M M FORGINGS LIMITED

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Date: 22 May 2023

The Deputy General Manager Corporate Relationship Department. Bombay Stock Exchange Limited, Rotunda Building, P.J. Towers, First Floor, New Trading Wing, Dalal Street, MUMBAI –400 001	National Stock Exchange of India Ltd 'Exchange Plaza', Bandra – Kurla Complex, Bandra (E), Mumbai – 400 051

Dear Sirs,

Ref.: **NSE: security code- MMFL –EQ; BSE: Security Code -522241**

Sub.: **Compliance under Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 – Transcript of Analyst/ Investor call**:

1. Please find enclosed the Transcript of the Analyst/ Investor conference call held on 18 May 2023, on the audited Financial Results for the quarter and year ended 31 March 2023. The results were approved in the Board Meeting held on 17 May 2023.

2. We request to take the same on records.

Thanking you,

Yours faithfully,
For M M FORGINGS LIMITED

Chandrasekar S Digitally signed by Chandrasekar S Date: 2023.05.22 13:37:11 +05'30'

Chandrasekar. S
Company Secretary
Encl: as above

"MM Forgings Limited
Q4 FY '23 Post Results Conference Call"
May 18, 2023

MANAGEMENT: **MR. VIDYASHANKAR KRISHNAN – VICE CHAIRMAN AND MANAGING DIRECTOR – MM FORGINGS LIMITED**
MR. VENKATAKRISHNAN – CHIEF FINANCIAL OFFICER – MM FORGINGS LIMITED

MODERATOR: **MR. ANNAMALAI JAYARAJ – BATLIVALA & KARANI SECURITIES INDIA PRIVATE LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the MM Forging Limited Q4 FY23 Post Results Conference Call hosted by Batlivala & Karani Securities India Pvt. Ltd. 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 star then zero on your touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Annamalai Jayaraj from Batlivala & Karani Securities India Pvt. Ltd. Thank you and over to you, sir.

Annamalai Jayaraj: Thank you. Welcome to MM Forging Limited 4Q FY23 post results conference call. From MM Forging Management, we have with us today: Mr. Vidyashankar Krishnan, Vice Chairman and Managing Director and Mr. Venkatakrishnan, Chief Financial Officer. I will now hand over the call to Mr. Vidyashankar Krishnan for the opening remarks to be followed by question-and-answer session. Over to you, sir.

Vidyashankar Krishnan: Good morning, Jayaraj and welcome everyone to this results announcement of MM Forging for FY23 and also Q4 of FY23. Basically, we have achieved an overall sale of INR1475 crores on a consolidated basis and sales tonnage of 72,000 tons and production tonnage of 76,000 tons. The export ratio is about 35% and the balance 65% of sales is in the domestic market. Domestic sales has grown by about 65% and export sales has regrown by about 9% year on year.

We are continuing to focus considerably on the domestic market, and we see a lot of traction over there. In the export market, we see some amount are slowing down, but we expect that that will be kind of compensated by some more customer wins or product increases within the same customer, product launches within the same customer. Overall, we would expect exports to hold on.

Assuming this entire thesis is based on a benign recessionary environment globally and naturally based on overall global economic conditions. If these conditions deteriorate, I think we could be a little bit more conservative in our results and if these conditions hold, we would expect the next year to clock around 90,000 plus tons and INR1,800 to INR2,000 crores of sales. These are the fairly broad opening remarks that I would like to convey and I'm open to questions. These results have been available with you overnight and I'm sure most of you would have gone through them with a fine comb and I'm expecting your lead on the points that you wish clarifications on.

Moderator: The first question is from the line of Mumuksh Mandlesha from Anand Rathi. Please go ahead.

Mumuksh Mandlesha: Thank you so much, sir, for the opportunity, sir. Sir, can you help us understand how do you see the demand for the Class 8, particularly for next year in CY24, when these new carb emissions are being implemented and which could lead to a significant increase in the Class 8 prices? How do you see that impact on the demand, sir?

Vidyashankar Krishnan: So, we see Class 8 trucks largely range-bound in the next one year.

Mumuksh Mandlesha: Got it, sir. And any outlook on domestic CV, sir?

Vidyashankar Krishnan: Domestic CV is expected broadly to grow between 5% and 12% in the year to come. On the conservative side, OEs are expecting around 5% growth and on the optimistic side, around 12%.

Mumuksh Mandlesha: Got it. Sir, R&C costs have been high over the last few quarters. How do you see the normalization going ahead? And also, the power fuel costs continue to rise. So, how do you see the trend for that also? R&C cost as a percentage has been high over the last few quarters. How do you see the normalization of that, sir?

Vidyashankar Krishnan: Sorry, can you repeat the first? What cost?

Mumuksh Mandlesha: Raw metal cost.

Vidyashankar Krishnan: Raw metal has gone up largely because of product mix. So, it is not due to feed prices, but it has gone up as a result of the product mix and the focus on the domestic market. What was the second question on power and fuel?

Mumuksh Mandlesha: Yes.

Vidyashankar Krishnan: Power and fuel also, there has been a slight increase than expected because of the increase from terminal to electricity board. They have hiked unit prices of power in TNEB. So, that has resulted in an increase of around INR1.50 paise per unit. And fuel is expected to be largely static. If there is a slowdown in global economy, fuel prices will only go south. So, I would expect fuel prices to be capped at around this level.

Mumuksh Mandlesha: So, this hike was in the Q4 quarter or start of the year, sir?

Vidyashankar Krishnan: From the start of the year.

Mumuksh Mandlesha: Sir, can you talk about any growth plans geographically or expanding in new segments going ahead, sir?

Vidyashankar Krishnan: Our segments will be focused on the CV space. We are also making significant entries into the PV market also in India and those will be products that we have not been supplying to the PV industry yet. So, our foray into the PV space in India will also go up.

Mumuksh Mandlesha: Got it, sir. Thanks so much for the opportunity, sir. Thank you.

Moderator: The next question is in the line of Jinesh Gandhi from Motilal Oswal Financial Services. Please go ahead.

Jinesh Gandhi: Hi, sir. Can you share the volume numbers or volume limits for Q4? Sorry?

Vidyashankar Krishnan: About 18,000-19,000 tons for the Q4.

Jinesh Gandhi: 18,000-19,000. And the sales for the fuel you mentioned was 72,000, right?

Vidyashankar Krishnan: Yes, 73,000. 72,500 something.

Jinesh Gandhi: Okay. Got it. And secondly, would you be having a breakdown of revenue between CVs, PVs of highway and others for the full year, FY23?

Vidyashankar Krishnan: Yes. CV space would be 78%. PVs would be about 12% to 13%. 80% for CV, 11% for PV and balance is off-highway, etc. We had set ourselves a target of reaching 7% on off-highway for the end of the year. I am happy to say that we have achieved 8.5%.

Jinesh Gandhi: Okay. That is good to know. And secondly, we are looking at almost close to 25% percentage growth vis-à-vis 72,000. We are looking at close to 90,000 for FY24 and with exports being stable. And you indicated CV industry to grow at about 5% to 12%. So, would it be fair to say that the last part of incremental growth is from the PV side where we are coming up with new products and in that context, PV share will go up quite substantially in the coming year?

Vidyashankar Krishnan: It will go up, but I think its share as a percentage, its size in terms of its relative size to the CV in our sales pie is lower. So, while it will go up, I would say that it might not dramatically change, but it is expected to be a keying driver in this year.

Jinesh Gandhi: Okay. So, then are we expecting market share gains on domestic PV side? Because otherwise the number of, I mean the match doesn't add up from 72,000 to 90,000 tons that way. Given that we are expecting delta of 18,000 tons in sales in FY24, that has to be largely driven by domestic business given exports would be flattish. In that context, domestic CVs need to see a substantial growth?

Vidyashankar Krishnan: CV will definitely, which is why when I answered your question, I said CV would be a sure driver. PV is also going to back it up.

Jinesh Gandhi: Yes. So, in that context, we expect to gain market share in CVs or we are launching new products there as well?

Vidyashankar Krishnan: More products in both segments. Okay.

Jinesh Gandhi: Understood. Understood. Got it. Thanks, and all the best.

Moderator: The next question is in the line of Mahesh Bendre from LIC Mutual Fund. Please go ahead.

Mahesh Bendre: Sir, what was the contribution of the export last year from our sale and what is the outlook for that?

Vidyashankar Krishnan: Exports stood at 34% on overall sales and compared to about 48% in FY22.

Mahesh Bendre: Okay. And, sir, what is the outlook for the export business?

Vidyashankar Krishnan: We would expect export to be flattish in the region of 30% to 35% of overall sales.

Mahesh Bendre: Okay. So, whatever the numbers we reported this year, they remain flattish for this year as well?

Vidyashankar Krishnan: When we talked about export percentage, I am expecting it to be flattish. I would expect some kind of drawback in export growth to see some better numbers from these levels.

Mahesh Bendre: Okay. No, no. I am just confusing. I mean export in terms of number will remain flattish or as a percentage of sales will remain flattish?

Vidyashankar Krishnan: When we first talked about, it was about percentage and therefore I answered that it would be flattish. So, in terms of overall numbers, I would expect exports to be slightly better than these levels. In absolute number, clarifying again, in absolute number or absolute terms, exports should be higher than this current year, given a broad macroeconomic situation similar to this year.

Mahesh Bendre: So, our export growth should be linked to the internationally, the Class 8 and other markets?

Vidyashankar Krishnan: Yes, Yes. Naturally. But see, the whole thing is a very nebulous mix. If I hark back to 2008, when the US economy de-grew by just or rather grew negatively by 3% or so during the Lehman crisis period, manufacturing globally went into a tease. And for about six, nine months, one and a half years, everybody, their output was much lower. So, how could a 5% change from 2% growth to 3% recession or negative growth? How could a 5% change in GDP result in such a huge change in manufacturing output in Western countries?

To me, it continues to be an enigma. So, what I would say is that these days, even though the global economy has not been on a strong wicket for the last one to two years, still manufacturing has been chugging along. So, I would expect that at these levels, manufacturing is likely to see steep falls in these markets.

Mahesh Bendre: Sure, sure. And sir, when we talk about 25% tonnage growth, I mean, the domestic market is going to grow in single digit and the export side also there is uncertainty. So, from where we are going to get incremental growth?

Vidyashankar Krishnan: From launch of new products, products already developed and increase in wallet share.

Mahesh Bendre: Okay. So, those orders are in hand with us. I mean, so we should not link our sales to the overall market growth. It is basically new businesses and market share that probably will benefit to achieve this…

Vidyashankar Krishnan: To a large extent, yes. To a large extent, yes. But the overall cyclicity or the trend of the market will be superimposed on MM Forging's output. No doubt about it.

Mahesh Bendre: Sure, sure. Thank you, sir.

Vidyashankar Krishnan: Can't be totally de-linked but at the same time, it is not number-to-number linked.

Mahesh Bendre: Sure. And sir, what is the capex plan for next two years?

Vidyashankar Krishnan: INR500 crores.

Mahesh Bendre: So, majority will happen this year or it will be back-ended next year?

Vidyashankar Krishnan: Majority will happen this year but about INR250-odd crores will happen this year and the balance next year.

Mahesh Bendre: Sure, sure. Thank you so much, sir.

Vidyashankar Krishnan: Thank you.

Moderator: Thank you. The next question is in the line of Abhishek from Dolat Capital. Please go ahead.

Abhishek: Thanks for the opportunity, sir. Sir, most of the other forging companies are focusing on non-auto segments like mining and railways where the margin is also very good. So, what is your plan to expand your business in this segment?

Vidyashankar Krishnan: As of now, we seem to be focused largely on the automotive space. There are quite a few enquiries that we are handling in the non-auto space as well and those are big orders. And as and when they come through, that will add to the non-auto segment exposure. Our exposure will be focused on the auto space.

Abhishek: Okay. So, do you have any plan for winning new business in the railway side or expanding your business in railway?

Vidyashankar Krishnan: Not right now.

Abhishek: Okay. And sir, despite the recessionary scenario like in the US and Europe, business is strong for the Indian players in the last many months. So, are we gaining some market share because of the China Plus One strategy?

Vidyashankar Krishnan: Definitely, yes. China Plus One is a positive. But also, what is happening is that the US has come out with regulations on the value add in the domestic market. So, that is also a negative. But that has not impacted us so far. But it's a long-term threat.

Abhishek: Okay. And sir, as you mentioned that the domestic market will grow at 5% to 10% while the export will be flat and there will be some decline on the realization side. So, in all these scenarios, what is your revenue growth target for FY '22?

Vidyashankar Krishnan: I'm sorry, can you repeat it, Abhishek?

Abhishek: Sir, as you mentioned that CV to grow at 5% to 12% while – domestic CV, and the export will be flat and there will be a decline on the realization side as well. So, what kind of revenue or volume growth are you targeting in FY '24? Because 90,000, that is at a 20% to 25% kind of growth, is it possible, sir?

Vidyashankar Krishnan: As far as our planning shows, it looks to be feasible given a decent macroeconomic environment.

Abhishek: So, incremental revenue will come from the passenger vehicles, or you own some business, or you will add some new product that will help to achieve your revenue growth of 20% to 25%?

Vidyashankar Krishnan: Yes. So, some of it will come from products that are being launched this year. Some of it is coming out of products developed in the previous years or products that have been launched in the previous year but not yet gone into bulk. And some of it that comes out of better capacity allocation, utilization overall. So, overall, we would see somewhere close to these numbers.

Abhishek: And my last question is related with the export which contributed around 34% of the total revenue in FY '23. So, how was the geography made in terms of North America versus Europe and other geographies?

Vidyashankar Krishnan: India constitutes 62% of sales, 65% of sales. Europe and US roughly at 15% each. South America at about 5%-6%.

Abhishek: Is it including the scrap sales volume, or it is excluding?

Vidyashankar Krishnan: I will get back to you on that.

Abhishek: Okay, sir. Thanks, sir. That's all for my side.

Moderator: Thank you. The next question is in the line of Chirag Shah from White Pine. Please go ahead.

Chirag Shah: Sir, thanks for the opportunity. My first question is about new products. Can you just indicate the new products that you have introduced last year and looking into this year? What kind of are these products or which sub-segment they are likely to serve, etcetera?

Vidyashankar Krishnan: These will be gear blanks, crankshafts.

Chirag Shah: Sir, what was the first one?

Vidyashankar Krishnan: Gear blanks.

Chirag Shah: Gear blanks, okay.

Vidyashankar Krishnan: Gear blanks, crankshafts. These are the main product segments. Some are long shafts here and there. These are the main products that we intend launching.

Chirag Shah: And which categories or which sub-segment you will be serving them? Existing ones? So, if you can highlight which tonnage category of vehicles this will be going? Existing ones or there is some addition of tonnage category in CVs?

Vidyashankar Krishnan: It will be to the existing level. Largely, ILCV range and also in the PASCAR. PASCAR may result more in sales close to middle of the year, but CVs will be in the ILCV segment.

Chirag Shah: Okay. So, PASCAR is linked to launch of new model or something like that or a change of a product cycle kind of a thing.

Vidyashankar Krishnan: One portion is replacement; one portion is new launch.

Chirag Shah: Okay. Second question. Is there any new customer addition that is happening which gives you confidence that the kind of growth you are indicating from domestic market is doable? Is there a new customer getting added or a new model in commercial vehicle segment is getting added?

Vidyashankar Krishnan: Yes, we are adding customers in both CV and PV segments.

Chirag Shah: And is it possible for you to indicate that or?

Vidyashankar Krishnan: Sorry, we don't as a policy give customer names and that's been our consistent policy, you know that.

Chirag Shah: Fair point. And secondly, so just to understand how the business dynamics work for you. So, when you get a new order, what kind of share of business you would be having and or that you are an optimal share of business given and you are a primary supplier. So, how does that work for you? If you can just help us understand.

Vidyashankar Krishnan: Sure. See, it varies what the customer requirement is and with what intent the customer is coming with us, at us, both ways. If, for example, customer is very aggressive and wants the total source change, it could be something as high as starting itself at about 70% and go up to 100%. And in some cases, customer will usually start at around 20% to 30%. So, it could start at 20% to 30%, move up to 70%, 80%. So, it's a mixed bag. It depends upon the customer's launch plan.

Chirag Shah: Okay. And for the latter example, it takes what, two to three years for you to go to 70%, 80% or the optimal level, whatever that number could be?

Vidyashankar Krishnan: Again, again, depends upon customer pull. If the customer pull is significant, it could happen within six to nine months. Sometimes, if the customer wants to finish it in six to nine months, but macroeconomic conditions do not permit him to do that, it might take a little bit more time.

Chirag Shah: Okay. So, this is where the confidence is reasonably good for you for the growth for next year. That some of this scale-up is likely to happen this year based on the products you launched last year. Is that right way to understand, sir?

Vidyashankar Krishnan: Yes, absolutely.

Chirag Shah: Yes. And, sir, on the export side, why this relatively somber commentary? Ideally, the export side should be inching away, given the India-specific tailwinds that we have for outsourcing the China Plus One or etcetera. So, any thoughts on that and when that scale-up? See, you are growing, but I am saying you are growing in line with what India is likely to grow. I was hoping for a slightly higher growth.

Vidyashankar Krishnan: See, there is also the thing of you get attached to certain markets, certain products, and then you rise or fall with the growth of those markets and products. To a certain extent, that has been the story as far as export is concerned.

Chirag Shah: Okay. Can you indicate which markets you are referring to in terms of, again, tonnage of vehicle or other way of looking at it?

Vidyashankar Krishnan: Largely Class VIII and largely US.

Chirag Shah: Okay. Fair point. So, in that sense, how is your customer addition or acquisition strategy in the export market? Because I presume you will be working with maybe two or three customers, and of that, one would be your primary customer. Is that the right way of understanding your export business?

Vidyashankar Krishnan: Can you rephrase the last question? Can you repeat the last question, please?

Chirag Shah: I am presuming that on the export side, you must be working with maybe two or three customers, and of that, one would be your main customer, and the other two you would be developing or that kind of process. Is that the right understanding?

Vidyashankar Krishnan: We work with a lot more than two or three customers.

Chirag Shah: As a primary customer, I am talking about. No, no.

Vidyashankar Krishnan: We work with primary customers, not many than just two or three. So, quite a few primary customers are there, and we keep engaging our depth with them. We keep increasing our depth of engagement with each of them. And here and there, add customers.

Chirag Shah: And sir, what is your capacity utilization? Just out of curiosity, because we are getting, and where it is funded, capex is likely to be done. If you can explain that.

Vidyashankar Krishnan: About 60%-65% capacity utilization for the previous year, in terms of sales. You go in terms of production, it will be about 3 percentage points higher. So, you can take about 65%.

Chirag Shah: Okay. And what is the optimal utilization for us? You can go up to 80% or it would be lower than that?

Vidyashankar Krishnan: I would say we should go close to about 85%-90%.

Chirag Shah: 85-90%. Okay. So, this is kind of a rated capacity for you, right? It is not that optimal capacity. I think 65% utilization is based on the rated capacity because it will not be possible for you to work at rated capacity. Operating efficiency will play a role in that.

Vidyashankar Krishnan: What we have been doing consistently over the years is to look at, when you put up capacity itself, we look at it more on the basis of utilizable capacity than on rated. In closing, there is nothing as rated capacity. Because if you produce a 50-kilo part on the same press and you produce a 100-kilo part on the same press, what is rated? So, if you rate on the basis of 100, you have taken a huge hit. If you rate on the basis of 50, well, you have super performed. But the actual performance lies in between.

Chirag Shah: Yes. But your profitability would swing significantly based on the…

Vidyashankar Krishnan: True. But you cannot refuse a customer. You cannot refuse a customer who comes with a 50-kilo part and say, no, I will not do it for you. You have to look at the overall scheme of things as well.

Chirag Shah: And sir, where is this INR500 crores capex getting spent? Are you adding more press lines or something of that sort or if you can highlight that?

Vidyashankar Krishnan: Yes. Most of this is towards machining, little bit towards forging and debottlenecking of the forging operations. And about INR100 crores of this is set apart for the EV foray.

Chirag Shah: EV foray. And when you say EV foray, what do you mean, sir?

Vidyashankar Krishnan: Our subsidiary Abhinava Rizel, where we are getting into power trains for EV.

Chirag Shah: Okay. Power trains for EV. And I presume this would be passenger cars in the initial phase?

Vidyashankar Krishnan: Yes. Passenger car and LCVs in the initial phase.

Chirag Shah: And combining the both, Yes.

Vidyashankar Krishnan: Yes. Three-wheeler and a little bit of two-wheeler as well. So, just to give some input to this August audience, the EV power train consists of an inverter or a controller that takes DC power from a battery and converts it into AC voltage current for a motor. Then the next component, of course, is the motor itself. Typically, motors are permanent magnet synchronous machines that take the AC current out of a controller and convert it into rotary motion.

The third component is to convert the rotary motion of the motor into a lower speed or a speed that is required by the vehicle. Typically, motors run at much higher RPMs than engines for sure. And because they are motors, they are able to run at higher RPMs and also that helps in compactness of power. Then comes the gear ratio in terms of the axle portion itself that does the stepping down or a gearbox. It steps down the speed of the motor to the speed required by the vehicle at the shaft. So, these three components together constitute an EV power train. Controller, motor and gearbox. We are focusing on the middle one initially. And even as we speak, we are looking to enter the controller space as well as the gearbox space.

Chirag Shah: Okay. So, in motor space, what are you looking to do? If you can slightly elaborate. Unless you do it strategically, you can't?

Vidyashankar Krishnan: I can give a broad understanding. Motor space, we are looking at engaging with customers and giving them very energy-efficient solutions.

Chirag Shah: Okay. So, you are looking to do the MCU completely or outside of MCU, you are looking to do some magnetic work and all this kind of thing?

Vidyashankar Krishnan: The MCU goes to the motor control. MCU stands for motor control unit. That is our second phase. That will probably start in calendar '24 and onwards. Okay. So, initially, our subsidiary will focus on the motor itself. Next phase will be controller and gearbox.

Chirag Shah: Okay. So, I presume technology is already tied up, etcetera, right, sir?

Vidyashankar Krishnan: For the motor, yes. For the controller, we are shopping.

Chirag Shah: Okay. Is it possible to indicate with whom and is it a royalty-based arrangement?

Vidyashankar Krishnan: For the motor?

Chirag Shah: Yes.

Vidyashankar Krishnan: For the motor, it's our own indigenous, totally ground up, developed technology. If you might recall, we have taken over, we invested INR18 crores in a subsidiary called Abhinava Rizel. And that is adding their technology which is owned by, built by them. So, it's Indian technology.

Chirag Shah: Okay. Thank you, sir. I'll call back for more questions.

Vidyashankar Krishnan: Sure. Thanks.

Moderator: Thank you. Then next question is from the line of Khush Gosrani from InCred Asset Management. Please go ahead.

Khush Gosrani: Hi. Thank you, sir. I just wanted to understand how is the working characteristics right now because we are seeing some sharp increase in the inventory and receivables both. So, if you could highlight on that.

Vidyashankar Krishnan: The product offering that we have made is significant. And that has resulted in higher inventory across the board. But we also have to stock up some more steel to cater to customer requirements. That has also contributed to the inventory. This is a direct function of increase in sales.

Khush Gosrani: So, this would be normalizing going ahead? Will the inventory base come down since we have -- since the customer receives the product?

Vidyashankar Krishnan: We are working to rationalize it. And if it goes up, it will go up marginally. It will not go up substantially. Whatever happens, if it indeed goes up, it will go up in a very, very scientific and planned manner.

Khush Gosrani: Sure. And how should we look at the debt situation? Because the overall debt has increased.

Vidyashankar Krishnan: Overall debt stands at -- term debt stands at INR200 crores. From INR430 crores on a net basis. And this year, we will be adding up to INR200 crores of debt.

Khush Gosrani: Okay. Sure, sir. And, sir, what is the outlook given by customers in the US and Europe, sir, for us?

Vidyashankar Krishnan: Europe is a mixed bag. The PV segment there, passenger vehicle segment there is quite down. Truck segment is doing well. At least, chugging along. And there again, what has happened is that we have had some wallet share increases in the European market. So, all that will come into play in the next few months. So, Europe is a mixed bag.

Khush Gosrani: Got it, sir.

Vidyashankar Krishnan: But not so grim as it sounds. I do not know if, you know, there is going to be a shock that comes up later or whether this is going to continue on in the ensuing months and weeks ahead. But I would presume it is more to do with the latter.

Khush Gosrani: Okay, sir. And, sir, final question. What is the gross margin difference between domestic and exports?

Vidyashankar Krishnan: I am not at liberty to give the outright figure. But I can say that in general, exports is a little bit more profitable than domestic.

Khush Gosrani: Okay. Sure, sir. Thank you for answering the question.

Vidyashankar Krishnan: But also involves considerable amount of work, planning, execution, etcetera. So, some pain, some gain. Or lots of pain, some gain.

Khush Gosrani: Got it, sir. Thank you for answering the question. Thank you.

Moderator: Thank you. The next question is from the line of Dhaval Shah from Girik Capital. Please go ahead.

Dhaval Shah: Yes. Hi, sir. Sir, first question. You mentioned a previous participant regarding wallet share gain in Europe. So, that would be from the existing European companies or which company, I mean, which geography have you gained the wallet share from?

Vidyashankar Krishnan: Can you please repeat? I am not able to. Today is not very good.

Dhaval Shah: Yes, all right. I will repeat the question. You mentioned about wallet share gain in Europe. So, this gain would be from which other vendors to your customer? Were they European vendors or from some other geography customers?

Vidyashankar Krishnan: From European vendors. From European customers.

Dhaval Shah: Okay. So, the customers are purchasing from other European companies and now they are buying from MM Forging?

Vidyashankar Krishnan: Correct.

Dhaval Shah: Okay. And this would be a basis, the cost, I mean, has those competition vacated the space, or you won the business basis, the cost escalation which happened in Europe, and we did not see that?

Vidyashankar Krishnan: So, what has happened is freight kind of threw a spanner in the works two years back and freight rates went up. We became a little bit uncompetitive compared to local sources. So, now that freight rates are back to down to where they were a few years back, that resulted in better wallet share.

Dhaval Shah: Okay. Interesting. Great. So, this is very sticky in nature.

Vidyashankar Krishnan: Plus, also, the impact of energy being available, not available, steel available, all those things are also playing an underlying current in these changes.

Dhaval Shah: Okay. So, unless we see a large cost escalation for us, this business is going to be very sticky in nature.

Vidyashankar Krishnan: I did not get the last one. This business is going to be very?

Dhaval Shah: The business which we have got back from the customer should be very sticky in nature.

Vidyashankar Krishnan: Yes, quite sticky in nature. We are expecting that quite a bit and not expecting that, that is almost put into the contract itself. So, there is no question of just a mere expectation. The only case over there is that macroeconomic conditions should reasonably continue.

Dhaval Shah: Yes. Definitely. Got it. So, my second question is regarding the interest cost. So, I mean if you just divide the interest cost of P&L with the debt, it is coming to roughly 5%. So, can you help us understand what is the -- how is this -- why is it only 5%?

Vidyashankar Krishnan: I just, you know, off the cuff, on a humorous note, just said magic. The reason is very clear. For about INR300 crores out of INR450 crores of debt, some debt, in terms of gross debt, is all denominated in foreign currency. And not now. All these loans were taken a few years back. And those were taken in INR as well. Now, what we did was, with the INR loans, we synthetically swapped them into foreign currency loans, into foreign currency. And we also did an interest rate swap. From a floating INR to fixed foreign currency.

Dhaval Shah: Okay. Understood. Okay.

Vidyashankar Krishnan: So, what happened during the last 18 months of interest rate hikes is that we have been largely inured, not largely, totally inured to those interest rate hikes on those loan components. So, that has helped us keep our costs down.

Dhaval Shah: Okay. So, if I understood correctly, you mentioned from floating rate INR to fixed rate INR.

Vidyashankar Krishnan: No, to fixed rate forex. And also, certain forex loans were converted from floating to fixed. We paid a small premium for that years back. 10 basis points, 20 basis points. But that proved to be a huge. Basically, we de-risked ourselves. We didn't want to -- at those times, interest rates were quite low. We didn't -- we realized that -- nobody imagined this kind of a situation. But we felt that we should capitalize and lock onto those rates.

Dhaval Shah: Got it. It benefited massively. Yes. And sir, how do we report the forex gain loss on our P&L?

Vidyashankar Krishnan: We mark to market our loans versus the receivable. And then, if there is anything, we report it. But so far, our auditors haven't flagged anything.

Dhaval Shah: Okay. So, all the receivables are marked to, sorry, your M2M is marked to -- it's adjusted in the receivables.

Vidyashankar Krishnan: Can you repeat it, please?

Dhaval Shah: No, I am saying, your receivables, whatever forex gain loss happens there, you adjust it in the receivables.

Vidyashankar Krishnan: One second. Let me have a side conversation with the CFO for a minute.

Dhaval Shah: Sure.

Vidyashankar Krishnan: I will get back to you on that. If you can, you know, mail your ID to our --or give your mobile number. I will have my CFO check with the auditors and get back to you very clearly on what we are doing over there.

Dhaval Shah: Okay. Yes, sir. I will connect with the CFO. No problem, sir. And sir, coming back on the debt on the books. So, what is the current situation? Coming back on the debt on the books. So, what is the current gross debt divided between working capital and long term?

Vidyashankar Krishnan: INR450 crores gross debt on term loans. INR430 crores on term loans and INR330 crores odd on the working capital side.

Dhaval Shah: Okay. And out of this INR450 term loan, INR300 is in foreign currency?

Vidyashankar Krishnan: No, no. Everything is in forex. Yes, Yes. On this INR430, INR300 is in foreign currency. You are right.

Dhaval Shah: Okay. Okay. So, this is 750. Okay. And then…

Vidyashankar Krishnan: On the working capital side also, some portion will be in forex. Some portion will be in rupees. And there we get subvention.

Dhaval Shah: Okay. And now, on this INR450 crores foreign currency -- sorry, INR450 crores term loan, we are going to see an increase of INR200 crores for FY '24?

Vidyashankar Krishnan: Correct.

Moderator: Thank you. The next question is from the line of Vignesh Iyer from Sequent Investments. Please go ahead.

Vignesh Iyer: Sir, Yes. My question is on the side of EBITDA per ton. So, we have been always guiding for around 33,000, 35,000. We have done around 35,000 or so for FY '23, if my number, if my internal calculation is correct. Sir, can we, I mean, we are seeing a shift from export business to more of a domestic business. Can we -- so, what would be your guidance for FY '24 for EBITDA per metric ton?

Vidyashankar Krishnan: It would broadly be at this level.

Vignesh Iyer: I mean, what we have achieved in FY '23, right?

Vidyashankar Krishnan: Correct.

Vignesh Iyer: Fair enough. And, sir, if you could, sir, brief us something more on your EB side of the research, I mean, what your internal R&D team is working on, on the EB side, if you could just give us an idea?

Vidyashankar Krishnan: Broadly, I will have to rephrase almost or restate whatever I said earlier. So, were you there in the previous portion of the call?

Vignesh Iyer: No, I missed some part of it. Sorry. Okay. If you could just give us a small brief on search, I mean…

Vidyashankar Krishnan: No, no issue. EV is a new area. So, some perspective to everybody would also be useful. Basically, the EV powertrain is divided into three parts. The controller, which applies, takes DC from the battery, DC energy from the, electric energy from the battery, and converts it into current for the motor, AC current for the motor. The motor itself is a permanent magnet synchronous machine, which means that it runs at, is an AC motor. And it runs with permanent magnet.

The third portion of the E-axle or the powertrain is a gearbox. So, the controller takes DC power, converts it into AC. Controller is also known by the name inverter. Now, the inverter and the controller together perform both the inversion, which is DC to AC, as well as they do the, both the controller stroke inverter. That is the function of controlling the motor, in terms of supplying it, what current at what RPM.

So, all that is used. So, there is a control function and there is an inversion function. So, which is why the names are interchangeably used. The motor itself, as you know, takes AC current and converts it into rotary motion, followed by the third component, which is the gearbox, which takes the RPM of the motor at a higher level and brings it down to vehicle RPM at a lower level. From there on, the shaft takes the rotary motion to the wheels.

So, this EV powered, you know, three stage, the thing is called an EV powertrain. Here, we are focused initially on the electric motor, the PMSM motor, PMSM device. And Abhinav Arizal has developed over five, seven years of a lot of work, hard work, very efficient topologies for the motor, which we are discussing with customers one by one, and we are engaging with them and launching customers, launching products with customers.

Our engagement with customers is at various levels currently. With some, we are just at discussions. Some are at proto stage. Some are at sample stage.

Moderator: Thank you. The next question is from the line of Ajay Surya from Niveshaay. Please go ahead.

Ajay Surya: So, we made some acquisitions in the past for increasing our crankshaft field. So, I wanted to know what are the developments on that and how much is crankshaft contributing to our revenue and how do we see the overall demand of crankshaft in export and domestic market?

Vidyashankar Krishnan: Those acquisitions have panned out well, Ajay. DVS has turned a little bit around the corner in the last year and has reported plus positive numbers on EBITDA as well as net profit. The other sub is Kafoma, which is subsidiary Kafoma, which also has been doing pretty, has done pretty well to start with. It is a very efficiently run organization to start with.

So, what we have done there is largely done backward integration and a little bit of modernization. We are also adding to Kafoma's growth by increasing the product portfolio by way of investing in newer lines. So, all told, both the subs are doing reasonably well. They are producing cranks mainly, almost only crankshafts. As far as the overall numbers are concerned, I would like to say that we have targeted 7% for the non-auto sector, largely based on the crankshaft business.

So, this year we have crossed 8.5% for the non-auto segment and that is largely based on crankshaft sales.

Ajay Surya: Can I get any number on how much contribution do we have from crankshaft and our overall revenue?

Vidyashankar Krishnan: Normally, we do not provide those detailed analysis. Our customers also do not recommend it.

Ajay Surya: Got it. And sir, you also mentioned that we are working towards some developments on crankshaft. So, that would be more towards large size crankshafts like class 7 or class 8 trucks?

Vidyashankar Krishnan: Actually, we are working on a whole range of crankshafts from very small to decently large, from single cylinder to six cylinder.

Ajay Surya: Okay, got it.

Vidyashankar Krishnan: So, we are increasing our presence in that segment very clearly. For sure.

Ajay Surya: So, large size crankshafts would give us better realization and better margin, as my understanding is right?

Vidyashankar Krishnan: Yes, but also requires more capital. So, horses for horses.

Ajay Surya: Sir, my next question is regarding our capex. So, we are also expanding our machining lines. So, can I get a brief idea on how much is our current machining lines and their capacity and how much will it expand after the capex?

Vidyashankar Krishnan: It is a huge variety in terms of what we are machining. So, to give you a number in terms of numbers would be, what shall I say, not a fair representation, because you cannot add a component of 110 kilograms with a component of, let us say, 1 or 2 kilograms, where the value addition is next to nothing. So, but overall, if you say, the percentage of machine components in our portfolio of sale has significantly gone up and right now is just under 60% of overall sale.

Ajay Surya: And how much do we expect this number to go up?

Vidyashankar Krishnan: We expect this to go to between 60% and 65%. And this we have been consistently holding over the last few quarters. So, I would expect this ratio to be around 65%, if not higher. Yes, one sec.

While on this subject, I think I should also point out, while we are getting lost with the numbers, there is also a significant trend over here that I feel I should point out to this team.

Basically, MM Forging has moved from being a forging supplier to being a component supplier. In the last 5 to 7 years, there has been a significant transition. We are no longer a forge shop with an attached machine shop. We are well and truly a component supplier. That some of our customers choose to buy only forgings from us for some of their requirements is incidental. But we can definitely supply customers components.

And we are also looking at getting into assemblies. So, we are making a transition from just being a rough forger to being a forger with a machine shop. And now we can say very clearly that we are a component supplier. And our engagement with OEs is pretty deep. That also will bear good dividends for the company as we go on.

Ajay Surya: Sir, my last question would be, how is the competition around the machining part in the industry? Because several players are adding the machining line. So, could that not tear into newer competition and reducing a margin or any kind of like that?

Vidyashankar Krishnan: Like it or not, competition is here to stay, and competition will always be there. So, having said that, the number of players with ability to invest in machining is different. But the number of players with the ability to invest in forging and machining is in even more narrower space. And within that space, the number of players who are able to handle larger forging and the complicated machining lines that come for those forging is even rarer.

Moderator: Thank you. The next question is from the line of Priyaranjan from HDFC AMC. Please go ahead.

Priyaranjan: Thanks. Sir, just two things. I mean, I think we have aspiration of going to say INR2,000 crores top line in the next couple of years. So, I mean, when given the microenvironment and your order book in hand, a confirmed order book in hand, so when do you expect this to be achieved and what kind of margin, we are looking at on the newer products which you are developing right now? Or I mean, not only developing, at least on the, which is going on productionization this year, and which has gone in the last year as well.

Vidyashankar Krishnan: Yes. We are expecting something in the region of INR1,800 crores to INR2,000 crores for this year, given a broadly decent macroeconomic environment. And we expect over the next year or two thereafter to cross about INR2,500 crores.

Priyaranjan: Okay. And in terms of the overall margin mix, we are also increasing the machining, but the new orders you have also got, so at some point of time these orders will have a decent price. As of now, probably those of new product or new segment might be at a lower margin business because the scale might not be there. So, how should the evolution of margin take place over the next couple of years?

Vidyashankar Krishnan: Our expectation there and guidance there have been consistent that we expect margins to be held at a bare minimum. Beyond that, there will be an interplay between volume, margin, and inflationary pressures.

Priyaranjan: And with the new capacity, do you think your manpower cost, etcetera, will keep going up? Or it will take some time?

Vidyashankar Krishnan: You know, at a totally different level, time is up, but not to do with M.M. Pudin's economics as such, but manpower cost in India as a whole will go up and should go up. So, companies that are capable of handling the huge increases that we are going to see on manpower cost will survive. Companies that are not going to be able to handle the peak increase in manpower cost will fall by the wayside.

This is my expectation on manpower and economics in a couple of lines. And that is the way it should be also. If our country is to increase the standard of living for its lowest down at the bottom of the pyramid, this is the way it must happen. And that is the way governments are also pushing. Every year, they are increasing minimum wages. Silently, steadily.

Priyaranjan: What we have seen in the case of many manufacturing companies is that they are moving more towards mechanization or automation?

Vidyashankar Krishnan: That is what it is. How do you manage to reduce manpower cost? The only way you can hold it is by automation. Only way.

Priyaranjan: Where are we placed in terms of, if you look at, we are very positively placed over there. Just to give you a snippet. When we put up our 8,000-ton press, we added some 7 to 10 robots. And all that was done outside at a huge cost. For our 7,000 ton press, we brought in the robots and did the automation ourselves.

Now, we are looking even more aggressive. In the next couple of presses, we have added, we put in robots that are second-hand robots. Refurbished and made good. So, that brings down the cost even further. Plus, of course, all the work done internally. So, the situation is also changing. Where we used to spend INR30 lakhs for a robot and its accessories. Plus, accessories.

Today, it is probably INR12 lakhs plus accessories. Or sometimes even lesser. So, if you take a INR12 lakh base and it replaces one guy across three shifts. You get payback in the region of around 18 to 24 months. Even at current salaries. So, mechanization will come in a large way. In a large way. And that is a transition that the Indian industry must be willing to take. Otherwise, companies will simply be blown out. Or blown away.

Moderator: Thank you.

Vidyashankar Krishnan: Jayaraj, we are at the end of the call. One last question.

Moderator: Sure, sir. We will take the last question. Ladies and gentlemen, due to time constraints, we will be taking the last question. That is on the line of Mr. Shashank Kanodia from ICICI Securities. Please go ahead.

Shashank Kanodia: Yes, sir. You mentioned that your share of machining will go up next year. And in the media interview today morning, you mentioned about 19% EBITDA margins for FY '24. So, why would the EBITDA pattern not move up for us next year?

Moderator: Ladies and gentlemen, thank you for patiently holding. We now have the line for the management reconnected over to you, sir.

Vidyashankar Krishnan: Thank you, everybody, for your valuable time and being with us and your very insistent questions. But also, every time opens our eyes to newer aspects of the business. Though we are here sitting and looking at it 24 into 7, still a few questions from the outside does give us new ways to look at our business. And many of those have been helpful in guiding our board and everything in terms of investment strategy, etc. So, we hope this engagement will continue in the months and years to come. And looking forward to greeting you in a year's time with the numbers that we have been discussing during this meeting. Thank you, one and all.

Moderator: Thank you. Ladies and gentlemen, on behalf of Batlivala & Karani Securities, that concludes this conference call. We thank you for joining us. And even now, disconnect your lines. Thank you.