"AIA Engineering Limited Q4 FY24 Post Results Conference Call"

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Moderator: Ladies and gentlemen, good evening. Thank you for standing by. This is Sagar, the moderator for your call today. Welcome to the Post-Results Conference Call of AIA Engineering Limited.

We have with us today the Management Team of AIA Engineering Limited. At this moment, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session. At that time, if you have a question, please press "*" and "1".

I would now like to turn the conference over to the AIA Engineering management team. Please go ahead, sir.

Kunal Shah: Thank you everyone for joining us on this 4th Quarter call and results for our full year Fiscal Year '23-24. As usual, I have got Sanjay Bhai and I am Kunal. Both of us will take you through the snapshot of this quarter and then get into Q&A.

I will quickly update for numbers and highlights of this quarter. There are two updates that we would like to share and then we will get into Q&A.

We have ended the full year at 297,000 tons, up from 291,000 tons last year, about 6,000 tons increase year-on-year and for this quarter we have done 71,400 tons and it was largely comparable to the 4th Quarter last year, which was at about 73,500. It has been a flat quarter year-on-year as well as sequentially where we have done 74,000 tons in the 3rd Quarter of this year.

Our revenue for the full year is at Rs. 1,130 crores and that translates to a realization of about Rs. 158 per kilo. Our EBITDA for the quarter stands at Rs. 374 crores, 0.63, which is at 32.57% and EBITDA for the full year is at Rs. 1,616 crores, which is the highest ever in our existence. So, it has been a record year for us and EBITDA margin of 33.31%. Profit after tax of Rs. 260 crores and the profit after tax to the full year at Rs. 1,135 crores. Year-on-year, again profit after tax is largely flat, it was Rs. 268 crores and EBITDA was Rs. 379, both figures are comparable this quarter compared to the 4th Quarter last year and lower down from Rs. 395 crores of EBITDA in the 3rd Quarter and Rs. 279 crores in the sequential 3rd Quarter of this year. So, overall it is a flat quarter compared sequentially and year-on-year.

Highlights of some other line items:

Our total other income is at Rs. 76 crores for the quarter, which includes Rs. 72 crores from our treasury income and Rs. 19.26 crores, which is our other operating income which is our export benefits and a small exchange gain of Rs. 4.23 crores that sums up to Rs. 76 crores overall. And that is again comparable to Rs. 83 crores in the 3rd Quarter, but which had an additional foreign exchange gain. If you knock that out, it is largely comparable between these two quarters. Working capital again continues to be flat. We are at 101 days consolidated and that is comparable to the 3rd Quarter last year and also the 4th Quarter last year. Most of our sales, the growth in sales have come from the mining side. So, if I were to break up the 71,000 tons, mining is at 44,900 and non-mining is 26,500. So, for the full year of the 297, we have done 203,000 tons in mining, which is up from 192,000 tons 12 months last year, FY22-23 and the non-mining is about 99,000 tons is at 93,600 tons. So, it is a little lower, about 5% lower while mining is up by about 10,000-11,000 tons, so 291,000 tons. That is how it adds up to 297 for the full year. We have done, our net cash is at Rs. 3,290 crores. I think that is broadly the number highlights for the quarter.

We have got two more updates. You would have seen our filing on the stock exchanges around our anti-dumping and anti-custom wailing duty process that has been initiated by the US authorities based on a petition that was filed by our competitor there, which has a local plant in US which is Magneto USA. And as you know, we have seen and experienced with Canada and Brazil, it is now almost a sub-judice matter where there is a department in the US, Trade Department now looking at our sales in that region and they will do, whatever is required on their side. We did 27,000 tons in US in calendar year 23 because that is the period under review. And as always, we will continue to not only defend our business in that region, but also actively cooperate and participate with the authorities there to make sure that a fair assessment is done. Beyond that we may not be able to speak much. For now, we expect business to continue as usual, so nothing more to report on that account. Our business in the dumping duty in Brazil is also undergoing an investigation, a sunset review, so 5 years, the duty was applied for and then there is a sunset review which is ongoing, and we hope to hear the outcomes of that next month in 4 to 6 weeks from now. So, that is our update on the trade side.

One more update is around our capacity. So, we are very happy to report that our Brownfield expansions are non-grinding media business. As we had reported, we were spending a total of Rs. 200 crores of which we spend Rs. 110 crores already and we will do the balance in this year FY25 where we have done some Brownfield, some capacity balancing equipment. We are buying land for storage facilities and doing some reorganization of our older plants in Odhav. In addition to the efficiency that that will bring better organized supply chain and operational debottlenecking, it has also given us additional capacity of 20,000 tons. So, as we speak, our total capacity, which is at 440,000 tons now remains enhanced to 460,000 tons which includes this ground fee on the ongoing Brownfield for grinding media we had originally reported 80,000 ton grinding media capacity addition, a lot of our equipment comes from Europe, which is facing delays and interruptions. So, what we have done over this quarter is we have chosen to implement one module of that capacity, which is 36,000 tons and we hope to be ready and commission that in next 3-4 months. The balanced capacity for that, given the challenges that were there with the supply chain, we have decided now to put a halt on it because we are still with surplus capacity as our markets, as we start consuming more from our existing capacity, we will decide on further capacity addition. Customers need for us to have buffer capacity and so we will be looking to add more capacity, and this will be now the balance portion of this Brownfield will be like a plug and play where we start and finish it in six to nine months. So, that module is now being put on hold. So, for now, our current phase of expansion will end with 440 becoming 460,000 tons in our current capacity plus 36,000 tons of grinding media that will come online in next 3-4 months, which will take our total capacity to 496,000 tons. So, these are the 2 updates, the action in US and the capacity, the updates on our capacity for grinding media and non-grinding media.

Lastly, as far as market is concerned, I think we remain status quo with everything that we have said over last few quarters. We continue to not, while our endeavor is to add 30,000-40,000 tons of sales each year and we are prospecting far more of opportunity to convert from porch to chrome, we are not sharing an update on exact numbers that we plan to sell for this year. So, while our endeavor is and that is just the directional figure, we continue to not share a guidance note on tonnages for this quarter.

With that, as I said I will have Sanjay bhai share a small update from his side and we can get into Q&A after that.

Sanjay Majmudar: Good evening, everyone, and thanks for attending this call. So, just to add a couple of further updates, so as Kunal explained, yes, we remain absolutely committed and focused on working on all the opportunities which we believe remain absolutely the same. Either we talk of all the three basic course on which we are focused on in terms of our mining opportunities that is to say, iron, copper and gold. We are working on several conversion opportunities as we speak and therefore, although we appreciate and understand that this year was flat as it was indicated on the Q3 call that does not change the tone or the direction with which we are working. That is an incremental 30,000-40,000 tons at least on which we are currently working, and we remain committed to that. We believe that as we move forward, we should be able to guide you a little better. But all I can say is there are several such opportunities on which we are very bullish and working and directionally this modular approach does not and should not be read as the deferment, but this is just more structural and strategic in nature. That is my first point.

Second, we are also making significant investments on the renewables. So, this year we are participating in a hybrid solar and wind project where we will be adding almost under the group captive scheme where we will be adding gross 60 megawatts which would translate into effective about 40% to 50% of the power factor, which should become operational in the current year. And because it is under this group captive scheme, the investment is in the range of Rs. 30 to Rs. 40 crores, but that will make us, by the end of this year, we will be at least around more than 50% to 60% effective captive. So, this will be implemented in the current year by end of the year. The impact will come next year. So, that will add another further significant renewable capacity. And I think the other CAPEX plans and everything Kunal has discussed.

So, just to conclude, directionally, we are absolutely committed and we remain very buoyant internally. But yes, we are facing challenges like this US anti-dumping and we will take it in our stride and do the needful. With this, I think moderator let us throw the house open for Q&A.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Amit Ahuja from HG Hawa. Please go ahead.

Amit Ahuja: And my question was with respect to the MPS acquisition, like you just mentioned in the presentation that 43% shares are acquired at the rate of 64 in FY24, so in the last concall it was mentioned, 30% stake is also acquired, so is it meaning that we are having 73% holding now?

Kunal Shah: No, plus 13 total of 43% now.

Amit Ahuja: So, in all the total spending is 43 plus the balance of 64, right?

Kunal Shah: No, we bought 30 before and 13% now, total is 43%, yes.

Amit Ahuja: And the total cost of acquisition is 64?

Kunal Shah: Yes, both put together, correct.

Moderator: Thank you. The next question is from the line of CA Garvit Goyal from Invest and Analytics. Please go ahead.

CA Garvit Goyal: Sir, you mentioned about putting more Brownfield expansion on hold, so can you let us know what is the capacity that we are currently putting on hold?

Sanjay Majmudar: No, as against the first and foremost 80,000 was the composite. Now we are implementing the first module through a modular approach of 36,000. So, it is 440+20 Brownfield already implemented at Ottawa and a few other locations as explained by Kunal plus 36, so this will be 496,000, which should become operational by Q3 this year.

CA Garvit Goyal: Earlier, the total capacity target was 5,20,000, right?

Kunal Shah: Correct 520 because 496.

CA Garvit Goyal: And sir, what is the exact reason, is it due to lower penetration happening across the industry or anything else?

Kunal Shah: That is what Sanjay explained, right, this is, we are already doing capacity ahead of time and there was an opportunity to do it modular. It was taking time. If you remember our current guidance for commissioning was December, it was the end of this year and it was moving to next quarter. We said let us go ahead with what is available, how can we try and get, our module open early. That choice became available as we reconfigured our equipment and then we decided, said let us do something now and then the next module can be easy to plug when we decide to go ahead and do it. So, we are spending about total 170, instead of 250 we are doing it at Rs. 175 crores and getting done with it soon.

Moderator: Thank you. The next question is from the line of Ravi Swaminathan from Avendus Spark. Please go ahead.

Ravi Swaminathan: My first question is with respect to the overall mining demand environment. So, with gold prices going up and copper also resurging back in terms of prices, how do you see the mining activity across your various geographies, has there been any pickup that can lead to increase in grinding media demand? Are you seeing anything of that sort, sir?

Kunal Shah: As we have always maintained, we want to remain very agnostic to mining demand cycle, correct. So, just because now there is an uptick, that doesn't mean that automatically next quarter, I will start getting more inquiries. No, the whole approach is conversion, correct and it is a very painstakingly time-consuming approach, so keeping aside the mining cycle, all I can say is that the demand opportunity of 1.5 to 2 million ton conversion on which we are focused is absolutely intact. We are very bullish on wherever all those geographies where gold and copper are predominant, not to discount iron, correct. So, we are equally very bullish on all these three. As we speak significant opportunities are under conversion process. Unfortunately, I can't give you details beyond this, but all I can say is that from an opportunity landscape, there is absolutely nil dilution. On the contrary, there are still more aggravated efforts that are being put. The only point is that it is beyond our control, the whole conversion takes its own sweet time. Having said that, our internal focus remains absolutely committed on all those conversion opportunities and we are working on. There is no let down in the pipeline. On the contrary, pipeline looks to be very buoyant.

Ravi Swaminathan: And with respect to the EBITDA margin, so earlier you used to guide it to be in the range of 22% to 23% and then couple of quarters ago you had mentioned 23% to 24%. What kind of range that it is likely to settle in keeping in mind the cost saving initiatives that they are taking?

Kunal Shah: Ravi, I think we have had a consistent answer on this and our macro guidance continues at 20% to 22%. We have done better, beyond that, as you know for many quarters, but as a business model, we will defend that margin going forward. There is always an opportunity that if we are able to reduce our cost, there is a case for the customer benefiting out of that. That becomes something that becomes an operational leverage that our side, it could become a margin thing. We will see whether it is possible on a sustainable basis. So, that is an effort that continues, but from a guidance standpoint, I think we stand to what we have been historically maintaining.

Sanjay Majmudar: And just to add to Kunal, there is a logic to that because our whole focus is conversion, where we continue to believe that there could be challenges. Yes, our endeavor will be to do better. In fact, we have been consistently doing better operating margins than whatever guidance is. But at this point in time, we have not really relooked at it. So, let us mention what we have spoken earlier.

Moderator: Thank you. The next question is from the line of Bhoomika Nair from DAM Capital. Please go ahead.

Bhoomika Nair: Kunal bhai, Sanjay bhai, I understand that this year has been a little tough in terms of the conversion and it has been a little slower in terms of what we had expect, but if I look at over the last 5 years right from 2019 in mining, we were about 170,000 and this year we have closed around 204,000 roughly. This gives an average CAGR of 4%. Now, while annual conversions, etc., there could be taking a longer conversion aspect, but the pace of conversion and the pace of volume growth has been relatively a bit slower. On an absolute basis, it has been about 30,000 odd kind of an incremental volume over the span of 5 years. So, just trying to understand what is driving this slower conversion and as we move ahead, at some point I think we were looking at some 30,000 incremental volumes on an annual basis. You think that is something that is really doable, what are the challenges and what can really drive that conversion at a faster pace?

Kunal Shah: I think important question, I think for most people on the call also. I think there is context to this 5 year period because there was COVID in between, right. There was a challenge in developing markets, there was a serious increase in freight costs for almost 2 years that made the conversion virtually impossible just because of the extra cost, our potential customer will have to pay compared to an incumbent which is in the same region, right. So, I think we lost almost 3-4 years during which time that it was layered with this whole trade action where we have lost volumes in Canada, Brazil and South Africa, right collectively closer to between 50,000 and 60,000 tons. So, it has been a very challenging period. The fact that despite all those headwinds, we have grown from 170 to 204 is something that excites us, that encourages us, that motivates us that we are on the right track. We are not at 100,000 tons. I mean, all of these collectively are black Swan events that actually take a company down right. No customer migrated back to an incumbent or to another competitor, 100% of our volumes remain we delivered right all of that you know the journey, you have seen our price passthroughs come along including all of freight, right? So, the point is that now over last 12 months or 18 months, markets have been cleared, the travel has started. Freight has normalized over last 6-9 months. I think we are in a level playing field, we are seeing now looking back to growth, I think next three years are really will be a period to look at us whether we have grown or not right. Our efforts continue and like Sanjay bhai had said before we are very optimistic because we have a solution for a pain area that the customer suffers from. Your yields from existing mines are falling is a reality for any copper mine you can call and check with right. Improvement in yield of recovery is an absolute interest top three items for any mining company. You are helping them reduce their ESG footprint in terms of reagents or in terms of lower power consumption, all of these of ESG, the top priority for most mining companies. So, from a solution standpoint, we are only sharpening and deepening our engagement with the customer, we only remain optimistic and enthusiastic. The reality is that it has taken time right even despite these things we would be happier that we sold 30,000, 40,000, 50,000 tons more, but keeping reality in mind and all the headwinds that we have faced, I think we are well placed now and look at us over next 3 years that last 5 years may not be the best indicator of the potential that our solution has. We continue to remain excited about it and having been able to add 30,000 tons a year, I think should be a fair goal for what we try and offer, right for the opportunity that is there in front of us.

Bhoomika Nair: So, in a sense what you are trying to say that 30,000 incremental volume should be doable, all things being satisfiable in the next couple of years?

Kunal Shah: For us, it is an open and shut case where someone should migrate, right. This is our problem. I mean, with all the benefits that you have spoken about and discussed plenty times before, but the reality is that there is a friction process, right. There is a challenge in terms of various things there. Again that we have spoken about and it takes time and we are happy to do that right. It takes time, we are happy to be, we are here for the long haul and everything we offer is of priority interest to the customer. I mean if it takes 6 months more or a year more or even two more that is okay in the time relative to the time that we are looking at to keep this business. I don't think we worry about as much about losing the market as much as how do I find ways to grow faster.

Sanjay Majmudar: And a very simple math Bhoomika is that, as Kunal explained, what we lost was around 50,000 tons. If you just do an adjusted math, then your CAGR would look better. Having said that, there is a part of our business, we have realized it. This is always going to happen. So, we have also climbed up our knowledge curve significantly. We have sharpened our tools. We have done excellent work on the DP side. Now, we have all sorts of mill liner solutions. So, now, even our confidence is much better. I absolutely agree with you. Just from a statistics point of view, it doesn't look so good, but there is a whole lot of completely changed platform on which we are standing today vis-a-vis where we were 5 years ago. That is a very important point to take care. Let us not speak more. Let time will tell. Let us see how it goes.

Bhoomika Nair: Sir, the other thing is on this whole US litigation, while obviously as such volumes have not yet gotten impacted and we continue to sell into that geography, what is the risk that this can get impacted because that is a fairly large chunk of our overall volumes, in your opinion, what is our likelihood of that kind of being impacted, if any?

Kunal Shah: This is like doing a crystal ball gaze into the future and I think we have been advised not to speculate on what it means. You know that there is a reasonable amount of volume that we are doing over there. It is a long process. It will take 9 to 10 months for us to engage with everyone and we are also learning as we engage and go through the process. But I would be restricted in having a response that could be a little speculative in nature in terms of what can the outcomes be, but we remain confident that we have done, we have got a fair price, we have got everything in place. We have got great lawyers who are helping us defend. So, the competition has to do what they have to do and we have to do what we have to do. So, we are looking at it in what to say, we are well placed to defend it vigorously, basically.

Bhoomika Nair: And just lastly, if I may on this MPs acquisition in Australia, how do you see that evolving over a period of time we have kind of taken a decent stake now out here, how can it help us in terms of scaling up volumes particularly in the mill liner space?

Kunal Shah: I think MPS brings competency that we don't have which is the whole process and application side of mill liner in relation to grinding, so great fit, it complements us well. We have taken on, we have added to our repertoire when we go out and engage with the customer. So, surely we are seeing dividends in terms of our ability to do a better engagement to include more customers now that we are going out. I think it is a no brainer because that was competency. That is a prerequisite to doing liner business. It would have taken us 5, 7, 8 years overall to acquire that knowledge which is available to us now. So, it will show the benefits, may not be in a quarter or two, but surely you will see an acceleration in our mill liner work.

Sanjay Majmudar: And it is a very profitable enterprise. So, whatever our target profits we are achieving that so that way also it is good.

Moderator: Thank you. The next question is from the line of Pritesh Chheda from Lucky Investments. Please go ahead.

Pritesh Chheda: Sir, first one, just a clarification, your mil liner capacity is where you are adding this incremental 20,000 tons?

Sanjay Majmudar: It is what we are calling non-grinding media, so that capacity is used for our vertical mill parts, other mill parts, some of it can also go towards mill liners, but for our capacities, grinding media and other than grinding media, we just clarified or talked about mill liners because we set up our plant for that, but now we have and while it was getting commissioned and opportunity and all of that now we are going back to our older classification which is grinding media and other than grinding media and just 20 feet into that.

Pritesh Chheda: Now, you have added 50,000 ton of mil liners I think last year and there was this whole idea of incremental addition of 10,000 tons per annum, but when I look at this year, your others, the volume has declined. So, what is playing out there in terms of the decline in volume, where mill liner itself incrementally was supposed to add 10,000 for the volume?

Kunal Shah: Other does not reflect mill liners. Other reflects non-mining segment, so mill liners are part of the mining volume that has been reported, because it is going towards the mining segment, we have not done a product wise this thing, but as you said that we have not grown at 10,000 tons in mill liners, it is a little. I don't have it on top of my head right now, but it is a little lower. We don't want to really get into exact, how many product, what product has done, what tonnage, just from a competitive landscape standpoint, but it has grown, but not at the 10,000 pace that we are hope to. We are hoping next 12 months that pace will accelerate as well.

Pritesh Chheda: So, mill liner is a non-grinding media, right?

Kunal Shah: Mill liner is non-grinding media, correct.

Pritesh Chheda: I said your experience in the past trade actions in Canada, Brazil or Africa has been first loss of volumes to Indian later?

Kunal Shah: Yes.

Pritesh Chheda: So, is it that in the incremental 27,000 tons of anti-dumping duty imposed by US or let us say not being imposed, review by US, the experience has to be similar?

Sanjay Majmudar: Exactly. I will tell you why. See, as Kunal explained the matter is subjudice, we are completely restricted, but geographically each geography’s situation would not be the same. Therefore experience cannot be the same. Second point is in the past we have lost in Brazil, we have gained quite a bit. So, we are quite okay with it. Don't worry about it. All I have to say that each geography is different, so parameters are not exactly comparable. So, the similar analogy cannot and should not be drawn.

Pritesh Chheda: The recent review was in Canada, what happened in Canada specifically, what was the volume at that time before the trade?

Kunal Shah: It was close to about 24,000 tons and we are at about 7,000 tons now.

Pritesh Chheda: And the matter is still subjudice?

Kunal Shah: It is not subjudice, it is already, we have got administrative process in place where I will have to expand on, it is a little more complex in Canada than everywhere else, but I don't think that is an impediment for our sales in Canada. We are doing enough work and you will see the numbers in Canada go up in next 12 months and sooner than that. So, I don't think today what the Canada action has done has put in some administrative things in place, so that there is a certain pricing mechanisms that we have to agree to and which we are doing. I don't think the action there is now a deterrent in our ability to get more sales.

Pritesh Chheda: So, would you then be able to, in your revised format of selling whatever trade changes have been brought in or implemented, will it be at a similar EBITDA per kg as similar margin as earlier or a differential margin?

Sanjay Majmudar: I don't think it is too much granular detail for us to go into every region and you will have to look at us, margin as a company as a whole, I am afraid we will not be able to get into that granular conversation.

Pritesh Chheda: Just to reiterate, Canada was 24 before the matter and post that it went down to 6000?

Kunal Shah: No, it went down to 0, now it is 7000.

Moderator: Thank you. The next question is from the line of Mani, who is an Individual Investor. Please go ahead.

Mani: I wanted to understand a little bit more about the mill liner segment, if you can explain what share of revenue does that contribute currently to AIA 70 that is number one? Number two is I also want to understand is the strategy of AIA in the mill liner segment very similar to what it is in the grinding media, where you believe that the solution which you offer in mill liner, I am assuming the solution that you offer is ferrochrome based, mill liner and that is a significantly better solution compared to the steel mill lining market that is there, is that the understanding correct or if you can just little more talk about the mill liner segment and your strategy over there, that will be helpful?

Kunal Shah: To everyone, I will just do a quick thing and we can go offline if you want to understand a little more, but mill liner, there are three or four is our incumbents, it is not steel versus chrome. The advantage we bring is not so much in metallurgy as much is in design. So, the whole mill liner conversation is working through proprietary, some patented designs that we offer that ultimately allow the customer for a higher throughput. It helps them save power cost and of course the cost of the mill lining. So, that is the whole overall solution that we look at when we talk about mill liners. The whole objective for us within that space is to not just sell out of the plant that we set up of 50,000 tons, to set up, let us say, to sell 30,000-40,000 tons next year. The idea is that that allows us to have a conversation for the whole grinding suite with the customer which includes mill liners and grinding media because the whole solution together delivers super normal consequence for the customer. So, our interest is to sell that whole combination. Of course, there will be customers that buy just linings from us and that is the journey and the conversion timeline that it takes, but that is the strategic reason why we are doing mill liners. The whole idea is to engage with the customer on that whole basket of products. I think that is where it is and it is not high chrome, it is a chrome solution. And we will continue to add, our aim is to add 8,000 to 10,000 tons a year and fully utilize the plant in next 4-5 years.

Moderator: Thank you. The next question is from the line of Charanjit Singh from DSP Mutual Funds. Please go ahead.

Charanjit Singh: Sir, my first question is regarding our stands on whether we will be keen to now put up any capacities in the other locations apart from India, looking at the kind of duty structure restrictions, now this is the fourth geography which we have seen. So, what are your thoughts on that in terms of doing some capital allocation in the international markets?

Kunal Shah: I don't think our view has changed. We continue to believe India is a great location to, it is not a cost location for us, it is a competence issue. It is availability of ecosystem that allows us to produce. Nevertheless, we believe there is a large, I don't think that trade action in two or three countries. I don't think there are many more countries where we expect to see trade action. We see there are mining clusters in at least 15 countries. So, there is enough plus additional let us say 10 to 15 where there is follow an opportunity for us to grow. So, I think there is a larger market outside of these territories that we continue to focus on and we will see. For now, there is no plan, we continue to stay put with our current structure and our current growth plan.

Charanjit Singh: The other question is now, if you look at the overall mining production growth globally, now there have been also discussion that maybe those numbers will go up as you know copper and other commodities are seeing increased demand. So, what is your thoughts in terms of when you are looking at this production growth picking up, while conversion from forge to high chrome is one of the most important factor, but overall underlying volumes itself, if it goes up, it benefits us. So, just if you can touch upon on the overall production growth what you are seeing in the markets?

Kunal Shah: You are absolutely right that if the underlying growth happens at an existing mindset, we will be natural beneficiaries of that growth. But we are not counting on that. There are several factors where despite their desire to grow, they may not be able to grow there, the approvals in place, there is the whole excavation part, post process. So, to that extent while they want to produce more, they may have limitations, but if they can obviously will be a natural beneficiary over there. But we are not counting on that as a strategy. For us, converting and migrating our customer from use of forge to chrome is where we spend most of our effort on.

Charanjit Singh: So, lastly, now we have added this mill liner capability in our entire portfolio and there was also discussions earlier we used to talk about that as a complete solution provider, we will be able to target this market. So, if earlier, when we are targeting only the grinding media, now with the liner, what percentage of the overall CAPEX within this segment we are able to capture from a minors perspective, sir, with liner and grinding media together?

Kunal Shah: You mean to say the consumable cost?

Charajit Singh: Correct.

Kunal Shah: Of CAPEX, so I think this covers almost everything.

Sanjay Majmudar: And because of the grinding side, their wear cost includes these parts line arrangement in mine, so of their grinding circuit this would be most of all of their consumable from a grinding standpoint, of course they use reagents and other things, but this is the largest cost line item for them or the top three at their operating site.

Charanjit Singh: And just lastly if you can touch upon, how is your progress in Chile as a market, we had got some initial traction, but if you can update on how is the journey there in Chile specifically?

Kunal Shah: It is great. We are on track. We hope to report something, a conversion in that market soon. But it will take the time it takes so. We are as eager to hear news about it as you are so. We are fully active and putting efforts in that region.

Moderator: Thank you. The next question is from the line of Priyankar Biswas from BNP. Please go ahead.

Priyankar Biswas: So, my first question is, we had seen this Red Sea crisis for some time, I mean disruption on the freight etc., so can you just tell me how much impact had it on your volume shipments? So, what am I trying to say is like, let us see if this crisis was not there hypothetically, so how much heir could you have possibly done?

Kunal Shah: So, I think we had reported when that happened we were on a wait and watch mode to see whether this is temporary or it is sticky. It appeared that it looks to be a little longer time, but over this last quarter we have seen rates going down to start normalizing. We are not seeing of carriers being interrupted or being called up etc., and in line with that overall risk perception going down, rates have started going down. So, we pass through some rate and the rate is getting adjusted. So, our view is that if the rates are getting normalized soon. And to that extent and if they don't, we will be passing them. So, I think for now we are happy to see that rates are going down and getting normalized or in that direction.

Priyankar Biswas: So, what I meant was not from the freight trend point of view. What I meant is because of the disruptions and the longer selling times, would you have lost some volumes, I mean like delayed shipments or something like that. So, probably you could have done maybe better in the quarter?

Kunal Shah: It only means you to plan sharper and maybe a little longer lead time.

Sanjay Majmudar: But I don't think we have lost any volumes due to that, no.

Priyankar Biswas: Since you discussed about Chile, so I would just additionally ask about Peru where you had actually opened up a new subsidiary as well some months back. So, what is the progress in the other Latam geographies and when can we start hearing news from there?

Kunal Shah: Soon, it continues to be status quo. I think it continues to be, lot of effort that we continue to put in those regions.

Priyankar Biswas: And what are the minerals that we are targeting there?

Sanjay Majmudar: Copper and gold, of course, but mostly copper.

Moderator: Thank you. The next question is from the line of Anupam Gupta from IIFL. Please go ahead.

Anupam Gupta: So, just couple of questions, firstly on the volume side of it, so obviously the conversion has been slower than what everyone has been expecting. Would you at any point of time ascribe this to maybe slightly more intense competition from the incumbents in this case, let us say when you say Peru and Chile, obviously the forge incumbent there is pretty large in those regions. So, is the volume conversion in a way also being slow because the incumbent is giving you intense competition for that shift to happen?

Kunal Shah: Not really, Anupam bhai. I think incumbent will do what they have to do and there is always friction point in terms of migrating from one solution to other, wherever it is. I think the more important question is the efficacy of our solution, right, all these things that we are speaking about that is how 15% of the markets got them converted to chrome. There is no reason that it is not going at least another 10%-15% more right, but every single place, every single country has its own set of challenges, its own set of existing customs in terms of where they bought from, how they think about it, the time it takes, the risk appetite and I think that is where it is. It is a large market. We have done enough work. We continue to put in work. In our mind, the breakthrough is around the corner, and we continue to believe in our solution, right. Now, that is where the real-life world is where it will not appear open and shut to us, still takes, but that like we keep saying “Daag Acche Hai” right that means that for the next guy it is even more. That is why we keep this business. That is the whole joy and fun in this game is because that once the business comes to us, it stays. And when we are looking at keeping this business for a few decades out, it is okay if it takes few years in that conversion journey, right. As much as we are eager and anxious to make this happen yesterday, we also understand that we will have to do what it takes. We remain for a longer haul. We are not here to have a flash and burn.

Anupam Gupta: And couple of bookkeeping questions. Firstly, now that you have trimmed down the capacity addition part of it, what should be the CAPEX one should build for FY25 and FY26 including what you are going for power?

Kunal Shah: FY25 total CAPEX is Rs. 200 crores, which is Rs. 90 crores for grinding media, balance which we are commissioning now, Rs. 35 crores for power and Rs. 75 crores for that ongoing debottlenecking and other things that we are doing. So, total 200, we spend about Rs. 210 FY24.

Anupam Gupta: And FY26 should be similar quantum at this point of summary?

Kunal Shah: FY26 for now is because that will depend on what new capacity that we are doing. There is no announced capacity or CAPEX plan for FY26 as we speak. We plan to complete all of this in this year through the year. We will see where things go and we will decide on what is happening on that front.

Anupam Gupta: And one just lastly, what should be your tax rate for FY26?

Sanjay Majmudar: I think it continues at 22% blended, between 22 and 23.

Moderator: Thank you. The next question is from the line of Lokesh Manik from Vallum Capital. Please go ahead.

Lokesh Manik: My question was more on the macro front. So, we recap, let us say 7-8 years, we have seen many countries become protectionist and one of the reasons why your competitors have competitors for that matter has been successful in their endeavors, we have taken advantage of this trend, in this slide, do you think your strategy of manufacturing out of India for the reasons that you have stated in the past and in today's call as well, you may be shifting a portion of manufacturing in countries that are more on the exhibiting this protectionism trend to safeguard their volumes because the cost of losing the business, as I understand, is significantly high given that you take three years just to get put into the customers business and then you develop and you slowly build those volumes in these businesses. So, the cost seems to be significantly higher when such actions are taken, either moving a portion of the manufacturing in those countries or reorganizing the supply chain. If you discuss this at the board level, if you can share some insights on that would be really helpful?

Kunal Shah: So, I think, first of all I want to remove this myth that a trade action stops our business. It has stopped only in South Africa and South Africa is a very unique case because their currency weakens against the Indian rupee. So, we have been consistently hit by a 3% to 4% hit on the currency weakening every year. On top of that, they applied a ban on export of scrap which means local scrap is 30% cheaper than what I buy in India, which is international paying price. Without the custom duty, it is not a dumping action, it is a custom duty that they applied for the whole iron and steel industry and we were part of that right to protect in local industry, and even had they not applied our product just by the ban on export of scrap and the weakening of the currency, there is a challenge with them. So, if you leave aside that region, which is its own story there that South Africa for you. I think Brazil, I think we are doing okay in volumes. We continue to make efforts to take more volume, same thing for Canada. Yes, it has reduced, but it has not changed our fundamental viability or presence in that market. Every customer wants two suppliers. When there is a supplier that has hungry to provide more value to you that is ready to invest in stock for the just in time, right, why would any customer depend on one single location plant? I am not a rubber or a plastic or a steel industry. We have got 10 producers in your local industry. The consumers in Brazil and Canada may not want to depend on one supplier. What happens if there is an interruption at that plant? So, I don't want to insult the customer by telling them that they will only ban because of the trade action they will stop buying, right. It was already a challenge for them to buy all the way from India back in the day whenever they convert it, when they have a choice of a local consumer because they want to diversify and risk mitigate their supply chains. Trade action only is a cost implication for them, if at all there is a trade action. I don't think that fundamentally changes our value proposition or our opportunity. Now, in the short term, there could be some volumes get affected now that depends on every country. So, Canada started with an interim duty and so volume got impacted immediately as those duties came in. In the US, when the process started, there were different process that they follow right and so likewise Brazil had a different process. So, all they are saying is in a year or two, there could be some interruption in the US as the situation is different, so I don't want to compare it to Brazil and Canada. It is an independent situation where I think our proposition and our standing is a little different, but I cannot talk and speculate about what it means, we have to go through the process.

Lokesh Manik: No, I am not speculating on that. What I am going to say is that have you thought that the portion of manufacturing could be moved there to satisfy these authorities? Is that possible on the cards that is what I am asking?

Kunal Shah: Moving manufacturing that is first of all for us to say that our current situation has an issue. We don't think our current situation has an issue. That is what I am trying to make a point. Trade action is part of the deal. If my benefits to the customers, I am saying are plenty, I am saying the customer wants an alternate choice. There, I have got an opportunity, right. I have a little lower volume. In the scheme of things, this does not move the needle for us. I am just saying that producing outside the country we may set up a plant somewhere outside the country. We may not do that. All of that is conjecture for us, for our business to continue to take, but for now, our current structure is robust. It has allowed us to supply and work with many countries. Our country which has some duties, we are talking about a trade action that we supply to at least 50 countries where there are double digit import duties. We are not talking about those duties there. My competition is preferential access. So, we are not going into those granular details where we still have a market share in that market, maybe as half the market. So, all I am trying to tell you is just because this gets announced, it gets talked about and it appears of course 27,000 tons. I understand optically it appears that there is a large action. All we are trying to say is that India remains a great destination for our type of products which requires shop floor competence. It requires hands to do some of the work. Over last 10 years, India and China have been two countries where a large majority of these investments have come. So, while I am not saying, we will never set up manufacturing ourselves of India, for now, we will do it for different reasons if all that becomes a conversation but for now, our view and our thinking of our positioning has not changed because of one more action around trade. I think the competition is doing what they think is right for their interest. For us, we continue to doing more of the same. I just believe that of the 100 things that we face as a challenge every year this is just one more that we have to overcome, understand, deal with it and overcome.

Sanjay Majmudar: As you know, as always, myself and Kunal remain available. We are definitely looking forward to much better things to talk about going forward. We will just inform as and when things happen. So, I think with this Kunal, you can give the concluding.

Kunal Shah: Thank you so much. And Sanjay bhai and I remain available offline to have a conversation and clarify any other further questions you have and look forward to connecting at the end of the first quarter for fiscal year 25. Thank you. Have a great evening.

Moderator: Thank you. Ladies and gentlemen, this concludes your conference for today. We thank you for your participation and for using Chorus Call Conferencing Services. You may please disconnect your lines now. Thank you. Have a great evening.