HEIL/SE-34/2022-23

February 17, 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 : Transcript of Earnings Call for the Quarter and Nine months ended December 31, 2022
Ref : Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015

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 earnings call for the quarter and nine months ended December 31, 2022 conducted after the meeting of Board of Directors held on February 14, 2023.

The above information is also available on the website of the Company at https://harshaengineers.com/InvestorRelations/financial-information.php#

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)

MOHANTY KIRAN KUMAR

Digitally signed by MOHANTY KIRAN KUMAR
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Kiran Mohanty
Company Secretary and Chief Compliance Officer
MEM NO. : F9907

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(formerly known as Harsha Engineers International Private Limited and Harsha Abakus Solar Private Limited)
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“Harsha Engineers International Limited Q3FY23 Conference Call for Investors and Analysts”

February 14, 2023

MANAGEMENT: **MR. VISHAL RANGWALA – CHIEF EXECUTIVE OFFICER & WHOLETIME DIRECTOR, HARSHA ENGINEERS INTERNATIONAL LIMITED**
MR. SANJAY MAJMUDAR – STRATEGIC ADVISOR, HARSHA ENGINEERS INTERNATIONAL LIMITED
MR. MAULIK JASANI – VICE PRESIDENT & GROUP CHIEF FINANCIAL OFFICER, HARSHA ENGINEERS INTERNATIONAL LIMITED

Moderator: Ladies and gentlemen, good day and welcome to Q3 FY'23 Conference Call for Analysts and Investors of Harsha Engineers International Limited. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' and then '0' on your touchtone telephone. I now hand the conference over to Mr. Vishal Rangwala, CEO and Wholetime Director of the Company. Thank you and over to you, sir.

Vishal Rangwala: Good afternoon, everyone. Thank you for joining Harsha Engineers International's Q3 FY2023 Earning Call.

I would like to walk through results for Q3 first, talk a little bit about that and then maybe Maulik will talk more specific about numbers.

So, to begin with, we continue to see respectable top line and bottom line in Q3 results despite very difficult market conditions across Europe due to energy crisis. This has top line impact in our Romania plant as well as supplies going from India to Europe. Further, in Q3, due to strong zero COVID quality implementation in China, there was impact on China revenue as well.

A couple of other factors which had in our top line impact was one material pass-through mechanism in place, and commodity pricing, price reduction linked to steel and brass commodity pricing changes. So, as well as our customers started doing a lot of year-end inventory control, resulting in overall softening of our demand as well. So, Q3 is definitely lower than our expectation; however, these are the significant factors which have an impact on them.

While we have improved our EBITDA, and PAT over last year and last quarter, we are continuing to work on reducing cost and obviously partial revenue reduction in that due to material pricing pass through mechanism. So, we are keeping our EBITDA margins quite strong and intact. Considering material price change and pass-through as well as European demand softening, –

Moderator: Mr. Rangwala, sorry to interrupt. Sir, if you could just move the mic a little more closer to you, as participants have just highlighted that they're not able to hear you very clearly, sir.

Vishal Rangwala: We are seeing significant price changes because of material pass-through and significant European demand softening and there is a whole softening of overall market being there. In current year, we are looking at flattish top line. However, EBITDA in absolute term will remain strong as well as we will grow it as a percentage this year.

We are seeing some impact in the wind market specifically in Europe, which is very weak and which has some impact on our growth in the bronze bushing business as well. We are closely monitoring how this situation is developing, actually guiding on specific how it's going to roll out over the next few quarters. It looks a little difficult at this point, but we are extremely hopeful that Q4 also we will improve from here.

While we talk about this, we're very bullish on medium-to-long-term. Our focus there is for continued growth. The drivers for us remain the same. We continue to see new orders in reference to China Plus One strategy deployment by our customers. We are focused on increasing business share within Cages. We are actually continuing to grow with our Japan origin customer base across the globe as well as we are seeing a lot of good growth possibility in bronze bushing as well as stamping products. Overall, we remain very optimistic and continuing on that path.

And with that, I ask Maulik to talk about the numbers.

Maulik Jasani: Thanks, Vishal. Hello, everyone. Good afternoon. We have uploaded the "Financial Numbers" as well as the "Investor Presentation" on our website, as well as with the exchanges. I'm sure you would have got an opportunity to go through the same.

Let me quickly touch upon the major number. For the quarter-ended December '22, for engineering business at consolidated level we have achieved a top line of Rs.297 crores against Rs.318 crores in the previous quarter, as well as Rs.312 crores in the same quarter last year. We have some degrowth of (-7%) and (-5%) respectively for the period. Against that, our profit after tax for engineering business for the December quarter is reported at Rs.32.1 crores versus previous quarter reported number of Rs.27.7 crores with a growth of 16% and Rs.19.9 crores reported number of previous year Q3, with a growth of 62%. On the EBITDA front at consol level for engineering and solar business, we have achieved EBITDA of 18.1% as per the definition, and against 16.22% in the previous quarter.

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

Moderator: Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Harshit Patel from Equirus Securities. Please go ahead.

Harshit Patel: Sir, my first question is on our overseas operations. So, if you could indicate what was the revenue growth or decline was there in both our Romania as well as China operation on YoY and QoQ basis? And how has been the performance on the margins front over there? And in your opinion, how long could it take us to get back to the historical levels of margins over there?

Maulik Jasani: For Harsha China, our quarterly numbers degrew by minus-14% versus Q2, while it has grown by 17% on the Q3. On Harsha China only, our EBITDA has remained good for the last quarter. We have achieved an EBITDA percentage of 15.6% in Harsha China on the top line of Rs.27.9 crores. On Harsha Romania, our top line has remained at Rs.50.3 crores with a degrowth of minus-6% over last quarter and minus-28% over last year Q3. Our EBITDA remain breakeven or zero in this quarter versus positive EBITDA of Rs.60 lakhs in the last quarter.

Vishal Rangwala: I will address on our overseas subsidiaries I think we are seeing continued improvement on the margin side and EBITDA side. And we do have a difficult situation in last quarter in Europe as well as in China. And as part of this volume recovery happens, we are quite confident that we will be positive bottom line we will achieve in next few quarters and grow from there. So, that's the idea.

Harshit Patel: My second question is on our bronze bushing business. As you have mentioned in your press release as well as you also told us that there is a bit of a slowdown because exports from India to Europe is suffering. So, where would be in terms of our growth trajectory in that business -- so, will we be able to achieve our FY'24 guidance at least, I believe FY'23 could be a little bit of a problem, but are we on track to do that Rs.100 crore kind of sales next year?

Vishal Rangwala: So, right now, exactly to define that becomes challenging, but overall order wind remains with us, how fast that market recovers remains a question. So, what we are hearing from our customer and overall wind market, the second half of calendar year '23 will be much better for wind. So, as and when that revival happens, we'll be dependent on that. But, in terms of opportunity, and in terms of potential of the business, we are near that number of Rs.100 crores, and whether we are able to successfully do Rs.100 crores will depend partially on the market situation.

Moderator: Our next question is from the line of Amit Anwani from Prabhudas Lilladher. Please go ahead.

Amit Anwani: As you have already highlighted we are facing some slowdown for exports in bronze bushing, also, offtake has been lower, and maybe that will continue for one, two quarters. So, now, the kind of guidance that you were providing earlier on the top line growth and obviously the margin improving and we used to talk about India margins at least improving significantly and much higher contribution from bronze bushing for next two years, so, are we still remain firmed up on that, any change of stance?

Sanjay Majmudar: Am I reading, Amit, your question correctly that what is the growth guidance for '23-24 that we are looking at?

Amit Anwani: Yes, sir, in FY'24, '25, any changes because now we are saying bronze bushing also seeing lower offtake and we targeted, that will be also a major contributor?

Sanjay Majmudar: So, as Vishal explained in his initial comments… this is Sanjay Majmudar. What is happening is this year is definitely looking flattish in terms of the value. Having said that, there is definitely a volume growth, though not again in our case strictly quantifiable, but anywhere between 7% to 8%, or maybe even little higher volume growth you have seen even this year. Next year, what is happening? One, all the growth drivers are intact. But, next year, we will wait at least for this Q4 of the current fiscal year to go before we want to actually quantify that what could be the growth guidance for '23-24. Having said that, our target of a consistent medium-to-long term opportunity by the CAGR growth of around 15% is what we are targeting and we are very confident that this would happen. But, for '23-24, we want to wait for one more quarter and then give sort of an indication given the fact that we are facing a lot of uncertainties and it's not exactly possible to quantify at this point in time. So, let's wait for Q4. Having said that, that doesn't dilute the opportunity or the growth story in anyway. But it's just a medium to short term problem that we are currently facing. But I think it will be only fair to say that let's wait for one more quarter and we'll be able to then give you a little more exact indication about '23-24.

Amit Anwani: So, sir, is it our customers are seeing lesser offtake or is it the overall wind market?

Vishal Rangwala: So, I think it is both. We are seeing less offtake from our customers because they are already cautious about the impending recession as well as the overall market is softened. Having said that, specifically, we see that in Europe that is significantly impacted. Other regions, we don't see a very significant impact, but it could come in. So, that's why there's a lot of uncertainty because it's linked to that.

Amit Anwani: On increasing customer wallet share, we talked about Japanese customers, that's where we are focusing on and obviously, the outsourcing of large cages. So, is there any development, any contribution, anything which has happened?

Vishal Rangwala: In general, we are moving in that right direction. We are winning a lot of business with Japan origin customer base across the globe. The growth is 35%-plus growth we are seeing for that customer base for the nine months so far. And beyond that, even that large size cages, we are winning a lot of orders, part of it is testing on outsourcing. We don't have a specific large order to be shared as significant has happened, but it is a very incremental gain, and we are continuing to see traction on both those fronts.

Sanjay Majmudar: That maybe the cages factor.

Amit Anwani: On railways, we saw this has been a good focus, budget is also on railways side. Any company-specific benefit which we are looking in the coming years on the railways side?

Vishal Rangwala: On railways, we are seeing a significant growth, specifically one product we have just developed, which is going into the railways. And another product which we have, actually our customers were importing, and now we have become the substitute for that import where in that situation, we are ramping up that product. So, we are seeing significant growth within the railways or rather we will continue to see this calendar year '23. So, I'm very hopeful, but again, those numbers are in a range of 20%, 30%-plus overall, based on what projections we have seen, if we are able to fully realize that import substitution. So, very hopeful, very aggressively looking at that.

Moderator: We take our next question from the line of Pradyumma Choudhary from JM Financial. Please go ahead.

Pradyumma Choudhary: You've done very well in terms of absolute EBITDA growth on the engineering consolidated side. So, I just wanted to understand the reason for the same.

Vishal Rangwala: So, there is one important thing here that I mentioned earlier that because we have a material pass-through mechanism. And as Sanjay bhai mentioned that we think that we still grew significant respectably in spite of the headwinds we are facing. So, basically, EBITDA absolute margin remain intact in spite of if you look at Q3 a little bit soft. So, that is basically leading to the EBITDA growth.

Sanjay Majmudar: Major contributor being India, India has reported a very decent EBITDA.

Maulik Jasani: Just to add on to the points, Vishal has said about the pass-through, plus, we also have a good amount of exchange rate in case in our EBITDA, which we have already realized… and it is there in our Investor Presentation.

Pradyumma Choudhary: Sorry, I couldn't hear the second reason. One is pass-through. What's the second reason?

Management: Second, Maulik said that we have a good decent realized exchange rate also booked in the current quarter what is actually realized by us.

Pradyumma Choudhary: One thing I notice was our revenue on a YoY basis, I'm talking about Q3 revenue actually has declined by around 7%, whereas cost of goods sold has declined by 17%. So, is there any chance that not all of the price decrease of metal has been passed on to the customer?

Maulik Jasani: So, our price pass-through has a lag, which is three to four months lag from customer-to-customer, and that lag always give either a benefit to the company or a hit to the company for a quarter figure and that is being reflected there.

Sanjay Majmudar: So, having said that, this is always a constant process and there is a little bit of lag, it goes on. So, exact mathematics is very difficult to say. But that does not mean that automatically Q4 margins will be further subdued. It also means that there would be new orders where we will get a better margin, some orders, we will have a little pass-through effect. On an average at India level a 20% around that EBITDA we are maintaining. As Vishal explained hopefully China EBITDA will further improve this Q4. Romania, we are keeping our fingers crossed, very honestly, we don't know, but, let's assume Romania remains more or less in this territory of zero or a very marginal 1% or 2%. That would mean that Q4 I should say more or less a similar operating and net margins happening, which will mean that as compared to last year, is a very different margin growth this year, notwithstanding the fact that at the top line level we are flat. This is the sum and substance of the current year as we see.

Pradyumma Choudhary: In terms of YoY in Q3, what is the volume growth?

Sanjay Majmudar: See, again, I'll be very honest, we have a brass, we have a steel, but thumb rule is maybe around 7% to 8%.

Pradyumma Choudhary: Just one request before I just conclude. Of course, we are a price pass-through company and our numbers get impacted by the commodity price fall or rise, right. Maybe something on the volume side in your presentation going forward so that we are able to better assess the business performance would be really helpful.

Sanjay Majmudar: I appreciate your point, but let's understand the difficulties that we face. So, we have a 7,500 SKUs and there are so many different parables and factors. For example, if I am talking of brass, we have x-volume, but giving us much higher average realization. When I talk of scale, we have very small 20 mm, 30 mm, 40 mm product, DGBB, etc., wherein cages where it's very high volume, but the average realization is very low. To be very honest, we will still want you to look at a percentage EBITDA. It would be very misleading for me to say that this is average realization per piece, because I don't want you to promise something which we can't deliver.

Moderator: Next question is from the line of Dhananjay Maji, an Individual Investor. Please go ahead.

Dhananjay Maji: Sir, your casting products have a low margin which might be dragging your margin down. So, how you would be offsetting -- is that only the product that is brass bushing?

Vishal Rangwala: I think in our casting business, we only do semi-finished business in Europe out of our Romania facility. Otherwise, our focus is on the finished product business. And bronze bushing is actually a finished product with a respectable margin. The casting business, which is relatively lower margin only exists out of Romania facility.

Maulik Jasani: And as you rightly mentioned, being in Romania, energy prices have hit us hardly last quarter and which may hit zero EBITDA for the 12-months.

Dhananjay Maji: By any chance, if the demand for sensor embedded bearing increases or are we having any capabilities of supplying those… let me modify the question in short, how are we molding ourselves towards Industry 4.0?

Vishal Rangwala: So, see, there are two aspects of this. One, how we are working internally, we are actually aggressively implementing Industry 4.0 internally to really give us the benefit of optimization of cost efficiency as well as just in time and all that. There is a significant in-house program, which we run, linking all our machines to our central system and how we create the signal and all that so that right maintenance, right attention can be given. So, that is how we do internally Industry 4.0. Having said that, our product per se, when it goes to bearing, our product has no impact whether this bearing has a sensor built in or not, we are agnostic to that. And even with the sensor, there is bearing similar or the same cage goes in. This is a highly precise product. So, as such, that's how it is. However, to take advantage of this trend, we have injection molding cages also and injection molding capability. So, we are working with some of our customers to supply additional product within the bearing side so that we can give that molding or plastic components which incorporate the sensor as an attachment to the bearing. So, that's something as a small way we are working on. Beyond that, as I mentioned that bearing cage, our main product remains same irrespective of whether it's a sensor bearing or not.

Dhananjay Maji: My third question is actually your plants were facing issues due to energy crisis in Europe…you mentioned here also. So, on the prior call, you have mentioned that there would be demand for some products. So, have you generated any revenue or have you generated any order from that country?

Vishal Rangwala: What we mentioned is that we are working to grow to the demand for finished product, which is cages out of over Romania facility, currently, considering overall demand situation in Europe remains muted. However, we are continuing to work in our business, the order realization cycles are long, when someone awards us a business, we go into product development, we validate those products and only after approval, we start series production. So, there are some wins in pipeline, and we are also very hopeful that additional opportunities will come our way, we will grow that business, but I don't have any specific large order to talk about today.

Moderator: Our next question is from the line of Shirom Kapur from Prabhudas Lilladher. Please go ahead.

Shirom Kapur: One question. So, in our EBITDA, I understand in your disclosure, it includes other income and other income has come significantly higher this quarter at about Rs.13 crores versus only about Rs.2.5 crores last quarter. So, stripping out this other income, are we still going to see EBITDA margins rising significantly, because I feel it's getting a little bit skewed based on our other income entry?

Sanjay Majmudar: So, if I understand your question correctly, if you're comparing other income, please understand that this year, we have a portion of almost Rs.5 crores which is the realized FX… when I say realized, that means, whatever is the difference between the booking of the sale and the actual realization, it has been realized during the quarter, and therefore it is in my pocket. So, in my humble view, as an export-oriented company, the realized foreign gain is an inherent part. For example, there is a loss, that gets booked as other expense and which is a part of my operating costs. Therefore, my other income which is realized should be a part of my operating income and not now non-operating income. So, if you remove the realized gain or if you considered that, then there is no difficulty in terms of comparison of the margin at the operating level. Yes, there is a treasury income in terms of interest, that is fine. Similarly, there is a mark-to-market currency. So, when I translate my closing balances at this current currency level, there is a mark-to-market translation gain which could be reversed or which could be maintained depending on how the currency fluctuates. So, that that is fine, I mean, that as a part of your analysis, if you remove that, is perfectly okay. But, I think if you consider the realized gain, we are okay, there should not be any problem.

Shirom Kapur: We've seen your other expenses and employee benefit expenses have increased as a percentage of sales. So, going forward, if your realizations continue to fall and that impacts your top line, will you continue to see this percentage grow or versus any one-off this quarter that cause your other expenses and employee benefits to increase versus last quarter?

Maulik Jasani: So, at consol level, some employee benefits have grown up due to **(unclear 00:32:55)** say in Romania being a Christmas quarter. Otherwise, what we have observed is on account of the metal price reductions impacting the top line value getting down. So, indirectly it increase the percentage terms. While in absolute terms if you observe, it remains more or less constant or a regular increase year-over-year.

Shirom Kapur: On your precision stamped components business, do you have any updates on this, any numbers you could share in terms of growth margins?

Vishal Rangwala: I can share just the directional what we are seeing. In terms of a specific number, it will be difficult to share. Directionally, on the ground, we are seeing significant growth specifically in this business. Again, we are starting from a relatively small base. But we are seeing this year about 25%-plus growth in general in that business. And with the order wins in the pipeline, I think, we are very bullish and hopeful on that business in general. The overall margin point of view in general is very similar or slightly lower than our average margin for standalone basis. That's again what we can share. Specific number, we are not separating those out of overall.

Shirom Kapur: These components are primarily exported or they sold in India, because if there's softness in Europe, will this also get impacted?

Vishal Rangwala: Right now, the majority of business is bound for India with some opportunity outside. But, major focus is India, that's where we are seeing growth. Right now, we are not seeing any impact related to Europe or anything in this business.

Moderator: Our next question is from the line of Prolin Nandu from Goldfish Capital. Please go ahead.

Prolin Nandu: Sir, a couple of questions from my side. The first one would be, even our domestic or engineering standalone business has two elements to it; one is, what we supply within India and what we export out of India. How different are the margins for these two businesses for the domestic as well as the export part?

Vishal Rangwala: They are fairly similar. There could be obviously pockets and things and opportunities which could create a differential. Obviously, export business if I look at historical trend, it gives us exchange rate-related benefit, which probably improved, just because of that inherent advantage built into it. Beyond that, depending on the situation-to-situation per se domestic or export would not necessarily have a different margin profile.

Prolin Nandu: Just on this exchange benefit part, right, in the past call, if I'm not wrong, we hedge 50% to 60% of our currency exposure. This exchange gains that we are talking about, would not have accrued had we hedged completely 100%, is that understanding right back-to-back when we win orders if we would have had 100%, we wouldn't have got any exchange rate benefit?

Maulik Jasani: So, on the forward, which are settled, it will be part of our realized gain, which are not settled in terms of forward or options we have taken, it is part of our other comprehensive income and it is not there in the other income, whenever it will actually settle, it will fall there.

Sanjay Majmudar: But to answer your question, I think yes, you're right.

Prolin Nandu: What is the cost benefit, have we historically done that analysis that why do we want to take calls on exchange rate and why not hedge 100%?

Sanjay Majmudar: So, it's a very interesting question. So, at the board level, our policy is that what is our ultimate aim our alternate aim is to protect our margin. So, in a volatile situation, what is the safest way to ensure that remain 50:50 more or less, so you hedge 50%, keep your 50% positions open. So, either way, if situations change on the extreme, for example, you're right, this time, it was extreme, I think we closed the exchange rate a little over Rs.82. And my normal average hedge is where maybe in the region of Rs.79, Rs.80 or Rs.81. So, here technically and theoretically, there's a loss. Now, imagine a situation where supposing the rupee terms would have strengthened and we would have closed at Rs.78, then in that event also, on the benefit side, my forward would have given me a better realization and my open positions would have incurred some notional loss. So, this is a volatile situation it happens. I think this 50:50 remains a fairly decent via media to ensure that we are either way we are okay.

Maulik Jasani: I think then what we are doing again in this hedging process is short-term.

Vishal Rangwala: It keeps on rolling.

Maulik Jasani: In all our materials the pass-through mechanism also takes care of a significant chunk of the variation which happens in terms of cost basis, right. So, I think when it comes to protecting long-term margin, this material mechanism play a significant role and short-term margin protection, our hedging policy we are deploying.

Sanjay Majmudar: In materials pass-through, some benchmarks are foreign currency.

Prolin Nandu: In case, if we keep unhedged, right, and the currency does not move in our favor, then there is a lot of volatility in the earnings, that's a limited point I wanted to make, right, we should probably focus on our expertise in terms of converting those kinds of margins and not that. So, that's just a suggestion, right, in terms of doing a cost benefit analysis of hedging the exposure completely. My question is on bushing in some sense. This time, we are mentioning that there has been a slowdown in the market. So, this bushing market, in terms of customers, they are more or less domestic customers, right, am I correct?

Sanjay Majmudar: So, our customers currently are primarily domestic, but ultimately, they're actually exporting. It's gear box manufacturing companies which are exporting gear boxes and supply mainly to wind market

Prolin Nandu: I get your point. So, that's what in the last call, you had mentioned that these customers who are domestic will ultimately be exporting, but when it comes to this particular bushing, they are importing some component, right, in some sense. So, I thought that even that slowdown that we are witnessing in an overall wind market, this whole import substitution mechanism or whatever that trend, should have cushioned to some extent, right. So, is that happening, is the gear box manufacturers import component coming down and our supply is going up, is that happening at least?

Vishal Rangwala: That has happened at least in a significant way, and that's why in our last call, we had expressed that even though there was already some amount of wind slowdown happening in the market, we were not experiencing, because we were largely focused on becoming the import substitute. Once we hit that reasonable or a complete import substitute status, we got the direct impact of the market condition or market situation. So, we have actually successfully created a substitution in one case, and in another case, we are in the process of creating that 100% substitution. So, we are very hopeful that we should see an improved situation, because as I mentioned that in another case we are working on becoming that import substitution, where we are approved supplier now when we have just started series of production and all that. So, with that, we are confident that we will see some improvement going forward, but currently, the demand where we have already achieved, the substitution remains a challenge.

Prolin Nandu: From your customer end, all these redesigning of wind mills and gear box that you had mentioned last quarter, that is largely done, right, in some sense, and our products have also been approved in one case and in the second case we are in the process of getting that approval, so, all the redesigning part is pretty much done, right?

Vishal Rangwala: We see that the next gear box is under redesigning. So, we are working with our customer on developing those next set of products. I think my earlier conversation was about how this conversion is rolling on in the industry, this conversion from bearings to bushings. And our guesstimate today is that about 15% to 20% conversion has taken, the next set of conversion will continue to roll next four, five, six years in the industry. So, that conversion is in process of taking place.

Prolin Nandu: One last question on your international business or your Romania as well as China subsidiary. Now, China margins, it's quite heartening to see that we are already at 15% and much near to our overall consolidated or standalone numbers. Romania is something where as you have mentioned in last quarter that you have passed on some sort of a price increase to your customer. So, while slowdown it would be fine on the top line, that top line has declined this quarter, but I would have assumed that profitability would have gone up. But your comments suggest that last quarter we were very minor profitable, but this quarter we are breakeven, right, in some sense. So, could you help us understand not just this short-term profitability in Romania, but two to three years down the line, what is the number or what is the range of Romania's margins that we should work with?

Vishal Rangwala: So, to answer that immediate short-term question, obviously, in Romania, there was some volume impact because of overall Europe situation. Also, there were further increase on the energy side in last quarter, which we are in process of passing through to our customers. So, there was some impact related to energy prices. Even though if you look at, we have kind of bridge the gap per se versus the previous quarters. Now, in a long-term basis, when it comes to Romania, we are looking at EBITDA margin for the casting business about 6% to 8%, we think we can fairly sustain. And for our finished products business about 15% to 16% EBITDA margin is we think we can fairly sustain. As a combination, we are looking at about 9% EBITDA margin in mid-term coming out of Romania and working towards that in terms of growing the finished products, stabilizing in terms of cost and other things semi-finished for casting products and all that.

Prolin Nandu: One book-keeping question would be, if I'm not wrong, our gross block is close to Rs.820-odd crores. Can you help me give a breakup of how much of this in domestic and how much of this comes from two of our bigger subsidiaries in China and Romania?

Sanjay Majmudar: Rs.500 crores would be domestic, Rs.300 crores would be China, Romania.

Vishal Rangwala: But you have our annual reports.

Sanjay Majmudar: This is very top of the head number.

Moderator: The next question is from the line of Sandeep Tulsiyan from JM Financial. Please go ahead.

Sandeep Tulsiyan: Pertaining to this nine months sales number that we have reported, if you could broadly share the breakup between cages and scrap within that?

Maulik Jasani: Give me a moment. Meanwhile, if we can move to your next question, I will give you this thing.

Sandeep Tulsiyan: Also, when you share that number, within that if you could share out of these cages, how much was exports from India, so that would just give a sense to compare how that number has changed year-on-year?

Maulik Jasani: That is there in our presentation. So, exports from India as of now is 48% to 49% for the nine months YTD.

Sandeep Tulsiyan: 47% to 48% of cages sales or of total India sales?

Sanjay Majmudar: Of total sales. If you remove the scrap –

Maulik Jasani: Our scrap for the nine months YTD is around Rs.123 crores on a standalone basis.

Sanjay Majmudar: So, about 16%.

Sandeep Tulsiyan: This exports, how it would have faired year-on-year, if you could give a sense broadly?

Maulik Jasani: So, last year, our export was around 50% to 51%.

Sandeep Tulsiyan: That has gone down to 48% to 49% now. Got it. The second question was basically when we look at the EBITDA numbers, this you clarified that one should add back the realized gain within that. So, when I add back this Rs.5 crores number which is realized to the EBITDA number, then that is what EBITDA growth ideally we should look at what the company has sustained, that is the correct way to assess that right?

Sanjay Majmudar: Yes, that bridge is a consolidated number where my Romania EBITDA is zero. And my China EBITDA, although in terms of percentage good, but because the top line is impacted in volume term which is low. But, yes, at an operating level, we are very clear that we should look at about 15% to 16% and slowly and steadily we want to grow it up to 18% over the next couple of years.

Sandeep Tulsiyan: Just to clarify, when we mentioned that we are hedging our FOREX exposure, there will be some near-term mark-to-mark losses also, and when currency rate moves up, say, it moved up from 79 to 82 in the current quarter, next quarter onwards 82 will become the base rate at which we charge the customer, so that will get pegged at 82 and it will become part of top line, is that correct understanding?

Maulik Jasani: When we do the material pass-through, the benchmark numbers itself in foreign currency and it gets converted on the average exchange rate of the same period. So, indirectly, there is a pass-through covered in the material, the exchange also gets covered, and that's why we follow the 50% hedging strategy.

Sandeep Tulsiyan: But when you are forecasting for forward quarters to the customers, the billing happens in foreign currency. So, the benefit will essentially become part of top line and it will move out of other income gradually which is why -?

Vishal Rangwala: You got it right.

Sandeep Tulsiyan: Just on the Japanese customers, you briefly mentioned the growth numbers. I know the base is small. Is it possible to quantify for the current nine-month period, how big would that be or is it too small to quantify?

Vishal Rangwala: For the major three Japanese customers, our top line for the nine months is Rs.49 crores roughly, which was Rs.47 crores full in FY'22.

Moderator: Our next question is from the line of Dhananjay Maji, an Individual Investor. Please go ahead.

Dhananjay Maji: For a short-term, there is a high inventory in your business as it is only 5% of the total bearing cost. I'm talking about cages. So, how are you managing those things?

Sanjay Majmudar: Finished goods inventory across our 20-plus warehouses across the world, which is a major component of the inventory. Raw material in terms of number of days still remains around 24-to-25 days. Finished goods is about 43-44 days. I think in terms of number of days, it's almost the same as you compare last year and one or two days plus/minus is something we can't actually control.

Dhananjay Maji: What is your CAPEX expectation for the next quarter or the next year?

Vishal Rangwala: We've approved CAPEX from the board for this year of about Rs.100 crores and right now in our presentation we have shared that about Rs.50 crores is including WIP we have spent this year so far. So, immediate CAPEX short-term, we are looking at setting up the third facility in India. So, it depends on that investment when that happens. There is some uncertainty about it. It's a little bit of longer process to actually acquire land and execute all that. So, I'm not able to accurately share that, but that's one of the biggest ticket items in next quarter or this quarter coming up. Plus, there are a few other CAPEX plan, but obviously, we have slightly slowed down our CAPEX expansion or addition because of a little bit slowdown in European market and a little bit potential of other areas also slowing down. So, that's the status today.

Sanjay Majmudar: Yes, but medium-to-long term target remains the same as we had shared on the earlier call, about Rs.300 crores in 3 years so about Rs. 100 crore per year. That's what we are looking at.

Dhananjay Maji: About your EPC business, actually, that made a loss I think if I'm not wrong. So, can you please convey some color on those things?

Vishal Rangwala: Our solar EPC business is primarily a project business. As we had mentioned earlier that our objective in this business is to focus on profitable projects. And we believe that we have successfully done this year, even though you're correct, that last quarter we had made the loss. Now, this is a cyclical business, again, driven by fourth quarter, basically, we are looking at a significant top line growth in fourth quarter, and having a fixed cost structure to this, where we have a low revenue quarter, where, as an example, last quarter where a lot of projects are not in pipeline, or not on completion level, then we will see that. But overall, we are quite positive of that business on an annual basis be positive. I think on the nine months basis also, it's just breaking even. So, that's the concept and idea. This remains, again, a small business for us with not a focus of investment or significant growth. But, we are really mindful of not losing money in that.

Moderator: Our next question is from the line of Shirom Kapur from Prabhudas Lilladher. Please go ahead.

Shirom Kapur: I just had one follow-up question. So, I notice that you have utilized all your proceeds in the IPO that was earmarked for debt. So, with that debt repayment have come in, your long-term or short-term debt, would you be able to share that?

Sanjay Majmudar: Your question is that have we repaid the debt, what exactly is your question?

Shirom Kapur: So, the remaining amount in Q3 that you repaid was that in short-term or long-term debt?

Maulik Jasani: We have repaid the India debt both on short-term and long-term which was mentioned in our prospectus. We have recently borrowed further on the working capital requirements on our EPC front in India. While the debt been China and Romania remain the same, the proceeds have not been used towards repayment in terms of subsidiaries money, working capital.

Sanjay Majmudar: This is export packing credit, which is very cheaper.

Shirom Kapur: So, the working capital is primarily for your subsidiaries, not for India?

Sanjay Majmudar: No, even at India level, for exports business, we can borrow at a very competitive rate in foreign currency or in local currency, there's an export finance, and we keep on pegging it as and when required.

Moderator: Ladies and gentlemen, that was the last question. I now hand the conference back to Mr. Vishal Rangwala for closing comments. Over to you, sir.

Vishal Rangwala: Thank you, everyone. Appreciate you joining this call and adhering to the update about our third quarter. And please reach out to us if there are any more questions. Thank you for the participation.

Sanjay Majmudar: Have a good evening. Thank you.

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