



“Ramkrishna Forgings Limited Q4 FY 2016  
Results Conference Call”

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**Moderator:** Ladies and gentlemen, good day and welcome to the Ramkrishna Forgings Limited Q4 FY 2016 Results conference call hosted by Elara Securities Private Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing \* then 0 on your touchtone phone. I now hand the conference over to Mr. Jay Kale from Elara Securities. Thank you and over to you Sir.

**Jay Kale:** Thanks and good evening everyone. We welcome you to the Q4 FY 2016 results conference call of Ramkrishna Forgings. We have on line with us Mr. Naresh Jalan Managing Director, Ramkrishna Forgings and Mr. Rajesh Mundra, GM, Finance. If you can take us through and given brief introduction about the results and then we can throw the floor open for questions.

**Rajesh Mundra:** Thank you Jay. Thank you and good afternoon to everyone. We welcome you to the concall hosted by our company for the fourth quarter and the full year earnings. We are continuously witnessing a robust demand for the domestic commercial vehicle segment and this trend has continued also for this quarter. We have achieved a domestic tonnage of 16028 tonnes for this quarter and achieved a domestic sale of 160 Crores for this quarter as compared to 127.25 Crores in the preceding quarter. The company has received approvals for two varieties of front axle beam from a leading OEM in India for this quarter and has also started commercial supply for the varieties from the press plant. **(Inaudible) 1.41** for the other products and the varieties are in the pipeline. Export sales have reduced from 82.50 Crores from the preceding quarter to 72.3 Crores in this quarter which denotes a fall of about 12.5%. The total tonnage achieved during the quarter export tonnage was 5485 tonnes as compared to 6245 tonnes in the last quarter. We would like to further inform that dip in export sale is also on account of fall in the international raw material prices by about 20% which has a corresponding effect in the sale price in export as raw material prices is a pass through. We had achieved a total tonnage of 21513 for this quarter and an annual tonnage of 77000 for the year ended March 31, 2016. The net sales has increased from 200 Crores approximately in the third quarter to 220 Crores in the fourth quarter for 2015-2016 registering a growth of about 13%. The EBITDA margins, which is net of other income, has increased from 18.30 in the last quarter to 19% in this quarter. The company has achieved a net sale of 897.15 Crores for the year ended March 31, 2016 as compared to 740.75 Crores in the last year registering a growth of about 21%. The EBITDA margin net of other income and exceptional item has increased to 19.70% for the year ended March 31, 2016 against an EBITDA margin of 17.1% in the last financial year. Our request to the investors, we are requested not to raise any customer specific queries or questions during the con call. I am accompanied by Mr. Naresh Jalan Managing Director on this con call today. He will reply to questions relating to business and the markets and the questions relating to finance will be dealt by me. Thank you. We hand over to Jay Kale.

**Moderator:** Ladies and gentlemen, we will now begin the question and answer session. We will take the first question from the line of Basudeb Banerjee from Antique Finance, please go ahead.

- Basudeb Banerjee:** Sir, can you repeat the domestic and export volume and revenue please, I missed out.
- Rajesh Mundra:** The export tonnage was 5485 tonnes for this quarter. The domestic tonnage was 16028 per tonne for this quarter and domestic sales for this quarter 160 Crores.
- Basudeb Banerjee:** Same thing last quarter and last year?
- Rajesh Mundra:** Last quarter we had domestic sale of 127.25 Crores and we had export sale of 82.50 Crores and tonnage was 6445 tonnes export last quarter.
- Basudeb Banerjee:** Last March last year 2015? 17500 tonnes for March 2015.
- Rajesh Mundra:** You want March quarter?
- Basudeb Banerjee:** Yes, that quarter breakup domestic and export tonnage and revenue.
- Rajesh Mundra:** For the March quarter we had domestic 9507 tonnes and export quarter 9162 tonnes and revenue it was domestic 105 Crores export 176 Crores.
- Basudeb Banerjee:** Sir fifth straight quarter we can see your blended realization coming down from the highs of almost 140 rupees a kg to now around 105 rupees a kg, so I agree that metal deflation is part of that but despite your 12500 tonnes press getting operational still Q-o-Q realization declined so is that a heavy pricing pressure from the industry or how to look at that and how much volume was from the 12500 tonnes press this quarter?
- Naresh Jalan:** First of all QoQ I do not think per kg realization or per tonne realization has gone down. Second is that you will see in the fourth quarter our domestic sales have gone up and exports have gone down and because of this there is per tonne realization going down and balance is attributed to raw material pricing which is straight away affecting the topline of the company which is basically 20% close to raw material pricing and exports have gone down while if you see per kg realization vis-a-vis earlier quarters export realization per kg has gone up, basically you need to subtract the raw material reduction which has been passed through.
- Basudeb Banerjee:** How much tonnage came from the 12500 tonne press this quarter?
- Naresh Jalan:** It is roughly around 2500 tonnes.
- Basudeb Banerjee:** Primarily it is supplied to the domestic customers I suppose.
- Naresh Jalan:** As of now it is only too domestic.
- Basudeb Banerjee:** But is the realization from that 2500 tonnes higher than the existing domestic realization.
- Naresh Jalan:** Yes.

- Basudeb Banerjee:** That did not push up the realization mix.
- Naresh Jalan:** If you see 2500 tonnes is basically not a big chunk of the total outlay and as well as it is only going to as soon as we occupy the capacity is going forward then only the per tonne realization will significantly go up.
- Basudeb Banerjee:** Sir your gross contribution margin is also down from 350 basis points sequentially.
- Naresh Jalan:** Quarter-on-quarter I think gross margins has gone up.
- Basudeb Banerjee:** RM to sales is up almost 200 basis points.
- Rajesh Mundra:** Which quarter are you saying?
- Basudeb Banerjee:** December quarter.
- Rajesh Mundra:** We have to adjust for the value for the opening and closing stock and if you are adjusting for the same it has reduced from 44.62% to 42.8%.
- Basudeb Banerjee:** Sir interest is up from 3 Crores sequentially.
- Naresh Jalan:** Interest I think all capitalization now is over and most of the assets are charged to the books, so interest has gone up.
- Basudeb Banerjee:** So this interest level is going to sustain in the near term?
- Naresh Jalan:** Yes.
- Basudeb Banerjee:** What is your outlook on volume for fiscal 2017?
- Naresh Jalan:** In the last call we have been talking about 115000 tonnes of production this year and we stick to the same volumes.
- Basudeb Banerjee:** That means 21500 tonnes run rate broadly 90000 still you see an upside of 20,000 tonnes over and above that.
- Naresh Jalan:** 12500 tonnes I think vis-a-vis last year entire year operation this year we see that by second quarter we will be reaching close to 60% of capacity utilization.
- Basudeb Banerjee:** Like this 2500 tonnes from this press, which came this quarter that can be at max how much in a quarter?
- Naresh Jalan:** It can be close to around 5000 tonnes; in a month it can be 5000 tonnes.

- Basudeb Banerjee:** So any green shoots of recovery in US markets as of now or still it is status quo and bad?
- Naresh Jalan:** We do not need green shoots. Our per vehicle component per se is increasing and our base is zero in most of the components, so whatever we start on the scale of zero is going to be always on the plus side for us.
- Basudeb Banerjee:** But I think **(inaudible) 10.19** revenue this fiscal would have been less than 300 Crores.
- Naresh Jalan:** I would not like to answer specific customer questions but our overall exports have gone down exports that is mainly because of price reduction on account of raw material and minor quantity adjustment due to inventories.
- Moderator:** The next question is from the line of Arjun Khanna from Kotak Mutual Fund, please go ahead.
- Arjun Khanna:** Sir when one looks at and you talked about your target in terms of volumes what are the key risks of us not reaching those volumes because in terms of domestic market who would we be displacing for the 12500 tonnes plus?
- Naresh Jalan:** We will not be able to tell you whom we will be displacing. Only thing what we are able to tell you is we are adding customers, we are adding per vehicle components and more and more acceptability in terms of customer portfolio on our components are increasing, that is basically adding to the tonnage through the domestic volumes.
- Arjun Khanna:** In terms of our export market if you could just help us with which all markets have we grown in because US is one of it but we are also talking of growing in Mexico, Spain, EU, if you could talk on that also.
- Naresh Jalan:** We have grown in North America, the entire US and Mexico taken together. We have also started in a large way in entire Europe, it is basically in Spain, it is basically going to Italy, is going to other places in Europe. We have started some sales to Turkey and we have started some sales to Australia.
- Arjun Khanna:** Of our exports what percentage would be North America and Mexico?
- Naresh Jalan:** Out of the entire exports of America will be close to 70%.
- Arjun Khanna:** Do we expect that to continue in the year ahead?
- Naresh Jalan:** Yes.
- Arjun Khanna:** In terms of growth in EBITDA while we understand that topline will get impacted by the realization of the raw material do we have a guidance of EBITDA for FY 2017 and 2018?

- Naresh Jalan:** I would not like to give any forward looking statement on the EBITDA but I can only tell you that we will be sticking to our tonnage goal of 115000 tonnes of manufacturing. If raw material stays constant you can always get the topline and if we are able to achieve that we will be, because of the operational leverage all the cost right now factored in the balance sheet are at its peak so equally we will be getting that operational advantage also.
- Arjun Khanna:** We saw a balance sheet inventory and receivables being slightly lower, was that a result of our exports being lower at this point of time?
- Naresh Jalan:** Yes somewhat.
- Arjun Khanna:** We would leave the incremental capital as our exports comeback at some point of time.
- Naresh Jalan:** I think our debt in terms of capital at peak and I do not think we will be requiring any additional capital in terms of servicing our debts or receivables.
- Arjun Khanna:** In terms of capex what capex maintenance and otherwise would we have for FY 2017 and FY 2018?
- Rajesh Mundra:** We have a normal maintenance capex of 30-35 Crores this financial year.
- Arjun Khanna:** Any balancing equipment or machining equipment?
- Rajesh Mundra:** Normally capex would more or less entail the balancing as well as the machining requirements. I do not think we should have more capex than that.
- Arjun Khanna:** 35 Crores would be the complete amount of the year?
- Rajesh Mundra:** Yes, that is what we need as of now.
- Arjun Khanna:** Similar for FY 2018?
- Naresh Jalan:** It is quite early to tell you anything because as of now servicing FY 2017 and we do not know additional what capex can come in terms of maintenance or equipment next year, it is quite early to tell you right now.
- Moderator:** The next question is from the line of Abhijeet Dey from BNP Paribas, please go ahead.
- Abhijeet Dey:** Sir for the entire FY 2016 can you give us the breakup between domestic and export volume?
- Rajesh Mundra:** The domestic volumes were round about 48200 tonnes and export was 28690 tonnes.

- Abhijeet Dey:** So, it is almost 77000 tonnes as you mentioned. Sir my next question, how far have you progressed in terms of receiving approvals from export clients for your two new pressers, 6300 and 12500?
- Naresh Jalan:** 6300 we have received some approvals already from the OEM but for the bigger press we are yet to receive any approvals. We are expecting approvals in the same quarter first month, in the month of July or August.
- Abhijeet Dey:** How soon can you, once you get the approval what is the time lag in terms of how soon can you start supplying?
- Naresh Jalan:** It is approximately six weeks to eight weeks time we can start supplying.
- Abhijeet Dey:** In terms of debt, obviously it is peak debt what we see currently in the balance sheet around 850 Crores, do you see that coming down in FY 2017 to some extent?
- Naresh Jalan:** Basically the debt is going to come down. We have a repayment schedule of close to around 35-40 Crores every year right now and that is the debt which is going to come down.
- Abhijeet Dey:** Any thoughts on investing in machining facilities going forward not in FY 2017 but later on?
- Naresh Jalan:** We have already invested in machining facility for the facility right now we have, additional machining facility as and soon we start getting customer approvals and fill up the present available capacity and then we will look at investing in any further capacities beyond that.
- Moderator:** The next question is from the line of Vaibhav Bid from Motilal Oswal Securities, please go ahead.
- Vaibhav Bid:** Sir could you just give me the tonnage volume for March quarter last year?
- Rajesh Mundra:** March quarter we had a domestic tonnage of 9507 tonnes and export of 9162, total tonnage was 18670 tonnes.
- Vaibhav Bid:** Sir this quarter could you repeat?
- Rajesh Mundra:** This quarter we had a domestic tonnage of 16028 and export of 5485, so the total tonnage was 21513.
- Vaibhav Bid:** Sir in terms of repayment you have 300 Crores repayment every year right sir, debt?
- Naresh Jalan:** No, 30-40 Crores every year.
- Vaibhav Bid:** Sir on the realization front any guidance that you would expect for the next year?

- Naresh Jalan:** Our export and domestic premix is going to be close to 65:35 and I think with the current raw material pricing our average realization is going to be what is right now in our balance sheet.
- Vaibhav Bid:** So it could be a percent or two up or down right?
- Naresh Jalan:** I don't think raw material from here is going to go down, what we are seeing that raw material is either as is where it is or it will go slightly on the upper side only.
- Vaibhav Bid:** Sir on the order book do we have any current order book in hand for the next quarter?
- Naresh Jalan:** Our entire order book is through with the current volumes.
- Vaibhav Bid:** So the 115000 tonnes that you are guiding is almost in hand, that is why you are saying right.
- Naresh Jalan:** Yes.
- Moderator:** The next question is from the line of Priyaranjan from Systematix, please go ahead.
- Priyaranjan:** Sir regarding the new programs can you throw some light on the new programs in domestic and as well as export market?
- Naresh Jalan:** As of now, for all the OEMs across India manufacturing commercial vehicles already for most of them we have supplied samples or in the process of final submitting samples for somewhat both the bigger presses. In export we have right now only submitted samples to one of them and couple of them are going to be sent in next two months time, so I think we are expecting domestic approvals most of them to be through by July and export two major of our clients' approvals are going to be through by August end.
- Priyaranjan:** In exports do we see that there will be a significant change in mix like US will be much lower than what it is now from 70%.
- Naresh Jalan:** I think it will remain the same and for us we are trying to increase component per vehicle, so I don't think any slow down as such we are not seeing any major slow down in the US market and we will not be seeing any slow down, for us it will basically increase in component base per vehicle, so we will not face that kind of headwinds anymore.
- Priyaranjan:** In terms of components can you throw some light on new components we are talking about?
- Naresh Jalan:** Basically they are all parts of front and rear axle for commercial vehicle.
- Priyaranjan:** Parts of rear axle and fully built front axle or parts?
- Naresh Jalan:** Parts only.



- Priyaranjan:** In domestic market, we had talked about component increasing in domestic market as well.
- Naresh Jalan:** We are getting in to engine parts also now, engine parts as well as we are already there in the rear axle, we have already started most of the CV manufacturers of front axle parts and engine parts which we are adding up to the basket.
- Priyaranjan:** In terms of direct and indirect exposure like supplying through tier 2 and supplying directly to the OEMs.
- Naresh Jalan:** I think right now what we are talking about in the domestic market is directly to the OEMs and in exports we are talking to tier 1 because we do not assemble axles, we are actually talking to tier 1 axle manufacturers who are ultimately supplying to the OEMs.
- Priyaranjan:** Is it not very inefficient if we are not supplying the fully built part for export?
- Naresh Jalan:** I think supplying fully built axles is a different category of business which we are not in to.
- Priyaranjan:** I understand about the rear axle but front axle we can?
- Naresh Jalan:** Front axle also is absolutely a different category of business fully assembled front axle.
- Moderator:** The next question is from the line of Pranoy Kurian from Centrum Broking.
- Pranoy Kurian:** I just wanted to ask you the capacity utilization of the quarter?
- Rajesh Mundra:** The capacity utilization of domestic was round about 95-96% in the forging division and in the press it was more than 100% and ringrolling round about 25%.
- Pranoy Kurian:** Right now your total output is around 115000 right already?
- Rajesh Mundra:** The total capacity is 150000 tonnes.
- Pranoy Kurian:** Can you give us the split of domestic revenue for the year behind auto, rail, mining, others you normally give that annually?
- Rajesh Mundra:** Railways was 8% for the entire financial year, and mining and other accessories would further constitute round around 3%.
- Pranoy Kurian:** This is as a share of total revenue or share of domestic?
- Rajesh Mundra:** Total revenue and exports was round about 46 to 47% and balance was auto.
- Pranoy Kurian:** What would be the depreciation guidance for FY 2017?

- Rajesh Mundra:** Depreciation guidance for FY 2017 would be in the range of 60 to 65 Crores.
- Pranoy Kurian:** Any idea on the tax rates, I just wanted to get a sense since it has moved around quite a bit?
- Rajesh Mundra:** Basically we will be in MAT also. We will be paying in MAT this financial year also.
- Pranoy Kurian:** In 2018 it would probably reverse?
- Rajesh Mundra:** No in 2018 also we will be in MAT.
- Moderator:** The next question is from the line of Vaibhav Bid from Motilal Oswal Securities, please go ahead.
- Vaibhav Bid:** Sir, in this quarter the domestic tonnage growth that we had could you specify in terms of which segment grew?
- Naresh Jalan:** Our front axle business was a new addition in to this, so that was entire new addition so that grew as well as our transmission gear segments also grew.
- Vaibhav Bid:** Could you throw light on the customers or you would not?
- Naresh Jalan:** We will not speak on a particular customer. I think our entire domestic sales depend on only three big commercial manufacturers in India that is Tata Motors, Ashok Leyland and Volvo Eicher.
- Vaibhav Bid:** So this would be a mix of orders from all.
- Naresh Jalan:** Yes.
- Vaibhav Bid:** Sir interest cost can we take it as 15 Crores a quarter run rate?
- Naresh Jalan:** Yes.
- Moderator:** The next question is from the line of Priti RS from UTI Mutual Fund, please go ahead.
- Priti RS:** Sir on the exports tonnage front, if we see the last quarter we had tonnage of around 9200 which has come down to 5500 but you did mention that you are not seeing any kind of slow down per se because your content is increasing, so how to reconcile this part?
- Rajesh Mundra:** What Mr. Naresh Jalan just said is that he is not seeing a slow down going forward. He has not said this was not there last year because that is apparent from the figures, what he was saying is that he is not seeing any slow down going forward.

- Priti RS:** Sir, this reduction in tonnage supply in terms of exports that is completely explained by the class A truck slow down or what do you attribute that to?
- Naresh Jalan:** If you see the last quarter which you are comparing that was one of the historic peak in the class A peak which US market also never emphasized, so if you see last five years average in the last time also in the last call I said vis-a-vis average sales you will not see any dip going forward and our incremental sales are going to come from content which is going to increase going forward.
- Priti RS:** But our supply will be more or less to the US Class 8 trucks?
- Naresh Jalan:** US Class 8 trucks we are going to supply to Europe also in a big way.
- Priti RS:** Up to 70% share of the exports which are to North America?
- Naresh Jalan:** It is not only to Class A trucks. It is beginning to Class V trucks also and NLCV also.
- Moderator:** Thank you. The next question is from the line of Viral Shah from Enam Holdings. Please go ahead.
- Viral Shah:** Thanks for the opportunity Sir. Sir, probably I missed out on what you said earlier, just wanted to know how are the samples which have been given from the new presses getting approved and what stages of approval are they in the domestic as well as the export markets?
- Naresh Jalan:** Viral in domestic market, we have got up till now whatever samples we had submitted they have been already through the rig and we have already in some of the parts, we have started supplies and some of the parts we are going to get starting supplies from the next month onwards. In domestic more samples have been submitted which are basically on the rig right now, which we expect the approvals to be there in by June mid or June end. In the export front, right now samples are still on the rig and we expect the approvals by July end or August.
- Viral Shah:** Sir, how should we expect the ramp up schedule to be once you get the approvals?
- Naresh Jalan:** I think it is going to be six weeks to eight weeks time when we start ramping up supplies after we get the approval because after we get the approvals then only the raw material purchase from the initial stage we need to start, and we need to plan for the bulk production accordingly machines and other things needs allocation.
- Viral Shah:** Sir, my second question was how is the new customer acquisition especially in Europe and other geographies happening?
- Naresh Jalan:** I think it is better than anticipated by us. We have been received with open hand from all the customers across wherever we have, but yes obviously it takes time because Europe is far more pessimistic and coming out of a downturn right now their capex plans of in terms of spending on the testing and other things, they are far more pessimistic so they are looking at real savings in

terms of their own buying pricing as well as they are looking at sources very, very closely before changing on to the new supplier base.

**Viral Shah:** Sir, just one last question from my side, if I am not mistaken your guidance of 115000 tonnes for the year is based on assumption that the US Class 8 will be close to 260000 for the year?

**Naresh Jalan:** I think between 240000 to 250000.

**Viral Shah:** So anything less than or above that there could be a variance in our guidance?

**Naresh Jalan:** No, I do not think because the contents the way it is right now moving, I do not think 115000 will be very difficult for us. It is a challenging term, but it is not difficult at all.

**Moderator:** Thank you. The next question is from the line of Pritesh Chedha from Lucky Investment. Please go ahead.

**Pritesh Chedha:** Sir this 115000 tonnes what does it hinge on?

**Naresh Jalan:** Pritesh, I am not able to understand your question.

**Pritesh Chedha:** I said the delivery of 115000 tonnes what are the key moniterables or what it should be dependent on?

**Naresh Jalan:** It is dependent on the economy right now with what is India right now commercial vehicles where it is right now it should continue to be robust as such and our approvals of customers coming as anticipated right now or as we are getting right now should be coming through.

**Pritesh Chedha:** Is there any dealer or a domestic approvals side because my guess is the domestic approvals was supposed to be there in place by Q4 so do you see any downside risk to this?

**Naresh Jalan:** Right now, like I will repeat my answer which I have just given that already the samples which we had submitted we have got approvals and we have started supplies for that. Some samples which we have submitted a few weeks back, we are expecting approvals by June end or first week of July. Export samples we have submitted. They are still on the rig. We are expecting approvals by July end or August first week.

**Pritesh Chedha:** Can you give the broad idea as to 115000 tonnes how much can be domestic and how much can be export in the assumption.

**Naresh Jalan:** It will be close to around, it is an approximate figure, but whatever we have budgeted is close to around 60% to 65% domestic and 35% in exports.

**Pritesh Chedha:** My last question is where do you have a better visibility? Do you have a better visibility on achieving a domestic number or you have a better visibility on achieving the export number?

- Naresh Jalan:** We have a better visibility on both the things. I do not think in an exception in case our components do not pass the rigs and other things only then there can be a delay otherwise we do not foresee any delays.
- Pritesh Chedha:** Lastly this realization and the steel price do we start seeing the material inflation coming in the realization number anytime soon?
- Naresh Jalan:** I think like our raw material is absolutely pass on. In case raw material prices increase it will be passed on and we are going to get those increases from our customer. So in the realization for a rate of 60 days we do not get any further hit. It is a one time cost downwards or upwards. In case steel prices go up, I think my realization is going to improve rather than deteriorating from here.
- Pritesh Chedha:** So that MIP which has been implemented and steel prices have started going up, we will see that?
- Naresh Jalan:** MIP there has been no steel price change in alloy steel market. MIP has only been applied on construction and other steel, which is not affecting alloy steel as such and alloy steel there has been no increase or decrease vis-à-vis December quarter.
- Moderator:** Thank you. The next question is from the line of Ashutosh Garud from Reliance Portfolio Management. Please go ahead.
- Ashutosh Garud:** Sir actually there is some confusion, just wanted to clarify on the guidance of 115000 tonnage, you mentioned the slow down would not affect because our penetration levels are quite low, but you mentioned this particular quarter the volumes were low because of the slowdown? Am I correct in understanding or how is it?
- Naresh Jalan:** We have never said that this quarter our realization will go up.
- Ashutosh Garud:** Absolute volumes?
- Naresh Jalan:** Volumes in exports?
- Ashutosh Garud:** In exports, yes.
- Naresh Jalan:** Vis-à-vis the quarter which has been is compared last quarter 2015 vis-à-vis that yes. That was one of the historic peak in terms of export volumes and export requirements, vis-à-vis that there is a volume down. Only thing what has impacted our topline is majorly on account of raw material price reduction.
- Rajesh Mundra:** With regards volumes, as we have earlier said also there was an inventory buildup that required liquidation. So that is what we gave you in the third quarter concall that liquidation process will continue in the fourth quarter and that has continued and we are catching up now our demand

pull from our customer because the inventory which we had in their warehouse is getting depleted. So what he is saying is that going forward we will not have that problem.

**Ashutosh Garud:** So, basically we are expecting some kind of a pickup?

**Naresh Jalan:** We are expecting a pickup in demand in the export markets also.

**Ashutosh Garud:** So let us say what was the volume we did in Q1 last year, Q1 FY2016?

**Naresh Jalan:** Well that volumes I do not think we will be able to guide as of now.

**Ashutosh Garud:** Sir, basically we are confident about 30 to 32000 of run rate per quarter going ahead?

**Naresh Jalan:** It will be a gradual pickup. It will not be from first quarter itself we will not be able to see that run rate of 115000 tonnes. We will be able to see gradual pickup and significant pick up will happen in Q3 and Q4.

**Moderator:** Thank you. The next question is from the line of HR Gala from Panav Advisors. Please go ahead.

**HR Gala:** Just wanted to understand that when we say next year our volumes will be 115000 as against 77000 this year. Would it be reasonable to assume that given other things same we could have a revenue of around 1300-odd Crores next year?

**Rajesh Mundra:** We actually do not want to give any numbers to that figure, because it all depends upon the raw material increase, decrease and the raw material, how the raw material is moving. So we will not like assign any particular number to that guidance as of now.

**HR Gala:** That is fine. Another question is that we have spent around 700 Crores in last three four years as you had explained in one of the meetings how much total capacity have we added. What is our installed capacity now?

**Rajesh Mundra:** We have with that capacity have added around 80000 tonnes. Total installed capacity is 150000.

**HR Gala:** 150.

**Rajesh Mundra:** Yes.

**HR Gala:** We are going to achieve 115000 production in next year?

**Rajesh Mundra:** Yes.

**HR Gala:** Sir when do you think the next bout of capacity expansion will we require?

**Rajesh Mundra:** Only after FY2018.

- HR Gala:** Only after FY2018 and last question from my side. Our other operating income has reduced from 39 Crores to 29 Crores. So any particular reason?
- Rajesh Mundra:** There is no any specific reason for that I would say as of now.
- HR Gala:** Any one-off item or something would have been there in FY2016?
- Rajesh Mundra:** Operating we do not have any one-off items.
- HR Gala:** It does not have, so these are normal business line.
- Rajesh Mundra:** Yes.
- Moderator:** Thank you. The next question is from the line of Navin Matta from HDFC Securities. Please go ahead.
- Navin Matta:** Thank you for the opportunity. Sir, I just want to understand in this 115000 tonnes guidance how much would be expected from the 125000 tonne plus?
- Naresh Jalan:** Basically when we are saying 150000 tonnes the propellor of the goods has to be from this suppressed division and we are expecting a round about 50% to 60% utilisation.
- Navin Matta:** Sir, how does the realization compare as compared to our existing product range on the 125000 tonnes?
- Naresh Jalan:** I think 125000 tonnes obviously is going to because it is a large tonnage press so realization is obviously going to be much better than the existing presses.
- Navin Matta:** Given the 50% kind of volume increase we are looking at how should we think about margins going forward into FY2017?
- Naresh Jalan:** We will not comment on the margin, but I can only tell you that it is going to be much better with the operational leverage what we are going to get is going to be much better than what is in the existing.
- Rajesh Mundra:** But it will be done gradually. Whatever ramp up as a ramp up of the press division will be gradual. The margins will also improve gradually.
- Navin Matta:** But currently the cost structure that we are seeing in Q4 is there any capitalization in that and how should be expected that to flow through going forward?
- Rajesh Mundra:** The capitalization already has been done in Q3 so the cost of capitalization is not there in Q4 now.

- Moderator:** Thank you. The next question is from the line of Swarnam Maheshwari from Edelweiss. Please go ahead.
- Swarnam Maheshwari:** Thank you for taking the question. Sir, my question is actually with regards to the 12500 tonnes press. That press would be stabilised now? Just wanted to ask is our 12500 tonnes press fully stabilised now?
- Naresh Jalan:** When you say stabilise what do we understand by that?
- Swarnam Maheshwari:** Since actually you said that you are expecting almost around 50% to 60% capacity utilisation and what do we understand is normally once you introduce this 12500 tonnes press, it normally takes around six months to nine months to stabilise that press?
- Naresh Jalan:** The press is already running fine and it is properly working. Now as we get the sample's approvals it is very difficult to supply to our customers.
- Swarnam Maheshwari:** Has the press been fully handed to you?
- Naresh Jalan:** Yes we are working on that press.
- Moderator:** Thank you. The next question is from the line of Basudeb Banerjee from Antique Finance. Please go ahead.
- Basudeb Banerjee:** Thanks Sir for taking my question. If I see your volume has increased quite significantly sequentially but other expenses are broadly flat and changed on a sequential basis. So how to look at that? Any major cost reduction initiative or there was some one-offs in that?
- Naresh Jalan:** With the tonnage increase also we are doing a lot of cost saving like say we have changed our oil fired furnaces from to electrical heated furnaces, so all this is giving us operational leverage as well as we have taken a lot of cost cutting in terms of manpower per tonne productivity has also gone up.
- Basudeb Banerjee:** Your typical annual wage hike gets affected in June quarter?
- Naresh Jalan:** Yes June quarter.
- Basudeb Banerjee:** Sir, if I see your export volume this quarter was around 5500 and as you said 35% of 115000 which means overall full year average export volume of around 10000 whereas in first two quarters you said it will gradually ramp up. So in second half one can broadly expect 12000 to 14000 tonne per quarter exports whereas your peak export volume in the quarter was what somewhere around 9500. So how to look at that Sir?
- Rajesh Mundra:** When the peak which we had 95000 does not include the press plant.



- Basudeb Banerjee:** So you are saying that the demand for the higher tonnage press is already coming back and you will be getting.
- Rajesh Mundra:** Then there is a problem of growth may be from press division. So as we get approval from our customers in exports so we will be able to supply more exports products to them, so the tonnage will be coming from the press plant.
- Basudeb Banerjee:** Sir, but are those orders coming as of now Sir?
- Rajesh Mundra:** As explained by our MD Director, we had submitted samples taking the rigs that we are setting the approvals in the second quarter and we are expecting to start commence supply in third quarter.
- Basudeb Banerjee:** In the meanwhile you can ramp up supply to the domestic customers from that 125000 tonnage?
- Rajesh Mundra:** Yes.
- Basudeb Banerjee:** Sir, last thing, next quarter we will see the impact of metal inflation in your realization because in exports we see even sequentially there is a dip in realization, so is it purely because of mix or further impact of metal in deflation?
- Rajesh Mundra:** I do not think we have seen a dip in the realization. Realization has improved.
- Basudeb Banerjee:** In exports it is slightly lower?
- Rajesh Mundra:** It has improved.
- Basudeb Banerjee:** Okay, but next quarter shall we see some impact of metal inflation?
- Rajesh Mundra:** Well the metal and all depends upon the price increase.
- Basudeb Banerjee:** Whatever has been the price changes almost two months of the quarter are over so how do you see that panning compared to the last quarter?
- Rajesh Mundra:** As of now we have not seen any, it will remain the same.
- Moderator:** Thank you. The next question is from the line of Siddharth Bera from Nomura. Please go ahead.
- Siddharth Bera:** Thanks for the opportunity. Sir, just wanted to understand the currency pricing strategy. Like how does your export pricing work, if suppose currency moves like 5% or 6% favourable from these levels. So does your pricing also change or can we retain most of the benefit arising from that?
- Rajesh Mundra:** We can retain most of the benefits from that.

- Siddharth Bera:** So the current contracts are getting, so that should be broadly at current levels of about 67 BPS. Am I correct in that?
- Rajesh Mundra:** Can you repeat please?
- Siddharth Bera:** For the current contracts you are getting that will be broadly be setting up the price at about 57 to a dollar?
- Rajesh Mundra:** It depends. As of now whatever contracts we have is basically on the currency is going to be our own. We need to absorb the currency risk at our end.
- Moderator:** Thank you. The next question is from the line of Dhiral Shah from GEPL Capital. Please go ahead.
- Dhiral Shah:** Sir just wanted to ask whether the domestic realization has improved on a quarter-on-quarter basis.
- Rajesh Mundra:** The domestic realization has been subdued because the supplies had been moved from the plant, one division or so, but quarter-on-quarter, third quarter to fourth quarter it has been subdued.
- Dhiral Shah:** How much was it down on a quarter-on-quarter basis, subdued in terms of?
- Rajesh Mundra:** Rs.2500 to Rs.3000 per tonne.
- Dhiral Shah:** Okay and Sir this quarter you have added two OEMs, right in domestic market?
- Rajesh Mundra:** I think OEM we have all the OEMs in the domestic market.
- Dhiral Shah:** You said you have OEM?
- Naresh Jalan:** We have got approvals of two components from one OEM.
- Dhiral Shah:** Approval.
- Rajesh Mundra:** Yes, we had two approvals. Approvals of two front-axle beams from one of the leading OEMs.
- Moderator:** The next question is from the line of Pranoy Kurian from Centrum Broking. Please go ahead.
- Pranoy Kurian:** Thanks again. I just wanted to get an industry question. In the US when we compete and we make inroads, besides the Indian players who are we gaining market share from?
- Naresh Jalan:** It is very difficult to answer whom we are competing all the people across the globe. So we will not be able to comment on exactly whom we are gaining the market share from.

- Pranoy Kurian:** Is it from the larger players or is it in-house or how we are able to gain these contracts, or gain this kind of revenues?
- Naresh Jalan:** I think it is at the cost of somebody in the globe, but we are not exactly in the loop that who we are replacing.
- Pranoy Kurian:** So even in Europe it is that like say ThyssenKrupp are we replacing those kind of players because of our cost advantage or improvement in machinery, just wanted to get an industry sense?
- Naresh Jalan:** May be. Actually we are not being told whom we are replacing. We are basically quoting to certain RFQs and we are competing the RFQs. So we are not in know-how of whom we are replacing?
- Pranoy Kurian:** What is your number for work in progress, if you can give me that for FY2016?
- Rajesh Mundra:** Capital work-in-progress you mean?
- Pranoy Kurian:** Yes.
- Rajesh Mundra:** For FY2016 it was about 35 Crores.
- Pranoy Kurian:** Sir it has come down sharply?
- Rajesh Mundra:** Because most of the price has been capitalized.
- Pranoy Kurian:** Any comment on the management change regarding the CFO?
- Naresh Jalan:** I think he has left the company to pursue for a better career, so we have wished him well and I think he is going to pursue something which is more incremental to his career.
- Moderator:** Thank you. The next question is from the line of Jagdish Bhanushali from Florintree Advisors. Please go ahead.
- Jagdish Bhanushali:** The exports are down considerably, is it because of any of your client has lost market share in your tier I client?
- Rajesh Mundra:** You are talking about sequential drop in export or year-on-year exports?
- Jagdish Bhanushali:** Both in fact?
- Rajesh Mundra:** I think year-on-year we are basically comparing it with one of the peak times, sequentially like we have addressed in an earlier question that we had adjusted to the production to the inventories, which we are having in the warehouses. So, whatever customer inventories were

there we adjusted to this in the last quarter and now we are seeing again because of the inventory has gone down considerably, now we are seeing export volumes coming back.

**Jagdish Bhanushali:** Sir, it is not because of any of your tier I clients has lost market share, right?

**Rajesh Mundra:** No.

**Jagdish Bhanushali:** In the last previous call, you had said that probably we would be achieving or nearly the export tonnage what we had achieved in Q1 in the coming Q1. So how do we see that panning out now?

**Rajesh Mundra:** This full year I think we have already commented that we will be achieving close to 115000 tonnes and gradually every quarter you will be seeing gradual increase in overall tonnage of the company and mix is going to be 65:35 for exports and domestic.

**Jagdish Bhanushali:** But do we see getting back to those 85000 tonnage in exports in Q1 or Q2?

**Rajesh Mundra:** I think we should be there somewhere there, by Q2 or may be better than there in the following quarters.

**Jagdish Bhanushali:** The other thing is if I could get the utilisation levels in FY2016 for ringrolling, Hammers and Upsetters and presses?

**Naresh Jalan:** We do not have that data very handy as of now. Basically plant wise, we can tell you ringrolling was almost 100%, plant one we are operating to close to 96% and the press plant is close to around I think, Rajesh.

**Rajesh Mundra:** 25% to 30% approximately.

**Jagdish Bhanushali:** What level of utilisation do we see in this 6300 tonnage in FY2017?

**Rajesh Mundra:** Individual press it will be very difficult to tell you.

**Jagdish Bhanushali:** The other thing is that in fact, I am seeing the domestic realization QOQ has dropped from 105000 to 100000 so that is about 5% drop in spite of we achieving a tonnage of 2500 in 125000 tonne Press Line so is this because of raw material or any other factors?

**Rajesh Mundra:** Part of it is due to raw material, because we had a Rs.4200 per tonne decrease of raw material pricing and second is due to I think basically operational leverage we were able to sell more components from other plants and less from these plants.

**Jagdish Bhanushali:** Because we would expect 2500 tonnage would have a higher realization actually?

- Naresh Jalan:** As I said, we had given from more of forging division, the forge part component was more. The contribution on the forging was more instead of machines. So in the forging we have a lesser prices than in the machine components.
- Jagdish Bhanushali:** How about the debtor cycle and could you throw some light on that on the export part and the domestic like how many days is it?
- Naresh Jalan:** Domestic for the Tata Motors we are **(inaudible) 53.44** system, so it is seven days payment apart from that it is normal debtor cycles ranges from 60 to 90 days, but in exports we have a debtors of 150 to 180 days which is as we have in third quarter, nothing has changed on that.
- Jagdish Bhanushali:** But the only thing is the exports previously which was 150 has been stretched to 180 as well?
- Naresh Jalan:** No. It is coming between 150 and 180 days I am saying.
- Jagdish Bhanushali:** Other than this your Tata Motors you mentioned is it seven days?
- Naresh Jalan:** Yes the **(inaudible) 54.16** system with them.
- Moderator:** Thank you. The next question is from the line of Siddharth Bera from Nomura. Please go ahead.
- Siddharth Bera:** Thanks for taking my question again. Sir, just wanted to understand for the US market given the slowdown we are seeing are we seeing any pricing pressures from the clients in the market currently?
- Naresh Jalan:** We have a five-year fixed contract and we are basically raw material which is pass on and that is the only negotiation every quarter we have.
- Siddharth Bera:** So the contract is for five-year period?
- Naresh Jalan:** Yes.
- Siddharth Bera:** So the incremental new contracts which we would be getting currently so are we seeing any price pressure from the clients or they are broadly?
- Rajesh Mundra:** Till the contract is free there is always back and forth on the pricing. So that is part and parcel of every business or every customer cycle which we go through.
- Jignesh Shail:** Because you highlighted Europe may be there is some pricing pressure with the clients?
- Naresh Jalan:** I have not highlighted any Europe pricing pressure. What I have told is that Europe is far more sensitive and pessimistic because they have just come out of recession on their own capex in terms because if they choose a new supplier, new component supplier they need to have their

own capex for testing those components as well as their tolling budget. So that is wherein they are very selective about going to new supplier.

**Siddharth Bera:** Thanks a lot.

**Moderator:** Thank you. Ladies and gentlemen due to time constraints that was the last question. I now hand the conference over to Mr. Jay Kale for closing comments.

**Jay Kale:** Thanks a lot management for joining in the call. Thanks a lot for participating. Have a great day.

**Naresh Jalan:** Thank you Jay.

**Rajesh Mundra:** Thank you, Jay.

**Moderator:** Thank you very much. Ladies and gentlemen on behalf of Elara Securities Private Limited that concludes this conference. Thanks for joining us. You may now disconnect your lines.