

UNIPARTS INDIA LTD.

February 20, 2023

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 Earning Call pertaining to the Unaudited Financial Results for the Quarter and Nine Months ended December 31, 2022

Dear Sir/Madam,

Please find enclosed transcript of the investors and earning call on the Un-Audited financial results of the Company for the quarter and nine months ended December 31, 2022, which was held on Wednesday, February 15, 2023.

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
Company Secretary and Compliance Officer

Encl: As above



“Uniparts India Limited
Q3 FY '23 Earnings Call”
February 15, 2023



**MANAGEMENT
TEAM OF
UNIPARTS INDIA
LIMITED:**

**MR. GURDEEP SONI – CHAIRMAN AND MANAGING DIRECTOR
MR. VIVEK MAHESHWARI – VICE PRESIDENT, FINANCIAL
PLANNING, ANALYSIS AND INVESTOR RELATIONS
MR. JATIN MAHAJAN – ASSOCIATE VICE PRESIDENT LEGAL
AND COMPANY SECRETARY**

MODERATOR:

MR. CHIRAG JAIN – DAM CAPITAL

Moderator: Ladies and gentlemen, good day, and welcome to the Uniparts India Limited Q3 FY '23 Earnings 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, 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 Mr. Chirag Jain from DAM Capital. Thank you, and over to you, sir.

Chirag Jain: Thank you, Dorwin. Good afternoon, everyone. On behalf of DAM Capital Advisors, I would like to welcome you all to the 3Q FY '23 Earnings Conference Call of Uniparts India Limited. To represent the management, we have with us Mr. Gurdeep Soni, Chairman and Managing Director, Mr. Vivek Maheshwari, Vice President, Financial Planning and Analysis as well as Investor Relations, and Mr. Jatin Mahajan, Associate Vice President, Legal and Company Secretary. We'll start the call with brief opening comments from the management team followed up with the Q&A session.

I'll now hand over the call to Mr. Soni for his opening comments. Over to you, sir.

Gurdeep Soni: Thank you, Chirag, and good afternoon, ladies and gentlemen, and welcome to the quarter 3 earnings call for the financial year '23 of Uniparts India Limited. It has been a milestone quarter for the company with this listing on the stock exchanges on 12th of December, and we truly appreciate the support we received from our investors, the book running lead managers and other service partners in this IPO journey.

We set out on our journey over three decades ago with the goal of building a driven versatile and global institution that serves customers worldwide. We have worked diligently and with passion over the years to establish ourselves as a preferred supplier to the global off-highway vehicle market. In fact, our strengths, I would list some are -- we are a leading market presence in off-highway systems globally. We have a global business model. We have in-house engineering and design capabilities. The company has a very robust financial and performance metrics and a very experienced and very passionate team behind Uniparts India Limited.

We continue to drive Uniparts forward, and we believe that the foundation is well set for a more exciting future ahead. The industry we service is estimated to be over \$200 billion in size. And our two core product verticals, three-point linkage for the agricultural tractors and precision machine parts, which is basically articulation joints for the construction machinery have a market size of over \$1 billion.

Uniparts has the leading market share in both of these globally. In addition, we also offer adjacent product systems like power take-offs, shafts and components, hydraulic cylinders and fabricated assemblies used on the agricultural and construction equipment. In fact, the estimated market size for these adjacent systems is over \$10 billion, and Uniparts is present both in the OEM and aftermarket segments with strong distribution channels and marquee customer base.

With this background about Uniparts and its positioning, let me spend a few minutes sharing my thoughts with respect to the current operating environment and business highlights for the third quarter and the nine-month period of FY '23. As we enter the new calendar year, the global off-highway vehicle industry leaders are forecasting growth in revenue. This OHV end-user demand is expected to be resilient. In fact, the demand from Europe-based OEM customers remains stable to positive.

North America, large agriculture and construction equipment market is expected to be higher, while the small ag could stay flat to marginally lower, Europe and USA aftermarket segment is witnessing temporary softening, driven primarily because of the inventory readjustment by customers due to improving logistics. What has really happened is that shipping times used to take 55 days, it went up to 90 days, and they are now down to 60 days. So that extra 30 days of inventory in the system, both for USA and Europe is now has been absorbed and which is leading to this temporary softness.

Sentiment and demand-driven remained positive for the India domestic tractor market and leading OEMs expecting growth in current as well as the next financial year. We continue to witness a favorable impact of China Plus One on our new inquiries and ongoing engagements. Uniparts is preparing for its foray into the three-point linkage system also for the -- what is known as Utility Terrain Vehicles or UTVs for the financial year '24, which is expected to open up an additional over 200 million market opportunity for us.

Our presence in the aftermarket retail store segment in North America is expected to witness a big boost as we have recently added the second largest retail store group for farm equipment and necessities in North America as a customer. In fact, the company already has the largest company called Tractor Supply Company as a customer for the last five years, and this is the second largest one that we have just recently added.

Having said that, before we go into more depth on the financial performance, I would like to briefly reflect on our growth outlook. As large global players are now increasingly looking beyond China. India's manufacturing sector is expected to benefit significantly from this. And we are witnessing in Uniparts a very favorable impact on the new inquiries. On the other hand, the \$1 trillion infrastructure bill is as also -- and also the fact that the farm incomes are very robust in the agricultural industry are expected to keep demand for new equipment at very healthy levels. We believe that our excellent customer relationships, global business model and strong financial profile positions us very well to take advantage of these multiple opportunities.

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

Vivek Maheshwari:

Thank you, Gurdeep sir, and good afternoon, all. We are pleased to share that it has been a very encouraging third quarter and first nine-months for the business in terms of financial performance. Following up some of the highlights at the consolidated group level. Revenue from operations for Q3 came in at INR 331 crores, which is a year-on-year increase of 9.4%. And for nine-months came in at INR 1,037 crores, which is an increase of 17.8% year-on-year. Reported EBITDA for Q3 was INR 85.5 crores, which is a growth of 23.7%. And for nine-months was

INR 243 crores, which is a growth of 20.7%, while EBITDA margins reported at 25.8% for Q3 and 23.4% for nine-months.

PAT for Q3 came in at INR 56 crores, which is a year-on-year increase of 28.2%. While for nine-months, PAT came in at INR 159 crores, which is an increase of 29.2%. Operating cash flow generation for nine-months of FY '23 was at INR 144 crores, which is the highest ever in the history of the company for cumulative nine-months. As a result of above, the gross bank borrowings reduced by nearly INR 60 crores during the first nine-months period. Earnings per share for nine-months has been approximately INR 36 per share. And Board has declared an interim dividend of INR 8.25 per share, totaling to a little over INR 37 crores payout to the shareholders.

YTD capex spend has been approximately INR 23.2 crores. YTD other income of INR 9.3 crores included approximately INR 7.5 crores as a benefit received towards employee retention credit in US subsidiaries under the ERC scheme established under the CARES Act. Commodity prices, which is still in our case, have come off historical highs and a range bound for now.

Ocean freight prices have come down significantly from historical highs witnessed in late FY '22 and early FY '23. Upward pressure on operating costs could continue in medium term to be partially mitigated through operating efficiencies. Our end market, which is global off-highway vehicles continues to stay resilient. However, the prevailing macro concerns over possible global economic slowdown or recession, remains a key monitorable over the coming quarters.

With this summary, I would like to hand the conference back to the moderator for question-and-answer-section. Thanks so much.

Moderator: The first question is from the line of Rajesh Kothari from AlfAccurate Advisors. Please go ahead

Rajesh Kothari: Good afternoon sir, Congratulations for a great set of numbers. I have a few questions. The first question is, can you share some color on how do you see the growth outlook in terms of your key customers, for example, Caterpillar, where currently we might be only \$5 million to \$7 million of revenue, but the potential is huge. So earlier, like you were mentioning that there are a couple of large orders, which are in discussion stage. So likewise, if you can talk about the few customers, which can give visibility for the next year growth, it would be great. And then I will follow-up with the second question.

Vivek Maheshwari: So you mentioned the name, Caterpillar. And if you look at their commentary that came out a couple of weeks ago. For the current year, we are, in fact, looking at a 13% to 15% top line growth. The fact is that the \$1 trillion infrastructure bill is really giving a lot of demand to the construction industry. And that is why not just Caterpillar, but most of the construction industry is looking at pretty good numbers for the current year. At the same time, the biggest company in the agriculture side John Deere joint here is also in the recent commentary, as mentioned about a 12% to 14% growth for the current year.

Although on the small tractors, they are talking about a flat to a little lower because of inventory adjustments. But beyond what our customers are planning to grow, we as a company in Uniparts are looking at very strong China Plus One effect on our business. In fact, the number of RFQs

that we are getting and are getting finalized into business is quite amazing. And therefore, we at Uniparts are looking at overall wonderful period going forward.

Rajesh Kothari: No. So basically, in terms of the visibility for the next year growth, because there are a lot of things which you need to probably finalize and close the orders, right, for you to deliver them for the next year. So from the growth perspective, any visibility on the new order intake?

Vivek Maheshwari: So we can clearly say that in the last nine-month period, we have firmed up new business, and I'm talking new business, I'm not talking about existing business going up, but new business of INR 130 crores, out of which about INR 66 crores actually has been productionized. It means - - the samples have been approved, and now we have gone into production cycle and another about INR 64 crores are at a sample -- the quotes approved and now the samples are getting approved. So clearly, that is what we've seen in the last nine-month period.

In addition to that, there is another about INR 30-odd crores plus that again has been approved, but we still have to start with the sampling stage. So we are clearly seeing a good visibility of the new business coming in. Again, like I said, a lot of it is because of the China Plus One situation. And the fact that, in fact, I've also used the term Europe Plus One because Europe because of its energy crisis, we are seeing European companies also look at alternatives to their manufacturing in Europe.

Rajesh Kothari: Sir, my second question is with reference to the operating margins. In terms of the US business, how are the margins this quarter for the US business? That's number one. And number two, do you think this trend to sustain the third quarter numbers, of course, have been exceptionally strong in terms of the margin. How do you see the trend to sustain?

Vivek Maheshwari: Yes. So see, the margin range is sustainable. And in terms of various pieces of the margin are also in a similar range and stable range. US operations continue to be slightly lower than the group blended average and in the early double-digit sort of range.

Rajesh Kothari: So basically, you are saying, I think USA was about 12% kind of a margin. So that remains even for this quarter, right?

Vivek Maheshwari: Correct. Similar to that, yes.

Rajesh Kothari: And warehousing margin, so basically the improvement in margin you would have seen primarily because of the warehousing segment where you would have seen further uptick in the margins?

Vivek Maheshwari: No, Rajesh. So the uptrend has been a blend of, let's say, quite a few things, for example, there has been operating leverage since the revenues are growing. There have been selective price actions also because we keep reviewing our portfolio from a cost and pricing perspective and also some numerator-denominator effect of freight cost moving in a particular direction. So all the channels are contributing to the shift in the margin, because of these.

Rajesh Kothari: Thank you, sir. All the best. I'll come back in queue.

- Gurdeep Soni:** Rajesh, I may like to add that the numbers that we have given you for the nine-months of a PAT of INR 159 crores, actually, we had other income over here. And part of the other income is that in the USA, we got almost INR 7 crores of a cheque from the US government under the -- they have the program that during the COVID time, they said that for Wage Protection Program, they called it, they paid us a little with a delayed us, and so we got this amount in the last quarter. We do expect another amount to come, but I do not have a time period, could be two months could be six months. But take out that other income and then take a look at our margins.
- Vivek Maheshwari:** Correct, if you look at the operating margin, we have to take out the other income.
- Rajesh Kothari:** And this is part of -- this is not basically, you have not reported as a part of other income, it is basically going into the normal income. That's what you are trying to say and therefore, remove...
- Vivek Maheshwari:** Part of the other income. So we are only highlighting...
- Rajesh Kothari:** Margins before other income. Anyway, we are looking margins before other income. Thank you sir
- Moderator:** We have the next question from the line of Jinesh Gandhi from Motilal Oswal Financial Services Limited. Please go ahead
- Jinesh Gandhi:** Hi sir , A couple of questions from my side. Firstly, if you can share the revenue breakup between product categories and markets? And also what would be the share of warehousing revenues in this quarter?
- Vivek Maheshwari:** Sure. So Dinesh, Vivek here. See, generally, these segments work a little better for a slightly longer period, let's say, a full year or something like that. For a quarter, there can be reasons wherein some shift could be there. But having said that, most of our segmentation either be product category wise or geography-wise or channel-wise have been fairly stable.
- The only one or two shifts, which we are witnessing so far in the year are that Europe as a geography, is slightly lower. It used to be 25% until last year. Currently, YTD it's about 22%. And all the other regions have gained against that. And obviously, because of some softness in the aftermarket etcetera, as you heard earlier. And OEM and aftermarket split also the aftermarket has is slightly lower by a couple of percentage points at 17%. It used to be closer to 19% last year, while OEMs have gained to that extent. Otherwise, we are witnessing a fairly stable spread of revenues across our categories, which is also reported in the slide deck.
- Jinesh Gandhi:** And other is the warehousing proportion continues to be at around 14%?
- Vivek Maheshwari:** Yes, we're slightly above that in the 41% to 42% range.
- Jinesh Gandhi:** Second question pertains to the impact of this decline in commodity price in ocean freight. So would it be fair to say that a large part of these changes would be largely passed through maybe with a lag to our key customers, including the aftermarket or in aftermarket, we are able to retain some of these benefits?
- Vivek Maheshwari:** Sorry, Jinesh, couldn't fully understand. Could you repeat the question?

- Jinesh Gandhi:** So the decline in commodity prices and Ocean freight, which has happened in the last couple of quarters. Do we need to pass it on to our customers to both OEM as well as the replacement market? Or is that part of that will be retained by us?
- Gurdeep Soni:** Let me answer that for you. No, we will be passing it on to the customers in all fairness because, when ocean freight and steel was going up, they were diligently passing it on to us so that, which is the reason why we were able to maintain our high margin. So yes, we are passing on the low freight. In fact, the freight coming down has been passed on immediately, because that's from shipment-to-shipment, but the steel that is corrected comes with a delayed, we normally watch it for a period of three months, and then we rework with the customers, and we change the prices. So yes, we will pass this on, but both these things are not going to have any effect on our EBITDA and PAT margins.
- Jinesh Gandhi:** Got it. So when for the aftermarket, we pass on, maybe that without plan, both the items?
- Gurdeep Soni:** Yes. So for steel, it is with a lapse and freight is immediate, both for aftermarket as for OEMs.
- Jinesh Gandhi:** And third question pertains to, particularly for the third quarter, we have seen substantial reduction in other expenses. Is there any one-off there? Or this is more to normalization of cost as well?
- Vivek Maheshwari:** Yes, Jinesh. So the largest driver of that is Ocean Freight, because ocean freight in the early part of the year as well as late part of last year was very, very high. To give you some perspective, I mean at its peak, the ocean freight touched 9% to 10% of revenue. While now in Q3, it is down to 5.6%. So that is the single largest driver. Rest other line items are very, very small contributor.
- Jinesh Gandhi:** And lastly, if you can share what were our realization on Euro INR, Europe line up for the quarter?
- Vivek Maheshwari:** I'll have to revert to you on that. I don't have that readily available.
- Jinesh Gandhi:** Okay, no problem. Thank you.
- Moderator:** The next question is from the line of Pradyumna Choudhary from JM Financial. Please go ahead
- Pradyumna Choudhary:** Hi sir So my question is the first one is related to the margins actually. So in this current year, Q2 and Q3, both the gross margins seemed to be much lower than last year. And despite that, EBITDA margin is much higher. I understand some of it is due to the ocean trade also. But could you provide a better breakup of what led to margin improvement in terms of operating leverage paying out in terms of how much would be due to Ocean freight and so on.
- Vivek Maheshwari:** Sure, Pradyumna. So let's pick, let's say, nine-months, which is a more reflective period. So gross margin, the change in gross margin that you witness, it is predominantly, previous year, the material cost had some favorable tailwind from inventory valuation. The total for the year was approximately INR 15 crores for nine-months, about INR 11 crores to INR 12 crores. So from the base year, that needs to be taken out.

So that will adjust the base a little bit. And also for previous year the change in inventory, which was an increase was quite substantial. While in the current year, we have maintained the inventory pretty nicely. So whenever there is a change, large change in inventory, obviously, it causes some temporary shift of cost between the material cost and the other costs. So you might see that the material cost last year was looking a bit lower, while other costs were looking higher. Because what happens is, obviously, all the convergent costs are incurred and which are sitting in the other cost. And while the negative inventory increase amount deflates the material cost. So broadly, these are the two key reasons why optically, there is a difference, but 35% is more a stable state.

Pradyumna Choudhary: So 25% even on a steady-state basis going forward, we expect such kind of margins in there?

Vivek Maheshwari: Yes. That's a more steady state in the short term.

Pradyumna Choudhary: And second is regarding the split between like I believe around 70% revenue comes from the agri segment, right, for you guys? In this agri segment, 70% revenue, what would be the split between revenue coming from less than 70 horsepower tractors and more than 70 horsepower? Why I'm asking is because, as you mentioned, your largest agri customer is overall guiding for a growth in revenue, but for smaller tractors that are guiding towards the flat revenue? So that's where I'm coming.

Vivek Maheshwari: Sure. So just to give you some background. In the agriculture end market, we not only supply at three-point linkage, we also supply some PMP parts. So it's not this tractor but some other agriculture machines also. So in total, out of the 70% that you are maintaining is agri, only about 55%, 56% is three-point linkage, which is related to tractors. Rest all is largely PMP, which is going into large agriculture equipment. And within three-point linkage, a larger part is these smaller tractors. But the good part is that our sales are distributed across geographies, be it North America, Europe, India, Japan, etcetera. So any one particular geography being a little weak. But because of the diversification, we are adequately balance out. But just to let you know, I mean, a significantly large part is towards smaller tractors and only about 15% to 20% is for larger tractors.

Pradyumna Choudhary: And going forward, like coming back to the margin question, going forward, maybe three, four years down the line, do we expect further margin improvement? Or I think like these margins are more of the long-term sustainable margins and not much can be expected further?

Vivek Maheshwari: So see, we see, and in the medium to long term, we see a couple of drivers, which can help in further gradual increase in the margins. One is operating leverage. Obviously, as revenue grows, there will be some more operating leverage will kick in. And the second driver is likely to be the warehousing channel. As our sales through the warehousing channel has been increasing, six, seven years back, they were at 30%, 32%. Now they are at 41%, 42%. And that's the highest margin channel for us. It is expected to grow further towards 47%, 48% or so in the long -- medium to three to four years. So that is going to be the second driver. So between these couple of drivers and also operating efficiencies and a few other things. I mean we expect to gradually take the margins further from yes, 200 to 300 bps...

- Pradyumna Choudhary:** Whatever margins like in the warehousing channels?
- Gurdeep Soni:** The margins of the warehousing channel are about 28% at the EBITDA level. Direct exports out of India are about 21%, whereas the lowest are what we make in India and sell in India, which is about 10%. Also what we Make in USA and sell in USA is about 2%. So the warehouse one is definitely the one that contributes the most, which is 28%. And that is the one that Vivek, we are expected to grow from the current 41%, 42% levels to 46%, 47%, 48% in the next three to four years.
- Pradyumna Choudhary:** Understood, Thank you so much
- Moderator:** Thank you very much. The next question is from the line of Aditya Sharma from Aditya Birla Asset Management Company. Ladies and gentlemen, the line for Mr. Aditya Sharma has dropped from the queue. We'll take the next question from the line of Manoj Bahety. Please go ahead
- Manoj Bahety:** Hi Congratulations for good set of numbers. So I have two questions. First one is I just wanted to understand like going forward, whether you will be happy to retain the current 25%, 26% kind of margins or whether you will accelerate some of your investment to capture the adjacent areas like you mentioned that UTVs, there is almost \$200 million kind of market opportunity. So whether you will be inclined to build some of the fixed costs like setting up the marketing, sales team. So or you will continue with this kind of margins?
- Gurdeep Soni:** First of all, thank you for the question. First of all, our current margins are about 23%, not 25%. But like I said, there is an other income that came in, which was a special check from the US Government that has done. But clearly, the current margin that we have, as I answered the previous question, we do see this going up, the margins going up simply because our sales from a warehousing model are expected to increase from the current level of 41%, 42% to 47% after the next three to four years as well as the fact that we will have operating leverage because of the revenue growth. So that's where we see our margins going up.
- Manoj Bahety:** And if you can also help with your capex plan going forward, where are we in terms of our current capacity utilization and when we have to undertake new capacity additions?
- Vivek Maheshwari:** Yes. So currently, we are at around 75% to 80% utilization levels. The capex for nine-months was close to INR 23 crores, as I highlighted earlier. For Q4, we are looking at a INR 10 crores to INR 15 crores range, depending upon timing could be sometimes here or there that's sort of a range. And in the medium to long term, our estimate is that our capex, which includes both replacement capex as well as new capex, could be in the range of about 3% of top line.
- Manoj Bahety:** And that will be sufficient to cater to the incremental growth also, right?
- Vivek Maheshwari:** Yes, Absolutely.
- Gurdeep Soni:** Absolutely. Because replacement capex, which is about 50% of our depreciation also adds about 5% to 7% additional capacity because of new machines coming in. And then the -- our normal

additional capex, which is in the vicinity of about 10% capacity increase that we're looking at now.

Manoj Bahety: Okay and I have one more question. Like you mentioned that you are seeing good tailwinds on China Plus One, so just wanted to understand like when you compete with your Chinese peers. So what kind of levers we have in terms of competing vis-a-vis them? Is it a pricing lever or the customer is more inclined to shift away from China even at the same price, so if you can touch upon that aspect?

Gurdeep Soni: Definitely. In fact, both the reasons are valid. There are companies that are saying irrespective of what we buy from China. In fact, is willing to pay 2% or 3% or 5% even more just to make a shift because this is more a shift for reasons beyond the US and Europe kind of move away from China, but then the Chinese costs have also gone up. The Chinese currency has not let's use the word depreciated at all versus Indian currency. So when we are now getting RFQs to the quote, we are actually finding that we are lower by 5% to 10% than what the current Chinese prices are. Don't forget that China also faces almost a 25% import duty in USA in particular. So that adds to the overall advantage that we have. So clearly, like I mentioned, we are seeing very robust inward RFQs coming because of this reason into Uniparts India.

Manoj Bahety: Just a follow-up to this. See if there are such a huge tailwinds like Chinese have to pay 25% kind of duty. And vis-a-vis our cost is lower and customers are more inclined to buy from us. So do you see a significant higher acceleration in growth from here? And if it is, whether you have to speed up your capex, capacity buildup looking at these kind of tailwinds?

Gurdeep Soni: So clearly, in our business, what happens is that whenever a new RFQ comes and it is awarded to us, we get three to six months to execute it until we come to what we call a production life stage. And that gives us enough time for the increased capex that we need. We are also looking at, while I've already mentioned some numbers of how much we have got in the last nine-months and what we expect immediately. But yes, we are very dynamic about our decisions to add capacity. The good part is that capacity is land and building and machines. So we have a Uniparts already taken on rent, land and building on rent about six months ago, which is going to be good for capacity expansion for the next two years. And so we just have to now keep on adding, what is the machines to kind of increase our output from there.

Manoj Bahety: Great Thank you so much for taking question. Wish you all the best

Gurdeep Soni: Thank you so much

Moderator: The next question is from the line of Krish Mehta from Enam Holdings. Please go ahead

Krish Mehta: Hi thank you, The first question I had was on going back to other expenses. Like without ocean freight costs, how do you see the sustainability of other expenses as a percentage of sales in the next quarter as well as the next two years?

Vivek Maheshwari: Yes. Thanks, Krish. So see, without Ocean Freight, the other line items are reasonably stable, but definitely, there are a full inflationary pressures on things such as consumables or energy, etcetera. So we are watchful. We are working on our internal efficiency and operating

efficiencies, etcetera, to counter some of that, but it remains a monitorable, Krish. So it's difficult to predict, but we are watchful and we are simultaneously working on operating efficiency.

Gurdeep Soni: Having said that, let me add that as a company, we have approached almost all our customers for the inflation. And because inflation is such a global thing now that customers have also been compensating us for inflation, India inflation in the last 12 to 18-month period. And we hope to get compensated. Part of the compensation is with the devaluation of the rupee, they actually don't ask us for any rebates because of that. And so we just balance that out that inflation will be covered from the fact that we are getting more rupees to the dollar.

Krish Mehta: Sure, that's helpful. And on the FX impact, is there any one-off? Or could you kind of quantify what the FX impact for this quarter was on top line in PAT?

Vivek Maheshwari: No, there are no one-offs, Krish. It's business calculation.

Krish Mehta: And the last question I had was on working capital, if you could provide what the working capital for this quarter was mainly on receivables, inventory and payables.

Vivek Maheshwari: Sure. So through the course of the year, the working capital has remained very stable. And given the growth in revenues, so actually, in terms of number of days, we may have seen a benefit of five, six days or so approximately, so from earlier level of around 160 days or so, maybe it is around 155 or something at present. And we expect it to be stable for the coming quarter as well broadly.

Gurdeep Soni: And let me add that because we are generating a lot of cash, our net borrowings that are at a multi-year low. In fact, it's dropped by over INR 65 crores in the last nine-month period. In fact, on 31, December, our borrowings are at INR 41.9 crores only. And then in addition to that, we have declared a term dividend of INR 8 25, which will take INR 37.4 crores as dividend amount. And in fact, this amount is actually sitting separately with us, and it's not going to affect our borrowing levels. So, and while I'm giving you the figures of net debt of 31, December, as we speak, this keeps on improving. The debt is going down further-and-further. So it's all a lot of efficiencies that we have in the system.

Krish Mehta: Thank you

Moderator: The next question is from the line of Aditya Sharma from Aditya Birla Asset Management Company. Please go ahead

Aditya Sharma: Hi sir thank you for the opportunity I wanted to understand more on the agri industry how it is shaping up in the US, because we are closely tied with the agri – how the agri does because the tractor demand is based on that. So are we seeing the signs of tapering off? Is the cycle coming to an end? Or this is just a small blip. And why are we seeing such a stark difference between the tractors below 70 HP and above 70 HP. So if you could answer these two questions?

Vivek Maheshwari: Definitely. So what is happening is that globally and particularly Europe, USA, the price of food grain is still at historic highs, the effect of that the embargo on Russia, which used to export 20 million tons of grain a year and another 20 million that used to come out because of the war

situation that's gone out of the system. Food prices have gone up and the farmer is really making a lot of money in these countries. The two years of COVID, the farmers could really not replace their machinery as planned. So there's almost a one-year lag on machinery replacement. And with a lot of money in the pocket, the demand for machines is definitely at a historic high. In fact, John Deere is predicting a 12% to 14% growth in the current year. And having said that, they are also looking at -- if you really won't say when do we peak, I think in the ag side, they're talking about 20%, 25%, whereas on the construction side, they're talking about 20%, 26% as a cycle. And again, the construction side is also because of the \$1 trillion infrastructure bill that is really putting in a lot of demand for machinery as well.

On the small and large tractors, basically, the small tractor or under 70 horsepower is a utility tractor. It's not for serious farming, as we call it. It is used more by property owners in USA. The serious farming is all with the larger horsepower and which is why there is a little bit -- there is a higher demand for the bigger machinery at this time.

Aditya Sharma: But sir, this is affecting us adversely, because we are the leaders in the small horsepower. So do you see this trend continuing going forward that the large horsepower would continue to grow faster, and this could actually have an impact on our growth?

Vivek Maheshwari: No, Aditya. So this is, only short to immediate term, let's put it that way. And also, we are making good progress in the higher horsepower segment also, since we have a patent registered with us for a critical component, which is used in the high horsepower. So we expect to strengthen that vertical for us. So our focus is both the lower, I mean smaller tractors as well as larger factors going forward. So we expect to benefit from growth across segments not just be dependent on one sub-segment.

Gurdeep Soni: Having said that, I would like to add there is another segment like I mentioned, and we call them UTVs and ATVs and we have developed a three-point linkage system for that. Very recently, we have now got the go-ahead to start selling this three-point linkage for the UTVs and ATVs in the US market. And this itself is a \$200 million market, and we see at least a \$15 million to \$20 million business coming in the next two to three years from this particular new segment altogether.

Aditya Sharma: Sir, what worries me is we were initially targeting around a 20%-plus growth in terms of top line. And now I think 13%, 14% is what we think is more doable. So is there a trend, which is changing the underlying demand is moving away, while I understand there are several other levers for a company like Uniparts to grow, but we have a very high dependence on Agri. And if that part starts slowing down, then we would will not have the heightened growth that we were initially expecting.

Gurdeep Soni: So clearly, the top line growth was about 14% to 15%, why it went up a little beyond that number was, because the supply chain disruptions and everybody is ordering a lot more material than they needed and also the shipping time increased from, like I said, 60 to 90 days for USA. And so there was an extra one month of inventory needed on the water as we call it. So that was leading to higher numbers. But as we move forward, this inventory correction because of the shipping time having come down. Also, the top line is affected by the fact that the sea freights

are down and so is steel coming off will affect the top line. But we look at the bottom line, we are a very bottom line-driven company and we still see sustainable margins and absolute PAT number moving forward.

Aditya Sharma: Any aspirations for next few years in terms of the top line growth?

Vivek Maheshwari: So market is a little volatile, where there are pockets of strength, while there are some pockets weakness in as well as we speak currently, a little difficult to predict, but definitely, we expect to stay ahead of the end industry growth. So that coming there.

Aditya Sharma: But fair to assume that low double-digit is quite achievable?

Gurdeep Soni: Definitely. Let's put it like that. But like I said, the China Plus One is bringing surprises and so we are very positive because of that movement that is happening.

Aditya Sharma: Right right. Thank you sir

Moderator: The next question is from the line of Chetan Gindodia from AlfAccurate Advisors. Please go ahead

Chetan Gindodia: Congratulations Sir, my question is with respect to new orders. So you said that INR 120 crores of orders are for next year are already approved and INR 30 crores are in approval stage. So the full revenue of this INR 150 crores order will be visible from next year?

Vivek Maheshwari: No, it may not be the full impact, Chetan. Because it takes a staggered process and it takes some time. So I think by this end of the year or while during the Q4 discussion, we'll be in a better position to outline some of that. It may not be the full impact. It may be a large part.

Gurdeep Soni: So I'll tell you why it won't be the full impact because I broke this up into what is already productionized those will go into a full year for us. What are in the sample stage, we still have to get the samples done approval that's another three to four month process before they start ordering on us. And then when they order with us, we normally take a 90-day lead time for it to come into our revenue top line. And then like I mentioned about another INR 30 crores has been approved, but it's not even come to the sample stage. So that may take six to seven months before it comes into affecting our top line. So it's kind of a moving thing between this INR 150 crores figure.

Vivek Maheshwari: And also, Chetan, just to add to what Gurdeep sir, just mentioned. At times, there are some rapid execution situation also. So during the year, it's not just that whatever is in the pipeline is only going to happen next year. There are situations where some executions are done in a very short period, like three, four months or so, which yield results within the tenure. So it's a slightly moving things.

Chetan Gindodia: Sure and lastly, sir, the aftermarket was likely muted this quarter. So how do you expect in what time frame do you expect this to normalize for us? And also the new aftermarket customer that you have signed in the US, can you share any details about what quantum of revenue can this adds for us?

Gurdeep Soni: So yes, the softening of the aftermarket is, first of all, it's not for the reason of the end demand. The end demand is still stable. It is the inventory that was on water that has been corrected for 30 days or one month. And also, the customers had also build up inventory, because of the uncertainty of the supply chain. So a combination of both is given, but this recycling, I expect to be over by Q1 of the next financial year.

Coming to the new customer, we are very excited about this one. And see, we have the largest one is tractor supply company, which has listed on the stock exchange of New York and with close to over \$10 billion in sales. And they have been a customer for us five years. This one is a 700 stores compared to tractor supply are 2,100 stores in USA. And they have already given us an estimate as a starting business of about \$2 million to be put into action within the next three to four months.

Chetan Gindodia: Okay got it sir. Thank you

Moderator: The next question is from the line of Himanshu Upadhyay from O3 Capital. Please go ahead

Himanshu Upadhyay: My first question is what is the realization difference between the 3PL prices based on the horsepower of the factors?

Gurdeep Soni: So not fair enough, we don't really look at that. What we really see is that the three-point linkage system, when the tractor is sold, the linkage system is between 1% to 1.5% of the value of the tractor. So if a tractor in India is sold for INR 7, INR 8 lakh or then the three-point linkage is 1% to 1.5% of that. And if you look at the higher horsepower tractors, which are mostly in Europe and USA, which could be a as \$300,000, again, the three-point linkage is about 1% to 1.5% value of the machine.

Himanshu Upadhyay: Ya Thank you, My second question is also similar. In Europe is 8% of the tractor market, but 27% of 3PL market. But in case of US, it is 8% of Tractor market and also 8% of 3PL market, why so much difference, I want to know?

Gurdeep Soni: So like I mentioned earlier that less than 70 horsepower tractors is a utility tractor. And actually, the market for that is primarily in USA, where they have large properties. Europe doesn't have large properties. Europe has the farming group of nations, I actually say, they are five to seven years ahead in technology usage compared to USA also. So in fact, the Europe is only using mid-to-high horsepower tractors. They actually start from 120 HP and go all the between 350 HP to 400 HP over there. So our sales in Europe for the -- are primarily on the higher horsepower.

Himanshu Upadhyay: Thank you and last question, a significant percentage of the revenue is from a single customer. What type of relationship do we have with that customer? And are we involved with them at the development stage also? And how penetrated are we in its supply chain across the globe and products?

Vivek Maheshwari: Himanshu, so yes. So with the largest customer, we are very well integrated, servicing them across geographies, in over 20 factories across the world in all key geographies and also not just agriculture, but on the construction side as well. So yes, we have been working with them for very long and working relationships have been growing there very well.

- Gurdeep Soni:** And what used to be until about five, seven years ago, they were almost a little over 40% of our business. They are now about 1/3 kind of our business. Not tractor business with them is coming down. But over this period, we have added new customers, and we are moving more towards what new customers and new opportunities are offering us.
- Himanshu Upadhyay:** I'm so sorry to take a little more of your time. I just have one last question. We have a good market share in 3PL. But if we want to gain further market share, what do we need to do here? That's my last question.
- Gurdeep Soni:** So clearly, we said that the market share on the less than 70 horsepower is pretty high. But the bigger tractor of the market share is under 10%. And because one of the components in the high horsepower tractor, we call it a hope for the lower link. It's a technical name. We did not have a patent on it, whereas our competition who makes that in Europe had patent. And we have now got a patent a little over six months ago, sex, seven months ago, and we are looking at increasing our market share on the higher horsepower, simply because we are getting more business from customers in this side.
- Himanshu Upadhyay:** Thank you so much
- Moderator:** The next question is from the line of Hiten Boricha from Joindre Capital. Please go ahead
- Hiten Boricha:** Thank you for the opportunity so sir, I have only two questions. The first question is on the capacity, which is running at 75%, 80% utilization. So can you throw some more color what are we doing to improve our -- expand our capacity, which is around 6,000, 7,000 tons currently. So are we looking for any expansion or any inorganic growth? And on the follow-up on the same is, we are at 80% capacity utilization. So what is the maximum utilization we can do?
- Vivek Maheshwari:** Yes. So thank you. So going up to 88% to 90% is fairly possible. So that provides a headroom already available for 10%, 11%, 12% or so. Also, as we are expanding in Ludhiana location, we are expanding in two phases over the next 18 to 24 months, adding 8% to 9% each year for next two years. And also, as Gurdeep sir, mentioned that our replacement capex also provides us some incremental capacity because of the new technology machines that we tend to acquire. So 4% to 5% addition comes from there as well. So given all of these together, a good headroom available for headroom and capacity.
- Hiten Boricha:** So sir, what will be a capacity post is all the expansion? Will it be around 80,000?
- Vivek Maheshwari:** Yes. So see, addition of, as I mentioned, 17% to 18% from the new facility. And then over the next couple of years, 4% to 5% each from replacement capex to another 8%, 9% from there. So yes, so definitely going up by 1/4 of what we are today in next...
- Hiten Boricha:** And sir, my last question is on the margins. So you mentioned the top line we are going to grow at around 15% for it, say, 15% CAGR for next two, three years, but our margins are going to expansion the levers for that is warehousing of -- and the operating leverage. So I wanted to understand, assuming a top line growth is around 15%, by any chance, our PAT margins are tight, bottom line growth will be somewhere between more than 15%, let's say, around 20% because operating leverage is going to play?

- Vivek Maheshwari:** So let's not be very specific, like saying 15% of something. Yes. I mean we expect to stay ahead of industry growth, maybe early double digit or whatever it is, we'll see -- but yes, PAT growth would be slightly higher than that.
- Gurdeep Soni:** Quite higher.
- Hiten Boricha:** So this 24%, 23% kind of margin can easily go to like, 100 bps every year, 100 to 150 bps every year and around 27%, 28%, 30% kind of margin is that we are targeting for next three to five years? Is my understanding correct?
- Vivek Maheshwari:** It may not be that rapid. So the two levers that we mentioned and obviously other operating efficiencies, etcetera. In total, would have a potential of 200 to 300 basis points over a fairly three to four years sort of period. So it will be more gradual.
- Hiten Boricha:** Okay thank you. I will be in the queue sir
- Moderator:** The next question is from the line of Anuj Sareen from Centrum Wealth. Please go ahead
- Anuj Sareen:** Thank you. So first of all, congratulations on the good performance that you declared. I just wanted to know something somewhere in the presentation, it's been mentioned that don't look at the margins, it's basically a question of we make a certain conversion or by weight, etcetera. So it would be great if you started giving out volume data, so we can have a sense of better sense that what is the per ton, per kg kind of conversion margin that you enjoy, or now, if you can talk about it, it would be great?
- Vivek Maheshwari:** Yes. Thanks for your questions. So Uniparts product portfolio is a value addition driven portfolio, focus on high value addition mix as we go proceed. And also the diversity of product mix as well as diversity of delivery mix, etcetera, there are so many factors, due to which volume as a metric is not reflective of the real underlying business. So that's why, I mean, we focus on value as well as margins and not so much of the volume. So something which we do not focus so much internally is also something which we would not like to give out as a, trackable metric because it really, I mean, all the tractable things have to be wherein the management is also focusing internally.
- Anuj Sareen:** I was just reacting to a statement which was there in your presentation. Otherwise, I do realize, I mean, you are talking about patents, you're talking about precision machining, etcetera, which is not a low value commoditized business. So that was not my point. I was there. The second question is that there is this talk. I mean, you mentioned about order, etcetera. What is the steady state business that you get as that we can -- as we look to the future, we can add the new orders on top of it and get a sense of what the growth is going to be like. Is there a steady state component, which does not change or does not change is within a range only?
- Vivek Maheshwari:** Well, yes. So see, you can easily link the steady-state business growth to the end industry growth. I mean that's the simplest way to do it. So if the ag industry or the construction equipment industry, as per the crystal report we got done for the IPO portal, in the 3PL growth as well as the PMP growth was estimated to grow at 6% or so in the longer term, five years or so. So that

is the base case, and on top of that, all the new initiatives, diversification initiatives, etcetera, organically, will add to that. And any inorganic opportunity will be a complete top of that.

Anuj Sareen: Thank you sir

Moderator: The next question is from the line of Vipulkumar A. Shah from Sumangal Investment. Please go ahead

Vipulkumar Shah: Congrats for good set of numbers. My question is, out of your turnover, which is 47.2%, which is coming from America. How much is manufactured in America? And how much is exported from India? And what are the margins for that business?

Vivek Maheshwari: So out of our total sales only about 11% to 12%, 12%-odd is manufactured in USA. Rest everything is produced in India and then sold or globally. And the margins in USA, what we Make in USA and Sell in USA is about close to about 12% EBITDA level.

Vipulkumar Shah: So rest of the sales to USA is from your warehouse segment, which you were earlier referring to, sir?

Vivek Maheshwari: Correct. So it is a combination of warehouses as well as direct sales from India to customers because -- and so it's a combination of the other two, where, like I mentioned, the direct sales are average, giving us about 21% EBITDA and out of the warehouse is giving us about 28% EBITDA.

Vipulkumar Shah: I met you at the IPO conference. And at that time, you were referring to the component for oil industry. So any progress on that? Your comments, please, sir.

Vivek Maheshwari: Definitely. We have been dealing with only one customer. And this particular customer has increased the requirement on us in the current financial year. I did mention that they are looking for a very big breakthrough from Saudi Arabia, which they are still working on. And so we still have to look at that opportunity coming into as a business increased business over there.

Vipulkumar Shah: Thank you sir

Moderator: The next question is from the line of Rajesh Vora from Jainmay Venture. Please go ahead

Rajesh Vora: Congrats on good set of numbers. How does your Uniparts company different in terms of competitive advantages vis-a-vis your nearest competitor? And who is your nearest one or two competitors, if you could give an idea?

Gurdeep Soni: Definitely. Let me answer that. First of all, my competition or Uniparts competition, since we are over 80% in the overseas market, our two main competitors are sitting in Europe. There's one small one in Mexico, and there's another one in Japan. Having said that, Uniparts is the only company A, in a boost country.

Everybody else is in a high-cost country. Two, we are the only ones that have a warehousing model, which allows us to shift to all the majority of our OEM customers on a just-in-time basis, which gives us a big advantage. None of my competition, if the European one is selling they're

only doing Europe and locally and if the Mexican one is only in the Mexico and Japan is only in Japan. So we are the only one A, in the low-cost country and B, with a selling model with the warehouses, which is giving us a great advantage. So these are the main things that differentiate us from our competition.

- Rajesh Vora:** How large are these competitors, I mean, in terms of your size versus their or market share?
- Gurdeep Soni:** So one of the competitors in Germany, although it's a large corporation, but they are only on the three-point linkage part of the business. The last reported the top line at about EUR 70 million. And there's another one in Italy, it's...
- Rajesh Vora:** Sorry, how much did you say?
- Gurdeep Soni:** EUR 70 million...
- Rajesh Vora:** 17?
- Gurdeep Soni:** 70.
- Rajesh Vora:** EUR 70 million.
- Gurdeep Soni:** Correct. And the second one, which is in Italy, they have overall revenues of a little over EUR 200 million, but they do, again, a lot of other areas. And on the three-point linkage, they are also about, I would say, about EUR 100 million. Not listed. So this is just information that we have.
- Rajesh Vora:** More important is you are getting into this new area, which is \$10 billion market, PTO hydraulic cylinder and fabrication. So how large this piece could be for your company over the next three, four years?
- Gurdeep Soni:** So we are, at the moment, about 4% of our revenue is coming from these areas, and we expect to take it to at least double digit in the next two to three years itself. The size of this market is about \$10 billion.
- Rajesh Vora:** Wonderful thank you so much
- Moderator:** The next question is from the line of Ajay Sharma from Maybank. Please go ahead
- Ajay Sharma:** Actually, I wanted to get a sense of basically underlying growth basically in terms of volume or what because your top line is kind of dependent on the commodity price as well as on the freight costs. So what's the underlying volume growth which you are seeing?
- Vivek Maheshwari:** So Ajay, as we mentioned earlier as well, so because of the value addition nature of the portfolio and the diversity across product mix and delivery mix. So again, getting into volume is not to have the right way. So definitely, value is the key driver. But definitely, it has some elements such as the steel price and freight, etcetera, on an exceptional basis, which from year-to-year may vary a little bit. And we can keep you guys posted on how much of that is causing any data. But otherwise, we are focusing purely on value, better margin-accretive opportunity, and that's how we approach tractor business.

- Ajay Sharma:** I mean as, steel prices correct by 20%, then your top line will obviously be impacted then the market might think that your growth has slowed down. So there has to be some metric to kind of evaluate that...
- Vivek Maheshwari:** It is purely because of steel price even or a freight cost reason. So obviously, it is fairly explainable, right? And the margins will stay protected. Those are more sustainable. So I think that's the key as far as management is concerned.
- Gurdeep Soni:** And I may like to add if they drop by 20%, I'll send you a box of sweets.
- Ajay Sharma:** I would really love that. Okay just quickly on the cash build up right. Your cash will continue to build up I guess because the capex is not very high and your cash flows are strong so I guess do you have a dividend policy in mind?
- Gurdeep Soni:** Correct, so we have a 25% dividend policy, stated dividend policy and in fact in the board meeting that we had yesterday the Board of Directors have approved interim dividend of INR 8.25 per share. Total is about INR 37.4 crores as an outflow. And we figured that since we said 25% and therefore for the first nine months it comes to about that much, so that's what we are actually giving it out.
- And I also mentioned that our debt is low. This outflow of dividend is not going to affect our debt because this extra cash flow we've already been putting aside in liquid funds and so it's just sitting outside the current debt that we have. But yes, we have a 25% dividend policy. We hope to maintain that. That's what we would like to do.
- Ajay Sharma:** Thank you sir
- Moderator:** Ladies and gentlemen, due to time constraints, that was the last question. I now hand the conference over to the management for closing comments. Over to you, sir.
- Gurdeep Soni:** Thank you, you know, very, very enlightened questions. And this was the first one, so obviously, is the learning curve for us. But clearly, as a company, we are on the right path and we just are very excited about the growth opportunities we have for all the reasons that we have mentioned. And very dedicated team that we have. And, you know, in fact, we just got another a reward from one of our companies that was making a product in-house in USA and they said we want to move it to India.
- So there's so much opportunity simply because of the marquee customers we have. As I had mentioned in the IPO times, the top 10 companies in the world that are making agricultural machinery, all top 10 are my customers, are the customers of Uniparts. And even on the construction side, out of the top 10 that are in construction side outside of China, because we don't do any business with China, five are our customers and we are already looking at adding at least one more, one to two more moving forward. So very excited and really thank you all for giving the time and listening to us and our story. Thank you so much.
- Moderator:** Thank you. On behalf of Dam Capital, that concludes this conference. Thank you for joining us. You may now disconnect your lines.