Macpower CNC Machine

Operator: Ladies and gentlemen, I welcome you all to the Q2 and H1 FY27 post-earnings conference call of Macpower CNC Machines Limited. Today on the call from the management team, we have with us Mr. Rupesh Mehta, CMD, along with his management team. 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 has been recorded. I would now request the management to brief us about the business and performance highlights for the quarter and half year ended, the growth plan and vision for the coming year, after which we will open the floor for Q&A. Over to the management team.

Rupesh Mehta - CMD: Thank you very much, Vinay and Team Captify, for arranging the meeting for Q2.

Good afternoon, everyone. I warmly welcome all of you to our Q2 FY27 and H1 FY27 post-results conference call. Thank you for taking time out of your busy schedules to join us. We truly value your continued interest and support. The financial results and presentation have been uploaded on the company's website. I hope you have had a chance to review them.

I will walk you through the key highlights of our Q2 FY27 performance, followed by an update on our strategic initiatives and growth outlook. After that, we will be happy to take your questions.

We are further pleased to state that in Q2 FY27 also, the company delivered its highest-ever performance in Macpower's history in terms of revenue, EBITDA and PAT.

Revenue stood at 120.33 crore. Year-on-year revenue growth was 40.39%. EBITDA stood at 19.93 crore, growing by 40.8% year-on-year, with an EBITDA margin of 16.56%. PAT stood at 13.48 crore, growing by 43.7% year-on-year, with a PAT margin of 11.20%. Net profit margin stood at 11.20%, up 26 bps year-on-year for the quarter ended. EPS stood at 13.47, up 43.8% year-on-year for the quarter ended. Average machine realization also increased and is now 20.36 lakh.

We are pleased to state that in H1 FY27, the company delivered its highest-ever performance across revenue, EBITDA and PAT.

Revenue stood at 215.56 crore for H1 FY27, with 46.9% year-on-year growth. EBITDA stood at 35.36 crore for H1 FY27, with 60.2% year-on-year growth. PAT stood at 23.6 crore for H1 FY27, with 65.5% year-on-year growth. Net profit margin stood at 10.7%, up 120 bps year-on-year for H1 FY27. EPS stood at 23.05, up 65.5% year-on-year for H1 FY27. The average machine value over 6 months is around 20.55 lakh in the order book.

Capex during the quarter was 2.89 crore. Incremental capex has led to a corresponding increase in depreciation.

We have a robust order book and strong demand in the pipeline. The pending order book as of the end of Q2 stood at 476 crore, reflecting 36% year-on-year growth. The Nexa series contributes almost 40% of the pending order book. Domestic bids submitted were 745 crores, government tender bids were 194 crores, and total bids in the pipeline were 939 crore.

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Regarding product innovations, we have recently successfully delivered and launched several new models, such as the DCM 5-meter, V500G and VTX 1200. These are large-series Nexa products.

Regarding infrastructure and expansion for future growth, construction of our new capacity on the newly acquired 13-acre, 9+4 land parcel near the existing plant has started, and it is expected to become operational by the end of Q2 FY28. In order to support our long-term growth goals, this new facility will enable debottlenecking, backward integration and significant scaling of our operations. The new capacity will be announced in detail in the Q2 post-results conference call. This land will be sufficient to support growth of 25% to 30% over the upcoming 3 to 4 years.

As far as the 60-acre land is concerned, we are awaiting the Gujarat Government's defense policy. Once the policy is implemented, we will proceed with land development on the site. Development of the new facility will commence once the current facility is fully operational. Until then, we will work on the 13-acre land. Even if we receive the 60-acre land within 2 to 3 months, we will not start development of the 60-acre land immediately. First, we will focus on developing the 13-acre land, after which we will start work on the 60-acre land. The 13-acre land gives us a minimum of 3 years of visibility to increase production.

We are also expanding our market presence. We currently operate 9 branch offices and 9 technical centers. Development work on our upcoming 4 technical centers in Kolhapur, Mumbai, Chennai and Aurangabad is underway, and we expect them to be operational in Q3.

We are expanding our sales and service team. We are going to display new-generation, cutting-edge 5-axis machines for the aerospace and defense sector at India's largest exhibition, IMTEX, in January 2027. These machines have been developed by our R&D team. We are participating in almost all major industrial exhibitions in 2027, including IMTEX Bangalore 2027 and EMO Milano, Italy. These exhibitions will provide a valuable opportunity to showcase our advanced CNC machines and automation technology, strengthen customer engagement and expand our market presence.

We believe we will be able to improve on our previous guidance and growth. I think in the first quarter we committed to 30% growth, and I think we delivered that growth in Q2. Now I am increasing our guidance for this year's growth to nearly 35%.

I would now like to open the floor for questions. Thank you once again for your participation.

Operator: Thank you, sir. We will now begin the question-and-answer session. All those who wish to ask a question, please use the option to raise your hand. I would request participants to limit their questions to 2 per participant. We will take the first question from Gaurav Shukla. Please go ahead.

We will move on to Disha [cut off].

Gaurav Shukla: [crosstalk] Am I audible?

Operator: Yes, Gaurav.

Gaurav Shukla: Am I audible, sir?

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Rupesh Mehta – CMD: Yes, Gaurav, you are audible.

Gaurav Shukla: Congratula- Congratulations, sir, on very good results.

Rupesh Mehta – CMD: Thank you, Gaurav.

Gaurav Shukla: And thank you for giving me the opportunity. Sir, Q2 revenue has increased to 120 crore. After the strong H1 performance, what is management's current revenue growth guidance for FY27 and FY28?

Rupesh Mehta – CMD: For FY27-28, I think we will continue our growth journey at 25% to 30% over the coming 3 years. Visibility is very clear. With the new and existing plants, we will be able to deliver more machines, and the guidance for the coming 3 years is 25% to 30%.

Gaurav Shukla: Okay, sir. How much of the recent revenue growth has come from higher volume versus price increases and product mix? Have the recent price increases been beneficial?

Rupesh Mehta – CMD: Regarding the price increase, we have old inventory and old pending orders, so I think we will see incremental price growth in Q3 because all the execution in this quarter was from the old order book and old inventory. We increased the price 2 to 3 months ago, but execution at the new prices will happen in Q3.

Operator: Thank you. We will take the next question from Disha Chawdhya. Please go ahead.

Disha Chawdhya: Hello?

Rupesh Mehta – CMD: Yes, Disha.

Disha Chawdhya: Am I audible?

Rupesh Mehta – CMD: Yes, you are audible.

Disha Chawdhya: Yes, thank you so much, sir, for this opportunity, and congratulations on a good set of results. Firstly, sir, for this quarter you mentioned that realization was around 20.36 lakh, so that would mean that we delivered volumes of about 591 machines. Is that correct?

Rupesh Mehta – CMD: Roughly, I think you can say that, yes, because there is some service revenue also, but the number of machines is nearly the same as you mentioned.

Disha Chawdhya: Right. Our current capacity is around—based on that, we are at around 95% utilization. Our current capacity is 2,500, and the next capacity will come by Q2. Between this time, for the next 3 to 4 quarters, where do you see the major growth coming from, because we are already at 95% utilization? Will it be more price-driven?

Rupesh Mehta – CMD: Disha, in Q1 we had almost the same capacity of 700-plus machines. Now, if you see, our capacity is 2,500, so our capacity per quarter is almost 600 to 600-plus machines. In Q1, we had some forward inventory, which we utilized in Q2, and we still have some forward inventory. So, this year we will easily be able to deliver 2,300 to 2,400 machines. The guidance for the entire year is nearly 30%, and we are sure that in Q3 and Q4 also we will break all the historical

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records.

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

Arnav Sakhuja: Hi. Thank you for taking my question. My first question is that, in the annual report, we mentioned that we expanded our distribution network to around 39 cities. As we look to grow at 25% to 30% over the next 2 to 3 years, are we going to focus more on increasing the distribution network within these cities, or are we going to try to expand to even more cities?

Rupesh Mehta – CMD: Compared to the market of consumption, these 39 cities are mostly industrial cities where the top 5 machine-tool companies have their establishments. Previously, we were not expanding our distribution and marketing because of capacity constraints. Now, we are going to build significant capacity in the next financial year. It is not a one-day or one-month journey. We are expanding this [trails off]

Management: —marketing budget, new-city development and new recruitment to take advantage of next year's new capacity addition. Thirty-nine cities are enough for us right now, and by almost the end of this financial year, our sales, service and technical-center teams and our branches will have doubled.

Arnav Sakhuja: Right. Regarding some financials, working-capital days improved very strongly this quarter, from approximately 138 days in September last year to around 110 days in September this year. What were some of the reasons for this strong improvement?

Management: We delivered more machines in this quarter, and currently we do not have finished or unfinished inventory. We are trying to control some of the inventory. It is natural that whatever inventory we purchase, we mostly deliver as machines. It is not because I never focus on inventory. As I mentioned in my previous quarter's speech, inventory is always a game changer for us because we have more than 380 variants and manage more than 20,000 components in inventory. We can predict the business for 70% of the models, while 30% of the models are unpredictable. However, naturally, we delivered more machines, so inventory days have reduced.

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

Mahek Talati: Hi, sir. Thank you so much for the opportunity.

Management: Hello, Mahek.

Mahek Talati: Sir, you mentioned that you will be coming up with significant capacity, which you are starting by Q2 FY28. Is there a ballpark number for how much capacity we are planning to add, as we are currently nearing 100% utilization levels?

Management: I think I will be able to explain the next capacity in the Q3 conference call because we are still calculating it. To increase capacity, the first phase is debottlenecking machining and component manufacturing. Right now, we are calculating how much capex we are adding for machine purchases, processes, instruments and material handling. We are calculating this, and perhaps within 1 month we will finalize our capacity-increase calculation and announce it in the Q3 results.

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To increase production, we need components. Therefore, we are currently focusing on component manufacturing, machining and backward integration. Almost 90% of the calculation is complete. Now it is time to place the orders. We will place the orders within 1 month. My team is visiting other countries. We are importing many of the machines from abroad, and we will receive the benefit of the Viksit Gujarat policy for this new capex, including a 25% subsidy on construction, machinery and equipment, and a 7% interest subsidy.

We will be able to give you exact guidance in the Q3 conference call, but I am sure that we will be able to deliver 25% to 30% year-on-year growth each quarter over the coming 3 years.

Mahek Talati: Are we confident that we will be able to set up the new capacity within 3 quarters, along with backward integration, because the planning is still underway?

Management: Yes. The delivery time for all the machines is 3 months. We have not placed the orders because we do not require the machines before May or June. Their delivery time is 3 months and logistics time is 1 month. Therefore, we have enough time, and I think we will place all the orders next month.

Almost 20% of the orders, where the lead time and delivery time are longer—5 to 6 months—have already been placed to increase spindle capacity, sheet-metal capacity and telescopic-cover capacity. Now we are focusing on grinding and machining capacity, and their lead time is not more than 3 months.

We are on time, and I am sure we will be able to complete this because the construction work and compound-wall work are completed, the bore work is completed, and the architect team and contractors have already been appointed. We have a clause requiring completion of the building within 6 months, with a penalty clause. Therefore, I am 100% sure that we will utilize this plant on time.

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

Bhargav Buddhadev: Good afternoon, sir, and—

Management: Good afternoon, Bhargav.

Bhargav Buddhadev: Good afternoon, sir, and congratulations on a good set of numbers.

Management: Thank you very much.

Bhargav Buddhadev: Sir, my first question is regarding operating cash flow. Operating cash flow for the quarter was very strong at about 30-odd crores, and a lot of improvement has come from receivable days reducing significantly. Is it a coincidence that receivable days are reducing while revenues are also rising? Is there a change in the customer profile, with customers making good payments and therefore enabling us to report good revenues accordingly? Is there a correlation between the two?

Management: Bhargav, exactly, we are not giving credit to any customer. Some corporates, as I recently mentioned, pay us 5%, 10% or 20%—the last 20% or 10%—after receiving the machines and

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after we hand them over with the commissioning report.

Previously, we did not entertain Tier 1 customers, but recently, over the last few months, we have been entertaining customers such as Hero, Kirloskar and Graphite India. We are now focusing more on corporates. Therefore, some of the 10% or 20% is credit, which they pay once they receive the machine.

Previously, in certain months, we had a tie-up with an NBFC under which, against its commitment letter for 15 to 20 days of short-term financing, it would provide funding because some customer documents or margins were pending. They would give us an assurance letter stating that we could dispatch the machine and that they would release the funds within 15 days or 2 weeks.

This time, we strictly did not accept this kind of arrangement because the scheme is not valid right now. Therefore, cash flow has increased.

Bhargav Buddhadev: Secondly, I was reading your annual report and saw that almost 80% of the components are now manufactured in-house, such as spindles, sheet-metal components and the powder-coating facility. When will we see the benefits of this in our margins? Now that a large part of manufacturing is in-house, can we expect those benefits to start flowing into EBITDA margins as well?

Management: Bhargav, our component capacity is not sufficient at present. Right now, our spindle capacity is nearly 1,400 to 1,500, so we are purchasing 1,500 components. We are debottlenecking and adding capacity through the new capex.

Yes, definitely, once our capex is added, our margin will also increase. Simultaneously, our salary cost and operating cost will also increase, but there is definitely operating leverage. As you know, this will also give us a good and sufficient improvement in margins.

Gradually, in our vision for next year, we are also investing in some operating costs and adding more members to the R&D team. Therefore, our budget for R&D expenses is also gradually increasing. But definitely, once this new capacity is added, our margins will increase.

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

Dhagash Sanghavi: Hello. Thank you for the opportunity, and congratulations on the numbers.

Management: Thank you, Dhagash. Yes.

Dhagash Sanghavi: I wanted to get some clarity on the land area mentioned in the presentation. In the previous quarter, it was mentioned that 30 acres of land was under the greenfield expansion plan, but in this quarter's presentation, 60 acres of land is mentioned. Has an additional 30 acres of land been allotted to us, or what is the situation, and when are we going to utilize it?

Management: First of all, this 30-acre land was explained by the government 2 years ago as land that could be given to us under the defense policy. After that, I think there was an issue with that land, and subsequently they showed us the 60-acre land. We approved that 60-acre land and paid the token money. Clearances from more than 32 departments have been completed.

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After that, there was no defense policy. We are waiting for the new policy because the 2016 policy expired, and they extended that policy up to August. Now, within 1 or 2 months, or at any time, we are waiting for the new policy. Once it is issued, we will receive this 60-acre land.

Right now, we have 13 acres of land, which gives us visibility for another 3 years. Therefore, we are currently eligible to receive 60 acres of land, not 30 acres.

Operator: Thank you. We will take the next question from Sagar Shetty. Please go ahead.

Yes, Sagar.

We will move on to Ankit Shah. Please go ahead.

Ankit Shah: Hello.

Operator: Yes, Ankit. Yes.

Ankit Shah: My first question was about replacement demand. For a 5-axis machine, what is the replacement cycle? In other words, what is its useful life?

Management: Regarding replacement, let me first explain the basics [cut off]

Operator: Ankit, there is background noise coming from your end.

Management: If we talk about automobiles, the same principle applies to these machines: they will run very well for 3 to 5 years. Maintenance, mileage and wear and tear will remain low. After that, there is the cost of complete reconditioning and spare parts.

Normally, high-accuracy machines, where accuracy of less than 5 microns or less than 3 microns is required, have a life of 5 years. After that, their accuracy deteriorates significantly, and for maintenance purposes they will either be sold in the secondary market or sent for reconditioning. Therefore, the average life I predict is 5 years.

Ankit Shah: Yes, sir. Hello?

Management: Yes, Ankit.

Ankit Shah: When will the new capacity be available?

Management: The new capacity will come at the end of Q2.

Ankit Shah: How will Q1 and Q2 of next year be? Because in that period [cut off]

Management: In Q1, because in Q4 we will have some of our highest forward inventory, and we are planning production of 250 machines per month, or 750 machines in total, in Q4. In my view, we will be utilizing almost our entire capacity.

We will have the same capacity available at the opening of Q1 because we will have completed some recruitment, logistics, material, machining and inventory work in Q4. The capacity built in Q4 will benefit production capacity in Q1.

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Demand in Q1 will be only 60% to 70% of the demand in Q4, so we will be able to deliver good year-on-year growth of at least 25% to 30% in the existing plant in both Q1 and Q2. We will then give you good numbers.

Operator: Thank you. We will take the next question from Manish Reddy. Please go ahead.

Manish Reddy: Hello. Good afternoon. Thank you for the opportunity. Congratulations on a wonderful set of numbers.

Management: Thank you.

Manish Reddy: My question is regarding the 5-axis machines program. What is its current commercial status? Have customer validations or commercial orders commenced, and what revenue contribution is this product category expected to deliver by FY29? My second question [cut off]

Management: Manish, I will first complete your first question [trails off]

Management: Compared with Indian machine-tool demand, India is consuming almost 38,000 to 40,000 crore worth of machines, while India is producing 16,000 crore worth. If you look at our market contribution, our consumption share is 2% and India's production share is 4%. Therefore, our market share is negligible at present.

My first priority is to capture a minimum 10% market share over the coming 3 to 4 years. The 5-axis market is a niche market. It is not that we do not have the technology—we already produce and display it—but we require a special team to distribute, sell, train and program these machines, as well as a special team for the aerospace industry.

Right now, I am not focusing on this Ferrari because the market is very niche. Consumption of this kind of machine is not more than 150 machines. Of that, 90% of the machines are imported. There are also many legalities involved in selling 5-axis machines, and this type of machine is very complicated from a compliance perspective.

If this kind of machine is used for defense purposes, our entire production line could be disrupted because some European and Japanese companies may not provide us with the materials. This is not a product that we cannot manufacture. We already manufacture it, and we are also going to display it. However, to sell 5-axis machines, we are currently focusing on 4+1 machines.

We are selling 1 machine every month, but 5-axis machines are not our primary focus area. Perhaps after the 60-acre plant, we will focus on 5-axis machines. Right now, our focus is to gain more and more market share, which is easily available to us in our current business. If you look at our order book, product basket and distribution network, this business is very accessible to us. We need to focus only on executing these orders.

Therefore, we will not focus on 5-axis machines, but to develop some case studies, we will dispatch 5-axis machines. Recently, we received 1 order worth 2 crore, for 1 machine valued at 2 crore. We are not focusing on this area, but if such orders come naturally, we will deliver these machines.

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Our main focus is on 3+1, 4-axis and 4+1, 5-axis machines. We are mainly focused on achieving the numbers.

Manish Reddy: Thank you. My second question is regarding the defense and aerospace order pipeline. What is the current status of the major tenders under evaluation, and what is a realistic timeline for conversion into confirmed orders and revenue? You also mentioned the long-term plan of reserving 50% of the new plant for defense work. Is this allocation based on confirmed demand, customer discussions or some green shoots that you are seeing in this segment?

Management: Manish, at present we have good orders from HAL, rifle factories and some ordnance factories, and all these orders will definitely be executed in this financial year.

At present, we are submitting all our bids selectively and at very high prices. On average, bids worth more than 1,000 crore are released, but we are participating in only 25% to 30% of them and at very high prices.

Once we have good capacity for the defense area, we will participate aggressively in all the tenders and try to win a greater number of orders. Therefore, we have good visibility in defense, and we also have a good strategy for the coming years, when we have sufficient numbers and capacity for the defense area.

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

Gaurav Shukla: Am I audible, sir?

Management: Yes, Gaurav, you are audible.

Gaurav Shukla: How much of your machine technology is developed in-house, and how dependent are you on imported components such as controllers, drives, spindles and precision sheet metal?

Management: Our story is the same as that of all Indian players. We depend on some components, such as ball screws, linear-motion guideways, CNC controls and bearings. That is not necessarily a bad decision.

For example, car manufacturers never manufacture their own tires. Some components are viable only at large scale, and they require a different area of focus involving new R&D, new technology and similar capabilities.

For example, FANUC manufactures CNC controls. Its monthly capacity is 40,000 controls—40,000 controls per month. Components of this kind require large-scale production. Linear-motion guideways and ball screws are manufactured by 3 companies, and these 3 companies account for 99% of the world market.

Therefore, it is not a good idea to manufacture every component in-house. That is not your core area.

Regarding technology, all our designs—our model basket consists of nearly 388 to 390 models—have been developed 100% by our R&D team. We have not paid a single rupee for design. We do not have any collaboration, and we have not undertaken any takeover. Our team is capable

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of manufacturing next-generation components and machines.

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

Abhishek Jain: Thank you for the opportunity, and congratulations on a strong set of numbers, sir.

Management: Thank you, Abhishek.

Abhishek Jain: My first question relates to land acquisition. What are the key hurdles in the land acquisition? Why has it been delayed so much? If the land acquisition does not happen, what is your Plan B?

Management: Abhishek, we have already executed Plan B because we have been waiting for this land for the last 1.5 years. Plan B is the 13-acre land, where construction and capex work are already under execution. Therefore, Plan B has already been implemented.

We are now waiting for Plan A, which is the 60-acre land. This has been delayed because of the government policy, under which we receive significant benefits compared with the state government policy. This policy expired last February. After that, the government extended it until September, and now they have said that the new policy will come at any time. Therefore, we are waiting for the new policy.

The hurdle is that there is no policy. If they give us the land, we will have to pay the market rate, and I do not want to pay the market rate because I do not require this land within 1 or 2 months. If it comes within 5 or 6 months, that is also fine for me.

I hope we can get this land very soon. Once we receive it, we will not start any capex on this land immediately. First, we will complete our 13-acre land project. Then we will start another capacity, another foundry and another component-manufacturing facility, and gradually increase our capacity. These 2 land parcels will give us visibility for 10,000 machines.

Abhishek Jain: I wanted to understand that you are pursuing backward integration for many components. However, the gap between your margins and those of your peers is quite high. You have margins of around 16% to 17%, while your peers have margins of 25% to 26%. What is your plan for backward integration going forward, and what kind of margin potential do you see?

Management: Yes, we can expand our margin. Once capacity reaches 10,000 machines, we may be able to sustain margins of more than 20%.

Margins will increase in 2 or 3 different ways. There will be some higher-end products, and there is a fixed-cost component. Once you increase the number of machines, your margin will definitely increase, along with the benefits of backward integration.

Therefore, yes, we will increase margins. Once our capacity and backward-integration capacity increase, margins will naturally and definitely increase.

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

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Aniket Jain: Good afternoon, sir. I wanted to check how difficult or easy it is to push incremental pricing to customers. Are customers generally receptive, or do they push back when we increase pricing?

Management: At present, there is not much resistance because global conditions have caused metal prices to increase, currency prices to increase, and prices at all peer companies and for imports have increased very dramatically.

In my view, the import percentage has also shrunk somewhat, which has created an opportunity for domestic players. As far as Macpower is concerned, there is currently no discussion about price. Our current challenge with customers is delivery.

Price has not had much impact. We gave customers sufficient time to execute their orders either within 2 months or after making a higher payment, or within 3 months. That timeline has ended, and our old material has also been exhausted.

As of today, among the orders received over the last 2 months, there is not even a single order at the old price.

Aniket Jain: Thank you, sir. That was all.

Operator: Thank you. We will take the next question from Disha Chordia. Please go ahead.

Disha Chordia: Thank you so much, sir, for the opportunity again. You mentioned that you are looking at margins above 20% after all the capex is completed. For this year, what sort of margins should we look at? What average realization should we use for this year?

Management: This year's average realization will remain the same, but it may gradually increase with the new plant.

As I mentioned, if I manufacture machines with an average realization of 22 lakh or 25 lakh and deliver 700 machines, I would rather focus on delivering 800 machines with an average realization of 22 lakh or 21 lakh. For me, total revenue is important; the average price is not as important because we can earn the same margin when expenses are distributed over higher total revenue.

Even so, the average realization will definitely increase. We have recently developed more sophisticated machines. If you look at our NEXA product basket, the order book is also increasing. Therefore, our average price realization may increase year-on-year.

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

Vineet Agarwal: Hello. Am I audible?

Management: Yes, Vineet.

Vineet Agarwal: Thank you for the opportunity, sir, and congratulations on a good set of numbers. Since we are seeing most domestic players, as well as global OEMs that are localizing in India, adding capacity, how do you estimate total industry capacity additions over the next couple of years compared with growth in Indian CNC consumption? I know there is still a gap, but I wanted to

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get your view on this.

Management: The Indian Machine Tool Manufacturers' Association recently released figures stating that India's machine-tool consumption in 2030 will cross 50,000 crore.

As you know, India's manufacturing contribution to GDP is currently only around 15%. The government's aim is to increase it to 25%.

Management: If the government wants to increase manufacturing's contribution to GDP to 25%, it will require our machines because we contribute to more than 3,000 segments. Machines are required in electronics, engine parts, dies and molds, aeronautics and everywhere else.

Even then, we will not be able to manufacture 50% of the required machines because of the demand. There will be no new-player entry even over the coming 10 years. Whatever the country's growth, it will have to be supplied by 6 or 7 players.

Therefore, I am not worried about demand in this segment. My business model is different. I control operating costs. I do not pay interest costs. If I undertake backward integration, my interest cost will increase. Ultimately, the market thinks about EBITDA, whereas I think about PAT margin.

I have a different model, and I think I am building something different over the coming 5 years: the highest margin, the highest capacity and minimum debt. From a demand perspective, I believe India will not catch up with demand over the coming 5 to 7 years.

Vineet Agarwal: Thank you. My next question is whether, because of capacity constraints, we are seeing any cancellations or customers moving to competitors because of waiting times. What portion of the order book is backed by advances?

Management: All of my order book is backed by advances, except for my distributors and government orders.

The second point is that, yes, every month we are refunding advances for an average of 10 to 20 machines because we are unable to provide deliveries.

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

Bhavya Sonawala: Am I audible?

Operator: Yes, sir.

Management: Yes, Bhavya.

Bhavya Sonawala: Thank you for the opportunity, and congratulations on the excellent execution.

Management: Thank you.

Bhavya Sonawala: Just 2 questions. First, what is our criterion when we consider backward integration? Is it only cost competitiveness, or is it also supply chain-related? Can you explain how we evaluate backward integration?

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Management: Bhavya, we evaluate backward integration in 4 different ways.

The first is supply chain. The cost of backward integration may be higher. For example, if I buy an item for 100 rupees or manufacture it at a machining cost of 102 rupees, I still have to add this capacity if the component is not available in India or abroad. This is a compulsion. I have to manufacture it if I want to increase capacity.

The second consideration is accuracy. The component may be available, but not according to our standards. To achieve the required accuracy, we have to invest in Plan B.

Plan C is the long delivery time and long logistics time. Plan D is to reduce the cost, which increases our margin.

Therefore, we have 4 different categories. We are focusing on this because we have a large number of components in inventory. We are entering every component into an Excel sheet and calculating capacity requirements.

If a component is not available, we have to manufacture it, whether or not the cost is affordable. If the required accuracy is not available, we are recording that in the Excel sheet. A is our highest priority, followed by B, C and D.

We are working on all of A, B, C and D together. Therefore, there are 4 different types of elements involved in manufacturing components through backward integration.

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

Mahek Talati: Hi, sir. Thank you for the follow-up. I have a couple of questions. Number 1 is an update on the JV. Are we expecting the JV partner to be finalized soon, or is there still some delay?

Management: Mahek, we recently had a discussion in Germany with a few companies, and they are also participating in the January exhibition in India. We have scheduled a meeting, and I think they are also waiting for our new facility.

Once we have our facility, and once the paperwork is completed, perhaps we can make an announcement when our capacity is operational.

Mahek Talati: Is this a new partner, or is it one of the 3 partners we had finalized earlier?

Management: Yes, I think it is the same partner we finalized.

Operator: Thank you. We will take the next question from Saurabh Vyas. Please go ahead.

Saurabh Vyas: Hello, sir. Am I audible?

Operator: Yes, sir.

Management: Saurabh.

Saurabh Vyas: Congratulations on a good set of numbers. My first question is regarding the 5-axis machines. Congratulations on developing them through our R&D team. I wanted to know whether

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these 5-axis machines can currently be built within the capacity and floor area of our existing facility.

Will production of these 5-axis machines start once the backward-integration capacity goes live and we reach maximum capacity? Or will the entire 5-axis machine be manufactured in the new facility on the land parcel that we have been trying to acquire for a long time? I wanted to understand how production of these 5-axis machines will be started and reflected in our business.

Management: Saurabh, first of all, understand the technology. The machine is the same.

Saurabh Vyas: Hmm.

Management: There is a rotary table, a tilting rotary table, which we use in 4-axis machines and also in 4+1 and 5-axis machines.

Saurabh Vyas: Hmm.

Management: The 5-axis machine mainly depends on the 5-axis license from Siemens. FANUC and Mitsubishi do not provide 5-axis controls to India.

The machines are the same as those we are currently manufacturing. They are vertical machining centers with rotary tables. The same machines are used; only the control variant is different. There is not much difference between 5-axis and 4-axis-plus-one, or 4+1.

The machine is the same. If you look at the pictures on our website and in our presentation, the machines look the same. The difference between regular machines and 5-axis machines is in the software and hardware, which are available only from Siemens.

There are many clearances involved. We cannot use these machines for defense purposes, export them to certain enemy countries, or export them to certain countries where there are restrictions imposed by the United States.

The Indian market for 5-axis machines, including customers such as Azad and others using these machines, is not more than 200 machines. Of those 200 machines, I believe more than 65% to 75% are imported because customers require FANUC or Mitsubishi.

However, in India, Mitsubishi and FANUC 5-axis machines are not permitted because of restrictions imposed by Japan and some other countries. Therefore, I am not focusing on 5-axis machines. The clearance process takes too long.

The second point is that this is a Ferrari. Why should I focus on it and utilize my capacity to develop a new market when the market is currently open to me? I can obtain orders from the entire market. Out of 40,000 machines that India will produce this year, only 200 machines constitute the 5-axis market in India.

Therefore, I am not focusing on this in the current financial year. There is no great technological complexity in manufacturing a 5-axis machine. If you visit the Bangalore exhibition, I will be demonstrating aircraft-component manufacturing on my 5-axis machines at the upcoming exhibitions in Italy and Bangalore.

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However, my business model does not permit me to waste energy and time trying to capture this business when there are easy opportunities available. Why should I pursue a difficult opportunity when I have easy opportunities in hand? It is difficult because of the law, because of obtaining licenses and because of the restrictions.

One of our peer companies has already faced this problem. It supplied machines to Russia, and Lokesh Machines was sanctioned for 2 years. I do not want to take even a single-person risk merely to demonstrate the 5-axis market.

My focus is to sell machines to medical industries or some commercial aircraft-manufacturing companies on a testimonial basis. I will focus on this once I have capacity for 10,000 machines.

Saurabh Vyas: Understood. One last question. You said that the entire facility will be fully operational for backward integration by Q1 FY and Q2 FY27. In the meantime, we will be building inventory at a somewhat higher level.

Will there be working-capital stress, because EBITDA margins may grow by Q3 or Q4 but PAT margins may see slight compression? Or will backward integration start by Q3 or Q4 itself, meaning that the working-capital impact will be offset? I wanted to get a clearer picture.

Management: I do not think working capital will be an issue for this industry because we receive almost 90% of the material on long-term credit terms, such as 90 days, 120 days and sometimes 6 months.

If we maintain inventory for 2 to 3 months, our manufacturing time is 1 to 4 months, and then we can receive advance money, including 100% payment before dispatch. Therefore, if this is managed properly, we can always generate cash flow.

There is no problem for this industry if you do not divert the funds into capex or other activities. Therefore, I am not worried about inventory or the interest cost of inventory because we have significant cash flow.

Once production capacity increases, our debtors will definitely increase, but working-capital utilization will not increase significantly. If you look at our position, I have 30 crore in cash right now, which is not my money. It is, in effect, our suppliers' money.

If we utilize it properly, we can generate cash flow. It will not impact PAT, nor will it increase working-capital interest costs. Once we undertake backward integration and incur some fixed costs, the new capacity will definitely increase our margins.

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

Virag Shah: Hello, am I audible?

Operator: Yes, sir.

Management: Yes, Virag.

Virag Shah: I wanted to ask whether you are currently manufacturing 600 machines every quarter.

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Management: No. Our total capacity is 2,500.

Virag Shah: Hmm.

Management: On average, you can say 800 machines per quarter.

Virag Shah: Six hundred, right? Eight hundred would mean 3,200 for the full year.

Management: Sorry, sorry. Six hundred.

Virag Shah: After the 13-acre plant, how many machines will you be able to produce, increasing from 600 to what level?

Management: As I mentioned, I will announce the exact total visibility for the coming 3 years in Q3. However, I am 100% sure that with this new capacity, we will definitely be able to deliver 25% to 30% year-on-year growth next financial year.

Virag Shah: Okay, sir. Lastly, how do you plan for Nexa? It currently represents 40% of your total order book. Will it increase substantially? I believe it is a higher-margin, lower-volume product, and the higher margins could also improve operating-level and PAT margins.

Management: I think 40% is more than enough for the Nexa product. However, we will definitely try to increase this 40%.

This 40% is based on the number of machines. If you look at it in terms of value, it will definitely increase. Our aim is to reach 50% in 2028-29.

Operator: Thank you, sir. We will take the next question from Anup Kumar [cut off]

Operator: Please go ahead.

Management: How many are there?

Anup Kumar: Congratulations on a good set of numbers.

Management: Thank you. Thank you very much.

Anup Kumar: Which industries currently contribute the most to revenue, such as automotive, general engineering, aerospace, defense and others? Which segments are expected to grow fastest over the next 3 years?

Management: I am not worried about the segment at present, Anup, because as I told you, our consumption market share is 2%. Wherever we are present, we have good data and numbers.

Currently, automobiles are the fastest-growing segment. Die and mold, medical and agriculture are also growing, and every industry is currently expanding within Macpower's customer base. I believe the highest number will still come from automobiles.

Anup Kumar: My next question is about operating margin and EBITDA margin for FY28. I joined late, so please excuse me if the question has already been asked.

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Management: It will definitely increase gradually, and it will definitely be more than 20%.

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

Sanjay Mahajan: Hello.

Operator: Yes, sir.

Management: Yes.

Sanjay Mahajan: Thank you for the opportunity, sir. One thing we understand from every call is that demand is very strong. While demand is so strong, what is our strategy and thinking regarding capex, and how do we expedite it?

The unlisted players, based on videos and disclosures on public forums, appear to have been able to complete capacity expansion in 6 months. They have said 4 months, so I assumed that from drawing to execution and making the facility ready, it took 6 months.

What is holding us back? Is it only the land, or is there anything else? Demand is strong, the balance sheet is strong, and we are still struggling to bring capex online at that speed.

The concern is not only about losing orders or becoming too ambitious about growth. Another aspect is how important it is from management's perspective that if other competitors are adding significant capacity quickly, the talent pool may also become difficult to access.

Is there a sufficient talent pool for everyone to grow at that pace? We are trying to understand this in the context of the capacity recently added by listed and unlisted players.

Management: Sanjay, first let me explain that the demand is not the same for everyone. If you look at the results and figures of peer companies, this demand is specific to Macpower.

Macpower's machines and entire product basket are among the top 3 in India. We have one of the top 3 distribution networks in India. Our machines have the highest number of loaded features available at a standard price. We also have our service and customer relationships.

The demand is definitely good at present, but it is double for Macpower. If you look at all companies, this generalized statement does not apply to all the companies in the single-digit group of 8 to 9 companies. Many companies have already announced their results, and you can also look at some private limited companies.

The first point is this. The second point is that, regarding my business model and style, I have spent more than 3 decades in this industry. If you only undertake capex and double production, that does not mean that revenue will double. Many companies have made this mistake in the past. They undertook capex of 1,000 crore expecting to generate revenue of 1,000 crore, but that did not happen. Their interest costs meant that their PAT never increased.

Macpower has followed this model for many years: merely putting money into the business does not increase capacity. You have to consider supply chain, resource management, geopolitical conditions, lead time, logistics time, skilled manpower and government policies.

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I believe that a company with a single-digit market share should not try to grow by more than 50% because its operating costs, fixed leverage and interest costs will increase substantially.

If you undertake 200% capex to reach 400, I believe no company will be able to double. It has not happened in history, and it will not happen. The 50% potential I am predicting applies to companies with less than 5% market share; they can achieve it.

For companies with more than 10% market share, doubling is impossible. For a company with 30% market share, I believe growth of more than 10% to 15% is impossible. For companies with less than 5% market share, 50% growth is possible.

Regarding skilled manpower, I have a very good program and am working on a very good model. It is also a business secret. I do not think it will challenge me over the next few years.

Today, I have 1,000 employees, and over the coming 2 to 3 years another 2,000 employees will be added. Therefore, this will not be a challenge for me. I make everything easy first and then invest.

Demand, skilled management and supply chain will not become such significant challenges that I would increase capex and operating costs to pursue growth above 50%. That is why Macpower has never taken debt in its history, has never pledged assets in its history, and has never struggled for cash flow or working capital in its history.

This is my financial and business model.

Operator: Thank you, sir. Due to time constraints, we will take the last question from Piyush Jain. Please go ahead.

Piyush Jain: Hello.

Management: Yes.

Piyush Jain: Hello.

Management: Yes, Piyush.

Piyush Jain: Rupesh, you are in excellent form today.

Management: Yes, in a different form. [laughs]

Piyush Jain: A different form. [laughs] It is great to listen to you today. I only want to understand one thing. We are currently working at a capacity of 2,500 machines, and based on average realization, we are producing approximately 550 to 600 machines per quarter. Therefore, we are working at almost full utilization, correct?

Management: Yes.

Piyush Jain: We have taken the new 13-acre land on lease, and I believe it will start in Q2 of next year.

Management: Yes.

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Piyush Jain: That means that next year we will operate at almost optimum utilization and remain more or less within the 2,500-machine capacity. Even after that, as the new facility ramps up gradually from Q2 next year, the larger impact of the new facility—which I believe is again 2,500 machines, though please correct me if the number is wrong—will come in the second half of 2028 and the full year of 2029. Is my understanding correct?

Management: Piyush, first, during the first 6 months, out of the existing capacity of 2,500, we will stretch it to produce 1,300 to 1,400 machines over 2 quarters at the existing facility.

We have also recently taken a large adjoining premises on rent near Macpower. Therefore, I have clarity on the vision. I believe that in Q1 and Q2, this new rented facility, which is located next to Macpower and consists of approximately 40,000 square feet, will give us the required support. We took it on rent last month.

Therefore, I have complete clarity on the business plan and vision. We will definitely deliver 25% to 30% growth for the full year and in every quarter, quarter-on-quarter. I am 100% sure of that. I have complete groundwork, paperwork and visibility for this.

Piyush Jain: Perfect, sir. One more thing: one of our competitors has average realization of approximately 37 lakh to 40 lakh. Over the past few years, we have increased from 19 lakh to 20 lakh or 20.5 lakh.

Will we gradually move toward higher-realization machines, such as 24 lakh or 25 lakh? You also explained that you are not focusing extensively on 5-axis machines because they represent a small percentage of the overall market and you are focusing on your area of strength.

Over time, will we move toward machines with realization of 24 lakh to 25 lakh or 27 lakh? In the past, you had also said that through backward integration we could target margins above 20%. In the last few quarters, our guidance has been around 16% to 18%. What is your thought process in this area?

Not today, perhaps in 1 or 2 years, will we move toward the 24-lakh to 25-lakh or 27-lakh value chain? Will we move toward margins of 17% to 18% or 18% to 20%?

Management: Even today, I say that margins above 20% are possible, whether your average price is 20 lakh, 25 lakh or 30 lakh.

Once the new capacity is built—not next year, but after next year—you can achieve margins above 20% within that capacity. The second point is that my current capacity is constrained.

At present, I have some export products and some high-value machines ready. I can enter the market at any time. However, I need a separate team for their distribution. If you want to sell a Ferrari and a Maruti, the same common team cannot handle both.

The second point is that I will have to enter exports. I will have to capture the global market. The average price of all Indian peer companies with single-digit market share is within 25 lakh.

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I will not pursue exceptional cases because doing all these things will increase my operating cost and debt significantly. I want to enter that area only after consuming the easy fruit available in front of me. After that, I will move to phase 2.

First, I will build a 5,000-machine domestic market. After that, I will take 500 machines into the global market or into higher-end products through collaborations, in which I will not conduct any experiments.

I have very good clarity on my 5-year vision. However, to execute that vision, I need profit, whether it comes from an average realization of 20 lakh or 40 lakh.

We are focused on the business and the product. We should focus on average price only once we have a sufficient market and can no longer achieve significant growth in that area.

At that point, the power requirements will be different, the machine specifications will be different, and we will have to enter exports and participate in exhibitions in every country in the global market. That is an entirely different business model.

If I start that business now, I will not be able to execute it. Therefore, for me, that business model is risky, and I never run my business by taking risks. Look at Macpower's balance sheet for the last 20 years. We made a profit even during COVID.

This has been my business model: be slow and steady, and do not take excessive risk merely because you see high growth potential. Grow gradually and do it with your own money.

Look at this model. No machine-tool company in India has earned as much on the bottom line as I have, after generating the top line. If they earned on 1,000 crore of revenue, I earned more on 300 crore of revenue.

Look at Macpower's business model once, and you will see that all these areas are still too early. We are pursuing collaborations for this reason. We are developing 5-axis machines for this reason. We will undertake the 60-acre capex for this reason.

However, you need 2 to 3 or 4 years to set up the business for this opportunity. I will set up the business first and then enter it. In the past, the condition of companies that entered first and tried to set up the business later became very difficult.

Therefore, we definitely work for PAT and EBITDA, but I mostly work for PAT. For me, EBITDA is also a cost because, if you look at the past of some companies, whatever they earned was taken by the banks through interest.

I do not want to adopt that model. I believe this business model is accepted by the market, by me, by my customers and by my team.

We are focusing on high-value machines. Our order book for high-value machines, which we call Nexa, has increased by 40%. We will focus on the other machines once we have built sufficient facilities and capacity, Piyush.

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

Management: Do you have any last question, Mohsin, or—

Operator: No, the last question is done, sir. Would you like to say anything at the end?

Management: Thank you very much, everyone, for joining us on our Q2 conference call. Thank you, Vineet and Team Captify, and Mohsin and your team. Thank you very much for arranging what I think was the largest meeting ever, with more than 130 to 140 [cut off]

Management: [inaudible] people in this group. I think this is also record-breaking participation in this conference call, and I hope that soon, with a new record, we will see you again in Q3. Thank you very much.

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.

Management: Thank you.

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