HEIL/SE-37/2023-24

August 7, 2023

To,
The Manager (Listing),
The BSE Limited
Phiroze Jeejeebhoy Towers,
Dalal Street,
Mumbai – 400 001
Script Code No. : **543600**

To,
The Manager (Listing),
National Stock Exchange of India Limited
"Exchange Plaza", C-l, Block - G,
Bandra - Kurla Complex, Bandra (E)
Mumbai – 400 051
Symbol : **HARSHA**

Dear Sir/Madam,

Sub : <u>Transcript of Earning Call for the quarter ended June 30, 2023</u>
Ref : <u>Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015</u>

With reference to subject matter and pursuant to regulation 30 of the SEBI ((Listing Obligations and Disclosure Requirements) Regulations, 2015, please find attached the transcript of the earning call for the quarter ended June 30, 2023 conducted after the meeting of Board of Directors held on August 1, 2023.

The above information is also available on the website of the Company at www.harshaengineers.com

You are requested to take the same on your record.

Yours faithfully,

FOR HARSHA ENGINEERS INTERNATIONAL LIMITED (Formerly Known as Harsha Engineers International Private Limited and Harsha Abakus Solar Private Limited)

Kiran Kumar Mohanty

Digitally signed by Kiran Kumar Mohanty
DN: c=IN, o=Personal, title=7613, 2.5.4.20=b85b3e76e0dadd564619fa94c1b306d1a94b319885df6fffee2134a3b7ff9485, postalCode=390010, st=Gujarat, serialNumber=033b12d75ce929aa7a80b3cdff91c6bc9da1bcd13756846bbefb9bd9232e6c2c, cn=Kiran Kumar Mohanty
Date: 2023.08.07 17:22:17 +05'30'

Kiran Mohanty
Company Secretary and Chief Compliance Officer
MEM NO. : F9907

"Harsha Engineers International Q1 FY24 Conference Call"

August 01, 2023

MANAGEMENT: MR. VISHAL RANGWALA – CEO & WHOLETIME DIRECTOR, HARSHA ENGINEERS INTERNATIONAL LIMITED
MR. SANJAY MAJMUDAR – STRATEGIC ADVISOR, HARSHA ENGINEERS INTERNATIONAL LIMITED
MR. MAULIK JASANI – CFO, HARSHA ENGINEERS INTERNATIONAL LIMITED

Moderator: Ladies and gentlemen, good day and welcome to Harsha Engineers International Q1 FY24 Conference Call.

As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Vishal Rangwala – CEO and Wholetime Director. Thank you and over to you, sir.

Vishal Rangwala: Good afternoon to all. Thank you very much for attending this Q1 FY24 Investor Call for Harsha Engineers.

With me today on the presentation is Mr. Sanjay Majmudar**,** who is Strategic Advisor to Harsha and Mr. Maulik Jasani, who is the CFO. I'm assuming that you have already had a chance to look at the numbers. However, our CFO, Mr. Maulik Jasani, will take you through key numbers after my briefing.

As indicated in our previous call, the Q1 numbers are reflecting an overall subdued performance primarily due to the underperformance of our subsidiary company as well as the difficult market conditions in Europe and China region. However, we continue to perform quite strongly in Indian market as well as capturing opportunities across the global market. First, we are working on several new opportunities pertaining to our core segment which is capitalizing on the available outsourcing opportunity in bearing cages. Again, I'm happy to inform you that we have continued to witness strong growth in the segment of large size bearing cages, which we have reported 19% growth in Q1 FY24 over Q4 FY23.

Similarly, we are seeing a very strong traction with Japan-based customers and which is also very encouraging 20% growth in quarter one versus the previous quarter. We are internally also quite excited about upcoming opportunities in India from new projects which has been announced by our customer and driven by primarily China plus-one initiative taken by them. We believe that we will be a natural beneficiary for the bulk of the bearing cage requirement for these new projects.

Further you may be aware, we are also enjoying high market share when it comes to requirement of Indian Railways and we are quite excited about upside potential, the aggressive capital expansion and growth plan in this segment announced by Indian Railway. I'm also happy to share that we have witnessed early sign of revival in demand for bronze bushings and we have started seeing fresh orders coming in the current quarter with very positive forecast in the second-half of the year. And so far as Romania is concerned, we are closely observing the situation and we believe that demand conditions should start improving from third quarter current financial year, basis on various interaction we had in Europe with our key customer.

Similarly, we believe that our China performance also should start improving in coming quarter of the current financial year in as much as I know. Greenfield project in our wholly owned subsidiary company, Harsha Engineers Advantek Limited is concerned, we are in the final stage of concluding acquisition process of the land and we will finalize CAPEX plan in coming months. Thus, in spite of relatively soft Q1, we feel that consolidated basis for the full year FY24 we should be able to achieve higher single digit overall growth in top line and a decent double-digit growth in bottom line.

With that, I request Maulik to walk us through key numbers for quarter one. Over to you, Maulik

Maulik Jasani: Hello, everyone. Good afternoon. Thank you, Vishal for the business overview. For the last quarter ended June '23 for our engineering business at consolidated level, we have achieved the revenue of Rs. 331 crore against the revenue of Rs. 325 crore in the immediate previous quarter and Rs. 358 in the same quarter last year. We have achieved consolidated EBITDA of Rs. 48.8 crore in quarter one FY24 against Rs. 56.5 crore in the Q4 FY23 and Rs. 55.2 crore in quarter one FY23. The major impacts on the EBITDA are on account of the RM price increase in the last quarter as well as the operational cost increase witnessed by minimum wage implementation and the power and fuel increase.

In our solar division in quarter one, we have incurred a one-time O&M expenses for the maintenance cost of Rs. 2.4 crore which is not supported by the revenue. While at our consolidation there is also a one-time impact of Rs. 2.4 crore on account of negative exchange rate loss booking at COGS level while converting our foreign subsidiaries' financials into INR. The company has incurred a CAPEX Rs. 21.7 crore in Q1 FY24, which includes CAPEX of Rs. 10.6 crore as per the IPO end use plan.

With this brief on the financial number, I hand it over to Michelle to take the Q&A.

Moderator: Thank you very much, sir. We will now begin the question-and-answer session. We have the first question from the line of Harshit Patel from Equirus Securities. Please go ahead.

Harshit Patel: Sir, my first question is on the India engineering margins, they have declined quite substantially on Q-o-Q basis from 24.5% in the previous quarter to less than 21% in this quarter. I think while Maulik sir mentioned quite a lot of factors for that, if you could explain what exactly happened here. So was it due to product mix change or any further pricing adjustment with the customers, I think that will be very helpful.

Maulik Jasani: Harshit, as I explained, there has not been a significant product mix. Obviously, product mix will always play a role in our kind of a business where product varieties are many. One of the major difference which I could not explain in my speech is also on account of the exchange rate impact which has been negative this time due to our forward rates taken last year when price was very high and that forward rate has realized as a negative as of now. So both that positively impact us. You can see that in fact in our other income breakdown given in our presentation.

Sanjay Majmudar: Just to add, Maulik, we have also the factor of kind of the reversal impact of the pass through where your selling prices have actually softened a bit, but raw materials in the later part of the quarter have increased. So again, that would have taken a toll, actually.

Maulik Jasani: Yes, to some extent that is also there, in addition to what I also said about minimum wage increase and other power and fuel cost.

Harshit Patel: Sir, my second question is on our subsidiary performance, I think the revenue performance was quite healthy at the subsidiary level despite the global macro challenges. So, if you could give some flavor on both China as well as Romania performance in terms of sales, margins, etc. it will be very helpful.

Vishal Rangwala: This is Vishal here. Primarily on Romania side**,** semi-finished, even though revenue side things are not too bad, it's primarily semi-finished revenue basically with very limited margins there. On the finished product, revenues were actually declining or softer versus the previous quarter because of the market conditions there. And on the China side of things, again, market was very challenging during quarter one. However, we actually did not do too bad and actually primary loss is coming from the conversion of inventory valuation due to exchanges basically. So that's overall both remain challenge to us; however, we are happy to see operational improvements in China and both once the market turns around, we are very confident of seeing a positive numbers there as well.

Harshit Patel: Understood. Sir, just a small follow-up on that. If you can give some outlook on the energy cost in Europe. So have they started coming down substantially or have we already contracted those energy prices at the old rates and therefore it will continue to hamper us for some quarter. So if you can give some outlook on the overall energy cost that we are incurring in Europe?

Vishal Rangwala: So we have seen some softening of energy prices in Europe meaning that they have started coming down. They are not substantially down as yet. Over there, what we have is three-month contracts going on. So, I mean it's not a very long-term commitment as of right now and with our customer also, we have actually received most of that increase whatever we incurred up till now. However, right now we are also waiting and watching how that situation develops in Europe and hopefully that this should significantly come down in next few quarters. However, we are actually not sure exactly how it will roll.

Moderator: Thank you. We have the next question from the line of Amit Anwani from Prabhudas Lilladher Private Limited. Please go ahead.

Amit Anwani: My first question is on, one thing on the subsidiary performances which we highlighted that Q3-Q4 we can see some revival, starting Q3-Q4 onwards. And we also mentioned that still we are seeing weaknesses in the global markets and still there are challenges. What gives us confidence that this performance will start improving, if you could throw some light and at the same time if you would like to give any guidance on Romania and China as well with respect to full year and what we have factored in this high single digit topline growth and double digit profitability?

Vishal Rangwala: So on the Romania and China, what based on what we are talking, our customer inputs we have received, it gives us confidence that the situation will change in next few quarters. However, it's not for sure.

Sanjay Majmudar: But just that, Amit, you see what is happening. Overall, if you see last 1-1.5 years, Europe has been down and the indications that are given is that this is such a long down cycle, people have started to live with a bit of higher inflation and now with inflation seemingly coming under control, the demand revival is definitely on the cards. This is what our analysis and the information that we get from our subsidiaries that is what we feel. Again, but I'll be very honest, we don't have a crystal ball to gaze and this is sort of a feeling that we are getting, we have to wait and watch, but we are pretty hopeful that it should happen and we don't give subsidiary wise guidance. So, it would not be possible for us to give any specific guidance. At best, our internal target is that they should turn around in the second half. This is what we are targeting.

Amit Anwani: Sir, my next question is on bronze bushing. You highlighted that we are seeing a revival there. So just wanted to understand more color, is it the similar customer through which we were supplying bushings and what are the targets and what is the contribution this quarter from bronze bushings?

Vishal Rangwala: I'll allow Maulik to give you a more specific number if that's possible. Having said that, these we are working with set of fixed customer on this specific product and this growth is coming from these customers only. And we are seeing good forecast from them with good revival in specifically second half and some improvements in demand even happening in second quarter. In terms of projection, we are projecting for the year, I think about Rs. 45 crores of revenue coming out of bushing and I think we can't share more specific detail number beyond that.

Amit Anwani: My last question on the Japanese customer, we are seeing pretty good growth from past 2 quarters there. So are we on track for 10%-12% as you have been highlighting in next 2-3 years there and is it the contribution coming for the outsourcing of large cages which you already also highlighted that we have seen traction in large cages as well. So just wanted to understand more on that?

Vishal Rangwala: So Japan based customers, we are seeing a very good growth. Even just current quarter or rather quarter one over quarter four last year, we have seen 20% growth. And if you looked at our commentary, we have been maintaining a very high number around 20% to 30% every time and then that's what we see constantly happening. There is a good growth and good pipeline within the Japan based customer. Now that's primarily not yet happening on the large size cages. When it comes to large size cages outsourcing that is predominantly with our customer based out of Europe and other region. However, we are hopeful that we are discussing similar size cages with

Japan based customer and that also will come there. So very confident and hopeful that in next 1 or 2 years we will see significant shift on that as well.

Sanjay Majmudar: Yes, but just to add, Vishal, I think 10% in 2 or 3 years is a bit aggressive. Let us see.

Amit Anwani: How much should be the contribution now, sir?

Vishal Rangwala: Are you trying to talk about the wallet share of Japanese customers or…?

Amit Anwani: Wallet share.

Vishal Rangwala: Wallet share still is in the range of 2% to 3% only and 10% is over 3- to 5-year target.

Sanjay Majmudar: Exactly 3 to 5 is a more realistic number actually.

Moderator: Thank you. The next question is from the line of Nikunj Doshi from Bay Capital. Please go ahead.

Nikunj Doshi: I wanted to understand, during one of the interactions it was mentioned that solar will be discontinuing once we accumulated the tax benefit is taken. So why are we continuing with the business when it's not our core strength?

Vishal Rangwala: So Nikunj, what we have shared that we will take appropriate call when it comes to solar business, not necessarily discontinuing so to speak. However, we are actively considering all the options. So having said that, as the solar business we have some challenges and we know that. However, our endeavor has been and fairly successful in achieving a positive cash flow situation, at least going forward out of solar and we are confident that this one-time cost issue also will have an appropriate counter in future. But right now, that's the challenge we have at solar business and then…

Sanjay Majmudar: Just to add, two points which are important. We have a few AMC contracts which we have assumed over a period of time. Plus, we are focusing mainly on rooftop solar. Thirdly, there is a window of 3 to 4 years, which as per our advisors is the period which is safe enough for us to continue. And therefore, I think at least for next 1 or 2 years, we will just keep it low profile and then take a call as Vishal said going forward. However, very clear we are not taking any big projects, no big risks at all and no major capital allocation.

Nikunj Doshi: And another thing, this US $1 billion product liability that we announced sometime back, what is the status of that, is already paid? We have recovered from insurance? So what is the status and this one that it was our product mistake or it could be mounting mistake or some other technical issue also for the breakage?

Vishal Rangwala: We were informed about a potential issue about a year or so back about this, and since then we have worked with our customer to address resolve it. We are fairly confident that this is now addressed and resolved. However, when it comes to claim, it was just recently raised by our customer. We have not paid for and now we are now claiming this, talking to our insurance and working with them to address this issue. So, we have not taken any hit against this and we are not planning to so far.

Maulik Jasani: We are sufficiently ensure and just to add over there the supply of the same cages has started regularly since last 5 to 6 months also.

Nikunj Doshi: And is there any other such liability that is outstanding or under this thing or something?

Vishal Rangwala: We don't believe there is anything else, at least to best of our knowledge. This is the only customer intimation we had received earlier. We had informed as part of our DRHP as well.

Nikunj Doshi: And just wanted to understand, we are leaders in this space; we have decent market share, but it's not to witness in the pricing power I believe because margin they've been fluctuating and we are seeing margins coming under pressure very often. So, can't we pass on to the customers? Because since we are assuming we are leaders.

Vishal Rangwala: So, one on the material side, we have a clear price pass on mechanism and we are able to clearly pass that on to our customer. However, what you see a variation is lag of it at times. So you don't see exact impact in every quarter. That is one part of it. The other part is that beyond material, there is no other pass through. So when some of the cost challenges come our way, we face that issue and we have to take that because we have a long term contract and it's a long term supply agreement. We have to manage that and that becomes our responsibility. So ultimately, we look at a very bigger picture and long-term picture and say hey, this is what we need to pass through, then we are able to work with our customer or else there are bumps sometimes. based on…

Nikunj Doshi: Q1, whatever we have witnessed minimum wages implementation or power utilities cost and other things, so that we can assume it will be passed on into Q2 onwards to the clients or will still have to…?

Sanjay Majmudar: I would say it would normalize so that at India level at least a 20%-21% consistent margin which we have demonstrated over last many years will be maintained. This Q1, this provisioning has come and again there were impact of that pass-through mechanism working at times negatively. But overall if you look at the whole year, it will normalize. And just to add to what Vishal explained on the margins, you see the problem is that yes, on a standalone basis, Romania and China both look to be dampening the overall scenario of margins. However, the fact of the matter is that these acquisitions and these plants that we had set up in China first as a Greenfield and then as a brownfield, we are more strategic in the sense that because of their presence, our profile is actually of an MNC player having multiple locations. It helps us in de risking the overall profile of the company. Secondly, it helps us in getting more business in India, which is more profitable. Having said that, yes, we completely agree. The China and Romania businesses ought to turn around sooner and it's just a matter of time. But overall, therefore, we have always given an indication that even on a consol basis, our target EBITDA is to reach at least 18% over next couple of years and I think we are working on that. We're pretty hopeful we should achieve it.

Moderator: Thank you. The next question is from the line of Jason Soans from IDBI Capital. Please go ahead.

Jason Soans: Just wanted some more color, sir, on this gross margin clearly have come in on a consolidated basis, I mean, have come at 44.8% than your usual gross margins when you go back, however, around 48% to 49%. Now, I do understand that you have given some commentary on the COGS exchange loss. But is there any other factor contributing to it in terms of raw material increase or some other things?

Maulik Jasani: Jason, at consol level, the gross margin has also been impacted because of the incremental sales done on the semi-finished casting in Europe where we have seen the growth in the Q1 and that is the reason which had impacted the overall margin as well as the gross margin at consol level apart from the one point we have already discussed on conversion loss of foreign subsidiaries impacting the COGS due to inventory conversions. These are the major. Apart from that, there can be some minor impact on account of product mix as well as raw material price movements happened in the last quarter, which is not yet pass-through to the customer.

Jason Soans: So this 24 million basically is the conversion?

Sanjay Majmudar: The overall long term gross margin will remain at around 50%.

Jason Soans: The overall gross margins you estimated to be around 50% going ahead.

Sanjay Majmudar: Yes. Over a long term, I'm not saying next quarter, but on an average basis.

Jason Soans: And in terms of growth, I just wanted to understand, even say globally or in domestic you can probably break it up or like which sectors are you seeing contributing to growth in terms of, of course in terms of bearings goes to a lot of cost of CAPEX related sectors. So which sectors are you seeing growth coming from?

Vishal Rangwala: Actually when I talk domestically, we are seeing a strong growth coming out of railway side of things as well as we are continuing to see a decent growth on the automotive side. Basically, in India across the board but one specific sub segment is railway for us. Beyond that, we have such a vast portfolio. So I think practically we are touching on most of the sectors and bearing has a lot of interchangeability within sectors, so I can't fully define that sector specific thing. On a global basis, we were seeing a quite challenging environment so far for the automotive; however, we are starting to receive indication of automotive revival. And the industrial and wind, even though currently soft globally, we are getting some indication of wind revival in second half of the year. That's broadly what we have.

Jason Soans: And sir, any incremental orders or any new customers or any new orders in the pipeline?

Vishal Rangwala: Yes, we are seeing significant incremental orders. That's something specifically, I would not like to kind of pinpoint because we are very closely working with our customers on some of the various projects and they continue to give us more orders on the piecemeal basis. There are couple of big projects and orders in pipeline and as and when we have proper LOI or indication from customer, we will announce it as per the requirement, but otherwise I think, overall, what I would like to say that our order pipeline is very strong, just over last quarter we have actually absorbed significantly higher amount of new orders which considering our product development and realization cycle, it will take 6 months to develop and 1 to 2 years to mature. So there is a whole cycle to it and that gives us a good confidence of about our future. Beyond that, I can't share much.

Jason Soans: And sir, just my final question, this negative exchange loss of 24.2 million, could you just throw some more color on it, what exactly has happened there of course, I mean just relates to rupee depreciation or some color in terms of that?

Maulik Jasani: Yes, it is on account of the rupee depreciation and the Chinese yuan appreciation. And as you know on consolidation, we have to convert the financials of the foreign subsidiaries at an average rate except the balance sheet item at the opening closing rate. So change in stock has this impact of 2.42 on the COGS side where we have to convert the inventories at the respective rate of opening and closing.

Moderator: Thank you. The next question is from the line of Ashish from JM Financial. Please go ahead.

Ashish: Sir, my question is first, I mean you did touch upon the guidance, but can you just flip that into let's say, what are you looking for the India business in terms of revenue growth and margin and what are you looking at the individual entities of Romania and China in terms of topline guidance?

Vishal Rangwala: So see, it will be difficult for us to give you very specific individual numbers. However, one I would mention one thing that we are looking at growth both in Romania and China which may be little subdued versus India which would be little higher side. And on the margin side also, we have kind of mentioned that we are working on Romania and China, breaking even and India growing the bottomline. So overall what we have given that stance and then these are some of the additional colors. Beyond that, I'll not be able to share.

Ashish: Also, sir, if you can just help with some balance sheet numbers like what could be the net debt as of June?

Maulik Jasani: Net debt as on June is 248 at the standalone level, Rs. 248 crore at standalone level.

Ashish: And consol, sir?

Sanjay Majmudar: Net negative, yes.

Maulik Jasani: Correct.

Sanjay Majmudar: There is no debt because of the proceeds still lying with us.

Maulik Jasani: And consolidated net negative 177.

Ashish: So lastly there have been some instances of failures in the overseas in some of the windmills etc. and some of the larger OEMs have been facing some sort of investigation or issues. So where do we stand? Are our products under any kind of sort of scrutiny or any investigation or have you heard anything from our clients anything in that regard?

Vishal Rangwala: So no, as of right now we have not heard from any customer related to any new investigation or under scrutiny. The one which was historical in past and that's what we have informed and that's what related to that we have received the recall, you know cost, the claim, and that's all there is to it right now. We are fairly confident there is nothing more in like all the new pipeline and all the future products. We are fairly confident, we have corrected that issue and don't see any, I mean I'm not able to predict future, but right now we don't have any other information on that.

Sanjay Majmudar: And that too, Vishal, I mean that too it was pretty old, it is not recent.

Vishal Rangwala: Correct, that the claim is related to supplies which happen between 2018, 2019 to 2020 maybe up to 21. That's it.

Moderator: Thank you. The next question is from the line of Sabyasachi Mukherjee from Bajaj Finserv AMC. Please go ahead.

Sabyasachi Mukherjee: Sir, going a bit deeper on the growth guidance of high single digits that you have mentioned for FY24. If I look at your commentary and the presentation and the initial commentary also, you are saying that India continues to be showing good prospects in terms of growth as well as Americas. And domestic market especially is showing good growth prospects. And on the other hand, the exports market, especially in the European market is little bit subdued. So if I were to kind of split the growth numbers between let's say, domestic exports and China, Romania. You know, largely the numbers that I get is India domestic should grow probably somewhere around mid-teens in FY24 with exports probably going at mid-single digits and China, Romania had to grow in single digits, is that a fair assumption or a fair calculation that I have?

Sanjay Majmudar: Your voice got fainted. But I understand what you're trying to say, that India domestic should grow at around mid-teens. So maybe definitely higher than 10%. And China and Romania we lost it, but probably you meant that it could be minor degrowth or it would be at best flat. Am I right in understanding your question?

Sabyasachi Mukherjee: Yes, China-Romania would be largely flat and probably exports would be somewhere around low to mid-single digits given the kind of environment?

Sanjay Majmudar: You're broadly right.

Sabyasachi Mukherjee: So on the back of that, if I just look at the Q1 numbers, India domestic has Y-o-Y basis has declined by 9%. And if I look at the Q-on-Q that is quarter four to quarter one, the growth is also little subdued at 7%. Do we expect a much kind of higher recovery in the H2 of current fiscal, I mean how was the environment, how the orders were there, do you have that confidence that probably H2 will be much better than H1 of current fiscal?

Sanjay Majmudar: While Vishal will take care of the second part of the question. YoY, the only problem was the commodity pricing, so you know, if you look at our Q4 FY23 annual results call, we had indicated that there was actually a little decent growth on the volume terms. However, if you look at Q4 versus Q1, the pricing is more or less at a comparable level, therefore there is a modest growth. Secondly, Q1 always is not very strong. It is a function of many factors. But I think Vishal will elaborate that how he feels more confident, particularly on the H2 part because of the order intake and whatever indications we are getting. Over to you, sir.

Vishal Rangwala: Thank you, Sanjay bhai. So correctly Sanjay bhai mentioned comparison versus last year as a whole price adjustment mechanism in true picture. Another talking about H2 going forward, definitely just based on our customer indication we are sharing that, we feel that to be better. And so partly the recovery what you mentioned in Q1 is just 7%, yes, that part recovery will happen in Q2 based on various factors in the market including expectation of wind revival. We are seeing some good forecast from our customers as well as the new order wins from our customers. So, we are actually well, market demand sometimes goes down. We continue to win more new product orders from our customer and that also supplements our growth. So combination of all factors including new product wins and forecast and things like that we are fairly confident of a good H2.

Sabyasachi Mukherjee: Sir, just a clarification. In the previous participant's questions reply, you mentioned that you saw significant orders probably in the last quarter Q1, correct me if I'm wrong and probably this will take another 6 months to get into production and probably the ramp up will happen and the peak, the optimal sales will take around 12 months to 18 months from now. Is that a correct understanding?

Vishal Rangwala: Correct. And that is our normal cycle. What confidence I'm deriving from is, now the order wins which has happened over 6 to 8 months back. And those products materializing and when we say, for six months these products are generating revenue. Even though they might take 1 or 2 years to get to their full potential value, so it's a combination of all those factors. Your understanding is correct. However, this confidence is coming from previous wins and previous awards we have received from our customers.

Sabyasachi Mukherjee: So can we quantify any number on the order info, let's say last 6 months, what kind of order inflow that we had?

Vishal Rangwala: No, it will be not fair to quantify that number. We don't intend.

Maulik Jasani: And it comes into the piecemeal.

Sabyasachi Mukherjee: Last question from my side, this is more of a clarification on the China, Romania piece of the business. Are we looking at any positive contribution or positive EBITDA this year or it will again be some loss or probably a best case will be a breakeven?

Sanjay Majmudar: So definitely a positive EBITDA contribution this year, even with the quarter one loss, our endeavor and internal target is to at least breakeven if not do better when it comes to these two subsidiaries.

Moderator: Thank you. We'll take the next question from the line of Shirom Kapur from Prabhudas Lilladher. Please go ahead.

Shirom Kapur: I just wanted to follow up on the question regarding Romania and China’s margins. In the last quarter, we indicated that margins in Romania and China could going forward improve to about 5%-6% in Romania, on account of reducing the share of the casting from about 80%-85% to 60% to 70% and similarly in China, we can see margins going up to 12%-13%. Given the weak profitability in Q1 where I believe the Q1 loss was as much as the full year last year. Are we on track for this long term or are we going to see like a delay in this margin improvement given that now you're only expecting about a breakeven or so this year?

Vishal Rangwala: See, when we were talking about that number, we were talking about EBITDA margin and we are still targeting those numbers, but obviously the quarter one does create a challenge. So that being the case specifically on the China side, I think we feel more confident considering the fact that in that loss, we had that currency conversion impact which was explained by Maulik earlier. So that gives us confidence that even though first quarter results are what they are, we are hopeful of improving from here on. And in Romania same story. But yes, there is an impact of first quarter in it.

Sanjay Majmudar: So just to add very quickly, I think 5%-6% is a little longer term. It cannot probably come on overall basis this year, but definitely it will be improvement from Q1. Maybe somewhere closer to that, that's what we are targeting, but let's see.

Shirom Kapur: And next question regarding the employee cost figures. So, you mentioned there was a one-time wage increase, but this should normalize over the year. So I just wanted to understand the Q1 employee cost that we saw, is that something we can annualize for the rest of the year as a trend going for the rest of the year?

Maulik Jasani: So effectively you can consider annualized, but as Vishal has mentioned, we work on the regularizing this by creating various projects within the company. We follow very aggressive cost improvement projects as well as converting the manual to auto so that we can rationalize on the manpower cost and that will also have a positive impact during the year, it will not definitely be seen in the first quarter itself, but yes that activity has already been started within the organization.

Shirom Kapur: And you mentioned in your opening comments that the margin declined in India business due to raw material cost increasing and the employee cost and also you mentioned power cost going up. From what I understand that we started that hybrid power plant to kind of help to reduce our power costs. So, are we not seeing that impact, the benefit of that yet and are we going to see it later this year?

Maulik Jasani: Hybrid power cost benefit has started accruing. What we intend here is our last year cost of the real power consumptions has gone up, but yes, you are right on the part of hybrid power, we got a benefit. Net level, it is almost flattish.

Vishal Rangwala: On account of this renewable energy, we are not 100% coverage when it comes to our internal consumption. Obviously, that there is some benefit, but again, that there is additional cost for part which is not covered through this renewable.

Shirom Kapur: That's helpful. Just my last question is, just wanted to get some color on how the precision stamp component business did? What were the sales in this quarter growth and what's our growth outlook for FY24 and for the next couple of years in this business?

Vishal Rangwala: So yes, stamping also I think we have to mention that we are seeing a significant traction on that stamping component front. In terms of order wins and pipelines, very aggressive growth we are projecting. With stamping, good growths in the range of about 15% to 20% is what we are expecting in FY24. And if I compare with quarter one versus the last year average, we grew about 17% versus last year in quarter one. And I think we are expecting that we'll maybe improve that or continue in that range, is what we are projecting right now.

Moderator: Thank you. The next question is from the line of Sabyasachi Mukherjee from Bajaj Finserv AMC. Please go ahead.

Sabyasachi Mukherjee: Just a question on a bit longer term, so you mentioned in earlier calls that medium to long term growth guidance is somewhere around 15%-16%, if I'm not wrong. Depending on the order pipeline and the order wins and the environment that you see, from a medium to long term perspective, does that hold, what is the kind of thought in this?

Sanjay Majmudar: Yes, definitely, we see that holding and feeling fairly confident of that, executing that. Specifically within that, we are seeing a very strong growth in India basically. This is for our global demand, not only demand in India, but also demand in India projects what we are working with our customers and all the various plan setups CAPEX announced by our customers, we are seeing a good traction for those supplying into those demands. So yes, those numbers still hold true and fairly confident of achieving this.

Sabyasachi Mukherjee: And when you say good demand, strong demand in India business, so is it only the domestic business that probably you are supplying to the international clients having plant set up in India or is it also because exporting to other plants of these global giants, bearing giants, how is it? Is it both or only domestic?

Vishal Rangwala: So immediately when we talk about, we are seeing a good number in India. We are talking about domestic consumption and primarily our customers supply into domestic market. Our customers also supply using their plant in India to a global market. And again, I don't have a very definite commentary. But we feel that they might be also seeing a soft demand from their global counterpart. However, when we talk about medium term growth, we are talking about both Indian domestic market as well as our customer setting up facility in India to supply to the global market. And we are seeing that midterm very strong and that realizing, positive realization to Harsha also and to definitely our customer also.

Sanjay Majmudar: And just to add, we are also I think maintaining the export momentum out of India. So that around 50%-51%-52% seems to be like maintainable.

Moderator: Thank you. The next question is from the line of Jason Soans from IDBI Capital. Please go ahead.

Jason Soans: Just wanted to, if you could just provide some color actually, I mean there have been enough questions regarding the Romania and the Chinese operations. So when I go back, if you just look at the subsidiary operations, you have had good margins of 7.5%-10% going FY2021. And from this been on a decline, FY23 EBITDA margins were around 4%. I'm just talking about the subsidiary business, which predominantly consists of China and Romania. So, going ahead how do you see it? What is the reasonable or realistic margin we can take going ahead for 24-25, what are you expecting? I know there are a lot of global headwinds here, but still realistic, what would you target?

Vishal Rangwala: So, in Romania, there are two pieces to the business. We have a semi-finished business and a finished cage product. Semi-finished is a single digit EBITDA margin business whereas cage is respectable 15% plus EBITDA margin business. So on a blended basis medium term, we are trying to achieve about 8%-9% EBITDA margin of Romania. And similarly in China, cage business has again another 15% to 18% EBITDA margin on an ideal basis and we are, from a cage business point of view, trying to achieve that 15% to 18% EBITDA margin business. In China, we also do a little bit of trading. So depending on what trading volumes are, because we actually partially for most of our products going from India to China we sell it directly but partially we sell it through our Chinese subsidiary, which may have an impact depending on that quantum impact of diluting overall Chinese margin. Having said that, right now based on what we know on that blending, we expect to achieve about 12% to 14% EBITDA margin in China, including traded business. So that's the directionally what we are looking at and feeling fairly confident in next 2 years or so we will get there.

Jason Soans: Sure, Sir. And standalone, I believe you must be targeting the usual 16%-17% margins?

Vishal Rangwala: Standalone 20% plus EBITDA margins in a sustainable basis.

Sanjay Majmudar: India.

Vishal Rangwala: India Engineering.

Jason Soans: And sir, just for my understanding, just would want to know in terms of proportion when you look at of course the large size cages are a big revenue growth avenue for you. So just as a proportion ballpark number, how much would be probably outsourced at this point in time and how much do the companies do attend in-house? Is there a ballpark number to it and how we can grow?

Vishal Rangwala: So again, this is my judgment. I don't have a report out there which can support me. However, roughly our estimate is that about 20% to 30% is outsourced, (+70% likely is insourced today by our customers.

Jason Soans: 30% is outsourced and 70% is insourced.

Sanjay Majmudar: Yes, 20 to 30. It will depend on customer-to-customer, of course.

Jason Soans: And sir just lastly, just one question, I'm going to qualitatively would want to ask, now of course you have a business coming in from the global bearing giants Schaeffler or SKF and other players. Now, but what I come to understand is Japanese players are actually kind of because being Asian and they have very what you say a very precision engineering groups or a big rich tradition of that, so they tend to be a little hesitant on outsourcing. That's what I've gathered. So they tend to be a little hesitant on outsourcing and other things and hence converting Japanese customers could be an issue as well or probably a hindrance or it could be slow. So just wanted your comments on it as regards to the global bearing giants plus as compared to the Japanese customers?

Vishal Rangwala: Yes, your assessment is correct. They tend to be very slow. We started working with Japanese customer actually in Europe and US in last 10 to 15 years and only last 3-4 years back only we started supplying them into Japan. And this is relatively a slow process, but however, we think that we were last 1-1.5 years we have been at the inflection point where we are seeing the base also increased significantly and our growth percentage with them as we have been sharing about 20% to 30%, it's going on and we think that, that will continue because they see good value provided by Harsha in variety of aspects. Also challenge here is that our number one competition is the Japan based company called NKC and they have very strong hold within Japanese customers. So, combination of all that factor, it's a slower process but fairly confident of getting that.

Moderator: Thank you. We'll take the question from Ms. Shreya Jain from Niveshaay. Please go ahead.

Shreya Jain: My question is regarding the wind energy sector. What is the global and domestic outlook growth opportunity for Harsha in the wind energy sector?

Vishal Rangwala: For wind, Harsha participates in a multiple way. One, we supply bronze bushing to an industry, also through our customers for bearings we supply significant bearings cages in this market and that happens across the globe out of our facility in Romania, out of our facility in China as well as significantly out of India. We supply a variety of cages as well as bushings. And right now, what we are hearing from our customer is that wind market is a little soft and it will likely grow in the second half of this year, our comeback. And from an opportunity point of view, India is seeing a significant wind market supply chain base and so we see lot of opportunity within that in India as well as our plant in Romania caters to all that opportunity. Specifically, Romania is focused on larger size cages which go primarily into wind market and that's one of the reasons we are seeing a little bit soft finished product demand in Romania.

Shreya Jain: And my second question is regarding the railway sector. Do we have any leads or any orders in the pipeline?

Vishal Rangwala: Yes, we have a very strong market share within railway when it comes to bearing cages and we are seeing a very good traction, we are seeing an increased demand out of specifically Indian Railway. We are supplier to rail bearings globally for our customer. So that is also there and also beyond cages, certain set of stamping components we supply to our customer, which goes into assembly of railway components and that is also growing demand for us.

Moderator: Thank you. Ladies and gentlemen, as that was the last question for today, I would now like to hand the conference over to Mr. Vishal Rangwala – CEO and Wholetime Director for closing comments. Over to you, sir.

Vishal Rangwala: Thank you very much everyone for attending this call. And we hope we were able to give you highlight of various aspects of our Q1 result as well as how we feel confident about mid to long term growth story and opportunity we are presenting and appreciate you attending this. Thank you.

Sanjay Majmudar: Yes, thank you and have a nice evening.

Moderator: Thank you, members of the management. Ladies and gentlemen, on behalf of Harsha Engineers International Limited that concludes this conference. We thank you for joining us and you may now disconnect your lines. Thank you.