RISHABH INSTRUMENTS LIMITED

(Formerly Rishabh Instruments Private Limited)

February 20, 2024

To,
National Stock Exchange of India Limited,
Exchange Plaza, Plot No. C/1, G Block, Bandra-Kurla Complex, Bandra (East), Mumbai – 400051
NSE Symbol: RISHABH

To,
BSE Limited,
Phiroze Jeejeebhoy Towers,
21st Floor, Dalal Street,
Mumbai – 400001
BSE Scrip Code: 543977

Dear Sir/ Ma'am,

Sub: Earnings Conference Call Transcript for Q3 – FY 2023-24

Please find enclosed herewith the copy of transcript of the Earnings Conference Call held on February 14, 2024 in respect of Unaudited Standalone and Consolidated Financial Results for the Quarter ended December 31, 2023.

Kindly take the same on your records.

For Rishabh Instruments Limited

Ajinkya Joglekar
Company Secretary and Compliance Officer
ICSI Membership No.: A57272

"Rishabh Instruments Limited Q3 FY '24 Earnings Conference Call"

February 14, 2024

Disclaimer: E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on 14th February 2024 will prevail.

MANAGEMENT: **MR. NARENDRA GOLIYA – CHAIRMAN AND MANAGING DIRECTOR, RISHABH INSTRUMENTS LIMITED**
MR. DINESH MUSALEKAR – CHIEF EXECUTIVE OFFICER, RISHABH INSTRUMENTS LIMITED
MR. VISHAL KULKARNI – CHIEF FINANCIAL OFFICER, RISHABH INSTRUMENTS LIMITED

MODERATOR: **MS. BHOOMIKA NAIR – DAM CAPITAL**

Moderator: Ladies and gentlemen, good day and welcome to Rishabh Instruments Q3 FY '24 Earnings Conference Call hosted by DAM Capital Advisors 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 "*" then "0" on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Ms. Bhoomika Nair from DAM Capital Advisors Limited. Thank you and over to you, ma'am.

Bhoomika Nair: Good morning, everyone. Welcome to the Q3 FY '24 earnings call of Rishabh Instruments Limited. We

have the management today being represented by Mr. Narendra Goliya – Chairman and Managing Director, Mr Dinesh Musalekar – CEO, Mr. Vishal Kulkarni – CFO.

I now hand over the floor to Mr. Goliya for his initial remarks, post which, we will open up the floor for Q&A. Over to you, sir.

Narendra Goliya: Thank you, Bhoomika. Welcome and good morning to all the participants in the call. Thank you for joining us on the Rishabh Instruments call where we will discuss the Q3 Results as well as the nine months YTD results.

Along with me as Bhoomika introduced is Dinesh Musalekar – our Group CEO. He is with me, and there is Vishal Kulkarni – our CFO, and there are people from Strategic Growth Advisors who are our Investor Relations advisors.

We have already uploaded the results and the press release on the stock exchanges, and I am sure many of you had a chance to go through the same. Otherwise, I would urge you to go through it at the end of this call because we will not discuss everything which is already put on the website.

Some of you may be hearing us for the first time today. Many of you have participated in the IPO. Many of you I have met personally. Some of you have visited here, but still I will give a "Quick Snapshot" of our Company and then I will let Dinesh walk you through the "Operational Performance" of this quarter and Vishal Kulkarni – our CFO, will talk about the "Financial Performance".

As Bhoomika said, please reserve your questions at the end of the session and we will be happy to answer any clarifications that you need.

As many of you have read in the DRHP or many of you know, Rishabh Instruments is in the business of designing, developing, and manufacturing global energy efficiency solution products. So, we deal with instruments which help all people to increase the efficiency of the electricity that they use. And now, of course, energy has got different forms. So, we do that. We have been doing this for the last 40 years, and our products are mainly used for energy efficiency solutions and therefore, they are obviously influenced by energy sector developments and infrastructure spending across the globe.

We can divide our products into four major segments:

1. Electrical Automation.
2. Metering Control and Protection Devices.
3. Portable Test and Measurement Instruments.
4. Miscellaneous Category including the Solar String Inverters and some products which are under development in the pipeline. This is a new area. Solar, you all know, our Prime Minister declared in the recent history that they will be putting solar over 1 crores household. So, this is a very prospective market.

We have a diverse range of about 150 product lines with more than 2 lakh SKUs positioning ourselves as a prominent global player in the manufacturing and supply of analog panel meters and low voltage transformers. We are absolutely leading in these two areas. In CTs, in current transformers, we have another competitor in Germany, but still quantity wise we are the largest.

Remarkably 99% of our manufacturing processes are in-house. I always talk about vertical integration and therefore, we are able to maintain top-notch quality, and that's why our customers come back to us again and again.

Additionally, we take pride in being pioneers as one of the first Indian companies to undertake the comprehensive design, development, manufacturing of solar string inverters from inception to completion. Solar string inverters have come in the last 10 years, a lot of being sold, but then there are a lot of imports from China. We are one Indian Company who has designed, developed, manufactured, backward integrated, make the design, moulds, everything and hopefully, this will become a very big revenue source in the coming years.

Speaking of industry applications, we have a diversified industry base and are catering to sectors like FMCG, pharmaceutical, cement, steel, railway, renewable, oil and gas. Wherever power is used, either generation, transmission, distribution, all these are our application areas, and we continue to grow in each and every area that we cater to.

Additionally, with our die casting products from Poland, we cater to industrial automation, automobile industry, connected vehicles, which is EVs, and various other industries. We have a

vertically integrated setup with five manufacturing units, out of which two are in India, two are in Poland, one is in China, backed by in-house R&D at all the three places with international accreditations.

We also have two modification centers in the US and UK through our subsidiaries where we take our products manufactured in one of these three locations and then do the modification for the last mile requirement, which our customers may have. We have multiple certifications from ISO 50001, 9001, UL, CE, IATF, UK, CA and many other certifications we have to be able to sell our products where we presently sell.

Further, we also provide software solution development through our subsidiary in India as a forward integration to integrate instrumentation products and provide complete solutions to monitor, measure, optimize and control energy consumption, transmission and generation.

All of you know today is the time of IoT and therefore, everything has to be connected to each other. All our instruments talk to each other, but we also give software whereby people are able to connect these instruments via our software to other devices, which may be non-Rishabh or non-Lumel products.

We have two subsidiaries in Poland: Lumel SA and Lumel Alucast. One is the electrical business. One is the aluminum business. This was one Company which was acquired in 2012 from the Polish government as a single entity, but then at that time they were loss making entities. Over the years we have turned around the Company from loss making to a healthy about 18% EBITDA margin, and we have also split the Company into two independent companies. Both are located next to each other in a place called Zielona Gora in Poland. It’s less than two hours from Berlin.

We take great pride in our ability as an Indian Company to successfully orchestrate a turnaround in a European business landscape where many acquisitions are faulted. We have about 600 people in Poland and maintaining this kind of workforce and making it as a profitable business was a challenge, but today it has become a routine, and now we are looking at other acquisitions also.

This achievement underscores our commitment to excellence and adaptability in navigating diverse markets and operational environments. You can understand the language and everything in China to Poland to India. It's a completely different culture, but we are happy to be able to manage it.

Moreover, we have a high market share of our products in the European market on the back of our quality and cost-effective products. Europe and Poland together account for about 60% of our geographical revenues followed by Asia and U.S.

So, we have strategic plans to increase our market share in the US and China over the next few years with the launch of new products. The growth will be led by our Chinese acquisition of Shanghai V&A Instrumentation in 2019. V&A products have very robust demand in key geographical markets like Europe and US, and we will also develop the Indian market.

On the industry front, robust movement is evident in the energy sector transition. Major developed economies such as Europe and US along with emerging economies with anticipated high future energy demands such as India, Brazil and Indonesia have made noteworthy strides in advancing their energy transition agendas.

Our Prime Minister also keeps repeating how India will become a renewable energy source. These regions, which I just mentioned, are channeling substantial investments into infrastructure development and bolstering their energy security.

While these areas are actively shifting their focus towards sustainable energy solution, there remains a pressing need for more accelerated and inclusive transition to ensure the delivery of efficient, secure and equitable energy solutions. The push in this market aligns with our top three business segments, which continue to experience a healthy and steady demand base.

Further, the increased investments in the clean energy sector by European countries serve to counterbalance the effect of economic contractions in Europe and Germany for our business. Everybody has this question, but since we have so many products in the clean energy sector, we more than make up for this shrinkage of some of the markets.

Simultaneously, the Indian government's announcement of heightened infrastructure spending in the upcoming year positions us to capitalize on domestic demand and explore new market opportunities.

Moreover, the aluminum die-cast business is undergoing a transformation phase. We are developing numerous critical product ranges tailored for the swiftly evolving future technology space along with our continued commitment to innovations in the automotive sector. This strategic approach will not only enhance the product basket but will diversify our end-user industry applications with long-term revenue visibility.

Despite the challenging market scenario, we have achieved a consistent growth in revenue across product segments. Our current emphasis lies in optimizing margins with a strategic focus to increase revenues with increasing market share across our existing product categories together with the launch of new products on a continuous basis.

This reflects our commitment to adaptability and resilience in navigating complex and dynamic market landscapes. We are steadfast in our commitment to expanding our business and seizing market opportunities whenever and wherever they arise.

With this, I now hand over the mic to Dinesh – our Group CEO, to take you all through the operational highlights for the last quarter and 9 months ended December '23.

Dinesh Musalekar: Thank you, sir. Good morning, ladies and gentlemen. We have uploaded a detailed press release on the stock exchange and Company's website. Hope you all had a chance to go through it.

Let me start with operational highlights for the Quarter and 9 months ending December 2023:

Drawing your attention to our "Consolidated Financial Performance":

We have achieved a turnover of Rs. 1,593 million in Q3 of Financial Year '24, which is 19% higher year-on-year than the turnover we had in Q3 of Financial Year '23 of INR 1,339 million.

Further, on 9 months YTD Performance

we have achieved a turnover of Rs. 5,118 million, which is up by 30% year-on-year performance in the respective period last year, that is on the YTD 9 months Financial Year '23 of Rs. 3,951 million. So, we are talking about top line growth of 30% year-on-year for 9 months and 19% growth Y-o-Y on Q3 comparison last year to this year. That's our top line performance.

Our electrical automation has grown by 19% in Q3 Financial Year '24 and by 29% in 9 months Financial Year '24 on a year-on-year basis. Metering and control devices have grown by 11% in Q3 Financial Year '24 and by 24% in 9 months Financial Year '24 on a year-on-year basis.

The aluminum die casting business has grown by 16% in Q3 Financial Year '24 and by 26% in 9 months Financial Year '24 on a year-on-year basis. Portable test and measurement instruments saw healthy double-digit growth of 53% in 9 months Financial Year '24 on a year-on-year basis.

In other products, solar string inverter, which we just mentioned, has immense potential to add significant revenue in the next 2 to 3 years and has seen a robust growth of 460% in 9 months Financial Year '24.

So, just to summarize all of that, it is not one segment. On the top line in every segment that we operate in, we have grown double digit. Some of those initial products, which are like solar, which was at the initial phase, started to take off. We were talking about our revenue contribution of about 1 to 2%. Now we are talking about contribution of 5 to 6%, but these will add more to the bottom line once they scale up to a certain level.

Speaking on the product development side, we have added next generation inverters, NEO RADIUS in three phases ranging from 3kW to 20kW and continue to develop our upper range inverters up to 120kW in our R&D.

So, just now Mr. Goliya mentioned about this whole scheme of solar houses, 1 crores solar houses, this is the product range which is tailor-made to meet those market needs in India.and our product development team in Poland has developed and introduced a lot of other high-end products such as KD6, KD10, which are paperless recorders, which are used in industrial automation, N31U, Universal Programmable Digital Meters, ND31 IoT, we talk about lot of IoT in Europe to have smart manufacturing. These are enhanced power quality analyzers. So, these are the products which are more going into industrial automation segment. So, the team there is focusing on what the market needs.

And during 9 months of FY '24, we have added around 25 new products designed and developed from not only Poland and India, but also from our R&D centers in Shanghai also in line with our commitment to have a continuously innovate and introduce new products. And this will continue in the next financial year also. We have lined up 20 products which are in our pipeline to be added in Financial Year ‘25.

The new products added in the last two years contributed around 10% of our incremental growth to our top line. So, this is a continuous product which keeps us ahead of our competition, and also helps us to beat the industry market growth by adding new products and having a market penetration.

In our pursuit to enhance the customer experience, we are actively investing in our R&D facilities to innovate and design, develop manufacturing products fully in-house. Our primary objective is to enhance our product offering, leveraging our in-house capabilities to achieve distinct cost competitiveness.

We hold a positive outlook on exploring untapped markets to enhance our existing market share as well as penetrating into a new market to broaden our customer base. We have witnessed a positive response from existing customers on the back of our quality norms and gives us confidence to tap a higher market share across all the geographies that we operate.

Let's now dive into entity wise performances:

Our standalone business in India has achieved revenue for Q3 Financial Year 24 of Rs 458 million and remained flat year-on-year. But the revenues for nine months has registered a growth of 23%.

We believe we have immense potential to grow the business in India. The Indian government has announced higher spending in infrastructure development during the budget speech and this will give more opportunities with our growing product portfolio to capture the market. Demand in India is increasing for our products, and as Indian infrastructure and economy grows, we will see its direct impact on our performance in the near future.

Now moving on to the other two large entities that we have, Lumel SA, which is our electronic manufacturing division in Poland, this has done extremely good. The revenues for Q3 Financial Year '24 stood at Rs 485 million and registered a growth of 37% year-on-year and revenue for nine months for Financial Year '24 registered at a growth of 43% on a year-on-year basis.

So, we talk about all the economic slowdown in Europe, but these are extremely good numbers both on a quarter-to-quarter basis as well as annualized basis which we are talking about 43% growth in the top line.

The electronics operations in Europe continue to thrive and we don't see any challenges coming in the near future there. This is due to the Company's penetration into medium voltage segment and industrial automation and green energy. These are the new revenues which are adding to the top line as well as the bottom line.

Further, we have invested in state-of-the-art SMT line. We have a dedicated SMT line exclusively to support EMS business in Lumel SA in Poland, which is already occupying 90% of its capacity and we may invest more as we develop the business.

In Lumel Alucast, the revenues for Quarter 3 of this Financial Year stood at Rs 859 million with a growth of 16% year-on-year. Revenue for nine months registered a growth of 29% on a year-on-year basis. The Aluminum die casting business has seen revenue increasing by 29% year-on-year.

The addition of new products has impacted our EBITDA margin temporarily. We have introduced about half a dozen technically very challenging but futuristic projects in the EV space, which are going to give revenues for the next 4 to 8 years, and these are high entry barriers for others to enter.

We were happy to be part of this game-changing technology, which the automotive industry is driving, but everybody is in the high learning curve there. So, until these processes stabilize, and we start leveraging the economies, so the profits will start flowing in from those new futuristic projects, which is the main concern, and which has dragged our EBITDA at the consolidated level as we saw in Quarter 3.

Overall, our European business did experience some impact, primarily attributed to slow down in that region and the transition of vehicles into EV space. However, it is noteworthy that the impact has been minimal within our industry. This resilience can be attributed to higher spending commitments by governments towards a clean energy solution, which has served as a mitigating factor against the challenges posed by the regional slowdown.

So, just to give some examples, the European Union has a budget of spending 12 billion to upgrade and enhance the infrastructure for the energy distribution and transmission, which is basically a need coming out of having a distributed energy sources such as solar plants, windmills, which have to be connected to the main grid. So, that's something which government is expanding and as Mr. Narendra Goliya has suggested, wherever there is energy which is generated, transmitted, or consumed, we are in that business.

Now, a little bit brief on our China business:

Our China operations have started to grow post extended COVID that we had in China. So, the whole world witnessed two years of COVID shutdown, but we had about three years of shutdown there.

This Company was acquired in 2019. Three years we lost after that, and this is first and second year that we are reorganizing, and it has started growing now. So, we have invested in our R&D and other infrastructure there. Now, we registered a growth of 29% Y-o-Y for 9MFY24.

The strategic acquisition in China will help us to source electronic components for Lumel SA, the electronic manufacturing in Poland and Rishabh Instruments in India reducing the cost of raw materials. We expect about a 5% to 10% reduction in our electronic component prices coming out of this strategic move, which we will be doing in the coming year.

V&A is also expanding R&D for new product development and expansion of current product portfolio. This acquisition will help us to serve new clients with the new product launches in China, Europe and US territory. At present, we are a net exporter to China. So, this will change subsequently.

Our other entities like Sifam Tinsley in the US and UK entities are steadily growing. The US business has grown by 25% and UK business has grown by 16% on nine months Y-o-Y basis. So, it's not only our product lines, every product line has grown at the top line, every entity also has grown at the top line.

Just to make clear emphasis on that point, let me give you a little more insight on the margin front now. Our Q3 Financial Year ‘24 adjusted EBITDA is at Rs. 137 million on a consolidated basis. It's down by 41% from Q3 of Financial Year ‘23 adjusted EBITDA of Rs. 230 million.

Overall, we have achieved a PAT of Rs. 73 million in Q3 Financial Year '24 down by 59% on the year-to-year comparison for Q3 Financial Year '23.

However, for the , nine months Financial Year '24 adjusted EBITDA stands at Rs. 835 million, which is up by 42%. I repeat, 42% from nine months Y-o-Y EBITDA of Rs. 588 million. We have achieved nine months Financial Year '24 PAT of Rs. 376 million, which is up by 9% on a year-on-year comparison from 9 months of Financial Year '23.

The decrease in EBITDA for this quarter is mainly on account of the following three factors: ESOP cost of Rs. 51 million in Q3 Financial Year '24 as compared to nothing in Q3 Financial Year '23. So, this year, as we spoke in the last call also, the ESOP cost is going to be there. And then, provision in relation to a withholding tax, which is of Rs. INR 36 million. This we have taken as an abundant precaution. We have made a provision for that.

And then operational factors:

These are non-operational factors, which we spoke. On the operational side, the addition of new products has impacted our EBITDA margin temporarily. However, there are long-term contracts expected to generate higher revenue going forward with better margin profits due to operational leverages to play.

Our newly introduced products of solar inverters have seen multiple growth of more than 20x in revenue for our quarter ended December 2023 on a year-on-year basis. However, the product is in its initial phase and hence the margins are lower, which are anticipated to expand once our volumes go up.

The adjusted EBITDA excluding ESOP expenses and withholding provision has increased by 42%, as I said, on a year-on-year basis in nine months Financial Year '24, and adjusted EBITDA margin, excluding ESOP expenses and withholding provision for nine months financial year 24, increased by 141 basis points.

This was largely propelled by the Company's in-house cost effectiveness and process improvement initiatives, which we always do on a continuous basis. Our unwavering commitment to continue research, the introduction of new products and catering to different industries reflects our dedication to fostering steady growth over the years.

We remain steadfast in our pursuit of innovation aiming to provide end-to-end solution to our customers. This commitment positions us to adapt to evolving market needs and ensure a sustained trajectory of growth in a long run.

As we look ahead, our focus remains on innovation, sustainability, our customer satisfaction. We are strategically investing in facilities at Nasik to position ourselves as industry leaders and to capitalize on emerging opportunities.

Further, it is to be noted that the overall YTD performance remains at our previous guidance, and we believe the same remains constant for the next year. We do have some seasonality impacts in Q1 and Q3, which are slightly on a sluggish side, but Q2 and Q4 have always performed well. This is a historical trend that we have.

In the end, I would like to express my sincere appreciation to our dedicated team for their support.

Now, I will hand it over to Mr Vishal Kulkarni – CFO of our group, to dwell into the financial specific details on the performance of overseas subsidiaries, after which we will be open for any questions. Thank you.

Vishal Kulkarni: Thank you, sir, for the quick overview.

Let me just give a brief on the financial performances. Good afternoon all.

Starting with the Company wise “Key Financial Highlights”:

For Rishabh Instruments standalone business revenue for Q3 FY '24 stood at INR 458 million and for nine months FY '24 stood at INR 1,655 million. The consolidated revenue for Q3 FY '24 stood at INR 1,339 million and for nine months FY '24 stood at INR 5,118 million.

The consolidated adjusted EBITDA remains at INR 137 million in Q3 FY '24 and INR 835 million in nine months FY '24. The consolidated adjusted EBITDA margins stood at 8.6% in Q3 of FY '24 and 16.3% in nine months FY '24. The consolidated PAT was at INR 73 million in Q3 FY '24, and it is INR 376 million in 9 months FY '24.

Now I would like to take everyone through the two big international subsidiaries that we have in the Group.

Lumel SA:The electronic business where we manufacture and supply products in Europe and supply to rest of the world. The revenue for Q3 and 9 months FY '24 has remained at INR 485 million and INR 1,336 million respectively. The EBITDA stands at INR 101 million and INR 302 million for Q3 and 9 months FY '24 respectively.

Further, our aluminum die-cast business, which is under the Company Lumel Alucast has shown a steady growth in revenues both in Quarter 3- and 9-months FY '24. Our revenues in Q3 of FY '24 and 9 months FY '24 remain at INR 589 million and INR 1,981 million respectively.

The EBITDA has remained at INR 8 million in Q3 of FY '24 and INR 139 million in 9 months FY '24 respectively.

On the consolidated level, we remain net debt-free with a strong balance sheet. We have net cash and cash equivalents of INR 918 million as of 31st December 2023. The working capital days for 9 months FY '24 stood at 118 days. The Company strongly remains committed to operational efficiency and continues to see several improvements on the working capital front.

With this, I shall now leave the floor open for the questions and answers. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. Next question is from the line of Sudhir Bheda from Bheda Family Office. Please proceed.

Sudhir Bheda: Thanks for the detailed explanation of your Company's business and financials. A lot of insight we got. Sir, my question and focus would remain on the margin. So, as you explained three reasons for the margin that came from 17% to 8.6%. But one of the reasons mentioned was the product development, 6 products that you have developed for EV. And then another product's development are in pipeline. So, shall we believe that margin will remain at the same level of 8, 8.5% or it is one-off and then margin will come back to 17, 18% of our turnover?

Dinesh Musalekar: Bhedaji, thank you for your question. We would like to clarify. This is Dinesh here. I would like to clarify your answer. See, we have got basically two businesses. One is electronics business and the other one is aluminum die casting business.

Electronics business, as you see, there are absolutely no problems on the margin where we develop, design and introduce new products. So, the products that we mentioned, 15 new R&D products which we developed are from the electronics business, which contribute, you know, and we also mentioned how much of, 10% of our revenues also in electronics come from the new products that we have developed in the last two years.

So, on that side, we have another 20 new R&D products to develop and do that. That side, R&D development absolutely has no effect, in fact, it has a positive effect on the margins because every time you come up with a new product, you introduce, you have a higher margins because this is your product which you are doing.

Whereas when it comes to aluminum die casting business, the design of the product belongs to our, we are a OEM supplier. So, it will belong to our Tier-2 OEM who designs a very complex projects and to manufacture that, there are challenges. And to stabilize those projects, there is a challenge. So, those products, which belong to our customers, design belongs to them, and the manufacturing is also designed under technology, which is complex and there we are having the stabilization issue only on the aluminum die casting side.

So, as far as the continuous innovation is concerned for the product development in the electronics business, which is really, really helped us to have a very huge margins and that is really going to be the game in the future also.

Sudhir Bheda: So, what would be the aspiration margin for next year we are looking at? See, turnover was growing, I know that it will grow at 20-25% or even more than that. But what would be the aspiration expiration margin, what we are aspiring for the FY '25?

Dinesh Musalekar: We have given a guidance of 18% adjusted EBITDA. When we talk about adjusted EBITDA, we are just talking about the ESOP cost and one withholding tax provision. If you take out that, 18% is what we have given a guidance and now we are at 16%. And we are sure with Quarter 3, last quarter which is generally a strong quarter for us, we will be there, around 18% will be there, and that is the guideline which we will have for the next financial year also. As in the last call also we mentioned that some quarters will be stronger, some quarters will not be, but we always have a target on the annual results, and in that we are going in a good direction. So, we don't see any reason for that.

Sudhir Bheda: No, the deceleration in the margin was one-off in this quarter?

Dinesh Musalekar: Absolutely.

Sudhir Bheda: And the second question, we just want to understand the opportunity on the solar inverter side. Can that business be like 400-500 crores in next 3-4 years?

Dinesh Musalekar: Yes, absolutely, sir. We don't want to give such numbers, but what we can tell you is in a 600 crores turnover, we had 1%. Now we are talking about an increased turnover of the group, we are talking about 5%, 6% contribution of that.

So, we have invested a lot in design, development and we are competing against Chinese manufacturing cost, so, which is really, really challenging to tell you very honestly, because Chinese make them in millions and supply to the whole world. So, they have forced a lot of companies which were manufacturing inverters around the world to close down.

But we have got our cost base, competitive enough to them, and we just started to break even that and started to build the volume. And so, volumes build, and that segment also will give us more margins. We are talking about a 10% to 15% gross margin now. So, we can make higher margins in that once we have leverages. So, this business, in my opinion, will cross 100 Cr in about 2 to 3 years' time. That's our first target, and then it will exponentially grow up.

So, as we are speaking there is a big marketing campaign which we are doing in Varanasi where until April, there are going to be about 25,000 inverters which are going to be used, but we want to take a part of that share. So, our team is working on that. There are a lot of schemes which are

coming and our product development also, if you see, we have three phase products developed from 3kW to 20kW and single phase we are going to develop next year from 2kW to 10 kW or 12kW range.

So, just to ensure that smaller capacity Solar also can be put on the households which our Prime Minister announced for 1 crores houses with a solar installation. So, we want to align our product development with what is needed in the market. So, you are absolutely right. This can build into 400 to 500 crores business independently, but it will take some time because we are competing against Chinese manufacturers.

Sudhir Bheda: And lastly, what is the development on acquisition side? What is the development on the acquisition side, sir?

Dinesh Musalekar: Acquisition side, as we said on the aluminum die casting sphere, we are looking at one potential acquisition of the size of 100 crores in India, but the due diligences are going on. So, we don't want to speculate much than that because the acquisitions, until they are done, they are not done. So, there is some work which is going on this side, and this also may help us to ease out our cost pressure that we have in Europe on the aluminum die casting business. If we have got a back-end manufacturing in Asia, particularly in India, this will also help us strategically in the coming years. So, that's the plan, and as and when it happens, we will announce it.

Moderator: Thank you. Next question is from the line of Abhishek Shah from Ambit Capital. Please proceed.

Abhishek Shah: So, I have a couple of questions. So, firstly, you know, on the aluminum die casting business that you are referring to, it seems at least to me that it seems a little unrelated to the other businesses or the other products that we offer. So, what was the logic and what's the thought process behind entering this? Was it by way of the acquisition of Lumel that we have entered this business?

And the second question was on the EBITDA margins, you mentioned that you are developing products on the indie side, which have high barriers to entry. So, you know, any idea on what those products are and how, like, what are we looking at in terms of market size then?

Narendra Goliya: See, the whole idea was that when we acquired Lumel at that time, Lumel was one Company, it had two businesses, aluminum and electrical. And therefore, we acquired it together. Idea was that we would probably hive off the aluminum business. But having acquired it, we got control on the business. We were able to turn it around and we saw a huge potential in that business. And that is proven by the subsequent activities.

If you see the way it has developed over the last five, six years, it's a profitable business. And we are sure that's why we are even now acquiring another business. So, Company has gone, let's

say like we went multinational, we also went multi-segment, you know, multi-industry. And today it has become a part of the DNA of our Company. So, now there is no idea at least for the next four, five years of hiving off this business. So, that is the answer to your first question.

What was your second question? If you can repeat?

Dinesh Musalekar: The second question, if I can answer, so we are talking about these products which are actually developed by our Tier-2 customers. This we are talking about large automotive customers who have, in the EV charging business, not EV charging, EV electrical vehicles, you use a lot of batteries. So, for battery heat management, there are coolers and heat management products.

So, these are very complex products which are used in EV vehicles, electrical vehicles to manage efficiency and increase the battery mileage for the cars. So, which in Germany and in Europe, the companies are trying to push these limits. And there are new innovative products which are being done.

So, we are kind of a technology partners and manufacturing partners for them. So, this we signed the contracts for four to eight years. So, these are very complex and very challenging. So, we are already their partners and it's not easy for other die casting companies to enter into this segment.

To that extent, we kind of secure a long-term business with these OEMs in the range of four to eight years. So, there are about five, six, those kinds of projects we have signed. And we just launched them in the last quarter.

Moderator: Thank you. Next question is from the line of Khush Nahar from Electrum PMS. Please proceed.

Khush Nahar: So, my first question was, what would be a machined percentage from the die casting business as finished products?

Dinesh Musalekar: So, in die casting, we have about 50% which is for automotive industry and remaining is for automation industry. In the automation industry, whatever we supply, that 50% which you are talking, we do a big level of forward value addition, forward integration, you can call. We do casting. We do machining. We do surface treatment. We do powder coating. We do assembling of some elements, etc. So, all those products absolutely go with machining. And in the automotive side, out of that remaining 50%, so about 35% to 40% also gets into machining.

So, if you look at an overall Company level, what we do only as a casting is 10%. Only the casting and supplying is 10%. 90% goes with casting and machining and other value add and some products, we even do electronics also. Some of the products that we supply, we manufacture electronics in Lumel SA and then assemble those into these housings, which have

gone through all these processes, which I mentioned, and give them as a more finished products. So, all those margins are similar to what we generate in the electronics business.

The only stress we have now is on the automotive business which is 50% of our business in aluminum die casting plant. Out of which, about half of them we have a new project launch. So, they are having stress on the margins. So, we know exactly it's one Company, one product segment of one industry which is bleeding, and we know that it will take 6 to 9 months to fix it. So, until such time, for us, we are looking at it as an investment in future.

So, if you are looking on a quarter-to-quarter basis, yes, it is a loss. So, we are looking at it as an investment for future. This is the perspective at which we are looking at, and we always believed, and this is how we have run the Company with the mid-term to long-term perspective.

Khush Nahar: I just want to know about the new products that we are launching on the EV side. So, all of these would be on the finished products only machining or that would be from casting basis only?

Dinesh Musalekar: No, no, no. All of them are machined and assembled with elements, with all the leak tests and other quality tests done, and they just go in the assembly line of the automotive industry. So, they are the semi-finished complete modules which go into the assembly line.

Khush Nahar: So, we can expect going ahead, machining should increase on the Lumel die-casting side because of the change in the mix that we will have?

Dinesh Musalekar: Yes.

Moderator: Thank you. Our next question is from the line of Pratik Singh from Helios Capital. Please go ahead.

Pratik Singh: Sir, just coming back on margins, even if we were to adjust for the ESOP cost of 5 odd crores and one-time provisioning of 3.5 odd crores, your core EBITDA margins, and I am speaking ex of other income, are still tracking at around 8.5%, whereas in the previous quarters you have clocked much higher.

So, I just wanted to understand a bit more, is there any margin head-weight or margin pressure you are facing in any of your categories? Because even if I were to adjust for the new product, cost-related to new product launch, you would still be tracking lower than your past margin premiums.

Narendra Goliya: No, I haven't understood your question. You are comparing to last quarter. You are comparing to last year. You are comparing 9 months. Just clarify your questions and I will answer it properly.

Pratik Singh: So, sir, I am comparing to your margin, whatever margins you have reported in the previous quarters also, like 1Q, 2Q FY '24, as well as your quarterly run rate across four quarters of FY '23. So, if I were to see, barring other income, you have always reported a 10, 11 plus percent margin across your quarter, be it a softer quarter, be it a stronger quarter. So, this sprint is typically lower even after adjusting for the one-time provisions and ESOP cost also. So, I just wanted to understand.

Narendra Goliya: Correct. So, the whole point is what Dinesh has explained, the new projects which we will launch of the aluminum business is actually some of the projects, not everything, but some of the projects have not yet reached stabilization. Therefore, they are not making any money and therefore, some of the projects are also draining money.

So, what happens is when you try to see the overall position, you find that the aluminum business Quarter 3 results are actually becoming a drain on the other business. So, that is the reason, and that is what we said, once they stabilize in the next six months, it will come back.

If you see the aluminum business last year, it was profit-making. More or less, EBITDA was the same as any other business. But this third quarter, the aluminum business has not been, forget making profits, some of the projects have made losses and that is why you see what you are seeing. No, did I answer your question or no?

Pratik Singh: Yes. That is understood. So, just to delve a bit further, sir, what are these typical scalar costs, which we incur after a launch? Just to understand it a bit better, if you can explain it.

Dinesh Musalekar: See, typically what happens when you, see, when you do an estimation for a project, which is going to run for four to eight years, I mean, I just take a little bit of time for you guys to understand the operational side of it. So, when you are launching the project which is going to run for four to eight years, you take mostly the ideal condition, ideal cycle time. So, every part has to be moving so much and your internal rejections have to be less than say 10,000 PPM. So, you set those parameters, and based on that you do all the estimation.

But when you run the first batch, you will generate maybe 10% scrap. So, customer is not paying for that and then you have to stabilize. You have to readjust, and then when you do that, then you do a lot of analysis, and then you sit with the engineers of the people who designed this product from the customer side and then they change the design of the product and then you run it.

So, when it's a stable product which is always used, like we were making a lot of these compressor parts, we know that this is a stable product which has been there in the industry for a long period. So, when you launch those products, those stabilization happens in two weeks, but when it's a new product, first time it is designed on the planet by engineers and under a lot

of pressure, because there is a lot of EV pressure coming in Europe, because the European Union government has given a lot of, you know, you can call dictat to get rid of, to ban all the non-EV cars and by 2025, by 2030, there are a lot of things which are driven.

So, all these automotive companies are under a lot of pressure to develop these products at a large scale. So, EVs have been there for some companies for some time. So, there is lot of disruption which is going on to develop the products very fast and that has put the pressure at the design stage and manufacturing stage, and there is a disruption which is going on.

So, we can always decide not to be part of this game and do our steady business with our profits, and then we will not grow as much as we will grow. So, we do about 50% business in automotive industry. If we don't get into this new game, then that will eventually go down. So, if we want to grow, we have to take it up, and then this is what is going through a stabilization process.

Pratik Singh: Just one last bit from my end. So, on the provisioning, how long can this go on? Like, we had some provisioning in 2Q. We have some 3.5 crores in the 3Q. And any sense you can give?

Dinesh Musalekar: We are talking about this provision of ESOPs or?

Narendra Goliya: No, no, no, withholding.

Dinesh Musalekar: Okay, withholding tax. We have our tax consultants, which are engaged with tax authorities, and in one or two quarters we may settle down that. So, this is a work in progress.

Pratik Singh: And just one final clarification. The scale up which typically happens as you explained in the die casting business, usually it takes a quarter or two before the production line stabilizes?

Dinesh Musalekar: Yes. Normally, as I said, this is kind of a little bit of unknown territory. To be safer side, we can say it may take 6 to 9 months. But generally, our other product, we do it in a month's time, you know, not so challenging projects.

Narendra Goliya: See, this is not just a new project. It's a new technology that is being developed together, you know, the customers and the vendor, like we and our customers, we are developing it together. So, it will take longer time. It's just not a new product. It's a new technology first time introduced anywhere in the universe.

Moderator: Thank you. Next question is from the line of Kamlesh Kotak from Asian Market Securities. Please proceed.

Kamlesh Kotak: Sir, I want to understand how much the ESOP cost for the 9 months for the current year FY '24 and how much it will be for the next year '24?

Dinesh Musalekar: So, the ESOP cost for this financial year is going to be 20 crores and for the next financial is about 11.4 crores and '25-'26 is 6 crores, and '26-'27 is 2 crores.

Kamlesh Kotak: And how much was 9 months, sir?

Dinesh Musalekar: This 9 months is 17 crores. Yes, 17 crores approximately.

Kamlesh Kotak: Sir, I just want to understand the other expenses at consolidated level which is almost at 340 million compared to 236 million last quarter and 216 million previous year same quarter. So, I want to understand why this big jump is on what? Is it because of the Lumel or the die casting? What exactly if you can get some more data on this?

Dinesh Musalekar: Yes, Vishal will give you some highlights on that.

Vishal Kulkarni: The other expenses, basically, there is an increase in the operations of the business. Since the revenue has been increased, the manufacturing cost is increased and in addition to the same, there is an increase attributable to increase in the wage rates of subcontractors in Poland due to inflation. Of course, there is a tax provision in Lumel Alucast and the power and fuel rates has also been increased in Lumel. So, that has impacted the other expenses and that is the reason the other expenses has gone up.

Kamlesh Kotak: Thirdly sir, about the tax rate, what is the sustainable tax rate? We have deferred credit this quarter. So, what is the tax rate you expect for the year and maybe from here on for the next years?

Dinesh Musalekar: Tax rates.

Dinesh Musalekar: For Lumel entities, we have got three major entities. For the Lumen entities, the tax rate is around 19% and which is about 60% of our business. For India, which is around 25% of our business, which is at a 25% tax rate. I will have to make a weighted average of that. So, these are the things which come into our mind quickly.

Kamlesh Kotak: So, the deferred tax which we have credited this quarter is a one-off thing, right? It will not sustain from here on.

Vishal Kulkarni: Yes, the deferred tax is basically because of the tax benefit we will take from the ESOP expense, which is coming in the near future.

Kamlesh Kotak: Lastly, sir, what is the CAPEX we have done for this year and what is the pipeline for the next year?

Dinesh Musalekar: From the CAPEX, which was collected from the market, we haven't spent anything from that kitty, which was about 66 crores. So, that is still there because we had that for the expansion of our manufacturing here. So, we still have to get clearances from MIDC for expansion. So, that is still untouched. And the operational, the other expenses which were to the tune of 17 crores which are almost spent. So, these are the two things and other than that, general CAPEX we have one CAPEX in the electronics business in Lumel. I mentioned that in my speech.

So, we introduced a fully state-of-the-art new surface mount technology SMT line to support the EMS business, and we spent about half a million euros on that, which is about, that's one expense which we didnd there are some CAPEXs which are in line to expand our capacity in aluminum die casting. So, we will be expanding one more production hall, which will be of the size of one football field. So, we have got the plant is of the size of four football fields there. So, this is for expanding our capacity in the die casting area. So, that is going to take about two years. This is at an initial preliminary planning stage which may be of the expenses may be around them, we talk about 4 to 5 million euros of CAPEX there. So, that is the near the plan that we have.

Narendra Goliya: What we raised in the IPO in India, you know, that was about 75 crores, out of which 65 crores was for capex This we would expect to use it in the next two to three quarters, you know maximum, sorry, two to three years, but the majority of it will be in the coming financial year.

Kamlesh Kotak: And will it be in India Nasik plant, or it will be in the Lumel, sir?

Dinesh Musalekar: It will be in India, Nasik. All the CAPEX which is based in this IPO will be consumed only in India Nasik.

Kamlesh Kotak: Around 60, 70 crores, is it?

Dinesh Musalekar: Yes.

Vishal Kulkarni: Yes, 62 crores.

Kamlesh Kotak: Just one more data point, if you can help me, sir. Lumel is catering to how many number of clients, if you can just highlight particularly on the automotive side? You said new customer, new product launches. So, compared to last year, how many new customers we have added or if you can give me the count, please?

Dinesh Musalekar: See, the Lumel, you are talking about the aluminum die casting business, right?

Kamlesh Kotak: Yes.

Dinesh Musalekar: Lumel aluminum die casting side, we have non-automotive, huge blue-chip companies like ABB. We supply to 12 of their factories in different locations. Endress+Hauser, we have four

locations we supply. Siemens, we supply to about four locations. So, these are, I mean, I am just taking you the big number.

So, our modus operandi is we engage with the corporate and then we start supplying to their other factories all over. So, we will have a lot of factories added, a lot of their entities added, but at the same time we don't want to have too many different customers, which will need to have different allies economies of scale will not be there. So, we always try to maintain about 20 customer groups. They are not one customers.

Like in automotive side, we have about MAHLE and VALEO. Value, we started with one entity. Now, we supply to half a dozen entities of them. MAHLE, we started with the one entity. Now, we supply to all their different entities.

Just to tell you, we added Turkey, Value this year. MAHLE, we added Spain supply. All these EV projects which we are talking, we are going to supply to them. We have plants of VALEO in Czech Republic, in Poland. So, these are the big entities and these companies which I talked about are with the revenues anywhere between 10 billion to 40 billion Euros. So, these are large companies with hundreds of plants all over, and we start working with them with different entities.

Moderator: Thank you. Next question is from the line of Deepak Agrawal from Param Capital. Please proceed.

Deepak Agrawal: Sir, my question was again on the EBITDA Ballpark, I think if you look on a say 159 crores kind of top-line and theoretically had we done that 18% kind would have been a 28, 29 crores kind of EBITDA. Now, what we report the adjusted EBITDA is about 13.7 crores. Is it fair to say that the entire gap would be related to this new product or is it possible to quantify that, sir? Because I think that is where the entire confusion is for all investors that if that majority of 17 crores gap relates to this new development, then adjusted for this, we are on track to do that 18% kind of a number.

Dinesh Musalekar: Yes, absolutely. You are right. And we have done lot of analysis of that by product groups, by product group companies, by companies, and so it is all boiling down at, I would say, 90% of that is attributed to that.

And also, you know, India sales was relatively flat. So, Rishabh sales in India was also flat for the Quarter 3 compared to Quarter 3 of the last year. So, for a quarter-to-quarter basis we didn't have. This is a profitable business where this also has some effect.

So, at a macro level if you look at, I will say, two reasons. 80% reason is coming because of this new automotive projects, which are launched in Lumel aluminum die casting site, and 20%, I

would say, is coming because of not growth in top line for the quarter only. But we are sure that this will be covering Quarter 4 for Rishabh. And at the end of the day, we should be okay. So, that stabilization of those projects and going forward is going to be there lingering for some time.

Because we have got so many companies, so many product lines, I can understand the confusion that you just suggested. That's why this call is. So, if we have to look at two, I would say only one point. This one is very temporary, and this, the second point which I said about Rishabh is very, very temporary which will be adjusted in the Quarter 4. The only thing which will take two quarters to adjust is Lumel Alucast, those new project businesses which you are talking about.

Deepak Agrawal: Sir, just a request. If possible, this quarter, I don't know, at a later date or from next quarters, if you can quantify that number, that really helps, because I think that entire confusion is, we are 18%, 19% EBITDA margin Company, adjusted for this one-offs, which obviously will come back, right? In a way, we are taking everything to the P&L versus maybe capitalization for some of the other companies, and hence the EBITDA margin looks lower. If in the press release you could quantify that exact number, it really helps the investor that it was actually a 17%, 18% EBITDA number and not 8.7%.

Dinesh Musalekar: Yes, we will try to have this EBITDA bridge kind of a thing. We will try to have that presented.

Narendra Goliya: Thanks for giving this idea of capitalizing. I am not saying we will do it, but it is a good idea that this development cost, you know, as a Company we always want to be conservative and we write-off all the cost. But he just said, I am taking this, but we will debate internally whether it is worth capitalizing this development cost.

Deepak Agrawal: Right. Maybe over a year, not everything through a quarter, but a shorter time, maybe a year is what, but it does that because for investors as outsiders, it becomes difficult to bridge that gap on the EBITDA margin. So, that was a limited point.

Moderator: Thank you. Next question is from the line of Rahul Dhruv from Pegasus Growth. Please proceed.

Rahul Dhruv: I wanted to especially talk about the inverter business. You mentioned that we have a gross margin of around 10% to 15% currently, and this is a gross margin. What would be the operating margin in here?

Dinesh Musalekar: Operating, it is on the solar business. So, when we talk about gross margin, we are talking about all the, you know, it is quite similar. So, when we say operating margin, it is all the direct labor and direct material, and it is at the operating level. So, if you are looking at net level, it will not be contributing much because our G&A costs are around 14%, 15% of our turnover. So, until

this volume increases, it's not going to contribute to PAT and EBITDA. So, this is just taking care of our G&A expenses at the moment.

Rahul Dhruv: So, if we look at a 100 crores turnover from inverters in say, two or three years, as you mentioned, where would the margins be?

Dinesh Musalekar: The margins would be, you know, this is, as you said, it's a very competitive margin and competitive market. And this market operates at anywhere between 15% to 20% tops. It is not going to be going more than that, if you want to be in the market. So, this is a kind of a business which will have better ROI, return on investment, because of the volumes. If you look at the EBITDA and gross margin, this is notand EMS business is also similar. EMS business also, the gross margins or operating margins are low, but because of the economies of scale, your absolute numbers of profit or EBITDA will increase, but not in terms of percentages. So, these are the things where the investment we needed is relatively lower, and R&D once we have done is done. After that, it's not going to have so much of effect.

So, these are the typical businesses where we will be adding those to increase one, top line, second, the ROIs. So, they will also have a little bit of a pulling down on our overall gross margins in terms of percentage. So, that's why this volume is really important. So, both these businesses, EMS and this one, when they cross 100 Cr, then they will start really adding more meat to the bottom line.

Rahul Dhruv: Basically, at around 100 crores you would be looking at 5% to 6% max margin.

Dinesh Musalekar: Yes.

Rahul Dhruv: So, I had another question, and this is, I am just going through your slides, and it says that you're adjusted EBITDA for the first nine months was 83, and I am coming back to the same question. There is a lot of confusion over there. 83 crores would have been your adjusted EBITDA. The actual reported was 53. So, you have a 30 crores difference. Now, 30 crores difference, 17 crores is ESOPs, 3 crores is or 3.5 crores is withholding. So, that leaves us with around 12, 12.5 crores. So, can I say that the 12.5 crores fully is the cost of the product development that you have taken in the P&L this year?

Dinesh Musalekar: Not all of it, I would say. Some of the operational expenses also have gone up. So, again, the same related question the other gentleman asked before. When we are stabilizing and developing these products, we are expensing out all of it. So, if we have not given a thought of creating a project cost center for that and putting it in balance sheet and amortizing over a period of say, one year or six months based on some logic. And if we do that, you are absolutely right. If we start doing that, that gap will be much lower. So, it will be only to the extent of increase in wages and inflation and real operating expenses going up. So, it is a little bit mixed up.

See, we are, this is the first year of we being in the market. We have been a very conservative Company, private limited Company. We always wanted to expense out whatever we could. That's the way we run the Company. So, we have to moderate. We are learning it quarter by quarter now. And the input which we get from you guys is really helping us. I mean, we have made note of two, three, very good suggestions given by you as well as other gentlemen. So, we will be doing that.

Rahul Dhruv: So, if I have to look at this, the quarter out, which is the next quarter, assuming that your overall margin or the, what we call it, the adjusted margin is at 18%, outside of the ESOP cost of around 5 odd crores or 3, 3.5 crores, 4 crores left, is there anything else which can be bringing the reported number down significantly?

Dinesh Musalekar: Could you repeat your question?

Rahul Dhruv: So, I am saying that let's assume we have a adjusted EBITDA or what we call as the real EBITDA of 18% margin next quarter. Okay. And if we have only ESOP cost, which is basically going to be, or whatever, another 4, 5 crores, which is going to come in the fourth quarter, will there be any major difference besides this ESOP cost in the fourth quarter between the reported number and the actual EBITDA?

Dinesh Musalekar: No, no, the withholding cost and this ESOP cost are two non-operational things, which we will have. And when we are projecting 18%, this is going to come out of higher sales, which you are anticipating in our electronics business and also more stabilization of these costs, which are draining out now. So, they will be coming from the operational side. So, that's where we are projecting to have a 1% or 2%, notch up in EBITDA.

Rahul Dhruv: Let me ask you the other way around. Sorry about this. Will there be any further product development cost, which will come in the fourth quarter?

Dinesh Musalekar: Not really. I mean, we are talking about this expense side, any product development expenses, which will be affecting our margins. So, yes, no, no. Whatever is there is there. So, it's not going to be going up.

Rahul Dhruv: Thank you so much, sir.

Dinesh Musalekar: Thank you, gentlemen. I think we need to end this thing. We have some meetings now. So, thank you very much for your questions and listening to us very patiently.

Moderator: Thank you very much. On behalf of DAM Capital Advisors Limited, that concludes this conference. Thank you all for joining us and you may now disconnect your lines.