# Nelcast



**Operator:** Good afternoon, everyone. This is the third day of the Bharat Connect conference. I welcome you all to the call of Nelcast Ltd. Today, from the management side, we have Mr. Sivakumar, CFO of the company. Before I hand over the call to management, I will explain the flow of the event. We will start with brief introductory remarks by management, followed by a question-and-answer session. Over to you, sir.

**Sivakumar – CFO:** Good afternoon, everyone, and thank you for taking the time to meet us. I will give you a short brief on the company and its growth drivers, after which we can move to the question-and-answer session.

To begin with, Nelcast is one of India's leading iron casting companies, with a presence in tractors, commercial vehicles, construction equipment, and export markets. Over the years, we have built deep relationships with global and domestic OEMs and established ourselves as a trusted supplier of critical, high-performance castings.

However, what is more important today is that we believe the company is entering a very different phase compared with where we were a few years ago. If I look at the last 5 years, a lot of our efforts were focused on building capabilities, developing new products, investing in capacity, and expanding customer relationships. Those investments were made ahead of growth, so the benefits were not always immediately visible in the financials. Today, we believe we are beginning to see those efforts translate into tangible business opportunities.

The major growth drivers include the fact that the core domestic business remains healthy. We continue to see good momentum across both the tractor and commercial vehicle segments. Within these markets, we are also benefiting from structural trends such as the increasing adoption of four-wheel-drive tractors and the shift toward cast axle housings in commercial vehicles.

Several launch programs that we began working on over the last few years are now going into production. These involve larger, more complex castings with better value addition and limited competition. The ramp-up has already started, and we expect these programs to become meaningful contributors going forward.

Exports are also recovering. The slowdown we saw last year was largely driven by weakness in the North American market rather than any loss of customers or market share. Today, customer activity is improving, inquiry levels remain strong, and we continue to see opportunities as global OEMs look to diversify their sourcing and increase procurement from India.

The other aspect is operating leverage. A large part of the investment in capacity has already been made. As volumes increase and these new programs ramp up, we expect better utilization, an improved product mix, and a corresponding meaningful improvement in profitability over the next 2-3 years.

To summarize, the last 5 years were about building the foundation. The next few years are about {? covering ?} the foundation into growth, converting the foundation into growth, higher utilization, and better earnings. We can now start the Q&A. Thank you.

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**Operator:** Thank you, sir. Any participant who would like to ask a question can raise their hand or put it in the chat box. We will wait for a minute while the question queue is assembled. We can take the first question from Pranit. Please go ahead.

**Pranit:** Yes, sir. Am I audible?

**Sivakumar – CFO:** Yes, yes. Now it is fine.

**Pranit:** Thank you for the opportunity. I will start with the commercialization of our large agricultural product, which we have been waiting for over the last 2 years. How is that progressing right now?

**Sivakumar – CFO:** We have supplied the samples, and the customer has approved them. We have now started bulk production. The ramp-up is currently taking place. By the fourth quarter, we will start bulk production for all the new products that we discussed earlier.

**Pranit:** So, basically, it is still ramping up, and full commercialization has not started yet?

**Sivakumar – CFO:** Yes, the ramp-up is ongoing. It will start with small volumes, and going forward, we will reach the peak volumes. We expect to reach the peak volume by the fourth quarter.

**Pranit:** Understood, sir. At the peak volume, what do we expect for that quarter?

**Sivakumar – CFO:** We expect the new products to contribute a significant percentage, but I cannot specify the exact percentage. Whatever we discussed will definitely be reflected in the fourth quarter.

**Pranit:** Just to understand this in terms of tonnage, the same commentary has been given over the last 2-3 years, but it has not moved significantly. If anything, our revenues from international exports declined last year. I understand the market factors that affected it, but the ramp-up has been very slow. I am just trying to understand the situation.

**Sivakumar – CFO:** The slowness is because of the complexity of the castings, customer approvals, and all those processes. However, by the fourth quarter, the new products alone should contribute approximately {? 250 tons to 300 tons ?} per month.

**Pranit:** So, 300 tons per month is our expectation?

**Sivakumar – CFO:** Correct. You are right.

**Pranit:** Understood, sir. How is the market responding this quarter? I understand that the domestic market is doing well for us. How are exports? Are they recovering from last year's lows?

**Sivakumar – CFO:** Yes, export demand has also picked up. It is good. Last year, we experienced some slowness because of the tariff impact, but the last quarter was very good. The export market also looks very good.

**Pranit:** In terms of tonnage, what would we be able to achieve during this quarter?

**Sivakumar – CFO:** Let the month be completed, and then we can determine that.

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**Pranit:** I am referring to the last quarter, Q1.

**Sivakumar – CFO:** In Q1, we achieved approximately {? 22,500 tons ?}.

**Pranit:** {? 25,000 ?}—

**Sivakumar – CFO:** {? 22,500 ?}.

**Pranit:** Understood, 22.5. Can we expect this to remain in a similar range for the entire year? I think the last—except the last—

**Sivakumar – CFO:** For the whole current year, we are targeting more than {? 1 lakh tons ?}. By financial year {? 26-27 ?}, we expect to cross 1 lakh tons.

**Pranit:** With the present trend rate, will we be able to achieve that?

**Sivakumar – CFO:** Yes, we are confident of achieving it.

**Pranit:** I am assuming that the utilization of our {? Peddapariya ?} plant is still not complete because we have not received the product, correct?

**Sivakumar – CFO:** Correct. It is still in the range of about 25%.

**Pranit:** Regarding the unabsorbed losses from that particular division, what do you think they are? Can you quantify them because we are not able to utilize the plant properly?

**Sivakumar – CFO:** We cannot quantify them. However, once capacity utilization crosses approximately 35%, the plant profitability will definitely be very good.

**Pranit:** Are there any new updates regarding new customer additions or new projects that we started in the last quarter?

**Sivakumar – CFO:** No, nothing new. It is the same as what we discussed. We are currently developing the products and obtaining customer approvals. Those activities are under process.

**Pranit:** What is expected to change by the end of this year that will allow us to commercialize the products? Is it because the projects have started and you expect commercialization to happen?

**Sivakumar – CFO:** The ramp-up of all the new products will be slow. Customers will not provide the peak volume immediately. The volume will grow according to the customer schedule.

**Pranit:** So the peak schedule will be around 300 tons per month. Is that the peak schedule?

**Sivakumar – CFO:** Yes, correct. You are right.

**Pranit:** How long does the peak schedule usually last? Does it last for 2 years, or will it be shorter?

**Sivakumar – CFO:** How long?

**Pranit:** How long does the peak schedule last? Usually, there is also a ramp-down process after that, correct?

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**Sivakumar – CFO:** I think it should last for a long time. Once the customer reaches the peak schedule, it will continue unless there are major changes in the customer's schedule. Otherwise, we expect it to continue.

**Pranit:** So, basically, the delay over the last year was due to the customer approvals, correct? Or was there something else?

**Sivakumar – CFO:** It was a combination of the development process, approvals, and all those factors.

**Pranit:** Could you explain the overall process for obtaining these large-product orders? When did the RFQ process start, and how long did it take to reach this stage?

**Sivakumar – CFO:** If you look at the domestic and export markets, the process is different. In the domestic market, the process may be faster. Once we receive the RFQ, we receive the customer drawings, prepare our own drawings in CAD and CAM, and supply them to the customer for approval.

Then we start prototype development. We supply a few samples, and the customer checks them. We supply machined castings, and the customer checks the process and everything else. Once the customer tests the product and the testing is successful, we supply some additional quantity. Once the customer is satisfied and the supply process is smooth, we start bulk production.

The ramp-up process generally takes about 6 months to 1 year. It depends on the complexity and the customer base.

**Pranit:** Is this for the domestic market itself?

**Sivakumar – CFO:** It applies to both domestic and export markets. The period varies depending on the complexity of the castings.

**Pranit:** For this specific project, I am trying to understand how long it can take. I think the RFQ—

**Sivakumar – CFO:** It can take up to 1 year or 1.5 years.

**Pranit:** Did this project take longer than 1.5 years?

**Sivakumar – CFO:** We started this project last year. In fact, we started the RFQ process about 15 months ago, but the exact product process started about 1 year ago.

**Pranit:** Even though we had been saying that it would take longer, we started communicating this about 1-1.5 years ago. I am just trying to understand—

**Sivakumar – CFO:** We started communicating it 1 year ago.

**Pranit:** So, basically, this is a regular 1.5-year process. There have not been any further delays.

**Sivakumar – CFO:** No, there will not be any further delay.

**Pranit:** By the end of this year, we expect to reach 1 lakh tons. What is the target for next year?

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**Sivakumar – CFO:** Next year, we are targeting approximately 15% growth from that number.

**Pranit:** In volumes?

**Sivakumar – CFO:** Yes, in volumes.

**Pranit:** In terms of the contribution, can we return to our previous high of around 36-37% for exports? How should we think about that?

**Sivakumar – CFO:** Yes, we can reach approximately 35%. In the current quarter, it is only 30%, but by the year-end I think it will be approximately 35%.

**Pranit:** I ask because when exports decline, profitability declines much more than the rest of the business. I am trying to understand where we will end up this year and next year in terms of contributions.

**Sivakumar – CFO:** Okay.

**Pranit:** This year will be 35%. Will next year be higher than that?

**Sivakumar – CFO:** We are targeting more than 50% over the next 3 years. The percentage also depends on domestic sales. If the denominator grows, the percentage may vary slightly. However, our target is to cross approximately 50% in exports over the next 3 years.

**Pranit:** So, we expect to cross 50% in the next 3 years.

**Sivakumar – CFO:** Correct.

**Pranit:** At that 50% contribution level, is that when we will reach 18% and approximately 18 rupees per kg?

**Sivakumar – CFO:** Yes, we should reach that level.

**Pranit:** So, at 50%, we will reach 18. Is that the correct understanding?

**Sivakumar – CFO:** Correct.

**Pranit:** I also want to understand our accounting process. As you mentioned in the past, when calculating EBITDA per kg, we include other income from foreign exchange and similar items. Would it be better to remove that to arrive at the 18-rupee figure?

**Sivakumar – CFO:** We have always discussed the same approach. We will include other income. It is operational income because of the time delay; otherwise, it is essentially operational income. Therefore, we will continue to include other income.

**Pranit:** If depreciation were not to occur, in terms of the rupee figure, would we still be able to reach it at the present level?

**Sivakumar – CFO:** That is only a time gap. There is a time period between the invoice date and the realization. That is why the other income from foreign exchange arises. Otherwise, at the time of

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invoicing, we record the actual exchange value, so there would not be any foreign exchange fluctuation.

**Pranit:** Foreign exchange fluctuation has now become somewhat substantial, which is why I am asking.

**Sivakumar – CFO:** If the rupee remains stable, there will not be much fluctuation in the rates, and other income will automatically decline. However, we are fairly confident that we will reach 18 rupees even if the currency remains stable.

For us, volume is very important. Once we reach {? 1,20,000 ?} tons, our operational efficiency will definitely improve. All the other factors will also improve. That is important for us.

**Pranit:** I am trying to understand what happens when we reach 1,30,000—

**Operator:** Sorry to interrupt you, Pranit. Could you please come back to the queue?

**Pranit:** Just one last question, and I will go back into the queue. At production of approximately 1,30,000 tons, can our EBITDA cross the 18-rupee mark, with 50% coming from exports?

**Sivakumar – CFO:** Our first target is to reach 18 rupees, and then we will see.

**Pranit:** Is there potential to cross the 18-rupee mark at that peak capacity?

**Sivakumar – CFO:** There is always potential. As volumes increase, EBITDA will definitely improve. It depends on the product mix, the export-domestic mix, and all those factors. However, the potential is definitely there.

**Pranit:** Okay.

**Operator:** Thank you.

**Management:** We are confident of reaching {? 18 rupees ?}.

**Pranit:** If we were to produce only for the domestic market, what could EBITDA be at that production level?

**Management:** I will give you a rough figure. Currently, domestic EBITDA is approximately 10 rupees per kg and export EBITDA is approximately 20 rupees per kg. Therefore, the average figure is 15 rupees per kg. That is what we are targeting for the current year. That is the current trend.

**Pranit:** So, that contribution assumes a 50-50% contribution, correct?

**Management:** Pardon?

**Pranit:** Does that assume a 50-50% contribution?

**Management:** No. What I am saying is that current EBITDA per kg is approximately 10 rupees for domestic business and approximately 20 rupees for exports. For the current year, which we are targeting at {? 26-27 ?}, it will be approximately 15 rupees per kg. The movement from 15 to 18

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rupees will be driven by the product mix, other customers, realization, and all those factors.

**Pranit:** For us to achieve 15 rupees, the volumes have to be equal, correct? You mentioned the figures on a per-kg basis. If the per-kg contribution from domestic and exports is equal, we will reach the 15-rupee figure. Otherwise, we will not reach that figure, correct?

**Management:** There are many factors. As I said, for a foundry, volume is important. Once we cross 1,20,000 tons, you will definitely see operational efficiency across all operations.

**Pranit:** So, irrespective of the tonnage mix, we will be able to reach that level?

**Management:** Yes.

**Pranit:** Understood. I will get back into the queue. Thank you.

**Operator:** Thank you. We have the next question from Jatin. Please go ahead.

**Management:** Hello, Jatin.

**Operator:** Jatin, are you there?

**Management:** Hello, Jatin. Can you hear us?

**Operator:** Jatin, are you there?

**Jatin:** Hello, sir. Am I audible?

**Management:** Yes, you are audible now.

**Jatin:** I wanted to understand the margin situation. Our margins have been quite volatile. Even in Q1, we saw a significant decline. How should we look at Q2 and the second half?

**Management:** As we have been mentioning, when raw material or input costs increase, there is a time lag of approximately 1 quarter before we recover the increase from customers. Otherwise, we pass on increases or reductions in raw material prices to customers.

In the first quarter, because of the Middle East war and other factors, there was a steep increase in raw material costs during April, May, and June. We could not pass that increase on to customers in the first quarter itself, but we passed it on in the second quarter. Therefore, you will see an improvement in the second quarter. There is a time lag of approximately 1 quarter for both price increases and price reductions.

**Jatin:** Steel prices also increased in the second quarter. Should we expect—

**Management:** The increase in steel prices was marginal. However, whatever increase occurred in the second quarter will be reflected in the third quarter based on the delta from the first quarter. That is how it works.

**Jatin:** So, even in the second quarter, do we expect margins to return to their previous ranges?

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**Management:** The first quarter saw a steep increase of more than 5 rupees per kg in raw material costs. In the second quarter, the increase was not as significant. It was perhaps 1, 1.5, or 2 rupees per kg. Therefore, the impact is lower in the second quarter.

**Jatin:** So, you are saying that margins will improve from the first quarter?

**Management:** Yes, margins will improve.

**Jatin:** Can we expect to return to the previous range in the second half, or will that happen from the second quarter onward?

**Management:** The second-quarter margin will be good because we have already received the price increase from customers.

**Jatin:** Understood, sir. That is all from my side. All my other questions have been answered. Thank you.

**Management:** Thank you.

**Operator:** Thank you. We have the next question from Krishna Prasad. Please go ahead.

**Krishna Prasad:** Mr. Shivkumar, good afternoon. I am sorry, I joined a little late. I have a few questions for clarification. At 100% capacity, what would our production tonnage be? Is it 1 lakh 80 thousand tons or metric tons?

**Management:** Currently, our capacity is 1,60,000 tons per year.

**Krishna Prasad:** 60,000?

**Management:** Practically, we can reach approximately {? 1,35,000 tons ?}.

**Krishna Prasad:** 85. So, 85% utilization.

**Management:** Correct.

**Krishna Prasad:** In the last quarter, you guided for 15 rupees of EBITDA per kg. Are we on track, given the disruptions in the Middle East and the supply chain constraints in the second quarter?

**Management:** Yes, we are on track. We are confident of achieving 15 rupees for the current year.

**Krishna Prasad:** You were referring to 18 rupees per kg and 1,20,000 tons for the previous speaker.

**Management:** It is not 1,20,000 tons. After 3 years, once we reach the full peak of 1,35,000 tons per year, we expect EBITDA to be 18 rupees per kg.

**Krishna Prasad:** Understood. Do you see any headwinds in the current macroeconomic environment for exports?

**Management:** We see good demand and do not see any impact on that.

**Krishna Prasad:** Thank you very much.

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**Management:** Thank you.

**Operator:** Thank you. We have the next question from Faraz Ahmed. Please go ahead.

**Faraz Ahmed:** I wanted to understand our current capacity utilization as of today.

**Operator:** Faraz, you are not audible. Can you speak a little louder?

**Management:** Hello?

**Faraz Ahmed:** Hello. Am I audible?

**Management:** Yes, you are audible now.

**Faraz Ahmed:** I wanted to understand our current capacity utilization as of today.

**Management:** It is approximately 55% currently.

**Faraz Ahmed:** Approximately 55%?

**Management:** For the company as a whole, it is 55%.

**Faraz Ahmed:** Thank you very much. That is my question.

**Operator:** Thank you. We have the next question from Shashwat Jalan. Please go ahead.

**Management:** Hello, yes.

**Operator:** Shashwat, are you there?

**Management:** Hello?

**Shashwat Jalan:** Hello, am I audible?

**Management:** Yes, you are audible now.

**Shashwat Jalan:** Thank you for the opportunity, sir.

**Management:** Your voice is low, Shashwat.

**Shashwat Jalan:** Hello?

**Management:** Your voice is low.

**Shashwat Jalan:** Could you talk about the 200-250 crores of new business that—

**Management:** Shashwat, your voice is low.

**Operator:** Shashwat, could you please speak a little louder?

**Management:** Hello, Shashwat. I am not able to hear you properly.

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**Operator:** Could you please put your question in the Q&A session?

**Management:** Okay.

**Operator:** Meanwhile, we can take a question from the chat box. There is a question from Khushi: Given our existing capabilities in large and complex castings, including the recent development of 500-kg castings and our presence in off-highway and other heavy-engineering applications, are we looking at entering the aerospace and defense sector?

**Management:** As of now, we are not directly supplying anything to the aerospace or defense sectors. However, we supply castings to Ashok Leyland and Tata Motors, and those castings may be fitted into vehicles that could be used for defense. Other than that, we are not directly involved in aerospace or defense at present.

**Operator:** There is one more question from the chat box: How is competitive intensity playing out in our business, especially in CV, tractor, and off-highway components? Are you seeing increasing competition or pricing pressure from players such as Craftsman Automation?

**Management:** Craftsman Automation is not in the castings business. It is primarily in machining and manufactures some other castings. It is not a competitor to us.

As far as we are concerned, we always target larger and more complex castings, particularly castings with greater weight. We do not see significant competition in that area, and we are very strong in our castings.

**Operator:** We have the next question from Saket Kapoor. Please go ahead.

**Management:** Hello, Saket.

**Saket Kapoor:** Greetings, sir. How are you doing?

**Management:** Greetings. I am doing well.

**Saket Kapoor:** You reiterated that we are on track to achieve an average of 15 rupees per kg for this financial year. Is that understanding correct, given that we were below 10 in the first quarter?

**Management:** In the first quarter, as I explained, we could not reach that figure because of the input cost increase.

**Saket Kapoor:** With Q2, the revision should be in place. As per our business plan, have the tonnages been in line with what we planned, or have we faced any unexpected circumstances for the quarter? How is production progressing?

**Management:** Tonnage is fine. I think we will see some improvement in the second quarter.

**Saket Kapoor:** So, as per the plan, we are executing our tonnage targets. Is that correct, or have we faced any further issues?

**Management:** Yes, it is progressing as per our plan.

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**Saket Kapoor:** In terms of the new product introduction and our capacity at the {? Pethapur ?} plant, will the contribution be limited to 300 tons in Q3 and Q4? Is that what you are saying?

**Management:** In Q3, the NPD contribution will be approximately 300 tons. Overall, including domestic business and development activities, we expect approximately 40% capacity utilization at the {? Pethapur ?} plant in the fourth quarter.

**Saket Kapoor:** Understood. Thank you, and all the best to the team. Greetings.

**Management:** Thank you very much. Greetings.

**Operator:** There is a question from Khushi: In which year can we expect to reach optimum utilization of 1,35,000 tons?

**Management:** We are targeting that figure over the next 3 years. Based on market demand and new product development, I think we can achieve that volume of 1,35,000 tons in the next 3 years.

**Operator:** We have a follow-up question from Pranit. Please go ahead.

**Management:** Hello, Pranit.

**Pranit:** Thank you for the follow-up. I have one question regarding our castings. You mentioned that we produce large castings and therefore do not face much competition. How do our castings differ from those of peers such as Sound Castings? Are they similar castings in similar sizes, or are they different?

**Management:** Our casting weight varies from 70 kg to 200 kg in the domestic market. In the export market, as we mentioned, it goes up to 500 kg.

We have this type of molding-line size and 500-kg casting capability. We are the only company in India with this type of line. Nobody else has it.

**Pranit:** So, Sound Castings does not operate in this range?

**Management:** No, they do not have this range.

**Pranit:** Regarding our incremental debt position, I understand that we will probably repay our term loan this year, and from next year we will only have short-term borrowings. If we increase our production to 1,30,000 tons, where do you think our borrowings will be? Will they be short-term borrowings?

**Management:** There will be maintenance capex every year of approximately 35 crores. We are also planning to add a furnace if we want to increase overall capacity. Therefore, some capex will definitely be required to increase capacity from 1,60,000 tons to the next level.

**Pranit:** What will the capex be for this year and next year?

**Management:** We will be able to assess that once we cross 1,20,000 tons. We will take that call then.

**Pranit:** Will the maintenance capex be approximately 25 crores?

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**Management:** The maintenance capex is 30-35 crores every year.

**Pranit:** The maintenance capex itself is 35 crores?

**Management:** Yes.

**Pranit:** Why was it so low last year compared with the regular range of 25-35 crores?

**Management:** Last year, we did not add much capacity or much maintenance-balancing equipment. However, we have some plans for the current year. It varies from year to year.

If we add furnaces to balance the capacity, you will see an increase in capex in that year. If we undertake improvements or automation, you will see a difference in that year. I am indicating a range of 30-35 crores, but in some years it may be only 25 crores and in some years it may be 40 crores. It will vary from year to year.

**Pranit:** We have significant potential to expand the {? Pethapur ?} plant from 1,60,000 tons to approximately 1,10,000 tons, if I am not mistaken, taking our overall capacity to 2,10,000 metric tons. What kind of capex would be required to increase capacity from 1,60,000 to 2,10,000 tons?

**Management:** Not 2,10,000 tons. Earlier, we were saying that increasing capacity from 1,60,000 to approximately 2,00,000 tons would require spending about 60 crores at the {? Pethapur ?} plant.

**Pranit:** Is that above and beyond the maintenance capex of 35 crores?

**Management:** Correct. That is in addition to maintenance capex.

**Pranit:** Would 2,10,000 tons be our maximum potential if we undertake capex for all the planned projects? Would we be unable to expand further within the existing facilities?

**Management:** With the existing facilities, yes.

**Pranit:** If I remember correctly, the {? Pethapur ?} plant has significantly more land. Can we not expand there?

**Management:** We can always install a new molding line. We are referring to all the existing lines.

**Pranit:** With the existing lines, this is the maximum we can achieve through balancing equipment and furnaces.

**Management:** Exactly. You are right.

**Pranit:** If we install a new molding line, that would take capacity to the next level.

**Management:** Yes.

**Pranit:** Will our short-term borrowings remain at a similar level as a percentage of overall revenue?

**Management:** Once turnover increases in both the domestic and export businesses, the working capital requirement will obviously increase slightly.

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**Pranit:** Where do you think the percentage of revenue represented by borrowings could be? If we want to reach 1,30,000 metric tons over the next few years, where do you think our short-term borrowings will be?

**Management:** 1,30,000 tons will translate into turnover of approximately 1,900 crores.

**Pranit:** Understood.

**Management:** At that point, the working capital requirement will be higher.

**Pranit:** Can our short-term borrowings usually be expressed as a percentage of revenue?

**Management:** Yes. It depends on the working capital cycle, which in turn depends on the domestic and export cycles. We may need to increase borrowings by another 100 crores.

**Pranit:** So, incrementally, short-term borrowings will remain at a percentage of revenue and will not go beyond that.

**Management:** Yes, they should not go beyond that.

**Pranit:** Exports have a longer cycle, so despite that, will we remain in a similar range? How is that possible?

**Management:** I am considering that factor as well.

**Pranit:** Understood. That is all from my side. Thank you.

**Management:** Thank you.

**Analyst1:** You mentioned that the export orders are large castings of approximately 250 kg. Are all exports large casting orders, or are there also small casting orders?

**Management:** For a few specific castings, we mentioned 500 kg. Otherwise, current export castings vary from 70 kg to 200 kg.

**Analyst1:** Which markets and segments are we serving on the export side?

**Management:** Geographically, approximately 85% goes to the US market and 15% to the European market. In the US, I would say the majority, approximately 70%, is for commercial vehicles, with the balance for pickup trucks and SUV-type vehicles.

**Analyst1:** Do you see any tariff headwinds if further tariffs are imposed?

**Management:** Our tariff has now been brought under Section 232. Section 232 currently attracts a 25% tariff. We do not see any change in that.

**Analyst1:** Understood. That is all. Thank you.

**Management:** Thank you.

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**Operator:** We have a question from Shashwat in the chat box: “Can you share some details on the new program initiatives that we have been discussing, involving 200–250 crores of new business? What will bring in this revenue?”

**Management:** We were referring to the new products. As I said, in the fourth quarter, the new products can add approximately 300 tons per month.

**Operator:** The second question from Shashwat is: “How does the green-sand process differ from the no-bake process? Kirloskar Ferrous has been discussing the manufacture of heavy castings ranging from 300 kg to 2,000 kg through the no-bake process.”

**Management:** In the no-bake process, the sand is mixed with resin, and chemicals are added to improve the bonding. In the green-sand process, we do not add any chemicals. It consists purely of sand, water, and some alloys that we mix. That is the major difference between green-sand casting and the no-bake process.

**Operator:** The third question from him is: “Is there any niche segment that we are targeting which is different from our peers?”

**Management:** We are targeting only these segments. As of now, we are not targeting any new segment.

**Analyst2:** I have one question. We do not produce castings similar to Steelcast, correct? Is the metal composition different, or is it similar?

**Management:** It is completely different. We melt steel scrap, whereas Steelcast uses a warm-forging process. The shape is changed by hammering the steel. That is the difference.

**Analyst2:** Steelcast produces through forging, while we produce through casting.

**Management:** Our castings are produced by melting the metal and then pouring it. In the case of Steelcast, direct virgin steel is used.

**Analyst2:** Understood. Thank you.

**Operator:** What is the fixed-versus-variable cost split in your cost base? At what revenue or volume level does the business reach a normal EBITDA margin compared with the current level?

**Management:** In a foundry, it is difficult to state the exact fixed and variable cost split because of the various factors involved. Operational efficiency is very important.

If utilization is more than 70–75%, all operational efficiencies automatically improve. That is why we always target and measure EBITDA per kg. That is the best measurement for a foundry.

**Operator:** What is the scrap-to-pig-iron ratio in your input mix? How does the ratio change your cost sensitivity to global steel and scrap price movements?

**Management:** We use different grades of material. We cannot state exactly what percentage is pig iron, what percentage is CRC, and so on. It depends on the different grades and on whether we are

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producing gray-iron or ductile-iron castings.

We cannot state an exact figure such as 5% or 10%. It depends on the product mix and the grade of steel that we use.

**Operator:** Is the entire industry facing similar raw material cost pressure?

**Management:** Which industry?

**Operator:** Is the entire foundry industry facing similar raw material cost pressure?

**Management:** Yes. For a foundry, steel scrap is the raw material. It may be in the form of pig iron, MS scrap, or CRC, but the price is determined by the steel scrap price. This affects all foundries, particularly.

**Operator:** Can you share the revenue concentration among your top 5-10 customers across the M&HCV, tractor, passenger vehicle, and railway segments? How insulated are you if any single large OEM cuts orders or dual-sources from competitors?

**Management:** We have recently diversified into many products and customers. Therefore, we do not see any significant risk from customer concentration.

**Operator:** What is the currency exposure on export revenue, and what is your hedging policy?

**Management:** We hedge a very small portion, perhaps 5-10%. Because of the current dollar fluctuation, we are benefiting from it. Otherwise, we hedge based on demand and currency fluctuations. We take that decision based on the fluctuations.

**Operator:** The company cited labor availability as a challenge during the quarter. Is this a structural or industry-wide shortage of skilled labor in the foundry sector, or is it specific to a plant location? What is being done to address it, and what cost impact has it had?

**Management:** The migrant labor issue, particularly during April and May, affected the entire country because of the elections and other factors. There is also a normal difficulty of 1-2 months whenever migrant laborers return to their native places. Apart from that, the rest of the period is normal.

**Operator:** What is the exact quantum of price increases already agreed with customers, and from which quarter do they take effect?

**Management:** The price increase varies from customer to customer, so we cannot state it exactly. However, as we discussed, the first-quarter impact of the raw material cost increase was approximately 5 rupees per kg, and we will recover that in the second quarter.

**Operator:** Can you explain how the difference between the green-sand and no-bake processes affects profitability?

**Management:** The major difference is that no-bake sand uses a chemical composition for bonding, whereas green sand does not. The speed of the process makes a significant difference.

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With the no-bake process, you can produce castings ranging from 300 kg to 3 tons, but you can produce only approximately 6 or 7 castings. With green sand, the process is faster and you can produce larger volumes.

**Operator:** New product programs are said to commence production in Q2 FY27 and scale through the second half. What are these new products, which customer platforms are they tied to, what is the expected incremental revenue and margin contribution in FY27, and what capex has already been deployed for them?

**Management:** Total capex is not significant because we already have capacity available to produce the castings. From a capex perspective, only maintenance capex of approximately 35 crores per year is required.

On the other hand, we do not need to add capacity for those customers because capacity is already available. What was your next question?

**Operator:** The revenue and margin guidance.

**Management:** If we reach 1,35,000 tons, that will be our peak revenue. It translates into turnover of approximately 1,900 crores.

Our target for the current year is to reach approximately 15 rupees per kg of EBITDA. In the next 3 years, once we reach our full volume, it will be approximately 18 rupees per kg. That is our target.

**Operator:** As there are no further questions, we can close the call. On behalf of Arihant Capital, I would like to thank the management for taking the time to share insights about the company. If participants have any further questions, they can contact the Arihant Capital team. Do you have any closing comments?

**Management:** I would like to thank all the participants who took the time to participate. We look forward to better opportunities. Thank you very much.

**Operator:** Thank you, everyone.

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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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