



# “AIA Engineering Limited Post Results Conference Call”

January 27, 2023



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**Moderator:** Good evening, ladies and gentlemen. Thank you for standing by. This is Nirav, the moderator for your call today. Welcome to the post results conference call of AIA Engineering 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 this conference call, please signal an operator by pressing ‘\*’ then ‘0’ on your touchtone phone. Please note that this conference is being recorded. I would now like to turn the conference over to the AIA Engineering Management team. Please go ahead, sir.

**Kunal Shah:** Thank you, Nirav. Good evening to all of you, and thank you for joining our call. This is Kunal. We also have Sanjay Bhai on the call with us. As always, I will get into a summary for the quarter, and we can quickly get on to question and answers thereafter.

Finally, this year, over 9 months, we have grown materially from 9 months in the previous period. We have seen a few years where we had different types of headwinds, different headwinds of different natures in which there was some amount of growth related question.

So I am happy to report from about 187000 tons from 9 months previous period, we have done 217000 tons and about 30000 tons more for the 9 month period with about 71500 tons for the quarter, and for the whole year, we should be between 295000 and 300000 tons, hopefully, crossing the 300000 mark, finally. So we are happy to report that.

That sale of 71500 tons translates into sales of about 1209 Crores, and an EBITDA of 39.42%. This quarter has been very interesting, like last three, four years for us have been every single variable, every single assumption got tested. There are several things and several wheels in motion. Thankfully, we are in a business where the customer demands on us for keeping his wheels in motion, right. Our product feeds into our supply chain where the end user industry, which is cement and mining. Thankfully, we have been humming in many cases, growing, and our product becomes an important replacement part of their supply chain, of their consumption, of their production.

So thankfully, from a growth standpoint, from a consumption standpoint, while that continues, we saw a lot of changes in terms of raw material, currency, freight costs, availability of containers. So finally, it looks like that a lot of those cost pressures are heading away.

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So, when I look at an EBITDA of 39.42% and of course, there were treasury income in that of about 40 Crores, 42 Crores, the rest of that being operating in nature. But there is about 5% in treasury gains end of December the rupee was at 82 plus levels, and a lot of our invoicing for that quarter was pegged to a lower amount. The rupee was weakening in that small period rapidly. So, there is an operating other income related to currency.

We also had a very favorable product mix just in terms of this period. So about a 2%, 3% margin that got added on that account. So those two put together is about 7% to 8%. There is a margin that is sitting on currency and product mix. On the cost side, we have seen raw materials correct from between 8% and 10%. So there is some ease off.

Most of our contracts now have a price pass through mechanism. So pricing this quarter would reflect the raw material costs in the previous quarter. So when the pricing kept going up, there was a paying lag, and now there will be a small period where the price reduction will follow by a lag. So there is 3% to 4% of that sitting, which is all costs related to raw material and freight costs. Some amount of freight cost has also started coming in.

So from a margin standpoint, of course, the next question will be what is our guidance on margin going forward. I think we will continue with our policy. I think we look at our business over many decades, at least many years in front of us, and when you are building such a franchise, it is very futile for us internally to look at every quarter after others. So while we continue maintaining a 20%, 22% operating EBITDA margin, it is more directional, more indicative than a quarter, especially last few quarters, we have done better than that, and there have been quarter in the past even worse than that. But I think that continues to remain. I think in the next quarter, we can share a little more sharpened margin guidance for the next year. But for now, the volatility continues. While some raw material prices have reduced, we have seen a bounce back in those rates. So the amount of volatility that we are setting on is uncharted, and in that case, trying to predict variables and then give a margin continues to be a challenge for us.

I think all we are trying to say is that over the last 3, 4 years, our business has demonstrated the ability to work with clients, work with customers and progressively be able to pass through most costs on the way up. Now obviously, with a fair and square basis, it will be adjusted down, and that is what makes us proud that there is a franchise we have built where we are not dependent on the winds of how the market moves.

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Moving forward, so EBITDA at 483 Crores of course, highest ever EBITDA amount, absolute value ever. Profit before tax of 453 Crores and profit after tax of 350 Crores, which has been a record quarter, and so 9 month profit remains at 787 Crores, which is up from 425 Crores, 9 months last year.

Our export benefits, which is the RoDTEP scheme, Remission of Duties and Taxes, that is about 16.90 Crores, largely in line with the previous two quarters.

Treasury becomes a little higher this quarter compared to previous at 42 Crores, and there is a large foreign exchange gain of 75 Crores. Some part of this foreign exchange also related to cross currency, not just rupee-dollar, but we have some exposure in other cross currencies, and this largely reflects dollar weakening, not just against the Indian rupee, but also cross currencies that we have an exposure to.

Our working capital continues at par. Raw material is at 138 Crores at 30 days working capital. All our stock, WIP and finished goods is at about 991 Crores, to be precise, and receivables is about 63 days, 853 Crores. I think all working capital numbers are largely in line.

In this quarter of the 71500 tons there is a little higher portion that is come from other sectors, which is cement at 27100 tons. Of course, and we keep maintaining that. So 9 months, if you look at it, 73000 tons versus 61000 tons and full year we will be closer to say, 95000 tons.

So on a full year basis non-mining did about 90000 tons, and this year, maybe 10000 tons more. So I do not think we should read a lot into the quarterly changes. Mining is at 44000 tons for the quarter and 144000 tons 9 months, and 73000 tons for non-mining, which is cement and thermal utility.

Some key numbers, a lot of you have those questions. Ferro chrome was around 117, 120 a kilo at the start of the year that is between 105 and 100 a kilo, about 10% lower and likewise, scrap.

We are sitting on next cash of 2300 Crores. Full year, I have already mentioned, we look at about 295000, 300000 tons for this year. Going forward, 2024, about 30000, 35000 tons is something that I think looks doable for now. Of course, that includes mill liners.

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So full year FY2023, we think we will do about 6000 tons of production and sales from that plant, and about 24000, 25000 tons of total sales coming from mining mill liners, and that should grow by another 10000 to 15000 tons next year, and based on that, about a 30000 tons, 35000 tons overall growth for fiscal year 2024.

Lastly as far as Capex is concerned for next year, we will do about 300 Crores. This year, we have done about 135 Crores. We have another 70 Crores, 75 Crores odd to spend. So we will do about 200 Crores of Capex this year. Next year, it should be about 300 Crores, which is a 200 Crores for the grinding medial expansion for 80000 tons that we are doing, which will take our capacity from 440000 to 520000 tons. Some land of 30 Crores, balancing Capex and some other enhancements that we are doing at about some another 70 Crores, 80 Crores so that put together is about 300 Crores of Capex for the next year.

So broadly, I think while a lot of sectors are worried about what global range look like. I think our focus on the core industries of cement and mining, I think continue to give us confidence that irrespective of what happens on global markets, at least in the coming 12 months we have got, there is not any macro worry, at least as far as what we have hearing from the customers.

We continue to do our work on many fronts as far as customers in mining are concerned, which is now the down process benefits. The whole solution that we are bringing in with our mill lining offering, and ultimately becoming a partner to the mining customers, where we are enhancing all benefits that they can accrue by partnering with us and using our products.

So no other major highlights to speak off. I think it will be business as usual for the next 12 months.

Having said that, I will request Sanjay Bhai, if you wants to share a few insights and then we will take to Q&A.

**Sanjay Majmudar:**

Thank you, and thanks everyone, for your interest. So it was a very interesting quarter, a very excellent set of numbers, but as Kunal clarified, quite a bit of it can be regarded as one off. Having said that, the basic business outlook remains the same. The opportunity remains equally exciting, and all the efforts are on to take a significant share slowly and gradually away from the forged into high chrome, and directionally, everything has remained the same. So from a business strategic point, opportunity point, our earlier thought that we

should be able to do at least around 30000 plus year-over-year addition incremental volume. I think all that remains and we believe that as we go ahead, we should be able to share more exciting news. So I think with this, let 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 Ashutosh Tiwari from Equirus Securities. Please go ahead.

**Ashutosh Tiwari:** Congrats on very good numbers. Firstly, on the volume front, obviously, after a very long time, you are delivering very strong numbers, and so in the mining side, it is still driven by copper and gold only. These are the two bigger vendors contributed to this growth.

**Kunal Shah:** Yes. So copper and gold, and of course, we are doing some work in iron ore, that also continues to be an area of interest and mill lining, which is not just gold and copper. So it is a mixed bag at least as far as there is no single ore driving disproportionate volumes.

**Ashutosh Tiwari:** You also mentioned about this 6000 tons of production sales from the new plant. This is for full year, right.

**Kunal Shah:** Yes, we have done about 2500 tons till now. In this quarter, we will do another 3000 tons, total about 5000 to 6000 tons is what we will do from the new plant.

**Ashutosh Tiwari:** Cement volumes, like obviously nine month figure is probably one of the highest that we have done in the last four, five years in the nine month period. So is there something to read over there in terms of new addition.

**Kunal Shah:** We have done about 12000 tons more, but there is a little bit volume that we have done with one thermal bit in India. But I think broadly 90000 tons to 100000 tons, 80000 tons to 85000 tons is not going to become 150000 tons. So still the materiality is not there.

**Ashutosh Tiwari:** Yes, but after a long time, we have seen some growth over there. So, yes, thermal, you are saying is not included.

**Kunal Shah:** We are happy about that, but none of those are factors that will give us material growth going forward.

**Ashutosh Tiwari:** This Forex gain that is part of other income a decent chunk is due to depreciation of INR versus Australian currency.

**Kunal Shah:** So INR rupee would be about almost 60%, 65% would be Indian rupees, but that is realized unrealized, both put together, and the rest would be cross currencies, or exposure outside of India.

**Ashutosh Tiwari:** While we discuss our freight costs coming down, but as we look at the freight cost number outlook freight cost number that we reported now as part of profit, that amount is almost similar in this quarter.

**Kunal Shah:** You will have to look at our linkage with our export, because we are not reporting our exported figure. We are shipping things out and it gets invoiced the following month or the following quarter. So that is how we are looking. We know that the freight cost is going down, this is actual freight cost incurred not the underlying export volume. This does not show that.

**Ashutosh Tiwari:** So there is some reduction in freight which is of course to come through.

**Kunal Shah:** That said, it is not very material, but this is coming on. Freight cost, okay some of the lanes that we operate in have seen consolidation and which is where we have not seen the kind of reduction, few other shipping lanes have seen the traffic means that are there. But we are hoping that will happen, I mean, shipping across the board has a weak outlook. So I think over next 12 months, that is one cost aspect that will reduce.

**Ashutosh Tiwari:** Realization should come down from next quarter as the past year happens.

**Kunal Shah:** Yes absolutely.

**Ashutosh Tiwari:** Like you said that our total mining liner will be around 24000 for the full year. What was the number last year?

**Kunal Shah:** About 17000 tons, I think.

**Ashutosh Tiwari:** So this new liner we have planned.

**Kunal Shah:** Correct.

**Ashutosh Tiwari:** Okay that is all from my side, all the best.

**Moderator:** Thank you. Next question is from the line of G Goel, a Chartered Accountant. Please go ahead.

**G Goel:** Good evening, sir. Sir, my question is on the EBITDA per ton side. So basically, it is consistently increasing for the last three quarters, and one year before, these were around 26000 per ton, and if I talk about 2021, these were only 24000 per ton. But in this FY2023, in first nine months, these are almost double, double to 47000. So my question is exactly what is happening. Is there any change in business economics that I am not getting? Because I understand, part of the reason could be the raw material pass on is happening, and cooling of the prices. But the thing is your absolute EBITDA is increasing, and that can only happen if you are able to increase your prices in addition to the cost increases.

**Sanjay Majmudar:** I understand your question. So let me first and foremost, tell you that you should not look at EBITDA per ton because it is not a correct reliable yardsticks for two, three reasons. One we do not operate with a standard product. So we have a very wide diversity of products, ranging from grinding media, then liners for cement, liners for mining, then we have VSM, that is vertical spindle mill pads, where the price range is very high. My point is that volume and pricing, they do not go in parity and hand-in-hand, and because of that, if you do not have a standard unit of measurement, you cannot view it as a unit of EBITDA per ton. So there is a product mix, then there are different geographies, different product economics. So we should always look at EBITDA in a percentage terms. That too as Kunal explained there are, again, on an operating EBITDA side, there are certain one off sort of benefits that did flow. Then we always do a pass through. For example, freight is 100% pass through as additional direct add-on item with the sales.

On the other hand, raw material variation is also passed through on both positive as well as negative side, which, of course, are lag. So when there are so many variables, EBITDA per ton will be misleading. Having said that, we have already clarified what are the reasons why this year you will see this quarter a sharp increase in EBITDA. We have explained that there is some effect of treasury. Even if you remove Forex, and if you look at pure operation, there also we have a benefit of raw material pass through, not effected or rather the selling price adjustment not made exactly in tandem with the raw material reduction.

So there are multiple factors, which we have to say. But as we explained, an operating EBITDA of around 22% odd, pure operating EBITDA is what is a very base case and there are chances it will go up. But at this point in time, we are not giving any guidance on the



margin. So this is the scenario. I cannot answer why my EBITDA per ton is going up or down because I am not internally evaluating based on that.

**G Goel:** The second thing, you mentioned your volume will be around 300000 kind of...

**Sanjay Majmudar:** This year, yes.

**G Goel:** Okay, yes, and for the complete year also, you are guiding this 22% to 23% EBITDA margin. Or you are guiding nothing.

**Sanjay Majmudar:** We are not guiding. What we are saying is, that is the base case with which we will be working. Why we are not guiding, we have been in the past saying that our current entire focus is market share and conversation from forged into high chrome, and there are, therefore, very, very different challenges that we are facing. Having said that, we have a business model that is robust to deliver higher margin. Then this 22% we are talking about. But having said that, at this point in time, we are not saying that we will do it. We are saying this is 100% visible. But right now, there is no guidance on the EBITDA side or on the margin side.

**G Goel:** Okay. That was the one point, and second thing is how you look at your top line, after financial year 2023, in terms of volume, if you can like...

**Sanjay Majmudar:** See what happens, we can only give you an indication about the volume, which we have been very consistent. Now we are saying that at least a 30000 tons per year incremental volume growth. Having said that, if you see my average realization, in this quarter and the previous was around 165 or so per kilo. Now that is a function of product mix. That is a function of the raw material pass through and the freight pass through, which has been reflected in a higher realization. Having said that, if the raw material prices come down in the quarter-over-quarter in a consistent manner and if rate goes down, my realization per ton can definitely go down.

Now how much it will go down it is not possible to let you know today, because even we do not know. So therefore, a volume growth and a very consistent margin is what we are internally looking at rather than absolute. Otherwise, this absolute number in tandem, I can say there will be a 10% topline growth, but that may not happen.

**G Goel:** Understood. Thank you very much sir. That is it from my side.

**Moderator:** Thank you. Next question is from the line of Pujan Shah from Congruence Advisers. Please go ahead.

**Pujan Shah:** First question would be on, first of all the production per metric ton and the sales per metric ton. So in this quarter, our total production is 64000 and our sales is 71000. So I think from last, let us say, from 7, 8 quarters we are low at production. So are we seeing any difficulty in the production side or like due to installing new facility, it has been like with the low production and it can take some chunk to 75000, 77000 in next quarter.

**Kunal Shah:** I think it was only a working capital optimization. I mean, that is something that we keep doing, and there was a higher amount of stock if you go back to our commentary over the whole of last year. Because of containers not being available, we were keeping more stock in transit, against an order to make sure that there is no situation when the customer is without supply. I think progressively, as things improve. Today, we are not speculating on how much improvement can happen. But we have been able to do something, because there is visibility of containers and shipping lines and delivery times. There is some amount of adjustment that we are trying to do at this time. I think it is just an optimization exercise right now.

**Sanjay Majmudar:** Just to add, when you said difficultly in production, there is no technical difficulties. It is just an average operating capacity utilization of around 65% that we are currently having. It will inch up as the volumes go up, but we cannot go beyond 75% or 80% theoretically because this capacity is also calculated based on an assumption about a particular product mix.

**Kunal Shah:** Also Sanjay Bhai, are the plants that we are setting up are higher capacity, right. 50000 tons mill lining plant, we cannot utilize that in the first year. So as we grow and our minimum size of plants is a little higher is where utilization levels appear a little low. That is why we are trying to give some guidance on sales volume nature for that.

**Pujan Shah:** Sir, the 300 Crores Capex, I have actually not get that point. So I missed your point on that one. So is that 300 Crores plus 200 Crores grinding...

**Kunal Shah:** Total 300 Crores Capex for next year, FY2024, as we speak. Of which majority is towards the grinding media expansion that we are doing. About 200 Crores goes to that.

**Pujan Shah:** About 200 Crores, and the 100 Crores.

**Kunal Shah:** 100 Crores, that is, we need to buy land. Because we are setting a plant, our internal optimization efforts are going on. 30 Crores towards buying land, 70 Crores towards maintenance Capex, some other capacity rationalization, etc., automation, other projects that we have taken up internally.

**Pujan Shah:** My next question would be on the 2300 Crores cash. So I assume that 300 Crores would be deployed in the Capex part for the next year. Still we hold a 2000 Crores of cash and cash equivalents. So what are we planning to get into? Are we looking at inorganic opportunities or we are rewarding shareholders for some portion for that.

**Sanjay Majmudar:** No, so I tell you, we have been very consistent on this. We are very conscious that yes, we are carrying a significant volume of cash or liquidity with us. Having said that, it is very strategic because a) as we explained year-over-year, we will have to do Capex, b) we will also have to invest significantly in our working capital because we are concentrated in India in all of our production related efforts and the sales happens across 125 countries of the world through a network of more than 20, 25 warehouses that we maintain, and we will have to ensure that we are able to give just in time deliveries to customers.

There could be some opportunity. But at this point in time, we believe that till we reach a reasonable level of sales in mining, and we acquire a decent market share, and we reach an internally stable situation, we want to have that luxury of carrying a little bit of extra cash and liquidity. Yes, we are conscious that current payout ratios are not high. Having said that, we are reviewing it, and we will definitely evaluate that if there is a surplus cash available and there is no such opportunity in site, we will take an appropriate call. But at this point in time, at least for next one year, we do not want to take any such call.

**Pujan Shah:** Sir, on the mining and others. If you see great improvement, and so in FY2021, we can see from 16000 to let us suppose to have reached at 27000. So are we seeing the others have been more margin lucrative compared to mining media or like the margin have been all dependent to the commodity cycle and how actually the realization goes on.

**Kunal Shah:** Cement and mining largely have a material margin difference. I mean, these are all products for us and pricing for it is a combination of a lot of things. But the expansion of margin that has happened is, of course, there is some amount of commodity pass through that is there. That remains and in some part of that, you will see easing going forward.

**Pujan Shah:** That is from my side. Thank you, sir.

**Moderator:** Thank you. Next question is from the line of Priyankar Biswas from Nomura Securities. Please go ahead.

**Priyankar Biswas:** Congratulations Kunal bhai and Sanjay bhai for very good results. My first question is like when I see your numbers for the nine months, and it seems that for this year, you are very much on track to do possibly a Rs.100 plus EPS. That is what it seems like, I mean, just on the nine months. Now next fiscal year FY2024, I believe that there would be some price pass through to customers, I mean, as the things cool off, the freight and the commodities, and as you said that like a 22% margin broadly. So in the next year, how do we grow our profitability or PAT? Because it seems that this year is so high that it even with a, let us say, 35, 40 growth next year, it becomes kind of a tough. So that is the first question. So what are your thoughts on that.

**Sanjay Majmudar:** So, thank you for telling us that yes, our EPS will be Rs.100 this year. My point is, as a management, we really do not look at the numbers from a narrow standpoint. We know what is the opportunity, what is the challenge and what we have to achieve. So we know that if the opportunity is 2 million tons or 2.5 million tons, and I am presently still scratching the surface, so to say, I have to ensure that I keep on going and converting maximum number of mines and reach a position where I become a dominant player in the space where I am operating. We know that technologically, we are unquestionably a leader today in the world. But whether from a market share standpoint, what is it that I want to achieve. So the whole focus is how do we convert mines, of course, make it profitable, and of course, ensuring that once we convert generally, the customer stickiness will ensure that I keep on growing my business with them. So as Kunal explained and as we are very clear, a one off can always happen. One off on the positive side, one off on the negative side. What is very important is that is my business model robust enough that year-over-year if I gain 10%, 15% market share or top line and I continuously increase my sales, can I maintain or even grow my basic core operating EBITDA from what is it my current level. My answer internally is yes, yes, we can do that. My business model is strong enough. Having said that, therefore, we are not worried that in this year, say my PAT reaches nearly 1000 Crores or say anything closer than that. Then there are years where we had shown that there were dips. Now this is a very different year, of course, our internal endeavor will be to see that we continue to deliver similar decent numbers. But there is no internal comparison that if this year I have done 1000 Crores, I have to do 1200 Crores next year. What is important for us is what is it that I am gaining, how many new mines I am gaining, which are the new markets and surmounting and how my traction continues. This is the entire focus. I am sorry, I am bit candid, but this is the fact.

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**Priyankar Biswas:** So that is quite a nice answer. Since you talked about the markets and all, actually two related questions on that. Like since you are exploring out new markets, so what are the geographies that we are like seeing a very strong traction right now, and parallelly, like within these strong results for this quarter, was there some benefits from the SAL acquisition that you had done to vertically integrate into the raw material space that you have done, I think, three, four months back. Was there any benefits of that as well.

**Kunal Shah:** No. Sanjay, I will take that. So first question, I think when Sanjay meant new markets, I mean, there is enough work that is already done. We just have to harvest those efforts. There is not one new mine that we are going to where we expect a lot of work to come. That is there has been dogged in our perseverance and our efforts to keep engaging, keep demonstrating that we can be a valuable partner. It is a longer lead cycle as we continuously try to explain, and the benefit of this long lead effort is that once we are in, it remains for a longer period. We do not go through the vagaries of subsequent economic cycles. So I think from the market standpoint, business as usual, that was in my initial commentary, there is nothing material that we have not mentioned or talked about. The ferro chrome part, the agreement that we have done, I think, is on track. I mean we are slowly ramping up progressively, they are also listed companies. So I do not think we want to speak much about it. I think it will just remain as one of our supply partners, along with other purchase vendors that we buy from for our raw materials.

**Priyankar Biswas:** I actually meant like, whether there were some benefits from this agreement this quarter.

**Kunal Shah:** No, it was not benefit linked, it was more trying to protect the supply chain. More than anything else, ferro chrome is an important raw material for us, and there is a plant in Gujarat, which is getting the raw material and it just gives us comfort that if something were to happen to the large one or two other vendors we are buying from, there is supply chain visibility.

**Priyankar Biswas:** Just one last question from my side. So it is a bit environment related. So what is happening is like investors now a days are often asking this question like on the carbon border adjustment tax that the Europeans are proposing and maybe it becomes more prevalent in the whole world. So what are our thoughts regarding reducing the carbon footprint. So any steps that you are planning to take.

**Kunal Shah:** We are very proactive. We are very conscious. Last year, I think 23%, 18% or 23% it is not on top of my head, but a reasonable amount of power came from our own renewable

sources, and I think we will take it to the max possible, which is 30% or 35% given we are a foundry where our loads are variable, we cannot go to 100%. So the base load that we consume based on current policies in states where we are present, we can go up to 30% or 35%. I think 30% broadly is what we will surely go to. It also saves us cost. So there is no reason for us to not pursue that. Over and above that, there is a large carbon footprint saving that we do or reduction that we do on the customer side. If you are helping to produce more if you are helping to recover more metals from the waste ore that goes out or reduce power consumption at their end. That is a material or reduce the toxic waste at the mining side. Mining companies, reduction of footprint at their end is what a large part of our business is. So I mean, we are doing work to quantify and put numbers around that. It is not easy because we do not get a lot of that data back from the customers. Or rather endorse data from the customer, they do not want to share their numbers. But we know it is very material thing. But power is one of the biggest carbon footprint from our standpoint, and we are already 20%, 23%. If we go to 30%, 35% that itself is a material step forward for us.

**Priyankar Biswas:** Thanks, that is all from my side. Thank you.

**Moderator:** Thank you. The next question is from the line of Abilash, individual investor. Please go ahead.

**Abilash:** Sir can you explain the establishment strategy like we have our current line in this warehouse globally. So how do we decide it? Is it volume dependent? Can you elaborate on that?

**Kunal Shah:** I think warehouses are not in the sense that other companies have where you have stock of material than whoever comes you replenish or fulfill from that location. Most of our warehouse is barring, I think two or three locations, are customer specific stocks. So when a customer places an order on us, given that we are not based in those countries. We are based in India. We are producing and exporting out of India. They get comfort if there is stock on the ground closer to them, and we are doing a door delivered supply. We are not using the third-party intermediary doing the fulfillment or the last mile sale to the customer. It is under our own agents, which is where a lot of those stock point locations are stocked, meant for a customer against an order which is already placed. So the strategy is that if there is a customer placing 10000 or 15000 tons of products from us, which is 1000 tons a month, we are very happy to stock 2 or 3 months of stock closer to his location, so that he gets a visibility for between 4 and 6 months, and that absorbs the need for a local plant for us. So

it is built. It is more customer specific and depending on the ocean lines, etc., around that country.

**Abilash:** Sir, but my understanding is that we have nine warehouses, and considering that you said that the stocks are customer specific. Now we are in various customers across cement and mining specifically. So in terms, it would be one warehouse would be carrying a different kind of stocks for different kind of customers.

**Kunal Shah:** A warehouse would be specific to a customer, but it could be at same point what are you coming to. What is your end question? I did not understand. A little bit of context or what you are trying to get. Maybe the answer is different than what I was going to say. What are you coming to?

**Sanjay Majmudar:** We have more. We are talking about 18 to 20, not 9. I do not know how from where you got this number.

**Kunal Shah:** No, no Sanjay Bhai, I am just saying that what is 9, it keeps changing. Today a customer changes, we may agree for a direct supply. The number of warehouses is not material. What is your question, what is the context that you are trying to understand.

**Abilash:** So the context is, I am just trying to understand is how our mode of the business is in terms of supply. So when you say it is a direct supply...

**Kunal Shah:** More than 70% supply is direct. It is more than 65%, 70% of my supplies direct, the balance, and that is customer specific, there is no rule of thumb within that. Depending on customer circumstance, between one and three months of stock, is kept for their comfort. When we start off. As we go forward, they get more comfort, we try to reduce that stock. But there is no rule of thumb. There is no specific overarching generalized statement I can make about our strategy for that.

**Abilash:** Sir can you explain where is the application of the forged media, which is still better than a high chrome.

**Kunal Shah:** Can we take that question offline. There are many other investors who probably understand the difference we have been talking about it. Sanjay Bhai, if you do not mind, we can spend half an hour, if you explain a little bit more how forged and what our strategy is.

**Sanjay Majmudar:** Fundamental question because everything is a grinding application. The only thing is our media reduces the wear rates and make the whole process efficient, otherwise, it is the same.

**Kunal Shah:** Yes, but it will require a little more context. I think just for the benefit of everyone else on the call, if you do not mind, we can have an offline chat and explain a little more of what we are trying to do with this.

**Abilash:** I just mentioned where I was coming from, and then I will go to the next question is that in the Canadian antidumping tribunal order, it was mentioned that SAG mills only use forged and not high chrome. So that was just the context where I am coming from.

**Kunal Shah:** First of all, there is no criminal action there. It is just we complete with Magneto, and as a completion, they try various means to keep, as a defense mechanism. They have a local plant over there, and they are going to a body where they are alleging that there is a competition related issue, and we are fully cooperating. It is a sub judice matter, I may not be able to speak more about it. But it is a market where we are already supplying high chrome and they are also supplying high chrome.

**Abilash:** Yes, I understand, I did not mention anything criminal. I just mentioned what was mentioned in the tribunal order, sir.

**Kunal Shah:** Tribunal order you mentioned criminal.

**Sanjay Majmudar:** He mentioned tribunal.

**Abilash:** Tribunal sir, not criminal.

**Kunal Shah:** Sorry. My bad. It is more the market is high chrome, where we are as in Magneto are supplying, and it is related to those supplies.

**Abilash:** Sir in R&D expenses, where do they get reflected in the annual reports under which head do they represent.

**Kunal Shah:** R&D expenses are not in nature of where we invent a new alloy. A lot of work that we do cause an effect link, if we are doing a new design, if we are doing a new alloy, we were trying different combinations of industries and metallurgy and micro structure related to heat treatment on top of that. Most of that work is where we are doing a supplier.



Depending on end user conditions, we design a product, we design the shape of the part or if there are castings, and the alloy of its grinding media, the alloy or what size to use depending on that end user condition. So a lot of our innovation comes from giving a solution to a set of end user conditions. Unfortunately, it is way difficult to carve out expenses across the value stream and park those under R&D expenses, because a lot of R&D that gets classified is more related to innovation and which is going to lab or you have got a bunch of people whose costs gets allocated over there. Most of those are costs that are operational in nature and are accounted as such.

**Abilash:** So that will be a part of COGS basically, right.

**Kunal Shah:** Yes, it is basically a part of operating expenses. Correct.

**Abilash:** Sir, can you explain what percentage of our receivables are parked as retention money.

**Kunal Shah:** Nothing. There is no retention in my business. We are not EPC contractors.

**Abilash:** Because there was some mentioning of retention in the annual report, that is where I think it come from. Okay no problem, sir.

**Sanjay Majmudar:** Hardly anything.

**Kunal Shah:** But not a material amount. I mean there could be some customers where there is some performance. If you have given a new product and some amount, but it is not a material amount, maybe it is an accounting classification, but nothing material as a concept, we do not supply where our money is tied to an end goal. It is led to, expect if it is trial also given some new guarantees to get in or do additional work.

**Moderator:** Thank you. The next question is from the line of Dhananjai from ASK Investment Managers. Please go ahead.

**Dhananjay Bagadia:** Hi, sir. Maybe you mentioned this, but what volumes are you targeting this year and what we are targeting next year.

**Sanjay Majmudar:** Around 30000 tons, incremental additional. We are talking about close to 300000 tons this year and about 330000 tons around that about next year.

**Dhananjay Bagadia:** 330000 tons next year, and this includes you mentioned 24000 tons from the mill liners for next year.

**Sanjay Majmudar:** No. milliner is a part of my total volume. We are talking of incremental volume.

**Dhananjay Bagadia:** You got 300 Crores Capex in FY2024, 200 Crores for grinding media liner, 30 Crores, other, 60 Crores, 70 Crores, is that right.

**Kunal Shah:** Yes, right.

**Dhananjay Bagadia:** Thank you, sir.

**Moderator:** Thank you. Next question is from the line of Charanjit Singh from DSP Mutual Fund. Please go ahead.

**Charanjit Singh:** First of all congratulations Kunal Bhai and Sanjay ji for very good set of numbers in a very tough environment with so many challenges, we have been able to achieve very good volumes for the first nine months. Sir, my first question is in terms of when we look at despite the duties which got imposed in three different regions, we have been able to achieve good set of volumes and we have been able to make up for the 25000 to 30000 tons of shortfall in volumes. Sir, can you just touch up on, has it been our new customer acquisition, which got accelerated, which helped us or any specific region or customer, which helped us achieve this in a very tough environment. That is my first question.

**Kunal Shah:** I think it is just that those four years, three years, we did not grow because of those reversals, but the whole thesis was that there is enough market for us. We have been talking about market in excess of 2 million tons, 2.5 million, 3 million tons even for forged material, where chrome is only 0.5 million tons, and there is this reasonably large runway for us to continue to grow. It is just that we talked about it, and these reversals meant that our growth was not visible, here. So, we have made good some of that and continue to grow. The idea is that if our thesis is correct, if our understanding of the market is reasonably on cue, we believe that chrome is a better solution than forged in material working conditions, in material number of mines which will allow us for that growth runway. As we grow, this is all uncharted even for an Indian company to be selling directly to consumers in 120 countries, and this is not a commodity product, it is a solution driven where we engage. There are consequences of using our product, and to that extent, that is the time it takes and which is what we have not been able to really plug and say I will

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grow x amount this year versus next just because of the decision making cycle there is. But I think it is a mixed bag. It is existing customers having grown. But clearly, these are new customers where we migrated from forged into chrome. So I think it is the whole thesis that we have been talking about coming forth in this volume addition that has come along.

**Charanjit Singh:** Sir, the other aspect is now again for the next year, we are very positive in terms of doing 30000 to 35000 tons of incremental volume. So here, will you be able to help us in terms of the incremental how much will be from new customers, how much from existing customers, and how is the new customer pipeline looking like from a number of mines that you would be targeting.

**Kunal Shah:** In our case, even if it is the same customer, if I am getting more volume, it is like a new customer for us because whole effort is different. It is not where the customer is growing or giving us half and saying, next time, I will give you more. So if it is a different side of the same customer, therefore, it is completely independent of work that we have done before. The whole effort to do proof of concept to make sure we are doing enough trials to give comfort, discussion on pricing. Okay, there will be some relief that there is a reference from a related mine site. But the large part of the effort remains the same. So the new 30000 tons you are talking of, I would say, at least 80%, 85% would be new customers.

**Charanjit Singh:** We also talked about liners now picking up pace in terms of overall volume next year, and we have been doing a fair bit of testing with the customers. So do you think that next year, as our solution gets implemented, there could be a positive surprise to that, and in terms of EBITDA margin or the profitability profile you have touched it also earlier. But has there been any kind of an increase in the overall profitability what we see on the liner side.

**Kunal Shah:** Liner is still 25000 tons of 300000 tons. Less than even 8%, 9%, and like we explained mining liners are part of the non-casting, non-grinding media piece of what we do, which anyway has had a higher margin compared to grinding media because of cost, effort, everything is not comparable. So I do not think so it is more mining liner related margin. But clearly, I think as we go forward, as the world realizes that today, you do not get people to do menial tasks, let alone engineering and high end work in the western world. It is starting to reflect in China. It will happen in India. I think for a type of business that we are in, where you need hands to do work. You need skilled hands wanting to work on the shop floor. I think India remains a great place, and going forward, we just remain optimistic about it that there are enough mots in the business that a fair margin would continue. Now the fair margin is a very complex subject, and to that extent, we are coming from Bajaj bhai

the whole philosophy is that we want to keep this business for many more decades, and 20, 22 is a robust margin. We have done 25, we have done 28 in a quarter, we have done 18 in others, and that is linked a lot of other things. So we stopped spending our time and effort to postulate what will it be next year or this quarter. From a margin standpoint, please allow us that we are not able to give more color beyond what I have just said. From a tonnage standpoint, I think mill liner is exciting for us, just that the whole competency is coming together. It is product aligned to everything else that we are otherwise doing. But we have seen many, many years where we have talked about it and not delivered or the growth has been slower. I think 30000 is a good place for us to start and stabilize from. Maybe a better guidance in another 12 months. Mining liner is also fairly new for us. As a philosophy, we would not want to extrapolate 1 or 2 good quarters into a guidance going forward. So I think 30000 tons is a fair guidance to leave it for now.

**Charanjit Singh:** Got it. Thanks for taking my questions, and giving detailed responses. That is all from my side and all the best for the future.

**Moderator:** Thank you. Next question is from the line of Bhoomika Nair from DM Capital Advisors. Please go ahead.

**Bhoomika Nair:** Good evening sir, and congratulations on a good set of numbers. Most of my questions have been answered. Just one or two things. You mentioned that we have started now kind of the pass through is much more easier with the client. So if you can just take a step back, how is the nature of the contract in terms of raw material pass through or freight pass through or any other cost pass through. How has that changed over the last two to three years in general time?

**Kunal Shah:** So when the raw material costs were going up. I think the pass through was coming along. But by the time you pass through, see first of all, it is that the discussion on pricing is very dicey. It goes up, but when it is going up, you always feel this is the top and chances are it is coming back. You do not want to waste your conversation with the customer on a pricing discussion, unless it is inevitable and required because there are plenty other things that we do with them. I want a higher price because of a better value addition and not because my raw material price went up. So it started with saying maybe here at the top will come along to it. But obviously, the formula, the pass through all of that is there. So raw material costs, there is a fair bit of pass through but even if there is a pass through customers are always coming back and saying, can we do 80% of this, 70% of this, all of it. They are large customers, and by the time the pass through came up, the prices of raw material costs went

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up higher even, and that cycle was there for two years, so we never went to fair margin. I recovered but by the time the cost went up again. Big thing about passing through of the shipping cost. That was never part of the contract, and it is still not part of the contract. It is that here is my shipping cost and because I cannot contractually say there is a lot of volatility, there is a little bit of complex science behind shipping. I think the big win for us was to be able to pass through that. That was a direct question on my model where I am producing in India and supplying to the rest of the world, and shipping rates go up and there are local incumbents. Maybe this forging guys and others, thankfully, all of it came through. All of my shipping cost has been passed through. I do not think many companies can play claim to this statement. To that extent, this reinforces that everything that we are doing, the cost structure that we have, the talent that we have in India, the place that we have built in and the global footprint and the structure that we have, it is over a three year period. I think that is what is the endorsement that comes through. So I think the contract is still a pass through for costs. Shipping is something that is something we discussed on a spot basis.

**Sanjay Majmudar:** So just to quickly add, I think most of the contracts are long-term, three years or above, and the purchase orders are typically for a quarter. So this adjustment they happen quarter-over-quarter. It does not happen every month.

**Bhoomika Nair:** Got it. So now on the way down, when commodity prices are starting to slightly correct, though there is some bit of volatility, freight is obviously falling down quite a bit. So would that also get passed on with a decent lag now where it is again customer...

**Sanjay Majmudar:** Sanjay Bhai saying it is a quarter basis. Raw material is a quarterly adjustment in a fair number of contracts. Raw material is not something that we want to sit with and keep talking about each time. So where raw material pass through are coded into a large number of contracts and that will happen as is. So wherever the price is at the end of the quarter, that becomes the basis for the subsequent quarter.

**Bhoomika Nair:** And the rest of it will be based on discussions of how much the price.

**Sanjay Majmudar:** There is a time line between coding everything and for example, auto component companies where their customers are tying them every nut bolt into cost and structure is there, and that is something that whether that is a structure you want versus where we would like to keep discussion, because there is a value added is we are winning along. We are not replaceable vendor because there is always a conversation, my sales guys always at

the site to discuss new opportunities to add values. The discussion on pricing should be the last conversation.

**Bhoomika Nair:** Sir the other thing was just what has been the price range in ferro chrome of late in terms of December, January, because there was some up move in commodities.

**Sanjay Majmudar:** Exactly. It reduced, but it went down, say, by 15%, went up by another 15%, but bounced back. I think it would be about 10% lower than about nine months ago, 10% to 12%.

**Bhoomika Nair:** On the volume trajectory, clearly, it is very heartening to see the kind of up move that we are seeing close to 300000 tons this year, next year is about another 30000, 40000 tons, and if I look at mining within that it will be about 200000 tons. Now in terms of the overall market, obviously, it is much larger. What can possibly help accelerate this additional volumes to maybe 40000, 50000 tons kind of a range or higher. What additional steps do we need to do kind of to grow at a faster pace. Where does that tipping point come where we see a faster acceptance or faster turnaround with new clientele or...

**Kunal Shah:** I think the emphasis is, it has been a three year wild ride. I think it is just to stabilize, continue to grow. Our customers are not such that we are not an ecommerce business where there is hyper emphasis on high growth. The idea is that we want to grow, but we have to grow making sure we are not doing anything inadvertent at the customers end. We do not want to go, give out guarantees or give out benefits that may not accrue and leave that conversation with a heartburn. I think 30000 tons for now is a fair amount of growth. Of course, we can do better and more, but I think given the variables, given what we have seen over the last 5, 7 years, we would rather wait and watch. There could be opportunities to do more. But for now, as we learn about the world and growth within this environment. I think we will be happy with the 30000 tons for now.

**Bhoomika Nair:** Okay, sir, this helps. Wishing you all the very best.

**Moderator:** Thank you. Next question is from the line of Bhavin from SBI Mutual Fund. Please go ahead.

**Bhavin Watsani:** Congratulations Kunal Bhai and team for great set of numbers. My question is, the EBITDA margins that you have reported in this quarter of about 30% excluding the nonoperational income and foreign exchange gain. If you were to take business as usual, we

understand it is never the case, but given the lead lag in pricing on, what would have been a normalized margin in this quarter if you take off those lags into consideration.

**Kunal Shah:** We have not done that exercise. I mean we can do it, but I do not think it helps us any better doing the bridge. We will have to work on with what that margin would have been.

**Sanjay Majmudar:** We have been saying that our normal operating EBITDA under normal set of circumstances could be anything in the region of 22% or thereabouts, a little higher also. Yes, we have been reporting better operating margins. But as we have been repeatedly saying, we are not giving consciously any guidance. So I think a very base case scenario of 22% would be a better number to work with on a long-term average basis. It can move up year-over-year. But at this point in time, we are not giving any guidance on that.

**Bhavin Watsani:** Sure. The second question, again, which is a subpart of this, and if I look at your employee cost over the last three years, the quarterly average has been in that 36 Crores, 38 Crores a quarter. Over the last 3 years where we have seen significant amount of inflation, you have increased capacities and volumes. If you could give us a perspective how has this been managed? Is it through increased automation, lesser manpower working with incremental, it would be useful to understand as we see that at least 1.5% has come from the operating leverage benefit only from the employee basis.

**Kunal Shah:** I think, but that will catch up over the period anything employee inflation in India is already picking up. But over the last three years, you are absolutely right. We have done a lot of optimization. We used the COVID period, we were already lean. We do not have a fancy head office. There were not cost in my P&L, which was outlandish. There is no fat in my overhead. But nevertheless, we went through the plans, we tried to optimize whatever people spend. So during those three years we try to keep the same absolute number, which is by some optimization at the plant level, all the capacity in the production we added we tried to do it without additional staff. I think broadly, that was what we started with, but this figure, we will start seeing some amount of increase there. Also our manpower cost, some amount of contractual manpower costs, it should have gone up, are sitting in other costs. So you will have to add both to see the real impact. At an employee level, I do not know what it was last year, the year before that, but we have done some amount of optimization and the balance is under other expenses.

**Sanjay Majmudar:** Just one thing to add, Kunal, as a percentage, it might appear to be dropping. But if you compare absolute numbers this is about 10% increase year-over-year as a normal increase about 7% to 10%, yes. That is what it is. But percentage would appear to be a little drop.

**Kunal Shah:** Yes, manpower is absolute. We try to do manage growth with the same manpower, I think, exactly.

**Bhavin Watsani:** So the other question is on the realization we have seen about almost Rs.172 a kg this quarter, and you mentioned about softening of the input price, which will now come in. so what we want to understand is, in your pricing how have the structure like, because freight is a large element, what part of your pricing or the contracts that you have are CIF linked pricing and given that the volatility that we have seen in freight is also negated, and if you were to take these one off element and the volatility out, this Rs.172, what directionally would we see it like 10% lower in the subsequent quarters.

**Sanjay Majmudar:** Very difficult to put a number to it, but gradually, yes, it can go down a little bit. What exactly how it is going to go down. Frankly, it is very difficult to decide, very difficult. Because see, everything is not automatic. So it is always subject to some negotiations. So if it goes up fast, it may not go down in the same proposition or with the same speed. But around over a long-term average, if commodity cycle goes down, there would be a reduction, maybe 5% to 10%. But again, it is a gas. There is no arithmetic, which we have put to it yet.

**Bhavin Watsani:** As things stand today, given the current freight and the input prices, what would this Rs.172 be? Will it be like as you mentioned, there is a lag impact.

**Sanjay Majmudar:** That is why I explained, no, we have not done any math to explain that Q4 it will be so much, Q1 next year it will be so much but over a longer period, if not strictly quarter-over-quarter. If this trend continues, it could be 5% to 10% yes.

**Bhavin Watsani:** The other question is on like when we had the question on the Canada. One of the explanation that you had highlighted that, okay now all is not gone, but given the way the freight has gone from \$3000 per container to \$8000, \$9000. It is become economically questionable because of the freight. Now that freight has reversed completely, could we expect that 50% is not lost, and can you see that reversing? Or are we already seeing that reversing because the freight normalization has already happened.



**Kunal Shah:** I think as a decision as far as Canada is concerned, given it is sub judice because they are investigating it again, there is a large market for us across the world, we would rather not keep talking about Canada as a specific point. I think it may come, it may not come, some may come, some may not come, we are working in a way where that is incidental. Just like cement is today. Tomorrow something else will happen. Now there is a conversation. There is a local plant and there is an authority involved looking into it, and to that extent, you would rather be into a free market situation and do our bit. So if it is okay, we have decided not to speak about the Canada business, and we consider it not a material part of our operations.

**Bhavin Watsani:** Last question. There was a lot of effort being put across on some of the South American markets, which are large copper producing mines but share here is much lower. Could you talk about the progress that we have had since a year or so that we have renewed focused in other part of the world.

**Kunal Shah:** So again, the whole effort there, we are making a lot of effort in those markets. There was a lot of large pushback on account the freight costs. The highest freight cost from India were to South America, and there was no commercial conversation or viability given that highest cost. Now that shipping rates look to be on their way down, they are still not corrected as much. I think it is just becoming an interesting time. We are doubling our efforts over there. It remains a very, very important market for us and we hope that we have something interesting to share in the next few quarters.

**Bhavin Watsani:** So in our guidance of incremental volumes 30000, 35000 for the next financial year, have we built in something coming incrementally from the South American, Latin American market or it is agnostic of that.

**Kunal Shah:** Yes. Again, it is agnostic of that. Today, we are saying there will be some, our plans are very different. We want to do much more. There is a lot of effort already down. So something from South America may come and something else may not come. I think 30000 is what where we are comfortable. That this much should happen. I mean it is not contingent on 1 or 2 or 3 mines coming up or not. We have assumed some portion of our considered market not coming. Now whether that does not come from South America or another market, I mean it is a question today.

**Bhavin Watsani:** Great. Thank you so much, and wish you all the best.

**Moderator:** Thank you. Next question is from the line of Anupam Gupta from India Infoline. Please go ahead.

**Anupam Gupta:** Hi, Kunal and Sanjay Bhai good set of numbers. So just quickly harping on the realizations a bit. Do you have a sense of what the exit rate of realization was versus 169 for the quarter, which you have reported?

**Kunal Shah:** Sorry, say again.

**Anupam Gupta:** The exit rate of realizations, let us say, what you repriced in December versus for the average of the quarter was there a material difference.

**Kunal Shah:** Second quarter was 167, third quarter was 169.

**Anupam Gupta:** So let us say, what I am asking is, what was it in December. If you have that sort of a sense versus average other quarter.

**Kunal Shah:** I do not have that number.

**Sanjay Majmudar:** You are talking about particular month.

**Anupam Gupta:** Yes, whatever signed, to look at it, what sort of reduction has happened in December, although October, November...

**Sanjay Majmudar:** No, it is not monthly. It is our generally, the pricing is for a quarter, which is based on the previous quarter's passed. So we do not have a monthly adjustment.

**Anupam Gupta:** And second question, I just want the exports mix. So as a revenue, we know that 80% is exports. But let us say, if you look at in terms of volumes, what is the export mix, and again, within mining and non-mining what is the export mix, if you can broadly give us that.

**Kunal Shah:** I do not think it will help the underlying question that you may have. I think we will leave it to this macro figures.

**Anupam Gupta:** Understand, that is all from my side. Thank you.

**Moderator:** Thank you. Next question is from the line of Amar Maurya from AlfAccurate Advisors. Please go ahead.

**Amar Maurya:** Sir, thanks a lot for the opportunity. Two questions. Sir, you indicated that 3000 was from the new plant. So basically 6000 tons is from the old capacity for the mill lining, 3000 tons additional we did this quarter.

**Kunal Shah:** No, I was only saying that there is a general question of what is the update with the new plant. I preempted that by saying whole year, we will do about 5000 to 6000 tons from the new plant, which is part of the total approximate 24000 tons that we will do full year for mining mill liners.

**Amar Maurya:** But then, sir, capacity doubled, right.

**Kunal Shah:** Capacity is 50000 tons for the new plant.

**Amar Maurya:** So when you say 6000 tons from the old plant...

**Kunal Shah:** 18 came from the existing plant and 6 from the new plant. That is broadly what I am saying.

**Amar Maurya:** And then year-to-date.

**Kunal Shah:** Not year-to-date, for fiscal year 2023 that is the guidance.

**Amar Maurya:** That is the guidance, okay. But then we expect the utilization of the new plant, let us say, what would be the utilization for 2024 then.

**Kunal Shah:** 2024, we will do about 50000 tons. Our guidance was adding 10000 tons approximately each year to be fully utilized between four years and five years, in 4 to 5 years. So we are on pace for that. Hopefully, we will do better than that, but at least that much.

**Amar Maurya:** And secondly, sir, this power cost, I mean, even in this quarter reduced significantly. So should we see that further going ahead in the quarter, the power cost will reduce further.

**Kunal Shah:** Power cost reduction is, I think not really material. There is also this cost savings that we accrue from our captive power sources, plus the little bit of efficiency that kicks in. Otherwise, I think, I do not think cost will reduce. It in fact, it will only increase because of

the state electricity board where we buy from, we do not expect a reduction there going forward.

**Amar Maurya:** In this quarter per ton, power cost has reduced. That is what I am asking.

**Kunal Shah:** Per ton, I have not done the math but that is all product fixed and other things.

**Sanjay Majmudar:** Again, the power cost is a function of 2, 3 things, how much WTG credit we got, how much production was more or less. So based on variance analysis we do quarter-over-quarter. So this quarter, one of the key reasons is that there is actually a reduction in production.

**Amar Maurya:** No, exactly. Per ton should not impact.

**Sanjay Majmudar:** No. So again, that is exactly what I am saying. Do not go on per ton basis because we do not do internal per ton calculations at all, and it is very, very misleading. A large volume plant is operating at a higher capacity vis-à-vis a semiautomatic or manual large casting plant operating at a different metrics. So therefore it is very difficult. We do not do per ton. It is not possible. Per ton power cost is not possible. Actually, it will not give you the correct yardstick.

**Kunal Shah:** And our cost, in fact. If I just do the math we have produced 80000 tons at a cost of 102 Crores last quarter, it was about Rs.1.27 and that is about Rs.1.03. I do not know where you got the reduction actually.

**Sanjay Majmudar:** So, it is very difficult.

**Kunal Shah:** No, that is not reduced. No, let me clarify, cost has not reduced per ton of production. It has, in fact, gone up slightly. We can take this offline, but for 80000 tons, there is 103 Crores. For 64000 plus tons, it is about 84 Crores. That cost has not reduced. You can just do the math again and connect with us offline if you still want to unpack that further.

**Moderator:** Thank you. The next question is from the line of Sajjan Kumar, individual investor. Please go ahead.

**Sajjan Kumar:** Thanks for the opportunity. Congrats Sanjay and Kunal Bhai for the great set of numbers. While we continue to using the cricket parlance, while you continue to guide like Dravid, but your actuals are like Shewag spin the ball out of the park. So I just wanted to know why you remain so conservative in your guidance.

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**Kunal Shah:** When you run a business like us, you will realize the amount of variables that we work with, we honestly the idea is, again I will give a short half a minute answer is we actually focus on the long-term, a lot of our customers are there for a long period, there is a lot of solution driven conversations happening, it is as long as I am doing that job well, the outcome is going to be okay and that is where all our effort goes into. The outcome currency changes, raw materials change, shipping cost change, the competitive scenario changes, some duties position comes in. The idea is that despite all of that how can we continue to grow and keep a decent margin and keep the market for a few decades going forward. When we look at it, I think 20%, 22% is a fair margin to keep you look at it on a ten year period, we may not be very far off from there. Now when costs are going down and previous quarter raw material savings are still baked in we have not pass through that. There will be some amount of extra margin sitting over there, that is what we have explained. So our guidance does not adjust for timeline related differences that may come along. I think that is the only difference in our guidance.

**Sajan Kumar:** No, I completely understand. I just wanted to congratulate for the great performance. Sir, just to elaborate on the same point. I just want to know how much of Forex movement you need to pass through the customers, is it something that will be retained by the company. The reason why I am asking this is this year rupee has depreciated almost 10% vis-à-vis the dollar that could also contributed to your EBITDA whatever the constant revenue to 24% guidance.

**Kunal Shah:** Yes, absolutely, but it does not flow it, it is not like an IT company selling to a US market where Indian cost affects margins, because even though I am selling in US dollar or our large part of a business in US dollar where there is actually 120 countries on the other side which are importing in the local currency. So in India rupee has weakened the factor is dollar has strengthen across the market of currencies. So when Indian currency is weaken by 10% my dollar pricing may have to be reduced to adjust for their local currency increase. So it is not a one way street for us but generally speaking directionally a weaker rupees better than a stronger rupee because if the rupee strengthen they have to go ask for a higher dollar price when I have to reduce my dollar pricing it is a happier place to be than the otherwise so directionally yes it helps us, but in reality a lot of that has to be pass through just for us to remain competitive for the customer and their importing currency.

**Sajan Kumar:** Thanks a lot and so the second question is you have almost 2300 Crores of cash so just want to know any plans are we looking at any backward integration strategies.

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**Kunal Shah:** I think to that extent we just believe and likely keep saying our best is still ahead of us and we are excited of what is presented in terms of the landscape and AIA can actually become a very different business going forward in three, four years and cash allows us to have that wider vision, but as of now nothing outside our core business there is no fund use plan outside of what we are doing which is working capital or factories for our business.

**Sajan Kumar:** All the very best, Sir. Thank you.

**Moderator:** Thank you. Next question is from the line of Aditya Khandelwal from SIMPL. Please go ahead.

**Aditya Khandelwal:** Thanks for the opportunity. Sir just wanted to get a better understanding of the mill liner market. So like in grinding media where chrome is gaining market share over forge. So just wanted to know that is also happen with the mill liner segment like chrome is gaining market share.

**Sanjay Majmudar:** Not really, mill lining has a different alloy base, and we are trying to introduce new alloys, but it is not forge versus chrome at the existing incumbent it is a low chrome product, and we are in that same alloy range if I were to use that word. The differentiation for us comes in, in terms of design of the liners and of course with the metrology that we are offering ultimately resulting in benefits for using our product versus the competition in the mill lining space.

**Aditya Khandelwal:** So the reason why I am asking was because this another listed player which claims that is hybrid mill liners which is made of steel and rubber and got the same benefits which we have with our chrome mill liners. I just wanted to know your views on it.

**Sanjay Majmudar:** I am not sure we have understood what their claim is, but rubber and steel are generally mutually exclusive there are operating conditions where steel is a better solution and then there are operating conditions where rubber is the defector and there will be overlap conditions where either can work depending on some other variables, but that is our understanding of the market I do not think I can reflect or respond to someone else's view on that that is for you to verify whatever is the steel market in our opinion is and will continue largely to be a steel market of course with the caveat of some overlap operating conditions where rubber could be a solution and likewise where rubber can be replaced by steel on the other side. So with the caveat of that overlap we believe steel as a material will continue in the market that we are serving.

**Aditya Khandelwal:** Just one last question. You mentioned that we should look at the company on an EBITDA margin basis so your realization comes down and the margins remain the same, so the EBITDA on an absolute basis would be a little lower, but with volume growth our EBITDA would be on an absolute basis remain the same and show some kind of growth in the next year. So would that be a correct understanding.

**Sanjay Majmudar:** Technically, theoretically what happens, that when my margin remains constant sales theoretically comes down little bit then in terms of percentage actually it will grow a little bit as a percentage of sales, having said that there are multiple variables with which we work one is product mix, second is the status of pass through which is a particular product at that times and we do multiple products like casting, liners, grinding media. So depending on product mix also, it plays a very major role in pushing the EBITDA needle either which way. Having said that technically and theoretically if I work with a basic understanding that I want to earn and maintain my margins then in percentage terms in a falling pricing scenario actually the margins will go up as a percentage, but that is a theoretical answer.

**Moderator:** Thank you. The next question is from the line of Sujit Jain from ASK Investment Managers. Please go ahead.

**Sujit Jain:** Thanks, congratulations. Did I hear it correctly that every year mill liner volume can go up 10000 so let us say in FY2024 it could be 34000 tons.

**Sanjay Majmudar:** No, so you see we are talking our consolidated volume this year, which Kunal explained you about 20000, 23000 odd tons our rated capacity of the new plant is about 50000 we are also doing some liner from our existing plant. So we believe that over next two, to three years we should achieve a near optimum capacity utilization but then exact number of 10000 is not what we are talking about. We are talking of a directional opportunity, if the opportunity is good, our efforts are on, let us see. But we talking of a blended volume incremental growth of 30000 so we are not saying from that mill liner will be so much, no we do not do that.

**Sujit Jain:** Second question is on Brazil that I think was to come up five years after the initial duty which was in December 2017, so when it could have come up for hearing in Brazil, if you can quickly give an update on that, December 2017 was when it was imposed and this period was for five years.

- Sanjay Majmudar:** Yes, we will see next year but as of now currently we have already as I explained in the earlier call we have already started supplying on a decent basis to Brazil and they are paying the duty so very honestly we have become agnostic to the antidumping duty scenario in Brazil.
- Sujit Jain:** It should have come up for hearing again with the government in five years December 2022 that was the last understanding that we had.
- Sanjay Majmudar:** Yes, it will come up, but as of now we have not tried anything on that.
- Kunal Shah:** It will come up for reassessing middle of this year 2023.
- Sujit Jain:** And currently 11.8% duty.
- Kunal Shah:** Correct.
- Sujit Jain:** One last question is on SAL. See how much of your raw material is basically ferro chrome and how much would be scrap, ferro chrome broadly.
- Kunal Shah:** 25% of my production.
- Sujit Jain:** SAL would be 25% of your ferro chrome consumption.
- Kunal Shah:** No, the SAL would be just one of the five vendors that we keep buying from I do not think there will be material related to that supply immediately, ultimately we will see how they scale up and what happens.
- Sujit Jain:** Sure you said 25% is ferro chrome of the RM.
- Kunal Shah:** Yes, in volume terms.
- Sujit Jain:** And typically for 100 tons you will require 110 tons of RM.
- Kunal Shah:** Correct.
- Sujit Jain:** Sure. Thank you. All the best.



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**Moderator:** Thank you. As there are no further questions. I now hand the conference call to the management for closing comments.

**Kunal Shah:** Thank you Nirav for taking this. Thank you all for joining the call. As always Sanjay Bhai and I remain available for your follow up questions offline, and we look forward to engaging again for the fourth quarter numbers. Thank you and have a good evening.

**Sanjay Majmudar:** Thank you. Thank you all.

**Moderator:** Thank you very much. On behalf of AIA Engineering Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines. Thank you.