cash flow, it is closer to about 20 crores versus 23 crores for the full year last year. In the first half, you have achieved almost what you achieved last year. This is primarily led by a reduction in inventory days.

Is this sustainable, because exports are rising at one end while inventory days are falling? It is a unique combination, and I wanted to understand it.

Management: What has happened is that, to start with, we built up inventory with customers in the USA to the extent of 3 months. Once that was built up, the rotation of working capital and the release of payments by them settled. Henceforth, it will be—

Management: Similar.

Management: This will be sustainable and similar. There is nothing to worry about.

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Management: When we start a new business, the customer requires us to hold this stock at our end and also at the warehouse in the USA. Over the last 6 months to 1 year, we were building all of this up. New development and a new plant were taking place. During the transition, we wanted to have spare inventory at our end so that our partners, suppliers, and customers were not affected.

As the business is realized and sales increase, this cycle is becoming more efficient and is being fixed according to the requirements.

Management: There will not be much increase in inventory. There may be a small increase in relation to the total volume.

Management: In the next quarter, depending on how sales increase, it may increase to some extent from the current level, but the increase will not be significant.

Management: That will have a direct relationship with the volumes.

Management: With a few customers, we have certain commitments because their lines or the parts supplied to them are more critical, and there is no scope for us to fail. Sometimes technical issues can occur; you all look at the financial side, but we also make commitments because this is a new business and a new plant in the USA.

We do not want to create a bad image because, if there is an issue in the first 6 months of supply, customers may form a bad opinion about Menon Bearings or Menon Alcop.

Management: Therefore, we had to build up inventory at our end.

Management: We are trying to keep a little extra inventory so that customers do not form a bad opinion or—

Management: Since we have already built the inventory that is required, there is no issue. We can maintain and sustain it in the future as well.

Management: That was the first step we took, so there is no issue from a delivery or quality point of view. Otherwise, for the USA, if there is an issue like this, we have to use air freight. Air freight costs more than the actual product price. Sometimes the customer bears it for their requirements, but if it is our issue and we have failed to deliver, then we have to bear it.

That cost is significantly higher, and we do not want to bear it. Therefore, for some customers and specific parts, we follow this practice as well.

Management: Since we have already built that inventory, it will be sustained in the future.

Bhargav Buddhadev: Great, sir. Thank you very much, and all the very best.

Management: Thank you. Thank you for—

Operator: Thank you, sir. Since that was the last question, would you like to give any closing comments?

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Management: Thank you very much for the support that you have been extending to our company. We hope that you will speak with your entire investor community regarding the performance we have shown in the last year and in this half year ended on {? September 24 ?}.

We are very sure that you will take this up with the entire investor community and explain the performance we are delivering and the estimated projections we have given. We will try to ensure that we achieve them at any cost, unless there is an adverse geopolitical situation. Otherwise, we will definitely try to sustain this in the future as well.

Management: The next 2 quarters look very positive.

Management: The next quarter and the last quarter are always higher compared with the other quarters, and we will definitely achieve that. We assure all of you that we will perform better and better every quarter.

Thank you very much for the valuable suggestions and questions you have raised. I hope that all the questions you raised have been satisfactorily answered. Thank you very much for participating, and have a good day.

Operator: Thank you, sir. Thank you to the management team, and thank you to all the participants for joining this call. This brings us to the end of this conference call. Thank you.

Note: {? ... ?} indicates a figure or name where audio clarity was insufficient for confident transcription. Verify against the source audio or the company's published filings.

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