



“Harsha Engineers International Limited Q2 FY '23 Analyst and Investors' Conference Call”

November 4, 2022



**MANAGEMENT: MR. VISHAL RANGWALA – CEO AND WHOLETIME
DIRECTOR
MR. SANJAY MAJMUDAR – CONSULTANT
MR. MAULIK JASANI – VP (FINANCE) AND GROUP
CFO**

MODERATOR: MR. NIKHIL KALE – AXIS CAPITAL

Moderator: Ladies and gentlemen, good day, and welcome to the Harsha Engineers International Limited Q2 FY '23 Analyst and Investors 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 the conference call, 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. Nikhil Kale from Axis Capital. Thank you, and over do you, sir.

Nikhil Kale: Thank you, Faizan. Good evening everyone. Welcome to the Q2 FY '23 Results Conference Call of Harsha Engineers International Limited. From the management team today, we have with us Mr. Vishal Rangwala – CEO and Wholetime Director; Mr. Sanjay Majmudar – Consultant; and Mr. Maulik Jasani – VP (Finance) and Group CFO.

I will now hand over the call to management for the opening remarks post which we can move to the Q&A. Over to you, gentlemen.

Vishal Rangwala: Thank you, Nikhil. Hi. This is Vishal Rangwala, and good evening to everyone. Thank you for joining this Harsha Engineers International's first Investors Conference Call. Considering this is the first call, I would like to talk a bit about Harsha Engineers to begin with.

So, Harsha Engineers is the largest manufacturer of precision bearing cages in India, and we supply three major material of cages, namely, steel cages, brass cages and polymer cages in the size ranges of 20 millimeter to 2,000 millimeter diameter. We supply to the global market through four of our facility, two located in India, one in China, and one in Romania, all low cost manufacturing locations.

We have a very strong global customer base names like Schaeffler, TIMKEN, SKF, ZF, Flender, JTEKT and NSK. And we Supply bearing cages, precision stamping components things across variety of industry and automotive applications. So, very vast range of end user application we are covering through our product portfolio.

We have a very strong tooling design and process design capability through which we become a partner to our customer in that precision product mix. So, this is a little bit of background about Harsha Engineers.

Let me start talking about first half of FY '23 Results:

We continue to see a strong result for first half and FY '23. We are on track on our expectation of our top line growth, as well as a strong bottom line growth. We are seeing actually sequentially, you know, we don't look at sequentially, while we look at year-over-year

considering there are a lot of seasonalities also involved in the four quarters. And our actual focus is you know, annual basis.

Specifically, on the second quarter side, you know, we saw material prices significantly reduced towards the end of first quarter, and that had an impact on the second quarter. Specifically, we had a significant price pass-through mechanism to customers. So, those came into picture. Ultimately, however, we saw the EBITDA margin maintained, and as a percentage they actually improved. And that shows the strength of, you know, our customer relationship and pass-through mechanism.

Also, you know, from our original projection considering material situation, we are considering, still considering about 10 to 15% annual growth this year. However, considering, you know, material pass through, we are expecting to grow our EBITDA as a value in the second half, and as a percentage it will remain strong.

Typically, in quarter two, we saw some impact of energy crisis and war situation in Europe demand as well as, you know, our demand in Romania facility and some impact related to ongoing lockdowns related to COVID in China. We are closely monitoring those situations, and very hopeful about turnarounds while India remains a very strong position for us.

Talking about some of the long-term growth drivers for us, we are continuing to grow outsourcing projects, getting more outsourcing projects from our customer. Another growth driver, bronze bushings, they are continuing to grow for us. We faced some execution challenges in first half and you know, we have overcome those, expecting that will add significant growth in second half, and as well as continuing to grow our wallet share with Japan-based customer. And we are very cautiously optimistic about our continued future in the second half of this year.

With that to explain more data in detail, I will hand it over to Maulik.

Maulik Jasani:

Yes. Thanks, Vishal. Good evening everyone. We have already uploaded our financial result as well as the earning presentation on the exchanges and our websites. We believe that you have gone through the same and you have received the enough information on our quarterly performance. Let me walk through the key numbers of our quarterly and half yearly performance.

In the Q2 September '22, our consolidated revenue is around 322 crore with an EBITDA of 52 crore, while our profit after tax at consolidated level stands at 28 crore for the quarter two. Our half yearly performance at consolidated level is with a revenue from operation at 720 crore with 14% growth over last year first half, and with an EBITDA of 108 crore with a 22% growth over last year first half. Our PAT at consolidated level for the first half six months is, half year and six months is 59 crore and with a growth of 34% over the H1 of the previous year.

At an engineering level, at a consolidated level, our Engineering business has performed for the half yearly at 677 crore with a 14% top line growth over last year first half and with an EBITDA margin of 15.8% resulted in 207 crore EBITDA, while our Harsha India Engineering business has a top line of 507 crore for the first half of FY '23 with a 23% growth over H1 of the FY '22, and we have achieved EBITDA margin of 19.7% at Harsha India Engineering business with a EBITDA of 100 crore.

We have received IPO proceeds, and we are thankful to all the participants on our IPO, and with our IPO listings on 26 September, we have utilized the IPO proceeds primarily for the repayment of the debt amounting to 236 crore approximately, and balance utilization is as per the prospectus provided, and we are utilizing in the coming quarter. So, at the end of the quarter two, our utilization has been mainly used for the repayment of debt only.

With this, we open the forum for Q&A. Over to the operator.

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. Please go ahead.

Harshit Patel: Sir, we have heard from many industry participants that the wind exports from India, they are slowing down. So, the gearbox exports, as well as the turbine export. So, do you think that can this affect in any way our ramp up of the bronze bushing facility?

Vishal Rangwala: No, currently, you know, we are actually behind schedule on that ramp up, and that's related to internal execution. And in terms of demand, we don't see any challenges there. So, for us, we don't see that as an impact factor for us.

Sanjay Majmudar: Harshit, just to add, there is enough headroom available so that, you know, we reach at a little saturated level. So, if there is technically some slowdown doesn't impact us right now.

Harshit Patel: Thank you very much for the response. Sir, my second question is, could you update us on the CAPEX plan as to what kind of CAPEX we are planning to incur in the second half of FY '23? And what would be our full year FY '24 CAPEX? And this CAPEX would be towards which production lines? I believe you were planning to acquire a proper new Greenfield capacity. So, where are we in that stage?

Vishal Rangwala: So, that third facility land acquisition is in process. It's not yet completed, but it is in process, and we will soon finish that. In terms of CAPEX, you know, we are going to invest about, you know, 44 odd crore in various capacity and some infrastructure this year. And we are also investing about 28 crore in actually wind and solar power generation project basically to address long-term sustainability, as well as reducing our addressing the power related cost. So, that's what for this year the three major heads in CAPEX are. For next FY '24, we are approximately projecting that we will do about 100 crore of CAPEX, but we will have a little bit more specific number as we come near.

- Sanjay Majmudar:** So, around 40 in second half and about 100 next year. That's the current plan.
- Harshit Patel:** Sir, just one last question from my side. Do you see that any kind of bearing manufacturing relocation which is happening from Europe to India, given that Europe could become uncompetitive in producing many kind of industrial equipment, do you think that bearing could be one of those equipment and more amount of bearing manufacturing itself might shift to India from the European location? Do you see that happening?
- Vishal Rangwala:** Yes. We see that as a strong ongoing trend where a lot of our customers have indicated that to be the case. I am not at liberty to kind of share those specific details, but as a trend, I confirm that that is a significant ongoing activity by our customer, and this is happening across the board that India is becoming a preferred location for manufacturing bearing, and we will definitely indirectly benefit through that.
- Moderator:** Thank you. The next question is from the line of Sandeep Tulsian from JM Financial. Please go ahead.
- Sandeep Tulsian:** The first question is pertaining to the engineering business growth. I think consolidated growth is 5%, and the India growth is about 12%. You did mention it as a pricing correction. So, if you could share the breakup between volumes and value, how the volume growth at least has been because the balance expected pricing would have come down?
- Maulik Jasani:** So, Sandeep, as we have mentioned in the initial speech, the quarter 2 has been impacted because of the metal price reductions, and that has impacted on the growth of quarter 2. If you see the H1 over H1, the growth for India Engineering is 23%, and that the consolidated engineering is 14%. The quarter 2 impacted number is mainly on account of the price reduction, partially on account of low volume demand in the Europe. Effectively, if you see the growth over the volume, the overall growth of H1 over H1 broadly rephrases the volume growth percentage also, which is 23% at India and 14% H1.
- Sandeep Tulsian:** And second question is pertaining to these new products bushings and casting. You did mention there were some technical challenges internally because of which you couldn't ramp up as expected pace in first half. So, do we still expect these to double from FY '23 base to FY '24 and meet that 100-crore kind of a run rate by next year or would that get pushed because of this delay?
- Vishal Rangwala:** No, I think we continue to have those expected. You mentioned delay. That's more of a one month or about a month and a half of delay, and that much impact we may have this year. But right now, we are back on track on that ramp up. So, very hopeful of achieving those numbers mainly with minor correction.
- Sandeep Tulsian:** And third part is on the Japanese OEM conversion. You did mention that the talks are still ongoing in place. Can we expect some revenue booking from fourth quarter from these

customers if you can give some sense what can be the quantum and what can be the size that you can achieve in FY '24 from the newer customers in Japan?

Vishal Rangwala: So, just coming back to that first half, you know, we have grown significantly even in first half to the tune of about 40, 50% just compared to the previous year first half. So, basically what we have talked about, I think that is continuing trend, and that growth is happening. Yes, there are lot of further discussion happening. So, we expect that fourth quarter will gear up further supporting jump in that area.

Sandeep Tulsian: So, 40 to 50% growth from Japanese customers in the first half, right?

Maulik Jasani: Yes, correct, as compared to the previous comparative first half.

Sandeep Tulsian: First half. Understood. And last question is, I agree, the domestic growth is 12%, international growth is 5%. If you could share separately the growth numbers for China and Romania entity, that would help.

Maulik Jasani: So, the major challenge has been in the Romania because there is a volume softening challenge in the world. China is still on growing basis, but China also have a trading portion. So, with that trading portion, the China growth is around 22%, which gets eliminated at console averaging, while Romania has been degrowth around quarter-over-quarter is around 20%.

Sandeep Tulsian: 20% year-on-year.

Maulik Jasani: And H1 over H1 is 6%.

Sandeep Tulsian: Sorry, 20% year-on-year decline in 2Q and 6% decline in 1H. Did I hear that correctly?

Maulik Jasani: It is 6% decline, and quarter two over quarter one is 20%.

Moderator: Thank you. The next question is from the line of Ajox from Unifi Capital. Please go ahead.

Ajox: Sir, my question again on your broad levers, the large bearings and bronze bushes outsourcing from customers. So, can you please help us with the quantification of these? How do I gauge this outsourcing is working or bronze bushes are actually doing very well? What numbers can I use to quantify the same?

Sanjay Majmudar: So, I think, Ajox, there are two parameters that we want to talk. One is if you compare what I did in bronze bushings in first half vis-à-vis what I did last year, we have done a higher sales in first half as compared to entire previous year if that's what you are asking. So, second is Vishal indicated there were some bottleneck issues in terms of execution because capacity creation was not happening the way we wanted. So, delay of about 1.5 to 2 months, we believe that second half should start catching up. And you know, very, very broadly, we should see at least

a 2-300% growth in bronze bushing business this year as compared to previous year. Now if that yardsticks makes you happy, then that probably answers your question.

Ajox: That's really helpful. So, that's wonderful.

Sanjay Majmudar: Similarly, on the large size bearings, there is a lot of traction. The problem is, see, you can't predict these things to happen when you are dealing with large companies. They take their own sweet time. But we are internally very bullish about the large size bearing cages. That is also showing a very positive growth trend. I don't have the exact quantification number available.

Ajox: And sir, on the outsourcing from customers the share of business, any number from their probably the pie growing up?

Vishal Rangwala: No. So, specifically difficult to answer a number on that, but we are continuing to win more and more business when it comes to outsourcing from our customers. And our customers are still continuing to look for outsourcing, and there are multiple projects of outsourcing under discussion with our customer, and some are under execution or like product development and then execution. So, various stages are there to actually realize it, and we are actually seeing the acceleration of that trend specifically due to China + 1 as well as challenges in Europe. So, we are actually seeing positive acceleration there.

Sanjay Majmudar: For India.

Ajox: And the other question I had was on the margins. I am assuming the new businesses and even the bronze bushes, large bearings will be at a very strong margin versus what the company is reporting, right?

Sanjay Majmudar: No. So, if you talk of margins, I think Maulik will explain first India and then how it is a function of a consolidation.

Maulik Jasani: Ajox, on your specific question on the new products line of bronze and bushings, our margin is at par or slightly better than the India Engineering margin, which we have historically there.

Sanjay Majmudar: Which is around 20%.

Maulik Jasani: Which will be 20-plus in case of bronze bushing.

Ajox: Just a final question on the pricing. So, I am assuming that if there is a metal price reduction, you have to pass it to the customer, and therefore, the top line will look muted. However, you will be holding the margins. Is that right?

Sanjay Majmudar: We will be actually reporting a better margin in percentage terms.

- Vishal Rangwala:** Percentage, it will be better, and you are right. Absolute will remain intact and better rather than....
- Moderator:** Thank you. The next question is from the line of Sonal Gupta from L&T Mutual Fund. Please go ahead.
- Sonal Gupta:** Sir, could you sort of, one, tell us about what percentage of India business is exports in this quarter?
- Maulik Jasani:** Out of India Engineering, our export is around 50% for Q2, and in Q1 it was around 52%.
- Sonal Gupta:** And just to understand, how much is dollar-denominated? And how much would be Euro denominated, or just if you could give us some broad sense there?
- Vishal Rangwala:** So, on an average it remains 50-50, Sonal. Sometimes it goes on either of side, but on an average it remains 50-50.
- Sonal Gupta:** And so, in that sense, and do we hedge these impacts? Just trying to understand.
- Maulik Jasani:** So, as our hedging policy, we attempt to raise around 50 to 60% of our open exposures for the receivable in a plain forward terms for next 12 months. Balance we keep open.
- Sonal Gupta:** Sorry. Hedge 50% of the receivables?
- Maulik Jasani:** 50% to 60%.
- Sanjay Majmudar:** On a rolling basis.
- Maulik Jasani:** On a rolling basis for 12 months we hedge it in terms of forward contracts.
- Sonal Gupta:** So, as of now we would not have been impacted by the rupee depreciation or would you have seen some positive or negative impact as a result of that?
- Maulik Jasani:** Yes. So, again, it depends on the exposures we have, but on an average, due to 50, 60% exposures has already been taken care of in terms of forward. In case of rupee appreciation, we remain, so on an average we remain neutral or positive in the long run, because structurally it remains positive. And from that we also have a small amount of options which we take for a longer period, year, two years as a strategy. That option is premium paid option only.
- Sonal Gupta:** So, I am just trying to understand like on Euro hedges you would be gaining on USD hedges.
- Maulik Jasani:** As of now, yes. As of now on the hedge side, on the Euro we are gaining. And on USD, we are getting a lower realization. But for the open exposures it is reverse. USD is getting us a better

realization, and on Euro we are getting a lower realization on the open exposure. And that's how this strategy of 50 to 60% hedging works in positive way.

Sonal Gupta: So, overall, for the quarter, would we have sort of a, I mean, that would be included in other operating income or in other income?

Maulik Jasani: So, yes, it is part of other operating income, and for the last quarter of September '22, the impact is around 3 crore positive both put together, both the impact of concluding forwards as well as the open exposures we are having and MTM.

Sonal Gupta: And just lastly on the exports side, I mean, out of this like you have indicated roughly 50% is exports. How much of this export is really to China and Romania, like to your subsidiaries?

Maulik Jasani: So, India to China exposure as of now is around 12, India to China subsidiary. Sonal, I will come back to you with this number. I don't have it handy as of now.

Sanjay Majmudar: But the bulk of the exports are on direct basis, Sonal.

Vishal Rangwala: Yes. This is very small amount.

Sanjay Majmudar: China would not be more than 20 odd crores. That's my assumption, but we will work it out. Yes. It should be lesser.

Sonal Gupta: And just last question, in terms of the, I mean, clearly like you mentioned you are seeing lower volume demand in Europe, and clearly, the geopolitical as well as the economic scenario seems to be worsening on the developed world side. So, what sort of visibility do you have? Like what is the lead that you have in terms of orders, I mean, like lead time for orders?

Vishal Rangwala: Sonal, so, basically, we are seeing overall slight softening as I mentioned in Europe. But you know, overall, India remains strong. The US and you know, rest of the Asia including China has remained strong for us. So, in terms of visibility right now, that's what we see. This is a, you know, future is a little bit of developing. So, difficult to exactly say how it is flowing.

Sonal Gupta: No. What I was trying to understand is like given the transition, I mean, the shipping time etc., like the customer is ordering from you for the next quarter currently or for, I mean, like how much in advance would they order from you, right?

Vishal Rangwala: So, now the shipping times have started to normalize at least going forward, and customer, you know, part of this demand reduction or whatever softening what we call, it could be because of that as well because you know, they are also seeing that supply chain stabilizing. And now they are also keeping a lot less buffers in place. So, as well we are seeing them ordering about month and a half to two months ahead in general. So, a little bit less than a quarter.

Sanjay Majmudar: And you see we have long-term contracts, but the orders they keep on coming. So, if you look at the actual order book vis-à-vis the visibility, we have a very decent visibility at India level.

Sonal Gupta: No, I understand that. I mean, the thing is that the customer, the volumes will fluctuate based on the near-term orders that the customer places. I know you have longer term contracts, but the volume and your revenues will fluctuate as per the short-term orders that they are giving you, right?

Maulik Jasani: Sonal, just to respond to your last point of sales done from India to Russia, China, intercompany, for the first half, it was around 15 crore.

Sanjay Majmudar: Exactly. That's what I told. Less than 15.

Sonal Gupta: And is there any export to Romania?

Maulik Jasani: No, except some tools. Yes.

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

Prolin Nandu: Congratulations on a successful IPO. A couple of questions from my side. One is that if you look at the growth drivers in your India business, right, and if we look at the natural growth that the bearing industry would probably grow at, and then there are three drivers which I can probably list down. One is more outsourcing from the existing customers. The second is the larger bearing, and third is some of the Japanese customers which we have been able to, you know, probably get into, and that will grow. So, in terms of size of the opportunity that we have, you know, which one of these, I mean, how would you categorize in terms of the size of opportunity in terms of number one, number two, and number three amongst these three?

Vishal Rangwala: So, to begin with, you know, another fourth one I would add to this is, you know, bushings, bronze bushing as a product line is a significant growth opportunity for us. Now I think slightly difficult to properly quantify the opportunity, but from a size of the opportunity, I would rate that the bronze bushing if the whole, the market trend as we understand happens, is a very large opportunity globally. And we are being early entrant to this, we are feeling very confident of, you know, getting a big chunk of that.

The second one I would rate is kind of parallel is outsource opportunity with Japan-based customers where, you know, our share is very small, and taking that to even a respectable percentage is a great opportunity for us. And similar to that is still a, you know, pending outsourcing from our customers where we were projecting about last year that still about 40% of their cage they are insourcing. So, all I think our top three would be this. Now with the large size, there is a overlap with outsourcing and a large size because you know, big chunk of

insource opportunity is also the large size cages. So, you know, large size is also significantly large opportunity which has some overlap with the outsourcing.

Sanjay Majmudar: So, just to sum up, if we talk of cages, if the industry, bearing industry is growing at say 7, 8%, we believe that our cage business has enough depth to grow at least anywhere in the very decent range of about 15%. And that's where our pledge is, and then, of course, the bronze bushings etc. You get the point?

Prolin Nandu: Yes, I get your point. Just a follow on some of the points that you have raised. On this bronze bushing side, while you mentioned that there have been delays, just want to understand, had these delays been from a customer end or from our end? And in terms of this whole, I mean, what I understand from bronze bushing is this is the story of penetrations, right? I mean, there is an existing product which we will, I mean, we are providing something which has better efficiency or better yields, right, for example, lower power consumption. So, that trend is still strong, right? Or has it further strengthened? Have you got more confidence on that trend, you know, from your customers?

Vishal Rangwala: Yes. So, first addressing the execution part, so it is the challenge when what I mentioned was about execution, our customers are pushing us very hard on supplies of this. Part of this they are importing. And they have selected us as a partner in India for this. So, this is a quite complicated product requiring a lot of engineering, lot of new capacity we have added and ramping that up. So, there was a delay on that front. That's what I meant not related to the order or demand situation. And the bronze bushings were actually, this is a drive by wind as a end application by windmill companies as well as the gearbox companies. And they are redesigning their windmills and gearboxes to change the design such that instead of a bearing, a bushing can go in, which has its own weight, size and other advantages. So, we are still continuing to see that as a strong trend, and we are working on next generation of bushing also closely with our customers. So, that's an ongoing situation.

Prolin Nandu: Sure, and a second follow on the Japanese customers. Is it fair to say that, typically, Japanese will start slow and once they ramp up, the ramp up can be very fast, and the scale can be quite large? Is that a fair way to look at this opportunity with the Japanese customers?

Vishal Rangwala: Correct. We also think that and actually, if you look at our last two years growth with them, we are seeing a very strong number of growth. They tested us for a while initially. So, we have grown slowly with them, and then now we are growing significantly with them. And further we are expecting acceleration to happen. Also, part of this is that, you know, we have to develop each product. It is not just one product, and they switch on. Once they agree, they switch it on. So, there is a whole timeframe needed to do the product development for that bearing. So, there are a lot of custom products ultimately going into it. So, there is that whole time lag which takes place which goes through approval process and all that. So, that's what is, you know, a constraint of moving from a 100 to 1,000 in a single day. I think that would come

in, but we see a very strong growth as I mentioned about 30, 40% growth year-over-year we are seeing and continuing to see on that segment in last two, three years.

Prolin Nandu: One more question, last one from my side would be, so the previous participant asked question, what sort of opportunity do we see when some of these production base of these bearing companies move from rest of the world to India? Now I believe that you are not at a privy of sharing some of these developments which are happening, but just to understand from our end, again, the size of this opportunity will require us to put additional CAPEX, and that that would be the scale of this, or will we be able to cater to such kind of an opportunity from our existing facilities?

Vishal Rangwala: In some cases, we will have to add a additional capacity. In some pockets we have a capacity already in place. Some cases we will have to add those capability, specifically, if I, you know, talk about a very large size bearings, you know, those right now on the brass cage we can deliver 2002-meter diameter cages out of Romania. Now those kind of product are needed in India. Then obviously, we will have to add capacity here. And on the steel front, we are doing about 1.1, 1.2-meter diameter cages. And again, we are working on a projects with a customer where they are in need of 1.4, 1.5. So, there we will have to add capability, capacity both.

Moderator: Thank you. The next question is from the line of Dhiral from Phillip Capital. Please go ahead. .

Dhiral: Sir, you said that outsourcing opportunity, you know, for low-cost India manufacturing is increasing day by day. So, just wanted to know, sir, how big is the European market in terms of bearing production?

Sanjay Majmudar: Europe for bearings globally?

Dhiral: Yes.

Vishal Rangwala: I think if I remember correctly from the report, basically, Europe is about 30% or so of global market when it comes to bearings. So, it's very large vis-à-vis when you look at India, I think it's hardly 7, 8% of global market. Again, these numbers I am just trying to remember from memory. I am not 100% sure about these numbers. But I would say fairly large marketing.

Sanjay Majmudar: Yes. At least 20, 25%. Yes.

Dhiral: And sir, lastly, when you say that, you know, we are targeting almost 15% kind of a growth, so are you looking at across the sector or any particular sector which is giving you that confidence?

Vishal Rangwala: Across the sector which would include automotive, you know, industrial application, rail, windmill, multiple segments we supply into. And considering our product portfolio in terms of

size range as well as, you know, material capability, we address almost everything our bearing customers are looking for when it comes to cages.

Dhiral: And sir, just last one thing. Sir, with this debt reduction, how much overall finance cost will be reduced?

Maulik Jasani r: So, for India site we will be net debt free, and we will continue to have some debt in our foreign subsidiary. Annually, we foresee reductions of around 15 to 16 crore.

Moderator: Thank you. The next question is from the line of Sandeep Tulsian from JM Financial. Please go ahead.

Sandeep Tulsian: I had a follow-up question. So, these new conversions which are under discussion, is it possible to quantify some value that we have converted in first half which is entirely new business that we do in FY '23 which was not there in FY '22, and the potential pipeline which is still there out of which some expected this conversion can happen next year as well?

Sanjay Majmudar: Sandeep, some data we keep generally, internally, we want to keep it with ourselves. But let me try to take this a little offline.

Sandeep Tulsian: So, just wanted some color, because some of the other very competent suppliers, they do share that this particular product line is under discussion without, of course, specifying the name and what can be the potential? Can it be 100 crores is the potential for that?

Sanjay Majmudar: So, generally, as you know, about 300 to 400 products are generally under development. Now, you know, there are many customers who do not want us to share these data, because it is all internally competitive with other customers. Correct? So, I think it's better we keep it at a macro level, but we will see.

Sandeep Tulsian: And secondly, for these brass cages where you mentioned, of course, a bulk of the manufacturing capacity lies in Romania, and of course, incrementally, this is the part that was getting done in-house and will be outsourced if we go say two or three years down the line. So, what kind of CAPEX building would happen over here in India or whatever outsourcing happen will continue to do it from the Romania facility? What's the thought process over there?

Vishal Rangwala: Yes. So, actually, we have a very good capacity in India, and actually Romania what actually maybe you might be thinking about is there is a very large casting capacity, because the Romania facility has two product lines. One is semifinished basically supplying casting, and the other is cage. And the Romania facility's focus being a larger size cage. That is continuing to grow in Romania. Casting or the semifinished is the something which will remain stable or may reduce depending on the situation. And so in India we are continuing to invest in brass cage capacity. Depending on, you know, how our customers are looking at what product to

manufacture in India, we may support that by adding capacity in India even on the larger size which are ultra large size rather which are currently supplied out of Romania to most mainly our customer base in Europe. However, we see that there is a certain portfolio product which is extremely competitive out of India, and so most of the investment for the growth will happen in India primarily.

- Sanjay Majmudar:** So, answering your question, I think next year about 30 odd crore CAPEX is lined up in India.
- Sandeep Tulsian:** H2.
- Sanjay Majmudar:** Sorry. In H2. Sorry.
- Sandeep Tulsian:** No, sorry. That the number 40 crores was H2 and balance was --
- Maulik Jasani:** 30 was in H2. We have already discussed that is in our previous question. So, as Vishal said around 40 crore is the plan for this year. Of that maximum is on the brass expansion rather than bronze expansion.
- Sanjay Majmudar:** 30 odd, yes.
- Sandeep Tulsian:** Understood. Of that 30 is brass. Got it.
- Moderator:** Thank you. The next question is from the line of Amit Anwani from Prabhudas Lilladher. Please go ahead.
- Amit Anwani:** My question is with respect to the guidance which we have given about 15 odd percent revenue growth FY '23 and '24. So, any expectations on how the Romania will contribute with respect to revenue profitability? And on the bushes also, what contributions we are expecting from bushes?
- Sanjay Majmudar:** So, Amit, on the Romania side, we are practically assuming that Romania would in absolute terms be either equal to or maybe a little degrowth as compared to last year, because Romania actually internal target is a little higher. But on a conservative side, so when we are talking of, as Vishal said, top line growth of anywhere between 10 to 15%, that is assuming that Romania's contribution is practically nil or insignificant.
- Vishal Rangwala:** Because of casting.
- Sanjay Majmudar:** Second, in terms of margin, we explained that actually margin growth would be in percentage terms higher than last year. But as you will appreciate, given the significant volatility and overall uncertainty, it's a bit difficult to quantify, but definitely the bottom-line growth will be better than top line. That's for sure. And that's in H1 also.
- Amit Anwani:** And sir, about bushes, what contributions we are expecting?

- Sanjay Majmudar:** Brass bushing as I explained in one of the previous questions, it's already H1 is higher than the entire last year. We believe that a bronze would be a significant contribution, quantification anywhere between 40 to maybe 50 crores.
- Amit Anwani:** In FY '24 or '23?
- Sanjay Majmudar:** In FY23 correct.
- Amit Anwani:** And sir, my question about the margin, what kind of margin expansion we are looking for?
- Sanjay Majmudar:** I cannot, it's not possible to quantify. We are working at it. But definitely, we will try to come a little closer may be in Q3, but as of now, I think we will happily say that we are on track for a significant margin expansion.
- Moderator:** Thank you. The next question is from the line of Prolin Nandu from Goldfish Capital. Please go ahead.
- Prolin Nandu:** Just a follow on, sir. With the gross block that we will have at the end of this year assuming 30 crores of CAPEX that you mentioned will be spent in H2, what's the kind of optimal top line that we can report or that we can do based on the current commodity prices?
- Maulik Jasani:** So, on an average our gross block fixed asset turnover remains around 2 to 2.1.
- Prolin Nandu:** So, we had 800 crores of gross block in FY '22 at the end of, I mean, in March '22. Is that number correct? And what could be this number? I don't have the September number right in front of me. So, will it goes to 850, 860 crores? And then on that 2x would be close to 1700 crores as top line. Is that a fair kind of number broadly?
- Sanjay Majmudar:** Yes. At optimum level, yes.
- Moderator:** Thank you. The next question is from the line of Sonal Gupta from L&T Mutual Fund. Please go ahead.
- Sonal Gupta:** Just on the solar business, I mean, could you guide us as to what sort of revenue run rate will this business have? And I can see this year we are sort of not at last EBITDA positive. So, could you, I mean, because this is a more project driven business, any lumpiness that you see and any risk of because of cost escalation etc., some --
- Sanjay Majmudar:** Sonal, you are talking, sorry, we missed you. About which business you are specifically referring to?
- Sonal Gupta:** I am talking about the solar EPC business.
- Sanjay Majmudar:** Solar, okay.

- Sonal Gupta:** So, I was just asking for the outlook there, I mean, what sort of revenue run rate and margin trend do you see for that business?
- Vishal Rangwala:** So, see, for this business, there is one specific thing happened that there is a duty on the panel which has created lot of challenge for us. So, first quarter was very positive, but the second quarter in terms of revenue is still positive. But in terms of revenue will drop. The second quarter is still positive in terms of bottom line. And ultimately, we expect that it will be doing breakeven or better. We are right now reporting a very positive number for first half and hoping to continue that trend. However, there is a lumpiness as you rightly mentioned that the second quarter revenue has dried up because of all this import duty, and this will again pick up in quarter 3. And hopefully, quarter 4 is usually high because of the CAPEX driven projects in this. So, some lumpiness for sure, but bottom-line point of view we are expecting to breakeven or do much better.
- Sanjay Majmudar:** So, overall, around 80 to 90 crores as we had earlier anticipated, more or less in that line, and marginally positive on the bottom line. That's it. No major capital allocation at all.
- Sonal Gupta:** So, you still expect a significant revenue in the second half as well.
- Sanjay Majmudar:** No, we did about 40 crores in first half and roughly about the same in second half, more or less a little lumpiness maybe 10 crores here and there. That's all. But it's materially very small compared to the bigger scheme of things. So, it's not going to impact.
- Sonal Gupta:** And one other thing I just wanted to understand, so most of the cost related to this business will show up in the raw material cost because I think the number of people employed etc., is pretty low, right?
- Maulik Jasani:** Yes. It's in case of solar it is mainly panel cost. Yes.
- Sonal Gupta:** So, that will come under RM, right? So, if I want to adjust for this business, then I should deduct that from the RM cost, right?
- Maulik Jasani:** Majority.
- Sanjay Majmudar:** Yes. At least 80%.
- Maulik Jasani:** Yes. You can consider as 80% of the cost.
- Moderator:** Thank you. The next question is from the line of Shirom Kapur from Prabhudas Lilladher. Please go ahead.
- Shirom Kapur:** I just wanted to clarify the number you have mentioned on the absolute value of your bushes sales. You said something around 40 to 50 crores. Would that be --

Sanjay Majmudar: The question was about what do I expect this year as the sales out of bronze bushings and that was the number.

Shirom Kapur: So, 40, 50 crores for FY '23.

Sanjay Majmudar: FY '23.

Shirom Kapur: And my next question is regarding, you know, your wind and solar power generation project. How much of cost savings are you anticipating from this in the next one or two years?

Vishal Rangwala: So, we are expecting to generate about 90 lakhs KWA. So, about 2 crores to 3 crores annual savings by swapping the power generation.

Maulik Jasani: Effective and based on the current market.

Sanjay Majmudar: It roughly takes care of 45% of my requirement.

Shirom Kapur: So, what was the number you mentioned? Sorry. Your voice broke in the middle. What was the number you mentioned?

Sanjay Majmudar: Around 3 crores cost savings annually.

Shirom Kapur: And my last question is regarding your Japanese customer where you are trying to increase your wallet share. And so what exactly is the process to increase that? Are you going to be supplying them also with the larger bearing cages? How exactly do you plan on increasing the wallet share? And why exactly is Japan such a big focus? Are the margins better there? Is the market bigger there? What is the rationale behind that?

Vishal Rangwala: So, let's talk about, you know, if you look at global bearing market, and if you look at top six bearing players, the Schaeffler, TIMKEN, SKF are already our very large customer. There our estimate is that our business share globally would be in a range of, you know, anywhere between 10 to 25, maybe 30 in some extreme cases, but roughly in that range. Now vis-a-vis the three big Japanese players in this top six, NTN, JTEKT and NSK, with these set of customers, you know, our business share or wallet share is roughly our estimate about 2%. So, the reason we are focusing there is obviously to diversify our customer portfolio, but the fact that we see that there is a large activity just like these three we have significantly capture wallet share. There is an opportunity to capture wallet share with Japan-based customer. So, that's the reason of focusing there.

Second, you know, why we think this is going to happen is because, you know, we have been working with them last 10 to 15 years, and they have now accepted us as a player of within this specifically precision engineering commodity, and they are actually taking supplies from us for their Japan-based facility. And this Japan as a market is also very big. Japan-based customer

brings us a lot of opportunity to further grow. So, all those are the reasons why we focus and track on that and becomes a great growth opportunity.

Sanjay Majmudar: And just to add quickly, number one competitor for us NKC is a Japanese player, and if I am able to supply in Japan from India, it's a credit. That shows that we have a tremendous cost competitiveness and acceptability even from Japanese customers for supplies in Japan. That's very important.

Shirom Kapur: And just last question is will you be competing with any of your customers when you are supplying bronze bushes, because since they are replacement of bearing?

Vishal Rangwala: See, historically, our customers have not gone into bushing as a product. If they decide to go then there could be some competition. As one of our customer has bought a company recently, which has a one of the small product portfolio is bushing in there. So, again a very difficult question for us to answer.

Having said that, we feel quite confident about our bushing strategy. We bring to table competencies which are not available with our customer. Our customers, you know, strengths are bearing design, bearing grinding and those kind of heat treatment, those kind of competencies. And the bushing requires a precision machining and a casting of a non-ferrous material. So, these are very different competencies. So, thereby we think that we will not be for most part competing with our customers.

Sanjay Majmudar: So, moderator, if there are no more questions, let's close the call.

Moderator: Thank you. So, should we close the call?

Sanjay Majmudar: Yes. Please go ahead.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today. I now hand the conference over to the management for closing comments.

Sanjay Majmudar: So, thank you very much. Thanks for patiently hearing us even so much later in the day, and we will make sure that for the next quarter onwards, we will try to become a little more accommodative in terms of timing. And have a great evening and thank you very much. As usual, we remain available to answer any other questions, and we are quite very, very confident about the medium to long term prospects, and we remain committed to what we have said. Thank you. Have a good evening.

Moderator: Thank you. Ladies and gentlemen, on behalf of Harsha Engineers International Limited, that concludes this conference call. Thank you for joining us, and you may now disconnect your lines.