



“MM Forgings Limited  
Q2 FY2023 Post Results Conference Call”

**November 14, 2022**



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**Moderator:** Ladies and gentlemen, good day and welcome to the MM Forgings Limited 2Q FY2023 Post Results Conference Call hosted by Batlivala & Karani Securities India Private Limited. As a reminder, all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing “\*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Annamalai Jayaraj from Batlivala & Karani Securities India Private Limited. Thank you and over to you, Sir!

**Annamalai Jayaraj:** Thank you, Tanvi. Good evening everyone on behalf of B&K Securities welcome to 2Q FY2023 Post Results Conference Call of MM Forgings Limited. I also take this opportunity to welcome the senior management team of MM Forgings Limited. We have with us today Mr. Vidyashankar Krishnan – Vice Chairman & Managing Director, and Mr. Venkatakrishnan – Chief Financial Officer. I would now invite Mr. Vidyashankar Krishnan for his opening remarks to be followed by question-and-answer session. Also may I remind you of the safe-harbor about the company may be making some forward-looking statements that are to be understood in conjunction with the uncertainty and the risks that the company faces. Over you, Sir!

**Vidyashankar K:** Good evening everybody. This is Vidyashankar Krishnan, MD MM Forgings Limited. We have ended the half year with the turnover of 681 Crores and quarter with 347 Crores and on a consolidated basis we have crossed 704 Crores for half year. EBITDA stands at 18.9% for the half year and 19.3% for the quarter ended. We have forged about 36,000 tonnes and sold 35,000 so we are on track to cross 70,000 tonnes for this year or we should end up between 75000 and 80000 as we had earlier indicated 80,000 tonnes for the whole year as such.

Sales between exports and domestic have been roughly equal. On tonnage basis exports tonnage stands at 18600 tonnes and domestic tonnes at 20000 tonnes so roughly in the ratio of 45% exports and 55% domestic sales so these are the brief numbers and now open the questions.

**Moderator:** Thank you very much. We will now begin the question and answer session. The first question is from the line of Mahesh Bendra from LIC Mutual Fund. Please go ahead.

**Mahesh Bendra:** Thank you so much for opportunity. I just wanted to know your broad view on the business outlook, I mean compared to June quarter, have you seen more traction on domestic freight and an export site, I mean how is the business outlook on both segment if you look next 9 to 12 months, how do you see the business shaping up on both geography? That is my first question Sir.

**Vidyashankar K:** Loaded question not in the negative sense but in the sense of a very difficult question to answer at this point of time, but I would say we are still bullish. We expect to end this year at about 1350



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Crores to 1400 Crores of turnover and next year we would expect to cross 1800 Crores. We are also continuing to launch and develop new parts even as we speak across the board both with domestic customers and export and we are seeing huge traction across the board so that is going to be really buoyant coupled with a strong domestic economy we would expect to knock on the doors of 2000 Crores in FY2024.

**Mahesh Bendra:** That is heartening to know Sir. Sir on export side which are the geographies you are currently exporting and where do you think the growth momentum seems to be high?

**Vidyashankar K:** Disclaimer to that the is overall macroeconomic situation but looking at the way things are shaping I think China plus one is becoming a reality and even a trickle will mean MM Forgings will be flooded with orders that you will struggle to cope with at current pace so the order is well in spite of recession I think I expect the situation to be very positive for MMF. You were asking about which geographies we serve? We serve the geographies of North America, Europe, South America and India.

**Mahesh Bendra:** What proportion of our business comes from the Europe because that is the one geography which is showing signs of weakness all over the world so how do you see that and you said that the China plus one policy is being played and that is looks quite evident now that one is trying to be set up new supplier in India but have you witnessed any inquiry flows in that fashion where suppliers that buyers are looking to towards India more from manufacturing viewpoint?

**Vidyashankar K:** We are seeing that happening and we have won a new order for approximately and that goes towards replacement of procurement from Far East so India is positioned to take advantage of any of the trends. Europe constitutes 17% of our sale, India 52%, US 21% and South America 10% approximately.

**Mahesh Bendra:** Thank you so much Sir.

**Moderator:** Thank you. The next question is from the line of Sanjay Satapathy from Ampersand Group. Please go ahead.

**Sanjay Satapathy:** I could not catch the numbers that you gave for your volume and on the guidance, can you please articulate it again?

**Vidyashankar K:** We have achieved a turnover of 681 Crores on a standalone basis for H1 FY2023 and for Q2 FY2023 in 47 Crores again on a standalone basis. EBITDA for the quarter stands at 19.3% and for H1 for the entire half-year at 18.9% so we expect to end this year approximately 1400 Crores and the next year we are targeting over 800 Crores was really knocking on the doors of 2000 Crores. On the tonnage side we have produced 36000 tonnes in the half year and we expect to across 75,000 tonnes for the full year and in the next year we expect to across 90000 plus tonnes.



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- Sanjay Satapathy:** Understood and can you give us the split of your exports between Europe and America?
- Vidyashankar K:** I just mentioned that 17% is Europe and US is 21%, South America is 10% of overall side.
- Sanjay Satapathy:** Understood and Sir your capacity utilization right now is how much?
- Vidyashankar K:** Our capacity utilization at the end of the year should be 75,000 tonnes on an expanded capacity of 130000 tonnes.
- Sanjay Satapathy:** Thanks a lot Sir. It looks like you were initially looking at second up to be something similar to first time will your margin improve?
- Vidyashankar K:** Margins very likely we got to answer these days so I am not going to stick anything out. I would say that margins will be at least static for the reason that we should see growth countered by some inflation on operating level, this is still slightly cooling off and so there should be some relief on that front; however fuel oil could remain sticky and we could see some inflation elements there plus overall the trend on manufacturing side in terms of operation cost could go up a little bit so all that should be counted by increase in sales by and large margin should be steady.
- Sanjay Satapathy:** Understood. Thanks a lot Sir. This capacity utilization?
- Vidyashankar K:** 57%.
- Moderator:** Thank you. The next question is from the line of Peter from Ksema Wealth Management. Please go ahead.
- Peter:** Good evening Sir. The last part we did not catch it capacity utilization average Sir? How much was the capacity utilization you just mentioned?
- Vidyashankar K:** 57% on an annualized basis assuming we'll do 75K tones our capacity, on a first capacity of last in 120,000 tonnes. We would virtually have added the last 10,000 tonnes of capacity in the last month of the year so capacity available right through the year if you see is 75 plus 120.
- Peter:** In terms of raw material have you been able to go through your high cost inventory or you are still holding any high cost inventory and do you have any pass through?
- Vidyashankar K:** Inventory is what is there in stock and that remains you cannot reduce it or increase it beyond the point, you can increase it recklessly that is not an issue, but we cannot reduce it beyond so we can play around a little bit with buying and stocking; however, we have to consider so many things that also is required for production so we have not been able to do too much in the



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inventory and at the same time neck to neck if you see commodity prices are only higher now than they were at the beginning of the year of the financial year.

**Peter:** With the production cycle by when do you think this recently low cost inventory will come into the play and how you can get rid of the old one like how many more weeks or months Q3 will it be possible to?

**Vidyashankar K:** First of all we do not account it that way and we really candid with you, we do not account it that way we account on a weighted average consumption basis so if inventory comes in at lower rates it brings down the consumption of the material consumed it is not free.

**Peter:** My question then the revenue per tonne which was very high in FY2022 going forward for the FY2023 and 2024 from that level, how do you see the growth or degrowth Sir revenue per tonne?

**Vidyashankar K:** EBITDA...

**Peter:** Sir in revenue per tonne FY2022 is the height so from that level how much is the room to go up or down in the next two years?

**Vidyashankar K:** I would say we would be static over the previous year.

**Peter:** That is all from my side.

**Moderator:** Thank you. The next question is from the line of Sonal Gupta from L&T Mutual Fund. Please go ahead.

**Sonal Gupta:** Sir just on the tonnage that you spoke about I do not know if I noted down correctly, you said export tonnage was 13600 tonnes for the first half or 16000 tonnes?

**Vidyashankar K:** 13600 tonnes and domestic was 22,000.

**Sonal Gupta:** Okay so that is how you get to 36. Sir so then what was it for Q2, total tonnage?

**Vidyashankar K:** I do not have the number with me specifically for the quarter. Domestic and export I do not have it specifically in front of me from quarter. We can message you or mail it to you.

**Sonal Gupta:** The other thing I wanted to understand was there is a big sharp increase in other expenses compared to the first quarter of this year so can you explain the reason for this almost 8 Crores jump?

**Vidyashankar K:** Travel has gone up considerably and so have some donations done other than that there is nothing specific to mark.



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- Sonal Gupta:** Sir in terms of when we are looking going forward like what is your outlook in terms of the export side of the business given various geographies and how you see things?
- Vidyashankar K:** Europe will be the joker in the pack; however, what will also happen or is expected to happen in Europe if the war situation that continues beyond January is energy prices have skyrocketed as energy prices skyrocket customers will increasingly move away from European that is a positive trend. There may be overall reduced volumes from Europe because of reduced demand perhaps our share will go up smartly and sharply and therefore we should remain largely entrenched.
- Sonal Gupta:** Got it but Europe is only a third of your export so just in terms of overall export?
- Vidyashankar K:** It is about 17% of overall sales.
- Sonal Gupta:** Correct so 48% of total sales, is exports so in that sense how are you seeing like US and South America, do you see growth there?
- Vidyashankar K:** Those markets are likely to be range bound. South America more positive than USA for the reason that the US also is not too strong at the moment and with higher interest rates housing will fall in the US may be followed by other countries. So far we have a market that has been holding up but we are expecting kind of hold on.
- Sonal Gupta:** Just last question from my side in terms of from an operational aspect like raw material cost is anywhere pass through for us but in terms of the conversion cost do you see some further upward pressure in terms of cost which will pressurize the margin or do you think that incrementally we should not see too much pressure?
- Vidyashankar K:** We will see. When I did explain the outlook I do expect pressures on conversion costs at our end continuously, over the next few quarters for the reason that inflation is likely to pickup over the next two to three quarters and owing to higher base from Q3 of next year onwards we started decline very sharply. The next two to three quarters I would expect inflation to go up so we would see increases in price of fuel oils and steel is expected to be muted, overall mixed bag but with a positive bias that cost will go up rather than we continue; however, this should be managed with overall sales growth. Overall EBITDA margin should be better. There is an earlier question on sales realization I would like to answer that with a little bit of data. FY2022 we ended up at about back in Rs.173,000 per tonne and in Q1 it jumped to Rs.186,000 and in Q1 lack in Rs.195000 and averaged for this year at lack Rs.190,000 per tonne even if you take away a little bit of other income etc., so sales per tonne should definitely increase from back in Rs.173,000 for the previous year per tonne to about Rs.185,000 per tonne. Largely on the back of much more value added.



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- Sonal Gupta:** Just one more last question so on the given the rupee depreciation do we see a benefit for us or will that be largely a pass through for us?
- Vidyashankar K:** It will be a direct benefit. It is not positive at all.
- Sonal Gupta:** So our contracts will be dollar or euro denominated right?
- Vidyashankar K:** Mostly other than one or two barring one or two customers it is largely exchange rate either way for MM Forgings.
- Sonal Gupta:** The freight cost is also coming down so will that again benefit us?
- Vidyashankar K:** Nothing freight costs are coming down and movement is coming down so that also will benefit, what will happen is that you have been bearing some portion of rate increase and customers have been bearing the brunt of demand. What will happen is it recreates from below the threshold where we are bearing even otherwise also if freight falls and customers does not fall below the threshold even though it will be margin accretive because it just inflates both the topline and the bottom line so that takes to both ways fails the freight rate drop will be good for us.
- Sonal Gupta:** Got it Sir great. Thank you Sir.
- Moderator:** Thank you. The next question is from the line of Ramakrishnan Seshan from Spark Capital. Please go ahead.
- Ramakrishnan Seshan:** Thanks for the opportunity. My first question is on EV's, could you give us some more color on what sort of traction is the company saying in the EV space especially how are things progressing, could you talk about orders that the company might have won thus far and what sort of revenue targets in the EV space do you have in mind Sir?
- Vidyashankar K:** It is really good news, is there. Just a few days back we figured out, first vehicle directly at our end and we have been good traction literally and this is under development. We see a lot of positivity over there in fact it is an auto and I prepared the0 auto myself really amazing and there is no vibration nothing and we feel really excited about it and there is a great future for our products in that space looking at translating this into revenue we have done some forecasting calculations. We expect to have a modest 2023-2024 at somewhere under 25 Crores of sales and thereafter we expect to do anywhere above 100 Crores in FY2025. These numbers could shift dramatically hopefully upward if there is customer action not if and there is customer action. What kinds of vehicles are we servicing or are we planning to serve right now 3 Wheelers, 4 Wheelers and next will be 2 Wheelers. We are late into the two wheeler space so we are not really hurrying it up but we would like to focus on the three and four wheeler space.



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- Ramakrishnan Seshan:** Okay and Sir what sort of investments are we looking at?
- Vidyashankar K:** Rs.100 Crores in the next 18 to 24 months in EV space and largely be in testing, prototyping and serial production, batch production and serial production facility. We initially probably set up facility on a leasehold property and then launch our own move into our own facility once it is ready.
- Ramakrishnan Seshan:** Would you at all like to name customers you are engaged to it on an ongoing basis at all?
- Vidyashankar K:** No not right so later because policy to disclose customer names, customers do not want us to do it as well. Prospects are really looking good.
- Ramakrishnan Seshan:** That is good to hear Sir and then my second question was on your revenue target for FY2024 you said you could possibly be looking at 1800 Crores and even close to 2000 Crores well I am just trying to understand this bridge between the revenue target and FY23 and FY24 so what in your mind will lead to this sharp growth in revenue Sir in FY2024 bit geography will drive that revenue growth, will it be organic OEM volume growth or will it be wallet share gains or new products how will it look like?
- Vidyashankar K:** What geography will drive it? India will drive it. Second there is re-growth, second there is also a wallet share gain, once we launch new products, couple of years so all that is coming into bulk at various points of time so that also translates into wallet share.
- Ramakrishnan Seshan:** Because I was thinking that this growth is strong especially given the fact that we could see commodity prices softening from here on so in the light of that 1800 Crores-2000 Crores of revenue guidance seems pretty strong, it is nice to hear actually?
- Vidyashankar K:** Commodity prices soften by 5% to 10% that will have a 50% impact on us, 40% to 50% impact, so possibly we could see 100 Crores or 150 Crores so notwithstanding I am projecting this on constant commodity basis. If there is a dent here or two I think when growth is that strong I do not think we should be too concerned about big old happening on account of commodity prices. Now when we say pass through it is also mentally passed through.
- Ramakrishnan Seshan:** Right Sir perfect so thank you very much.
- Moderator:** Thank you. The next question is from the line of Harsh Gemavat from Batlivala & Karani Securities India Private Limited. Please go ahead.
- Harsh Gemavat:** First of all congratulations for continued strong set of numbers. My first question was on the segment wise mix so what was the mix for CV and PV in this quarter?
- Vidyashankar K:** Harsh, decimal points there they are holding let us say 82% CV, 11%, PV and 7% off highway.





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- Harsh Gemavat:** Is it PV segment seems to be performing well right now, is it more towards the domestic market or the export market Sir?
- Vidyashankar K:** Mixed both. Both domestic and export.
- Harsh Gemavat:** What is that outlook on the PV segment going ahead what kind of mix are we targeting in the next few quarters?
- Vidyashankar K:** PV will go up but the silent thing that we have not performed is the off highway segment. You see it was 4% for the last couple of years, 4.4% in FY2022 now it is 6.5% followed by 2% so off-highway something is there focused on globally that is probably paying some dividend. On the PV side we are set to launch some products both domestic and export in the PV space so augers strong for PV but let us face it PV parts are light so marginally off highway will easily overtake it even if the numbers are less higher value and with more heavier parts.
- Harsh Gemavat:** Okay so the realizations will grow?
- Vidyashankar K:** Realization are grow but anyway PV add to the mix.
- Harsh Gemavat:** On the margin front is with the new products that we are talking about which will increase realization so in the margins be in line with PV segment or will there be lower compared to CV?
- Vidyashankar K:** I did not get that last point. Productions will be in line with CV segment. Margin in the CV segment is a tough market in terms of margins generally, because it is a mass market and therefore globally if you see so in the PV and OHD segment that we are targeting so will they be in line with CV segment or will they be lower as compared to CV segment margin. You have the scope for CV.
- Harsh Gemavat:** Yes correct on terms of volumes and realizations will be much more correct. On EV side so we have made a new acquisition in EV motor space I believe correct, could you give us some information?
- Vidyashankar K:** Broadly in the EV power train space starting with motors.
- Harsh Gemavat:** Starting with motors and what other parting with motors?
- Vidyashankar K:** We will get into gearboxes and controllers as well so we are actively looking for opportunities in both the spaces and come up with our own products controllers and gearboxes.
- Harsh Gemavat:** Have you received some orders for these products Sir?
- Vidyashankar K:** Yes we have.



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**Harsh Gemavat:** How do you look at the integration happening of this business would be with our current business?

**Vidyashankar K:** Let me elaborate about it. They are pretty desperate or distinct so integration is largely in terms of execution. EV business has very little to do with forging business insofar as components of the technology is concerned, however we keep serving the same customers and therefore there is a huge connection between. The brand equity and the current business will certainly help the entry and the growth of the business.

**Harsh Gemavat:** That is what I wanted to focus on, so this will help us gain more business, current bandwidth and so before I go to the last question on this capex side so we are maintaining our capex guidance for the year?

**Vidyashankar K:** We have forecast to spend around 200 odd Crores for the remaining of the year, we spent 90 Crores, we would expect to spend another 200 Crores but I do not know whether we will have the ability to spend 200 Crores in the sense, this is speed of transaction so I would expect somewhere close to 200 Crores in the next 6 months, taking the total close to about 275 Crores to 300 Crores for the entire year, and for the next fiscal it is difficult to be next fiscal, we have planned as of now and overall outlay of around 550 Crores for the next 24 months with 90 Crores having been sent 460 Crores is yet to come by way of spending that will take place over the next 24 months. That will be funded at about 250 Crores of debt and 300 Crores of internal accruals.

**Harsh Gemavat:** That is all from my side Sir. Thank you.

**Moderator:** Thank you. The next question is from the line of Prolin Nandu from Goldfish. Please go ahead.

**Prolin Nandu:** Thank you Sir for taking my question. I want your a little bit more color on this China plus one opportunity and also some opportunities that might come in Europe so could you touch upon in which geography where we can see this opportunity coming from because this will be largely for the export market so could you give us some granularity as to we are already seeing some orders which are shifting from China or are we already seeing some inquiries which are coming from Europe, could you spend some more time on this particular aspect?

**Vidyashankar K:** China, yes we have landed a couple of orders from customers based in North America and their team to look at more purchase from India number one and as far as Europe is concerned every customer we have been talking to is very clearly aware that energy prices are up for renegotiation between manufacturers in the Euro zone and energy deliverers particularly gas etc., these contracts come up for renewal we are told by February so come January and February there will be real mayhem in the market because prices have gone up sky high and everybody or other will be trying to look at we will be looking at how to all the stay with supplies so Europe will hold greater opportunities for us as we go on. Market might shrink a little bit no doubt overall sales



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mix that overall sales engine, overall market may shrink as Euro zone but I would say MM Forgings only turn to benefit from the changes that are being seen.

**Prolin Nandu:** Sure Sir so at least from Europe we have not seen any inquiries which we have right now right you are expecting a mayhem?

**Vidyashankar K:** No. We are seeing. In a lot of places, a classic case of customer moved away from us from one part, on one part saying that we were high on price because of steel and wanted to reduce our SOB, share of business same customer has come running back because he is not able to get supplies from Europe.

**Prolin Nandu:** Understood so you are already seeing some movement.

**Vidyashankar K:** All the heats, which were there during negotiation everything went down the drain and now customer is cozying up saying he is not able to get supplies.

**Prolin Nandu:** Sure point taken Sir. Second question is on your capex that you are planning a 450 Crores of capex over the next 24 months out of that 90 Crores we have already spent, could you help me?

**Vidyashankar K:** Let me clarify it is 550 Crores – 90 Crores.

**Prolin Nandu:** 550 Crores minus 90 Crores and out of this, what would be the capex that you will spend on this new acquisition that you have made or investment related to that new acquisition?

**Vidyashankar K:** 100.

**Prolin Nandu:** So basically 550 - 100 so 450 will be the investment in our core business right?

**Vidyashankar K:** Approximately yes all of you guys have forgotten that we have one more subsidiary called SVPL low interest business, which makes alternators so there we have earmarked another 25 Crores.

**Prolin Nandu:** My question the larger capex will be spent in our core Forging and the machining part of it now we are sitting on the 57% capacity utilization right in some sense?

**Vidyashankar K:** Roughly 62 standard 62 it is unfair to and the bottom line because the bottom line is going to increase only the last month of the year if at all so we should look at only 120,000 from the right so current capacity is 62 so why should we be pouring money when our capacity utilization is so poor.

**Prolin Nandu:** That is right.



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- Vidyashankar K:** Most of the capex that goes in the core business is into machining, very little is going to increase our capacity from 1,20,000 and 1,30,000 tonnes so we are more focused on utilizing our forging capacity and very intent on expanding our vision footprint. Over the last 24 months MM Forgings translated from being a forger with the machine shafts to a supplier of machine companies very clearly we are seeing the effects of the transition in our operations.
- Prolin Nandu:** By the end of let us say FY2024 what could be the share of the components that we could be supplying that would be machines right and where are we right now?
- Vidyashankar K:** We are at about 50% right now. We will end up at around FY2024 up close to 65%.
- Prolin Nandu:** Close to 65% machine and is there any rough number that every 1% increasing machining would probably help us earn certain margin in terms of basis points, any rough number that?
- Vidyashankar K:** I would stop there. I thought we had all our questions covered for this session so we will have to work that out and see what is the revenue growth from machining that will lead to ultimate EBITDA.
- Prolin Nandu:** Last question Sir from my side is you mentioned that your motors the company that which you acquired the motors have started getting used in the vehicles so are these what prototypes that we are doing for some OEM will then they will run on the road and then we will find the testing or where what stage this testing is going on if you can help us with that?
- Vidyashankar K:** It is in proto stage right now with most customers and beyond proto will go into bulk.
- Prolin Nandu:** Okay right and you are expecting 100 Crores in FY2025 right, revenue potential?
- Vidyashankar K:** That is right.
- Prolin Nandu:** That is it from my side. Thanks a lot.
- Moderator:** Thank you. The next question is from the line of Abhishek Jain from Dolat Capital. Please go ahead.
- Abhishek Jain:** Thanks for opportunity Sir. During this quarter we have seen a smart expansion in the EBITDA margin and this is despite the higher revenues from the domestic and OEM site so just wanted to understand what is the region of this sort of the margin and how much it will be sustainable?
- Vidyashankar K:** See what has happened is realization has increased per tonne that is the basic fact though domestic sales has gone up and everything ultimately realizations have increased.



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- Abhishek Jain:** What is the region of the increase in realization despite that the basic geography makes and plus that?
- Vidyashankar K:** Focus on machined products, huge investments made in the past and we continued investments on machine products that have resulted in higher realization.
- Abhishek Jain:** That will continue with the higher side because you are adding a lot of the capacity in the machining side right Sir?
- Vidyashankar K:** Yes we would expect it to go up.
- Abhishek Jain:** Going ahead 25% to 30% fall in the steel prices so as you mentioned that there will be an impact of the 15% on the topline for following the metal prices so despite that you are targeting about this 1800 Crores kind of the revenue?
- Vidyashankar K:** No. I will be candid with you. I have targeted that on the basis of static raw material prices. If raw material prices degrow does not matter just possible so we should not be too concerned about that. It is something that that is a factor of the environment and not a factor of our performance.
- Abhishek Jain:** Indian steel prices, is now trading at the premium of the export prices how does this impact on the raw materials basket.
- Vidyashankar K:** Indian steel prices are not a premium, what you trying to say?
- Abhishek Jain:** Trading at a premium versus the global crisis so will it impact your margin in the coming days?
- Vidyashankar K:** To a certain extent yes but with regards Europe for example energy costs there are shooting up. Indian steel prices will come down from October quarter onwards October first onwards Indian steel have to come down quite a bit. Already we are seeing huge corrections in scrap so price of Indian steel will have to come down in the months ahead. Competitiveness vis-à-vis Europe I can explain in Europe energy costs are expected to go sky high in the next two months and that will render steel production in Europe almost so customers there will have to pay through their nose for steel, Indian steel will definitely be far more competitive.
- Abhishek Jain:** Sir this in last couple of months we have seen most of the companies are going for the destocking in the export because of the cost outlook, what is your take on this thing so what is your planning for that inventory corrections, what is the current situation there?
- Vidyashankar K:** Customer demand inventory changes take place automatically. On a monthly basis with orders incoming the entire production planning and execution team is aligned to that task on the periodic basis so we will increase some inventories where sales are expected and decrease inventories where sales are reduced.



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- Abhishek Jain:** That is all from my side.
- Moderator:** Thank you. The next question is from the line of Vignesh Iyer from Sequent Investments. Please go ahead.
- Vignesh Iyer:** Congratulations on a good set of number. In HI I calculated so we have done around 35,000 per tonne EBITDA margin roughly so can we expect the rate to continue in the second-half also?
- Vidyashankar K:** Yes we should be able to sustain that and we will be looking at maintaining about 38,000 tonne for the end of the year and Rs.25000 per ton for the whole year.
- Vignesh Iyer:** I mean, for the quarter, we can more or less maintain according to our target of 75000 tonnes right?
- Vidyashankar K:** Correct.
- Vignesh Iyer:** Second question is on CV side of the Europe business how is it panning out, management are expected that there will be around 10% to 25% fall so what is the number right now, is it even worse than we expected?
- Vidyashankar K:** Surprisingly CV in Europe has done quite well. We do not see too much of a fall, it is because of this I got a whole vehicle numbers also there have not dropped by much and our share also seems to be increase it.
- Vignesh Iyer:** That is all from my side.
- Moderator:** Thank you. The next question is from the line from Prolin Nandu from Goldfish. Please go ahead.
- Prolin Nandu:** Thank you again for giving me this opportunity. One question is on your interest cost typically if I look at your interest cost as a percentage of overall borrowings it is somewhere close to 5% to 6% right for the past two to three years, this is much lower than typically the rate at which corporates borrow, could you help us understand what is the reason and going forward also can we assume that the incremental debt of around 200 Crores – 250 Crores that you are planning to take would come at a similar cost?
- Vidyashankar K:** Nice question. So basically what we have done is we borrowed largely we converted all our borrowings to Euro zone borrowings and when interest rates we sense were low we chose to lock in floating rates into fixed rates paying a small premium. As of today the loans that it has been insulated from any interest rate changes because we have interest rates swaps in place from floating to fixed but I have been paying points about 250 basis points additional but generally it



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was struck again and anyway it is a method of derisking the organization so looking at runaway inflation runaway interest rates in Europe and US, we are insulated from it hugely.

**Prolin Nandu:** What you are saying is that large part of your borrowing is in Euro denominated bonds and that you have probably done a swap on that where the floating rate has been converted into fixed rate am I correct?

**Vidyashankar K:** Absolutely right. I do not even bother what rate on Euro or US other than it is slowing down business overall it does not have a direct cash impact on MM Forgings.

**Prolin Nandu:** Typically the cost of the swap would be included in other expenses or will it be included?

**Vidyashankar K:** This is within interest itself within interest.

**Prolin Nandu:** Going forward also are these kind of arrangements easily available in the market because you need to take incremental debt of around 350 Crores.

**Vidyashankar K:** To be very clear in this market one should not go and do a floating to fix, we have to ride the market whatever currency we borrowing state and as interest rates drop take advantage of that and similarly, at this point we should away from IRS decisions.

**Prolin Nandu:** Stay away from IRS but then the overall your interest cost as a percentage of your borrowing might go up right?

**Vidyashankar K:** Yes we have no choice. There is absolutely no choice, splendid isolation.

**Prolin Nandu:** There are no export incentives or those which are included in this interest or no export linked kind of borrowings in our overall borrowing mix right?

**Vidyashankar K:** In the working capital side yes there is an interest subvention.

**Prolin Nandu:** I am just trying to calculate why the interest costs are lower so that interest subvention is also the reason why our rates are low?

**Vidyashankar K:** Absolutely right. I must say that definitely the government has taken a good stance on exports. It has gone a long, long way in shoring up, which we look the exporters it is a clear simple and clear support for exporters who focus on it.

**Prolin Nandu:** Very clear Sir. Thanks a lot.

**Moderator:** Thank you. The next question is from the line of Gautam Gosar from Perpetuity Ventures. Please go ahead.



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- Gautam Gosar:** Thank you for the opportunity. I had a few questions. Firstly on the realization part so what would be the realization per tonne for the quarter?
- Vidyashankar K:** What would be the realization?
- Gautam Gosar:** Realization per tonne for the quarter?
- Vidyashankar K:** Realization per tonne for the quarter about 1,90,000.
- Gautam Gosar:** Should we see this as a sustainable number for coming two quarters?
- Vidyashankar K:** It should given static raw material prices since there have been a lot of discussions on degrowth in steel prices so given on a constant raw material basis this should grow or at least be static. But if steel prices fall overall it is good for the organization. Well I would not be too concerned about this falling on account of raw material or even sales dropping on account of raw material, raw material inflating sales is pure equal.
- Gautam Gosar:** Secondly how much tonnes have we done from 6300 tonnage plus which got operationalized in June so out of around 18,000 tonnes this quarter how much would we from the 6300 tonnage plus about 2000 tonnes?
- Vidyashankar K:** 6300 tonnes?
- Gautam Gosar:** This will contribute to the higher margins which you have seen right?
- Vidyashankar K:** This is contributing to the sustainable sales and the increase.
- Gautam Gosar:** This is going to help increase our machine product mix which we mentioned like which will go up to 60000 tonnes.
- Vidyashankar K:** It is not going to directly impact but generally speaking the products out of the heavier process are all machined so to that extent yes but not per se directly if you said okay whether that press is going to result in machining no because the product out of that pressure machine yes I might be splitting a little bit of hair here but that is the way.
- Gautam Gosar:** Sir lastly on the Europe side so are we seeing any order cancellations or deferment from Europe or the scenario is opposite like we are receiving new orders?
- Vidyashankar K:** We have seen some. I would not say that we have not seen. Definitely some orders from Europe have gotten cancelled no doubt about it.
- Gautam Gosar:** That is it from my side. Thank you.





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**Moderator:** Thank you. Ladies and gentlemen due to time constraint I now have the conference over to the management for closing remarks.

**Vidyashankar K:** Thank you all for joining us this evening on the call to review our performance or analyze our performance for Q2 FY2023. We hope to be in this year positively with more growth coming our way. We expect the challenge 2000 Crores mark albeit it with on a constant raw material price basis and we are not too concerned about impacting turnover. We would be rather more focused on getting more tonnes out and managing costs. Thank you very much and we also expect our EV foray to start bearing results over the next 6 to 12 month range. Thanks and good bye. Jai Hind.

**Moderator:** Thank you very much. On behalf of Batlivala & Karani Securities that concludes this conference. Thank you for joining us. You may now disconnect your lines.