

UNIPARTS INDIA LTD.

August 15, 2024

BSE Limited Phiroze Jeejeebhoy Towers Dalal Street, Mumbai – 400 001 Scrip Code: 543689	National Stock Exchange of India Limited Exchange Plaza, C-1, Block G Bandra Kurla Complex Bandra (E), Mumbai – 400 051 Symbol: UNIPARTS
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Subject: Regulation 30: Transcript of Earnings Call pertaining to the Unaudited Financial Results for the quarter ended June 30, 2024

Dear Sir/Madam,

In terms of Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed transcript of earnings call on the Unaudited Financial Results of the Company for the quarter ended June 30, 2024, which was held on Friday, August 09, 2024.

The same is also being uploaded on website of the Company at https://www.unipartsgroup.com/home/quarterly_financial_results.

You are requested to take the above on record.

Thanking You,

Yours faithfully,

For Uniparts India Limited

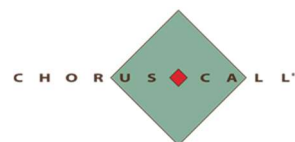
Jatin Mahajan
Head Legal, Company Secretary and Compliance Officer

Encl: As above



“Uniparts India Limited
Q1 FY'25 Earnings Conference Call”

August 09, 2024



MANAGEMENT: **MR. PARAMJIT SINGH SONI – PROMOTER, EXECUTIVE DIRECTOR AND VICE CHAIRMAN – UNIPARTS INDIA LIMITED**
MR. VIVEK MAHESHWARI – VICE PRESIDENT, FINANCIAL PLANNING & ANALYSIS AND INVESTOR RELATIONS – UNIPARTS INDIA LIMITED

MODERATOR: **MS. MONALI JAIN -- GO INDIA ADVISORS**

Moderator: Ladies and gentlemen, good day, and welcome to Uniparts India Limited Q1 FY'25 Earnings Conference Call hosted by Go India Advisors. 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 touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Ms. Monali Jain from Go India Advisors. Thank you, and over to you, ma'am.

Monali Jain: Yes. Thank you, Steve. Good evening, everyone, and welcome to Q1 FY'25 Earnings Call of Uniparts India Limited. We have on the call Mr. Paramjit Soni, Promoter, Executive Director and Vice Chairman; and Mr. Vivek Maheshwari, Vice President, Financial Planning and Analysis and Investor Relations.

We must remind you that the discussion on today's call may include certain forward-looking statements and must be therefore viewed in conjunction with the risks the company faces.

I will now request Mr. Paramjit to take us through the financials and the business updates subsequent to which we will open the floor for questions and answers. Thank you, and over to you, sir.

Paramjit Singh Soni: Thank you, Monali. Good evening, ladies and gentlemen, and welcome to the Quarter 1 FY'25 Earnings Call of Uniparts India Limited. We sincerely hope that all of you are doing very well. Prior to getting into the summary of the reported quarter, I would like to reiterate that the core of our organizational functioning is guided by the principles of passion, innovation, integrity, excellence and teamwork. A wonderful team of committed professionals has enabled Uniparts to be a partner of choice for global off-highway vehicles market.

We, at Uniparts, believe that by leveraging our engineering competencies and a global delivery model, we are proudly partaking in building the world and feeding its people. Further, through our off-highway focus, well-positioned product offerings, marquee customer portfolio and a robust global business model, Uniparts is well-positioned to cater to the long-term trend of food security prioritization as well as infrastructure buildout and modernization. With the above backdrop, let me spend next few minutes sharing thoughts with respect to the current operating environment and business highlights.

There are some early signals of slowdown in U.S. construction equipment end market. Europe, as alluded earlier as well, is also witnessing softness in construction equipment

end market. As indicated during last quarterly call, the slowdown in large agriculture in U.S. and Europe is hurting overall short-term demand with some element of inventory correction. However, this is also throwing some new opportunities for established players like Uniparts, which we are working on.

Small agricultural equipment on a reduced base of FY'24 looks steady in terms of demand in the near term and being observed of any further signals. Aftermarket, which overall declined 30% for Uniparts in FY'24 owing to dual impact of softness aggravated by inventory correction, is bouncing back gradually as inventory correction cycle appears to be over for now. And that part of the demand is seemingly coming back.

India domestic tractor market is looking steady after the softness in previous fiscal year. Midterm expectations were now more linked to the monsoon 2024 performance and the festive season demand.

New awards pipeline remains encouraging with added traction in all product verticals including PMP, large agricultural equipment assembly, agriculture machinery in India, high-horsepower 3PL as well as further geographical expansion in below 70-horsepower tractors. End market softness may have some bearing on implementation timelines. Additional focus on operational efficiencies continues. Company's business continues to generate healthy cash flows, lending further strength to the balance sheet.

The company has also been making meaningful strides in the CSR as well as sustainability initiatives. We believe that our initiatives will go a long way in generating positive impact on society and environment in which we operate. Our focus on safety, quality, delivery and cost remains high, and we continue investing for the long-term growth.

With this, I would like to hand over to Vivek Maheshwari to discuss the details of our financial performance during the quarter. Over to you, Vivek.

Vivek Maheshwari:

Thank you, sir. Good evening, all. I would like to share the following financial and business highlights of the quarter ending 30th June 2024. Revenue from operations for Q1 came in at INR261 crores, which is a quarter-on-quarter change of minus 9.9% and a year-on-year change of approximately minus 12%.

Reported EBITDA for Q1 was INR46 crores, which is a quarter-on-quarter change of minus 10.6%, and year-on-year change of minus 23.6%, while reported EBITDA margin was at 17.6% for the quarter. Operating cash flow generation for the quarter was approximately INR50 crores. This is a result of consistent working capital performance and healthy profitability despite decline in revenue.

The net working capital comprising of three core elements of inventory, accounts receivable and accounts payable, as number of days of trailing 12-month revenue from operations stood at approximately 150 days as on 30th June 2024. Net working capital during the quarter decreased by approximately INR19 crores.

Uniparts' balance sheet continues to be net debt-free, with group net cash position at approximately INR154 crores at the end of June 2024. Cash outflow towards capex commitment during the quarter has been approximately INR8.3 crores. The Board has declared first interim dividend for fiscal '24-'25 of INR6.75 per share, totaling to approximately INR30.5 crores payout to the shareholders.

Inflationary pressure on operating costs remain in the medium term to be partially mitigated through operating efficiencies. Macro concerns over global economic slowdown, geopolitical uncertainties and impact of worldwide high interest rates continues to remain a key monitorable.

With this summary, I would like to hand the conference back to the moderator for question-and-answer session. Thank you very much.

- Moderator:** The first question is from the line of Chetan Vora from Abakkus Asset Manager.
- Chetan Vora:** I just wanted to understand also what's the outlook for FY'25 wherein we are saying that inventory correction is largely over, but we are seeing the softness in demand across U.S., Europe and India to be steady. So how do we see the FY'25 for the full year, sir?
- Paramjit Singh Soni:** Chetan, thank you for the question. Given the current situation where we're looking at, Chetan, the inventory corrections got over in the aftermarket. But because of the large ag equipment seeing a significant slowdown now, we are seeing not just the demand slowdown there, but also the inventory correction in that segment.
- So based on that, I would think the full year outlook would be more flattish for this year. I expect maybe quarter 2 to be sequentially flat. And the half 2 probably -- the second half would be higher than half 1. And with quarter 4, I expect to have the highest run rate. So that's where I'm looking at it, Chetan.
- Chetan Vora:** Okay. And you said the inventory correction is over on the replacement side and it's still to be seen in the other part of the segment. So can you quantify what percentage of revenue type would be, sir?
- Paramjit Singh Soni:** The aftermarket has been about 16% to 17% of our revenue and there, we've already started seeing the growth. So you'll see, compared to last year, that segment has already started to see the growth. And also over there, if you remember, we had taken on a new

customer account with a larger distribution in the U.S., and that is also doing extremely well. So overall, that segment seems to be performing.

Chetan Vora: All right. So do you mean to say that 85% of the business is still dealing under the pressure of inventory correction as well as the softness in the demand from the end user? Is it right to assume?

Paramjit Singh Soni: No, that is not right to assume. Only the large ag is going through the inventory correction. I think the construction you're seeing from early cycle, so you may see some inventory correction come over there. The small agricultural tractor, I don't think there's any inventory correction. That is a bit flattish at this time. And relative to the FY'24, obviously, you have the inventory correction and there also you're seeing growth over there a little bit. So technically, aftermarket is out of it. India is -- which is another 15%, 16%, India is flat.

The small ag is seeing a slight growth because it was a low base, which is another about 28%, 29% of our business. The large ag is seeing a decline and the construction equipment is just beginning to see it. So it's not -- you can't just go and classify 15% and 85%. I think there are more segmentations over that.

Chetan Vora: Yes. So I was trying to decipher that only. So you are saying that replacement 16%. So what percentage of the revenue is still undergoing the inventory correction?

Paramjit Singh Soni: Right now, only the large ag is going through the inventory correction, which is -- Vivek, do you have the exact numbers for the large ag, I think it's about 20%, right?

Vivek Maheshwari: Close to 20%. But because of the weakness, it has declined to about 17% in the quarter. But yes, approximately 20%.

Chetan Vora: Large ag, and we are seeing some signs that inventory correction is being seen in the construction also. That's what you said.

Paramjit Singh Soni: Yes. For construction, I think it's just -- I think we still have to see it as construction, the slowdown is in its early cycle, its early signals. I do expect it will come, Chetan, at some point. Okay.

Chetan Vora: And construction, you said close to 35% of the revenue? Is it right?

Vivek Maheshwari: Yes, 37%.

Paramjit Singh Soni: Construction, yes, that is correct, about 35%.

Chetan Vora: Sir, how do we see the profitability as we would be seeing a flattish year? And the margins also have decreased almost 16%, which I consider excluding other income.

So what should be the margin range given the profitable level by the end of this year, for the full year? I'm not asking on a quarter-on-quarter basis, but for the full year, where do we see ourselves?

Paramjit Singh Soni: Chetan, on the margins, I'm looking at still managing to get -- okay, I've done it with the other income together, but you can just slightly discount that. But 18% is what I'm looking at for this full year. But my longer-term stand on the 20% margin remains because right now, it's basically the operating leverage causes an issue is when the volumes are down.

Chetan Vora: Okay. And by when, sir, we should be in a position to see, okay, the things are strategic. What should be the indicator?

Paramjit Singh Soni: Chetan, like I said before, we operate in multiple sectors, so there are multiple indicators. So to me, frankly, Chetan, if you see, if the interest rate decrease starts coming in, which, let's say, it looks -- it's difficult to -- I can't predict what the Fed will do, but I think it's looking like some of that will happen. If that happens, then I do expect that, that will be your early signal that within 1 or 2, 3 quarters, you will see the small ag equipment start rising, which used to be our core. So you've already seen that we've been suffering with it for like 1.5, 2 years now. And all the inventory, everything is cycled out of the system.

The moment the interest rates start coming down, you will start to see all this pipeline fill in and then at that stage all the pipeline fills in because all dealer inventories have also gone down. So I think interest rates are going to impact not just that, I also believe interest rates are going to impact your homebuilding and hence, the small construction equipment. So I do expect, frankly, at this stage, with the large ag, the commodity prices for agriculture like corn and soybeans and all that and the global stock, I think, those are at a situation where the commodity prices are low and farm income is going to be a little stretched. So I don't see the serious farmer buying large equipment at least for about a year because this cycle will play through for the moment. But I do expect interest rates to kind of start showing up something on the small ag and the small construction equipment. And aftermarket has already come out in any case. So that's how I see it.

Moderator: The next question is from the line of Nikunj Doshi from Bay Capital.

Nikunj Doshi: I've been following this company since listing and perhaps each time I've heard a call. And listening to your call just reminds me of a famous dialogue from Damini movie, Tarikh Pe Tarikh. So I really can't understand why management is not able to give proper guidance to the investors. Means last year, you were saying FY'25 will bounce back.

Now you are saying the construction slowdown, interest rate, all these are factors perhaps could have been known. And now you are saying 16% of replacement is only -- which is going through inventory -- which had gone through inventory correction. And still, we are seeing such a great decline in turnover. So I don't know if management is guiding properly to the investors or not.

Paramjit Singh Soni:

I appreciate that question. All I can say to you is we are trying to guide the best -- to the best of our abilities. I wish I had a crystal ball which would tell me more than what I have, but the changes in the market are significantly more volatile. I think you just have to look at what our big large end customers are doing and what they are saying as well.

If you look at what John Deere and Caterpillar are doing, which are our major customers, they were -- till about six months ago, they were not predicting such a significant decline in the large ag, and look at the decline that you are now seeing over there. So I think our ability of providing you guidance is based on what we see is in the market and what our customers -- our major customers are telling us.

Clearly, we are processing the data. We look at it and we basically try to do the best we can. And at the end of the day, we are also trying not just during this time to address this and maintain our bottom line but at the same time, address new business as well. So I think -- I'm sorry you feel that way, but all I can say is we're doing our best at it.

Moderator:

The next question is from the line of Ronak Mehta from JM Financial.

Ronak Mehta:

Paramjit, I have two questions. One is on the cyclicalities. So given that both your segments -- both construction segment as well as farm segment is exposed to cyclicalities. Generally, we have seen in case of other companies in the same space who have been historically exposed to cyclicalities, they have developed new products over time, they have entered into new segments to reduce that cyclicalities. And that's how they have grown ahead of the industry as well.

So what are your thoughts on that? And any plans or anything that you're working on currently from the medium to longer-term perspective that can help you reduce the cyclicalities in the business or to grow faster be it by your new customers, new products, anything on that?

Paramjit Singh Soni:

Yes. Cyclicalities, I think because -- I mean the ag and construction market, and we're trying to remain in the off-highway vehicle, I think the cyclicalities we will be exposed to. But what we are really doing is expanding our product platforms. So we are actively working. You know that we have the PMP platform and the 3-point linkage platform. We've stated in the past that we will be looking at the PTO, hydraulic and the

fabrication platform. So we are working on some significant things over there, which hopefully creates -- it gives a third platform for growth soon.

At the same time, we are also, frankly, executing another leg or at the beginning stages of looking at it. We've talked about our global delivery model and hence, consequently, we had this ability to manage the offshoring and onshoring as well in the U.S. But we are now seeing a shift a lot in near-shoring where Mexico is becoming important. So we are exploring opportunities there as well and we are in discussions with customers for some nice opportunities there.

So to answer your question, cyclical, I don't think I'll be able to overcome. But will I derisk the business further and get growth with further platforms and further growth and add more strategic elements to our business? That will happen.

Ronak Mehta: Yes. So any timeline on the orders or the development that you talked about, the kind of ideas with respect to PTO or hydraulic cylinders, either by your acquisition or customer addition or anything on that? Or is there any timeline with respect to product development in these areas?

Paramjit Singh Soni: So the new business award pipeline continues to be strong. So on the greater than 70-horsepower platform, I think we'll continue to keep doing better. The geographical expansion also on the below 70-horsepower continues to expand more and more in South Korea as well now.

On the PMP side, I think we've taken on -- from the aftermarket side, we took on those new customers. And I think our growth continues over there. In terms of the other platform, there is some -- we are working on some acquisitions, but it's a little early for me to give you a timeline on that, though I can let you know we are working on a few opportunities at this stage.

Ronak Mehta: Sure. And last -- one last question on the bookkeeping -- bookkeeping question. So what is the capex outlook for FY'25 and '26? That will be my last question.

Paramjit Singh Soni: I think the capex outlook is going to be between INR35 crores to INR40 crores. This quarter, was about INR8 crores or so. I'm not seeing much because right now, obviously, with the depressed market, we have the capacity just now. So the capex is only happening on certain specific new projects, which we are implementing where you need some specific equipment. But other than that, I think the capex is not going to be large in this year. So the cash flow generations are going to be significant.

Moderator: The next question is from the line of Miten Lathia from Fractal Capital Investments.

Miten Lathia: Just wanted to understand if you've been able to get any breakthroughs in terms of either a product or a customer. You mentioned you were trying to beat the cyclicality. But just to understand timelines of when that crossover might come, is there a meaningful new customer or new product on the horizon that would help us overcome that cyclicality in this year and the rest of this year?

Paramjit Singh Soni: To me -- okay, it's a little early for me to comment. All I can say to you is I'm working on it. But I'm -- let's say, I'm not able to comment beyond that at this stage for you, but we're working very hard at it is all I'll say to you at this stage. All right?

But I'm fairly -- I think the team is doing a certain job, and let's see what comes out of it. But to me -- rest assured, we're doing our very best on it. And I think, in any case, by quarter 4, like I said, the market will also turn around. Before then, I'm trying to see if I can get something done.

But again, we have a lot of opportunities that we are working with on customers. When the market slows down, in any case, that raises a lot of opportunities. So there are a few new good projects that we have in the pipeline now, and we are working on all the execution timelines.

But some of these execution timelines are not within this year. They will be for the next year on the new award business. But the opportunities that we are working on will clearly give us a lot of growth go forward and set the platform for it. Will anything happen dramatic in this year? The answer is no. But I do expect quarter 4 to be where you will see the turnaround.

Miten Lathia: Understood, sir. Specifically, what I was sort of trying to understand is we had some new product development on the large ag market, right? So have you seen any traction building there?

Paramjit Singh Soni: Absolutely. We've seen some nice awards over there, so that continues. I think we've taken some nice awards in Europe on that. And if you remember, the large tractor market predominantly was Europe. And so we've taken some nice things over there. So clearly -- and then also on some very large agricultural equipment on some big planters and big seeding machines, we've got some nice awards from some new projects over there.

So I think the new award and the strategy of getting into those different verticals, I think that continues nicely. And even the geographical expansion on the below 70-horsepower, that was part of the strategy. So we've made new inroads with some new customers in South Korea as well.

- Miten Lathia:** Okay. And existing customers which are not being sort of to the full potential on the construction equipment side, on the precision parts, is that something that we can look forward to again closer to Q4? Or that is a bit more far out than this year?
- Paramjit Singh Soni:** I think with existing customers, there are a lot of opportunities. Like I said, construction also is going to look at a little bit of a slowdown coming just now, but we are working on a near-shoring strategy solution in Mexico. I think as that comes in, we have negotiations for some large awards for setting that up over there. A lot of the U.S. producers are looking to shift there.
- I think it's public knowledge that Bobcat is going to move some plants to Mexico. Deere is also trying to move some plants to Mexico as well. And so you will see a certain shift on this happen. Caterpillar has also indicated the same. So we are working on some large projects with these existing customers and setting up a solution to service them in Mexico.
- Miten Lathia:** But setting up the facility and sort of...
- Paramjit Singh Soni:** I think it's going to be a service -- it's more a service facility first. The production will still come from India.
- Miten Lathia:** Okay. So that revenue could materialize within this fiscal...
- Paramjit Singh Soni:** Not this fiscal, but a lot of these projects are scheduled to start from January 2026. So those are a little bit more longer term. So nothing in this year. But that opportunity is a larger opportunity, so that's more medium term.
- Moderator:** The next question is from the line of Jyoti Singh from Arihant Capital Markets Limited.
- Jyoti Singh:** Just on a broader manner, if you can highlight because we have major revenues coming from America and Europe and most of the OEM is seeing multi-issue on this to America and Europe. And you also mentioned that from the client side, we were not expecting earlier 6 months, but now we are facing issue. So what are expectations going forward? I know we cannot exactly quantify. But still, how much order we are getting from the OEM? Is it aggressive or is it a steady manner? And what are our view going forward?
- Paramjit Singh Soni:** I think I alluded to some of that already where I said the large ag is seeing a reduction. So if you look at the commentary that large ag customers are giving, they're talking about a 10% to 15% decline. But by the time you add the inventory corrections, then the decline becomes larger for people like us. So large ag is seeing that. Small ag, since the inventory and all is behind, the market is still slow. It's like -- it's between 5% to 7% lower than last year. But having said that, last year had all these inventory

corrections, hence, compared to last year, we are better off despite the end market being slower.

If you look at the aftermarket. There, we are actually -- we saw about a 30% reduction in FY '24, and now we are actually seeing a growth. So each segment is behaving differently to some extent. And for most of our customers, they will give us a forecast going forward for about a year, but obviously, that's a forecast by its very nature is a forecast and they change it, which is why the variation can happen in the short term.

The way the order book changed on the large ag in the short term was fairly high. And I think the market reacted quickly, the customers reacted quickly. And you can notice that in the commentary of the customers. So we are seeing the end markets are not favourable just over this, the cyclical part.

And as soon as you're outside of the cycle, then you will see the double stuff of filling the inventory as well as the growth. And so the long-term growth in the business will continue to be -- the markets are growing at that 5%, 6%, and we tend to beat the market. So I think our long-term cycle will come back to what we indicated as our growth.

Jyoti Singh: And sir, on the revenue mix side, currently, we are largely on the OEMs. So going forward, any target to change this revenue mix or we will be continuing on this path only?

Paramjit Singh Soni: I think in these two product platforms, I think the revenue mix will be similar. As we add for product platforms there, there will be some differences. And we continue to look at those to essentially diversify the business model and get -- right now, there are two platforms on which you're getting the bulk of the revenue.

We are working on something if you -- on getting another platform robust. Longer term, we do believe with a third platform, we should be able to equalize into three different platforms with equal revenue, and then kind of bring in the fourth one at that stage. But the mix between aftermarket and OEMs will be more dictated by the product platform. Right now, I think the OEM will continue to be the stronger one.

Jyoti Singh: And sir, on the product side, are we planning any new launch or it will be remaining the same?

Paramjit Singh Soni: The new launches are all happening in the greater than 70-horsepower segment at this stage. I think that is where we are working and some large -- we've developed some new products for some large agricultural equipment for bigger machines like feeders and planters and all that kind of stuff. But -- and then we are working on some new

projects from the fabrication side of the platform. So there are some new projects going on over there, and we continue to see some good traction.

On the PMP side, we are looking at some projects on some very, very large sized products. Right now, our product profile typically will go from products up to maybe about 15 to 20 kilos in weight. But we are looking at some other than a large one to expand the business where these would be even 80 to 100 kilos in size and some -- for some really, really big machines. So we've got some progress going on over there, and I think that's an area we're trying to expand horizontally within our customers.

Jyoti Singh: And sir, just last question. On the geographical mix side, we're still very small in India. So are we targeting to increase it further? Or do we remain in this scenario?

Paramjit Singh Soni: That is definitely on our radar screen, looking at where India is headed. And from global markets, I think India is a market that, at least for the next foreseeable future, you will expect to see more growth there than you see in the developed world. So clearly, that's on our radar screen, and we are working on this.

Jyoti Singh: And sir, on the growth side, still, we have not any clarity. So if you can guide us on the same?

Paramjit Singh Soni: I think I mentioned already on the growth at least -- or is your question for this year or long-term growth?

Jyoti Singh: This year, sir.

Paramjit Singh Soni: Okay. So for this year, like I said, already quarter 1, 2 and 3 are going to be more flattish. And then sequentially, in quarter 4 is where we will come back out fully. And for the full year, like I said, it could be flat to maybe minus 2%, 3% or something like that.

Moderator: The next question is from the line of Chirag Fialoke from RatnaTraya Capital.

Chirag Fialoke: My question is actually just on the last year order wins, the projects and the new strategy we were working on for the last three or four quarters where you would have already moved some headroom [called Kaziranga inaudible] talking about the new stuff. Are they also getting delayed with softness in the market? Or are you seeing things where you were close to finalization or [inaudible] are getting pushed out. Is that also playing out?

Paramjit Singh Soni: No, I think let me answer that a bit more specifically. So the big ones we were working on the project for where we had done this same project with Caterpillar that stayed on track. In fact, that's even doing better than what we thought. So that part of the vehicle,

even though the construction market is slow that particular vehicle is doing well. So we are seeing significant good traction over there.

Like I said, even on the aftermarket, the new customer we had taken in, we had some projections and I think they're doing even better than that. The one which has gone a little bit slower is the one on our ATV, UTV 3-Point Linkage where it got launched, but based on the market feedback we have to do some interventions in the market to see how to step up the visibility in the stores on that. So two of them are running really nicely. One is not running as fast as we would have thought, so that will take a little bit more time. But otherwise, I think two big ones are running nicely.

Chirag Fialoke:

Understood. I have two more questions, sir. This next one is just on -- obviously this quarter, which is largely confined to the large ag. The large ag was always a smaller part of our business is my understanding. Please correct me if I'm wrong. And given that from the rest of the business we are outside the inventory correction and the inventory new demand, those stuff is not much weaker than last year's, what is sort of still making that probably even go down a little bit from last year in terms of overall sales? Please tell us where we currently stand in those earnings. Please help me understand that.

Paramjit Singh Soni:

Vivek, you have the segmentation. Can you address that, please?

Vivek Maheshwari:

Yes. But Chirag, I'm sorry, but your voice was not very clear to me. Please repeat that.

Chirag Fialoke:

Sir, I'll repeat that. Right. Sorry. What I meant was that, large ag was always a smaller part of our business is what my understanding was; 18%, 20%. And given that the larger part of our business, which is the small ag part and the construction equipment. Last year, we already went through the inventory correction. We went through some softer demand again, and we've come out of that.

What makes you feel that in this year, it's still going to be sort of slower than last year also given that the larger part of our business is outside the correction? So probably there, we should have brought in some demand in terms of getting our knowledge right, it's larger. I would have thought I'm getting something from you, right? Is there something wrong with my understanding, in terms of adding some more value?

Paramjit Singh Soni:

So here's where I'd be thinking for construction, which was about let's say, 38%, 39% of our business, that is actually flat to minus single-digit down for us just now -- low single digits. So that part is sitting there. If I look at the large ag that used to form about 18%, 20% of our business, that even though the market -- end market is down by about 10% to 12%, we are seeing almost a 20%, 25% reduction.

So the impact -- even though it's a small one, the impact over there is fairly large. In the small ag, it forms almost about 30% of our business, but it's -- the inventory corrections are out, but the market is still slow. So we are better off than last year slightly, but it's not driving it enough at the moment.

The aftermarket is the one where we are actually seeing significant jump up, which used to be 16%, 17% of our business and there, because inventory corrections are gone and everything is gone, so we are actually seeing like to possibly go up to a 20% growth in that segment.

Chirag Fialoke:

Understood, sir. I guess just to summarize what you said and make sure that my understanding is correct. What you're saying is essentially construction equipment or the precision machine parts that segment in terms of high single digit, double digit growth is probably starting to decline?

Paramjit Singh Soni:

Okay. That becomes a flattish one, but it's not allowing you to pull everything up, if you know what I mean, right? So that's where I'm coming from. So that's why the answer is a little bit more nuanced. This situation in a little we -- strange because you -- I frankly in all my years, I haven't seen a confluence that close to this.

Typically, what did we do? We went into the ag business and then we were in the construction business to take care of cyclicity. But the normal cycle would have been 4, 5 years for the ag business and another 4 years, 5 years for the construction business. And you typically would have seen the -- and you kind of -- the whole diversification and risk mitigation strategy was that both these don't happen together, right, because then it becomes a problem.

The large ag and construction coming almost back-to-back is, I think, causing me a bit of an issue just now. Even though the small ag is behind me and that came 1.5, 2 years earlier. So you should see the small ag, like I said, as soon as the interest rate changes, the small ag will be out of it and you'll go into the growth mode instantly.

To me, the construction equipment, frankly, is also two different things. If I look at all the stuff for the mining equipment and oil and gas capex equipment, if you expect a little bit of a slowdown in the global economy and you expect commodities to slowdown, and that may slow down. But I do believe our exposure is more on the smaller equipment and hence the housing market is more important to us.

The moment the interest rate changes occur, I think you may see that change. So I believe the interest trend change can probably change the picture in the short term on the construction and small ag business part for us, which actually is close to about 60%, 65% of our business.

- Chirag Fialoke:** Understood. And then to squeeze in one last question, just on a longer-term basis, right, if you look at our end markets and we grew mid-single digits on, is there expectation that across cycles, say, 3 to 5-year figures, our expectation is to beat that by 300 basis points, 200 basis points, I would love to know your opinion that thing sir?
- Paramjit Singh Soni:** No. I think our expectation on these two -- markets are going to be 5% to 6% growth go forward. We are looking at growth by longer term. This thing is to stay at about a 15% to 16% growth. So we expect to beat it by a significant larger number. But it won't be just by increased market share, it's by adding more products as well. So it's not just getting more market share of a certain thing, but it's also getting new product platforms into this portfolio.
- Chirag Fialoke:** I got it, sir. An example of that would be the large ag developments that are going on right now?
- Paramjit Singh Soni:** That's correct. The large ag is going on, and there's another -- some work going on, on some of the platforms as well. So -- and I think the moment that comes through, I think it should be a different picture.
- Moderator:** The next question is from the line of Khushi Kabra from Pegasus Growth.
- Khushi Kabra:** I was wondering since there is growth slowdown in the global economy, are there any cost-cutting measures that have been implemented?
- Paramjit Soni:** Absolutely, Khushi, all across that's standard operating procedure. I think we make sure that all those -- so even if you look at it, at the end of the day, we have normalized on a 20% EBITDA company. But if you look at the kind of reduction, we are still guiding for an 18% and I'm still maintaining my long-term 20%. So short term, whatever we could cut, we've obviously cut, but there is a certain operating de-leverage that does come into play, Khushi, which you can't do anything about, right? So anything that can, we've done. Rest assured the team has executed it.
- Khushi Kabra:** And in terms of dividends, last year, a couple of interim dividends were announced, and I know you guys announced the dividend today as well. Can we expect the same trend as last year for the rest of this year?
- Paramjit Soni:** Yes. The dividend policy hasn't changed. And I think we've been out-beating our dividend pay-out. The cash generation seems to be good. Obviously, my first situation is that we are sitting on a lot of cash. I think Vivek mentioned, we had net cash surplus at INR154 crores as of end of June, and we continue to create more cash. So obviously, my first situation is to deploy it for growth, which I'm working on. But despite that, I think we have enough to serve good dividends as well. So I don't -- I expect to do good dividends and drive growth. The balance sheet is in good shape for that.

- Moderator:** The next question is from the line of Mayur Awashti, an Individual Investor.
- Mayur Awashti:** And my question is regarding last -- in the previous year as the dividend was given, the same will be continuing which was just asked in the previous -- was the previous question. And adding to that, I mean like from the time of listing, I mean, of the share and from there or from the listing time, it has been, I mean, like nothing is there for the individual investors because we are just holding on to the share and it is getting depreciated.
- I do understand you're facing some growth issues and all. But if you just -- if you're not in a capacity to retain your earnings, you can try for some buybacks and all so that the share price get, I mean, appreciated in that way.
- Paramjit Soni:** Mayur, we look at all situations. I think my number one priority is to use the deployed cash for growth. I think that's by far what we want to be able to do. If we are unable to do that for whatever reason, and I can't deploy it, then definitely, we will look at how we reward the shareholders with dividends or buybacks. But my number one priority is growth, Mayur.
- Mayur Awashti:** And I see, quarter-on-quarter, how the stand-alone revenues also got declined, but at least the consistency will be tend to at least 10%, 15% growth in revenue in the coming quarters for FY'25?
- Paramjit Singh Soni:** Not in these quarters. Like I said, this year is going to be flat to slightly lower compared to last year. But longer term, in my -- if you go through the cycle, then I'm looking at that 15% growth. We are, frankly, looking at the bottom of it just now. At least I'm hoping because like I said, small ag is already at the bottom and probably should come out now.
- Large ag, probably may take about a year to come out or so. Construction, let's see if the interest rate changes my housing market and how deep the decline. Right now, it's like a -- it's not that big, and it depends on what happens with the interest rates and if that market comes. Like the aftermarket is already coming back.
- So to me, like I said, the de-risking of the model was in ag and construction. If there was a two-three year gap, we don't see that problem and we've got normalized growth. Both of them coming close on their heels is actually causing a bit of a pressure. But the team has reacted by good cost-cutting, still maintaining reasonable margins.
- And as soon as the cycle picks up and if both everything, all the cycles pick up nicely, then I think we will have a catch-up act coming in pretty -- in the near future then.
- Moderator:** The next question is from the line of Madhur Rathi from Counter Cyclical Investments.

- Madhur Rathi:** Sir, I understand that we expect to grow up a 15%, 16% kind of revenue growth for a longer term. And we have guided for going into different product segments. So sir, if you could just quantify the products that's in our pipeline as we largely expect to enter, what kind of addressable market would we have on that one?
- Paramjit Soni:** Vivek, can you take that? The addressable market with the hydraulics, I think, it was over 1 billion. Go ahead, Vivek, you take that.
- Vivek Maheshwari:** Yes. So these existing product verticals, which are 3-Point Linkage and PMP, together are close to 1 billion, wherein obviously, our penetration in small tractors is high, market share of close to 25% or so. But our market share on the large tractor is low -- high single digit. So that is the part which we are doing there. PMP, as Paramjit sir has mentioned has some of the larger equipment are having a lot of headrooms for us to grow with the larger products. Hydraulics is still very, very large in kind of market, wherein opportunities are humungous. And obviously, we are starting with a certain type of product. But as we gain traction the headroom over there is quite large.
- Aftermarket, again, is unmapped. It is not formally mapped. But aftermarket for agriculture and these kind of implements is also pretty large could be in the region of 150 million to 200 million or upwards of that. So that is where also there is ample headroom with all the partnerships that we have with large retail organizations, retail chains. Last but not the least, the fabrication and the implements market is also very large. Again, not formally mapped but probably as bigg or bigger than the three-point linkage market.
- Madhur Rathi:** Okay, sir. Sir, just a clarification, sir, this 1 billion market size for 3-Point Linkage, we mentioned that 25% of that share in small tractors. So, what percentage of the market would be catering to small tractors versus the large tractors?
- Vivek Maheshwari:** Close to half. In value terms, three-point linkage value terms close to half and half. Although in terms of number of tractors the small tractors are close to 75% to 80% of the market in terms of number of tractors, while large tractors are close to 20% to 25% of the market only. But since they are large, they are very high in value. In value terms, the three-point linkage comes out to be half and half divided between the two.
- Madhur Rathi:** Okay, sir. That was helpful. Sir, just a final question. So, we are guided on going into a different product segment. So, how do we expect to enter a new market? Is it based on if the market is fragmented where we can enter and create a market share for ourselves in three-point linkage? Or is it based on the customer demand wherever there is a wide space or a gap, we jump in and try to take away the market share from the existing vendors? So that would be helpful.

Paramjit Singh Soni: So typically, we have multiple things that are going on. We already have great relationships. If you look at the top 10 agricultural companies of the world, all of them are our customers and 5 of the top 10 construction equipment companies outside China are our customers. So part of the strategy is to continue to do more products within these existing customers and we keep following them. So for example, when they are going to Mexico, now we're going to go into Mexico to support them. And that gives us opportunity. So one is growth within our existing customers.

The other is actually going in and within these customers also, we've had a strategy of extending our system boundary. So essentially, if we are selling them a certain product, we look at what is the product sitting next to it and whether it fits in our core competencies or we can build those core competencies.

And hence we try to go into those hydraulics and fabrication and PTO, all related to that strategy of extending our system boundaries. Since in this market, unlike the automobile market, the number of vehicles are a lot larger, the strategy is to do more value per vehicle. So essentially, we'll go into these. So we've got the access, we are delivering the last mile.

And then we leverage what we call is our global delivery model at the end of the day where we believe we've created a certain uniqueness in this with our ability to do offshoring, our ability to do global shoring, our ability to now add situation on nearshoring. So I think our ability to offer these different solutions to customers in different geographies, I think that is the driver for our growth. And obviously, the engineering competencies and product competencies exist. But I think it's the access to the market and how we expand into different segments.

Moderator: Thank you. The next question is from the line of Gaurav Garg, an individual investor. Please go ahead.

Gaurav Garg: I'm a small shareholder and I have a very good hope with the organization and trust as well. Sir, I have two queries. First one on the utilization, capacity utilization front. Under each segment, what kind of capacity utilization of the facilities and manufacturing activity. And second, queries about the rate cuts. Will we be a beneficiary under the rate cut on the revenue front as well as on the raw material front?

Vivek Maheshwari: So to your first question, the capacity utilization overall is in the range of 55% to 60%, currently. It is not product-specific. Pretty much all our factories, except the U.S. one, which produces only PMP. All our India factories produce both 3PL and PMP. And many of the processes are common, like the heat treatment, the painting and plating, even machining, welding are used for both. So there is no specified or dedicated

capacity for any product. So we look at it more holistically, and that's the capacity utilization range we are currently operating on.

Gaurav Garg: And second query about if the rate cut happened in the U.S. or in another country? So will it be any growth drivers for us?

Paramjit Singh Soni: Absolutely, Gaurav. Like I said, see, the small tractor in the U.S. is not a farming tractor, it's more a consumer product. And so we do expect that as soon as the consumer sentiment in the U.S. while it's strong on this, let's say, the small dollar ticket items, if somebody is spending \$10,000, \$15,000 on a piece of equipment, I think consumers have tightened up.

The moment the interest rate change occur, I think you will see a change in cycle over there. And that's the same for the homebuilding. Even though it's held reasonably strong, but clearly with high mortgage rates, it depresses the market. And the moment the mortgage rates are lower, I think the U.S. housing will see a significant upturn.

So interest rates definitely will have a huge impact on the construction equipment as well as the small tractor market in the U.S. And those are big segments for us. So clearly, that affects us. On the cost side, I'm not -- we are net debt-free. In any case, we are sitting on a lot of cash just now. So interest cost is not something that we worry as a company.

Gaurav Garg: And sir, will it give any edge on purchasing side, this interest rate cut?

Paramjit Singh Soni: I'm not sure because I think that my -- see, the purchasing side, our large consumption is essentially steel. And I think steel being a commodity, if you see a trend of a slowdown in commodity prices, then obviously you will see a reduction in prices over there. But other than that -- and this is, again, so different.

I mean it's -- India is obviously going to be on a growth path for that. So I think Indian fuel consumption, I still expect to see going up. China will possibly slow down. The U.S., people say it may slow down. I'm not a believer of it. But to me, that is more commodity price-driven rather than anything else for us. As expected, even if the raw material prices go up or down, we have agreements with customers to recover it or to give it back. So we are really insulated from that.

Gaurav Garg: Okay, sir. Thank you, sir. All the best.

Moderator: Thank you. As there are no further questions from the participants, I would now like to hand the conference over to the management for their closing comments.

Paramjit Singh Soni: Yes. So thanks, everyone. So with this, thank you for all the good questions and all your support during this. And we continue to be able to do, to bring the growth back into the business and we're looking at markets to do that. So in the meantime, we continue to focus on strengthening our customer relationships with our core capabilities to partners, our customers in the journey of success.

Our focus and efforts are completely aligned towards achieving the targeted growth in the coming years. And so with this, thank you all for taking time out for today's call. Have a great day. Thanks.

Moderator: On behalf of Go India Advisors, that concludes this conference. Thank you for joining us, and you may now disconnect your lines. Thank you.