"Ramkrishna Forgings Q1 FY22 Results Conference Call hosted by ICICI Securities Limited"

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MODERATOR: **MR. NISHANT VASS – ICICI SECURITIES**

Moderator: Ladies and gentlemen, Good Day and welcome to the Ramkrishna Forgings Q1 FY22 Results Conference Call hosted by ICICI Securities 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 '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Nishant Vass from ICICI Securities. Thank you and over to you, sir.

Nishant Vass: Thanks Lisa. Good day everyone and thanks for joining us today for the Ramkrishna Forgings Conference Call. The management is represented by Mr. Naresh Jalan – Managing Director, Mr. Chaitanya Jalan – Whole Time Director, Mr. Lalit Khetan – ED and CFO and Mr. Rajesh Mundhra – Company Secretary. Now I would like to hand over the call to Mr. Lalit Khetan for his initial opening remarks. Over to you, sir.

Lalit Khetan: Thank you Nishant. Good evening and thank you everyone for joining our Q1 FY22 Earnings Call. We hope all of you and your loved ones are keeping well in these tough time. I have with me Mr. Naresh Jalan our Managing Director, Mr. Chaitanya Jalan – Executive Director and Mr. Rajesh Mundhra – Company Secretary. I hope you have been able to go through the result update presentation we have uploaded on the stock exchanges.

I will just give a brief of this on the industry right now. The Indian government PLI scheme for automotive sector with an outlay of Rs. 57,042 crores is expected to spur manufacturing and growth for the whole sector. Scheme still awaits approval from the cabinet, but as per report incentive rate may range from 2% to 12% of the incremental sales/revenue depending on the product category and sub scheme.

RKFL stands to qualify under the automotive champion scheme considering we meet all the suggestive criteria set out for the component makers that is more than 100 crores from the overseas operations at least Rs. 500 crores for overall revenue and global investment of minimum Rs. 150 crores. Once the final scheme is approved we will evaluate the same and share our plan to capitalize on this opportunity. Demand and consumption in the domestic auto sector remains subdued during the quarter. However, from the later part of June 2021 normalization of economic activity restarted and we accept a strong demand in the domestic market in Q2 FY22.

On export fronts as per the latest data provided by the SIAM total vehicle export during the April to June quarter of the current financial year stood at 14,19,430 units compared to 4,36,500 units in the same period in 2020-21. Commercial exports during the first quarter stood at 16,006 units as compared to 3,870 units in the April, June period of the last year. Globally markets are showing signs of resurgence European truck market is continuing to recover with new restrictions expected to rebound by 18% this year after 27% plunge in 2020.

Supplier side delays following disruptions and shortages will slow the upward trend, but order book suggest the recovery will last into 2022 full calendar year 2022.

Additionally, US new light vehicle sales grew by 30% and 5% respectively compared to the same period in 2020. In view of above we are confident of achieving good sustainable growth in near future in terms of top line in domestic as well as export markets and further improvement in overall operating margins on account of new order wins on existing as well as new customers and development of new products from existing customers. We have presented all the information on financial performance for Q1 FY22 in the investor presentation uploaded by the company.

Before starting question and answer session I would like to request participants to not raise any customer specific queries during the call and we will now open the floor for questions and answers.

Moderator: Thank you. Ladies and gentlemen we will now begin with the question-and-answer session. The first question is from the line of Dipen from DS Investments. Please go ahead.

Dipen: I had a slightly more macro questions could you give us some further insights into how do you see the commercial vehicle market in India and also in the export market planning out over the next two to three quarters and specifically you made a comment that your order book suggest that a calendar 22 should be a good year if you could throw some more color on what exactly do you mean by that and if at all you can provide some numbers in terms of order book that will be great?

Naresh Jalan: I think regarding domestic market like Lalit explained in his opening comments that post opening from mid-June onwards we are seeing lot of traction in the market, and we are extremely confident that commercial vehicle as a whole industry should do well in second quarter and going forward in third quarter there is a festive season. So, we expect this whole year rest of 9 months for commercial vehicle in India to do extremely well. In terms of export market we are seeing lot of resurgence in terms of Europe and as well as the market in US is extremely bullish going into FY22 also and in terms of giving an absolute number of my order book I do not think that is possible because it keeps on fluctuating month-on-month so I cannot give any number to the order book, but we are extremely confident of doing well with the current scenario whatever we see that the whole year is going to plan out extremely well for us.

Dipen: If I understand from the investor update which we have given that our overall capacity will be about approximately 1,80,000 tons so if I have to just and in the first quarter currently what would be the capacity utilization is it around 70% or so and by when do we expect to reach the full capacity and can we go more than 100% utilization I am slightly new to the sector so not very much aware about that, but what is the maximum capacity utilization level which we can achieve and by when do you think we should be achieving that?

Naresh Jalan: I think in first quarter we had a utilization of close to around 80%. We never turned down our production levels and we kept on producing in spite the industry was not observing all things we build up the inventory looking into the pent-up demand going into future and in terms of utilization going forward in terms of capacity I think as you are aware that we have added capacity in this quarter and going forward we feel by fourth quarter of this year we should be looking at close to around 90% utilization of the installed capacity.

Dipen: So, is it 90% of 1,80,000 tons approximately that much?

Naresh Jalan: 1,87,000 is a full year annual capacity, but for a quarter I think it is divided by 4 and 90% should be my utilization going into fourth quarter.

Dipen: Any further impact which we expect out of the raw material increases and if at all we can give us some guidance about how should we look at the operating margins the EBITDA margins going ahead?

Naresh Jalan: No in terms of raw material increases it is not in our control it is absolutely steel it is decided by the steel mill and the international steel pricing. So, we cannot predict what is going to happen going forward, but in terms of policy we have a pass on policy with our OEMs with a one month lag. So, we are able to pass on most of our price increases of steel till now and we expect to do it in future also.

Dipen: So, we have achieved our highest EBITDA margins in the current quarter so should we expect in the next year going ahead we should be achieving somewhat similar margins if at all not the exact number?

Naresh Jalan: We tend to remain at this levels going forward we expect our margins to remain stable and our outlook is extremely bullish.

Moderator: Thank you. The next question is from the line of Abhishek Jain from Dolat Capital. Please go ahead.

Abhishek Jain: There is a sharp improvement in the gross margin in this quarter, is there any one off like related with past quarter under recovery as RM impact was passed on in first quarter with 5% jump in domestic realization?

Naresh Jalan: Abhishek there is no one off item in the income statement and it is a consistent revenue and consistent cost. It is only there is an improvement in per ton realization and which is going to continue I think this level is going to continue going forward.

Abhishek Jain: But in the last quarter you had mentioned that there was under recovery in the export realization and that will be pass on from this quarter only?

Naresh Jalan: That is materialized that is not the problem that is materialized.

Abhishek Jain: So, what would be the sustainable gross margin in the coming quarter will it be a sustainable at their numbers or there would not be any price fluctuations?

Naresh Jalan: See on the price fluctuations it depends because we cannot comment on the price fluctuation, but whatever will be price fluctuation that is going to be pass through the customer and it is a matter of time lag so one lag this is a general time lag and on the margin side we are looking at right now what margins we have achieved we would like to achieve margins in this range only going forward.

Abhishek Jain: There is a sharp jump in the employee expenses during this quarter, so is it because of the capacity additions or is it because of the hikes in the salaries?

Lalit Khetan: It is a combination of that there is some hike in the salary and certainty we have paid back the employees what we have disrupted in earlier years that also we have paid in this quarter. So, this is on account of that, and we have paid our incentives to our employee also. So, that is why there is hike and next quarter you will see the normalized salary.

Abhishek Jain: And in first quarter revenue from the Europe has shown a strong improvement, can you throw some light on it have you done any new business or what is the reason?

Naresh Jalan: I could not got your question Abhishek can you repeat it.

Abhishek Jain: So, revenue from the Europe region has gone up significantly in the first quarter can you throw some light on it?

Naresh Jalan: Abhishek I think we have already expressed in last several calls that we have won large businesses from Europe, and it is now this has started coming into our income statement and it is going to continue to grow. Europe is going to be significant contributor in top line going forward this is only some highlights which has come into this quarter, but this is on a continued basis Europe is going to continue to grow.

Abhishek Jain: So, what is your revenue target from the Europe in FY22?

Naresh Jalan: No, we do not have any guidance in terms of FY22 basically our intent is that in export side Europe is going to be a substantial portion earlier only our substantial portion of contribution from exports was coming from North America, but now Europe is going to become a substantial part in our income statement.

Abhishek Jain: Sir as a total capacity for Press Line has gone up to the 1,07,200 tons after adding the new Press Line of the 7,000 tons, so total capacity addition in first quarter stood at 24,650 is it for the 60,300T Press Line or 12,500T Press Line?

Lalit Khetan: We have added hollow spindle line last year in December so 10,200 ton was for that account, but we have value for only one quarter that is why in the result we have seen it 2,550, but it was 10,200 added last year and 17,000 ton on account of new 7,000T Press Line so making it 177,200.

Abhishek Jain: It is for the hollow Press Line or the 1,600T Press Line?

Naresh Jalan: 7,000T Press Line.

Abhishek Jain: Sir you have also mentioned that you have forward into the road and the mining segment in domestic market what is the revenue visibility you are looking from this business?

Naresh Jalan: From mining segment we do not expect a huge revenue, but we have just made an significant entry this is going to show in coming quarter this is going to slowly become a significant and a growing business going into FY23.

Abhishek Jain: So, you are not expecting any significant business in the mining segment in FY22?

Naresh Jalan: No, we are already doing in the mining segment we are doing an annualized business of close to around 40 crores to 45 crores this is going to increase by 10% to 15% in this year, but this is going to become a significant business in FY23.

Abhishek Jain: And sir in last quarter you have also mentioned that you have won the business of around $25 million annualized business from the NCB business, so when it will start to reflect in the PL it is only in the FY23?

Naresh Jalan: It is going to be in FY23. This year we have already mentioned in that call that this year we are going to give samples and field trail and next year this is going to be business in income statement.

Abhishek Jain: My last question is related with this gross and the net debt in your book at the end of the first quarter FY22?

Lalit Khetan: Gross and net debt total net debt is about 1,100 crore Abhishek.

Abhishek Jain: That is the net debt?

Lalit Khetan: The debt has marginally increased due to higher utilization on account of working capital because there was very less domestic sales and there was much higher export sales so that is why little bit increase due to working capital utilization, but it will again come down in a coming quarter.

Abhishek Jain: Sir your CAPEX plan for FY22 considering this thing taking the benefit of the PLI scheme?

Naresh Jalan: See once the PLI scheme will be out then certainly we will work on that and examine that in the final detail then we will decide on the actual plan as per PLI scheme. Right now, for this year we are going to complete our pending of the last year project so that is 60 crore on that account and another 25 crores on the maintenance and another little bit on the machining side. So, we will be doing around 100 crores of CAPEX this year.

Moderator: Thank you. The next question is from the line of Aditya Makharia from HDFC Securities. Please go ahead.

Aditya Makharia: Just a couple of questions firstly on the debt what is the plan to deleverage near about 1,050 crores, 1,100 crores as you said what is the level we are comfortable with and secondly in the US with regards to the Class 8 truck sale it is a semiconductor shortage out there over and what is the CY21 or CY22 US Class 8 sales number you think is a real estate?

Naresh Jalan: In terms of debt, I think we have already guided in the last call that we are looking at reduction of debt on the annualized basis of close to around Rs. 75 to Rs. 100 crore in this year from internal accruals and in terms of Class 8 we cannot predict whatever right now we get the sentiments that there should be 2,70,000 to 2,90,000 for the full year in calendar year 21 and calendar year 22 also looks to be robust and at this levels only it may continue.

Abhishek Jain: But is the semiconductor shortage and issue of there because what we understand is the fleets are running full, but the new truck deliveries is delayed for some reason?

Naresh Jalan: New truck deliveries are delayed because of semiconductor as well as the supply chain issue being faced because of the sudden surge post COVID.

Moderator: Thank you. The next question is from the line of Mitul Shah from Reliance Securities. Please go ahead.

Mitul Shah: Sir again on a gross margin side in terms of raw material per kg if I do that calculation based on your volumes then it comes Rs. 74 per kg compared to past many quarters it was in the range of 81 to 85, can you throw some light how come this instead of rising it because of the commodity inflation it has come down significantly?

Lalit Khetan: It all depends upon the product mix there is no reduction in raw material prices. So, raw material prices are constant as per the last quarter only and it was consistent and I do not have exactly number how you derive this number Rs. 74 right now, but certainty it is inconsistent with the prices what we have in the last quarter and as you are comparing value per ton in terms of sales and cost it may not be the benchmark because product mix may differ quarter-to-quarter and top realizations are also different so it may have a different value, but our realization not gone down so it should remain consistent with the last quarter only.

Mitul Shah: Sir I am not taking anything from the revenue side I am taking purely raw material cost given by you in the P&L and dividing it by volumes given by you?

Lalit Khetan: I think you have production value. If you will look at last quarter also last quarter my production was more and the raw material I think their calculation is wrong last quarter my production was 37,000 tons and my cost was 272 crore and this quarter it is 35,000 tons and cost is 263 crore. So, almost it is in line how you are dividing a 10% difference I do not know because it has been very consistent with the last quarter, so I think there is some error in your calculation.

Mitul Shah: Sir my second question is again on a working capital loan you indicated is gone up marginally, can you give numbers roughly how much was it in last quarter in working capital loan how much it has increased?

Lalit Khetan: I think the last quarter to this quarter the working capital numbers has been increased by around 30 crore and whatever because long term debt we have paid around 20 crore, but that was also has been drawn also same amount on account of continuing CAPEX plan.

Mitul Shah: Sir last question on the margin side as you reported historically high margin, but this is again a quarter wherein your export volume is nearly half of the total volume, so can you indicate that export margins are sizably higher than the domestic and that is the reason these are the margins?

Naresh Jalan: I think Abhishek like we have expressed in earlier question also and in the past also we have said we are always working on improving the margins and this is going to be consistent with the future earnings and it is not that export has higher margins. It is basically the product mix which derives the profit, and we are deriving in terms of product mix to earn better margins going forward.

Mitul Shah: Lastly again just reconfirmation earlier we indicated non-auto segment revenue would be somewhere in the range of 300 crore in next two year still we believe that we can do in FY23?

Naresh Jalan: Yes we still believe because I think post COVID things are working out well within domestic industry and things are coming up very fast. So, we feel that going forward whatever we have commented we will be able to achieve by FY23.

Moderator: Thank you. The next question is from the line of Viral Shah from Enam Holdings. Please go ahead.

Viral Shah: Sir just question on the debt I think we said our debt is around 1,100 crores and we plan to reduce it by around 75 crores this year, so sir is this number the peak debt that we will see despite of growing export where we have a large working capital cycle, so can you just throw some light on the debt side I mean have we seen the peak debt and how confident are we of being able to reduce our debt numbers from here on?

Lalit Khetan: See by and large I think we are there at the peak level depending upon certainly this quarter performance it may be 5 cr or 4 Cr here and there, but as domestic demand is going to improve from here on and so the cash flow certainly on the domestic side is much better and when domestic sales improves cash flow improves and draw down levels will certainly go down. So, we are very much confident of reducing debt from here on and we are hopeful that there is an uplift in the demand in domestic market.

Viral Shah: Second question I think you did elude to the fact that your production volumes on a quarter-on-quarter basis were largely kind of constant despite sharp drop in CV production volumes, so can you just throw some light why, so I mean why did we kind of keep our production levels at an elevated levels?

Naresh Jalan: We actually feel that there is going to be a last time post COVID when the market suddenly because of pent up demand went ahead of predictions we were caught off guard and we were not able to sufficiently utilize the opportunity for higher sales. So, this is the time when we thought that it is better prudent to be keep on producing and in case there is a pent-up demand we will be able to make up the market and utilize that opportunity to be on the upper cycle of the market.

Viral Shah: Sir can you provide an update on the Amtek acquisition?

Naresh Jalan: It is still in NCLT, and we are still getting dates. We are not able to get a update or any confirmation from the judiciary right now. So, we do not have any time lines as of now by when we expect things to get materialized.

Viral Shah: And sir just last one point on electrifications, sir do you foresee on the CV side there could be a kind of upsurge in electrification or maybe hydrogen fuel cell technology in the next two to three years and if so how does that impact our company?

Naresh Jalan: I think our sales are not into majorly into any engine components so I do not think we will be able to be affected majorly or any way by electrification or in terms of hydrogen vehicles, but to just keep you updated we have already started on working on these also with lot of OEMs and we have just very recently received a significant order book for EVs from existing OEMs to start producing and supplying that. So, we as and when this sectors start developing into EV and we will also significantly make inroads into it.

Moderator: Thank you. The next question is from the line of Abhishek Shah from Valcore Capital. Please go ahead.

Abhishek Shah: One is sir you mentioned that you are just confirming you mentioned that by Q4 you are looking at 90% utilization on the 1.87 lakh metric ton capacity is that correct?

Naresh Jalan: Yes.

Abhishek Shah: So, sir that is assuming Q3 we did about 30,000 tons volumes, so where do you see that incremental growth coming from and what will be the domestic and export split in that I mean just a ballpark just trying to understand where do you see incremental demand coming from?

Naresh Jalan: It is extremely difficult to say what is going to be premix in terms of export and domestic, but as you know we have already said that the current market scenario for CV was sluggish and we expect the demand to comeback in this coming quarters. So, we expect with this capacity we will be able to sufficiently utilize the current demand which we feel that is going to come back to the industry in next coming quarters.

Abhishek Shah: And sir higher domestic volumes do you expect the margins going to sustain at these levels at 23%?

Naresh Jalan: I think with the utilization improving obviously the fixed cost are going to come down significantly. We are extremely bullish that our margins not only going to sustain we are going to do better in terms of margins going forward if the capacity utilization improves.

Moderator: Thank you. The next question is from the line of Dipen from DS Investments. Please go ahead.

Dipen: Sir I had a follow up question as far as the electric vehicles are concerned, do we currently supply to any customers for their electric vehicle and if at all we have any plans about how to proceed on those lines if you can just throw some more color on that sir?

Naresh Jalan: I think I have just answered to a question previously that we have just received significant order for electric vehicles from an Indian OEMs. This is our first entry into electric vehicle which is concerned while we are working with lot of customers on offshore in terms of electrification and components for electrifications. In terms of making any equipment or making any assembly we are not right now not there, but yes we are going to be part of assemblies for EV going forward and you will be able to hear in this coming quarters for RKFL getting into significant businesses with offshore and domestic customers for EVs.

Moderator: Thank you. The next question is from the line of Faisal Hawa from H.G Hawa and Co. Please go ahead.

Faisal Hawa: So, my question is that how do you feel that in 4 to 5 years what is it the kind of turnover or the revenue that we should expect and what are the kind of investment we need to make for the company to be really sustainable in a high growth sale?

Naresh Jalan: We are already in the high growth phase, and I think with the capacity utilization improving I do not know what is going to happen after 5 years, but as far as company is concerned we aim that in next two years company should be looking at close to around at least in terms of achieving our top line at least 50% to 60% growth on annualized basis from here on.

Faisal Hawa: Two years hence the strategy or the DNA of the company will remain same or it will grow faster?

Naresh Jalan: I think strategy is very simple we continue to grow with the market we are working both on content of the vehicle and as well as getting into new geographies and new varieties in terms of automotive segment.

Moderator: Thank you. The next question is from the line of Mitul Shah from Reliance Securities. Please go ahead.

Mitul Shah: I have question again on the LVC side what is the status currently and what is outlook on debt side are we seamlessly bullish the way we are positive on the Class 8 domestic or MCV?

Naresh Jalan: We are extremely bullish into all the segments of the commercial vehicle whether it is light vehicle or whether it is heavy vehicle. We are working extremely efficiently on both the markets, and we are getting new businesses as well as increasing our content in existing business also in terms of share of business and new component. So, we are extremely bullish and if you see by what a performance we have given in the first quarter while the industry most of the industries in India were on a shutdown basis and there were practically zero sales we have been able to clock a significant sales in domestic industry also that is basically only because we have improved our content per vehicle as well as share of business per vehicle.

Mitul Shah: Secondly on the export side can you indicate any major addition of client from North America or any apart from this Europe any other country?

Naresh Jalan: As of now we have nothing to inform I think already we have given press release few week back regarding our order win for Europe and we do not have any new information to share with the investors.

Moderator: Thank you. The next question is from the line of Sagar Parekh from Deep Financial. Please go ahead.

Sagar Parekh: My question is again on the gross margin I am still not able to understand you gave a clarification, but can you again help us understand so if I look at your last quarters raw material cost that is raw material consumed and stock adjustment put together that was about 264 crores in March 2021 and if I look at June 2021 which is the current quarter your raw material cost is about 162 crores so basically I am looking at about 11% improvement in gross margins sequentially so could you clarify how that happened that is a pretty big jump so on the realization front I understand that your realization increased quarter-on-quarter by 7% and 9% on domestic and export side, but on the absolute cost how did it come down is what I am trying to understand?

Lalit Khetan: Again, it totally depends upon the product mix Sagar and certainly on the export side lot of aerial products has gone and that gives us little better margin on the raw material side also so that has resulted in this kind of margin.

Sagar Parekh: So, this could be the sustainable number so if I just take the on the percentage terms?

Lalit Khetan: It is going to remain nearby in terms of what Naresh ji earlier said see we are expecting improvement in capacity utilization. So, certainly, the export and domestic mix may change in upcoming quarter little bit, but export is going to remain strong and we are also looking to improve on the export numbers also quarter-on-quarter. So, with that we are extremely confident of achieving similar kind of margin or we may improve upon that.

Sagar Parekh: Just to clarify this European OEM order that we won a 15 million Euros that will start from FY23 right?

Naresh Jalan: Yes.

Sagar Parekh: So, this quarter European numbers does not include that so that is from the earlier orders that we won?

Naresh Jalan: Earlier order wins it is there in the current income statement and gradually this is going to grow over next couple of quarters and 15 million new order book this year samples and field trails are going to happen, and this is going to completely come into the new order book next year.

Sagar Parekh: So, how big do you think can Europe become like right now it is about 25%, 26% of export sales, but broadly?

Naresh Jalan: As a company we are estimating, or we are working on basically 50-50 in terms of Europe and North America export that is the intent basically that is the intent we are working with.

Sagar Parekh: And just last question from my side we have guided for 75 crores to 100 crores of debt reduction for this year, but if I look at your and you have also said that next 9 months are looking very promising both on export and domestic so your margins are also going to improve so about even if like do 450 crores, 500 crores of operating profit and then you will have significant cash flows so what am I missing it is just an increase working capital that will lead to lower debt reduction because your CAPEX is also just 100 crores?

Naresh Jalan: Basically, Lalit has already answered to this question basically when domestic sales improve the inventories are going to go down and that is going to create cash in the books to pay off the debtors. So, short term debts are going to we are looking at reduction of short term debt going from.

Sagar Parekh: No so why only 75 crores to 100 crores why not more is what my question is because you would make much more cash flows then?

Lalit Khetan: See Sagar it depends upon the cash flow and if there is cash that 75 crore or 100 crore is what our target right now that is on the conservative basis, or I will say optimal basis and if we have more case certainly it will go on only reduction in working capital debt only.

Sagar Parekh: Are we actually factoring in any Amtek acquisition during this year in our 75 crores to 100 crores or let us say if it happens then will our debt reduction target further go down?

Lalit Khetan: Amtek acquisition is all together separate from all decisions because right now we do not have the clarity on that once the clarity will be there then we will comment on that including the debt number right now we are not constituting on any of the statement.

Sagar Parikh: So, this interest cost of 18 to 20 crores kind of quarterly run rate will continue for this year also then?

Naresh Jalan: Yes.

Moderator: Thank you. The next question is from the line of Nishant Vass. Please go ahead.

Nishant Vass: Sir could you share some light in terms of the progress in the domestic non-auto business how you are seeing that playing out specifically like categories like railway any you can update on that?

Naresh Jalan: I think Nishant in terms of railways we had a very high numbers, but because of COVID we do not see any great improvement, but it is a pleasure for us to inform that we have received development orders for manufactures of shells for locomotives and we will be supplying, and each shell is costing close to around Rs. 80 lakh we have received an order for close to around 8 pieces and this requirement from Indian railways is close to around Rs. 250. So, we will be supplying this development order within in the third quarter of this year and post that we expect significant business next year for manufacturing or shells for locomotives for Indian railways and in terms of further other nonautomotive business we have entered a segment which was missing in our portfolio that was tractor. We have made significant inroads in this quarter in the Indian tractor industry, and I think going forward in next two quarters we should do significant business from tractor and next year it is going to be again 8% to 10% annualized business for us from tractor segment.

Nishant Vass: And sir the same concept on nonauto exports are you seeing some improvements in your category in terms of offtake?

Naresh Jalan: Yes we are seeing good traction in oil and gas and locomotives in our offshore business, and I think it is very nascent right now to comment on what we will be able to do, but whatever indications we are getting from the oil and gas industry I think we should do a significant business in this year as well as next year in oil and gas. As you are aware because of the high oil prices CAPEX is again started in the oil and gas sector and we are extremely bullish going into next two quarters maybe second quarter may not result in a significant business, but the second half of the year we are going to do a significant business in oil and gas.

Nishant Vass: The second question is more in terms of what would you think because obviously your capacity sometimes is fungible and obviously it is a function of product mix and content is not the right reflection and in some categories these localizations have been higher than 100% so how should one think about your potential utilization peak utilization on the space of your capacity?

Naresh Jalan: Nishant I think peak utilization can be somewhere between 88% to 90% of the capacity we have declared that is going to be the peak beyond which we will need to do further CAPEX to augment further capacities.

Nishant Vass: And my third question is more in terms of previous cycle to this cycle, so how would you put your say without naming any customer in terms of category how do you think your content per vehicle is likely to evolve through this cycle vis-a-vis the previous cycle and in terms of also potentially will that be positively impacting your gross value just some directional sense on that?

Naresh Jalan: We do not see anywhere the volumes to return back to what was there in 2018 near future, but whatever was the pre COVID levels if that also happens we will be I think significant contributor to both in top line and in the bottom line from the domestic industries. I cannot put an absolute number to it, but in terms of content whatever improvements we have done if pre COVID levels also comes then also we will be able to do significant business in the domestic industry.

Nishant Vass: Sir in terms of content per vehicle for exports presume between previous cycle and this cycle they should do improvement that is the right assumption to put?

Naresh Jalan: I think that is already showing in the balance sheet Nishant I think if you see our historical numbers I think we in terms of quarterly exports we have done the highest ever exports in this quarter. So, obviously in terms of geography, in terms of making inroads into new arenas we have done considerably well.

Moderator: Thank you. The next question is from the line of Kush Joshi from Kitara Capital. Please go ahead.

Kush Joshi: Sir can you just explain some in the inroads which you made to the South American markets some flavor to that?

Naresh Jalan: I think in South America market it is not a new inroads I think three year back we were doing significant in 2017 we were doing significant business for Brazil and because of the currency impact that business had gone, and we had no businesses for last three years from then and now post COVID because of surge in the market that business has come back again and we have confirmed business plan for them for next three years.

Kush Joshi: So, what was the business we were doing in 17 in Brazil?

Naresh Jalan: I think it was close to around $5 million and this is going to be $5 million for next three years for us.

Kush Joshi: My second question is with respect to passenger vehicles so whether any traction we make there?

Naresh Jalan: No we have already entered into passenger vehicles segment, but right now our components are on field trial and right now we have not made any significant entry. I think going forward it will take at least two quarters to make significant into passenger vehicles.

Moderator: Thank you. The next question is from the line of Hitesh from Aksa Capital Advisors. Please go ahead.

Hitesh: Sir it is quite heartening to learn that you have been winning a new vehicles and I think the winds that you are talking about these are just not the organic growth that you are targeting, but I think it is also the content for vehicle just trying to understand what is driving this order flows to s in the sense I mean how I am sure some of these who were already catering to that market so what is driving that change if you could help us understand that?

Naresh Jalan: I think we will not be able to comment that we are taking somebody else business or not. For us it is a new business, and it is a new component and new area which were entering and as well as new geographies. So, we are bidding for each and every business and opportunities which we are getting and that is the way we are getting into new businesses, but whom we are dislodging or why we are dislodging it is up to the buyers to comment we cannot comment on that.

Hitesh: But are these new wins for the newer models or are they even for the existing model of vehicles it is coming?

Naresh Jalan: It is for existing requirements and as well as new requirements.

Hitesh: And because of the difference in steel prices both in India and the overseas market is it because of that we are getting an edge in terms of pricing that we are quoting with the customers?

Naresh Jalan: I cannot comment on that we are not looking at international pricing we are working with domestic steel industry, so we are working clearly on that, and we are quoting as per norms and our overheads. So, I do not know, or I cannot comment right now why it is up to the buyer to make his decision or what saving he is having. I would basically only be happy that I get the business and I continue to supply and get more and more entries into new geographies and new arenas.

Hitesh: And what would be the typical tenure of these wins that you generally have from the overseas customers?

Naresh Jalan: It is three to four years and some contracts for four years.

Hitesh: And just the last thing the railway order that you were mentioning about 8 shells for the locomotives is that for the freight locomotive or is that for the passenger locomotives?

Naresh Jalan: It is for electric locomotives both used for freight as well as passenger trains. These are being manufactured by DLW and CLW in India, but there are two basically locomotive manufacturing companies in India, and they manufacture and India is converting these entire requirement to electric locomotives and we have started manufacturing shells for this locomotives.

Moderator: Thank you. As there are no further questions I now hand the conference over to the management for their closing comments.

Rajesh Mundhra: Thank you Lisa. We would like to thank everybody joining on the call today. We are confident of continuing the new growth momentum by capitalizing in the upfront in domestic and international automotive sector, increase in content per vehicle along with new customer addition would enable us to maintain optimum capacity utilization of our enhanced manufacturing facility. For any further queries we would request you to get in touch with SG our Investor Relation Advisors or you are also free to get in touch with us. Wish you a very pleasant evening. Thank you.

Moderator: Thank you. Ladies and gentlemen on behalf of ICICI Securities that concludes this conference call. Thank you for joining us and you may now disconnect your lines. Thank you.