

Ramkrishna Forgings

- **Moderator**

- Ladies and gentlemen, good day and welcome to the Ramkrishna Forgings Limited Conference Call hosted by Prabhudas Lilladher Private Limited. As a reminder all participants' 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 telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Rohan Korde from Prabhudas Lilladher. Thank you and over to you sir.

- **Mr. Rohan Korde – Prabhudas Lilladher**

- Thank you Moderator. We welcome the management of Ramkrishna Forgings for the Post Q2 Results Conference Call. The management is represented by Mr. Naresh Jalan, MD and Mr. Rajesh Mundhra – VP (Finance). I now invite Mr. Naresh Jalan to give his opening comments. Over to you sir.

- **Mr. Rajesh Mundhra – VP (Finance)**

- Thanks Rohan. Rajesh Mundhra here. Thank you and good afternoon to everybody. We welcome you to the Con Call hosted by the company for the quarter and half year ended 30th September, 2016. This quarter has been challenging for the company, we have achieved a turnover of Rs. 156 crores as compared to Rs. 217 crores in the sequential quarter. And there has been a PBT loss of Rs. 6.35 crores against the profit of Rs. 8.24 crores in the sequential quarter. We have witnessed a very step in demand for domestic medium and heavy commercial vehicles segment in the second quarter, the M&HCV segment has witnessed a sharp decline of 18.90% in Q2 as compared to Q1 of 2017. We have achieved our domestic tonnage of 11,203 tonnes for this quarter and achieved a domestic sale of around Rs.107 crores for this quarter as compared to Rs. 148 crores in the sequential quarter. And domestic realisation has been around 84,000 tonnes in this quarter which has been as in the sequential quarter. We have achieved export tonnage of 4,308 tonnes for this quarter and achieve an export sale of Rs. 149 crores for this quarter as compared to Rs. 70 crores for sequential quarter.

- The export realisation has been drawn 1,14,760 per metric tonne in this quarter as compared to 1,30,640 in the sequential quarter. The fall in export realisation was primarily on account of adjustments in the raw material price. We had achieved a total tonnage of 15,511 tonnes in this quarter as compared to 21,165 tonnes in the sequential quarter. The total revenues have been around Rs. 156 crores as mentioned earlier as compared to Rs. 217 crores in the sequential quarter. The company has achieved an EBITDA net of other income of around Rs. 27 crores as against Rs. 42 crores in the sequential quarter, the EBITDA margins net of other income stood at 17.13% as compared to 19.20 in the sequential quarter. The tonnage from the 12,000 tonnes press line was 1,671 for this quarter, the approvals of the samples also got delayed last quarter but we are expecting to have significant approvals by the end of Q3.
- We anticipate improved market conditions for the commercial vehicles on expectation of pre buying in coming months on account of new emission standards on 1st April, 2017 coupled with improvement in the industrial activity and government focus of infrastructure project. The global markets are slowly turning positive once again and the demand for Class A trust is expected to show an uptrend in the coming months. Our request to the investors, we are requested not to raise any customer specific queries of questions during the Con Call. I am accompanied by Mr. Naresh Jalan, Managing Director on this Con Call today. He will reply to all questions relating to business and the market and questions related to finance will be dealt by me. I am handing it back to Rohan.
- **Mr. Rohan Korde – Prabhudas Lilladher**
- Thank you. Moderator can we start with the Q&A session please?
- **Moderator**
- Thank you very much. We will now begin with the question and answer session. Anyone who wishes to ask a question may press “*” and “1” on their touchtone telephone. If you wish to remove yourself from the question queue you may press “*” and “2”. Participants are requested to use their handsets while asking a question.
- Ladies and gentlemen we will wait for a moment while the question queue assembles.
- A reminder to the participants please press “*” and “1” to ask a question.
- Participants please press “*” and “1” to ask a question.
- We take our first question from the line of Mr. Sagar Parekh from Deep Finance. Please go ahead.

- **Mr. Sagar Parekh - Deep Finance**
- Hello sir. Thank you for taking my questions. Sir, my first question is on the guidance that you had given in the start of the financial year about achieving tonnage of 1,15,000. So do you stand by that number or will you revise it downwards?
- **Mr. Naresh Jalan - Managing Director**
- We feel that we will be not be able to meet 1,15,000 tonnes obviously what has gone by in the second quarter. We see a down take but we assume that we should be touching, we should be less by around 10%.
- **Mr. Sagar Parekh - Deep Finance**
- So close to about 1 lac tonnes in this year?
- **Mr. Naresh Jalan - Managing Director**
- 1 lac tonnes.
- **Mr. Sagar Parekh - Deep Finance**
- And where are we in terms of approvals in the US market?
- **Mr. Naresh Jalan - Managing Director**
- This quarter like in our presentations we have sent through most of the approvals we expect to be through within this quarter.
- **Mr. Sagar Parekh - Deep Finance**
- Okay. Fair enough. That's it from my side. Thank you and all the best.
- **Moderator**
- Thank you.
- A reminder to the participants please press "*" and "1" to ask a question.
- We have our next question from the line of Mr. Abhijeet Dey from BNP Paribas Mutual Fund. Please go ahead.
- **Mr. Abhijeet Dey - BNP Paribas Mutual Fund**
- Good afternoon sir, this is Abhijeet here. Just to understand sir, in terms of approvals by the end of this quarter do you think you will get all the approvals for the new press which you started last December or there will be still some pending?

- **Mr. Naresh Jalan- Managing Director**
- No, Abhijeet most of the approvals which are pending since last two quarters will be through by this month end and maybe by mid of December before Christmas closes. And we presume that that will only give us a headway in the last quarter to touch a capacity utilisation of close to around 50% in the new press.
- **Mr. Abhijeet Dey - BNP Paribas Mutual Fund**
- Okay. And sir have you started regarding approvals which you have received previously the first half of this fiscal. Have you started to ship any consignments of Front Axle Beams, Crankshaft, Connecting Rods?
- **Mr. Rajesh Mundhra – VP (Finance)**
- We have started shipping containers of Front Axle Beams since last month.
- **Mr. Abhijeet Dey - BNP Paribas Mutual Fund**
- Okay. And this is to which geographies if I can ask that?
- **Mr. Rajesh Mundhra – VP (Finance)**
- It is to Europe.
- **Mr. Abhijeet Dey - BNP Paribas Mutual Fund**
- Okay. Fine. And coming to the domestic market of course Q2 was challenging in terms of the M&HCV sales but we were given to understand that you have been increasing market share with both two large players that is Tata and Ashok Leyland. So will that help even if the subdued nature of the market continues in second half assuming that?
- **Mr. Naresh Jalan- Managing Director**
- Abhijeet already market has started picking up and this quarter we are witnessing a very robust demand from the domestic side also export is still sluggish but we presume exports, new business whatever we have added has started giving us results in this quarter. But the domestic side we are now witnessing a very good demand in terms of new products which we got approval and this quarter should look very good for us in terms of domestic demand.
- **Mr. Abhijeet Dey - BNP Paribas Mutual Fund**
- Okay. Right sir, thank you and all the best.

- **Moderator**
- Thank you.
- We have our next question from the line of Mr. Prem Thakkar from Unilazer Ventures. Please go ahead.
- **Mr. Prem Thakkar - Unilazer Ventures**
- Hi sir, just two questions. Sir, this quarter our gross margins has been pretty high so any specific reason for that?
- **Mr. Naresh Jalan - Managing Director**
- I think gross margins have declined...
- **Mr. Rajesh Mundhra – VP (Finance)**
- Actually I am not able to understand what do you understand by gross margins?
- **Mr. Prem Thakkar - Unilazer Ventures**
- So revenue minus CAG an adjusted for change in the inventories, it is actually looking pretty high. So its Rs. 41 crores is CAG as in we have Rs. 156 crores if my number is not correct.
- **Mr. Rajesh Mundhra – VP (Finance)**
- I don't know but we have the EBITDA margins which is about 200 basis points less than what we have reported in the last sequential quarter.
- **Mr. Prem Thakkar - Unilazer Ventures**
- So EBITDA margins is coming down but that is again led by operating deleverage because for less revenue. But if you look at gross margins looking actually pretty high Quarter On Quarter.
- **Mr. Naresh Jalan - Managing Director**
- Basically it maybe due to the high product, basically what tonnage you see right now is the tonnage which we have sold. But we have kept on producing so it maybe that the production from the higher tonnage which yields higher value is there in higher inventory.
- **Mr. Prem Thakkar - Unilazer Ventures**
- Okay but sir that should be reflected in higher realisations or is it just a higher margin tonnage which we have done?

- **Mr. Naresh Jalan - Managing Director**
- Higher margin tonnage which we have done.
- **Mr. Prem Thakkar - Unilazer Ventures**
- Higher margin, okay. And sir secondly...
- **Mr. Naresh Jalan - Managing Director**
- Like we have right now that 12,500 is in production so now every quarter we will be able to see that higher tonnage press production goes into as samples starts arriving in so bulk supplies will start. So bulk supplies will always give us higher realisation from the bigger presses.
- **Mr. Prem Thakkar - Unilazer Ventures**
- Okay, that is good to know. And sir our inventory base has also been a bit higher, I understand we might have produced more for the upcoming demand or how is it?
- **Mr. Naresh Jalan - Managing Director**
- Actually we were caught unaware basically till June we had a pretty robust and high demand from the domestic sector. And suddenly the market cracked and because of this sudden cracking of market we were not able to really control our inventories so fast because whatever steel were on road or whatever had been bought into the plant they needed to be burn. And neither we got any clarity from the OEMs in terms of what is really happening, whether it is for few days or it maybe for few months. So we kept on burning that still for creating finished inventory that's the reason inventory has gone up.
- **Mr. Prem Thakkar - Unilazer Ventures**
- Okay. So we definitely expect this to moderate in the next two quarters?
- **Mr. Naresh Jalan - Managing Director**
- This quarter itself you will find it to get moderated.
- **Mr. Prem Thakkar - Unilazer Ventures**
- And sir lastly just on the CAPEX any plans for mislead, the calculated CAPEX is coming around Rs. 50 crores for first half so for CAPEX any outlook if you can provide?
- **Mr. Rajesh Mundhra – VP (Finance)**

- The CAPEX which we have, some of the CAPEX which is on account of the last year some balancing machine it was supposed to be done and which has appeared in this financial year. But CAPEX guidance that we have given in the first year, first quarter itself is about Rs. 35-40 crores that will be done over first half, second quarter second half of business financial year and the first half of next financial year.
- **Mr. Prem Thakkar - Unilazer Ventures**
- Okay sir got it. Thank you sir and all the best.
- **Moderator**
- Thank you.
- A reminder to the participants please press “*” and “1” to ask a question.
- We have our next question from the line of Mr. Kush Joshi from Kitara Capital. Please go ahead.
- **Mr. Kush Joshi - Kitara Capital**
- Good afternoon sir, I am Kush here. Rajesh, can you help me with the number because the results are not out here in exchange so I am not able to go through the numbers at all?
- **Mr. Rajesh Mundhra – VP (Finance)**
- Yeah, basically I had said in the call earlier that we have achieved a net sale of Rs. 156 crores for this quarter as against Rs. 217 crores in the sequential quarter and there had been a loss of Rs. 6.35 crores in this quarter as compared to a profit of Rs. 8.24 crores PBT levels last quarter.
- **Mr. Kush Joshi - Kitara Capital**
- So sequential right Rs. 8 crores?
- **Mr. Rajesh Mundhra – VP (Finance)**
- Yeah.
- **Mr. Kush Joshi - Kitara Capital**
- And tonnagewise you mentioned 11,200 for domestic and 4,000 something for exports, correct if I am not wrong?
- **Mr. Rajesh Mundhra – VP (Finance)**

- Yeah, we had mentioned an export tonnage of 4,608 and domestic tonnage of 11,203.
- **Mr. Kush Joshi - Kitara Capital**
- So now as far as our as mentioned I believe that the 12,000 tonnes we did 1,617 for this quarter, second quarter?
- **Mr. Rajesh Mundhra – VP (Finance)**
- Yeah, that 1,671 for this quarter.
- **Mr. Kush Joshi - Kitara Capital**
- Okay. So this belongs to part of domestic or exports, 1,671?
- **Mr. Rajesh Mundhra – VP (Finance)**
- Mix of both.
- **Mr. Kush Joshi - Kitara Capital**
- Mix of both. And now so how the utilisation is looking for the third quarter from this 12,500 tonnes?
- **Mr. Rajesh Mundhra – VP (Finance)**
- Third quarter we should be doing this quarter 4,000 tonnes approximately.
- **Mr. Kush Joshi - Kitara Capital**
- From the new press?
- **Mr. Rajesh Mundhra – VP (Finance)**
- From the new press.
- **Mr. Kush Joshi - Kitara Capital**
- Okay.
- **Mr. Naresh Jalan- Managing Director**
- And going forward we expect to reach 40% utilisation in the fourth quarter.
- **Mr. Kush Joshi - Kitara Capital**
- Q4 itself?

- **Mr. Naresh Jalan- Managing Director**
- Yes, Q4.
- **Mr. Kush Joshi - Kitara Capital**
- From the 12,500 press?
- **Mr. Naresh Jalan- Managing Director**
- Yes.
- **Mr. Kush Joshi - Kitara Capital**
- So pipeline looks very robust as you were mentioning earlier. So only because of this domestic issue the results have been, they have been making losses...?
- **Mr. Naresh Jalan- Managing Director**
- As well as exports both, actually if you see the results first quarter domestic we did very well so we got covered in the gaps of exports. Domestic and exports both went down very badly in the second quarter so this was the case. But in this quarter domestic is doing very well as well as we have seen an uptake in exports also.
- **Mr. Kush Joshi - Kitara Capital**
- What was our interest in depreciation because I am not privy to....?
- **Mr. Rajesh Mundhra – VP (Finance)**
- Depreciation was round about Rs. 17 crores this quarter and interest was Rs. 17 crores also.
- **Mr. Kush Joshi - Kitara Capital**
- So our loan remains at same levels?
- **Mr. Rajesh Mundhra – VP (Finance)**
- The loans remain little high it is round about Rs. 917 crores for this half year.
- **Mr. Kush Joshi - Kitara Capital**
- So what will be the short term and long term? I am sorry because I am not privy to the numbers.

- **Mr. Rajesh Mundhra – VP (Finance)**
- Okay, that's no problem. The short term will be 387 and the balance will be long term.
- **Mr. Kush Joshi - Kitara Capital**
- And how are our receivables as far as exports is concerned, reasonable or still we are struggling there?
- **Mr. Rajesh Mundhra – VP (Finance)**
- No reasonable.
- **Mr. Kush Joshi - Kitara Capital**
- Reasonable levels, okay. Any new contract this quarter or...?
- **Mr. Rajesh Mundhra – VP (Finance)**
- This quarter means the third quarter?
- **Mr. Kush Joshi - Kitara Capital**
- Second quarter, second quarter any new signees or something?
- **Mr. Rajesh Mundhra – VP (Finance)**
- No.
- **Mr. Kush Joshi - Kitara Capital**
- Okay, thank you sir. I am done. Thank you.
- **Moderator**
- Thank you.
- We have our next question from the line of Mr. Miten Vohra from BNP Paribas Mutual Fund. Please go ahead.
- **Mr. Miten Vohra - BNP Paribas Mutual Fund**
- Hello sir. Just needed two updates from your side, one is on the domestic front from the new press. You are expecting some new orders from Ashok Leyland, have they started? And secondly if you can give more clarity on how are your export orders going through, any new update on that front?

- **Mr. Naresh Jalan- Managing Director**
- First of all I will not like to comment on customer specific but domestic only I can tell you that we have now got approval from all the OEMs and for all the samples which we had submitted. Specific to customer I will not be able to mention anything. And regarding, like earlier also I had mentioned that samples which we had despatched in the last quarter of last financial year or first quarter this year, most of the approvals will be in place by mid of December before Christmas closes. New contracts, we have not received any new contracts last quarter but we are expecting some contract in this quarter.
- **Mr. Miten Vohra - BNP Paribas Mutual Fund**
- Okay. And if you can give some clarity do we have any exposure on the European side also?
- **Mr. Naresh Jalan- Managing Director**
- Yes we have, like I have already mentioned in the call earlier we have started shipping from large places to Europe already.
- **Mr. Miten Vohra - BNP Paribas Mutual Fund**
- Okay. Thank you sir.
- **Moderator**
- Thank you.
- A reminder to the participants please press “*” and “1” to ask a question.
- Participants please press “*” and “1” to ask a question.
- We have our next question from the line of Mr. Rohan Korde from Prabhudas Lilladher. Please go ahead.
- **Mr. Rohan Korde – Prabhudas Lilladher**
- Thank you moderator. Just wanted to know that in the last quarter you had mentioned that maybe in Q4 pre purchasing might not happen due to the possibility that GST might make _ (18:04). So do you believe that scenario can still continue or will there be an element of prepurchasing actually involved?
- **Mr. Naresh Jalan- Managing Director**
- No, I think with the GST rates getting announced I think a lot of clarity has emerged in terms of what the rates are going to be. And exactly

government has not mentioned that but people internally have started assuming what the rate is going to be and we are already witnessing a very robust demand already in the markets and production lines of Tata Motors and Ashok Leyland, everybody.

- **Mr. Rohan Korde – Prabhudas Lilladher**

- Okay. So basically that line of thinking maybe GST might make _ (18:49) even after _ (18:50) probably did not hold true anymore?

- **Mr. Naresh Jalan- Managing Director**

- No. It does not hold true and we feel that we are going to witness a very good demand in the fourth quarter in terms of prebuying also

- **Mr. Rohan Korde – Prabhudas Lilladher**

- Okay. That's very good to hear. And on Class VIII as well you mentioned that the exports are improving. Do you feel that from the next financial year which I am seeing Month On Month growth possible or will it still stagnate....?

- **Mr. Naresh Jalan- Managing Director**

- What we are witnessing right now is that Class VIII trucks fall in the Class VIII trucks demand has been _ (19:30). We are seeing now that the demand has become flat and nobody is aware of what is going to be the next government's policy as of now. But whatever reports we received from the customers as of today shows that this year, the next financial year is going to be similar to the current year. Because what has happened we are burnt of whatever inventories were there in the pipeline due to a sudden drop in demand. Because of the burnt inventory now what we are going to get is a new demand for the inventories which are not there. So I feel that we will be able to do much better than what we have done in previous quarters.

- **Mr. Rohan Korde – Prabhudas Lilladher**

- So basically these stocks will yield, can be potentially higher than what the actual to my mind?

- **Mr. Naresh Jalan- Managing Director**

- Yeah, because if demand remains flat also at this place because inventories are not high we will have the demand for the new inventories to build this.

- **Mr. Rohan Korde – Prabhudas Lilladher**

- That is very good to hear sir. And would we be giving any FY `18 tonnage outlook now or maybe...?
- **Mr. Naresh Jalan- Managing Director**
- I think in the next subsequent quarter.
- **Mr. Rohan Korde – Prabhudas Lilladher**
- Okay. That was very helpful sir. Thanks a lot. Moderator can we have more questions please?
- **Moderator**
- Ladies and gentlemen please press “*” and “1” to ask a question.
- As there are no further questions from the participants on behalf of Prabhudas Lilladher Private Limited that concludes the.....
- **END**