"Ramkrishna Forgings Limited Q3 FY2018 Results Conference Call"

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ANALYST: MR. RUSHAD KAPADIA - ICICI SECURITIES

MANAGEMENT: MR. NARESH JALAN – MANAGING DIRECTOR – RAMKRISHNA FORGINGS LIMITED
MR. RAJESH MUNDHRA – SENIOR GM (FINANCE & COMPANY SECRETARY) - RAMKRISHNA FORGINGS LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the Ramkrishna Forgings Limited Q3 FY2018 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. In case 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 everyone and thank you for joining us today for the Ramkrishna Forgings earnings call. From the management side, we have Mr. Naresh Jalan, Managing Director and Mr. Rajesh Mundhra, Senior GM (Finance & Company Secretary). I would now like to handover the call to the management. Thank you and over to you Sir!

Rajesh Mundhra: Thank you Rushad. Thank you and good afternoon to everyone. We welcome you to the concall hosted by our company for the quarter and nine months ended December 31, 2017.

We have achieved our domestic tonnage of 25749 tonnes for this quarter as against 15760 tonnes in the corresponding quarter. The domestic manufacturing realization had been around 12680 per tonne in this quarter as compared to 86475 in the corresponding quarter. We have achieved an export tonnage of 7358 tonnes for this quarter as against 4600 tonnes in the corresponding quarter.

The export sales for this quarter have been Rs.108.09 Crores as compared to Rs.56.70 Crores in the corresponding quarter. The export realization has been 146900 per tonne in this quarter as against 120270 in the corresponding quarter. The export sales for the nine-month period have been Rs.301 Crores as compared to Rs.176 Crores in the corresponding period.

We have achieved a total tonnage of 33107 tonnes in this quarter as compared to 20350 tonnes in the corresponding quarter. The total tonnage achieved by us for the nine months is 85855 tonnes as compared to 57036 tonnes in the corresponding period. The total net operational revenue for this quarter has been Rs.400 Crores the highest ever, ever by our company as compared to Rs.212 Crores in the corresponding quarter resulting in increase of around about 88%.

The total net operational revenue for nine months has been Rs.991 Crores as compared to Rs.585 Crores in the corresponding quarter resulting in increase of 69%. We are delighted to inform you that we have already crossed the revenue that we have clocked for the full year last year. The company has achieved an EBITDA net of other income of Rs.77 Crores for this quarter as against Rs.40.58 Crores in the corresponding quarter resulting in increase of 90%.

The EBITDA margins for the nine months have been Rs.193 Crores as compared to Rs.111 Crores in the corresponding quarter. The EBITDA margins for this quarter excluding other income have been 19.28 in this quarter as compared to 19.13 in the corresponding quarter. We have also uploaded the investor presentation where the requested sales have been provided to all the concerned.

We request the investors not to raise any customer specific queries during the concall. I am accompanied by Mr. Naresh Jalan our Managing Director on this concall today. Thank you for this and I handover the presentation to Mr. Rushad.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Nitesh Sharma from Phillip Capital. Please go ahead.

Nitesh Sharma: Good afternoon everyone. Congratulations on a strong quarter. Sir to begin with on the volume side, we have consistent improvement both on the export and domestic market, so would you like to touch upon what would be the outlook for the next year, any guidance or any specific number you are looking at for FY2019?

Naresh Jalan: No I think FY2019 we are yet to finalize our business plan. I think we are still stuck with FY2018, which is going to end in the month of March and 115000 tonnes we had guided for this full year and I think we will be doing better than what we had guided.

Nitesh Sharma: Correct Sir and if the end-market momentum continues we might tend to achieve 150000 our nameplate capacity in FY2019 itself, so any plans to increase capacity or any debottlenecking plans? What could be our achievable production in FY2020 if the market momentum remains strong?

Naresh Jalan: No I think as of now like in the last call we are already in the process of debottlenecking in terms of more utilization in our machining capacity and other ancillary capacities are nonrelated to only forging. Basically what we are looking right now is maximum utilization of the current installed capacities and as of now we have not yet summarized on our plans for capacity investment from here on. As and when we do that we will come back to our investors and inform them.

Nitesh Sharma: Sure and Sir during the quarter we saw a sharp dip in the gross margins, so is it only because of lag in passing on the RM price pressure?

Naresh Jalan: Yes. I think we have put up a detail in the presentation also that December 1, 2017, there was a sudden price increase of Rs.4000 per metric tonne, which had not been passed on, which had been passed on only in the month of January, so basically that one month time lag that is the effect, which is being shown in the gross margin.

Rajesh Mundhra: Well Nitesh basically the gross margins are functions of the raw material price. So that as our MD has specified that is just effecting on the account of that.

Nitesh Sharma: Correct Sir and we have seen significant cost control both on employee cost level and other operating cost level, so is it sustainable what measures are we are taking for the same?

Naresh Jalan: I think going forward also with the volume increase continuing, I think for the next couple of quarters, we will see the consistent drop in employee cost and other cost before it stabilizes.

Nitesh Sharma: Sir what is the outlook we are getting from the domestic MSCV OEMs for Q4 and the next financial year?

Naresh Jalan: I think the present robustness is going to continue for the whole year of the calendar year 2018 as of now both from exports as well as domestic market.

Nitesh Sharma: Great Sir. Thank you. I will come back in the queue.

Moderator: Thank you. The next question is from the line of Ajit Motwani from Bharti AXA Life Insurance. Please go ahead. Ajit Motwani your line unmated for questions. Please go ahead.

Ajit Motwani: Good afternoon Sir. My question is on margins. The margins on a per tonne or a per kg basis has ranged at about Rs.22 for some of the quarters now despite the fact that the utilization from this large plant have ramped up very well? It is almost 70% now, so what has been the reason for such a stagnancy in margins though we were expecting that margins from Rs.22 will increase, but for the three quarters now it has not happened?

Naresh Jalan: First of all this Rs.22 how do you get I am not…to that, but to be very, very clear, in the last two quarters, we have seen raw material price increase of close to around Rs.7 per metric tonne already and there is a time lag for getting this raw material increase. We are yet to get this Rs.4 price increase and till the steel prices if it is stagnant then only we will be able to see the growth in terms of margin because of time lag we are unable to build in the price increase until and unless we get it from the OEMs. So that basically gets into the margins as well as you have seen currency also has appreciated. The rupee has appreciated vis-à-vis the dollar, so in mid of the quarter we are unable to pass those forex increases also. We have to wait till the starting of the quarter to pass on the price increases.

Ajit Motwani: So what was the dollar realization in December quarter versus September?

Naresh Jalan: I think it is somewhere around Rs.63.80 paisa vis-à-vis 65.25 in the quarter September.

Ajit Motwani: So this negotiation with the export OEMs that gets translated in the start of the quarter?

Naresh Jalan: Start of the quarter.

Ajit Motwani: So affective this quarter you will get the hike both for the raw material?

Naresh Jalan: Raw material cost and forex.

Ajit Motwani: In terms of the new products you have been highlighting in your presentations for some time now, so any development on non-auto?

Naresh Jalan: I think in the presentation we have spelt out our foray into oil and gas and we have started doing considerably well in oil and gas. Last quarter we saw some large exports happening in terms of oil and gas, but in terms of total tonnage, it may not be very large but in this quarter as well as the calendar financial year FY2019, we will see large sum of activity from oil and gas.

Ajit Motwani: What is the run rate of quarterly revenue from oil and gas now?

Naresh Jalan: As of now, it is not big, but this quarter onwards it will be close to around $1.5 million to $2 million and going forward next year are budgeting close to around $8 million from oil and gas.

Ajit Motwani: On a full year basis next year?

Naresh Jalan: On a full year basis.

Ajit Motwani: Which is basically $2 million every quarter type of a number…and in terms of debt positions how much debt currently?

Naresh Jalan: Rs.707 Crores as on December.

Ajit Motwani: This is net debt?

Naresh Jalan: This is net debt because do not have cash in advice, this is the net debt.

Ajit Motwani: What is our annual repayment schedule?

Naresh Jalan: Annual repayment schedule for the next financial year would be around Rs.93 Crores. We had about Rs.86 Crores for this financial year.

Ajit Motwani: So that Rs.86 Crores will be done and then another Rs.90 Crores you are saying will do next year?

Naresh Jalan: Do it in FY2019. Rs.93 Crores FY2019.

Ajit Motwani: One last question on the working capital. You had diluted that for your export clients basically bring down the debtor days, so is it on track now, over the last couple of quarters have they come down?

Naresh Jalan: Yes the debtor days are coming down and in fact, we have finalized an agreement what we are saying for the export factoring and this will further help of reduce the debtor days.

Ajit Motwani: What will be this time for export clients?

Naresh Jalan: Export clients as of now we are having around about 160 to 180 days, which will reduce around about 110 to 120 days.

Ajit Motwani: They will reduce you are saying?

Naresh Jalan: Yes.

Ajit Motwani: Thanks a lot Sir. That is it from my side.

Moderator: Thank you. The next question is from the line of Sanjay Satpathy from Ampersand Capital. Please go ahead.

Sanjay Satpathy: Thanks a lot for taking my question. Sir you were just explaining about the margin headwinds. Basically you are saying that consistently steel price is rising and there is a month odd delay in the compensation and similarly rupee is getting stronger, so that is also hurting and one can clearly see that despite all this you have been able to maintain margin primarily because your utilization, and assuming that this trend will continue what more leverage do you have to maintain or improve margin? Will machining mix be a big thing for Q4 or next year?

Naresh Jalan: I think we are already in the process of debottlenecking and increasing our machining capacity with more utilization of sending customer ready-to-use products. That is the reason what you can see, per kg realization has drastically gone up last quarter vis-à-vis earlier quarters and going forward we tend to increase that further. Basically this will help us mitigating and continuing with a stable growth process both in terms of topline and bottomline.

Sanjay Satpathy: Understood and Sir is there any scope of margin to improve because of all this or it will just maintain?

Rajesh Mundhra: I think margins relatively if raw material prices are calm basically if it increases also we have to look at what is the substantial increase, which is going to happen and then we need to look at it. As of now, both the quarters there has been sudden price increases, which has not been budgeted. That is the reason things have been more alarming for us.

Sanjay Satpathy: As there been any price hike or any cost hike in January and when is it likely that you will?

Rajesh Mundhra: I think in the next three months we are not going to see any raw material price hike till the month of March end. So obviously we feel that this quarter is going to be far more calm than previous quarter in terms of raw material prices.

Sanjay Satpathy: Understood and Sir this Rs.4000 cost hike have you already got the compensation or you are about to get?

Rajesh Mundhra: We have got from the month of January.

Sanjay Satpathy: Thanks a lot.

Moderator: Thank you. The next question is from the line of Shekhar Singh from Excelsior Capital. Please go ahead.

Shekhar Singh: Sir I just wanted to know like what was the net debt number that you mentioned?

Rajesh Mundhra: Rs.707 Crores.

Shekhar Singh: Rs.707 Crores and what is the capex plan for the year?

Rajesh Mundhra: The capex plan as we have already explained is around about Rs.80 Crores to Rs.85 Crores that we had for these entire financial years, spent over two years.

Shekhar Singh: How much is it?

Rajesh Mundhra: Rs.80 Crores to Rs.85 Crores that will be spent over two years.

Shekhar Singh: Post this capex like in terms of if you look at fully expanded capacities, so what capacity utilization are you running right now?

Naresh Jalan: We are running at around 68% right now, but in terms of this capex I think the capacity utilization in terms of forging will not improve. It is only basically value-add jobs will improve. Basically realization per kg is going to improve further.

Shekhar Singh: Can you indicate how much can be the increase in terms of delta basically and not exactly in terms of?

Rajesh Mundhra: I think it is extremely difficult as of now. Right now if you see quarter-on-quarter there has been a considerable increase in both exports and domestic realization. We expect this to continue in terms of percentage.

Shekhar Singh: Perfect. Thanks a lot Sir.

Moderator: Thank you. We have the next question from the line of Mayur Milak from Indianivesh Securities. Please go ahead.

Mayur Milak: So just wanted to understand what is your capacity utilization on the 12500 tonner?

Naresh Jalan: It is around 54%.

Mayur Milak: 54% and when we say that we are trying to do a foray into the oil and gas, would that really mean that you will be using the more of the 12500 tonner or it is the lighter ones?

Naresh Jalan: It is the lighter ones.

Mayur Milak: So this 12500 tonner will still specifically go for the Class 8?

Naresh Jalan: Not only Class 8, but for all commercial vehicles basically.

Mayur Milak: You mentioned that you are looking at a capex of about Rs.80 Crores for the next year and a repayment of about Rs.93 Crores?

Naresh Jalan: No I think from Rs.85 Crores capex was both for FY2018 and FY2019. So the capacity is in terms of machining and debottlenecking of the process.

Mayur Milak: Alright, so can I assume a 50:50 kind of break for this?

Naresh Jalan: Yes. Safely you can assume that.

Mayur Milak: So just wanted to understand so we are looking at Rs.93 Crores of repayment and about Rs.50 Crores to Rs.40 Crores, Rs.45 Crores of capex for next year, so about Rs.130 Crores to Rs.140 Crores utilization is going to be through this and most of this will come from the operating cash flows?

Naresh Jalan: Right.

Mayur Milak: Alright I will come back for more.

Moderator: Thank you. The next question is from the line of Anupama Goswami from Stewart and Mackertich. Please go ahead.

Anupama Goswami: Good afternoon Sir. First of all, I would like to know what is your sales on North America classic trucks going for this current year maintenance?

Naresh Jalan: Can you be a little louder, we are not able to hear you?

Rajesh Mundra: Can you repeat your question and be little loud. I think we are unable to hear you.

Anupama Goswami: I wanted to know if you can throw some light on the North American classic truck sales and how it is going to be for the whole year?

Naresh Jalan: I think we have already mentioned in the presentation classic trucks are going to be robust in this year. In calendar year 2018, we expect the market to grow and as far as the data, which has been released from the auto industry in North America, we are looking at volume of close to around 308000 vehicles for the full year vis-à-vis 270000 vehicles, which they have done this year.

Anupama Goswami: Also can you give me some light on the weightage of revenue you are getting from the different business verticals?

Naresh Jalan: What exactly you mean by this?

Anupama Goswami: Like from the CV and you said you have forayed into oil and gas as well and other like…?

Naresh Jalan: I was very clear oil and gas we have not done any substantial revenue in the last quarter. We expect to do good revenues in this quarter and continue with the revenues over the next year and as of now 90% of our sales is through automotive sales and balance 10% is through railways, mining industry, and different industries within India and abroad.

Anupama Goswami: Any more product mix that you are coming into and you are trying to venture into more markets?

Rajesh Mundra: No we are right now trying to grow into the basically oil and gas and mining market in offshore and we continue to be strong in the commercial vehicle market.

Anupama Goswami: All right Sir. Thank you. That is it.

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

Nitesh Sharma: Does the Rs.4000 price hike take care of all the RM pressure during Q3 and whatever increases on the RM, we would see in Q4 or do we require incremental hikes even?

Naresh Jalan: No I think as of now Rs.4 takes care of the raw material price increases, which has happened till Q3, we have had no raw material price increase in Q4 till now and we do not foresee any raw material price increase going forward. If and at all it happens it has been to be a pass on again.

Nitesh Sharma: Great Sir. Thank you.

Moderator: Thank you. The next question is from the line of Amyn Pirani from Deutsche Bank. Please go ahead.

Amyn Pirani: Good afternoon Sir. Thanks for the opportunity. I joined a bit late, so pardon me if I am repeating some question. Sir my question was on the raw material only, so generally this pass through formula does it always work with like a quarter lag, it is like a fixed methodology or does it vary from customer-to-customer and geography-to-geography?

Naresh Jalan: No raw material prices are pass through in domestic market on one-month basis, one-month time length and in exports three months' time length.

Amyn Pirani: So the lag that we have seen in the last two quarters is it mostly because your exports have also started to grow significantly or is that the reason for that?

Naresh Jalan: It is both domestic and exports, domestic also in the month of December the price hike that has been passed on only in the month of January, so both, there is a time lag of four month.

Amyn Pirani: What would be your capacity utilization right now broadly and what kind of capex are you looking at for fiscal 2019 and 2020?

Rajesh Mundra: The capacity utilization for the press plant is about 68% for this quarter and as we have said in the call earlier is that the total capex that we are looking is for about Rs.85 Crores for this FY2018-2019 together.

Amyn Pirani: This is mostly maintenance capex or is it or are you adding some?

Naresh Jalan: It is part of a maintenance capex basically more of addition of machining capabilities we are having as of now, so we will be adding more of a machining facility with this capex, so that is we can have more value-added products and have more machine products as stated.

Amyn Pirani: Okay Sir. Thanks for the opportunity. I will come back in the queue.

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

Sagar Parekh: What would be your machining mix for the nine-month of 2018 and going forward what is our target?

Naresh Jalan: Machining mix it varies from plant to plant Sagar, actually we have like plant one is only forgings, so it is extremely difficult to get in terms of what is the exact total tonnage in terms of mix of machining as of today.

Sagar Parekh: But on a ballpark number?

Naresh Jalan: Ballpark number close to around 60% in machining and 40% is forging supply and with the new capacity addition, which we are doing in terms of our capex in coming two years in terms of adding machining, we should be adding at least 10% to 15% in terms of volume addition in terms of machining.

Sagar Parekh: 10% to 15% volume addition, so that would be possibly lead to some net sales realization going upwards, so what can…so like if I take your nine months number for?

Naresh Jalan: No I think it is good to assume the last quarter number of 1,46,000 in terms of exports and I think 1,08,000 in terms of domestic.

Sagar Parekh: So this should be the sustainable number going forward?

Naresh Jalan: I think this is going to be further improved in terms of after addition of machine; this realization per kg is going to go up in both exports and domestic market.

Sagar Parekh: So what can we assume for FY2019 and FY2020?

Naresh Jalan: FY2020 is too far away, I think FY2019 we should assume that at least close to around 10% jump from here on, 10% to 15% jump from here on.

Sagar Parekh: Fair enough. Thank you. That is it from my side.

Moderator: Thank you. The next question is from the line of Jay Kale from Elara Capital. Please go ahead.

Jay Kale: Thanks for taking my question. Sir just one question in this machining mix improvement build also entails some machining capacity for crankshafts as well or it would be no crankshafts?

Naresh Jalan: No I think we are not adding any Crankshaft machines.

Jay Kale: It is front axle and other products?

Naresh Jalan: We continue to be strong on the front axle and rear axle and we continue to expand in rear axle and front axles.

Jay Kale: Okay great. Thank you. That is all from my side.

Moderator: Thank you. We have the next question from the line of Mayur Milak from India Nivesh Securities. Please go ahead.

Mayur Milak: Wanted to understand, should we look at higher growth than the anticipated growth in Class 8 meaning are we looking at an improved market share in this year?

Naresh Jalan: Yes we are obviously looking at increased market share because of 12,500 tonne products all have been approved by our current customers and we are expecting large shipments to happen from this quarter onwards.

Mayur Milak: Great and on the oil and gas would it be fair to assume that your realizations would be much higher than the current auto realization that you made from the lighter press machines.

Naresh Jalan: Yes obviously.

Mayur Milak: Thanks.

Moderator: Thank you. We have the next question is from the line of Ajit Motwani from Bharti AXA Life Insurance. Please go ahead.

Ajit Motwani: If I look at your increase in realization year-on-year December quarter over last December it is about Rs.24, Rs.25 for exports and just about Rs.18, Rs.19 on the domestic side, so is it that the mix in the export is better YOY or is it just difference of timing on the pass through of the cost?

Naresh Jalan: No actually both in terms of product mix has changed and more machining has been added to the capacity in both domestic and export, as well as in export some little bit of oil and gas has started coming in.

Ajit Motwani: Okay so basically export has a benefit of that oil and gas, but domestic you are saying it is just the fact that higher machining has contributed to this?

Naresh Jalan: Yes.

Ajit Motwani: So from the end of this quarter you are saying broadly your realization should improve Rs.4 as the pass through happens completely in the March quarter right?

Naresh Jalan: Yes.

Ajit Motwani: This is alluded to the fact that exports take three month for a pass on since the price increase on steel alloy was in December, so would that mean that the export realization will jump actually in Q1 and not in Q4?

Naresh Jalan: No I think you have read me wrong, I have told that every quarter it changes, whether it happens in the month of December or in the November, January 1 takes the effect of that.

Ajit Motwani: At start of the quarter, so both the realization should…?

Naresh Jalan: Start of the quarter, yes.

Ajit Motwani: Both the realization should improve Rs.4.

Naresh Jalan: Yes that is calculatable, but as of now we have been able to pass on the Rs.4 price hike from January 1, 2018.

Ajit Motwani: And since you also said that other costs are constant in fact they might actually come down on the operating level?

Naresh Jalan: Yes as the operating leverages improve, other costs as you have seen in the past quarters it has shown a downward trend, it will continue to show downward trend with the utilization of capacity.

Ajit Motwani: In fact you have benefited significantly from the operating leverage, but it is just that the gross margins are not improving, so now you are saying from here on we should see this Rs.4 uptake in gross margins in the quarter…?

Naresh Jalan: Yes if raw material prices remain constant in this quarter what we presume right now is the raw material prices and we do not have any indications also of any raw material increase in this quarter, so preferably or assumably, we can say that we should see much better quarter this year.

Ajit Motwani: And you are saying from FY2019 onwards you should see 10% to 15% improvement in realizations year-on-year on a whole year basis?

Naresh Jalan: On the whole year basis basically with the addition of new machining capacity which is being augmented.

Ajit Motwani: One last question on the railway side you had indicated at the start of the year some newer order that you are likely to…?

Naresh Jalan: Yes, we have already started getting approvals for this components for German coaches with MLGP coaches which has been launched by Indian railways, so probably now next year we will be able to see the full utilization of this components.

Ajit Motwani: Okay and on the full year volume guidance should we now expect to touch 120 because…?

Naresh Jalan: I think we will cross 115, it may be 120, it may be 122, but exactly to put a number to its difficult, but yes we will do much better than about 115,000.

Ajit Motwani: Okay and for next year?

Naresh Jalan: Next year, it is still business plan is yet to be freeze, I think we will be getting back to the investor in some time.

Ajit Motwani: But in the sense can we at least assumed the fact that since the initial estimate?

Rajesh Mundra: I think you will be able to – this four-quarter will reflect on the full year results next year.

Ajit Motwani: No in the sense what my question here is that since there are indications of 20%-25% growth in the classic trucks on the North American side at least you will be able to grow that much on the export sides?

Naresh Jalan: I will not able to put a number to it but I think vis-à-vis the industry the OEM industry growing, we will do considerably…fourth quarter numbers will reflect on the full year results of FY2019 in terms of total processed tonnage.

Ajit Motwani: You are saying whatever you do in fourth quarter…?

Naresh Jalan: Whatever we do in the fourth quarter I think that will be basically set the ball rolling for the full year for next year.

Ajit Motwani: Got it. Thanks a lot Sir and best of luck.

Moderator: Thank you. The next question is from the line of Miten Vora from BNP Paribas. Please go ahead.

Miten Vora: Hi Sir. Just wanted one update. Any outlook on the railway business for us going?

Naresh Jalan: I think the railway business was improved us and we have got good visibility for the next year in terms of getting new orders for the new coaches and that will show in the results of FY2019 results.

Miten Vora: Okay and can you quantify what will be the revenues for these nine months for railway business for us?

Naresh Jalan: For nine months, which has passed what has been railway, I think Rajesh will able to tell you.

Rajesh Mundhra: I think it has gone about Rs.27 Crores to Rs.28 Crores.

Miten Vora: Okay. Thank you Sir.

Moderator: Thank you. The next question is from the line of Dhiral Shah from Asit C Mehta. Please go ahead.

Dhiral Shah: Good afternoon Sir. Congratulations for the good set of numbers. Sir as you have now forayed into oil and gas sector, will you expect the considerable growth in FY2019, so what kind of growth do you expect from this sector?

Naresh Jalan: I have put a number to it already we are expecting closed to around 8 million dollar business next year from oil and gas.

Dhiral Shah: 8 million dollar business?

Naresh Jalan: Yes.

Dhiral Shah: Okay and margins of sale in this business as in auto…?

Naresh Jalan: Better than auto business.

Dhiral Shah: Better than auto business, okay. Thank you. That is it from my side.

Moderator: Thank you. The next question is from the line of Sanjay Satpathy from Ampersand Capital. Please go ahead.

Sanjay Satpathy: Yes Sir, I could not understand what you are explaining that how much your machining percentage will go up by in FY2019?

Rajesh Mundhra: No, I just to put a ballpark number to it. We have told that it is going to be 10%-15% in terms of machining in the next year.

Sanjay Satpathy: Okay, so which is like 60% now probably will go to something at 70-75?

Rajesh Mundhra: I think I do not have the exact figure like I have explained in the call also, but to just put a number to it, it is going to be closed to 60% right now and it is going to increase by 10% to 15%.

Sanjay Satpathy: And you also mentioned something that it will also lead to meaningful increase in your average realization because machining are higher in terms of realization, can you just give us like how much is the realization difference between machine and non-machine components?

Naresh Jalan: I think that figure is extremely difficult for us to give you.

Sanjay Satpathy: And lastly Sir just wanted to check with you I mean considering that the big change that is going to happen next year is essentially towards machining and towards oil and gas, so does not that mean that your gross margins would improve meaningfully?

Naresh Jalan: We are already in the process of improvement of gross margin, but to put a number to it or to meaningful what does meaningful mean we do not understand, we continue to do business and we have been able to retain the margins with all the headwinds of forex as well as with the raw material price cross pressure, we will continue to work towards better margins and better realization going forward that is the aim of the company.

Sanjay Satpathy: I understood. So the essentially when we talking about all these things were essentially comparing it with largest forgings company of India, so there remains a fairly big gap so we are trying to see how quickly you will close in on that gap.

Naresh Jalan: No I think we do not compare ourselves with anybody, we compare ourselves with our own standards of manufacturing and we continue to work on cost in terms of our own process and other things and we are trying to better off our own standards, which we have set internally and continued to grow on those standards.

Sanjay Satpathy: Thanks a lot Sir and all the best.

Moderator: Thank you. We have a followup question from the line of Anupama Goswami from Stewart and Mackertich. Please go ahead.

Anupama Goswami: Yes Sir. I wanted know what you think your market share in the North American market and any foreign acquisition or any kind of domestic acquisition also going ahead?

Naresh Jalan: To put a number to what is kind of market share in the North America is extremely difficult but to be on the broader side, whatever customers we are with right now in North America right now, we are closer to 70% of the share of business with those customers and in terms of acquisitions as a company, we continue to look at opportunities for growth but as of now we have nothing to talk to the investors or nothing to inform the investors as such.

Anupama Goswami: Okay. Sir as this like last two quarters even last three quarters, has your customer portfolio has increased?

Naresh Jalan: Yes obviously we have forayed largely like we have already forayed into oil and gas. We have increased our stakes in Europe and we continue to work on increasing customer volumes vis-à-vis per kg component in terms of vehicle content as well as we are trying to increase number of customers in Europe.

Anupama Goswami: Okay. So Europe you have increased your customers in the new segment?

Naresh Jalan: Not new segment. Our segment continues to be commercial vehicle but wherein large OEMs which were untapped which we have got through.

Anupama Goswami: Okay. Sir any plans coming into passenger vehicles?

Naresh Jalan: No, no plans yet.

Anupama Goswami: Okay. That is all. Thank you.

Moderator: Thank you. This is a followup question from the line of Amyn Pirani from Deutsche Bank. Please go ahead.

Amyn Pirani: Thanks for the opportunity again. Sir just some clarification you mentioned that in North America whichever customer you are present with you have a 70% share of business, so for example the components there that you would be supplying will be the rear axle and front axle, same components or something else as well?

Naresh Jalan: Same components.

Amyn Pirani: So say if you are stay with truck company A, 70% of the front axle would be through you only – okay, so the competition there is again with the other Indian companies or are there local company there or somewhere…?

Naresh Jalan: I cannot comment or I am not aware of it also.

Amyn Pirani: Okay. Thank you Sir.

Moderator: Thank you. The next question is from the line of Ujwal Shah from Quest Investment Advisors. Please go ahead.

Ujwal Shah: Thank you for the opportunity. Sir can you throw some light on the European market, what kind of growth rate can we assume for the CV segment in Europe and which segments we cater in the CV space, which are the product that we have catered to?

Naresh Jalan: As of now in Europe we are not significantly big but FY2019 we tend to become one of permanent suppliers in the European market and our main focus on the front axle and rear axle business over there.

Ujwal Shah: Okay Sir and Sir any guidance in terms of growth because that is quite a mature the market and…?

Naresh Jalan: As of now it is too early for us to give any number to the growth but I think by the year end when we are there with the full year results we will be able to have more clarity in the numbers in terms of our Europe growth.

Ujwal Shah: Okay Sir and Sir how many OEs have we got or forayed into in Europe?

Naresh Jalan: In four OEs.

Ujwal Shah: Four OEs. Okay Sir. Thank you.

Moderator: Thank you. The next question is from the line of Avinash Nahata from Aditya Birla Money. Please go ahead.

Avinash Nahata: Thank you for the opportunity. My question is regards to capacity utilization. What is the practical production possible in terms of overall, you said that the current capacity is 68% on an overall basis and 54% for the new equipment, so what is the practical production we can do?

Naresh Jalan: We can go up to 90% and anything between 85% and 90% is the practical achievable production.

Avinash Nahata: So which means 1,35,000 kind of…?

Naresh Jalan: 1,35,000 to 1,40,000.

Avinash Nahata: Okay. Thank you.

Moderator: Thank you. The next question is from the line of Ajit Motwani from Bharti AXA Life Insurance. Please go ahead.

Ajit Motwani: Sir for the nine months, the press plant is about 33000 tonnages, how much of this would be export?

Rajesh Mundra: Very difficult to give the export figure plant wise. We can give you as a holistic figure, very difficult to give the plant wise.

Ajit Motwani: Okay. So from here on – from the export tonnage of about 75% if I look at your peak used to be about 9000 a quarter about couple of years back?

Rajesh Mundra: Like what figure that you have done for this quarter is 735 tons.

Ajit Motwani: Yes. So I am saying if I look at the numbers historically when the cycle had turned good last time around, we have done about 9000 and that too when the press plant was not there, so is that a ring rolling in other forgings business with other clients are not really?

Naresh Jalan: 9000 that we have in…?

Ajit Motwani: This is Q4 2015 and Q1 2016 the export tonnage average was about 8800 and I am saying we are currently at 73 despite the fact that we have volumes from the press plant, which would have contributed to exports now which were not there in 2015. So is the ring rolling business earlier which was there and not yet the peak volumes yet or …?

Naresh Jalan: No I think we are running peak volume, it is only customer distribution which right now as per management policy we distribute our products vis-à-vis the customers and the realization which we have from individual customers, so as of now we cannot comment on this 9000 figure, but it depends on time and quarter when we freeze the business plan, what is the contribution level which we look at in terms of customer wise, if freezing the business plan.

Ajit Motwani: Okay. So let me put in the way around from 7500 apart from the normal business pickup for trucks and oil and gas, which we have alluded to, what will act as a new business to the volumes on the export side?

Naresh Jalan: No I think like I said earlier in the call that we have got some customer approvals, I think in the last quarter for that, this quarter we will have the sales for those items in terms of exports in front axle business in North America, this will add to this volumes as well as the new volumes which we are getting from the European market which will add into the next year volumes.

Ajit Motwani: And how material are they in terms of size of…?

Naresh Jalan: As of now for Europe, I will not able to give any numbers, we will wait for the full year results and finalization of the business plan before we come out with any numbers.

Ajit Motwani: Okay and this European OEMs you are saying will start in Q4 and Q1?

Naresh Jalan: Q1 of FY2019.

Ajit Motwani: The four European OEMs you talked about.

Naresh Jalan: Yes.

Ajit Motwani: Okay. Thanks a lot Sir.

Moderator: Thank you. Ladies and gentlemen, as there are no further questions from the participants, I now hand the conference over to the management for their closing comments. Thank you and over to you!

Rajesh Mundhra: Well, on behalf of the management, I would like all the participants and all our investor community who have participated in the call a very big thank you and we will be there to serve you better and hope to serve you better in the future.

Naresh Jalan: Thank you everybody.

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