HEIL/SE-55/2024-25

November 14, 2024

To,
The Manager (Listing),
The BSE Limited
Phiroze Jeejeebhoy Towers,
Dalal Street,
Mumbai – 400 001
Script Code No. : **543600**

To,
The Manager (Listing),
National Stock Exchange of India Limited
"Exchange Plaza", C-l, Block - G,
Bandra - Kurla Complex, Bandra (E)
Mumbai – 400 051
Symbol : **HARSHA**

Dear Sir/Madam,

Sub : Transcript of Earning Call for the quarter ended September 30, 2024
Ref : Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015

With reference to subject matter and pursuant to regulation 30 of the SEBI ((Listing Obligations and Disclosure Requirements) Regulations, 2015, please find attached the transcript of the earning call for the quarter ended September 30, 2024 conducted after the meeting of Board of Directors held on November 11, 2024.

The above information is also available on the website of the Company at www.harshaengineers.com

You are requested to take the same on your record.

Yours faithfully,

FOR HARSHA ENGINEERS INTERNATIONAL LIMITED

Kiran Kumar
Mohanty

Digitally signed by Kiran Kumar Mohanty
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Date: 2024.11.14 22:26:14 +05'30'

Kiran Mohanty
Company Secretary and Chief Compliance Officer
MEM NO. : F9907

"Harsha Engineers International Limited Q2 FY-25 Earnings Conference Call"

November 11, 2024

MANAGEMENT: MR. VISHAL RANGWALA – CEO, HARSHA ENGINEERS INTERNATIONAL LIMITED
MR. MAULIK JASANI – VP, FINANCE, HARSHA ENGINEERS INTERNATIONAL LIMITED
MR. SANJAY MAJUMDAR – STRATEGIC ADVISOR - HARSHA ENGINEERS INTERNATIONAL LIMITED

Moderator: Ladies and gentlemen good day and welcome to Harsha Engineers International Limited Conference call.

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, 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. Vishal Rangwala – CEO of the Company. Thank you and over to you sir.

Vishal Rangwala: Dear all hi, this is Vishal Rangwala here and I would like to welcome you to our Quarter 2 FY2025 Investor Call.

I would like to wish you all a Very Happy and Prosperous New Year. As we have been doing in the past, Maulik will take you through the numbers in greater detail and I am presuming that you would have had a chance to look at the numbers already.

At the outset, I would like to mention that historically Quarter 2 is a subdued quarter for us, both in terms of top line growth as well as in terms of margins. Whereas fourth quarter is usually our strongest quarter at Harsha. If I talk about Quarter 2 Financial Year 2025, it's a mixed bag for us. While India is more or less in line though not fully up to our expectation and while China is looking better, we continue to face challenges as much as Europe is concerned in this quarter and we have also seen demand from us softening significantly.

Let me talk of our principal vertical starting with Harsha India Engineering business:

First and foremost, I am happy to inform that bronze bushing business has continued to be strong positive for Harsha. Thus, in Quarter 2 sales of bronze bushing, we were around 24 crores and full first half sales for bushing is about 44 crores. This is very much in line or little bit better than our expectation. Going further, we see equally strong run rate as far as bushing is concerned. If I talk further about India cage business; cage demand coming from India there is a decent growth in Quarter 2, almost 15% over Quarter 2 previous year. However, export from India have remained stagnant with some minor degrowth again, largely attributed to continued soft demand from our key market of Europe. We have also seen some demand slowdown in US market.

Further overall industrial demand in all key market is also down. We believe that Q2 overall slowdown is also a function of inventory reduction, destocking exercise being undertaken by our key customers both in India as well as outside India in view of demand reduction as well as to preserve liquidity. We expect the normal purchasing to resume sometime soon and likely peak in Quarter 4 onwards in terms of demand normalization and based on this, we expect the second half of the current financial year particularly Quarter 4 to be relatively strong. Therefore, I am pretty confident that India Engineering business should grow positively in current financial year.

Moving on to our other pillars:

While progress on the major outsourcing project in Europe is continuing, it may still take some time for us to conclude that exercise and now given the usual challenges we face in such projects. Again, we remain very much excited about positive impact of China Plus One given major expansion undertaken by our customers in India. Thus, we have already started seeing increase in order inflow from customers who have already started their facilities in India in response to this as well as we expect some to start coming few quarters as other customers commence their production.

On the flip side of the growth; the large size bearing cage segment is still not picking up given that the major end user segment, the wind as well as the industrial segment is very soft. The business from Japan based customer is also a little bit flat this quarter and below our expectation. However, this is not a structural issue but it's more of a function of markets we served in, these Japan based customers specifically in Europe and American regions and some of the orders which are taking longer for conversion. Lastly the stamping business again continues to grow quite satisfactory.

As I mentioned earlier China is distinctly looking better with steady improvement in performance and positive profitability that we achieved in Quarter 2 and first half financial year '25. We expect China to grow significantly in current fiscal year, both in terms of top line as well as in terms of profitability as compared to last financial year. However, Romania prospects continue to remain bleak, so we are working very hard on the strategy for improving the product mix in Romania by pursuing more cages, both from our existing customers as well as the new customers that we are in the process of acquiring. However, I am afraid that in spite of best of our effort, we may not be in position to achieve operating breakeven in Romania in current financial year given the fact that overall demand challenges and also the global volatility and geopolitical tension and supply chain related challenges are continuing. However, on a combined basis between our two key subsidiaries, I expect the losses to be reduced in current financial year, thanks to a strong positive contribution that has started to come from China.

Now if I talk about our solar business:

Quarter 2 we saw one of positive profit contribution to the extent of about 1.5 crores which has pushed up our EBITDA and PAT margins in Quarter 2. However, on an annual basis I believe that Solar business will continue to remain normal positive profit range given strong policy level impetus resulting into continued strong demand that we are seeing in this segment. However as indicated earlier, Solar Division is operating on its own without any material additional capital contribution or additional management bandwidth support from the top.

To Conclude:

I believe that we will achieve at least higher single digit top line growth in India Engineering business but on a consolidated basis top line growth could be in a mid-single digit range for the current financial year. However, as we have indicated in the past, the bottom-line growth would be much higher, more or less in line with our current run rate what we have achieved in the first half Financial Year 2025.

I would like to express my thanks to all of you for continued trust and confidence and I wish you all a very good evening. Over to you Maulik bhai for further numbers.

Maulik Jasani: Thank you Vishal bhai. Hello everyone and good evening. Wishing you all a happy and prosperous New Year.

For the quarter ended September '24, for the engineering business at consolidated level we have achieved top line of 310 crores against a top line of 327 crores in the immediate previous quarter and 298 crores in the same quarter last year. Our consolidated EBITDA for Engineering business remained at Rs. 50.2 crores for this quarter against 40.5 crores in the same quarter last year. On the back of the raw material price pass through and also backed by Europe slowdown as well as product mix impact, our EBITDA margin has been lower compared to previous quarter. Our Solar business have achieved a revenue of 42.6 crores and EBITDA of 3.68 crores and the solar continue to have a good order level. As Vishal has mentioned, we have one-off revenue in the Solar in this quarter and he has already given the number of around 1.5 crores.

Overall, our working capital cycle at consolidated level is around 151 days against 153 days in the previous quarter and the Company at a consolidated level has incurred a CAPEX of 34.7 crores in this quarter.

With this brief on the "Financials" and the "Presentation" uploaded on the sites I now request operator to take the Q&A from participants. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Harshit Patel from Equirus Securities.

Harshit Patel: My first question is, recently we have witnessed a pressure on gross margins for bearing manufacturers, the likes of Schaeffler as well as Timken. So, is that pressure being passed on to us by these OEMs or the domestic pricing levels are pretty much normal only?

Vishal Rangwala: We are seeing some pressure on that front. Some we are able to address and a big chunk of it is automatic pass through because of the material pass through mechanism in place. So, yes, there is some pressure on that but nothing I would say out of ordinary. Normally when there is a demand shrinkage that pressure comes in.

Harshit Patel: Secondly the greenfield CAPEX which is to be commissioned in 4Q FY25 and as per the press release, it is also pretty much on track. Now given that this CAPEX is more skewed towards the high margin products like bushings, LSB cages, plastic cages etc. So, will that give a substantial boost to our overall margin profile when fully commissioned?

Vishal Rangwala: I would not be able to exactly say, all those products are a high relatively high margin but that's our general sense. Having said that there is a lot of mix of product also what we are planning to produce at the third site. Now this investment because this is a completely greenfield project and as in there is a gestation period of ramp up of demand as well as of production ramp up as well. So, in long term, I believe that this should be positive for us but difficult to fully answer where it should be significant, I mean significantly positive from like some any specific quarter or otherwise. That's the general what I can share.

Sanjay Majmudar: And just to add, in the first phase what we are adding is actually on the bushings and the stampings as the main production. But then there is an overall infrastructure cost also that is being loaded on the first phase. So, I think the margin profile of the greenfield will in a medium to long term remain more or less in range of what we are delivering at India level.

Harshit Patel: Lastly recently Schaeffler globally, they have started a substantial manufacturing footprint consolidation which is pretty much highlighted in their recent Earnings Call as well. So, they are reducing the overall number of plants at the global level. So, are we in any way positively or negatively impacted by these measures?

Vishal Rangwala: There are few projects ongoing which are related to some outsourcing as part of this consolidation strategy they have. Partly we believe that what they are doing in India at Savli could be a part of that strategy of consolidation from multiple European facilities which is response to China Plus One sourcing kind of thing from Schaeffler. So, I don't have a specific answer, but in general we believe we are a good beneficiary of that, what they are working on. We have been working with them on overall consolidation of their cage supply chain as well for a while now.

Moderator: We have the next question from the line of Shirom Kapur from PL Capital.

Shirom Kapur: I just wanted to add a few questions regarding some data points that you could help me with. One would be what was the sales for your stamp component in Q2 and H1?

Vishal Rangwala: So, our stamping business for H1 remains around 25.5 crores.

Shirom Kapur: Just another question now on your Japan sales, when you said flat this quarter you mean YOY or QOQ? And how is it developing and when you also mentioned it's not a structural issue, it's some market related maybe some timing issues. Could you clarify a little bit further on what's happening in Japan and how you expect that to pick up if not in FY25 but then in FY26 and beyond?

Vishal Rangwala: What specifically we mentioned are two things. I'll clarify that, one there are projects which are ongoing which takes sometimes the ramp up happens in one quarter and then we face a ramp up challenge or initial issues. So, those are the initial ramp up challenges we face when it comes to inducting new customer. Second part what we mentioned specifically because when we talk about Japan, what we say is a Japan origin customer and these customers we are serving them in various markets not only Japan as a country and we are seeing some significant slowdown of their offtake in Europe and America looking at overall market conditions. So, the growth is not there because of the overall market condition. And then there are few projects which are getting softer start versus what we have anticipated.

Shirom Kapur: So, it seems that the slowdown in Europe has been going on for the past few quarters but now America is seeing a slowing down as well. Could you clarify a little bit on what exactly causing the slowdown? Is it as a result of just lower demand from the customer side where they're experiencing low demand or could you just basically give more color on the slowdown in America?

Vishal Rangwala: Specifically, I am not able to, all we can share is what we are seeing from our customer. And our customers are they're asking for lower as compared to what they had earlier projected as well as what they were picking up earlier. And there is also an element of because of overall economic slowdown we feel, that they are trying to reduce inventory and conserve cash so that we believe it's a combination of all those is we are seeing a lower demand from our customer across Europe and America.

Shirom Kapur: But is this expected to correct anytime soon or do you see this as a long-term sort of impact on our business?

Vishal Rangwala: Basically, we are starting to see some normalization related to all those inventory corrections when a significant market demand is going down, we see our customer doing further correction on the inventory they hold. And so, we see a little bit higher impact versus actual demand correction. We are now seeing some normalization of the demand based on those over correction or inventory correction mostly already taken place. And we expect that by Quarter 4 January-February-March we expect that normalization would have fully taken place. So, we are looking at that improvement in Quarter 4.

Shirom Kapur: And if I could just squeeze in one last question. It’s in a recent interview NBC Bearings which is believed a big bearing Company in India has announced that for the next 4 years they're trying to incur around 750 crores of CAPEX to expand the facilities. And I just want to know if this is something that could benefit Harsha because they’re planning to increase capacity almost 50% over the next 2-3 years. So, how could this benefit Harsha and whether this has even been factored into your kind of growth projections for the next couple of years?

Vishal Rangwala: So, we also understand that being the case and NBC Bearing or the Company NEI is a big customer for Harsha, a very respected customer for us and we believe that we will definitely benefit out of that. We offer such a diverse portfolio of product and competency we have within this bearing cage segment. So, that we are feeling quite confident, or we are highly confident that whatever their requirements are, we can fulfill, take care of it from a technical point of view as well as commercial point of view. Now I don't have a specific but also, we believe that they would potentially be a beneficiary of this whole China Plus One deployment by automotive industry or other industry. We see that definitely benefiting us because we are one of their key suppliers for when it comes to bearing cages.

Moderator: We have the next question from the line of Jason Soans from IDBI Capital.

Jason Soans: I just wanted to understand, you had spoken very strongly about the bronze bushing segment last quarter, also of course you were on target for probably reaching 80 to 85 crores of top line in the bronze bushing segment. So, any more incremental information on that? And you said that the wind market Europe is still subdued. So, just wanted to have an update on that market in terms of the windmill market how is it going in Europe?

Vishal Rangwala: As far as what information we have when it comes to cages in the wind market specifically, we are seeing demand is still subdued when it comes to Europe. However, based on the input from our customer the wind market remains strong in India. Also, the strength of the bushing is coming from the fact that it is a conversion where it's more product sold in the market with bushing as a rolling element. So, that's what is going on there and the reason for growth in that segment. But overall other than India we see or at least what we hear from our customer that wind market remains still weak with some pockets of improvement visible.

Jason Soans: I just wanted to understand of course we are a consolidated entity. So, now one thing just wanted to understand in terms of standalone revenues I believe when you look at Harsha, I think around 45% comes from exports. And if those numbers are right just wanted to understand how much comes from Europe us and the rest of the world?

Vishal Rangwala: Out of exports or out of?

Maulik Jasani: Sorry Jason?

Jason Soans: Maulik bhai actually for the standalone entity I just wanted to know the domestic and the exports figure and in that exports what regions contribute what percentage?

Maulik Jasani: So, as mentioned in our investor presentation, this quarter around 42.7% is export from our standalone revenue and out of our overall standalone revenue roughly, I am just giving you a ballpark number, around 20%-22% is Europe. US is around 7% to 8% and China is around again 7% to 8%.

Jason Soans: So, this is break up for the exports. And anything else Maulik bhai in this? And the rest is rest is rest of the world that way?

Maulik Jasani: Majority goes to Japan. out of the rest Japan, Southeast Asia and Japan.

Vishal Rangwala: And then the biggest market still remains India.

Maulik Jasani: India is the best obviously.

Sanjay Majmudar: So, just a clarification, Maulik bhai. These are the percentages of total sales or composition of export sales. I think what Jason wanted. So, Jason that is where the confusion is. So, this is the percentage of the total sales.

Jason Soans: So, it's basically a breakup of the 43%, 20% to 22% Europe, 8% US, China 8% and Japan and Southeast Asia. So, 57% coming from India basically for the standalone entity?

Sanjay Majmudar: That's right.

Jason Soans: And just my next question is actually just wanted to understand, of course when you look at the other pieces it's China and Romania subsidiaries which are the main one for you. So, when you look at China, is that only catering to the domestic China market or are you looking at exports from that entity also? And same question goes to Romania also, Romania I believe will be a hub for Europe to the surrounding areas. But just wanted to know about China. How is the strategy there? Is it only catering to the domestic market or are you looking at us like an export hub for other countries as well?

Vishal Rangwala: China's main focus is China market. We do sell it to some customers outside China but it remains less than 5% and for Europe same main focus is European market. And that's where most of the product is going, most of the customers are located. In addition to those entities selling in the local market of China and Europe, we significantly send what numbers we just talked about a few minutes back. We send a lot of products from India to China as well as India to Europe.

Jason Soans: And just needed your view on this, of course we serve the bearings customers the biggest. And you have a very good market share for bearing cages also from them. Of course, long term story being strong, I understand. But I wanted to understand how do you look at, I mean there is clearly some weakness going on in the bearing segment even in the domestic side. And of course, Europe and all is weak itself. Do you see any green shoots going ahead or do you think this is just seasonal structure? We are still on the uptrend but probably seasonal, there's some slowdown. Just your views on it and basically Europe again remains to be a pain point for other players as well. So, any reason as such you see for the slowdown? And again, now again if I look at it connected economically, China also was facing a slowdown or stimulus measures are being given. Do you see any such measures giving because Europe also has been soft for a very long time, so anything which will probably boost our market there?

Vishal Rangwala: I think for us to predict on the economic front what will happen, it's difficult. Having said that as you rightly said definitely, we feel that whatever this specific year the Chinese market is doing much better versus earlier, could be due to stimulus or otherwise. We believe that Europe is already in a tough spot for almost 1 year and it's a matter of time when it will revive. We are fairly confident but not able to fully predict exactly how that happens. And to your question about are we seeing any structural shifts, not really as yet but we are seeing few things. I am sure you might have seen globally SKF from separating out industrial and automotive. Schaeffler also in face of this difficult situation reorganizing, including the merger with Vitesco, so a lot of things happening within our customer. Yes, it could happen as you said some shift could come about but right now; we are yet to see that.

Jason Soans: And just lastly so just wanted to understand, if possible, I mean when you again look at it from your subsidiary perspective, the Romanian subsidiary in FY24, it basically yielded a PBT margin of around (- 4%) because it is a loss. So, going ahead any guidance or anything, you want to give structurally, I understand you said in the opening comments that you're looking at basically reducing the losses but any more specific guidance if possible. You already mentioned China has been doing well and just because Romania is a bigger piece in terms of revenue and profitability. So, just wanted to understand how is that going, any guidance on that front?

Sanjay Majmudar: So, Jason, the problem here is in Romania our strategy is that you see we are trying to move away a little bit in terms of product mix with more cages coming in. So, we are trying to add new customers. We are also negotiating with our existing key customer to buy more of cages and the talks are positively moving. So, I don't see really a top line growth possible even in near term in Romania. In fact, this year there would be a little bit of a negative top line growth. But hopefully by the fourth quarter if our cage starts picking up even if the demand remains more or less stagnant, we should be able to try to see whether the margins can become positive. So, this year really, it's ruled out. Next year we are internally hoping that we will be able to stop losses. Again, beyond that today to do any prediction is like gazing a crystal ball and we don't have that. But it's just trying to tighten the belts, improve the product mix, reduce the losses and see whether we can because in an ideal situation I should have talked about an 8%-9% EBITDA in Romania. Today we are talking of reaching the positive EBITDA margin first and then we will talk of growth. So, it's really a tough thing. But yes, we have a strategy in place and we are working on it.

Moderator: We have the next question from the line of Shirom Kapur from PL Capital.

Shirom Kapur: I just wanted to get a couple more data points. If you could share the revenue and EBITDA figures for Romania and China individually for Q2 and for H1.

Maulik Jasani: So, Shirom as we have informed in the previous investor call also, for the overseas subsidiaries we prefer to give a combined numbers and that's what we have given also in our investor presentation and even our results in the segment information.

Shirom Kapur: And if I could also just maybe this has been a guessed in the past but your greenfield CAPEX that you're doing with Harsha Advantek and you're adding new additional capacity for your existing products with this bronze bushings, large size cages and stamped components. Just want to understand the rationale for it kind of being part of a new subsidiary as opposed to just a regular expansion of your existing business. And this is more from the perspective of going forward when we were to see a consolidated minus standalone numbers, it won't just reflect your Romania and China numbers but it would likely also include Harsha Advantek numbers right after the plant is commissioned. So, I am just wondering maybe going forward whether you'd be giving some sort of bifurcation and how just to understand the thought process behind this being under a subsidiary as well.

Maulik Jasani: One subsidiary will be in a fully operational, although it has started doing operation in the offsite. But it is still on a very minuscule level. And once it is fully operational, we will decide how to share those numbers with the investors. And on the rational yes, this is our incremental business where we see a good amount of growth prospects and although in our existing line of business both bushings as well as LSB were a very small pie in the overall existing business which we see that it has a potential to grow and hence we need incremental setup and capacities over there and that is the reason it qualifies for the new site. And same is the logic with the stamping which is very small business as you are aware. And we see that there is a great potential over there also to expand these business lines and hence we have decided a separate site and separate Company for the same.

Vishal Rangwala: But just to add Maulik bhai, it's anyway going to be a part of engineering and others India.

Maulik Jasani: Exactly.

Vishal Rangwala: It will be consolidated with India. So, you will always have India is of one clear number and then the overall consolidated. So, you should be able to clearly decipher how things are moving. Should not be a problem.

Shirom Kapur: So, the numbers in the presentation of India will going forward always include the new subsidiary as well?

Vishal Rangwala: Yes, obvious.

Maulik Jasani: We will ensure that number is communicated well.

Shirom Kapur: I appreciate that clarity and just if I could ask follow up is, as we saw this quarter the exports definitely from India have declined considerably. But from your domestic sales within India have seen quite a good improvement. And I am just wondering from a long-term perspective how you see the growth in India? I know there's with China Plus One and outsourcing opportunity taking place. So, can we see the sort of sustainable 15%-20% growth happening in India going forward and some of the sales within India, given your new subsidiary coming up as well?

Sanjay Majmudar: We are not giving any specific guidance for next year.

Vishal Rangwala: But I think I will take that as a directional. We see very positive growth so far as well as we expect that positive growth or good significant growth will continue. As Sanjay bhai mentioned, we don't have a specific guidance right now and we do not intend to share that. But all those drivers as you mentioned, our customers drive towards China Plus One and bushing business growth which is currently focused on an Indian market specifically. All that will definitely drive that number positive is what we feel.

Sanjay Majmudar: Just to add, we are very bullish on India and India can definitely grow at around 20% but I think it's a bit early for us. But let's wait. We are very hopeful that we are working on a lot of projects also. Those things can definitely be very aggressive at India level but we will have to see how globally things pan out. That's why we said that we will probably want to wait for some more time.

Shirom Kapur: And one last question on your subsidiary, the margins that you saw at subsidiary levels if you were to bifurcate the consolidated India and then coming to subsidiary number, the margins that we saw there last three quarters after Q2 last year we see them be positive around 3%-3.5% at EBITDA level. But this quarter specifically it's come back down to seems like less than 1% as per the calculations that we've seen. So, is there any reason why this particular quarter we've seen a jump even though it had been—I understand the commentary is still we can from the Romania perspective but—even sequentially from the last three quarters till now this quarter specifically we see the decline. So, any particular thing that's happened this quarter that's further impacted the profitability in the subsidiaries?

Maulik Jasani: So, basically you rightly said Shirom as said in the commentary, mainly on account of Europe slowdown including the Romania performance and also because of the price pass through mechanism because the last quarter we had a benefit of the lower price procurement which has been passed through in this quarter and which has been square off.

Moderator: We do not have any questions in the queue at this moment. I would like to hand the conference over to Mr. Vishal Rangwala for closing comments. Over to you sir.

Vishal Rangwala: Thank you. Again, ladies and gentlemen really appreciate you joining this call today to get an update about Harsha’s Quarter 2 and we hope you have a good day and good evening. Thank you very much.

Sanjay Majmudar: Thank you very much.

Moderator: Thank you. On behalf of Harsha Engineers International Ltd., that concludes this conference. Thank you all for joining us. You may now disconnect your lines.