"Ramkrishna Forgings Limited Q2 FY-20 Earnings Conference Call"

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Moderator: Good day ladies and gentlemen, and very warm welcome to the Ramkrishna Forgings Q2 FY20 Earnings Conference Call hosted by ICICI Securities. 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. Please note that this conference is being recorded. I now hand the conference over to Mr. Rushad Kapadia from ICICI Securities. Thank you and over to you sir.

Rushad Kapadia: Thank you. Good afternoon everybody and welcome to the Q2 FY20 earnings call for Ramkrishna Forgings Limited. We have with us from the management Mr. Naresh Jalan, Managing Director, Mr. Lalit Khetan, Chief Financial Officer and Mr. Rajesh Mundhra, Company Secretary and Senior GM Finance. I would now like to hand over the call to the management. Thank you and over to you Sir.

Lalit Khetan: Thank you, Rushad. And good afternoon to everyone. We welcome you to the concall hosted by our company for the quarter and half year ended 30th September 2019. The total operational revenues for this quarter has been Rs.260.66 crore as compared to Rs.461.47 crore in the corresponding quarter. The total operational revenues for the half year has been Rs.639.91 crore as compared to 871.94 crore in the corresponding period. The company has achieved an EBITDA net of other income of Rs.47.28 crore for this quarter against 98.48 crore for the corresponding quarter. The EBITDA for the half year has been Rs.120.19 core as against 185.53 crore in the corresponding period. The EBITDA margin stood at 18.14% in this quarter as compared to 19.10 in the sequential quarter.

We achieved the domestic tonnage of 11,498 tons for this quarter against 20,484 tons in the sequential quarter. We have achieved an export tonnage of 7019 tons for this quarter against 8074 tons in the sequential quarter. During this quarter we have shifted to vendor management inventory system in the European segment, due to that the export tonnage has been less in this quarter otherwise it could have been higher by 350 tons and in sales value terms by about Rs.5 crore. The same will reflect in sales of Q3 FY 20. The export sale for this quarter has been 114.74 crore as compared 222.68 crore in the sequential quarter. The company has achieved an increase in export realization by around 7% on sequential basis. We had achieved the total tonnage of 18517 tons in this quarter as compared to 28558 tons in the sequential quarter.

The company has uploaded an investor presentation providing requisite details. We request to the investor, not to raise any customer specific queries during the concall. Thank you.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Abhishek Jain from Dolat Capital. Please go ahead.

Abhishek Jain: My first question is related with the export relation that has gone up 7% Q-on-Q basis, while on domestic front it has remained flat, so can you throw some light on it what is the reason. Is it because of the change in the product mix or anything else?

Naresh Jalan: Thanks Abhishek, I think in terms of domestic realization the steel prices in India has cooled off. As such we have a flat realization while product mix in domestic industry has also changed. In terms of export realization has increased by 7%. And I think in going quarters there will be further upward revision to the realization in terms of exports because of a better product mix and new geographies, like Europe and other entering more solidly into the balance sheet.

Abhishek Jain: Sir what was the contribution from the, in export especially for the North America versus Europe?

Naresh Jalan: I think including the VMI sales, the contribution in terms of geographies, 80% is still North America and 20% has been Europe.

Abhishek Jain: Okay. Versus the last quarter?

Naresh Jalan: There is 5% decrease in European exposure in this quarter, close to around 5%.

Abhishek Jain: Okay. So what sort of the order books right now do you have in export especially from the North America and Europe?

Naresh Jalan: I think in terms of exports, we are doing healthy exports going forward also. And as per our plan we will continue to grow in terms of our export market and new components and new varieties are entering into our portfolio. We have just entered into the LV segment in North America in a larger way. So as well as the European market, we have just in last quarter we have received approvals from two large OEMs. So all this is going to come into the balance sheet in coming quarters.

Abhishek Jain: And sir what was the contribution from the class 8 and class 5 in terms of the revenue in North America basically?

Naresh Jalan: In North America total sales whatever we do, close to around 70% is from the class 8 and class 5 trucks. We don't maintain any separate account for class 5 and class 8 separately, but in totality 70% of our total exports North America is class 8 and class 5 trucks.

Abhishek Jain: Okay. My another question is related with the domestic market. Domestic market your volume de-grew around 58% versus the industry de-growth of around 40- 45%. So, what is the reason of this sort of the underperformance. Is it because of the product mix?

Naresh Jalan: No, there is no underperformance, in terms of share of business in the commercial vehicle market, we have gained market share but as you are aware because of BS4 to BS6 changes, the OEMs have restricted their inventory considerably. And in terms of input, what they basically right now whatever they require for regular manufacturing that is the total in-warding they are doing. So as such we also have restricted our inventories as well as our manufacturing in terms of domestic output to the requirements basically which are coming from the customers.

Abhishek Jain: And my last question is related with your guidance of over the domestic tonnage segment and export tonnage segment for FY20 and if you can give some colors on FY20 on how it looks also. So, that will be quite helpful?

Naresh Jalan: Like I have said in my earlier questions, export tonnage and export growth looks very healthy and we will continue to grow in terms of our export. Domestic as of now there is not clarity in terms of FY 20 off take. FY21 we are seeing green shoots in the commercial vehicle as well as the total industry. While we remain cautious leading to BS4 to BS6 change in the March but beyond March we see that the market is going to regrow very fast. And we are awaiting I think in couple of days we will see the daylight of the scrappage policy. We are speaking since years together and this is going to further help in terms of growth.

Abhishek Jain: Is the new facility is about LCVs and passenger vehicle both or it's only for the LCV?

Naresh Jalan: It is for the LCVs.

Abhishek Jain: And this is for the export or domestic market?

Naresh Jalan: It is for the exports.

Abhishek Jain: Exports. So, in earlier call you have also guided that you wanted to enter into the passenger vehicle segments also. So, when this will start?

Naresh Jalan: What we have guided with our new expansion that we are going into increasing our capacities with LV, PV and railways. So LV segment is going to starting and with the market condition right now we are moving in a slow pace in terms of our expansion. So first expansion for start is going to start in the last quarter which is going to cater to the requirements of LV segment. Passenger car we presume right now it's going to be in the second quarter of next year FY21. And railways are also going to start from for FY21 first quarter.

Abhishek Jain: So if we add the number of LCVs from fourth quarter FY20 so what set of growth we can achieve in that forefront in FY20?

Naresh Jalan: As of now we have received a close to order of $8 million per year annum off take in terms of LV segment from North America.

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

Aditya Makharia: Sir just wanted to ask you, we were talking of or we have put in a bit rather for the assets of one of the subsidiaries of Amtek Auto. So, I just want to know what is a broader thought, how much do we want PVs to contribute in the medium term, because are we trying to transition away from, not away but diversify away from CVs in a meaningful way. And what is the status update on the acquisition? Where are we in terms of the bidding and those sort of things?

Naresh Jalan: In terms of broader outlook of the company we feel that we have grown enough in CV and there is a lot of opportunities in PV and LV and tractor segment. Getting into this acquisition was primarily to get into the tractor segment in a bigger way. And this company which we are looking at is right now in final stages of NCLT approval which is going to give us a big headroom into tractor sector, they manufacture crankshafts largely for two wheelers and crankshafts. Basically this is a machining capacity, which makes close to around 100,000 pieces of crankshafts for tractor segments and close to around 1.2 million pieces for two wheelers. So, actually we are targeting two-wheeler and tractor segment with entry into this new company.

Aditya Makharia: Okay. And you said we are in the final stages. So, should we expect anything by March end or it could even spill over into next year?

Naresh Jalan: No, I think like we have already informed the stock exchanges we have received the COC approval. And final approval from the NCLT is awaited any moment. We as of now we are working backwards for last quarter entry into this company.

Aditya Makharia: Okay. And in terms of funding, how would we tie that up. So would we take on more debt or?

Lalit Khetan: Debt will be raised at SPV level basically and from RKFL will be in the form of equity that will be 20- 25% of the investment.

Aditya Makharia: Okay, fine I get that. Second, sir just in terms of the US outlook so while we are expanding into new segments, how are you broadly seeing the class 8 trucks orders now because I think, for CY20, they have crossed 3,20,000 units right the class 8 sales in CY19, so CY20 is expected to be lower than that?

Naresh Jalan: As far as recent communication with the customers and recent discussions. We expect the industry to be marginally down by about 10 to 15% from the calendar year 19. As the present outlook because what has happened in October the sales have been extremely good, November also as of now looks extremely healthy, so they are presuming market should not go down more than 10 to 15% from the current levels.

Aditya Makharia: Okay and we will make up for this shortfall by getting into like you mentioned LCVs in Europe so this should balance out the fall in?

Naresh Jalan: Overall RKFL is going to continue to grow in terms of exports. Basically, the European geography which was base zero for us we have entered into European geography in a bigger way. And we had been approved by almost all the OEMs into commercial vehicles in the Europe. And gradually in FY21 and 22, both the years there will be significant progress in terms of European exposure for RKFL. In US whatever the market 10 to 15% is going to go down, that is made up by the LV as well as CV we have added couple of new components with new customers over there. So those components and the LV entry is going to basically give us the growth which is going to come down in terms of 10 to 15% slide down in class 8 trucks.

Aditya Makharia: Fair point. And just one basic question, you mentioned that your exports would have been higher by 350 tons, so could you explain what happened, the vendor management system like how does that work?

Naresh Jalan: Basically that is, we have created an LLC in the European market to basically and we have created our own warehouse to be on just in time with the customers. So now we are shipping all the material in terms of LLC to the base warehouse which has been created in Europe and the sales will be recognized once the material leaves the warehouse for the customers.

Aditya Makharia: Okay, so next quarter it should be back on track?

Naresh Jalan: It's going to be a one quarter lag in terms of the sales, but considering that Europe is continuously going to grow in a bigger way for us. We feel at least close to around 2 to 2.5 million euro sales every year is going to get transferred in terms of VMI and it's going to come into next quarter. It has just started from September so right now the figure is small. But every now quarter it is going to be close to 2 to 2.5 million euros which is going to be transferred in VMI. And it's going to get into sale after a quarterly.

Moderator: Thank you. The next question is from the line Dharmik Patel from Active Alpha. Please go ahead.

Dharmik Patel: Where are we in terms of acquiring new customers in the EU region? And how do you see export tonnage to improve in this region?

Naresh Jalan: I have already like in my earlier question I have explained except one big large commercial vehicle manufacturer that is Daimler Benz. We have now got into entry into all the CV players within the EU region and I think gradually every quarter we will see some or the other started playing in, already like we have informed the stock exchange, we have been approved by was Volkswagen group, which is basically Scania and MAN and we have received large contracts for them for about five years, which is going to kick in to production. Scania is going to be in

FY20 and MAN is going to be in FY21. But we really cannot commit to any terms of quarter which quarter is going to enter because there is a long lead approval system in terms of testing of the parts. So we are trying it our level best to reduce that. But it is going to take its own time in terms of customer approvals in terms of component tryout.

Dharmik Patel: Alright, there are lot of companies, lot of countries in EU which are entering recession so how will this affect us?

Naresh Jalan: I think we are starting with our base zero so I think whatever we get is going to be on the plus side for us, we like for the Volkswagen Group we have no exposure as of yet. So whatever is going to be is going to be an additional business. For Volvo Europe, we have zero exposure as of now whatever we enter is going to be a new business. Similarly for Ivaco also whatever we enter is going to be a new business for us. So obviously we are starting from a slate zero, so it is going to be only additional revenue for us.

Moderator: Thank you. The next question is from the line of Sachin Kasera from Swan Investments. Please go ahead.

Sachin Kasera: Sir, my first question was regarding the gross margins. We have done very well in terms of having a slightly better gross margin despite all the pressures. So, how do you see this trend of gross margin, second half will be in the same line as first half of it will be slightly better?

Naresh Jalan: First of all, we have taken a lot of while this recession has gone, we have taken a lot of cost cutting initiatives in the company. I think in overall in a full year basis to put a number to it close to around 25 to 30 crore cost saving things have gone through and we will continue to improve in terms of gross margins. And I think this is only a start of it. But when the market really picks up and we are able to utilize capacities to the better half, I think it will show a significant improvement in terms of bottom line at the EBITDA levels for the company.

Sachin Kasera: No, sir my question was more if you see last year first half the gross margin was around, the second half the gross margin from lower were 400 to 500 basis point. So it will, because of cost cutting only gross margins has improved and I think it will continuously going to be effort of the company is continuously to improve the gross margin. And I think with the value add and with the product mix changing very fast for us.

Naresh Jalan I think this is going to be a continuous process and it's going to continue come into the balance sheet.

Sachin Kasera: Sure sir. Second question was regarding that approval, which is pending on the Amtek Group company, you also gave out the capacity so two things sir. One is that, what is the peak revenue we can achieve from this facility? And secondly, you mentioned that it is only a machining, so we have to be sourcing forging from our plant Jamshedpur or sourcing locally from some other vendor?

Naresh Jalan: No, first of all in terms of peak revenue, I think we are yet to determine what is the peak revenue we can get. As of the balance sheet which we have bought they have attained a peak revenue of closer to around 275 crore. In terms of forging we are already in a process of getting our forging plant approved into the customer basis they have, and we will be sourcing 100% forgings from our own forging plants.

Sachin Kasera: So will it be economical to send forging all the since it's a very heavy material which will be economically because I believe?

Naresh Jalan: As of now also they are buying forgings from suppliers from South and from the West so obviously, I don't think there is going to be an issue in terms of because the customers are all next door so obviously customers being next door it is going to be value and supply to the next door customer.

Sachin Kasera: Okay, sir that's helpful. Sir on the exports last year which his around 530 crore you think we should be able to sustain that number, or you think despite the week macro globally, export should grow little bit this year?

Naresh Jalan: We will grow in terms of exports.

Sachin Kasera: Okay, any sense you can give us say 8, 5, 10%, 15% any broad range?

Naresh Jalan : Broad range is very difficult to put because of changing dynamics in terms of raw material. So, I think only thing which we can commit right now, we are going to grow in terms of overall exports and what putting a number because every quarter raw material prices are changing. So exactly putting how much we will grow it is extremely difficult to say.

Sachin Kasera: Sure. Secondly sir can you just help us what was the contribution of Europe in last year and the current year?

Naresh Jalan: Sachin I don't have the last year number, but this year first half close to in total exports close to around 20% is Euro.

Sachin Kasera: And since next year we are expecting significant growth, this 20 number?

Naresh Jalan: In terms of exports, we have already said in our earlier questions, we are targeting 30% of our exports from Europe.

Sachin Kasera: Okay and sir how do you see the overall exports is the next three four years from say 20% plus range? Do you think it can be 35-40% in two, three year?

Naresh Jalan: I think we are working towards healthy exports and continuous growth in exports and we are getting encouraging response from the customers in terms of our export at least 10 to 15% is company's objective to continuously grow in terms of export every year.

Sachin Kasera: Okay. And just very last question on a very broad basis, overall in terms of revenue how do you see second half or say even tonnage wise it should be at least better than first half, or you think as of now it should be broadly in line?

Naresh Jalan: I think optimistically with whatever green shoots we are seeing right now in the domestic market. We should be in the next second half, not this quarter second half we should be better than the first half.

Moderator: Thank you. The next question is from the line of Himesh Satra from Joindre Capital. Please go ahead.

Himesh Satra: So, my question is what will be our total capacity by FY21?

Naresh Jaln: In terms of capacity I think we will be close to around 200,000 tons.

Himesh Satra: Could you provide the breakup of it?

Naresh Jalan: Exactly what breakup basically you are looking at?

Himesh Satra: Plant wise?

Naresh Jalan: Plant wise, I think it is extremely difficult with the new expansion whatever is happening right now in plant 7 and some additional working in terms of automation which is happening in plant 5. I think we will be adding by FY21 close to around 50,000 tons of capacity.

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

Mitul Shah: Sir, I have a question on your non-auto side, right now how much is it contributing and going forward what is your view on overall non-auto contribution rising in export as well as in domestic if you can give more details?

Naresh Jalan: Overall in terms of company perspective close to around 5 to 6% is non-auto right now. But going into FY21 I think this will significantly improve with our railway division starting production in the last quarter and first quarter of FY21. We expect by in the second half of FY21 we should be close to around 10 to 12% in terms of our total revenue in terms of railways. So, non-auto will be close to around 15% of our total exposure by the second half of FY21.

Mitul Shah: Sir second question on the auto side within auto, how much would it be purely cyclical like MHCVs domestic and export combined?

Naresh Jalan: I think in auto whatever we are as of now in the current capacity is entirely into the commercial vehicle with the augmentation of new capacities, we are entering into LV tractor, PVs and with the addition of the new acquisition which we are making. We feel that by second half of H2 and first half of FY22 we should be in a ratio of close to around 60:40, 60% is going to still remain as commercial vehicle and 40% of our domestic revenue is going to come from tractor, PVs and LVs.

Mitul Shah: Sir in terms of CAPEX for first half how much you spend and for a full year and next year if you can give?

Lalit Khetan: We have spent around 100 crore total up to date you can say in the new plant and what we are looking at, again the plan in considering how the market behaves and we are quite flexible in expanding that way. Keeping that our earlier guidance that we shall not increase our debt level. So, debt level will 5% here and there from the current levels what we have right now. So, considering that we will move ahead. Yes, and the CAPEX plan is certainly will be done accordingly.

Mitul Shah: Sir roughly how much one should assume for this year FY20?

Lalit Khetan: See already we have done about 100 crore you can assume at least 50 to 75 crore more this year maximum considering the current market scenario.

Mitul Shah: Okay and sir directionally next year it should be lower than this year or marginally higher?

Naresh Jalan: The total CAPEX spend in the new project is going to be close to around 480 crore like we have already expressed earlier, but how much we will spend every year is basically based on the repayment and the market consideration because the total debt in the new project is 280 crore and basically interval accruals is 200 crore. So, how the market shapes up basically, depending on how the market behaves we are going to spend. So, next year CAPEX plan is while the project is on, but we are moving at a pace wherein we are able to consolidate our current capacities and we are able to see that how we are generating cash and accordingly the debt levels. Basically debt will only be to the tune of whatever we repay in every year.

Mitul Shah: Sir out of this 480 we have spent around 100 right now?

Naresh Jalan: So, this year basically we are going to repay close to 100 plus crore and that is a quantum of debt which we are going to take and similarly in next year also whatever debt we repay, that is the quantum of debt we envisage to take in to complete the new project.

Mitul Shah: Sir new project out of 480 crore we spend 100 crore so 380 is yet to spend over next two, three years right?

Lalit Khetan: Yes.

Mitul Shah: And sir last question is again on the North America side, any discussion at primary level or any thought in terms of oil and gas where our competitors are doing sizable business? Or anyone mergers focused on the non-auto side?

Naresh Jalan: No, focus is always there on the non-auto side. But if you see that overall North America oil because of the crude prices North America oil and gas also has deteriorated in terms of spending. While we are always wanting our non-auto business to improve but we don't see any green shoots in terms of new CAPEX happening in the oil exploration or the oil industry. So basically, the market is moving flat. We have our exposure of close to around 2% in the oil and gas industry in the North America and I think we will be continually looking for new business but as of now, we feel that this is going to remain flat for couple of quarters now.

Mitul Shah: Sir average exchange realization in last quarter?

Lalit Khetan: It was around 70.25.

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

Abhishek Jain: Sir, what was the capacity utilization of new press line, like 6300 and 12500 tonnage segment?

Rajesh Mundhra: The 12,500 tonnage it was about 4700 tons.

Abhishek Jain: For first half?

Rajesh Mundhra: For this quarter.

Abhishek Jain: Okay, and for first half?

Rajesh Mundhra: First half was 11,700 tons.

Abhishek Jain: And 6300?

Rajesh Mundhra: Generally we report for 12500 tons.

Abhishek Jain: Okay. there is another question related with the acquisition of the Amtek Auto facility for two wheeler and tractor. So this will be funded as you said that you will create an SPV. So, just can you throw some more light on it?

Naresh Jalan: We have submitted bid from the SPV only and 20 to 25% will be go from the RKFL equity rest will be funded in the SPV by way of debt.

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

Dhiral Shah: Sir my question is regarding you are looking to enter into PV and railway capacity, right. So, what kind of capacity you are eyeing sir in that?

Naresh Jalan: In terms of PV Dhiral like I said, we have acquired Amtek in terms of two wheelers and in terms of setting up additional forging capacity in terms of new expansion We are trying to cater to new components in PV's and EVs so basically in terms of capacities, we are not in terms of tonnage in PV because there is a very small components in terms of size we are looking at close to around 150,000 pieces per month in PVs, this is a few components which we have basically signaled out that we can enter in and basically in terms of pieces right now because by weight they are extremely small, but in terms of pieces we are putting 150,000 pieces per month capacity for this few components.

Dhiral Shah: Okay. And sir for railway?

Naresh Jalan: Railways, we have created a capacity to manufacture high speed coaches basically under frames of high speed coaches and side wall and end wall of high speed coaches. So these are basically 25 coach sets per month.

Dhiral Shah: 25 coach sets per month?

Naresh Jalan: Per month as of now and by year end means calendar year end by 20 it will be close to around 50 coach sets per month.

Dhiral Shah: Okay. And sir in terms of margins, currently your EBITDA is around let say 18 to 20% in a band and you are catering to largely CV segment but when you are entering into LV, PV, tractor and maybe railway segment, so you are expecting margin to remain same or they cater to higher margin?

Naresh Jalan: I think in terms of railways they cater to higher margins, in PL and LV they cater to some I think a little bit of lower margins. But overall what we see the blended margins with the current cost cutting and whatever we have done is generally in the organization. I think we are, we will go into an upward trajectory as the capacity utilization improves going forward.

Dhiral Shah: And sir what is the current capacity utilization?

Dhiral Shah: Let's say yes for H1?

Lalit Khetan: If you can see the H1 capacity utilization was about 71% and for this quarter it was about 50%. Q1 was 71 and Q2 was 50.

Dhiral Shah: And sir what kind of debt you are looking to raise at SPV level for buying this NCLT firm?

Lalit Khetan: In the region of 60 to 70 crore.

Dhiral Shah: And you will be investing around 20 to 25% as equity?

Lalit Khetan: 20-25 as equity correct.

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

Mitul Shah: Sir, I have question on your acquisition in terms of the synergy benefit do you see any major synergy in terms of common sourcing or cross selling products to their clients or anything on if you can give more details on that front?

Naresh Jalan: Like in earlier questions I've replied this is basically machining plant for crankshafts for tractor and two wheeler segment. Entire forgings will be sourced from our current forging operations. So obviously, we will have a better utilization in terms of our current forging utilization and being zero right now in terms of tractor and two wheelers. We will have a new segment where in RKFL will be able to enter through this acquisition and whatever sales or whatever new revenues we can generate will help us in better utilization of our forging capacities, as well as basically de-risking our commercial vehicle.

Moderator: Thank you. The next question is from the line of Sachin Kasera from Swan Investments. Please go ahead.

Sachin Kasera: Yes, sir, regarding this Amtek Group acquisition, so basically you are housing it in a subsidiary company? How's the structure exactly?

Naresh Jalan: Yes, we are right now acquiring it through a 100% subsidiary of RKFL.

Sachin Kasera: Okay, so I would believe there must be some losses in that business. So do we, when we buy out this entire business. Do we also get the benefit of accumulated losses in that entity or we only business part of it?

Lalit Khetan: Yes, that we will get, we will get that accumulated losses benefit also. In STB ultimately when it will get merged to RKFL we will get that benefit in our case also.

Sachin Kasera: And would you be able to quantify what is the type of accumulate losses you will be able to get when you take over this company?

Lalit Khetan: That's a big number Sachin, but I will not like to quantify the exact number but I will just say its quite substantial entity huge in terms of absolute value.

Sachin Kasera: And if and when this entity merge with RK Forging, RK Forging with get the benefits so FY21, 22. The tax rate on a console basis can be a little lower than what we are paying currently?

Lalit Khetan: Much lower and the RK will be usually benefited by this tax benefit.

Naresh Jalan: Basically to reply to your question on this, basically we have right now bought it into an SPV only basically looking into any legal complication which may arise in the course of time after the completion of acquisition. We do not want, we would like to keep RKFL harmless till all the litigation and other things are over. That was the reason behind getting into an SPV route. But we emphasize once all the litigations and all everything is through, immediately to merge it with RKFL and get the benefit of the accumulated losses in RKFL balance sheet.

Sachin Kasera: Sure. And sir since you mentioned that the forging will be captivity consumed from Jamshedpur. So, what is your sense over a period of two, three years like 8, 10,000 tons we can supply from Jamshedpur to this plant?

Naresh Jalan: As of now Sachin we have whatever worked out in terms of capacity like I think it will take at least two years for the company that acquisition to stabilize and the peak off take in tractor and two wheeler segment we should be supplying close to around 5000 tons forging per month.

Sachin Kasera: Per month or per year sir?

Naresh Jalan: Yes, 60,000 tons of capacities per year.

Sachin Kasera: That's a very large number sir in the sense.

Naresh Jalan: Yes.

Sachin Kasera: And on the debt front, have you seen any benefit of reduction of rates, the way rates have been cut or we continue to be the same rates, and do we see any rating upgrade happening in the next two to three quarters which can further lower the rate of interest?

Lalit Khetan: See rating upgrade depends upon how market moves, if market improves so, then we look at the rating upgrade but in the current market rating will remain at this level only. Debt scenario is right now, debt rate is going down so we are getting marginally benefited by that. And so we are getting a 10, 15 point basis reduction in our rates also, but not much more than that. And if market improves then we get rating upgrade certainly it will happen.

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

Dhiral Shah: Sir, you are targeting around 2500 to 3,000 crore turnover by FY22?

Naresh Jalan: I think everything depends on the market conditions. While we want, we are confident in terms of exports and domestic industry we are optimistic that beyond March 20 things should considerably improve looking into scrappage policy and other things. We obviously cannot put a number, but as per our installed capacity of 200,000 tons I think 3000 crore is achievable.

Dhiral Shah: Okay. And sir secondly, what kind of revenue this Amtek Auto used to generate?

Naresh Jalan: Two years back they had generated, three years back they had generated 275 crore revenue, but the installed capacity in the plant is for 60,000 tons of machined capacity. They can machine up to close to around 60,000 tons of forging every year which can generate at a peak revenue of close to 700 crore.

Dhiral Shah: How much, 700 crore?

Naresh Jalan: Yes.

Dhiral Shah: So then they were generating only 275 crore?

Naresh Jalan: Yes, that's the reason they have gone into an NCLT.

Dhiral Shah: Okay. So then capacity utilization was much lower as compared to the?

Naresh Jalan: Yes, into the installed capacity.

Moderator: Thank you. The next question is from the line of Pawan Pareek from Renaissance. Please go ahead.

Pawan Pareek: What is your debt repayment schedules for next two years FY20, 21?

Lalit Khetan: In the region of 90 to 100 for each year.

Pawan Pareek: And your CAPEX plan each year?

Lalit Khetan: The CAPEX plan is different from the debt repayment but certainly debt level will not go up from this level we will borrow as much as we repay. Certainly there will be some internal accrual will be deployed in the CAPEX apart from that.

Pawan Pareek: Current capacity is 150,000?

Naresh Jalan: Yes. Yes current capacity is 150,000.

Pawan Pareek: Okay, so basically all your expansion from PV, LCV, tractor is contingent on adequate cash flows that you generate from the business otherwise won't be able to borrow?

Naresh Jalan: I think in earlier questions we have already clarified like for tractor segment and all our acquisition. We have already deployed 25 crore of cash and balance is the debt which is coming on the SPV. And already 100 crore on the new capacities in plant 7 have already been spent which is already in process of railway capacities is in progress of argumentation and I think in the last quarter and the first quarter of next year capacities will start operation and in terms of capacity 50,000 tons of forging capacity is already in process of addition, I think last quarter 25,000 tons will get added for LV and PV segment and another 25,000 tons will be added in the second quarter for which already the CAPEX has already been spent.

Moderator: Thank you. The next question is from the line of Himesh Satra from Joindre Capital. Please go ahead.

Himesh Satra: Could you just provide what will be the tax rate going forward?

Lalit Khetan: We are going to continue right now at the current tax rates considering the mat credit available to us. And we are evaluating that in terms of our current expansion and the carry forward losses for Amtek to accept. So certainly considering that we are assessing the situation and we will decide by the year end where we want to remain.

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

Rajesh Mundhra: I on behalf of the company Rajesh Mundhra on behalf of the company. I would thank all the investors for sparing their valuable time and attending our concall. Thank you very much for attending the call.

Lalit Khetan: Thank very much, everybody.

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