Management Discussion

Abhishek Bhatt - Investor Relations, EY
Thank you. Good morning everyone and thank you for joining us. On behalf of Nelcast Limited, I extend a warm welcome to all the participants on the quarter two and H1 FY27 earnings conference call. The results and investor presentation have already been shared and are available on our website as well as through our filings on the stock exchanges. Joining us today to discuss the company's performance and outlook are Mr. P. Deepak, Managing Director, and Chief Executive Officer, and Mr. S. K. Sivakumar, Chief Financial Officer. Before we begin, I would like to draw your attention to the standard disclaimer. Please note that any statements made during this call, including those in our presentation materials that reflect our outlook for the future or maybe construed as forward-looking statements, should be considered in conjunction with the risks the company faces. These statements may not be updated from time to time. Further details are available at the end of the investor presentation and in our other filings on our website at www.nelcast.com. Should you have any queries or require additional information following this call, please feel free to reach out using the contact details provided in the investor materials. With that, I would now like to hand over the call to Mr. P. Deepak. Over to you sir.

P. Deepak - Managing Director & Chief Executive Officer, Nelcast Limited
Thank you Abhishek. Good morning everyone and thank you for joining us today. To begin with Q2 of FY27, it has been a very strong quarter for Nelcast. We achieved our highest ever quarterly revenue and profitability, with significant improvement in volumes and operating performance. More importantly some of the operational challenges that we faced in Q1 have now been resolved and operations have largely normalized. If you look at what drove the performance during the quarter, there were a few things. Volumes were strong, realizations improved, and we also saw normalization of operations following the issues we faced in Q1. Tractor demand was particularly healthy during the first half and supported our domestic volumes. Going into the second half we do expect that the tractor industry to moderate from the level seen in H1. At the same time we are seeing in the commercial vehicle segment is very good. M&HCV demand remains strong, and based on the schedules and forecasts that we see today, we believe the strength in commercial vehicles should more than offset the moderation in tractors. Coming to exports this was another strong area for us during the quarter.

Export revenue grew 78.3% year over year to 140.9 crore in Q2. And for H1 exports stood at 254 crores, growing about 31%. The indications we are receiving from customers continue to remain positive. Current volumes look healthy so overall we continue to remain positive on exports. The other important development is on our new products. We have been speaking about these programs over the last several quarters, first during development and customer validation and subsequently about their expected ramp-up. We have now moved into production and started the ramp-up. A number of these products are in the early stages of this ramp-up during Q2, and we have seen some initial contribution, but we expect this to become more progressive and more meaningful in the coming quarters. We have also taken an important step in terms of value addition through machining. We are investing in machining capability to meet our customer requirements. This is an important program for Nelcast and expands the value addition that we can offer to our customers.

Looking ahead, we remain positive about the second half of FY27. Based on our current visibility, we expect FY27 H2 to be better because of M&HCV demand as it strengthens further and the new products begin making more meaningful contribution. But overall, we are at an encouraging point for

the company. Our existing business is performing well, exports remain strong, and new products that we have spoken about for several quarters are now moving into production. And we are taking the next step in value addition through machining. We believe these developments will provide us with a strong platform for growth as we move through the second half of FY27 and into FY28. For the quarter, total revenue stood at 409.6 crores, growing 35.2% year on year. EBITDA increased by 70.4% to 36.4 crore, while EBITDA per kg improved to 14.3 rupees per kg compared to 10.3 in Q2 of last year. PAT stood at 16.2 crores, growing 240% year on year. For the first half revenue was at 755 crores an increase of 18%, while PAT grew 23.6% to 21.3 crores. With that, I would like to conclude my remarks and open the floor for questions. Thank you.

Questions & Answers

Operator
Thank you very much. We will now begin the question-and-answer session. [Operator Instructions] The first question is from the line of Mr. Praneeth from SJ Investments. Please proceed.

Praneeth - Analyst, SJ Investments
Hello, am I audible now?

P. Deepak - Managing Director & Chief Executive Officer, Nelcast Limited
Yes.

Praneeth - Analyst, SJ Investments
So yes, so thank you for the opportunity. So I wanted to understand in terms of strategic shift into investing in machining, because I think we have always been open about the fact that we wanted to be a castings player and machining will always have partners and vendors. So what changed during this quarter or this year that we are shifting our idea in terms of investing in machining? And you also meant I think the return on capital is also a little lower compared to our castings unit. So could you explain both the aspects of why we are investing in machining?

P. Deepak - Managing Director & Chief Executive Officer, Nelcast Limited
Yes, so the decision to invest in machining was actually driven by customer requirements. I think there were certain challenges with meeting customer requirements through outsourcing on some particular programs and that is part of the reason why we have chosen to enter into machining.

Praneeth - Analyst, SJ Investments
Got it sir. And this 75 crores is going to give what capacity of machining?

P. Deepak - Managing Director & Chief Executive Officer, Nelcast Limited
So, in what way do you mean by that? In terms of tonnage?

Praneeth - Analyst, SJ Investments
In terms of tonnage we cannot define it. It will, I think there is a specific volume that we are looking at but I think we have not necessarily defined it in tonnage yet.

P. Deepak - Managing Director & Chief Executive Officer, Nelcast Limited
No, so I mean we are working on this particular products that we are intending to machine over there. We do believe we will have a good ROCE on this business when we look at it as a total. So we have done the necessary evaluation, we believe we should be in excess of 15% to 18% once the

business is ramped up. Our margin is slightly improved because of value addition in machining.

Praneeth - Analyst, SJ Investments
Got it. Got it sir. So right now going forward we expect this to contribute to further EBITDA increase right? So on an overall basis. So that is the plan. When will it be deployed completely? This program.

P. Deepak - Managing Director & Chief Executive Officer, Nelcast Limited
So we are looking at, I think by H2 of next financial year it should be fully deployed. And at that point I think we should be largely ramped up, maybe not fully ramped up but we believe that H2 of next year we should be more or less ramped up on this investment.

Praneeth - Analyst, SJ Investments
And this machining is an investment for new products. It is not the existing products we are already doing.

P. Deepak - Managing Director & Chief Executive Officer, Nelcast Limited
Absolutely correct.

Praneeth - Analyst, SJ Investments
Got it. So but sir you have been saying that there is a lot of players in your industry talking about the fact that they want a full service product and I understand we have already been doing the fact that we have been partnering with our machining partners and directly supply but do we also intend to follow the same track of adding to increase in machining because since we anyway have the capacity?

P. Deepak - Managing Director & Chief Executive Officer, Nelcast Limited
So I think it will largely depend on the situation as it stands. I think in this particular case for these customer requirements of this new business, we believed this was the best solution so that is why we came across through this route and we will evaluate that every time going forward.

Praneeth - Analyst, SJ Investments
Got it sir. And the payback would be likely what is the duration for this specific program payback? Machine.

P. Deepak - Managing Director & Chief Executive Officer, Nelcast Limited
So it will depend on a variety of factors so I do not want to specifically comment on it but I would say typically when we look at an investment like this, we would look at a five to six year kind of a payback typically.

Praneeth - Analyst, SJ Investments
Got it sir. And in terms of our annual let us say in the previous quarter we have mentioned a good ramp up and 15% in volumes tonnage so are we on track for that by the end of the year or are we going to surpass it because our first half has been a little better than we expected?

P. Deepak - Managing Director & Chief Executive Officer, Nelcast Limited
Yes so I think honestly the first quarter was a little weak, the second half was better. I think in the previous call as well we had talked about surpassing about one lakh tons for the year. We believe we are still on target for that and that is something that we should achieve this year.

Praneeth - Analyst, SJ Investments
Got it sir. And do you have any idea on where we will end up by the end of the year in terms of EBITDA per kg because 15 was a benchmark that we wanted to reach will we reach there on average or will it still be a little lower than the target?

P. Deepak - Managing Director & Chief Executive Officer, Nelcast Limited
So 15 is still what we are targeting but I think there is just so much uncertainty that is there in terms of commodity prices so that could play a little bit of a spoilsport I think those are things that are outside of our control. With the commodity prices as well as freight costs. But other than that, we believe on a stable state sort of a situation that is the direction that we are headed for. But it is a little difficult to comment more specifically just because of the amount of volatility that is there on commodity as well as sea freight cost that we have seen in the recent past.

Praneeth - Analyst, SJ Investments
Got it sir. But are we facing any issues in terms of passing?

Operator
Sorry to interrupt you Mr. Praneeth, but can you please rejoin the queue?

P. Deepak - Managing Director & Chief Executive Officer, Nelcast Limited
Yes, this is my last question.

Operator
Sir, can you please follow the queue. The queue is long please can you please follow the queue.

Praneeth - Analyst, SJ Investments
Thank you.

Operator
The next question is from the line of Mr. Yogesh Patil from Phami Investments. Please proceed.

Yogesh Patil - Analyst, PAMI Investments
Yes thank you very much and good morning sir. Sir just wanted your view in last four five years everyone is talking about casting exports. And China plus one, Europe plus one, do you see the time has come for all Indian companies including you where we need to scale up the capacities and the demand for casting in various areas in automobiles or defense or any other area has come we reached a point where we can actually see the inflection point or maybe one more year. Just want a comment from your side.

P. Deepak - Managing Director & Chief Executive Officer, Nelcast Limited
Yes I think in terms of exports of castings from India I think we have certainly been a leader in that particular segment. I think if you go back about 11 12 years, our entire export was about 2.7 crores and right now we are talking about 250 plus crore half. So half year so and going forward this is a number that will keep growing in the next couple of years we do expect a significant amount of growth that is going to happen. Some of it is driven by China plus one some of it is driven by loss of competitiveness and closure of capacities of foundries within the US. And now even seeing that starting to happen in Europe as well. So I think the growth prospects on the global market are extremely strong and I think that trend as I said is probably might have been small a decade ago but it is something that we have capitalized on so I think we are in a position to capture this growth as

well going forward.

Yogesh Patil - Analyst, PAMI Investments
So I am not asking one or two quarters I am just saying on year on year basis from here export growth could be higher compared to domestic yield?

P. Deepak - Managing Director & Chief Executive Officer, Nelcast Limited
Yes. Yes I think export growth will be higher than domestic growth I think that is what we see as well.

Yogesh Patil - Analyst, PAMI Investments
It means the EBITDA per ton kg would be slightly moving upward from here or do you see a capping to 15 16 or do you see still there is a good headroom beyond 16 rupees per kg?

P. Deepak - Managing Director & Chief Executive Officer, Nelcast Limited
So I think what we have sort of looked at in the short to medium term is at about 15 but I think going forward we do see the prospect of even going up to 18 and we have not put a definition on the timeline for that yet but that is something that we definitely see sort of in the next let us say three year time frame or something in that range.

Yogesh Patil - Analyst, PAMI Investments
So this 18 rupees per kg is including machining or without machining?

P. Deepak - Managing Director & Chief Executive Officer, Nelcast Limited
Total. Total, but I mean if we are doing our own machining then obviously to recover that investment as well to get a return on that investment we would need something higher but yes this is primarily looking at what we are doing.

Yogesh Patil - Analyst, PAMI Investments
Thank you very much sir and all the best.

P. Deepak - Managing Director & Chief Executive Officer, Nelcast Limited
Thank you.

Operator
Thank you. The next question is from the line of Mr. Dheeraj Kumar Reddy from Alpha Square. Please go ahead.

Dheeraj Kumar Reddy - Analyst, Alpha Square
Hi, sir thanks for the opportunity. I happen to see one of your interviews you know where you said I think probably we are in a phase where castings industry will see a start up kind of growth. And also I seem to also see that there is some sort of bullishness in the tone and the kind of execution. So how do you see sir in the next five to seven years in terms of if you can at least give us some broad range in terms of how the volumes can grow what are the new opportunities which are evolving in this space and why is there such a huge excitement which is happening? If you can maybe give us three four detailed points on why you see that?

P. Deepak - Managing Director & Chief Executive Officer, Nelcast Limited
Sure. So I think there is when you look at the West whether that might be North America or whether

that might be Europe, I think there is a fairly severe challenge in terms of labor and skilled labor. When you look at foundries in both of these geographies they have not really added any significant capacity in the last 30 odd years. In fact in many of these cases they have been consolidating capacity. What that has meant is that a lot of the experienced people have now retired from the workforce and their ability to get new people into the workforce is also severely limited. So there is a labor and skill issue that has started to come up and also due to certain environmental norms and things like that many of them had to spend quite heavily to continue running as well. So the challenges that they are facing are quite severe. And as a result I think there is shortages of capacity that is there and I think India is a great place to be buying castings. I think from a cost and quality perspective, I would rate probably India is the best place to buy castings and obviously China is a very strong competitor in a lot of these kind of parts. In the US especially because of tariffs and even in Europe because of geopolitics they are not as favored. So it is a great opportunity for foundries in India to take advantage of the situation that we see. And I think we definitely have seen that opportunity I think we may have been a little bit early in terms of seeing that so we have definitely pounced on that and we feel that we are well positioned to take advantage of it. Now coming to the bullishness, I think I have mentioned this on previous calls as well we have now won a lot of new business as well including some large casting business that go on extremely large tractors as well as some business that go into commercial vehicles as well. We have grown our market share quite considerably on the medium and heavy truck segment in North America. And we are focused on continuing to grow that while at the same time also developing new products into for the European market.

Dheeraj Kumar Reddy - Analyst, Alpha Square
Got it. I mean can you give us the growth range which you are thinking about Deepak?

P. Deepak - Managing Director & Chief Executive Officer, Nelcast Limited
So I think if you were to look at let us say from an export perspective if you were you are asking specifically on exports or overall.

Dheeraj Kumar Reddy - Analyst, Alpha Square
I mean if you can segment that would be great I think yes. Volume growth you can mention overall.

P. Deepak - Managing Director & Chief Executive Officer, Nelcast Limited
Yes so I think what we see from a domestic standpoint I think what we see as a midterm volume growth that is happening in the tractor segment is probably somewhere in the range of five to 6%. I think that is what has been forecasted to us by our customers. So that is largely what we expect the industry to grow at. We believe we could grow a little bit faster because we do have some larger products and I think more and more larger tractors are going to start manufactured in India and then get exported out as well so we see that while the market might grow five to 6% we should do a little bit better than the market on the tractor segment. On the heavy commercial vehicle, I think if you were to I think this year we will see fairly substantial amount of growth. But I think in the long term you know if you were to read some of the reports by the researchers from ICRA or CRISIL or something like that they would say it is probably somewhere between five and 8% is probably the expected growth rate over the next five 10 years. So again there we think we should be able to beat the market a little bit because we have products that go into the bigger vehicles and the more heavy duty tippers which we think will outdo the market. So again we should do a little better than that. Exports is an area where we actually see quite a bit of new growth happening. One of the things that

we are seeing that will drive a little bit of growth in 27 calendar year or FY 28 rather is that our customers seem to be gaining some market share in the products that they supply to the end customers. So that seems to be a positive sign. And also the new products that we are launching. So the new programs especially on the heavy tractor parts that we have talked about in previous con calls have just gone into production for the first time and the ramp up has just started. So we should be able to see a significant amount of growth that is happening there. So we think that from an export perspective we should be from the 500 crore kind of a number we should be able to grow at least 50% in the next two to three years kind of a time frame and that is roughly speaking about 250 crores of growth that will come out majority of that will be export some of that will be domestic as well.

Dheeraj Kumar Reddy - Analyst, Alpha Square
Got it that is helpful. And also my next question Deepak is I mean I see Magna electro castings and both Nelcast now I think both of them have announced machining at the same time frame in fact I was quite surprised what is exactly happening why are these companies moving up the value chain and what exactly is happening and what is driving this change. In fact can we see that these companies like you, Magna etc. can move up the value chain till doing assemblies and is that the larger intent of this starting point or how should we think from a three five year perspective regarding this starting point?

P. Deepak - Managing Director & Chief Executive Officer, Nelcast Limited
Okay. So I think Magna and us doing it at the same time is purely coincidental I do not think there is anything specific that I could point to that is a commonality between us doing it. As I mentioned in our case it was actually driven by a specific customer requirement that could be fulfilled only with us making this particular investment. So that is how we are looking at it. And this product will one of the things that we will be doing also will be doing some sub assemblies as well for customers which is part of this investment. So is there potential to add more assemblies if our customers if that value adds to the customer and to us then certainly that is something that we will look at but I think adding the value is definitely a positive and I think more importantly it is to meet the customer requirement.

Dheeraj Kumar Reddy - Analyst, Alpha Square
Understood. And if you can just touch upon like what is the margin structuring difference between the ...

Operator
Sorry to interrupt you Mr. Reddy, but can you please rejoin the queue?

Dheeraj Kumar Reddy - Analyst, Alpha Square
This is my last question. I will just close it.

Operator
Sir, can you please follow the queue. The queue is long please can you please follow the queue.

Dheeraj Kumar Reddy - Analyst, Alpha Square
Thank you.

Operator
[Operator Closing Remarks]