Management Discussion

Unidentified Speaker - Managing Director, Triton Valves Ltd
So very warm welcome to all the analysts and investors joining this call today. Thank you for your interest in the company and thank you for joining us and taking the time. As usual, we've prepared a slide deck just to kind of walk all of you through the performance of Q2 and also a little bit talk about some highlights and, you know, what to expect going forward. So as usual, I'll start with the disclaimer and safe harbor. As you all know, this presentation and any discussions we have here may contain certain words or phrases that are forward-looking statements.

These could be tentative and based on current expectations of the management. Um, the presentation has been prepared for information purposes only and does not constitute an offer or invitation or recommendation to buy or sell any securities of the company, right? And no part of this presentation should form the basis of or be relied in connection with any contract investment decision or, uh, in any form in relation to the securities of the company. Um, just moving on. Yeah, so today I'll just be walking through very quickly, um, you know, introduction about the company and the group entities.

We'll also go through the Q2, uh, operational highlights. Of course, a little bit on the financial highlights of Q2 and H1 and the future outlook as well. Right, so if you look at the Triton Group, we basically have Triton Valves Limited, which is the listed entity. This is the 50-year-old business. FutureTech and Hong Kong are the 2 wholly owned subsidiaries of the holding As we all know, we merged recently the climate control vertical, which used to be called Triton Valves Climatech Private Limited.

That's now merged into the old core Triton Valves Limited. Right. So therefore, the Triton Valves Limited entity has 2 reporting segments, the automotive segment and the climate control segment. Automotive segment basically makes valves for tires, inner tubes, and we also make products for TPMS, tire pressure monitoring system. Sensors. We also make components for EVs. We also have a retail aftermarket vertical, right? In the climate control segment, we basically make service valves, charging valves, ball valves.

These are basically components that go into room and commercial air conditioners. FutureTech is our metals vertical where we basically have a brass mill where we produce different grades of brass brass and copper alloys in extruded form, basically bars and coils of brass, bronze, and copper alloys. Right, looking at the operational highlights of the 2nd quarter, just like to highlight a few maybe interesting aspects of, you know, the performance for Q2, which all of you might find interesting to note.

I would say Q2, we had in the automotive vertical, we had a fairly favorable product mix. There's a lot of traction that we are seeing on our EV components where the growth year on year is almost like 100% plus. The revenue growth also contains a significant element of commodity rate increase. So if you look at the top line, the top line is a function of the volume growth in the sale of products and also increase in the revenue realization per piece, which is basically linked to the commodities.

The underlying commodities that we basically have in our business are copper, zinc, and to some extent butyl rubber, which is a crude oil derivative. So if you look at the, I would say, volume growth, the volume growth has been in the range of, I would say, about 35%. And the remainder of the growth has come through, I would say, commodity price increases. We have an indexation methodology with our customers where every quarter we index the commodity. And we move it up

and down depending on the 3-month average.

We saw a lot of positive momentum in the sale of value-added alloys in the metals vertical as well. We've already started supplying certain value-added, I would say, alloys. And during Q2, we saw increased, I would say, traction in the sale of these alloys. Climate control products actually did quite badly during Q2. This is usually the lowest part of the season where, you know, AC production around the country kind of goes into a very, very like low volume kind of mode. So I would say during Q2, this is July, August, September, our sale of air conditioner related components was actually quite small to the tune of about Rs 2.5 crores only, right, for the entire quarter.

We also saw a lot of increased momentum in export sales. This is primarily, I would say, to the US market where we had a little bit of a setback last year with the tariffs coming in. And more than the tariffs, I would say the uncertainty around, you know, how those tariffs would be applied on imports coming in from India. So a lot of the buyers were going a little bit slow. They were wanting to wait and watch to see if a trade deal will happen or there'll be some respite in tariffs. I would say during Q2, a lot of that has kind of worked out more favorably for us.

We had some good customers placing good orders in both the automotive vertical and climate control vertical, right? So this is something that, you know, we were seeing good momentum actually in Q2. A very important operational aspect that I'd like to highlight to everybody here today is that there's a very strong internal hedge between the component businesses and the commodity business. Right, which means to say that you know when copper prices shoot up, we do have a little bit of a lag in recouping that cost in the automotive vertical because you know every quarter we are the price gets adjusted.

But in intra-quarter, we need to absorb those you know changes in the commodity prices. Whereas with the commodity metal business that we have, there we are able to offset quite. Instantaneously. So the 2 businesses, the commodity business and the component business, they tend to hedge each other out internally, right? So a lot of the, I would say, improvement in profitability that you are seeing is due to this structuring of the metals business hedging the component business, right? And we believe that is the structural change that we have executed fairly well over the last few quarters, you can see our maybe 6 to 8 quarter performance, you can see steady growth in top line and profitability in spite of a lot of, I would say, unusual movements in copper price, even in the fluctuations in FX, rupee-dollar in between went up very high.

Now it seems to be receding somewhat. So we are able to kind of tide over these fluctuations in a much stronger, much more robust manner than what we used to earlier. Um, there is an increase in inventory, right? And I thought some of you might be concerned to see that, you know, inventory has gone up. Um, there are 2 or 3, I would say, reasons why inventory has shot up to the extent that it has. Uh, primarily, I would say the rate increases. If you see year on year, um, the rate at which we are carrying that inventory has significantly gone up because of, you know, copper prices shooting up.

So year on year, you can see there's a huge increase, possibly to the tune of 50% plus, that you will see in the brass that we are holding. The second reason is that there was some extent of, I would say, compression. During Q1, we had the impact of the Iran war, and a lot of our shipments which were scheduled to arrive in Q1 actually arrived in Q2. There were a lot of shipment delays. So a little bit of, I would say, inventory accumulation did occur in Q2. I'd like to assure everybody this is nothing to be very concerned about.

Yes, it could have been managed in a little better way, no doubt about it. And I think we are all

introspecting in the company how we could have managed that better. But going into Q3, we are very confident that we will be able to normalize inventory by the end of December back to a more, I would say, acceptable level and a more proportionate level to the size of the business that we're operating. So that's something that, you know, we are fairly confident we should be able to execute in Q3. Right.

Another point maybe that I'd like to highlight here is that, you know, internal cost reduction initiatives that we've been working on over the last maybe 2 quarters is also something that, you know, we were able to implement fairly well in Q2, and we will see that going into Q3, Q4 as well, right? So if you look at the year-on-year growth, if you look at Q2 Automotive, which is basically the standalone business, we are up about 52% in terms of sales, right? 36% of that actually came from automotive and climate control, 77% from metals.

Do keep in mind, in metals, the actual volume growth YOY is about 20 to 22%, right? So the 77% that you see is, you know, 22% volume growth. Plus maybe 55% of value growth because of, you know, commodities going up. So really, uh, we are more interested, frankly, internally in the company in volume growth, right? Commodity-linked growth is not, not really growth at all, if you ask me. Um, it's just a number that we have to deal with when copper goes up. Um, H1 also, I would say overall, if you look at the first 2 quarters, half the year, 45%.

So Okay, I would say the numbers do look quite attractive when you look at it on the surface, but do keep in mind there is a commodity component to this, right? So I think it's very important for us both internally and as well as in the, let's say, shareholder community not to get too carried away by those big numbers because there is a commodity element in that, right? So I'll have to be very candid and say that let's look at the real volume growth. That is what is going to sustain us over a long period of time.

Commodities can always change. There can be a drop, there can be even a crash. So that's something that we should be keenly aware of. If you look at our profitability also, I think this is where we really come into our own. I think, like I said, the hedge between the commodity businesses and the component businesses is giving us those kind of steady improvements in profitability. And I think there's a lot more to be done going forward. I'll talk a little bit about that later on. Just going through the Q2 standalone, this is automotive plus climate control.

This is without the metals subsidiary. So if you look at the quarter, we did about Rs 110 crores of sales, this or Rs 111, let's say. This Rs 111 is netted off of the scrap sales that earlier in the earlier accounting methodology, we used to add the scrap sales as well. So when you compare with FY26, Right, it's not really a like-to-like comparison, the real growth is more than that, but 110.7 is what we ended the quarter with. And if you look at the flow-through margin, you can clearly see that the material cost control has been fairly robust through the quarter.

Last year we were at about 72% material cost, this year, you know, in Q2 we are at about 63.2%. So I would say it's a fairly That's, you know, 10 percentage points. So that's, I would say, a fairly good improvement year on year. And that's how you see, you know, the EBITDA flowing down, going up from about Rs 6.3 crores of last year to about Rs 9.5 crores this year. Potentially, we could have done better. I think we had a little bit of a challenge towards the end of the quarter with some of our customers delaying taking delivery of goods.

For frankly reasons a little bit beyond our control. So this number could have been slightly better perhaps. Of course, we are not losing anything. Whatever was undelivered in Q2 will get delivered in Q3. So we will see a little bit of, you know, profit transfer happening from Q2 to Q3 here. It's perhaps

a little more than what we would have liked. But anyway, it is what it is. So I'd say overall, The standalone business is performing fairly well. We are seeing good, I would say, product mix. We are seeing good control in material cost.

There's also, like I said, cost reduction initiatives running in the company. And so, you know, we are really intent on pushing that EBITDA up from the current level of about 8.5% well into the double digits, right? So that effort remains on. You can see that, you know, year on year, if I compare Q2 of last year and this year, we've moved up about 260 bps on our EBITDA. And going forward, we would like to further consolidate that and push that above into the upper, let's say, single digits or, you know, into double digits as quickly as we can.

That's something that we're working on. Um, looking at the half year, again, I would say, um, a decent performance, all factors considered. Because when you look at the half year, you have to account for, you know, the challenges that we faced during the first quarter with, um, you know, the war breaking out and, you know, uh, shipping cost, uh, going very high. Uh, we had a lot of challenges, I think, um, with the fuel cost going up, consumables Um, raw materials, everything went, you know, up very, very steeply, very suddenly, and we had very little control over it.

So all factors considered, if you look at H1 this year, we are at about close to Rs 220 crores in sales, and, uh, EBITDA, you can see, uh, steady improvement. Um, last year, the previous year, we were at about Rs 12 crores. We are at about Rs 17.5 now. So I would say a decent, uh, improvement. There's a lot more to be done. It's not that we're going to sit happy with this number of 8%. I think our effort is always going to be to push into 10% and above. And I frankly think it's quite possible to do. We just have to keep moving the product mix in the right direction and keep our focus and discipline on cost and keep pushing the sales up.

So hopefully we should see a much better situation going forward. Net profit-wise, of course, uh, we had the merger benefit of about Rs 5.17 crores coming in, and therefore you see a big jump in, uh, in PAT, right? Um, keep in mind that that does contain a Rs 5 crore, uh, tax shield, uh, which is kind of a one-off item, right? That's not something that we will see repeatedly going forward. Um, but yeah, I think this year has been, um, it's been a long time coming. The NCLT approval took a long time, unfortunately, of the merger, but finally it's through, and this is the year in which we're seeing this tax shield coming into play.

Looking at the group console again, I would say this is the quarter alone. So yeah, we did Rs 200 crores. Happy that we touched that Rs 200 number. But again, let's keep in mind that there is a commodity element to this, right? So this Rs 200 can very quickly go down if copper significantly falls. There can be, you know, optical reduction in revenue. So while we are happy with this Rs 200 number, I think we should only take comfort from the volume growth, right, that we're actually driving. So Q2, if you look at volume growth, like I said, 20% plus, I think it's something that we are happy with.

We could have done maybe a little bit better as well, but fair enough. I'll kind of not- I'll take it for now in Q2. EBITDA-wise, of course, you know, because there is a commodity element in the top line, when you take the ratios, percentages, you know, it looks optically like a smaller number here. So EBITDA is about 7.2%. But if you look at the evolution of our EBITDA over the last, I would say, 6-7 quarters, I'd encourage you to see that 6-7 quarter perspective. I would say we have been doing steady, right?

We've been growing every quarter through all the seasonality, through all the ups and downs. I think we have been building that EBITDA number quite steadily. So I do expect that going forward we

would like to sustain and further enhance the EBITDA from where it is today in absolute terms. We're about Rs 14.5 crore, so we'd love for that number to stay well above that Rs 15 crore number quarter by quarter as we go forward. Yeah, I mean, again, here PAT is about Rs 6 crore on a group consolidated basis.

Again, I think we could have done something better. On the sequential basis, it looks smaller because, you know, the tax credit actually was accounted in the first quarter. So I, I would be more, I would say, focused on our PBT right now, where, you know, we've evolved from, let's say, last year's Rs 3 crores to about Rs 7.5 crores. Again, like I said, the opportunity here, potentially we could have done a lot more, maybe a crore, crore and a half more, uh, if we had performed slightly better both in the metals vertical and Automotive, if we had got some of our, you know, products delivered maybe earlier to customers, we could have accounted a better number.

But fair enough, I think some of that will flow into Q3. Um, half year at the group console level, um, we're at about Rs 386 crores in, uh, in top line. Um, yeah, I would say, uh, fairly, uh, decent number considering our internal targets. Internally, we were aiming for about 400, but yeah, of course, we had our challenges during the first quarter where, you know, many things went out of our control quite suddenly. But all factors considered, I would say EBITDA just about 6.9 to 7%. We're at about close to 27 crores of EBITDA, a fair improvement, I would say, over the previous year's close to 18 crores.

So I would say we've added about 9 crores of EBITDA. Over last year in the first half. We would like this momentum to continue, obviously. Um, of course, we don't know what challenges await us in Q3, Q4, but, uh, I think this is something that, you know, we'd like to build on going forward. Um, balance sheet-wise, I would say the only, uh, maybe, uh, number that perhaps I need to talk about a little bit is the inventory. And since I've already spoken about it, I think that's something that we are quite confident of pulling back into December quarter.

So I think we should be able to moderate it down. I think our internal target is we need to bring down inventory by about Rs 20-25 crores. I think all our colleagues and team members are working hard to bring that down. So all efforts are on. So I think we should be able to see a much, I would say, lighter number at the end of December. Cash flow-wise, yes, I think a lot of our profits have now gone into our inventory, right, as of 30th September. But of course, as we all know, this is like a snapshot on one particular day and things have already started improving.

If I see our inventory, we have already started deleveraging a lot of it. So like I said, by December end, we should see a much, much better inventory. One point I'd like to highlight here is that, you know, the inventory that we're holding is primarily raw material and undelivered sales, right, from September. So these are things which are relatively easy to manage and the inventory, raw material inventory that we're actually holding, it's at a fairly favorable rate, right? It's been contracted at a fairly favorable rate.

So I think going into Q3, it helps us to scale up the climate tech vertical where we need to build stock for the season. So I think we're well positioned to execute sales-wise in terms of the climate control vertical because of the inventory that we are holding, right? So there is a bit of a, I would say, deterioration in terms of, let's say, the inventory, payable receivable, cash conversion cycle, we should be able to correct that going into Q3 and Q4 as well. So again, I would say operationally a little bit challenging, but nothing that, you know, we should be too much too worried about.

If you look at our annualized ROC, we are still improving. I would say about 170 bps up from the March quarter. And if things go well for us in Q3 and Q4, Our internal target is to push that up to

about 14 to 15% by the end of Q4. That's something that we're aiming to do, but of course there are a lot of unknowns. We're trying our best to do that. Liquidity-wise, I'd say current ratio, we're okay. Debt serviceability, you can see we are now at about 2.36 times. And if you look at our debt-to-EBITDA, slightly gone up because of the inventory.

I think that's something that we correct, we will correct. Going forward into Q3 and Q4. Quick few comments on the future outlook before I move into the Q&A. Tubeless valves, we continue to see strong demand across all the channels. We have 3 channels primarily: OEM, aftermarket, and export. All 3 channels, I would say sales continue to see strong momentum. Large TPMS valve programs Amovio, Sensata, these will be getting launched in Q1 of FY28, right? So till such time, we will not see significant revenue flowing in there.

Once those revenues start coming into the system, you will see further improvement of the product mix and therefore the EBITDA, right? There's also some new programs that we are working on, on the automotive climate control vertical. Some of that will get launched in Q4. That's the Jan to March quarter. And we believe those will also be EBITDA accretive for us as a group. Order book for climate control vertical looks healthy in Q3. Like I said, the entire quarter of Q2, we saw sales of about Rs 2.5 crores.

The Q3 outlook so far appears to be in the range of about Rs 8 to Rs 10 crores of order book that we are seeing for Q3. So significant improvement over Q2. We're expecting. And then we're also closely in touch with Government of India to create a level playing field between us and the Chinese players who are dumping goods in this country. So we're also hopeful of some positive news and positive developments in terms of government policy to support Make in India and to prevent dumping of these parts, which is happening very indiscriminately right now in the Indian market.

EV component business also is showing a lot of promise. There are new platforms that we are working with, Ather, with River Mobility, Simple Energy, and so on. And all these, I would say, critical customers, even some of our battery customers, they are planning large scale-ups starting from, I would say, Q4 of the current financial year. So we're really well positioned to kind of encash those opportunities. There is a lot of promise coming in from the EV segment as well. And I think the EV segment has also ridden over these supply chain constraints of battery materials and all that.

We are quite optimistic that all the large players in India are actually well positioned. I don't see any major challenges for them to get their supplies, which is crucial for them to scale up. I think they are quite well funded and I think their supply chains are well stocked. So I think we should see good traction in EV components also going forward. Metals vertical is also showing a lot of promise in the new alloys that we are developing. I think we have already now started to work on some writing instrument alloys, alloys for, you know, medical equipment and defense.

And we are seeing a lot of inquiries, a lot of traction. These are going to be, you know, high value adding alloys, right? So the profit margins on these alloys are going to be much, much higher than what we are currently doing. So yeah, there's a lot of promise there, a lot of, let's say, potential that we are yet to monetize. And we expect to monetize that through, you know, Q3, Q4 and going into Q1 of next year as well. Focus on operating margin improvement, of course, continues. Cost optimization efforts are continuing, and we also expect to push in a lot of CapEx now into the automotive and the metals vertical to widen the product range and increase our production capacities going forward.

Right. So with that, I think I'll move to the Q&A session and, you know, we'll take a few questions. So yeah, anybody would like to ask a question, please identify yourself and please feel free to

Operator
Shoot. Thanks. Oh yeah, so, um, do you have any questions?

Unidentified Speaker - Investor Relations
So thank you, Mr., for the presentation. Uh, please note that now the floor is open for Q&A session for a span of 30 to 45 minutes. All are requested to kindly unmute and show your video and mention your name and organization before asking the questions. You may also write your question in the message box on the right side. Uh, investors, shareholders may also note that the company reserves the right to limit the number of questions based on the time availability. However, investors can ask subject to maximum 2 questions.

So with this note, I hand over the session to the investors to ask your questions, please. So you can stop sharing.

Questions & Answers

Operator
So, uh, let's, uh, take the first question from Mr. Mulesh Salwar. Yeah, Mr. Mulesh, please unmute and ask your question.

Unidentified Speaker - Managing Director, Triton Valves Ltd
It's connected to the television now.

Operator
Can you hear me now?

Unidentified Speaker - Managing Director, Triton Valves Ltd
Uh, Mr. Mulesh, just a moment. Uh, I think we're having a small audio issue. We're just trying to- we can hear you but at a very low volume. Just a moment. Yes, yes, Mr. Sabla, if you can please, uh, go ahead with your question.

Mulesh Salwar - Analyst
Yeah, uh, we can hear you. Thanks for taking my question and, uh, wish you heartiest congratulations for excellent numbers. Uh,

Arun - Analyst
Thank you for your kindness. There are

Mulesh Salwar - Analyst
Small, small couple of questions. First, you said that some delivery could not be picked up by the customers, so Maybe no, uh, rough amount of that, uh, uh, shift, maybe around 14-15 crore, or it could be-

Unidentified Speaker - Managing Director, Triton Valves Ltd
In the range of 8 to 10 crores, I would say 8 to 10 crores. 8

Mulesh Salwar - Analyst
To 10?

Unidentified Speaker - Managing Director, Triton Valves Ltd
Yes, which will flow into Q3 basically.

Mulesh Salwar - Analyst
Okay, correct. And may I have the bifurcation of our revenues into export and Domestic sales?

Unidentified Speaker - Managing Director, Triton Valves Ltd
Yeah, export, I would say for the quarter is roughly about 5%. Yeah, rest would be domestic.

Mulesh Salwar - Analyst
And what are our plans to improve on exports going forward?

Unidentified Speaker - Managing Director, Triton Valves Ltd
Yeah, great question. I think we have a lot of potential because you probably would have seen from some of our social media handles on LinkedIn and so on. We have been making over the last, I would say, 2 to 3 years, a big push into the export market, both in Europe and the United States. And happy to say that, you know, we have a lot of potential. The China Plus One, I would say, mindset is still there in the market.

Mulesh Salwar - Analyst
Correct.

Unidentified Speaker - Managing Director, Triton Valves Ltd
A little bit of setback happened because of the tariff situation. And like I said, more than the tariff per se, I think tariff, everybody's got used to it. I think it's something we all have to live with. It's the unpredictability, you know, so the buyers tend to kind of, you know, sit on decisions rather than pressing the button. They say, okay, let's wait. Okay, keep everything ready. Let's see next quarter. Let's see, you know, that's where we took a little bit of a backseat. I think this quarter as well, we saw a lot of that, you know, changing favorably and positively for us.

Right. We have some very good, I would say, aftermarket customers. For the automotive vertical in North America. We are developing some new, I would say, distributors now in the European region. And there's a lot of, I would say, interest also because, you know, there is a free trade agreement in the pipeline, which hopefully should be operationalized by maybe Q4 of this financial year. So there is a lot of interest to source from India to a little bit decouple from China. So I would say that, but see, export is a long game.

You need to do a lot of marketing effort in the beginning, establish relationships, start small, and then slowly, slowly build up and scale up. So I would say that this is a game that for us to become a significant player in US and Europe, it will take another maybe 1 to 2 years of effort. But I would say that we are very optimistic because we have received very, very good feedback on the products that we have already pushed into the market. I'll give you an example of Bosch. Bosch, we started with a very small program for DPMS valves.

Mm-hmm. Today they have shared a forecast up to, I think, 2031 with us.

Mulesh Salwar - Analyst
They've

Unidentified Speaker - Managing Director, Triton Valves Ltd
Extended the life of the program and they're asking us like huge increase in volumes. They're possibly at 2 to 3x of what they originally forecasted for us. And these are, I would say, products which have a much better margin profile than our older product lines, which are 30, 40 years old. So the newer product lines obviously have a better margin profile. And, you know, the quality of account, when you look at Bosch, you look at Amovio, we look at Sensata, right, the quality of these accounts are good because, you know, these are the global top players in the TPMS world.

And we are jumping on, you know, new programs with them. So I think as these programs mature, you will see the export profile going from 5% to possibly 10%, 15%, 20%. Over the next, I would say, a few years, maybe 2 to 3 years, uh, we could push that to a significant number, right? Good, sir.

Mulesh Salwar - Analyst
So that's really heartening to note. And, uh, sir, are we supposed to develop dedicated tailor-made products for them, or, uh, the products which we are making are, uh, sold to them?

Unidentified Speaker - Managing Director, Triton Valves Ltd
Yeah, great question. See, uh, in, in the TPMS programs, typically these are tailor-made, right? These are customized products which match their sensor profile, which matches their specific product. In the aftermarket, there are also certain standard products. So I'll say it'll be a mix about, I would say, 60 to 70% would be custom made to the specifications of the customer. The remaining would be sort of our general stock specifications which we can sell our, let's say, standard partner. So it would be a mix of- yeah.

Okay.

Mulesh Salwar - Analyst
And do we expect any major CapEx in the remaining part of the year, or by and large we don't need much, uh, CapEx to be done?

Unidentified Speaker - Managing Director, Triton Valves Ltd
No, we will need- we will need some more CapEx going through. I think nothing, uh, nothing too big, uh, in the remaining, let's say, um, 4 months that we have- 4, 4 and a half months. But, uh, there's a lot of equipment that we placed orders for in Q1 Where, you know, the, the balance payments will be going through in, let's say, Q3, Q4. So on the automotive side, I would say we're looking at a CapEx of about 6-7 crores in the remaining part of this year, and maybe another 2-3 crores on the metal side as well, because, you know, we need to add certain equipment to do some of the special alloys that they are, you know, working on.

So I'd say maybe possibly another 10 crore would go in, in the remaining 4 and a half months. Yes.

Mulesh Salwar - Analyst
Good, sir. So thank you so much for answering all my questions. But as you will say, understand that our dil manghe more. You said that margin you are trying to improve, but I think in the situation where we are placed now and with your efforts, I'm sure we will see improved margin in time to come.

Unidentified Speaker - Managing Director, Triton Valves Ltd
Thank you. Thank you so much.

Mulesh Salwar - Analyst
All the very best. Thank you.

Unidentified Speaker - Managing Director, Triton Valves Ltd
Thank you. Thank you for your confidence in the company. And yeah, Thanks for the kind words. Yeah, there is a lot of, I would say, effort on the margin. I think the, the directors are also very, very keen that we should move the margins, uh, EBITDA margins to double digits. It's, it's going to be a journey, right? And there's going to be some ups and downs. But yeah, we'll get there. I'm very confident we'll get there.

Mulesh Salwar - Analyst
Eventually we'll get there.

Unidentified Speaker - Managing Director, Triton Valves Ltd
Oh, absolutely, absolutely. We're heading in the right direction. Great,

Mulesh Salwar - Analyst
Great.

Unidentified Speaker - Managing Director, Triton Valves Ltd
There might be some hiccups here, but overall we are in the right direction.

Mulesh Salwar - Analyst
All the very best. Thank you, sir. Thank you

Unidentified Speaker - Managing Director, Triton Valves Ltd
So much. Thank you. So, Nisa, Mr. Diganta has shared some questions in the chat box. Okay, I request you to please address. So I think you read the question, I'll read out. Yeah, so first question he has asked, inventories of Rs 200 crores are almost as much as a quarter revenue. Yep. Why such high inventories? Do we see significantly higher sales booked in Q3? Yeah, so I think I've already answered that. I think there was a little bit of, I would say, bunching up of inventories from Q1, you know, flowing into Q2 because of the shipment delays and so on that, you know, we saw in Q1.

This will moderate significantly, right? So I'd say that whatever inventory we are holding, this is not going to be a threat for us. I think that's something I can assure everybody. Significantly higher sales. Yes, of course, in climate control we will see like significantly higher sales in Q3 than Q2. Automotive, typically there is a seasonality. I would say automotive industry a little bit slows down. Q3 is typically a softer quarter, so we will see a little bit of softening in terms of automotive business during Q3.

This is normal, but whatever inventory we are holding Right, this will this will actually come to our help because this inventory is being held at you know older older rates. Right, this is inventory which was contracted a long time ago when you know copper was at a much more favorable rate. So this is something that will help us. But having said that, yes, it could have been better managed for sure. We could have you know maybe tightened our belts a little bit more. But we were seeing you know and we continue to see.

A lot of volume growth, right? We are seeing like, you know, 25-30% volume growth in some segments. If you look at our EV segment, we are seeing, you know, growth of like 100% over the last year, right? So we believe that it's a better situation to have inventory so that we can execute sales

rather than to be too thin and, you know, suffer sales loss. So I think that's a little bit of a judgment call that we took. Maybe it went a little bit beyond what we should have done. But fair enough, I think these are, you know, the ups and downs that we normally see in these kind of, you know, volatile environments.

It's something that will moderate. So I would say don't be too worried about it. It's something that will fall into place by the end of December, and going into March, you will definitely see further, you know, optimization of inventory. The second question is falling RM prices from October onwards. Would that be a hurdle in maintaining our margins due to such high level of inventory? Have there been sales booked at higher prices for which the RM was purchased? Yes, yes, absolutely. So I'll put it like this, um, great question.

Uh, RM has been falling somewhat, uh, from let's say more than October, I'd say from, from November we were seeing a little bit of drop in copper prices and so on. But I can assure you our pricing is locked in with customers until December end, right? So any drop in price in copper prices during, let's say, October, November, December, this will only have to be passed on to customers from January, right? Because we do 3-month indexation, right? So I would say in terms of the fall in RM prices, there will be no impact as far as Q3 is concerned.

In fact, the inventory, like I said, is actually going to help us, right? So I don't think there will be any impact of, you know, the high inventory Um, becoming an obstacle for us in, in Q3. Would you like to add anything? Yeah, so out of the inventory increase, 33 crore increase is only on account of FutureTech, which is land business itself. It's converting brass scrap into, into the rods and coils. So it's a, it's a requirement that when you want to- if you're seeing now, FutureTech is growing, and in order to cover it for 2, 2.5 months inventory, this is anyway required.

So we're not justifying that everything is, you know, only because of plan. 10% increase was on account of commodity increase between the average March and average September. So that is economic which will be passed on to customer. But the significant increase is also because of FutureTech which we plan to scale up. And only when you have inventory, you can take advantage of spot calls and then where we can- like our gross margin is improving quarter to quarter because of inventory being in hand.

If we want to contract with customer and then plan buying, in all probability we'll miss the bus. So it's a step in the right direction. 10% would be because of the commodity, maybe 10 to 20% would have been the inventory in transit because of what came under September end. So nothing was unplanned, planned. Everything was with regard to only the sales are going to happen in Q3 and Q4. Okay, okay. So going forward to 3rd question, uh, borrowings have significantly gone up. Was this due to higher inventory purchases?

Where do we see the debt level going ahead? Yeah, see, borrowings, obviously a large proportion of the borrowings that we have are working capital, which is basically, you know, commodity increases have to be funded. So let's look at it like this. If last year we were buying, let's say, copper for our brass mill, we were buying copper at, let's say, Rs 700 a kilo. At the moment, we are having to buy it at whatever, Rs 1,300, Rs 1,400 a kilo. So of course, you know, that needs to be funded. And we have, you know, increased our, let's say, bank limits and so on to kind of, you know, keep in step with the commodity price increase.

So I'd say commodities have played a significant role in the borrowings going up, right? That is the single biggest, I would say, cause, right? And like I said, it will moderate out, it will average down as we go forward into Q3 and Q4. And no, I would say higher inventory. Yeah, of course, that's also,

like I said, 8 to 10 crores of sales reversal. We had a lot of inventory arriving early. Whatever we would have normally taken through, let's say Q3, we are- we a little bit came into Q2. And this is just like the pileup of Q1 coming into Q2.

And so we had a little bit of this, I would say, abnormalities. This will, this will moderate down. I think it's nothing to really be so concerned about. I can assure you on that. Um, let's move to the next question. EBITDA margins at 7-8%, where do you see these going at? I think I've answered it broadly. Uh, are we happy with 7-8%? Definitely not. Uh, do we, uh, aim to go into double digits? Yes, for sure. Um, how are we doing it? Uh, like I said, I think we are constantly optimizing the product mix.

In all the verticals, whether it's climate control, whether it's automotive, whether it's metals, always looking at doing more value-added products and moving the mix favorably in favor of the value-added products. So FutureTech, yes, of course, it's a commodity business. So margins are going to be- EBITDA margins in any commodity business will be lower than, let's say, a component business. So for sure, this is something that we already know. But I'd also encourage you, Mr. Dikant, to also see that you look at our EBITDA in absolute terms, how it has kind of shaped up over the last maybe 6 to 8 quarters, right?

What you can take away from that is you can see that while the commodity business does have a lower EBITDA profile overall, right, it is adding tremendous value to us when you see it together with the component business. You know that internal hedge that I've talked about, right? The gains from that are actually far higher than, you know, just looking at, you know, EBITDA as a, as a percentage. So if you look at it over, let's say, maybe 7-8 quarters, our, uh, our EBITDA has moved from, you know, average of, let's say, 7-8 crores a quarter to about 14.5 crores this quarter.

So this is with all the volatility built in, mind you, like climate control is still not scaled up, um, and we've had huge volatility in copper, in FX. Shipping problems. We had all these issues, right, over the last 6 months. So we've managed to keep things steady through all of that. And it's only because structurally, you know, FutureTech, the metals business and the commodity business, they hedge each other, right? It's not some, you know, fluke or miracle that we have pulled off. It's just the structuring of these 2 businesses being what they are.

This is the result that you will see. So it's a structural improvement. And, and I think that's what we should take comfort from, that, you know, we have structurally, uh, set right, um, the, the whole, uh, business, uh, model for the company, uh, after we set up the brass mill. So when the brass mill was not there, this is something we simply could not have done, right? We're only able to do this because the brass mill exists. So even though it has a lower margin profile, it has, it has, you know, strategic value addition for us.

And see the decoupling now, if you look at our dependency on copper, zinc, brass, all the alloys that we're developing, right? We have very, very less dependency on the outside world. I mean, we are not dependent on China anymore. We are not dependent on Southeast Asia anymore. So it is not possible for the raw material suppliers to arm twist us and browbeat us like the way that they used to before FutureTech was set up, right? So there are long-term implications. There are strategic implications here.

Now, like I said, you know, apart from catering to our internal requirement within the group, we are developing so many new alloys for the external market, for defense, for, you know, writing instrument industry, for automotive industry. So going forward, you will see margin profile improving. Let me assure you, it's going to take a little bit of time because, you know, this is a brass

mill. It takes time to, you know, develop new alloys, prove them, put them in the market. There's a process involved.

But once we get there and You can already see, right, over the last few quarters how that profile has improved. You will continue to see good things happening there. Yeah. Number 5 was answered. Climate control. Climate control. When do we see us making profits? Frankly, yeah, this is a bit of a question mark. I'll put it like this. Product-wise, we are ready. Capacity-wise, we are ready. Frankly, we do require a little bit of support from Government of India to Stop this indiscriminate dumping that is happening from China.

I've been very vocal about it. I've been, you know, writing letters to Commerce Ministry, to Commerce Minister, to DPIIT. I've been sending representations. I've been putting a lot of effort because, see, ultimately the government's plan was Make in India. They launched a PLI scheme. We signed up for it. We identified the opportunity. Today, the opportunity for just service valves one product line alone in India is upwards of Rs 1,000 crores. That is the market opportunity. So in terms of identifying the opportunity, in terms of developing the product, in terms of putting that, putting the setup, the factory, the equipment, we've put a world-class plant in place in India.

In spite of all this, unfortunately, Chinese dumping continues. There is going to be a stop somewhere. Right, to the Chinese dumping. So I'll put it like this. The day we start averaging about 5-6 crores of sales per month in ClimateTech, we will see ClimateTech turning positive. When Chinese dumping, even if it doesn't stop, even if it is reduced to the extent of even 20-30%, we will see ClimateTech as a dark horse. You know, it can add tremendous value to us because, you know, the unit selling price of these parts is quite high.

We are vertically integrated as a brass mill. So, you know, the major raw material for making these parts is brass. We are producing it internally. Our engineering team has done a fantastic job of product development, of, you know, proving out. Today, you know, we are globally approved for Panasonic during the quarter. That's another update that I'd like to share. I think we've got through with Panasonic now. So, you know, this is a little bit of a waiting game, unfortunately. It's something that should not have happened.

We should have by now turned this whole thing around. But yes, unfortunately, the market has been a bit unfavorable to us because of the dumping. But the good news, I'll tell you, I think the order book for the month of November alone is exceeding Rs 5 crores already for ClimateTech, right? For the month of October, I think we crossed about Rs 2-2.5 crores in sales in ClimateTech last month. This month we have order book of 5 crores. Even this momentum, if it continues, we should be able to turn things around this financial year itself, right?

We should be able to come out of the red in Climatex, right? But of course, this momentum needs to continue. Um, let's see how it goes. Um, you- last point, you said automotive division margins are improving while revenue has not grown much. Well, I think optically it looks like that because, you know, last year we had, you know, scrap sales included in the In the top line, this year we have not, you know, we've netted that off. So perhaps that's where you look at it. But in absolute volume terms, all the major product lines are growing at 30% plus in volume terms, right?

And like I said, EV products are growing at 100%, right? So these margins are sustainable for sure. In fact, we, you know, we are pushing for margin, you know, improvement, right? How is that going to happen? With the launch of TPMS, you know, new programs, you will see margin improvement. With EV product line going further stronger next year with all the EV companies scaling up, we will see further margin improvement. With our tubeless valve line getting more into the export market, you

will see some further margin improvement.

So I would say that margins in automotive, we are quite optimistic. We have a lot of promise, we have a lot of potential. We'll have to execute it over the next, I would say, few quarters, and that's something we are quite confident of doing at this moment in time. I'll take one more question, then we'll move on. I don't want only one person's questions to dominate. Cafe norms, will they act as a catalyst for TPMS? Absolutely yes, absolutely yes. And this is where we are seeing traction. I can tell you that we have already received- we put it in the public domain.

We've already received 2 letters of intent from Amovio, one from Amovio, one from Sensata. We are also working on a few more programs in the pipeline. Hopefully, you know, we should be able to make some, you know, nice announcements over the next maybe few weeks and months. Maybe there's a lot more in the pipeline as far as TPMS is concerned, and we are working on it. CAFAE norms definitely are going to be here. Positive for us. Okay, okay, Mr. Ori had a question. Uh, maybe, uh, if you're there, Mr.

Ori, feel free to unmute and, uh, go ahead with the question,

Arun - Analyst
Please. Can you hear me?

Operator
Yeah, yeah, we can hear you now.

Arun - Analyst
So there were 4 questions. First one on the, uh, Homovio and Sensata. Is it possible to share the breakup of the order value between the 2 on quarterly basis? And what sort of approximate EBITDA margins should we anticipate going forward?

Unidentified Speaker - Managing Director, Triton Valves Ltd
See, look, typically, um, whatever disclosure we've made, uh, with regard to these 2 programs, I think it's already in the public domain. So I'd encourage you to take a look at those numbers. Quarter-wise, I definitely would not like to, you know, kind of commit on any number like that because these are also customers. They also have their customers and how their offtake is going to start and how it's going to shape up. It's too early for us to comment on that. And in terms of the margin profile, see, I don't like to look at margin profile with regard to a specific customer and, you know, say, okay, this customer, this product, this EBITDA.

That's not the way we look at it. We basically look at, okay, how do we move the margin profile upwards at an aggregate level, right? So I'll put it like this. As a thumb rule, you can think of it like this. The average value addition that you will see on a TPMS program would be about 10 percentage points higher than the standard, let's say, tubeless program. Valve kind of program. So these would typically be at a higher, let's say, EBITDA profile, but it varies product to product. And there are clamp-in valves, there are snap-in valves.

Somebody has a very customized kind of a product, it could be something different there. But as a thumb rule, maybe you can think of it like this. It's about 10% would be something that you would see. And As those numbers grow and you can see the market, like I said, I always say this on all the calls, tube is becoming tubeless, tubeless is becoming TPMS, right? That's the kind of technology evolution that we are seeing now. And as we move into the future and we see more and more tubeless coming and substituting the older products, that will be very favorable for our margin

profile that I can say with a lot of confidence.

Arun - Analyst
At these Sensata Orders, these are intended for the exports business only, or are we going to serve them in Pune?

Unidentified Speaker - Managing Director, Triton Valves Ltd
Yeah, so basically all these programs, Sensata, Movio, Bosch, these are all global programs, right? At this moment in time, the customer will not exactly tell us in detail where those parts are going to start, where they're going to flow, because see, their approvals are global. The entire program is global in every sense. Like once the part is supplied to them, it can, it can go anywhere. So With Sensata, I'll put it like this. It's true that they're putting up a plant in India now. They're doing a sensor assembly.

I believe it's going to be in Chennai, not actually in Pune. But of course, these are very early, you know, indicators that we have received. Once they assemble the valve and sensor together, wherever they do it, whether it is in Chennai, Pune, whatever they- wherever they go, it will- then it will be supplied globally. You know, it's- I think they have their own internal methodology of allocating, you know, supplies to various customers depending on, you know, what works favorably for them and so on.

So at this point of time, too early to comment.

Arun - Analyst
Because, uh, their portfolio, they, they have quite a lot of other products like imaging, uh, monitoring, or maybe pressure sensors and some, uh, works related to AC pressure or temperature sensors. So are you in, uh, conversation with them? Do you see this as opportunity? Are there any cold calls or hot calls already existing with them that going forward in maybe next 2 years or so, there can be something that can be added to us?

Unidentified Speaker - Managing Director, Triton Valves Ltd
Yeah, so see, again, I don't want to comment, you know, customer to customer, but I can tell you that with all the TPMS customers, right, our first goal is to kind of establish ourselves very firmly as a dependable supplier for valves related to TPMS. Some of them have started rolling out some additional RFQs to us for components other than, you know, let's say valves for TPMS. And we are looking at those opportunities as well. But ultimately, you know, I'll say that our primary interest is to push into the TPMS domain and establish ourselves, like I said, as a very dependable global supplier for that.

And I think we are well, well on the way in terms of establishing that. All other opportunities, we look at it, you know, as maybe something add-on, but That's not something that, you know, that's not our main strategic goal, right? My goal should be to become the biggest supplier of valves to Sensata, Omovio, Bosch, whoever, you know, whoever are the largest players in the sensor market. Our job is to become the critical supplier and become, you know, a dependable supplier for all of them, right?

Anything else that they give us, I would say it's like, you know, it's a side dish for us.

Arun - Analyst
True, true, makes sense. But then you also mentioned about Panasonic. If you can just take us through that, what sort of opportunities are there and is this a new account? Or any numbers or

anything on the margins or order book that you see?

Unidentified Speaker - Managing Director, Triton Valves Ltd
Yeah, see, Panasonic, of course, you know, they're buying now service valves from us for their, you know, air conditioner line currently, which is being produced right here in India. But again, it's a global approval. See, the way a lot of these companies work is that once a vendor is registered in their system, you know, the part number is approved, the price is already inputted into the system. You could get a requirement from any Panasonic plant anywhere in the world, right? Okay. It could come from Panasonic Europe, it could come from Panasonic in Southeast Asia, it could come from Japan, right?

Because the part is globally like the system is common irrespective of, you know, which country, you know, is going to pick those parts. So at the moment, the India plant is, you know, placing orders right now, but in future it could be any other plant. Right, so that's how it works.

Arun - Analyst
Okay, okay, thank you for answering my questions. All the very best for the future. Thanks a lot.

Unidentified Speaker - Managing Director, Triton Valves Ltd
Thank you, thank you so much, Mr. Arun. Thank you. Let's move on to a question, uh, by Mr. Mahesh. What is the current percentage penetration of TPMS in India? I would say the percentage penetration, to my understanding today, is fairly small. I would say maybe 10%. 2 to 3 years, I think it could go up to like 50, 60, 70% because Like I think you rightly pointed out, and that's a very important, I would say, thing to point out. I think, Larry, thanks to you for, you know, pointing this out. CAFE III is actually going to speed up and catalyze adoption of TPMS across, you know, different OEMs, across different models.

So yeah, I think we have a huge future in TPMS, and I can tell you that our product lineup and, you know, the kind of approvals that we have in place we will possibly be able to dominate that market even more than, you know, in terms of market share, you know, share of business. I think we will be able to dominate even more than what we've been doing in the regular snap-in valves or the tube-type valves. We'll be able to have a stronger presence because, you know, these are little difficult products to engineer and, you know, the customers, it's, you know, the entry barrier is high.

So once somebody gets in, you are able to stay in there for a fairly long time. So yeah, I think this is going to be very favorable for us. I'm very happy that, you know, CAFE III is catalyzing the adoption of TPMS. I think speeds in India are going up. People are driving faster and faster on highways. A lot of highway developments have happened, very good for India. And this is a safety and let's say environment requirement. It should come in fast because, you know, I think Indian customer deserves to have a safer vehicle with tire pressure monitoring as a very essential feature.

So that they're always safe when they're driving at higher speeds on highways. It becomes more and more critical. So it's a good thing for us. Right. Any other questions anybody would like to ask? Okay. I think if you don't have any more questions, I think we'll close here. It's exactly 5 o'clock. So once again, thanks to all those who logged into the call. Thank you for taking the time. Thank you for taking the interest in Triton. I think I've got one message has just come in from Mr. Digant. Could you please share some more information on new program for automotive climate control?

Yeah, okay. So basically, I don't know if I've talked about this before. We also make components for automotive air conditioning. So these are basically charging valve ports and valve cores. We have

some new programs starting with Hanwha Systems, which is basically Visteon, which used to be Visteon. I think our parts will be going into Hyundai-Kia cars. We are now getting a lot of interest because, you know, we have developed the complete solution. We make the aluminum body. We also are offering the little plastic cap that goes on top and the core.

Right. So I think there's very few companies that can do all 3. Right. So I think some kind of packaged purchasing is what the customer is looking for, and we are able to offer that kind of solution where we do the complete, you know, the complete solution. So we've started with Henon. We also are working with the system supplier of Volkswagen, a company called Mahflo, working closely with them as well. So these also, these are also products which will have a better, I would say, margin profile compared to our older products.

I don't want to hazard any numbers at this time. I mean, this is still early days, but we'll certainly show you some data on this maybe in the future calls as this gets launched. Okay. And so it's different from the kind of components that go into room air conditioners, right? So in the automotive industry, I think aluminium is the preferred material of choice because it's lightweight. This is a mobile air conditioning application, whereas in the room air conditioning application, these parts are typically made out of brass and copper.

Right. So that's the, I would say, technical difference. So we've now- we are now starting, you know, a lot of programs with aluminum as the raw material. And this also gives us a little hedge with copper and brass because, you know, the nearest substitute to these materials is aluminum. So we are now developing some programs there so that in future, if there is a, let's say, preference for some of these parts moving into aluminum, we are fully prepared in terms of aluminum as well. So that's how we are looking at it.

Right, so I think, uh, I think we'll close here if there are no more questions. Like I said, thank you once again to each and every one of you for taking the time out on a busy Monday and joining this call. Thank you for interest in the company. Thanks for confidence. Thanks for all the, you know, very pertinent questions that all of you asked. And, um, yeah, I think, uh, I think we have a good business, and going forward, I think we will see further, I would say, traction in all the 3 verticals that we are operating in.

And yeah, hope to, you know, add more value and unlock more value for all shareholders going forward. Right. Thank you so much.

Operator
Thank you. Thank you and all the very best. Thank you.