November 15, 2024

BSE Limited Phiroze Jeejeebhoy Towers Dalal Street, Mumbai – 400 001 **Scrip Code: 543689**	**National Stock Exchange of India Limited** Exchange Plaza, C-1, Block G Bandra Kurla Complex Bandra (E), Mumbai – 400 051 **Symbol: UNIPARTS**

Subject: Regulation 30: Transcript of Earnings Call pertaining to the Unaudited Financial Results for the quarter and half year ended September 30, 2024

Dear Sir/Madam,

In terms of Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed transcript of earnings call on the Unaudited Financial Results of the Company for the quarter and half year ended September 30, 2024, which was held on Friday, November 08, 2024.

The same is also being uploaded on website of the Company at https://www.unipartsgroup.com/home/quarterly_financial_results .

You are requested to take the above on record.

Thanking You,

Yours faithfully,

For Uniparts India Limited

JATIN MAHAJAN

Digitally signed by JATIN MAHAJAN
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Encl: As above

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CIN : L74899DL1994PLC061753

UNIPARTS GROUP

"Uniparts India Limited
Q2 FY '25 Earnings Conference Call"
November 08, 2024

MANAGEMENT: **MR. GURDEEP SONI – CHAIRMAN AND MANAGING DIRECTOR – UNIPARTS INDIA LIMITED**
MR. PARAMJIT SONI – PROMOTER, EXECUTIVE DIRECTOR AND VICE-CHAIRMAN – UNIPARTS INDIA LIMITED
MR. ROHIT MAHESHWARI – GROUP CHIEF FINANCIAL OFFICER – UNIPARTS INDIA LIMITED
MR. VIVEK MAHESHWARI – VICE PRESIDENT, FINANCIAL PLANNING, ANALYSIS AND INVESTOR RELATIONS – UNIPARTS INDIA LIMITED

MODERATOR: **MS. MONALI JAIN – GO INDIA ADVISORS**

Moderator: Ladies and gentlemen, good day, and welcome to the Q2 FY '25 Earnings Conference Call of Uniparts India Limited hosted by Go India Advisors. As a reminder, all participants' lines will be in the listen-only mode. 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 touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Ms. Monali Jain from Go India Advisors. Thank you and over to you, ma'am.

Monali Jain: Thank you, Nami. Good evening, everyone, and welcome to Q2 FY25 earnings call of Uniparts India Limited. We have on the call Mr. Gurdeep Soni, Chairman and Managing Director, Mr. Paramjit Soni, Promoter, Executive Director and Vice-Chairman, Mr. Rohit Maheshwari, Group Chief Financial Officer and Mr. Vivek Maheshwari, Vice-President, Financial Planning and Analysis and Investor Relations. We must remind you that the discussion on today's call may include certain forward-looking statements and must be therefore viewed in conjunction with the risks that company faces.

I will now request Mr. Soni to take us through the financials and the business updates subsequent to which we will open the floor for questions and answer. Thank you and over to you, sir.

Gurdeep Soni: Thanks a lot. Yeah, good evening, ladies and gentlemen and welcome to the second quarter earnings call for the financial year '25 of Uniparts India Limited. Trust that all of you are doing very well. Prior to getting into the summary of the reported quarter, I would like to reiterate that the core of our organizational functioning is guided by the principles of passion, innovation, integrity, excellence and teamwork.

Our wonderful team of committed professionals has enabled Uniparts to be a, Partner of Choice for the global off-highway vehicle market. We at Uniparts believe that by leveraging our engineering competencies and the global delivery model, we are proudly partaking in what we call as building the world and feeding its people.

The Uniparts team is navigating the challenging business environment cautiously and creatively, while continuing its unwavering emphasis on core strengths of the organization's business model. The initiatives influencing medium-term growth, both organic and inorganic, are being pursued with great rigor without taking the focus of the balancing act in terms of protecting core margins and profitability. The company's business continues to be financially strong, providing requisite strength to propel future growth ambitions.

With this above background, let me spend next few minutes sharing thoughts with respect to the current operating environment and the business highlights.

To start with, in the construction end market, where we have seen a healthy rise in business relationships with the global leader in construction equipment and this is helping in offsetting the overall weakness in North American end market. This particular account is growing approximately 65% to 70% for Uniparts on a year-on-year basis.

Our largest global customer is however witnessing mid-double-digit decline in this segment. This impact on our sales to them is higher than that due to some of the impact of inventory destocking. The net impact of end-market weakness and increased business with a couple of key clients is about a low double-digit -- about 10 to 12% decline year-on-year for Uniparts in this construction segment.

As indicated in earlier two quarters, the slowdown in large agriculture in the U.S. and Europe is hurting overall short-term demand with some element of inventory correction. However, this is also throwing some new opportunities which Uniparts is working on. Our relationship with a leading tractor OEM is growing gradually and we have got some new business with them. This is helping in offsetting the overall weakness in European end market to some extent.

The global small agriculture market is witnessing some further weakness in the short-term, leading towards low double-digit, say about 15% decline for Uniparts in this segment year-on-year.

Coming to the aftermarket, the inventory correction cycle appears to be over for now, and that part of demand is seemingly normalizing over coming quarters.

In fact, this segment is likely to grow 25% to 30% year-on-year in this fiscal. Addition of the new customer, late previous fiscal which is the second largest group of retail stores in North America, is helping this growth and has more room to grow.

In the reported Q2 revenue numbers, approximately 2.5% additional adverse impact was due to inability to ship from our company in Augusta, Georgia, USA facility during September; in the month-end, due to the hurricane, Helene in the United States.

The Q3 of the ongoing fiscal could be sequentially lower, while Q4 is expected to have the highest run rate of the fiscal. Overall, the second half of the fiscal could be flattish over the first half. The company's balance sheet continues to be net debt-free with group net cash position at about INR173 crores. Business continued to witness healthy free cash flow at 19% of revenue from operations during the reported quarter.

The new award pipeline remains encouraging, with added traction in all product verticals, including PMP, large agricultural equipment assemblies, agricultural machinery in India and the high horsepower 3 Point Linkage, as well as further geographical expansion in below 70 horsepower tractors, is also gaining traction.

The end-market softness may have some bearing on the implementation timeline.

The evaluation of entry strategy for starting operations in Mexico is at advanced stage. The company has already been awarded business of approximately $6.5 million annually by a prominent OEM customer for local supplies in Mexico to start from the fourth quarter of FY'26.

This awarded value is a mix of some existing business and some new business, but this strategically adds to nearshoring elements to our overall global strategy.

Active evaluation and engagement towards inorganic growth options also continue.

Our focus on safety, quality, delivery and cost remains high and we continue investing for long-term growth.

With this, I would like to hand over to Vivek Maheshwari to discuss the details of financial performance during this reported quarter. Thanks and over to you, Vivek.

Vivek Maheshwari: Thank you, sir. Good evening, all. I would like to share following financial and business highlights of the quarter ending 30th September 2024. Revenues from operations for Q2 came in at INR241 crores, which is a quarter-on-quarter change of minus 7.6% and a year-on-year change of minus 17.8%. Reported EBITDA for Q2 was INR41.9 crores, which is a quarter-on-quarter change of minus 8.8% and a year-on-year change of minus 23.3%. While reported EBITDA margin was at 17.4% for the quarter.

Operating cash flow generation for the quarter was approximately INR56 crores. The net working capital, comprising of big three elements of inventory, accounts receivable and account payables, as a number of days of trailing 12-months revenue from operations stood at approximately 151 days around 30th September 2024.

Net working capital during the quarter decreased by approximately INR19 crores. Uniparts balance sheet continues to be net debt-free with Group net cash position at approximately INR173 crores at the end of September 2024. Cash outgo towards capex commitments during the quarter has been approximately INR6 crores. Total new business award value during trailing 12-months has been approximately INR177 crores, which is typically the analysed potential value of underlying projects.

With the backdrop of revenue degrowth, operations team has been closely working on commensurate costs rationalisation and optimisation measures. Inflationary pressure on operating costs remains in the medium term to be partially mitigated through operating efficiencies.

Macro concerns over global economic slowdown, geopolitical uncertainties. **[Technical Difciulty 10:12]**

So the opening address is completed. So we can start with the question and answer.

Moderator: The first question is from the line of Rajesh, an individual investor. Please go ahead.

Rajesh: Yeah, am I audible?

Paramjit Soni: Yes.

Rajesh: Yes. Gurdeepji and team, good evening. Sir, I am an individual investor since July '23. And sir, your tagline is; Passion, Innovation, Integrity, Excellence and Teamwork. This is very good, sir. But the result is not visible to a great extent. When your first con-call was done, you told that the quarter 2 will be flat sequentially. Whereas, when we see the results of quarter 2, it has drastically reduced. Okay. So can you please explain this?

Paramjit Soni: Yes. So Rajesh this is Paramjit here. Rajesh, I think we had given an indication that Q2 will be also weak and Q3 also will be weak. And I think that's just continuing with the end market. Rajesh the key here is, if you look at how much of largest customer is declining versus how much we are declining? I think we are outperforming the market there.

The market -- the whole business model was designed -- it's a cyclical industry, both ag and construction and the whole business model was designed to be derisked from, you know, have equal volumes in both different industries. But this is the first time I've ever seen that both industries over here are almost in a decline together.

So, essentially what we are doing at this stage is to make sure that we are outperforming the market, we are controlling the margins and we are getting new business awards and at the same time we are keeping our strategic position and adding to the global delivery model by adding the near-shoring solution in Mexico. So if you recall our earlier strategy had been with the global shoring and take the risk out and with that we had dual shore manufacturing also add in. And now with the new opportunity in Mexico with near shoring, I think we continue to focus on making our business model stronger.

It's historically, whenever we face the downturn, Rajesh, our history has been that we buckle ourselves in the downturn, we still outperform the market and when the upturn comes, we significantly outperform the market. That is the way we've been managing our business historically and while I understand that you invested some time ago and from a timing perspective, it's working out to be an issue.

But I think, the light at the end of the tunnel should be -- is around. I see the interest rates changing in the US now and second half of next year is where customers are indicating, there really is a small factor and maybe the small construction improvement will start coming out. The aftermarket has already come back like we indicated earlier, so that's already growing 27% already this year.

So, it's a timing issue, Rajesh. Nothing is wrong with the business model and the strategies all I can say.

Rajesh: So Paramjit, can you explain some of our competitors' names? So I took -- whether they -- people are also reducing their business net profit and EBITDA margin as well?

Paramjit Soni: Say again, Rajesh.

Rajesh: Paramjitji, can you explain some of your competitors names, so as to compare our company business with them with their financials?

Paramjit Soni: You know, we don't have any direct competitors that you can directly compare. I have competitors in every field, but nobody is a real mirror for us. We have competition, like for example in 3 Point linkage in the higher horsepower segment or in Europe and America. They're not even based in India. If I look at competition for the 3 Point linkage in India, then they are locally based, only servicing the India market and not the export market.

So you will not find a mimic of this, and none of them have a global delivery model. I think the key for you to look is, look at our largest customers, look at John Deere, look at Caterpillar, and see how they are performing. And if you look at their performance versus our performance with respect to them, I think they're outperforming the market there.

Rajesh: Okay, and last suggestion and last thing. We have started our con-call seven minutes late, sir, and in between them also we have two times disconnected. Please take it properly, sir.

Paramjit Soni: I think I deeply appreciate your concerns. I'm not happy about it either. All right.

Rajesh: Okay. Thank you.

Moderator: Thank you. The next question is from the line of Rushabh Shah from K.R. Choksey Shares & Securities. Please go ahead.

Rushabh Shah: Hello?

Moderator: Yes, sir. You're audible.

Rushabh Shah: Sir, in our business, cyclicality will always be there, but what measures are we going to take to derisk the business further and get growth from further platforms and also adding more strategic elements to our business?

Paramjit Soni: So, if you look at the business, like I said, let's talk about derisking. That's historically, strategically being done. Today, I mean, from a business which used to be 100% in agriculture, is now almost 35% in construction and 65% in agriculture. We've also done geographically. At one time we were 100% in America; today about 52% of our sales in America and Asia is forming 22.5% and so is Europe at 22.5%. So, we've continuously been doing it.

So moving from -- to come to your product strategy, our strategy has always been to stay within this space. However, the strategy has been to extend our system boundaries. And what do I mean by that? We basically know that the number of vehicles in the ag and construction equipment are limited. They're not like the automobile.

Having said that, our goal was to increase value per vehicle, and hence we looked at where our system goes currently and what's the next system attached to it, and then we would add that on. We've already defined power takeoff, hydraulics and fabrications of attachment systems as the synergetic areas and we're actively pursuing these.

When we look at our inorganic strategy, these are the three areas on which we are focused to do something inorganic, and hopefully we'll have something coming soon on something like that. So, essentially, there are two product platforms. I do expect a third product platform should be coming in inorganically once we succeed with our endeavours. And as soon as that is done, I think you will see a way more derisked business, not just product-wise but also region-wise and even currency-wise in different ways. So that's something that I look at all the time.

Rushabh Shah: So we're on the third product platform. In the past we had stated that we'd be working on the PTO, hydraulic and the fabrication platform. So what is the progress on that? Are we waiting for the segments in which we are operating to stabilize, or what?

Management: Absolutely still looking in that and we are making good progress there. So I think we are working on projects internally, but I can't announce them just now.

Rushabh Shah: Okay. And my last question is, I'm more interested in the aftermarket part of the business. So how big could it be in the next four to five years, and are we focusing on it?

Management: Yes. If you look at it, aftermarket, as Gurdeep mentioned earlier, at least that part of the business is doing well this year. So the aftermarket at one time was 16%-17%, but it went down with the inventory de-cycle. It became like, last year it became only 14.5% to 15% of our business. This year, because of the nice growth in that and some of the fact that the OEMs were slowed, it's already 20% of our business. It's forecast to be 20% of our business this year.

So, Gurdeep also mentioned to you in the call that we added the second largest retail store in the US, and that is successfully implemented. So we continue to make good progress over there. We have a leadership position, and I think we're adding more products into it as well. So I think that market grows nicely. In fact, during this downturn with the OEMs, that part of the business has really, really helped us.

Rushabh Shah: Okay. Thank you.

Moderator: Thank you. The next question is from the line of Madhur Rathi from Counter Cyclical PMS. Please go ahead.

Madhur Rathi: Hi, sir. Sir, thank you for the opportunity. Sir, when I look at your longer-term guidance of 15%-16% growth, that will come from industry growing 5%-6% and the remaining will be from new adjacencies. But, sir, when I look at our last three DRHPs for the decade that we have tried to do an IPO for, sir, the market has not grown. Similarly, sir, our market share has not grown, and we have told that we will go into adjacencies in 2013 as well. We have highlighted hydraulics as well as other segments, but we haven't grown.

Similarly, there are both segments, the 3PL as well as the precision machine parts. Sir, there our market share has been stagnant in, like plus-minus 5%-10% but we haven't grown a lot. Sir, so I'm trying to understand what gives us right now the confidence to give this number, and how do we plan on achieving this?

And the next part would be, sir, we are guiding that we -- we have mentioned that there is a total addressable market of $10 billion that we are trying to work on or increase the wallet share, but, sir, that hasn't fructified yet. So, similarly, on that line, sir, why do we have the confidence to grow from this, like the stagnant revenue for the past decade and why do we think that will grow going forward?

Paramjit Soni: So, thanks. So the way -- let's go back to the 2013 since you brought that out. If you look at that, that's a good period to start because the last slowdown was also in the 2014-'15 period, there was a slowdown. So if you look at that cycle also, during that slowdown, if you compare the numbers, you will realize that as the top line, how much the market came down and how much we came down, we outperformed at that time.

And what we achieved from 2013 to 2018 was a complete transformation of the business. The business used to be an 11%-12% EBITDA business in 2013, and we completely remade ourselves and took it up to a 20% EBITDA. Right now, you're seeing a slightly lower number at the 17%, but that's only because of operating deleverage and our robust -- our margin control and everything still is good.

So that phase was actually literally very, very highly focused on bottom line. And that, frankly, changed our complete return on capital employed and ratios, as well as the fact that every down cycle that I go through, so this down cycle that we've been through, we've actually gone through with reasonably decent margins and a very strong cash position. So each time we go through a downturn, I think we're coming out much more stronger at the other side of it.

Talking about the growth, it remains -- I think Vivek mentioned to you that the trailing 12 months, we've seen new awards of INR177 crores. So if you're looking at that itself, the run rate for the new award is running at the 16%-17% just now. I think we were basically stuck at this stage at a time where I said the cyclical nature, you got into the ag business and then you said, oh, this is cyclical, let's get into the construction side. It's a similar side and then the rest of the business.

Unfortunately, we're seeing back-to-back cycles. The large ag cycle actually should have peaked about two years ago and it got pushed out because of the Ukraine war, and it's happening now. So the construction cycle, which is now going in, is interest rate impacted. And as soon as it comes out, I think we'll see the growth over there.

So the key here is, look at how we're outperforming for the market, look at the new award run rate, look at the strategy fixing where we came with a dual-shoring model with one of our large customers, Caterpillar, and that worked nicely. We said, hey, we are almost doing -- this year we're doing 50%, 60% with them despite the market being down.

Now look at what we are doing for the Mexico strategy in near-shoring, and already we've got awards starting in quarter 4 of FY '26. So, clearly, all these pieces are working. And in terms of the three product portfolios, fabrication, PTO, and hydraulic, definitely you will see something or the other come out as becoming a platform soon. So, to me, it's a matter of time, but anyway, it's something that we are working very strongly internally. I understand your skepticism, just give it some more time. We are very strongly working on things.

Madhur Rathi: Sir, I think I understand like the operational efficiency that you're trying to mention, but when I look -- we are a much smaller player than the overall agriculture as well as the construction industry. And similarly, in the main product line that we compete, market share hasn't grown a lot. So, in 3PL -- and it has been in the high-teen to mid-teen kind of range for this year. So, when we speak that we have done efficiencies, but our market share hasn't increased, similarly, the wallet share hasn't increased.

So, when we say that we have INR177 crores award in the new business, can we expect this to become more than 10x from here? So, can it become a INR2,000 crores additional market over the next five years for our business?

Management: I think it will happen both organically and inorganically, and the answer to that is yes.

Madhur Rathi: So, this can scale up to a better height than the award-based business can scale up to a better height over the next five years?

Paramjit Soni: Absolutely, because not just this, but you're also going to see from inorganic coming and once we have the next platform in, I think then you'll see growth come from three platforms instead of two platforms.

Madhur Rathi: And sir, is this because the OEMs are looking for new vendors for their current sourcing arrangements, or is it because the OEMs are getting value of China and as we already have the capabilities, they are giving us these orders?

Paramjit Soni: I think China Plus One continues to play. If you look at what we are doing this year with the -- with let's say -- large one at Caterpillar, where we're going with a dual-shore manufacturing, that's something we had done one and a half years ago, so you're seeing the growth today. I'm already saying to you today, we are doing the near-shoring part with Mexico, that is also all China Plus One.

And now if you look at what's happening in the US in any case now with the current election situation, and if actually you get a situation where the tariffs on China go up significantly more, then the implications of that are huge. So -- but that's still -- time will tell what happens there, but clearly the direction is headed in that direction only. So China Plus One continues to strengthen, and I think Uniparts is positioned nicely for it.

So we've built, at the end of the day, global sourcing, everybody suffered with China. Our model was based on take the risk out of global sourcing. We had redundant manufacturing in the US, we built the dual-shore manufacturing, now -- so which means we could do some on-shoring here if needed, and at the same time now we've added the near-shoring. So strategically we positioned ourselves brilliantly for China Plus One. I can't think of any other company in our space which is doing this.

Madhur Rathi: Okay, so that makes sense. So just a final question, so on a margin front here, our margins in 2000, like the FY '19 were around 13, FY '20 were around, in that range, 11% to 13% which I guess that our warehousing part increased from around 20%-25% to 40-45%, so that was one of the reasons for margin increase. But still there is a difference between, I guess, from the 13% to the 20% steady-state margin. There is additional 3%-4% margin difference. So why has, that margin come -- and is this sustainable?

Paramjit Soni: So here's the situation. I think we -- and this goes back to things that we had done on pre-IPO only, frankly. We at that stage had very clearly taken, we had divided our business into these different delivery models. And we said, hey, we produce in India, sell in India, we produce in USA, and sell in USA, which is what we call our local delivery models.

So these were historically the lower margins, you know, the 9%, 10%, 10% EBITDA margin businesses. And then we had our direct export, which was produced in India and shipped globally, and that used to be a much higher margin business with almost 20%, and the warehousing was even significantly more at the highest point. So what occurred?

Warehousing, you've taken one leg of it. Well, the other part is we had at that stage, if you go to '12, '13, a lot of our domestic manufacturing was being produced in our Noida locations. We took that out, and our Forge shops were in Ludhiana. We moved all that -- a lot of the manufacturing up there to take some cost reductions there and improved the margins on the domestic side.

We also took a lot of business in our US portfolio, and we said we very systematically sliced and diced it and clearly said, this is where we make money. This is where we don't make money. And clearly, whenever we were not making money, we either figured out how to make money on that by moving it to India or changing prices with customers or getting rid of that business.

So I was willing to sacrifice top line growth if it wasn't going to make money. I'd much rather do lesser business, but at a better margin. So we dropped that. At that rate, so I started that whole exercise thinking I'll go from 13% to 18% in my EBITDA, but because we dropped negative margin business, we actually went to 20%. And so these are structural changes that we made to the business.

So to answer the question if these are structural changes, they stay. And I think the -- and if you look at what we had said two years ago when we were talking about the warehousing business, we said, hey, it's 42%, 43% of our business, we expect will go to 48%, 49%. Well, guess what? I thought that was going in four or five years. It already happened.

.So that -- so the entire business model where the customers are going towards the warehouse solution despite a slightly different price, I think that still maintains because of the key factor of you take the risk out of global sourcing. So to me, this is not a game of chasing price to the bottom.

This is a question of being a strategic partner to a customer and how you participate in managing the global supply chain, which I think is increasingly more and more important. So to me, onshore manufacturing, dual shore manufacturing, near shoring, if we do not do these strategic things, then you can't play the margin game that you're talking about.

The margin game is only if you do this. Does that make sense?

Madhur Rathi: Yes, sir. Sir, it perfectly makes sense. Thank you so much and all the best.

Moderator: Thank you. The next question is from the line of Shrinjana Mittal from RatnaTraya Capital. Please go ahead. I have unmuted your line, sir. As the current participant is not answering, the next question is from the line of Sharmin from Fractal Capital Investments. Please go ahead.

Sharmin: I have a question regarding your Mexico operation. Will the margins be the same as the current company margins? And what will be the investment that's required for this?

Paramjit Soni: So we are doing this in two steps. Step one is actually just similar as transferring from warehousing there and it'll be like our warehousing margins. Okay? Which means product is still produced in India, it comes to Mexico, and it's sold to -- because a lot of our customers are moving their manufacturing lines to Mexico. So we're going to service them locally.

Step -- so in the first phase, that's what you're going to see. So our first awards of business are there. We've already had traction with three large clients on this. I talked about one, I think, and it has already been said that there was a 6.5 million annualized one. There's another customer who's going to move another 2.5 million there.

Another customer's awarded us another 800,000. So as I'm getting into, you know, in calendar year ‘26, you're already looking at a base case of close to 9 to 10 million of sales starting from there. That gives me enough to, you know, take care of any overheads over there and to maintain my margins.

Phase two of Mexico is going to be to be able to produce in Mexico what makes sense in Mexico. Our model has, you know, traditionally used to be, if I go back 20 years ago, we said, hey, low-cost country model produced in India, right? We then kind of said, no, taking the risk out of global sourcing is more important.

And that everything can't be produced well in a low-cost country, so let's produce what makes sense in the US. We produce in the US, and what makes sense in India, we produce in India, and hence we shifted to what I call the best-cost country model. Adding Mexico to it is simply an extension of my best-cost country. There are things that will make sense to produce in Mexico, and hence we will do that.

We will produce in Mexico what makes sense there. We will produce in India what makes sense there, and we will produce in USA what makes sense there. And we will use our global logistics and delivery chain to handle our last mile with the customers and our relationships to make sure that, they are going with us and to make sure that we are going healthy with them.

So my strategy for Mexico to answer the first question, no margin erosion over there. First stage, hardly any capex, because I'm not putting much equipment, and it's just a warehousing startup there. The second phase will probably have capex. Even if it comes, it may just be a couple of million dollars.

Moderator: Thank you. The next question is from the line of Apurva Sharma from Helios Capital. Please go ahead.

Apurva Sharma: Hi. Thank you for the opportunity. One of the questions I had was, can you throw some color on the wallet share that you would have with your top customers? I know you have different competitors for different products, but if you could give some sense on that, then I would have another question.

Parmjit Soni: So you mean how much share of, how much business we do with each customer?

Apurva Sharma: What are you trying to say? If that you supply, suppose a 3PL, how much is it that you and your competitors have that share in that 3PL to a particular customer? Wallet share, I mean, you are 50%, 70%, 30% for different products. Just some color. I don't want specifics, but just...

Parmjit Soni: So it's going to be a slide because we are a bit diversified. I think it's going to be a little bit slightly longer answer to that. So if I look at the below 70 horsepower tractor for three-point linkage, okay? If I look at the United States, I think we have a very high wallet share because the major tractors are done by Deere and Kubota and both are my customers. And over there, there's not that much that they take from anybody else.

We would be very, very high on our wallet shares there. When I say very high, I'm talking about 80%, 85%. Okay? Right. If you go for the same product now in India on the three-point linkage, we have domestic competition there. And I think our wallet shares in India could be in the region of 28, 29%. Okay?

For the Indian market. So that's geographically, whether it's Mahindra or whether Deere will be higher and, you know, TAFE will be high. So clearly you have it different with different customers, right? But I'm just giving you geographically over there. Otherwise, it becomes a very, very elongated answer.

Similarly, when you go into the higher horsepower three-point linkage, we said we don't have that much market share and we were working mostly in Europe on this. And if you look, some of our new awards are coming from there. So that's the area where we're really trying to grow our market share.

That's the investments we have done. And in India, there is, frankly, nobody producing, you know, greater than 70 horsepower tractor models out of India and doing anything. So my competition is only in Europe and, frankly, only in Europe. It's all produced in Western Europe, in Italy and in Germany. So clearly that's where we have room to grow. If I think the same thing in Japan, they only have the small three-point linkage and there, Japan and Korea, South Korea, both are markets where I'm working with all the majors.

And I think there the market share may be more like, you know, in the 30, 40% of the wallet share and some are local Japanese customers. The Japanese will always have some local loyalties by which it's working locally over there as well. So there is a certain thing you'll do there. If I go into the construction equipment, again, on the small construction equipment, if I go specifically to, let's say, a skid-steer loader, then we have a high share. If I go to a mining equipment, then I have a low share. So it's a little bit complicated to answer that question.

And so what we've got as a strategy is essentially to say, hi, we know this is where our market share exists. This is where we can grow geographically. This is where, in this segment, our market share is lower and hence we can grow it. So all that market mapping is done in very high detail at our end and our marketing kind of focuses based on that. But if you take the overall three-point linkage, then I think we are one of the top three over there. If you look at below 70 horsepower tractors in the world, then we are the largest in the world on that for three-point linkage.

Apurva Sharma: These are both ex-China, obviously, right? Or how is it? Sorry? These will be both ex-China. Largest in the world, ex of China, right?

Paramjit Soni: Yeah, the ag side below 70 horsepower three-point linkage, yeah, we would be the largest over there. And that's to be known because India is the largest producer and if you have a nice share in India and the rest is distributed out and then in the US you have a large share, Japan you have a share, then obviously you become the largest, right? Europe doesn't produce too many of this below 70 horsepower.

So clearly, I think there we have a large share. But if you look at three-point linkage as a whole, then we are amongst the top three globally. And the other two are sitting in Europe and then frankly, one of them is my customer. So I'm in an interesting position where even a competitor is a customer to me at times.

Apurva Sharma: Right. And just two questions on this. One is that Kubota in India, right? I mean, how those relationships would, I think, obviously transfer to India as well or are already there. So what do you see that as going forward?

Paramjit Soni: We're gaining some things with Kubota in India as well. So that continues. We had a relationship with Kubota in India before also. I think with the escorts one, they had some internal ones also over there. So there will be somebody else as well. But I think we are participating in the growth over there as well. And with Kubota, I think globally we are doing pretty well. We're doing well in Japan. We're doing well with them in Germany. We're doing well with them in the U.S. So I think we straddle them all across. So it's a very strategic relationship.

Apurva Sharma: And one last from my side, just when you work on new programs, right? I mean, not in the short term, but in the medium to long term, what is the return on capital that you look at, you know, in terms of it is a mix of margin and asset turnover. But overall, then how do you, what do you look at or target internally?

Paramjit Soni: Internally for me, I definitely have to be north of the 25%, but when I start quoting, I'm looking at north of 30%.

Apurva Sharma: Yeah, I mean, I meant when the operations stabilize, right? Because... Yeah, yeah.

Paramjit Soni: But if you look at it, you know, before this downturn, we had reached a 30%, 31% number on ROCE, right? Now, because of the downturn and some lower leveraging, we'll be slightly lower. But clearly, long term, I don't want to be below 25%, very clearly. As soon as you are out of this downturn and this deleveraging effect, if you take out, I think we'll be back to our snumbers.

Apurva Sharma: So, and what is the capacity utilization roughly of the two major programs that you would have?

Paramjit Soni: At this stage, obviously we have a lot of capacity, which is why the capex is not much, right? Because we have two downturns back-to-back, right? So we're sitting on at least -- I think at this stage, I don't have an exact number, Vivek, but my gut sense is it's not more than, it's got to be in the high 50s or low 60s. Okay.

Vivek Maheshwari: Yeah, mid to high 50s.

Management: Mid to high 50s, Vivek? Okay, so I wasn't too far off. Okay. Thank you and all the best. Yeah.

Moderator: Thank you. Participants who wish to ask a question, may press star and one. The next question is from the line of Shrinjana Mittal from Ratnatraya Capital. Please go ahead.

Shrinjana Mittal: Yeah, thank you. So I just want some color on the segment-wise performance. You mentioned that the small agri segment in the H1 witnessed like a 50% or degrowth. So what could be the share of the small agri segment? And I also wanted to know about the PMP segment, like what is the share and what is the performance in the first half?

Management: Yes, so help me understand the question little better, Vivek. Can you take that question or do you want me to do it? I think you may have more specific direct numbers in front of you, Vivek.

Vivek Maheshwari: Yeah. So help me understand the question a little better. You're asking what…

Paramjit Soni: What share of business in construction and ag and all that stuff?

Vivek Maheshwari: Proportion we do in this segment?

Shrinjana Mittal: Yeah, right. And what is the growth been like in the first half? In the growth or degrowth, like what is the cadence been like in the first half?

Vivek Maheshwari: Yes. So, in construction, it is around 37% to 38% currently of our revenue. Small ag and large ag together are approximately 46% to 47%. Out of this, small agriculture is slightly higher, which is about 27% and large agriculture is around 20%. I'm talking about this year number. These were a little different a year or two years ago because obviously there wasn't this downturn and hence agriculture number were higher back then, right? And then aftermarket is in high teens. So broadly, those are the big things. The rest is a little bit apart.

Shrinjana Mittal: Understood. And on the precision manufacturing part, what is the cadence like? Is it flattish? Is it in the degrowth or what is that like?

Paramjit Soni: It's coming mostly from the construction equipment side and the construction equipment; I think is looking negative at about 10% to 12%. And then some of it is in the large ag, which I think is taking a bigger hit. The PMP in large ag is not that much. The larger driver for you in PMP is construction.

Shrinjana Mittal: Right. And the 3P in large ag part, that part of the business, is that also, is that recovering a bit or is it still...

Paramjit Sonis: No, the large one is so far not. Frankly, that's the one which is driving a lot of the problem, even though it formed only 20% of our business. The reduction that our customers are seeing on that are very, very large. And there you are also seeing the coupling of the inventory reduction at the same time. So that's what's driving the larger drop in the whole business. It's not so much the construction, but it's the large ag.

Small ag, because while the business is going down as the total end market, but there's a lot of inventory downcycling. The channel inventory downcycling is more or less behind. So that's at a different stage. And that is, I'm saying that this one, as soon as the interest rate regime changes, you will see the first one that will come back out is the small ag. Large ag, I actually think, is going to take about a year to come back. Small ag, I think you're looking at mid next year.

And construction also mid next year, because I think all the home building and everything with this change in interest rate, you should look at a change coming there. And aftermarket is actually, the problem with aftermarket was 1.5 years ago when they were reducing the inventories and cutting things down and all the inventories that are piled up because people with all the logistics issues, people had overstocked.

And I think now you're seeing this year already like we've seen between 25% to 30% growth in that segment. So that's why I said the aftermarket, which used to be, traditionally was 16, 17% of our business went down to maybe about 14% last year. And now it's back up to like Vivek said, to maybe about 19%.

Shrinjana Mittal: Understood. So, in the aftermarket, we're expecting 30% odd growth. Is that correct?

Paramjit Soni: We don't do anything in the India aftermarket. All my aftermarket is coming from exports. It's from mostly America and Europe.

Shrinjana Mittal: Right, right. No, I was just asking that the growth, that outlook for aftermarket is something around that range. And that's largely from the new customer edition that we have done. Or from the existing customers also, are we seeing some...

Paramjit Soni: Growth is only maybe 5%, 7%. We are growing about 25% to 30% because we've added customers over there. So you can attribute some of that to gaining more market share.

Shrinjana Mittal: Understood. Thank you. Thank you for taking my question. And all the best.

Vivek Maheshwari: Just one small correction. I wish to correct one number, which I just mentioned. For large agriculture, the current year is around 17%.

20%, which I mentioned earlier, was more last year.

Management: Yeah. And that's where it's dropped from 20 to 16. And similarly, what you see is the significant shift last year. Aftermarket was like 14 and that shifted to 19. So that kind of tells you the story of how the large ag is causing the bigger issue, even though it was just 20% of our business. But it's been compensated a lot by the aftermarket.

Moderator: The next question is from the line of Aditya Shah from Vikram Advisory Services. Please go ahead.

Aditya Shah: Sir, I have three questions. The first question is regarding when do we expect this downturn cycle to end? And would we be back to growth? The second question is that in your experience of last 30, 35 years or more in this industry, how many times do you see these kind of downturn cycles come? What is the period of these downturn cycles? Do they come every 10 years, five years, four years, something like that? And the third question is, the third segment that we're adding to our business, by when can it contribute around 20%, 25% of revenue?

Paramjit Soni: Okay. So let's start with the downturn when. I think some of that I answered when I was answering the previous question. Because that answer I have to give you segmentally. If you look at the construction, I actually think on the small construction equipment with the home building segment, I think you will see, most customers are telling me growth second half next year.

If you take a very large mining equipment and all, I'm not sure that'll do as much because of the commodities and stuff like that. Because that's driven by some commodity prices and whether mining and all that is going to happen and it's not China driven. So there won't be very much in it. A lot of my business comes from the small equipment at this time. So the relevant one for me is second half next year for the construction.

Aditya Shah: So, second half when you say is next year is calendar year or our financial year?

Paramjit Soni: I'm talking calendar at this time because that's what customers are telling me. Okay. Customers are telling me second half next calendar year. All right. For construction. For small ag, again, it's a similar story. It's driven by interest rates. I think next year you will see a slight increase but not a significant one because even if it comes in the second half, first half you won't see it. Second half is where you'll see bulk of it.

Large ag, I don't think you'll see the downturn end in next year. I think what you'll see is a slight improvement because this year we are seeing the impact of inventory reduction. Next year, probably that is not coming in.

So that may have, when it looks, when you look at it over that base, it looks different. The aftermarket is already doing reasonably well and growing. So two of the big ones, construction and small ag, I think second half next year is what you're looking. And large ag, maybe it goes to the calendar year in '27, right? Or '26, sorry. '26.

And to answer your second question on cycles, typically the ag and construction cycles are four or five year cycles. But what you have to, if you look, analyze these graphs, you will realize that each time you come out from one cycle, the peak of the next cycle is higher than the previous peak. So clearly you will see these four or five year cycles and you'll see the peak go up. And I think, like I mentioned, I think maybe in the earlier part of my call, I said, I thought the ag cycle would have finished. The peak should have finished maybe two years ago.

It got delayed because of the Ukraine problem and all the, you know, commodity, ag commodity prices were high. So equipment sales were still going on. Now that's a completely outside thing which affected the cycle and not really the normal things, right?

Okay. And because of that, what's occurred is, what should have been a bad cycle two years ago, the bad cycle is hitting me today. Construction, which should have seen that cycle coming down, you know, the upturn comes, that also is parallel happening because the infrastructure spending kind of went through and now you're waiting for the interest rates to kill that cycle on the housing.

And if you see the interest rates come down, I think you should see that change. The small ag, typically in the US, which is our largest market for this, here it's completely, it's obviously not used for farming that tractor, it's a utility tractor and it's a large property owner tractor. So it's more as a consumer product here rather than a farming product and hence it's more interest rate driven.

But India tractor is doing well, right? I think we have, so India was the only hit we took is most of the tractors that India exports, they contain our 3 Point linkage. So, you know, somebody was asking me, while we do have maybe 30% share in India, but if you take only the export tractors out of India, we may have like a 80, 90% share there because literally they don't trust some of the other competition's quality for the export markets.

And so for us, obviously since we are exposed more to the export from India as well, that hits us a little bit, but overall India is doing all right and Japan also, I think we'll be fine, but Japan is only 4% 5% of our market. So at this stage, and so it's got plenty of room to grow.

Aditya Shah: Correct. To answer your third question. Largely from one year from now. So largely one year from now.

Paramjit Soni: I think a second half or two segments, large ag later, but the big...

Aditya Shah: From one year from now.

Paramjit Soni: No, but the bigger deal, keep in view the new awards. Because, see, while you're looking, see this is a cycle and the markets will do what the markets will do, right? If you look at the run rate of the new awards, I think that's the key because the new business that we're awarding and as that productionizes, I think that's what's going to make us outbeat the market. The key is to outperform the market and that's how we'll do it. Okay?

Aditya Shah: Right. The third question was…

Paramjit Soni: So then to answer your question -- yeah, the third segment. Like I said earlier a couple of times in this call, I think we're working very hard on it and we're working on something just now. It's a little too early for me to announce, but my goal is to have this platform actually come to us within the next year or so. So if that occurs and if we're successful over there, then yes, you will see something come from there.

Aditya Shah: All right. Thank you so much sir. That's helpful.

Moderator: Thank you. The next question is from the line of Madhur Rathi from Counter Cyclical PMS. Please go ahead.

Madhur Rathi: Sir, I am trying to understand that if I recall correctly, in the fourth quarter of last year, we were doing some pilot project of some UTV. So is there any progress on that front?

Paramjit Soni: Yes, we launched the project and -- so it was a test pilot was launched on it in about 230 stores. And now they're assimilating the results of that and we are redefining the advertising platform for it. So it's running a little slower than what we anticipated, but we are continuously working on it. So it was launched and the product is good, the comments are coming out good. But I think we need to do some more advertising and marketing on that, because it's getting into a consumer market there.

Madhur Rathi: Sir, so I mean we should not expect a full sale up or some big revenue from that segment?

Paramjit Soni: You will continue to see revenue come up but not very big. You will see a few million come from there. But is it going to suddenly give you $5 million? No, that's not going to happen. Okay.

Madhur Rathi: Right, sir. And since you mentioned that our capacity utilization is barely in the 50s, so at least how -- sir, can you operate at full capacity provided demand is there or is the nature of industry such that we can only reach 80% or thereabouts of our install capacity?

Paramjit Soni: So the way it operates is, we are not like an automobile where you have line manufacturing and you have dedicated capacity. We are more discrete manufacturing and our capacity is a little bit more fungible. So, for example, I don't see treatment or paint lines. These are not specific to a product, and even our machining, a lot of it is discrete. So our ability to flex this is quite high. And so, yes.

The moment I reach about an 85% utilization level, frankly -- frankly at an 80% utilization level, I start investing more significantly because it takes six months to one year to set it up. And if you're seeing that, then you don't want to be left behind, right? And 85%, 88% is about the most you'll go off. Okay.

Madhur Rathi: Sir, by and large, since we almost did INR1,366 crores in FY '23, so it's safe to say that roughly INR2,000 crores top line we can achieve from our current install capacity provided demand is there.

Paramjit Soni: I want to say more like INR1,600 crores, INR1,700 crores at this stage, but each year we keep doing balancing capex a little bit. Like this year also I think we've -- normal capex for me typically is 2%, 2.5% of sales. So we are not very high capex intensive. And even at this stage, even if I'm doing 1%, 1.5% as a capex to sales, then we should be okay to maintain these levels. So I'm not investing into significant capacity, at least just now. I'm sitting on it.

So capex is not going to be a bigger issue. I think the key for us is to make sure that Mexico gets up and running. And where we are spending money is on the greater than 70 horsepower where we're getting new projects awarded there, there obviously we need some different equipment, so we're investing in those.

Madhur Rathi: Right. And sir, since you alluded to the fact that the typical cycle lasts for five years, so basically we peaked in FY '23. So does that mean that three more years are there to go roughly for us to see a revival?

Paramjit Soni: No. When I say four years, it's peak-to-peak, right? So you will see a decline and then you will see the upcycle also come. So to me, the bottom -- large ag, the down cycle has just started, okay? So you're still on the down cycle, and I'm saying the down cycle will continue for another year, and then maybe in '26, you will start seeing the return come from there.

Small ag and construction, I'm already telling you, small ag has already been down two years, so I'm telling you give it another six, eight months, and second half of next year, it should turn around. Construction, on the small one, you've seen the decline because of the interest rates. Now that the interest rate regime is changing, we should see still an increase coming in the second half again next year. Okay?

Madhur Rathi: Right, sir. And also since 60% of our revenue is coming from tractors, so I understand there must be some strong correlation with food prices, with basically agro-commodity prices and tractor sales. So if we see the FAO Food Price Index, which peaked at around 144 in FY '22 calendar year and our revenues also peaked in FY '23. And since then, it has bottomed out in January of 2024 and now it is at 127 versus 144 peak in FY '22. So, basically, should we wait for this FAO Index to reach the 2022 levels of previous high for us to basically see revival?

Paramjit Soni: That's a very interesting question. Internally, we don't track it to that, but we do track it to commodity prices. So we look at prices of wheat, soybeans, and so we track those. I internally have never tracked this index that you're referring to, but if this index is represented among the commodities, then I think it may be a good index to refer to. I can't answer that question because I don't know, I don't track that index just now.

But I can answer your question that yes, as commodity prices on food, if they're up, then definitely the farmer has more money and his balance sheet is stronger. And right now at this stage, with the soybean prices down and wheat prices down, I think the farmer doesn't have the money. So the farmer is going to be tied just now in the capital expenditure spend. So that's why I'm not saying that -- I'm clearly saying large ag, even though the decline has started, I don't see the end of it. So you see the problem all the way to next year and maybe '26 is when you see that change.

Madhur Rathi: Right. And lastly…

Management: Again, you never know. See, what happened when the Ukraine crisis happened, wheat prices shot up through the roof. And that's what shifted that pricing on commodities. If you have some severe weather globally and you have some bad crops, then commodity prices will go up. And so it's a little hard to predict that, right?

Like even in India, if you look at it, at the end of the day, I think you all think that tractor sales are related to the monsoons, right? At the end of the day, it's the monsoons which is driving that over there. In this part of the world, that doesn't happen. But having said that, these global events are more critical. I don't know what Trump will do with China on trade tariffs and if that causes any disruption on exports of agricultural commodities to China or to other places and if that changes even more supply chains on the agricultural side. I think that's a little uncertain just now.

Madhur Rathi: Right sir. I was still asking sir once you mentioned in a con-call that whatever gets attached to a tractor or to a construction equipment, do you want to be there? Sir, so in that case, is there any application for our products in the defense sector? Because I understand there are many equipment, I mean, basically heavy vehicles, what BEML, etcetera, make, which also has some kind of similar attachment which we do with tractor. So is there any application over there?

Paramjit Soni: I'm pretty certain there would be. We haven't mapped that fully, but I'm pretty certain there would be. But that could be done by the construction equipment makers and we would be selling parts to them. So I think if our supplies happen, they'll happen to the primary vehicle maker, right? It won't be to be directly to the defense side.

Madhur Rathi: Right, sir. So in that case, BEML, etcetera, would be our customers? Are they our customers?

Paramjit Soni: Absolutely. Not just now, but there's another project I'm working on which will bring all this into our fold. So it's an area we are looking at. And obviously, India, frankly, India as a construction growth market, I think is -- so far India only forms 15% of our revenues. And when we are strategically looking at this, we believe that the kind of growth that India is going to see, we need to have a higher presence in India.

So clearly some of the next strategies we are taking and products we are focusing on some of the India growth story as well.

Madhur Rathi: Right, sir. Thank you very much. And best of luck.

Moderator: Thank you. The next question is from the line of Shrinjana Mittal from RatnaTraya Capital. Please go ahead.

Shrinjana Mittal: Hi, thanks for the follow-up. Just one question. So in Q4 FY '24, we had mentioned that we had some new order wins of about INR175 crores, INR200-odd crores. So we just wanted to know, where are we on that? Like has -- are these new orders already flowing in? Or like, what is the status like in that aspect?

Paramjit Soni: I think those projects are predominantly on track and which is why Q4, you will see sequentially to be our highest quarter.

Shrinjana Mittal: So those orders will flow in the second half, you're saying, in the current quarter?

Paramjit Soni: No, no. So Q3 is still the current quarter. Q3 is still going to be weak. Q4 is where you will see the growth come in. And Q3 traditionally has been weak because of Thanksgiving, Christmas break for a few days. It's lesser here and with the -- it's a little hard to do construction activity or farming when there's snow on the ground.

So that's typically our low season. I think when you get into Q4, you are going to see the impact of one, the seasonal impact, as well as some new business flowing in over there.

Shrinjana Mittal: Got it. Thank you.

Moderator: Thank you. As there are no further questions, I would now like to hand the conference over to the management for the closing comments.

Gurdeep Soni: Thanks a lot. So dear all, we continue to focus on our core strengths and build stronger business franchise by strategically partnering with our customers in their journey and success. Our focus and efforts are aligned towards achieving the targeted growth in coming years. With this, I would like to thank you all for taking the time to be in the call. And I apologize for the little late start of the call, but I'm sure that would not ever happen again. Thank you very much.

Moderator: Thank you. On behalf of Go India Advisors, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.