

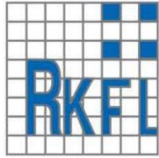
“Ramkrishna Forgings Limited Q3 & 9 months FY-20
Earnings Conference Call”

February 14, 2020



MANAGEMENT: **MR. NARESH JALAN – MANAGING DIRECTOR**
MR. CHAITANYA JALAN – EXECUTIVE DIRECTOR
MR. LALIT KUMAR KHETAN – CFO
MR. RAJESH MUNDHRA – COMPANY SECRETARY &
SENIOR GENERAL MANAGER, FINANCE

MODERATOR: **MR. RUSHAD KAPADIA – ICICI SECURITIES LIMITED**



Moderator: Ladies and gentlemen, good day and welcome to the Ramkrishna Forgings Limited Q3 FY20 Earnings Conference Call hosted by ICICI Securities Limited.

As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Rushad Kapadia from ICICI Securities Limited. Thank you, and over to you, sir.

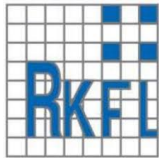
Rushad Kapadia: Good afternoon everybody and welcome to the Q3 FY20 Results Conference Call for Ramkrishna Forgings Limited. We have with us from the management Mr. Naresh Jalan – Managing Director, Mr. Chaitanya Jalan – Executive Director, Mr. Lalit Khetan – Chief Financial Officer, and Mr. Rajesh Mundhra – Company Secretary & Senior GM, Finance.

I would now like to hand over the call to Mr. Lalit Khetan. Thank you and over to you, sir.

Lalit Kumar Khetan: Good afternoon to everyone. We welcome you to the con-call hosted by our company for quarter and 9 months ended 31st December 2019. Just an update on the numbers. The total operational revenues for this quarter have been Rs. 252.25 crores as compared to Rs. 491.47 crores in the corresponding quarter. The total operational revenues for the 9 months ended has been Rs. 892.16 crores as compared to Rs. 1363.42 crores in the corresponding period. The company has achieved an EBITDA – net of other income – of Rs. 47.51 crores for this quarter against Rs. 105.82 crores for the corresponding quarter. The EBITDA – net of other income – for 9 months has been Rs. 166.96 crores as against 290.18 crores in the corresponding period. The EBITDA margin for this quarter, net of other income, stood at 18.83% in this quarter as compared to 18.14% in the sequential quarter.

We have achieved a total tonnage of 18,730 tonnes in this quarter as compared to 18,517 tonnes in the sequential quarter. We have achieved a domestic tonnage of 11,532 tonnes for this quarter against 11,498 tonnes in the sequential quarter. We have achieved an export tonnage of 7190 tonnes including VMI dispatches for this quarter as against 7019 tonnes in the sequential quarter. The export sale for this quarter has been 107.42 crores and apart from this, we have dispatched about 14.97 crores of exports material under VMI in this quarter as compared to 115.55 crores total sales in the sequential quarter. The company has achieved an increase in export realization by around 3.6% on a sequential basis.

The company has uploaded investor presentation providing requisite details. We request the investors not to raise any customer-specific queries during the con-call.



Moderator: We will now begin the question & answer session. The first question is from the line of Abhishek Jain from Dolat Capital. Please go ahead.

Abhishek Jain: My first question is related to the domestic market. From the last 2 quarters, you are outperforming your peers in CV segment revenue. Are you gaining market share through the introduction of new products or is it because of the change in the client mix? Please throw some light on it. And what is the outlook for the domestic CV industry given the scrappage policy may be announced soon?

Management: To answer your first question, basically we have gained some market share but we have increased our rupee spent per vehicle and this has given us more tonnage in terms of supplies to the commercial vehicle market. And in terms of how the domestic market looks like post the scrappage policy, I think it's a very hypothetical question. We are hearing for scrappage policy I think probably for 8 months. Once the scrappage policy comes through, I think then only we will be able to have some answer to it, but we feel that the bottom is in place and from here on, I think only market is going to go up, and how fast the market is going to go up, it all depends on how the infrastructure and other spend improves in the market.

Abhishek Jain: My next question is related to the export. There was a sharp fall in the export during this quarter. As you mentioned in the last quarter, there were 350 tonnes of goods in transit which was to be reflected in this quarter. Can you give some sense basically what happened and what is the outlook for the next year in FY21?

Management: In exports, I think there is no fall. If you see quarter on quarter, I think exports have grown in.... If you include the VMI number, we have done close to around 120 crores plus exports vis-a-vis what we did in the previous quarter. And I think close to around 950 tonnes which values close to around 15 crores are right now the current quarter VMI exports which have been done. Going forward also, we feel that the export market is going to continue to be robust for us. With new geographies and new markets, we are entering. I think going forward, we believe that in coming quarters also and FY21 also, exports are going to remain robust for us.

Abhishek Jain: Sir, VMI means?

Management: Vendor managed inventory. Basically, it is the warehouse which we have created in European market and wherein we are shipping the material and from thereon on GIT basis, we are supplying to the OEMs.

Abhishek Jain: So, these tonnages are goods in transit or something else?

Management: It is goods in transit.

Abhishek Jain: How much is it?



- Management:** It is worth 15 crores, close to around 950 tonnes.
- Abhishek Jain:** What is your revenue or volume target for FY20 for export?
- Management:** Already 9 months are over and I think in this quarter also, we should be doing what we have done in quarter-3.
- Abhishek Jain:** What was the contribution in export especially from North America versus Europe?
- Management:** In totality, I think contribution Lalit has already spoken at the starting. What is the realization pattern, basically we don't calculate separately in terms of what is there in Europe and what is there in the US?
- Abhishek Jain:** Sir, my next question is, you are also entering into the LV segment in North America. How much incremental revenue from this segment in FY20? And as you have already received an order of around \$8 million per annum, what revenue you are targeting in FY21 as well?
- Management:** FY21, we target to achieve the full quantum of order which we have received. This year, we should be ending up close to near about \$1 million only but next year we will be achieving the full volume whatever order we have received.
- Abhishek Jain:** In the passenger vehicle segment, what revenue are you targeting in FY21?
- Management:** In passenger vehicles, we are not there in the North American market. We are in only LV and MSCV.
- Abhishek Jain:** In passenger vehicles, you are only into the European market and just....
- Management:** We are not there in passenger vehicle market anywhere.
- Abhishek Jain:** As you mentioned earlier that you are targeting to enter into this European and other export market into the PVs as well from the 2nd quarter of FY21.
- Management:** Like we have said in our earlier call, we have deferred.... Earlier, that was basically with the CAPEX which we were doing and the CAPEX now we have put in a slow cycle. While we are continuing to do the CAPEX, CAPEX has been put into a little bit slower trajectory looking into how the market shapes up. I think probably this should be 6 months delayed to getting into passenger vehicle market.
- Abhishek Jain:** Sir, what is the current status of acquisition of the Amtek Auto's asset. Can you throw some light on the purchase consideration and the asset turnover from this business?



- Lalit Kumar Khetan:** Amtek Auto right now is pending before NCLT for approval and the hearing is going on. We expect this approval should come within a 1 months' time. Though we had expected a little early, but court process takes time. So, we can't anticipate exact timing of that but we expect in another 1 month we will get the approval.
- Abhishek Jain:** What is the acquisition cost of this business?
- Lalit Kumar Khetan:** We have to pay a total of 85 crores upfront for this business and there is a default consideration also for 24.5 crores.
- Abhishek Jain:** So, the total would be around 110 crores, right?
- Lalit Kumar Khetan:** Yeah, 109.5. That has to be paid over a period of 5 years; 5 crores per annum.
- Abhishek Jain:** What is the peak revenue from this business?
- Lalit Kumar Khetan:** Again, it should be worked out, but we expect a good amount of revenue. And this business earlier when the entire group was working, they have done a peak revenue of about 300 to 350 crores from that at 5 year back prices. So, from the current whatever we can achieve very easily, i.e., at the peak, 700 to 800 crores from this business when the operations optimize.
- Abhishek Jain:** My last question is related to the gross margin which has improved significantly in this quarter as well. What is the reason? Is it because of the fall in the RM cost only or because of the cost cutting and change in the product mix?
- Management:** It is both equally contributors – basically raw material price as well as the cost savings what we have started since the last 6 months' time. If you see the previous quarter also, there is significant improvement in gross margins. And I think this is going to continue going forward also.
- Moderator:** The next question is from the line of Vijay Sarthy from Anand Rathi Financial Services Limited. Please go ahead.
- Vijay Sarthy:** Just want to check back on exports. Mid of FY19, we were highlighting a lot about customer acquisitions in Europe, adding of components in the US and all that, but we seem to still not even reach the FY19 numbers. In that light, how do we expect FY21 to be in exports in terms of tonnage? Do we really see materialization of some of these customer acquisition in Europe and addition of components in the US to materialize?
- Management:** Components addition in the US market from this quarter onwards is already in place and I think 1st quarter of next year will be one of the much needed improvements in terms of tonnage and in terms of exports. In terms of Europe, we had already very clearly said in the mid-call in 2019 that the customer acquisition and converting them into top line is going to be



at least 9 to 12 months away because at this stage, we are only giving samples and field trials and testing's and other things are going on. So, obviously we can see some significant revenue coming in from these customers only in the 2nd quarter of FY21.

Vijay Sarthy: So, should I assume that the run rate of exports, say from 110-112 crores should move back to 120-130 crore level by 1st quarter FY21?

Management: This quarter also if you see, it is already 120 crores per quarter.

Vijay Sarthy: So, do we go back to 150 crore level what we did in FY19 mid?

Management: I think obviously by FY21 third quarter onwards, you will be able to see 150 crores of top line coming in from railways.

Vijay Sarthy: And this should primarily be from European customers and the new components?

Management: Yes. Addition of the top line is going to be from new customers in Europe and the addition of components in the US market.

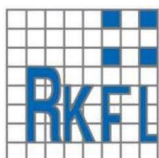
Vijay Sarthy: The other thing is, we did domestic tonnage. We did close to a lakh and odd in FY19, and we will probably be half of that or a little over that this year. When do you think that you will reach to this 1 lakh? What are you guys thinking? What are you planning? What is your budget?

Management: We are keeping our fingers crossed. Budget, we are still in the process of finalizing our **(Inaudible) 15.06** I think in the next fortnight and we can only come up with the AVP numbers only after our board approvals are over. But as of now, we are just keeping our fingers crossed and basically whatever we discuss from OEMs, we believe that the worst is behind us and going forward, after this transition of BS-IV to BS-VI, probably which we are only 30 days away, we would see green shoots coming back into CVs. Market may not go straightaway to the top what we saw in 2018 probably but, yes, there will be significant improvement from where we are and if at all we see the green light of the scrappage policy, presumably I think next 4 to 5 years, we should see one of the best markets in India for the entire auto industry.

Vijay Sarthy: Adding to this point, if one were to look at for reason that this 1 lakh tonnage would take another say 2 years to come by, what do you think you will have to do in the company to ensure that you maintain profitability, or you maintain profits? What is that you will have to do?



- Management:** If you see at the current juncture where we, I think, are doing less than even 50% of the utilization, the company is making profits – may not be significant but, yes, it is remaining in green – and it is being able to service the debt and other commitments well within time.
- Vijay Sarthy:** But you will also have overheads going by, right?
- Management:** If you see overheads, I have not declined or overheads whatever cost controls we have done, they are basically in terms of processes, not in terms of cutting down on overheads. It is not that tomorrow when the market is going to go up and this overhead are going to come back and increase. Whatever process improvements or cost cuttings we have done, going forward, when the market again comes back, as you say in next 2 years, probably the company is going to be in a better operating margin at that period of time.
- Vijay Sarthy:** In FY21, should I look at exports tonnage close to 33,000 which is the FY19 number or things are looking even bad?
- Management:** In exports, like I said, to an earlier investor question, we are looking at FY21 to be one of the good years in terms of exports.
- Moderator:** The next question is from the line of Mitul Shah from Reliance Securities. Please go ahead.
- Mitul Shah:** Sir, my first question is on your average realization for export which has improved from almost 164,000 to 170.5 sequentially. How much contribution is from the currency benefit and is there any price increase or any value addition? Can you give some detail on this?
- Lalit Kumar Khetan:** Currency, it's very nominal this quarter. I have not calculated on the tonnage or per tonne basis but it is about 1 crore total gain, 97 lakhs to be precise we have gained on the currency side. Rest is from the product mix and price.
- Mitul Shah:** In terms of major increase in the product side, are we adding any value addition to the product going forward?
- Management:** Yes, in this quarter, to our existing customers itself, we have started supplying some components in much higher value added condition. So, there has been an increase in the realization per tonne.
- Mitul Shah:** Sir, can you give ballpark details in terms of last 1 year client addition or geography addition and product additions? And even for next, maybe 1 or 2 quarter point of view wherever you have visibility, what kind of products you can add to the existing customers?
- Management:** I think in terms of geographies, like we have already said, we have added a lot of LV components in the North American market, which is basically going to reduce the pressure on the class-8 trucks for us. Whatever denominator the class-8 trucks goes down also, but LV



market is quite stable and we feel that we will be able to clock the similar revenue from the LV market.

In terms of Europe, we have already in our previous calls which happened in quarter-2, we have already explained the 2 new customers we have acquired in Europe for which the components are in right now testing or in the sampling stage. And these customers in FY21 second half, these are going to get converted in terms of revenue.

In terms of opening of new geographies, yes, we are trying very aggressively to enter the South American market and probably we will have some good news in coming quarters in terms of our entry into the South American market.

Mitul Shah: Sir, finally on the CAPEX, what would be for this year and for FY21?

Management: I think the CAPEX plan remains unchanged. Whatever CAPEX plan we have guided in the previous quarters, we are a little slow in implementing the CAPEX, but gradually as we see the market, we continue to invest in terms of our capacity addition into the new geographies which we are trying to enter or new ventures which we are trying to enter.

Mitul Shah: And for next year?

Management: Next year CAPEX plan is not yet freezed in terms of refurbishment and all. With the AVP I think that's going to get freezed. In the next conference call, probably we will be able to give more numbers to it.

Mitul Shah: Sir, in this year export revenue from VMI, then it is vendor managements, our margins will remain the same for this or it will be slightly lower compared to normal export?

Management: Margins will remain the same.

Mitul Shah: It will not change; it is purely manufacturing margins?

Management: Yes.

Mitul Shah: Sir, last question is on this acquisition 85 crores we need to pay upfront. How do you plan to fund it?

Lalit Kumar Khetan: We will tie up the debt for 75% of this amount and 24 amounts will be increased from RKFL as equity.

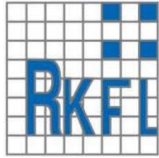
Mitul Shah: Through internal accruals only?



- Lalit Kumar Khetan:** Yeah. The debt will be in the STV, not RKFL balance sheet. We will try to have the debt in the STV only.
- Moderator:** The next question is from the line of Aditya Makharia from HDFC Bank. Please go ahead.
- Aditya Makharia:** Just on the US class-8, how is the demand currently? Because this year, we were expecting 15% to 20% fall, right?
- Management:** We are still expecting a 15% fall in this year.
- Aditya Makharia:** But there was some improvement in the order inflow. So, I was just wondering.
- Management:** If we look at the backlogs, this year, whatever feedback we have got from the OEMs over there, we expect a 15% fall in the class-8 truck market. And accordingly, we have budgeted for our sales.
- Aditya Makharia:** Just 1 question on VMI. That is the income which we have already booked, right?
- Management:** No, the income we will book only when we sell to the end customer.
- Moderator:** The next question is from the line of Sagar Parekh from One-up Financial. Please go ahead.
- Sagar Parekh:** Firstly, just continuing on the previous participant's question, if the income is not booked, then why have we included this in the tonnage number?
- Lalit Kumar Khetan:** Because this quarter, the dispatches are more than the last quarter. That's why we wanted to show the export tonnage is not comp in compared to last quarter. That's the total point we wanted to present.
- Sagar Parekh:** So, if I have to adjust that, I have to adjust that in the export volumes for this quarter, right? The amount which was there in VMI?
- Management:** Yes, VMI 950 tonnes you have to adjust it from the 7000 tonnes which we have indicated as export dispatches. Basically, 950 tonnes have to be reduced.
- Sagar Parekh:** 7198 is the number for Q3. That I reduce it by?
- Management:** 950 tonnes.
- Sagar Parekh:** What is our debt number as of December?
- Lalit Kumar Khetan:** Around 930 crores.



- Sagar Parekh:** So, that has gone up a little bit?
- Lalit Kumar Khetan:** 5-10 crores here and there. I think last quarter it was 915 or 920.
- Sagar Parekh:** Since we are e-calibrating our CAPEX based on the demand, do you think this debt is the peak debt number or you think with this acquisition and the CAPEX, debt will go up?
- Lalit Kumar Khetan:** Acquisition debt will be separate, and we are continuously monitoring the debt with our performance and we will try that debt will remain currently at this level only.
- Moderator:** The next question is from the line of Abhishek Jain from Dolat Capital. Please go ahead.
- Abhishek Jain:** Sir, what is your plan to increase your revenue from the industrial side where the contribution is quite low right now?
- Management:** What do you mean by industrial side actually?
- Abhishek Jain:** Basically, on the mining side.
- Management:** We are already doing with mining. But railway, we are looking at increasing our revenues from the railways and I think from a level of 2 crores per month, we have already touched Rs. 5 crores per month revenue from railways and going forward, we expect railway revenue to keep on increasing continuously.
- Abhishek Jain:** How much revenue was from the non-auto side in the last 9 months?
- Lalit Kumar Khetan:** We have got 11 crores from the railways and apart from that only we have about 8% to 9% revenue from the non-auto side.
- Abhishek Jain:** And in oil & gas space?
- Lalit Kumar Khetan:** I don't have a specific number.
- Abhishek Jain:** My next question is related to your subsidiaries. Just wanted to understand what is the business model of this global forex and tours & travels? Because the profitability is also increasing in the last 9 months from 34 million to 45 million. What is the outlook of this business basically?
- Lalit Kumar Khetan:** Global forex and travels are steadily growing basically in the corporate ticketing and tour business. And we are just working on that to improve the company and the profitability, and we are targeting at least 25% increase year-on-year in the profitability of this company.
- Moderator:** The next question is from the line of Himesh Satra from Sequent Investment. Please go ahead.



Himesh Satra: Sir, my question is that in the previous call, we said that we are planning to reduce the debt, but on the other hand, our debt has increased. So, what are the plans going forward to reduce the debt?

Management: I think in the last call, we had never said that we are planning to reduce debt. We had clearly said that we would like to continue with our CAPEX and remain at the current debt levels and ensure that the debt levels do not go up. With the current condition with CAPEX, it is not that we have absolutely stalled the CAPEX. While the pace of the CAPEX has been slow, we have invested in the CAPEX to complete our railway project and that's the reason you are seeing about Rs 10 crores increase in the total debt.

Himesh Satra: What will be the cash position as of now?

Lalit Kumar Khetan: What do you mean by cash position? Whatever is available in terms of our limits?

Himesh Satra: Yeah, and in the bank.

Lalit Kumar Khetan: I cannot give you the number, but we are very comfortable there. You can see that there is no utilization has gone up that way. From the last quarter to this quarter, there is no such change in that limit.

Moderator: The next question is from the line of Rushad Kapadia from ICICI Securities. Please go ahead.

Nishant: This is Nishant. Sir, a couple of questions. One, there are news reports on the Amtek resolution that is happening with Deccan. Just wanted your thoughts on how do you see possible new entrant in terms of resumption let's say and competitive intensity shaping up due to that? That would be my first question.

The second question is, would you look at tapping into a lower cost debt in foreign geographies to kind of improve your cost structure on the debt side?

Management: Nishant, I think first of all, regarding the Amtek resolution, as you know, right now, the resolution is an ongoing concern. Amtek was never out of the market and it has been sold to Deccan as an ongoing concern. So, I don't think it possesses a significant challenge, and going forward, it is going to be extremely difficult for them to reshape the company entirely in today's world as a modern setup. And it's a time lag I think maybe 2 years or 3 years before we see anything coming up from their side.

And in terms of tapping low-cost debt, yes, we are working on some models and I think it's too early for us to comment on this, but, yes, we are working on tapping low-cost foreign debts to bring down our total debt cost significantly from hereon.



*Ramkrishna Forgings Limited
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Moderator: As there are no further questions, I would now like to hand the conference over to the management for closing comments.

Management: We appreciate that we have spent your time and attended the call and on behalf of the entire management, we would like to thank all the participant who have attended the call.

Moderator: Thank you. On behalf of ICICI Securities Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.