HAPPY FORGINGS LIMITED

14th November 2024
To,

BSE Limited Department of Corporate Services Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai – 400001 **Scrip Code: 544057**	**National Stock Exchange of India Limited** Listing Department Exchange Plaza, C/1, Block G, Bandra Kurla Complex, Bandra (E), Mumbai – 400051 **Trading Symbol: HAPPYFORGE**

Dear Sir/Ma'am,

Sub: Transcript of the Earnings Conference Call for the Quarter and half year ended 30th September 2024 held on Friday, 8th November 2024.

Ref: Intimation of Earnings Conference Call Invite to discuss operational and financial performance of the Company for the quarter and half year ended 30th September 2024.

Pursuant to Regulation 30 of the Listing Regulations, kindly find enclosed the copy of the transcript of the Investor call held on Friday, 8th November 2024 at 11:00 A.M. (Indian Standard Time) on the unaudited financial results for the quarter and half year ended 30th September 2024.

Kindly take the same on records.

Thanking you
For Happy Forgings Limited

Bindu Garg
Digitally signed by Bindu Garg
Date: 2024.11.14 18:15:53 +05'30'

Bindu Garg
Company Secretary & Compliance Officer
M.N F6997
B XXIX-2254/1, KANGANWAL ROAD,
P O JUGIANA,
LUDHIANA (PUNJAB)-141120

"Happy Forgings Limited
Q2 and H1 FY25 Earnings Conference Call"
November 08, 2024

E&OE - This transcript has been edited for grammatical and other transcribing errors. In case of discrepancies, the audio recordings uploaded on the stock exchange on 8th November 2024 will prevail. In case of any conflict of factual information with published data in the Investor Presentation, the latter should be considered to be accurate.

MANAGEMENT:	**MR. ASHISH GARG – MANAGING DIRECTOR – HAPPY FORGINGS LIMITED** **MR. PANKAJ KUMAR GOYAL – CHIEF FINANCIAL OFFICER – HAPPY FORGINGS LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the Q2 and H1 FY'25 Earnings Conference call of Happy Forgings Limited. These conference calls may contain forward-looking statements about the company, which are based on the beliefs, opinions and expectations of the company as on the 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 call is being recorded. I now hand the conference over to Mr. Ashish Garg, Managing Director from Happy Forgings Limited. Thank you and over to you, sir.

Ashish Garg: Good morning and a very warm welcome to all of you to Happy Forgings Limited Q2 FY25 Earnings Call. With me, I have Mr. Pankaj Kumar Goyal, our CFO and Strategic Growth Advisors, our Investor Relations Advisors. I trust everyone has had the chance to review our financial statements and investor presentations for Q2 and H1 FY25 which we have filed with the exchanges.

Let me start by outlining the highlights of our financial and operational performance this period. In Q2 FY25, we achieved growth in both absolute revenue and profit numbers as well as profit margins despite challenging conditions in underlying industrial segments.

We saw steady broad-based improvements with revenue, gross profit, EBITDA and PAT, all showing year-on-year and sequential gains. For Q2 FY25, revenues reached INR361 crores with EBITDA at INR105 crores and PAT at INR71 crores, marking a year-on-year increase of 6.1% in revenues, 13.6% in gross profit, 14.8% in EBITDA and robust 23.8% growth in PAT on adjusted basis. We continued to deliver industry-leading profit margins and our gross margin and EBITDA margin for the Q2 FY25 surpassed 58% and 29% levels respectively.

The gross margin expansion for the quarter resulted from increased value addition with our product offerings, complemented by the favorable impact of declining steel prices. Our realization trends continued to improve steadily due to enhanced value addition. With Q2 FY25, realizations at INR253 per kg up by 3.6% year-on-year on adjusted basis. For H1 FY25, realizations stood at INR249 per kg, growing by 3.7% on adjusted basis despite a decline in steel prices. Finished goods volume remained steady with Q2 FY25 and H1 FY25 volumes up 2.4% and 2.6% year-on-year respectively.

Let me now walk you through some key segmental highlights. Our machining mix improved further sequentially to 89% in Q2 FY25 and stands at 88% as on H1 FY25. Our endeavor going forward would be to increase the portion of machine components were relatively higher value addition content to improve our realizations and margins further. We have proactively pursued revenue diversification across industries and geographies, increased our share of new businesses and expanded our wallet shares with existing customers.

This strategy has improved our resilience against market cyclicality and downturns, enabling us to achieve growth that outpaces the broader industry. Our segmental performance this period reflects the success of this approach as most underlined product segments, both domestic as well as exports including steel prices, faced degrowth. International and European CV, farm and off-highway industrial segments are facing significant degrowth. Despite this, we are able to grow our direct export business by 5% year-on-year in Q2 FY25.

As a result, the share of direct exports in total revenues has remained more or less stable at 19% year-on-year on adjusted basis. The passenger vehicle business segment continues to perform strongly, steadily increased its contribution to overall sales and now contributes to almost 4% of the total revenue mix. With deliveries of North American EV segment products scheduled to begin in second half of FY25, the segment's share in the revenue mix is anticipated to rise even further.

Domestic and European markets are experiencing a challenging year. The major European CV OEMs are projecting a 12% to 15% decline in CV sales for calendar year 2024. Domestic truck production is down by 7% year-on-year in H1 and fell by 13% in Q2 in FY25. Against this backdrop, our CV segment has outperformed the underlying market, achieved a modest year-on-year growth of 2% in the first half of FY25. In H1 FY25, domestic tractor production volume showed a marginal increase of 2% year-on-year.

The European agriculture market segments continue to remain challenging with leading OEMs expecting a degrowth of 15% to 20% in unit sales for calendar year 2024. We were able to manage a better-than-industry growth in farm equipment segments in H1, especially in Q2 2025 where both revenues and volumes increased by more than 10%. In the off-highway segments and industrial segments, domestic market for mining and construction equipment is estimated to witness a decline of 6% to 7% in unit sales in FY25 due to general elections, slower project awards during the year and tightening of financial environment.

On the other hand, sales of construction equipment in Europe are expected to witness a decline of 15% to 25%. Consequently, our sales in off-highway segments witnessed a mid-single-digit decline in H1, but industrial segments showed a mid-teen growth year-on-year on adjusted basis. While underlying segment conditions impact our business, our continued focus on diversification has played out and insulated us from downturn in export and domestic market segments.

Our new product development and new business segments have supported our growth during this phase. As a result, we have been able to grow better than the underlying market and when the tide turns, we are hopeful that we will be able to register outsized growth as our share of business remains intact and we continue to build pipelines of new businesses values. Our installed machining capacity at the end of H1 FY25 now stands at 57,000 metric tons and production on newly installed press of 6,300 tons also commenced during the quarter, thus expanding our forging capacity to 1,27,000 metric tons.

We will be further adding machining capacity in H2 2025 as well and we expect production ramp up on these lines, enabling us to execute and create capacity for growth. While market conditions will continue to be dynamic, our steadfast focus on maintaining a strong balance sheet and focusing on high-quality and value accretive products businesses. Medium macro growth enablers for the business remain positive and we believe that investment in world-class infrastructure will enable us to scale up organically, ensuring appropriate returns on investment.

Now I would like to hand over the call to Mr. Pankaj Goyal for an overview of the financial performance during the quarter. Thank you.

Pankaj Goyal: Good morning, everyone. Myself Pankaj Goyal. I hope I am audible to all of you.

Moderator: Yes, sir, your voice is audible. Please go ahead.

Pankaj Goyal: Thank you. I would like to take you through in brief on financial results of Q2 FY25 and H1 FY25. As mentioned in the previous quarter, our financials in Q1 and Q2 FY24 were favorably impacted by some higher realizations received on one order on account of logistic costs. This positive impact for H1 FY24 was for a tune-up of INR13 crores in revenue, INR9 crores in EBITDA and INR7 crores in PAT. Furthermore, we also recorded a non-recurring income of INR6.40 crores in Q2 FY25 on account of maturity pursuits on one insurance policy, impacting PBT by INR6.40 crores and PAT by INR4.80 crores.

To facilitate a fair Y-o-Y comparison, we have additionally provided adjusted margin growth and revenue share numbers after adjusting for these impacts in H1 FY24 and Q2 FY25. Revenue for the quarter stood at INR361 crores for Q2 FY25 and INR703 crores for H1 FY25. This represents a Y-o-Y growth of 6.1% and 6.4% for Q2 and H1 respectively on an adjusted basis. Despite decline in steel rises which had an impact on our revenue growth, our realizations improved by approximately 3.5% Y-o-Y for both Q2 and H1 FY25 on an adjusted basis.

Finished growth volume increased by 2.6% Y-o-Y for H1 FY25 and 2.4% Y-o-Y for Q2 FY25. Our EBITDA margin is closer to 29% and stood at 29.2% for Q2 FY25 and 28.9% for H1 FY25, growing at 14.8% and 9% for Q2 and H1 respectively on an adjusted basis. PAT grew to INR67 crores for Q2 and stood at INR130 crores for H1 on an adjusted basis, showcasing a Y-o-Y growth of 23.8% for Q2 and 15.8% growth for H1. Our balance sheet continues to remain robust.

Total net worth stands at INR1,700 crores around approximately and our debt equity ratio as on September 30th continues to be lower than 0.1x. We hold a cash liquidity of approximately INR250 crores as on this quarter end including INR156 crores of long-term fixed deposits reflected in our non-current assets in the balance sheet and remain positive about our cash accrual capabilities that position us strongly to capitalize on any organic or inorganic growth opportunities in future.

ROCE was 20.6% and ROE stood at 16.3% for H1 FY25 and we expect this return ratio to improve as we deploy the capital raised last year and improve utilization rates. That is all from my end. I now invite Mr. Ashish Garg for closing remarks. Thank you.

Ashish Garg: Thank you Pankaj. Our continuous endeavour would be to navigate industry-wide challenging times while increasing our market share in the new businesses. We are all geared up, our robust engineering and machining capabilities coupled with the advanced technologies we employ in our manufacturing operations, which position us well to capitalize on the market opportunities. With this, I would like to thank everyone for joining on the call. I hope we have been able to address all your queries. For any further information, kindly get in touch with me or Strategic Growth Advisors our Investor Relations Advisors. Thank you.

Moderator: Thank you very much, sir. We will now begin the question and answer session. Our first question is from the line of Pankaj Tibrewal from Ikigai Asset Management. Please go ahead.

Pankaj Tibrewal: Good morning and thank you for the opportunity. First of all, congratulations on great margin improvement. There are very few B2B companies in India which can go gross-margin in excess of…

Moderator: Sorry to interrupt, Mr. Pankaj. Your voice is not audible. Can you please come...

Pankaj Tibrewal: Thank you for the opportunity and congratulations on good margin improvement. Ashish ji, what I wanted to understand from you is that from a 2 years, 3 years perspective, what are the growth levers the company is evaluating which can give them higher growth rate from a 3 years perspective, both from auto side and industrial side?

If you can talk us through, it will be great. And congratulations on margins because very few companies in India on a B2B basis can show margins of gross-margins above 50%. So, hopefully, we expect that, that should sustain going forward, but from a growth side, if you can talk us through what are the growth levers the company is evaluating from a three-year perspective?

Ashish Garg: Thank you, Mr. Pankaj. So, if you look from the perspective of the current crankshaft business, which is almost more than 50% of the business, we witnessed the growth of almost 14% in quarter 2 and almost 11% in H1, whereas the legacy forged business which largely caters to off-highway segment has seen a degrowth. So, going forward, we feel that crankshaft as a product which goes to various segments in industrial, pass-car, off-highway will continue to grow for us.

We have entered into businesses for industrial segment, both for portable gensets as well as higher horsepower which will form a major part of growth going forward for us. Wind sector business is a new business for us, which company started 2 years back. We expect it to be 8%, 10% of company's revenues going forward in next 2 years. We have witnessed a good growth in that segment as well. Largely, components are heavy. We expect to be a good part of business going forward.

Pass-car as a new sector, which was started last year has contributed meaningfully which is around 4% this year in H1. We expect it to be 8% to 10% going forward in 26-27. We have already won orders from North American markets. We are already in touch with these customers for new RFQs and businesses, which we have quoted. Even in the domestic side, we are working on certain PV products. So, within forging this is the business that we are already doing.

We also project to enter into the ring rolling business, that is the ring forging which we are not doing as of now. We already have plans and ordered certain capacities which will be additional components, with which we can cater to the bearing industry as well. The company also has plans to expand its product as well as the weight range. So currently we are catering up to 250 kg. Going forward, we also have plans to enhance this product weight range from 250 kg to a 1 ton category size. I hope I am able to answer you Pankaj.

Pankaj Tibrewal: Great. On the export side, any thoughts on key client range, key penetration in markets where we are absent now? How big this export revenue could be for us as you move ahead and second on the machining side, you are at 89% already. How much more you can grow from here in terms of value addition so that the margins which you are seeing can have an upside or do you think margins at 28%, 29% can be maxed out? Just some thoughts on both the sides?

Ashish Garg: So as of now we are not restricting ourselves only to machining business. If we see opportunity to grow and as forged business we will be more than happy to do that, but the businesses that we have in hand, most of the businesses are for machined components. We expect that this range of 89%, 90% will continue. In fact, we can see a higher rate as well because most of the businesses currently that we have are for machined components.

Within machining, the more complex components that we are doing now and the investments that we have done are going for the BS6 range of vehicles and also the Euro 6 emissions, which is in fact a better contribution. If you look at the realization, despite of the falling steel price, the gross contribution has improved by INR5 a kg on an average basis. That means the newer businesses that the company has captured has come up with better realisation. So this will definitely be there.

This will be a part of our strategy to continue to grow ourselves in a niche business segment. In exports, as we said that today 20% is direct exports, 9% is deemed exports. In the next 2 years, 3 years, we expect the exports to be in the range of 30% to 35% because most of the order wins if you see 60% to 70% are from global players.

Pankaj Tibrewal: That's great. Thank you and wish you all the best. I hope you keep on growing year-on-year over the next few years.

Ashish Garg: Thank you.

Moderator: Thank you. Our next question is from the line of Jinesh Gandhi from Ambit Capital. Please go ahead.

Jinesh Gandhi: Hi Ashish. Congrats on a good set of numbers. I quickly wanted to check one of your customers, American Axle India is being taken over by your competitor. So can you talk about what kind of revenues do we get from them and how do you see that business shaping up? I'm presuming that business will go very gradually, but what is our exposure to American Axle in India?

Ashish Garg: So American Axle India business is for us to the tune of around INR45 crores, INR50 crores. And yes, it has been taken over by one of the peers. But we feel that the main strategy of buying out for the peer is to expand the global footprint in the axle business as they already own another axle company in India, which is automotive axle. So from the strategy perspective, we have a very wide range of product range that we give to American axle in the domestic sector, which is almost 20-25 components, that too which are approved by OEMs in the last couple of years.

So we expect that business to continue and it's a competitive business which is going on from 2011-12. So the total business of American Axle that we have won and which we are doing directly is going to stay as it is and it is going to grow as it is. So because it's in a separate entity.

Jinesh Gandhi: Right. Got it.

Ashish Garg: And lastly from the existing American Axle team is that we can also see this business growing because the business was not growing too much for the last couple of years as it was kind of stagnant. So we can see a big growth coming in that business as well.

Jinesh Gandhi: Right, Got it. And secondly, with respect to our industrial segment where opportunities are quite few for us, I mean quite many for us and some of the orders are in hand. So can you talk about roadmaps for how industrial segment will shape up over the next 2 years to 3 years based on orders in hand? How will the contribution of industrial segment move over the next 3 years? That will be my second question.

Ashish Garg: So largely the industrial business today contributes around 12%, 13% to the revenues which we expect will continue to grow. We expect this business to be in a range of 18% to 20% going forward in the next 2 years to 3 years. And largely sectors like wind gearboxes where we are already ramping up the genset business and portable and high horsepower range of gensets are the main streams.

Besides this, we are also working on certain programs for heavy axles which are used for material handling systems. So the industrial business could be in a range of 18% to 20% next 2 years to 3 years for sure the way the new businesses are foraying in this sector.

Jinesh Gandhi: Got it. And particularly the crankshaft for genset when are we expected to commercialize that part of the business?

Ashish Garg: Jinesh, we have already started that but there are more customers also which we have gained on the portable genset side and also the high horsepower range. So there is a complete range. And it's in a phase that we should be starting ramping up for the other customers as well from Q4 and next year H2.

Jinesh Gandhi: Got it. And lastly with respect to 14,000 ton press, can you talk about what is the utilization of that press currently and do we expect by when do we expect that press to reach optimum utilization of 80%, 85%?

Ashish Garg: So currently the utilization is around 50%, 55% on the line and effectively we can touch 80%. So we have around 30%, 35% capacities available on this line where we are growing our wind segment business which we expect to grow in the coming year. Also the front axle beams which are launched for CV players, we have received approval for those which we will be ramping up from quarter 4 onwards. So with the forging of front axle beams and the wind sector business, we expect to touch around 70% in the next financial year.

Jinesh Gandhi: Okay. So in that context, our realization as well as gross margins logically should further improve. If I put everything in perspective, 14,000 ton press ramp up happening, industrial business and exports going up. So logically would it be fair to say there is headroom for margin expansion and realization expansion?

Ashish Garg: We also have front axle business planned on the line. So front axle business will not be in a similar realization base as our crankshaft business, but we have a couple of crankshaft lines and the machining capacity coming in the third quarter and the fourth quarter as well. So the utilization of the crankshaft capacity is going forward. We expect, yes, the margins, the gross margins would improve. So if you look at the crankshaft business, we have already grown by almost 14% in quarter 2 and 11% in H1 and we expect this business to grow going forward as well, which is kind of driving the entire contribution.

Jinesh Gandhi: Got it. And sorry, just some clarification on the realization for the quarter. We have seen improvement despite a pass-through of steel prices. So any quantum, any number which you can share about what percentage was the impact of steel price pass-through?

Ashish Garg: So RM impacted to the tune of INR18 crores to INR20 crores in H1, Jinesh. I hope I'm able to answer your question.

Jinesh Gandhi: INR18 crores to INR20 crores in first half. Great. Thanks, Ashish and all the best.

Ashish Garg: Thank you, Jinesh.

Moderator: Thank you. Our next question is from the line of Amber Shukla from Motilal Oswal. Please go ahead.

Amber Shukla: Yes, sir. Thanks for the opportunity. So my first question is related to demand and growth. So our key segment CV, which now contributes around 39%, 40% of revenue is seeing some slowdown. And of course, the recovery doesn't seem at par with the expectation. So how do you see this going forward because crankshaft CV also has also high margin for us in that way?

Ashish Garg: So, Amber, if you look at, yes, you are right that the domestic CV, MHCV space has seen a decline of almost 8%, 10% whereas this decline is over and above by FY23 numbers. And European CV is also seeing a decline of 12%, 15% which at the moment we are not seeing is expected to improve, but yes we are kind of maintaining our share in the CV business. Despite of this, it has grown by almost 2%.

And we have also started doing [inaudible] which were kind of in a ramp-up phase. We have received approvals and we have started ramping up in the third quarter for the domestic CV clients. So we expect to maintain good growth even in the CV business going forward. We are not losing on the CV volumes.

Amber Shukla: Okay. And my second question is on industrial. So like in other segments, especially for exports, we have seen delays in different categories at global level. So what is the status for industrial categories? So just some clarity on demand scenario in different industrial segments where we are operating right now.

Ashish Garg: Wind Sector has witnessed a degrowth, but even if you look at the industrial segment, as most of the projects were new to us, we are able to grow in the segments. And going forward because it's a continuity of the business which was started 1.5 years back. So we still have a chance to improve and ramp up on the share of business. The share of business is improving even though the total market size has reduced over there. So wind sector will be further improving for us.

Amber Shukla: Okay. So since we have orders in our hand for industrial category, as of now, are we seeing any kind of delays in execution or something, I mean from the client side?

Ashish Garg: Yes, there are certain delays, but the approval processes have been completed. So they also have a lot of cost pressure, if you see globally because of the slowdown, which can actually trigger the businesses from India. That is what I've seen.

Amber Shukla: Okay sir. That’s it from my side.

Moderator: Thank you. Our next question is from Sonal Gupta from HSBC Mutual Fund. Please go ahead.

Sonal Gupta: Yes, hi. Good morning, and thanks for taking my question. Ashish, earlier you'd mentioned that there were some constraint on machining capacity and there was a delay in like receiving the machines and we were going to see a ramp up in Q2, Q3. So just wanted to check, I mean, like, is all that capacity addition happening on track?

And really, I mean, like with that coming on stream and also I think the 10,000 ton press will come on stream, how are you looking at ramp up in the next few quarters or is it going to be mainly driven by the underlying industry performances? How do you see the overall environment in the near term?

Ashish Garg: Thanks, Sonal. So, Sonal, if you look at it, the machining capacity has increased to 57,000 tons by end of H1 from 50,000, which further we expect that we'll be touching close to 62,000 tons in H2 and the process is ongoing. And that is the reason the crankshaft business has grown by almost 14% in Q2 and 11% in H1. We expect this business to grow positively in third quarter as well as fourth quarter as the new lines are coming up and the ramp up is happening.

But yes because of the industry slowdown, the ramp up is also impacted, but we are ramping up for these customers. The CV business has picked up the domestic CV players for which the testing has been completed. We are ramping up. So, that's all on track, and the capacities have also planned well for third and the fourth quarter, but yes we have witnessed a sharp decline in our legacy forged business, where the contribution is less, but yes, that has been affected because of the off-highway programs in the European region.

But as far as capacity is concerned, 6,300 ton line which is planned for the PV segment has already installed and up and live. So, the PV business that we expect to start from fourth quarter is also on track. And also, the 10,000 ton line is almost ready in Europe right now, so which will be coming in next financial year. So, in terms of capacity, yes, the way we have planned it is on track.

In fact, there are certain more capacity additions, which we'll be announcing very soon, which are in discussions in another one month's time, so which we are in discussions with our customers, which will be from the different product profiles.

Sonal Gupta: Got it. And in terms of – right, so this is a – say 6,300 ton line would be dedicated for PV components, right?

Ashish Garg: Majorly for PV and the portable genset products.

Sonal Gupta: Okay. Because I thought we were also looking at some 4,000 ton press for portable genset?

Ashish Garg: No, that is again for PV. That's kind of, again, those are for like PV small parts, which is coming in next year.

Sonal Gupta: Got it. But, I mean, like these capacity ordering is sort of backed by orders is how we should understand it to a fair degree. Obviously, you cannot have like – but I'm just trying to understand like how much of this ordering is in anticipation versus really – I mean, like you have some line of sight on some of these utilization of some of these capacities?

Ashish Garg: So 6,300 ton line is kind of will get fully utilized by next year because it's part of the PV business and PV business is kind of picking up. It's like 4% this year. And we also have the genset business coming ongoing on with this line. 4,000 ton line investment is kind of a dedicated investment for one of the customers, which is where the capacity is fully committed by that customer. That's an American customer for PV.

Sonal Gupta: Got it. And just lastly, anything in terms of like we were also planning to invest in Jammu for machining capacity. Is that plan on track? I mean, what's the timeline there?

Ashish Garg: The capex on Jammu, we have already filed two proposals with the Jammu government. And it is kind of – decision is kind of awaited with a tune of INR100 crores and INR 60 crores. So if we have approval in hand, we can go ahead. So far we have not done investment, but we have gone ahead with forming a subsidiary and applying for it. Because of election, there is some delay. We have clarity over it. We will be going ahead for it.

Sonal Gupta: Got it. Great. Thanks, Ashish. Thanks for taking my questions.

Moderator: Thank you. Our next question is from the line of Dhaval Shah Shah from Girik Capital. Please go ahead. Our next question is from the line of Khush Nahar from Electrum Portfolio Managers. Please go ahead.

Khush Nahar: Thanks for the opportunity, sir. Considering the growth drivers that you mentioned previously, what kind of topline growth are we seeing for the next 3 years to 5 years? And is it safe to assume that these 29% EBITDA margins are sustainable and growing upwards?

Ashish Garg: Sorry, can you come once again.

Khush Nahar: My question is that considering the growth drivers like you previously mentioned, what kind of top-line growth are we looking at for the next 3 years to 5 years and is it safe to assume that these 29% EBITDA margins are sustainable and going upwards, going ahead?

Ashish Garg: So, I'll just give you the brief on all the industries and how we plan it. Definitely, in terms of margins, we expect to maintain our margins in a similar range because in a range of, say, 27% to 29%. And at the moment, we are not giving any guidance upwards of 29%, but the gross contribution level is a major factor, which is helping us in maintaining these margins or improving these margins.

And that is because of the machining mix and the product mix, which is changing for us. And more and more critical components we are machining within the same product range because the crankshafts today that we machine for the PV sector as well as for the commercial vehicles, as well as for the export sector are far more critical and superior in comparison to the farm equipment sector we used to do. And also, the realization on those businesses are far superior. The criticality and tolerances are far more superior. So, that we will continue as the learning curve.

We will continue to go in for more and more critical components. And the idea is that we maintain a very healthy gross margin going forward as well, but at the same time, we will not restrict our growth on the as-forged businesses if we see that. So, on the growth side, yes, as already mentioned that industry has witnessed a sharp decline, especially on the CV side, whether it is domestic as well as globally. And on the off-highway segments globally, we have seen a major impact as well.

We have seen the inventory correction happening on the CV side as well as on the farm side because the min-max level for our inventories have corrected sharply, where we have almost seen in certain customer range kind of a 40% decline in quarter 2. So, we expect that the market to continue and markets to come up to the flat levels where we see. Yes, the guidance for 15%, 18% type of growth on a medium term is sustainable looking into the new projects which we are doing, looking into the new businesses we are going in.

So, on the PV side, the business, the new segments that we have added on the PV side as well as the industrial side will keep on helping us decide the business and the new products we are developing on the CV side as well as on the off-highway side.

Khush Nahar: Okay sir. Thank you for the detailed answer. So, what would be the capex number for FY25 and FY26?

Ashish Garg: So, as of now it is to the tune of INR200 crores to INR250 crores per annum.

Khush Nahar: Okay sir. Thank you.

Moderator: Thank you. Our next question is from the line of Mihir Vora from Equirus Securities. Please go ahead.

Mihir Vora: So, thanks for the opportunity. So, basically, I wanted to check whether the farm equipment segment saw a good growth in this quarter which was outperforming the industry production growth. So, was it led by our existing business or are we ramping up some new orders here and was it domestic driven or are we also seeing some export traction in this segment?

Ashish Garg: So far our farm equipment businesses, in fact, on the global level it is impacted because we are Tier 2 in some of the businesses and on the farm side. But the farm side, the farm sector growth is largely driven by the new businesses where we have kind of ramping up for one of the new players on the crankshaft side.

And we continue to maintain this as there is a dedicated investment we have done in H1. So, it's because of the new businesses and also because of some of the new product range that we have developed for our existing customers which we were not catering earlier. So, it's because of the product addition as well as because of the new introduction.

Mihir Vora: All right. So, we can expect it to outperform in FY25-26 as well given the new customer addition?

Ashish Garg: Yes, we have a very strong relationship and we expect to grow with new products. Our endeavor is to grow with new products and with new clients. So, definitely and if we see that the market is coming back on track, that will definitely help us in a positive momentum.

Mihir Vora: Sure. And my second question is on looking at your numbers, the other expenses seem to be higher in this quarter. So, is there any one-off there or can you point out something?

Ashish Garg: Pankaj is just checking here. Just give us a few minutes.

Pankaj Goyal: It's somewhat on account of the logistics cost on the export side. One part has been there where you can see the extraordinary cost has been increasing. The main sector has been in that one and nothing more than that major is with that one.

Mihir Vora: This is expected to continue or will it sort of cool off? In terms of sales, this is now 21% of sales. So, will it as such, you are seeing some cool down there going ahead?

Ashish Garg: So, our other manufacturing expenses include, as we do a lot of machining, there is a lot of total cost, lubricant cost, packaging cost, everything including the maintenance cost, part of the other manufacturing expenses. But the cost which has gone up for us is the logistic cost, largely on account of Red Sea crisis. Some bit of it is kind of passed on by international OEMs, but there is some bit that we are still taking hit.

Mihir Vora: Alright. So, does this come with a lag or something like that? Like if you can get realizations on this and increase some realizations to cover it?

Ashish Garg: It is kind of passed on by on an average by around 60% by different OEMs, some by 50% and some by 75%, but we expect this to come down. So, it is because of the geopolitical and global conditions, it still remains to be high, but if it cools down, then definitely we will have a positive impact.

Pankaj Goyal: Some of the cost will be on account of capacity utilization, but will be additional capacity utilization, because the minimum cost has been there.

Ashish Garg: So, we have a 55% to 60% capacity utilization in terms of the forging. Some, you can say, unavoidable maintenance costs would have also been there, which we think down the year, when our capacity utilization will be optimum, this percentage will have some softness on that front also.

Mihir Vora: Sure. Okay, sir. So, that is all from my side.

Moderator: Thank you. Our next question is from the line of Amar Kant Gaur from Axis Capital. Please go ahead.

Amar Kant Gaur: Hi. Good morning to everyone, and congratulations Ashish and team on a wonderful performance this quarter. I had two questions. One was related to the outlook on the farm side. One of your customers yesterday on its call talked about decent traction being seen in the farm industry and revised their outlook upwards. But at the same time, they talked about some higher inventory being there and some correction will be required. So, how are you seeing the farm segment performing for you for the rest of the FY25?

Ashish Garg: So, at the moment, we have just seen some positive revision from one of the OEMs on the domestic side. The growth that we have seen in the last month on the farm side year-on-year in terms of October numbers, could be - we have to see the November sales as well because last year Diwali was in kind of 10th of November. So, we also have to see the sales impact of November versus November to actually conclude if there is a meaningful growth. So, yes, there is a positive revision by one of the OEMs.

And if we see this revision, definitely we can have a positive impact of the domestic sales, but on the other hand, on the European and the North American side of highway business, most of the players we are seeing quarter-on-quarter degrowth and because of this, there is some inventory destocking, which is kind of going on, which we expect to clear up by December in most of the cases.

Amar Kant Gaur: Understood. And my second question was on, pardon me if I got you correctly, you are getting into the ring forging business as well, right?

Ashish Garg: Yes. We are already doing.

Amar Kant Gaur: So, what kind of capacity addition would we have there or would existing capacity be sufficient for that and what is the outlook there? What kind of addressable market you're looking at? Any numbers, targets, anything you can indicate on that?

Ashish Garg: So, we are catering to the wind segment from our existing 14,000 ton press line where we are able to forge components up to 250 kg and also our 8,000 ton line where we are doing full machined components. And this business will continue to grow for us within the industrial space. Currently, the wind business is almost 7% on the total business. We expect this business to grow by almost 20%, 25% going forward in the next 2 years because of the businesses that we have in hand.

Amar Kant Gaur: Understood. Thanks very much and all the best.

Moderator: Thank you. Our next question is from the line of Deep Shah from Yes Securities. Please go ahead.

Deep Shah: Yes, hi [Ashish]. Thank you for the opportunity. So, just a question on the Gensets opportunity that you have just talked about. So, there are a few subsegments that you have mentioned. First is some portable gensets and the second is higher weight gensets that you have talked about in the past as well. So, overall, from 2 years to 3 years perspective, how big this opportunity can be as far as the revenue share is concerned within the industrials? And second question related to that is what's going to be a dedicated capex especially for gensets as a business? So, that's broadly what I wanted to understand?

Ashish Garg: Thank you, Deep. Deep, on the portable gensets as well as on the mid-category size gensets, the businesses that we have taken and the businesses that we are talking about will not need capex in terms of forging. We have the forging capacity available and the path range will be less than 90 kg that we can cater from our existing line. We will be needing investments only on the machining side as the machining capacity utilization is high for us.

There will be dedicated investments for that and we will be ramping up. As far as the higher horsepower category is concerned, we will be needing certain investments and we will be in detail discussing on it because we are still in discussion with our customers. So, I think probably in a quarter or so we will have more clarity over it.

Deep Shah: Okay. But overall, in terms of the opportunity size, the revenue opportunity size, how big that can be, let's say, over the next 2 years, 3 years perspective?

Ashish Garg: Deep, in the next 2 years to 3 years, probably we will not be able to cover the entire range because it has a very broad range. We will be able to cover only a small range of the entire segment. So, probably we can expect more businesses on the higher horsepower to come from third year onwards.

Deep Shah: Okay. And for that specific segment, we will have incremental investments towards capacities that’s a fair understanding?

Ashish Garg: Yes, but it is a fairly large space to actually work on.

Deep Shah: So, basically what you are trying to indicate is this can be one of the segments within the industrial deck that can be a large chunk, let's say down the line 5 years to 6 years basis the opportunity?

Ashish Garg: Yes.

Deep Shah: Okay. Thanks a lot.

Moderator: Thank you. Our next question is from the line of Mitul Shah Shah from Dam Capital. Please go ahead.

Mitul Shah: Sir, thank you for the opportunity and congratulations on a very strong performance, especially in such tough environment. Sir, I have one question on a mid-to-long term point of view that which are the areas within non auto space which can be meaningfully big in next 3 years to 5 years and the way other players like leader Bharat Forge and all has grown in last 5 years, 10 years on the non auto side. What are the fields where we are focusing more?

Ashish Garg: Thank you, Mitul. So, Mitul as already mentioned, see we have to expand the product range. So, if you see when we have expanded our product range from 100 kg to 250 kg, where we were able to add businesses on the industrial side and the industrial business now contributes meaningfully to the revenue. Going forward, we expect to increase this product range from 250 kg to 1 ton.

If we are able to increase the product weight range, then definitely there are several industries that we can cater and especially on the large gensets and the large industrial products and also some of the railway gears is something that we can cater to, but that will potentially come from a perspective of 3 years to 5 years.

But on the next 2 years to 3 years probably the businesses that we are doing in terms of highway and on the large axle programs and also on the wind programs which we are able to cater from our existing lines which are in a weight range of 200-250 kg, that will continue to do well for us as we are developing the entire range of these products which will largely have components coming from the wind sector as well as from the large axle programs which is on the material handling systems.

Mitul Shah: So, anything on the sectors like aerospace, marine, locomotive, huge sized forging requirement is there?

Ashish Garg: So, we have to first expand our base, but yes on the machining side, we have started working on, we are in a nascent stage we have started working on some inquiries and some discussions on the defence business as well, but it will take some time in defence and aerospace, but on the machining side. As currently, we cannot force the type of size requirement which is there in terms of the requirement.

Mitul Shah: Yes sir, as you highlighted at the very initial stage, but if you can help with slight more detail on the defence side, what are the products or what are the product portfolio where we are focusing over next 1 year to 2 years maybe in a small quantum, but which are the areas to look at?

Ashish Garg: So, Mitul, we have just started working on because on the defence side and probably next few quarters we will have more clarity over it, but the product range which is under 200 kg can be done on the defence side which are related to the tank product range or whether it is related to the machining of certain components. So, that is something that can be done.

Mitul Shah: And that's directly with the government or we are supplying to some Tier 2 or Tier 1 components?

Ashish Garg: No that will come directly with the government tender through government tender.

Mitul Shah: Yes sir, thanks and all the best.

Moderator: Thank you. We will take our last question for today from the line of Nihaar Shah from Ikigai Asset Managers. Please go ahead.

Nihaar Shah: Hello. Hi, all my questions have been answered.

Moderator: Thank you. Thank you. As there are no further questions from the participants. I now hand the conference over to Mr. Ashish Garg for closing comments.

Ashish Garg: With this, I would like to thank everyone for joining on the call. I hope you have been able to address all your queries. For any further information kindly get in touch with me or Strategic Growth Advisors or Investor Relations Advisors. Thank you so much for joining the call.

Moderator: Thank you. On behalf of Happy Forgings Limited that concludes this conference. We thank you for joining us and you may now disconnect your lines.