RISHI LASER LIMITED

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12th June, 2024
RLL/20/2024-25

To
Dy. Manager,
Corporate Relationship Department,
BSE Limited,
25th Floor, P. J. Towers, Dalal Street,
Mumbai-400001.

BSE Script Code: 526861

Sub: Transcript of Analyst / Investor Conference Call of Q4/FY24

In terms of Regulation 30 read with clause 15 of Para A of Part A of Schedule III of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed the Transcript of Analysts / Investors conference call held on 10th June, 2024 related to Q4/FY24 Earnings Call. The same is available on Company's website.

Please acknowledge and take the same on record.

Thanking You,

Yours Faithfully,

For Rishi Laser Limited

VANDANA JITESH PATEL
Digitally signed by VANDANA JITESH PATEL
Date: 2024.06.12 15:44:42 +05'30'

Vandana Patel
Company Secretary

Enclosed a/a

"Rishi Laser Limited Investor Conference Call"

June 10, 2024

MANAGEMENT: **MR. HARSHAD PATEL – CHAIRMAN AND MANAGING DIRECTOR – RISHI LASER LIMITED**
MR. GANESH AGRAWAL – CHIEF FINANCIAL OFFICER – RISHI LASER LIMITED
MS. VANDANA PATEL – COMPANY SECRETARY – RISHI LASER LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the Investor Conference Call of Rishi Laser Limited. We have Mr. Harshad Patel, Chairman and Managing Director, Mr. Ganesh Agrawal, Chief Financial Officer and Ms. Vandana Patel, Company Secretary from management team of the company. This conference call may contain forward-looking statements about the company which are based on the beliefs, opinions and expectations of the company as on date of this call.

These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict. 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 star then zero on your touchtone phone.

Please note that this conference is being recorded. I now hand the conference over to Mr. Harshad Patel, Chairman and Managing Director. Thank you and over to you, sir.

Harshad Patel: So, welcome to the Investor Con-Call. Thank you for taking your time to attend this and the annual results are before you and there was a small presentation also which was put up couple of days back which I hope you all have been able to go through. I think one quarter back, we had a meeting where some of you all would have also attended and since then, there has not been much change as far as business outlook is concerned.

So, as far as last year was concerned, we had a very benign growth in sales just about under 5% and this was primarily as we mentioned earlier as well, the second half was a little bit slower. Typically, second half is slightly better than the first but in the last year, second half was lower and therefore, we were little bit below our targeted sales. However, profitability was better and with little bit more operational improvement, I think the profitability should get better even going forward.

Besides this, I think the not too much more to report as far as business is concerned. I think customers are all stable, they are growing and we expect much better business from them going forward especially in the second half when some of the development work which we have done will be through and those will be commercialized. As far as exports are concerned, which is very low as of today, only single digit numbers, we have three large customers for export, one from Australia and two from United States and two of them, we have already started supplies and commercial orders are in place and this business should go up significantly after the third quarter onwards.

Raw material scenario seems to be very benign. I think I do not expect any problems as far as steel pricing is concerned. Lot of large steel capacities are coming on stream in next six months. So, that should be okay and typically with stable raw material prices, it helps maintain profitability because it is the large volatility in price especially on the way up which causes a little bit of a problem as we have seen in the past.

So, I do not expect that also to, I think that should also be quite alright. The other thing is setting up a very large new plant in Bangalore about 30 kilometers away from our existing facility and this will be in fact the largest setup of the company, larger than our current big facility at Pune and this should get on stream towards the last quarter of this year.

The other new thing is that so far we have only been in flat steel processing business. So, our starting material is flat steel, it could be anything, CR, HR or stainless steel but now we are getting into round and square steel processing that is tubes and our first machines which will process this should be with us by second quarter. From third quarter onwards, that will be a new business.

We see a very, very large potential in that business because it is, India is still quite undeveloped as far as tube processing is concerned. A huge amount of tubes are being produced but still not being processed with modern techniques the way we are able to do with flat steel. So, that beginning will also be made sometime in third quarter of this year.

I think this is all about last year and what we plan to do in the current year and with this I think we can open up for questions from the participants.

Moderator: Thank you very much, sir. We will now begin the question and answer session. The first question is from the line of Rahul Jain from Credence Wealth. Please go ahead.

Rahul Jain: Thank you for the opportunity and congratulations, Harshad bhai, on improving profitably. And as you mentioned in your initial remarks, you mentioned about top-line growth coming on in the second half. Harshad bhai, if you could spell some details about what exactly we are talking about when we say the top line will be much better in the second half, what will drive that growth and sales for the second half? That is my question number one.

And within that, if we can spell about the segmental, because the construction expense for the last three years has been around INR75 crores, INR80 crores whereas our power business has grown from INR6 crores to INR14 crores to this year to INR24 crores. It has done well on a yearly basis as well as quarterly basis. So, what exactly is happening on the power segment side? And going ahead, how do you look at both these segments? And within the segment, the others category, if you could talk about what is the major part in the others and where the growth will come in the other segment?

Harshad Patel: Okay, got it. So, thanks Rahul for attending. The top line growth in the second half, we are talking about more optimistically is because mainly because of exports coming online. This has been going on for, I mean, work has been going on this for about nine months to a year in some cases. And those are steadily going up initially from smaller lots and to containers and now it will start becoming regular. So, the primary growth will come from there.

The other area where we will see, we hope to see good growth in the second half is from the off-road construction equipment that are these large dumper trucks. So, that used to be our biggest segment within the construction equipment sector. Our biggest customers, our biggest demand was from the off-road mining, the vehicles used in the mine.

And that was not growing that fast. Last two quarters, it has been slow. It is expected to be a little bit slow, even another two quarters. And after that, our customers are expecting a good amount of growth from that sector. So, it will be from this off-road vehicle mining sector as far as the domestic and export is concerned and also exports per se to the other industries which are not from the construction sector. And segment growth, I think, electricals used to be many years ago a very strong focus area and we had expected a lot of business from there, but that had not fructified.

Primarily, we are in the medium voltage distribution sector. We do not supply anything to the power generation industry. We used to do a lot of work for, in the past, for hydel projects and stuff like that with Alstom. But now, our primary customers are from the switchgear industry, voltage, that is, Schneider is the larger customer in the electricals.

But more other customers were added and that is, Schneider has not seen that much growth, but they are projecting very large numbers again going forward because of, in fact, as the situation stands today, they have a lot of order backlog which they are not able to fulfill, primarily because they are struggling with some imported components to make those. So, once that thing is stabilized, then we expect good, decent growth from the electricals sector as well.

But I still feel that the construction equipment and the ratio that we saw in the last year, it should remain something similar because both these sectors will see growth, but I think construction equipment sector will see higher growth than electricals is my feel. So, maybe the percentage of sale to electricals will go down as compared to the past, this year ended March '24. And construction equipment percentage may go up slightly.

Though the sales of, in both sectors, sales in numbers, rupee value will be higher, but as a percentage, there will be slight change, again, in favor of construction equipment as compared to the electricals. As far as others are concerned, we have companies from equipments, other equipment builders, like compressors, compressor manufacturers. And whenever we talk of any of these equipment, these would always be the larger segments, not the consumer or the individual user segment.

These would be primarily large compressors, which go in for industrial use, right up to big ones, very big ones, which go into the steel plants and cement plants and stuff like that. So, that is one area. There are some customers who are in water processing and pumps areas. Then there are customers who are in the windmill sector. And I am not sure whether last year, I think windmill was also included in whether in this percentage, it is included in the power and because of that the power segment has gone up. I actually, I would not, I am not very sure about that.

So, I think this is as far as the distribution of sales is concerned. Can we go to the next question, please? Thanks again for asking this, yes.

Rahul Jain: Thanks, Harshad bhai. This was quite helpful. I will have some more questions, but I will come back.

Harshad Patel: Okay. Thanks.

Moderator: Thank you. The next question is from the line of Ankit Kanodia from Smart Sync Services. Please go ahead.

Ankit Kanodia: Thank you for taking my question and congratulations on a good set of numbers. And sir, I really appreciate in the recent presentation, we have shared the product portfolio as well, which is very helpful. So, my first question is related to the export numbers. So, when I see export has actually grown a lot in this year, but on an absolute basis, think it is still about INR8 crores to INR10 crores, right? So, just wanted to understand more color as to what kind of export order and this order would consist of how many clients, customers? Is there any one or two customers who is forming part of the whole export or is it diversified?

And if it is diversified, how can we have such a small export order? Is this just a sample thing which they are doing with us and maybe larger order we will get based on the review of our current this thing? That would be very helpful, sir, if you can be sure.

Harshad Patel: Right. Yes Thanks, Ankit for joining. So, your analysis is absolutely correct. This export growth looks big because the base was very small. It is on a very tiny base. So, it looks as if there has been some growth, but this is just, I would say just tip of the iceberg, just an entry being made. Primarily, there are three customers on whom we are banking for exports. Currently, we have more than three, but the growth will come from these three customers.

One is the Emerson, which as you know, Emerson Electric is a very big, large American group and their initial exports have, already commercial exports have started. So, that will grow significantly from here. The other one is an Australian company which is making equipments for glass processing. So, these are again components for that equipment, which are being exported. And this we have been working with them for again, maybe something like five, six months. And the first commercial order has just come in, in this current month.

And once these things get set, we expect that also to pick up. And the other one is our main customer even in domestic market, which is Caterpillar. Caterpillar, we have exported parts to two of their plants in the U.S. And now they are giving us, they've given us orders for their aftermarket components. So, these are components which will be stocked by them for spares and sold in the U.S. market, because these are small in volume. So, they cannot source it domestically or from China or anywhere. Of course, small in volume is as far as Caterpillar size is concerned.

For us, it's not a very small business. So, these are the three major besides this, we have customer in France and also, I forget in what line of business they are, but we've exported some stuff to them last year. So, exports is a very big area which is untapped actually.

And we also had not been able to get into that because of our own issues and which we had. And exports, it's a little bit long term thing, but a good part of that distance is covered. So your thinking is absolutely correct that INR2 crores, INR5 crores and all that in export is very, very small.

Any one customer can take you to INR15, INR20 crores quite easily. That's the kind of business potential that they talk of. And in fact, what is happening is that what we are seeing now in the last six months more and more foreign companies are trying to look at India more seriously as far as steel fabrication exports are concerned.

Because the costs in Europe especially have gone absolutely ballistic. So today, the cost of steel fabrications from India is less than 50% of the cost of what they are able to do in, let's say, Germany or in fact even in Poland, France all these countries. So more and more, they are under a lot of cost pressures and they have to look at India quite seriously.

Now, what actually happens here is that your first few customers to get and to do the business becomes a little critical because later on the customers, once you have credibility in the market, then the other customers, you don't have to go through the whole process of their long gestation and their people coming here and auditing and all that. Once they know that okay, you are already a supplier to top-grade companies. So once that credibility is established to expand that business will become much easier, which I think will happen not in this coming year, but the year after that.

This year, we will consolidate business with our customers whom we have already tapped, which should pick up quite substantially. But in the coming years, if this what trends I see exports could grow so much that it could be as big or even bigger than the domestic business. That's the kind of potential which I see in the exports business.

Ankit Kanodia: Thank you so much, sir. That was very helpful to hear a detailed answer on this. So, my second question would be related to our upcoming capacity in Bangalore. So if I remember correctly, in the last call, you mentioned that we are only having a 50% capacity utilization currently. And on top of that, if we are going for such a high capex, is it right to assume that there should be some product mid-shift towards more high-value added products there? Or will we be making the same kind of products in that facility as well?

Harshad Patel: Right. No. So see actually, we have various plants, as you know, in different parts of the country. And because of skewed nature of our capacity and demand it is funnily where our largest facilities are in Pune and the second largest facilities in Gujarat. These are underutilized, whereas our facilities in Bangalore and Chennai the business is more than what we can handle from our existing factory. So that is the reason for setting up this unit in Bangalore.

Because we actually in the last year, we have lost some businesses because we didn't have enough space to do that business some bulky businesses. And currently, we have three small units just abutting our existing factory, which we have taken on rent as a temporary measure to, because the business had gone up more. So we had to use that temporary facilities nearby.

But that is very inconvenient because you have two or three small shops supporting our main shop in Bangalore. That is the reason why we have gone for this big facility. So we will move our major customers business to the new facility, as well as now we are changing a little bit way of working in the sense that we will consolidate.

Today we have all our factories have entire facilities from first process to the last. That means you take steel and you can make the final product. Now we will be changing slightly the way we do business and in the new plant, there will be a very large cutting facility and cutting shop, which will supply parts to our Chennai factory and our current Bangalore factory.

So with this consolidation, it will sort of increase our capacities in our existing two plants because some space will be released. Plus, with this new space being with us, we expect some more business to come from a couple of new customers who are in electric vehicles, not passenger vehicles, but small vehicles made out of battery operated vehicles, load bodies and few other things. So those kind of some new businesses, but primarily more of the same from similar customers as well as export also will be done from the new facility.

So no new product as such. Of course, this tube business also we are talking of will also go into the Bangalore facility and tubes is a very large, it is another very big animal and a very large business. We will -- it is little initial stages and I think this is a little too early for me to give a very detailed presentation on that.

But as we go along, maybe another two quarters from now that we can discuss that also a little more. So as far as new product is concerned, it will be tubes and pipes, but major part of the business for the new facility will be from existing customers and export. So there was, so the excess capacity is not in the southern plant, there we had the constraints of space, that is why the new facility is being put up.

Ankit Kanodia: Got it. So, when we are looking more towards export and believe that export will increase in a much faster space compared to our domestic sales, are we also planning some facility near the port areas like Bhuj or Kutch, where there are ports, are we planning something like that?

Harshad Patel: No. We are not because see our business, our work is not that way, that bulky that we need to be near the port. What is important in these businesses is your technical knowledge of all this, because ours is not a process industry as you know, it is all discrete manufacturing. So the human resource and other things are very, very important.

That's why these plants we cannot put up in faraway places, away from that is the reason our plants are also in big cities whether it is Bangalore or Pune or Baroda, etc. We are not in Chhattisgarh or near a steel plant in Bhilai or something like that or near a port. So, no we do not look at -- for us we cannot go, I mean, it does not make sense to go near a port like that.

Ankit Kanodia: Got it sir. And sir I see our fixed assets turnover is very low at two times, but I think this is majorly because of low utilization levels. If we reach closer to 100% utilization where can we go in terms of fixed asset turnover if we take also the increased capacity of Bangalore which will come up in the next one year?

Harshad Patel: Yes the Bangalore facility itself will be about 70,000 square feet. So for us to get that plant also fully occupied will take about 2 years, 2,5 years with such a large facility. So the reason for going for a large facility was that this much, this area was available and once we, if we are doing if we do small area expansions we are finding that we are always running short of space and continuously in a building mode.

And our layouts also we cannot plan that efficiently. So that is the reason we have gone for this. So as far as, I mean the Pune capacity space-wise and equipment with some equipment being added itself has capacity of doing more than maybe INR100 crores, INR150 crores in that larger facility. In the past, we have done that also, but in the downsizing and all that we had to cut down a lot of our sales.

The other thing as I had mentioned in the previous meeting is that we have changed our entire strategy of sales and got away from more higher volume sales. Even within the earth moving industry, there are lots of components which are high in volume and sales value, but the value addition is lower.

So now we have tried to move away from that and that is the reason top-line growth even going forward will not be very fast unless we decide to again get into those markets, but I do not think as of today we do not have that. Since we have vacated that space, we do not feel it is better to get back into that because that is more competitive.

There is business, but it is too competitive and too much volume driven. And whenever we looked at very high volume driven sales the cycles and the up and down hurt us much more rather than when we are a little bit more concentrated and focused on certain areas. So infrastructure-wise we have a very large infrastructure already in place to do much larger sales, but despite that the sales growth domestically will not be that high and that is also the reason for getting into the tubes and those kinds of businesses which are also in steel which are related in one way because similar infrastructure companies and other areas we can supply tubes and pipes.

So growth we want to do more in a balanced way with some newer types of components and assemblies rather than have very high volume growth in high volume markets.

Ankit Kanodia: Got it, sir. That was very helpful sir. Sir regarding the kind of growth which we are expecting in the coming years, how are we placed in terms of funding? How do we see our funding going forward? Is our internal approval sufficient or are we going to increase our debt and equity funding? Any broad guideline on that or do we want to move ahead?

Harshad Patel: Actually, last year in September we had become debt-free and then after that we have taken some small loans because of capex requirements. So going forward also at least in the coming year a good part of growth whatever we have planned will be out of internal accruals. There will be some loan requirements also.

So unless there is some very large business or some related area of business which shows more promise, then only we may think in terms of having some small equity infusion. Otherwise, with internal accruals and some debt we will be able to fund whatever. See last year we had I think about a INR10 crores cash flow and a good part of it had gone for repayment of previous loans in the first six months.

And now current year cash flows also, this will be there plus maybe some borrowing will be made to finance this whatever capex we are planning.

Ankit Kanodia: Got it sir. Sir one last question. Generally what we see in India whenever any industry or specifically industry which is smaller and niche like ours, any good growth we see a lot of new players coming in and competition heating up. How do you see that coming up in the coming years? How are we prepared for that?

Harshad Patel: Yes. So I think this is a very valid and a very good question. As of today as we speak there is a kind of a gold rush in the cutting business. In the laser cutting in India, the capacity is growing manifold in the sense that in the last 2 years the capacity of cutting in India must have grown by maybe 500% or something like that.

It is that much of that many equipments are coming in and so large number of people are getting into the cutting business. Some of them will get into the fabrication business as well, but fabrication business the kind of business, this business has its own gestation. This is not -- it is not a question of setting up a factory and putting four equipments in place because when you talk to at least all these big, organized players, the entry barriers are very high.

In fact, though we are in this business for 15 years, 20 years for us to get into newer companies also is very difficult because many big companies have stopped giving vendor codes to new people. They do not want new vendors. They are in fact shrinking the number of vendors that they have.

So to that extent I would say that competition from newer players I do not expect that much, but the opposite of that is in fact happening and that is that consolidation is taking place and the smaller players in this business are in post COVID there has been a very big transformation happening. So even in the -- who are vendors of these kind of companies that we work with there has been a lot of shuffle, the small players.

When I say small I would typically talk in terms of single location company doing business of about INR25 crores, INR30 crores, INR35 crores. These are the companies many of them are taking a big hit because they are not investing enough in new technologies or investing in people.

So competition I do not feel competition will be -- the problem which if at all arises is that the growth in our customers I mean our customers if they do not grow enough it could be a problem because all the existing people in the business everybody looks to grow. So if your industry is not growing it could be a problem. But entry, all the new players who come in, they are typically only looking at the very low end part of the business, which we have already vacated that space. We are no longer in that space at all.

Our company's main foundation used to be cutting. That is where we made all our money and that was the base on which this company was built. But now that has become completely commoditized and as I told you, a huge expansion has taken place. So I do not see that as a serious threat.

Ankit Kanodia: No, that was very helpful, sir. Sir, one last question, if I may.

Harshad Patel: We need to go to the others also. Yes, please.

Ankit Kanodia: Just last question, sir. If we take a very longer-term call say 4-5 years down the line, what is our general aspiration as a company? Where do we see ourselves in the next 3-5 years? And what do you think is the major risk to reach that aspiration, which we will always keep in mind based on our experience in the last 20 years?

Harshad Patel: No, we are still not aggressive as far as growth is concerned. And that is why I think another one year more, this current year also is going to be critical because we have taken decisions to expand capacity to get into a newer line of business. So how this pans out will tell us what we could do in 5 years.

So moving very cautiously because though I am very optimistic about the business scenario also, even more in tubes than in flat steel but the beginning that I am making is in a very cautious way. I mean, the same thing maybe a decade ago, I would have gone with all guns firing. But now I think the way we want to move forward is not to be over.

I would say to keep a little bit of enthusiasm in check and take things as they come. And yes, if things look much better and we start getting results of whatever we are doing then yes, we can press the accelerator as going forward. But as of today, I cannot really tell you in more detail about 5 years from today, what could be the scenario.

Moderator: Thank you. The next question is from the line of Dhwanil Desai from Turtle Capital. Please go ahead.

Dhwanil Desai: Good morning, Harshad sir. My first question is, if we look at our trajectory in terms of gross margins, I think we have done very well even in tough times. And as we are coming out of tough times I think the gross margins are even improving. And as you are saying, that we are focusing more on non-commodity products, export market, which generally we believe is a higher margin business.

So, sir, with that 45% kind of a gross margin generally as the growth comes in the operating leverage is pretty high. So, first question is do we see gross margin remaining at around this level or improving? And as we grow at 15%, 20% or even more, do we see our EBITDA margin reaching to low teens or around mid-teens kind of a number? Is that the direction that you are thinking about?

Harshad Patel: Yes. So, very good question. You've really -- I mean -- hit the thing on the head. So, yes, gross margins we expect it to remain in these levels. And those are the types of businesses that we are looking at. Only if we are able to get businesses which have that kind of complexity or the quality demand from customer, due to which these margins are there then only those businesses we are taking up.

And in future also, that's the kind of business that we would like to take up. And the problem here is that to increase sales very aggressively with this kind of product is proving to be much more difficult than I had envisaged. Because some of the customers though they are very large, their capital spends are very large, what we are supplying to them is still very very small.

And it's still not that easy to increase I think sales there unless their own growth also. For example, I mean ABB you would have heard as a company again very big player also our customer but still we are very small in that space. So, to do this business, I think growth will be -- fast growth may be slightly challenging unless more of this churn takes place and some of the smaller players continue to get under pressure.

But otherwise, yes our target is to maintain these margins. So, if we can increase turnovers then we'll see a bit this kind of business should theoretically give you double-digit EBIT margins, actually. But because our turnover is too small for the size of the company, for the size of the facilities, number of plants, etc., is the reason we are at these numbers. If we could grow more then yes, it will help at the EBIT level.

Dhwanil Desai: Okay, got it. Sir, second question is on the steel tubes and I understand that you are still kind of it's a gestation period and you are still looking at various options. But at a broader level, I wanted to understand from whatever limited understanding that I have steel tube is a -- there are reasonably large players and I also assume that there will be many product SKUs, many applications.

So, within that where are there are already established players what are the, what is it that we are looking, which is so exciting, where we can make our good margins and still scale up. So, in the given scheme of things and competitive landscape and since we are new players, why do you feel that we will be able to kind of get into this area and scale up well?

Harshad Patel: Yes, so, this is -- see what has happened is tubes since you are from the investor community, you would be seeing the kind of growth that is happening in the tube industry. When I talk of tube industry it is the people who are making tubes. But post-tube the processed tube industry is not keeping pace with that. So, we are still processing those tubes in a very crude manner. And India is exporting a large number of these tubes and pipes from India going into various industries whether it is petrochemical or so many other industries. So, the reason I am optimistic is that we are going into a space of tube processing not actually making tubes.

In the tube processing area, a lot of processing is being done with very crude technology. In fact, I am seeing today that 15 years ago, where we were in flat steel in India with much more outdated ways of processing and now it has changed completely. Something similar will happen even in the tube space.

So, the areas we will be looking at will be tube supplies to equipment builders, equipment makers, we are again not going to go in the competition or the demands where India is already very strong is in automotive space in two wheelers and all these areas tube usage is very good, suppliers are very good. But we are looking at those industries and we are looking at the furniture industries, the hospital equipment, hospital industries, tube requirements in stainless steel.

So, what we are looking at is that the existing market is being served not in a sophisticated manner and we want to come with the latest technologies and equipment so that our quality delivery will be much, much better. That is the reason I am so optimistic.

Dhwanil Desai: And one last question. So, again, given the backdrop that you talked about both on domestic market side and export market side. So, in the domestic market, some of the end-user segments have some push or tailwind or some kind of a demand push, be it infrastructure, construction, real estate, and on the export side, you are seeing customers wanting to source more from India.

Given all that, and the base that we are sitting at, which is a very small base, INR130-INR140 crores. Do you see a challenge for us to grow at 20% plus? And if so, why?

I mean, where are the bottlenecks?

Harshad Patel: Yes, I do see a challenge or rather, I have discovered now that it's much more challenging than what I thought it was two years ago. Two years ago, my feeling was that market is, a big market is there and once we get our finances and other things in place, growth should be -- there's a lot of opportunities for growth. But I'm not finding that we are definitely struggling to add customers to our profile. So, we can grow at that pace. If we want to grow at 20% or 20% plus, then the only way to do that is to add customers to what we have. And that part is proving to be very difficult.

Because as I also, in today's talk itself, said that in the large customers, the kind of customers we are addressing, they are all trying to -- I mean, they are limiting the number of players who enter into their space. And therefore, it is proving to be very difficult to grow faster. And that's the reason why we have shifted our focus much more to exports than to the domestic market.

It may seem to be a little contradictory, but that's what we find. So, or otherwise, we have to think a little bit differently and compromise and say that, okay, we can, with these similar customers or similar types of customers, we go in for lesser value added products, and we grow top-line faster. And we have a product mix of where gross margins are 45, 50%.

And we also have products where there are just gross margins of maybe 30%. And that kind of a mix, that is also a possibility. If you want to grow faster, that is definitely possible. But if we want to continue with this kind of thing, then it will be, it is a little challenging to grow domestically that fast.

Dhwanil Desai: But with export coming in, from what you are saying, if it scales up, then it adds up to the domestic growth. So if that part starts scaling up, then we can go to 20% kind of a growth. Is that a right assumption?

Moderator: Thank you. The next question is from the line of Ankit Gupta from Bamboo Capital. Please go ahead.

Ankit Gupta: Thanks for the opportunity. On the margin side we have seen that there has been an improvement in the margins, primarily because our expenses haven't grown much in the current year. So around 8.5% is what we have done this year. So given the growth that we are expecting in the second half of the next financial year and traction across the various industries that we are serving, how do you see margins standing out for us for FY '25?

Harshad Patel: So as far as margins are concerned, two major things. One, we talked about gross margin, which is variable cost to sale. So that part, now when we come to the fixed cost or the semi-fixed cost, the major concern will be human resource cost. And it is a little bit human resource intensive, the work we do, because it's all tailor made. So in that area, I see, there is one area of concern, which I see, because one is the lack of skilled manpower availability in this country. So we are investing a lot on our own, setting up a separate training facility in Gujarat to train more people for us and for others in the industry.

But to contain that cost, we will be, I mean, we have set up a separate, you know, task force just to look into automation. And we want to go for increased automation with robotics and other simple special purpose machines or assisting machines, etcetera. So the idea is to keep manpower numbers at the same level and increase sales from here by 50% or 60% from where we are and not add any people. So that's the target. And with this in mind, current year, I mean, this month itself, we are installing a new robot in place in our Bangalore plant. And similarly, we will be automating so many processes as we go forward.

So idea is by doing some of these automations, especially in robotics initially appears to be commercially not that attractive, because manually, you're not spending so much on capex. And you can say that, work is going on, why spend so much on these automations. But as I see, unless we do it now, you'll always be behind the curve. So, yes, human resource cost is the major concern. And that we are very aggressively working on that to keep that in control.

Ankit Gupta: Because we have seen some increase, we have seen a decent increase in employee expenses by almost 15% in FY '24 compared to FY '23?

Harshad Patel: Right. So those costs are going to increase for two reasons. One is, of course, the minimum wages are going up, and that is going to be putting pressure throughout the entire value, this thing. And then, even for the better quality, I mean, the more educated staff, engineers etcetera. Those availability numbers is very high, but good quality people to retain, you will have to pay them far, far better. So that's why the only way to attack this is through automation and other things.

So even our back end on software design, manufacturing, engineering, all those areas also, we've been fairly weak in the past, because of underinvestment in software. So that area also we are attacking. So that, but that I'm quite confident, we'll be able -- there's a lot of low hanging fruit there. And we should be able to keep that in check. It doesn't appear to be -- though it's a, it's an area of concern, but I think we will address it. I'm not too worried about that.

Ankit Gupta: Given the kind of growth expectations we have for the second half of FY '25, for the full year FY '25, how do we see growth for us?

Harshad Patel: Sorry can you repeat, please?

Ankit Gupta: The kind of growth that we are expecting in the second half of the next financial year. So, how do you see the overall growth of the company in FY'25? We ended this year at INR140 crores. So, next year, what growth can we expect?

Harshad Patel: I think I'll pass because I don't want to give a number and then not be able to sort of achieve that. But, as we discussed earlier also, the growth will not be very aggressive in the sense of, anywhere between, you can say on an average, maybe 15%. That would be a good growth as far as we are concerned.

Ankit Gupta: Because we are setting up our Bangalore plant as well?

Harshad Patel: So that is also unfortunately coming up a little bit, in the later part, only in the third quarter of this year. So, the benefit that will, that and the benefit of that in current year may not be that much as it will be in the subsequent year. So, that's why, as I said earlier, if these things happen and go as per plan, then the subsequent year or 2 years should be much better. The growth should be faster.

Ankit Gupta: And how do you envisage growth with our, larger customers on the construction equipment side? You're saying second half should see better, but let's say over the next 2 to 3 years, this business has been in the range of around, INR70 crores, INR80 crores. So, do you think, this business has a potential to reach, cross INR120 crores, INR150 crores over the next 3 to 4 years?

Harshad Patel: It should, because, these are all, as far as domestic business is concerned, these, these equipments are all going into road building and mining and -- all other infrastructure projects, including dams and all other stuff. So, if these infrastructure spending continues at this pace, or even slightly lower pace, this, the business should grow from here.

Because even today, our infrastructure equipment industry is very small compared to China, we are maybe less than one fifth the size of China in this space. So, their customers, but one thing has happened is there are many of our customers have been very over optimistic with their projections in the past, and they have not been able to meet that because of too much cyclicality in the business, volatility.

So, customers are quite optimistic, they are all building capacities, Volvo is expanding, Caterpillar is expanding, JCB is expanded, put up a new factory. So, all of them are growing in the expectation of more business from India and, their own export business. But we have to see, what will happen.

It's, in the past, last 10 years, things have not been, it's always been up and down, we've not had consistent growth for 4 years, 5 years in a row. So that, in that sense, it is a little worrying, but I think growth, it will come. Now, how fast it will come is a question, one has to answer. And again, one more thing, which, therefore, what happens is that you have to be ready for that kind of big growth business to come because once the business comes, there is no time to set up facilities and press, get this equipment, get that do that.

So, you have to build capacities and keep that ready in anticipation of growth. And that is something that even companies like Caterpillar who have deep, cycles in their own business is what they are telling vendors to do. And that is also the reason why they say that you should have more-and-more automation so that you have flexibility in ramping up and ramping down, you don't have to throw too many people out or again, rehire them. So this, whole plan of building capacity and keeping all that is to see that when the times, when things pick up, you are ready with your, capability.

Moderator: Thank you. The next question is from the line of Pradeep Rawat from Last house (blue), please go ahead.

Pradeep Rawat: And so I have a couple of questions. So, first question is regarding our revenue potential. So, what is our revenue potential from our current facilities? And what would be the revenue potential from the upcoming facilities?

Harshad Patel: See, this, it's a little difficult for me to answer this is because it all depends on what, business you are going to do from that facility. So as such, one large plant -- okay, let me answer that question in a slightly different manner. Today, we have a plant in Pune, which is maybe three times larger than Bangalore.

But business being done there is less than half of Bangalore. So that is the, potential to do more business is there. So with this, new facility in place and all the existing setup, actually, with balancing equipment and people and all that, it can be scaled up very substantially from here in the sense of, INR250 crores, INR300 crores business the whole company can do with this kind of facility.

Pradeep Rawat: Yes, both current and upcoming facility, right?

Harshad Patel: Yes. It can be even more than 300, actually, but 300 is something that is definitely, doable if, the business comes in a, or we are able to get the business on board. And therefore, again, and again, I revolve back to export is that I feel that those kind of larger volumes in a, in a shorter period of time will be possible more outside India than, in the domestic market.

Pradeep Rawat: Yes. So, we are expecting huge revenue ramp up from exports, like you said, 40% to 50% plus contribution we can generate from exports. So, can you specify any kind of ballpark timeline for that?

Harshad Patel: It is difficult for me to say, I would say about three years is what I feel.

Pradeep Rawat: And that would be like service from our Bangalore facility or all over the like all facilities that we have?

Harshad Patel: Primarily Pune and Bangalore, Pune also and Bangalore, because these two facilities, because of the quality of people that we have more than people and now in future infrastructure also.

Pradeep Rawat: And my question regarding that capex only. So, what investment are we putting in into that new facility?

Harshad Patel: New facility, this total maybe INR7 crores, INR8 crores, maybe under INR10 crores of capex in that facility. And balance, we are also upgrading some of our other equipments as we go. So, our routine capacity, routine capex will also be there. And as I talked about automation, so this automation capex is also going to be an ongoing thing. So with all this, everything, it could be around INR12 crores to INR15 crores, which would include everywhere, the existing facilities as well as the new facility.

Pradeep Rawat: So, INR2 crores to INR5 crores would be for routine capex and automation?

Harshad Patel: Yes.

Pradeep Rawat: So, my last question is regarding our competition. So, sir, can you name some of our competitor in current line of business, as well as the new segment we are getting into that tube processing segment?

Harshad Patel: Tube processing, I'm not really sure of any big, organized players, what they are doing so far. But in this current type of business, there are very good, strong companies in the south, in Coimbatore area, there is in Jamshedpur, Bangalore, most of these are 1 or 2 single plant companies. And again, supplying to these earth moving industry, railways and these kinds of industries.

So these are our other sort of suppliers in the similar line of business, it could be, many of them are in automotive components also, Apex auto or Surin auto and model infrastructure. This model and others are all closely held companies, they are quite strong in this area, moving equipment, maybe doing about INR400-INR450 crores business. It's a Singapore funded company.

And yes so there are players all over the country, because this whole steel processing business is a very, very large business. And it's likely to grow larger because of the kind of facility, kind of steel capacities which are coming online. And yes there are number of players, I think I'm off the cuff, I'm just not getting some of these names.

Pradeep Rawat: So, sir, you are saying that tube processing segment have no significant players. So, can you specify?

Harshad Patel: No, I'm not saying that please don't mistake me. I'm not saying there are no significant players, there are obviously such a lot of tubes are being processed. So, there, there have to be significant players. But the work, the way it is being done, the number of players are still very limited. There are a few in Pune. As I said, many of them are suppliers in the automotive space, but the non-automotive space, I have not found that I don't see that many big players.

There are a few companies now which have got into it for bigger kind of tube and this processing, very large, which are used for bridges and stadiums and airports and those kinds of things. But that, that is not the space that we are, we are still looking at the smaller, smaller diameter, maybe 50 millimeter below, 50 millimeter and below. So, those players are, seem to be all quite, quite small, small and scattered.

Possibly maybe because the demand scenario in India has not, has not been so large and it's all tube, tube is, from strength to weight ratio, tube is one of the best ways to bear load. And therefore, in the West, more and more work is being done with tubes than with, with other kinds of steel, like angle channels and other things. And slowly and steadily that is, that is going to happen in India as well.

So, that's the, but as I said, tubes is a new thing. So, let's not spend too much time on, in that thing as of today, maybe six months down the line or one year, we'll be able to talk about that from our point of view. But it's a, it's a very large segment. Yes. Can we go forward, please?

Moderator: Thank you, sir. We'll take the next question from the line of Manoj from Geometric. Please go ahead.

Manoj: Okay. As export is going to be major growth driver, can you throw some color on the gross margin? We are taking these three big customer. So, we know the customers which can drive the growth also. So, how would we like, what is the working capital cycle inventory? How do they order? How much before they tell? Just color on these kind of key metrics, which we track specifically for the growth in export.

Harshad Patel: No, I don't. Ganesh, you have anything on this you can, you can say?

Ganesh Agrawal: Yes, the margins are better than the, domestic customers basically by 4% or 5%ive percent. That is, that is on the margin side and working capital requirement is equal to what we have been measuring, what we have for domestic customers.

Manoj: Okay. Okay. That was my only question.

Harshad Patel: Thank you.

Moderator: Thank you. sir. Ladies and gentlemen, as there are no further questions, I would now like to hand the conference over to Mr. Harshad Patel for closing comments. Over to you, sir.

Harshad Patel: Yes, I don't have anything much to say. We've discussed in fairly good detail, but I hope that when we meet maybe six months down the line, there will be something more to discuss. Otherwise, you know, there's nothing from my side actually. Thanks all of you all for joining and joining and taking so much interest in our business.

Moderator: Thank you very much, sir. Thank you, members of the management. On behalf of Rishi Laser Limited, that concludes this conference. We thank you for joining us and you may now disconnect your lines. Thank you. Thank you.