HAPPY FORGINGS LIMITED

February 14, 2025

BSE Ltd, Corporate Relationship Department, Phiroze Jeejebhoy Towers, Dalal Street, Mumbai - 400 001 **Scrip Code: 544057**	National Stock Exchange of India Ltd. Listing Department, Exchange Plaza, Bandra-Kurla Complex, Bandra (East), Mumbai- 400 051 **Symbol: HAPPYFORGE**

Dear Sir/Ma'am,

Sub: Transcript of the Earnings Conference Call for the Quarter and nine months ended 31st December 2024 held on Monday, 10th February 2025.

Ref: Intimation of Earnings Conference Call Invite to discuss operational and financial performance of the Company for the Quarter and Nine months ended 31st December 2024.

Pursuant to Regulation 30 of the Listing Regulations, kindly find enclosed the copy of the transcript of the Investor call held on Monday, 10th February 2025 at 10:30 a.m. (Indian Standard Time) on the unaudited financial results for the quarter and nine months ended 31st December 2024.

Kindly take the same on records.

FOR HAPPY FORGINGS LIMITED

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Happy Forgings Limited

Q3 & 9M FY25

Earnings Conference Call

February 10, 2025

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 10th February 2025 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
MR. PANKAJ GOYAL – CHIEF FINANCIAL OFFICER

Moderator: Ladies and gentlemen, Good day and welcome to the Q3 and 9 months FY25 Earnings Conference Call of Happy Forgings Limited. This conference call may contain forward looking statements about the company which are based on the beliefs, opinions and expectations of the company as on 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 touch-tone phone. Please note that this conference 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: Thank you. Good morning and a very warm welcome to all of you to Happy Forgings Limited' Q3 FY25 earnings call. With me I have Mr. Pankaj Kumar Goyal, CFO of the company, and Strategic Growth Advisors, our Investor Relations advisers. I trust everyone has had the chance to review our financial statements and investor presentations for quarter 3 and 9 months FY25, which we have filed with the exchanges.

Let me start by outlining the key highlights for 9 months. For 9M FY25 we achieved growth in absolute revenue EBITDA and PAT, despite persistent challenges across the key industrial sectors. Our strategic focus on diversification and profitable new businesses initiatives enabled us to outperform broader market trends. For 9M FY25 the domestic business, which contributes 81% to the revenues grew by 7% year-on-year, and direct exports, which contributes 19% of the revenues grew by 4% year-on-year.

Average realizations improved by 4% and volumes increased by 1.5%. Revenues, EBITDA and PAT grew by 5.5%, 8.2% and 14.3% year-on-year, respectively. Aforementioned growth figures have been adjusted to account for the impact of higher realization from a single export order – in the previous financial year.

Moderator: Sorry sir, can you repeat your last line? Your voice broke for a few seconds.

Ashish Garg: At the segmental level, for the 9-month period, we observed growth in both volume and realization for machine components with volume growth being particularly strong in the crankshaft segment. On a geographical level, our domestic sales growth was primarily driven by a significant improvement in realizations, while in the export segment, realizations remained stable and volume growth contributed to overall segment expansion.

Talking about segmental performance, the domestic sector -- domestic CV sector saw muted growth due to delays in fund releases and slower financing approvals. Industry data indicates 7% year-on-year decline in the medium and heavy truck segment for the 9M FY25 period.

However, with infrastructure activity gaining momentum, we anticipate a gradual recovery in quarter 4, supported by government incentives.

For international markets, S&P Mobility projects a 10% to 15% decline in heavy-duty truck sales, both in EU and North American market for the calendar year '24. Leading OEMs have also reported a 9% drop in truck deliveries for the 9-month calendar year 2024 period. Despite this, our sales in the CV segment have seen a marginal decline at a rate that is significantly lower compared to a drop of 7% to 8% in the domestic and 10% to 15% drop in the export sector, with domestic sales holding steady and export dependent sales declining less sharply than the broader EU and North American markets. [inaudible] … Domestic CV production in Q3, positioning us for sustained growth while maintaining strong CV volumes.

On the Farm Equipment front, we are witnessing promising signs of recovery with OEM sales data and production and sales volume indicating a positive growth. Our Farm Equipment sales in domestic segment were better than the growth in unit production for the industry in the 9-month period. While there was some decline in export and export dependent sales as Farm Equipment industry is witnessing a significant degrowth in EU and North American markets. Given our strong relationship with key OEMs and recent client additions, we believe that we will be -- we are well positioned to capture growth when the market regains momentum.

Our Industrial business segment has witnessed a significant growth on a year-on-year basis, and its share has now increased from 11% to 14% in 9M FY25 in overall revenues. As highlighted earlier, this segment is higher margin, higher ROCE contributor and our conscious approach to scale this business has helped us de-risking ourselves from the cyclicality of other business segments. We have seen growth in our sales for most of our clients in this segment on a year-on-year basis and some of these client relationships onboarded in the last few years have a significant potential for growth for us going forward as well.

In the Off-Highway segment, the industry continues to face significant headwinds in export markets with double-digit decline, which has affected our sales in the segment, which show a mid-single-digit decline over previous year. While we have been able to maintain market share here, we believe that as OEM sales bounce back, there will be a significant demand coming in.

Passenger Vehicles now contributes 4% of the total sales. This segment remains a promising avenue for the future growth. In December 2024, we received one more order for a leading Indian OEM valued at approximately INR140 crores for which the deliveries are scheduled to begin in FY '26. We are expecting INR30 crores to INR50 crores of peak annual revenue from this order win. The deliveries of e-axle components for North American clients have also commenced during this quarter. We remain confident that the segment will account for 8% to 10% of our overall revenues in the next few years.

We are excited to share a significant INR650 crore capex investment to establish state-of-the-art forging capabilities in heavyweight component segment, focusing on large crankshafts, axles, gears, oil and gas valves and other precision machined components. This new facility will be first of its kind in Asia and the second largest globally, catering to high potential markets like

power generation, marine, mining, oil and gas, wind energy and specialized segments such as aerospace and defense.

The total expenditure will spread across 2 to 3 years, funded primarily through internal accruals and partially through debt, with production expected to begin in FY '27. This strategic investment positions HFL at the forefront of the global supply chain of high weight components, expanding our capabilities and enhancing profitability while strengthening our export footprint. Looking ahead, we remain focused on scaling our business, expanding wallet share and exploring new product launches and geographic diversification.

I would like to hand over the call to Mr. Pankaj Goyal, our CFO of the company.

Pankaj Goyal: Good morning, everyone. I would like to walk you through the financial performance of the company. So I'll start with the quarterly numbers. Revenue for Q3 FY25 stood at INR354 crores, a growth of 3.6%, despite a decline in steel prices, which affected revenue growth, our realization improved by approximately 4%. EBITDA for Q3 FY25 was INR101 crores, representing a growth of 6.6% Y-o-Y. EBITDA margin for Q3 FY25 stood at 28.6%. Profit after tax for Q3 FY25 was INR65 crores, translating to a PAT margin of 18.2%.

Now I'll come to the 9-month numbers. As you may recall, the 9-month FY24financials were previously favourably impacted by higher realizations due to air freight cost recovery from one of our specific orders, which contributed approximately INR13 crores to revenue, INR9 crores to EBITDA and INR7 crores to PAT during that period last year. And 9-month FY25 current financials were favourably impacted by higher other income due to a non-recurring income of INR4.8 crores. This is on a post-tax basis.

To enable a fair year-on-year comparison, we have provided adjusted growth metrics, excluding these one-time impacts. Revenue from 9M FY25 stood at INR1,057 crores, reflecting a YoY growth of 5.5% for 9 month FY25 on an adjusted basis. EBITDA for 9M FY25 stood at INR304 crores, representing a growth of 8.2% Y-o-Y on an adjusted basis. EBITDA margin for 9M FY25 stood at 28.8%. For the 9 month FY25 period PAT stood at INR200 crores. However, after adjusting for a non-recurring one-time income reported in Q2 FY25, adjusted PAT would be INR 195 crores for 9M FY25, a growth of 14.3% Y-o-Y on an adjusted basis with a PAT margin of 18.4% on adjusted basis. Our total finished goods volume for 9 month FY25 increased by 1.5% to the tune of 42,564 metric tons. Realization per kg stood at INR248 per kg, reflecting an improvement of INR9 per kg Y-o-Y. This is despite softening of raw material prices during this period.

We remain well supported by a robust balance sheet, which position us to seize growth opportunities and continue delivering value to our stakeholders. That concludes our update. The floor is now open for questions. Thank you very much.

Moderator: Your first question is from the line of Abhishek Jain from Alfaccurate Advisors Private Limited.

Abhishek Jain: Congrats for decent set of numbers in a tough time. Sir, my question on the export side, where you are quite positive and expecting a very strong growth over the years. But now the situation is very challenging. Are there the 2 issues. One is that slowdown in the Europe. And second is

that a lot of the concern on the tariff hike in the US. So if you can throw some light what impact can be possible in the near term on the tariff hike and slowdown of the Europe and how Indian companies will overcome these issues.

Ashish Garg: So yes, on the export side, currently, the export share for the company is around 19% on a direct basis and around 9% on the indirect basis. We also have certain domestic sales, which are going for European market and North American market. So currently, if we see the share for the direct exports to North American market and also through our vendors is currently around 3% to 4% of the total revenue, which is not a very significant number.

But at the same time, yes, there are industry challenges being faced by European and North American CV and Farm Equipment sector. Farm equipment sector has seen a sequential de-growth in the last calendar year. And if you see the last quarter, probably the production was down by 37%, 38%, whereas sales were hit by 27%, 28% reported by some of the key Farm Equipment players in Europe and North American market. So we expect that, yes, in European market recovery is due because as of now, we have been seeing sequential dip.

On the CV side, again, we are seeing -- we have witnessed a decline of last year, where there is immense inventory correction, which has happened. On the tariff side, as of now, we don't have much exposure in the North American sector. It is around 4%. But considering the testing for the new products, we are going ahead as it is. There are no changes in terms of any working because the products were developed for some of the North American clients on the PV side. And the ramp-up is expected as usual. And these testing's have taken over a period of 1 year, and it involves current capacities, which cannot be created overnight. So as of now, we don't see any threat of tariffs on the products which are going to be sourced from us in terms of North American market. I hope I'm able to answer your query.

Abhishek Jain: Sir, what is the current tariff structure of the North America? And how much impact is possible on the business because of this?

Ashish Garg: See, as of now, it will be too early to say because things are not very clear, whether it is -- because what we are seeing is that the imposition can happen on Mexico, Brazil and Canada. But for India, it's still not clear that what type of tariff we will be seeing so may be too early to actually comment on this.

Abhishek Jain: And how is the outlook for the Industrial side? Because Industrial, you're looking at very strong growth in export market as well. And there's a few positives are also there. So just wanted to understand what are the key headwinds in the export market in the Industrial side? And what is your growth -- what kind of the growth you are looking for?

Ashish Garg: On the Industrial side, we have added a large customer base in the last couple of years, 4, 5 years, which are maturing. There is a slowdown even on the Industrial side globally, but there are various segments where company has entered. We have secured large orders from the power gen set business from some of the players, which is under execution. We have wind sector doing well.

And we have certain capex, which is done for European clients for the wind sector. So we feel that the part for the Industrial sector will be very positive on the overall growth story of Happy Forgings, and we'll keep on expanding in this sector. And there are more and more developments which are ongoing in this sector because we have to create a complete range. So we should be looking at a number of, say, 18% to 20% of the overall sales in the next 2 years.

Abhishek Jain: And my last question on the CV side, domestic CV, we have seen a slowdown in the last 9M. But as you mentioned that you are looking at some positive tailwinds in the industry. So if you can throw some more light over there, how is the fleet utilization now? And how do you see increase in the freight and fleet utilization in India?

Ashish Garg: So on the domestic CV side, we have yet to see positive signs of recovery. Even in the domestic sales, what is happening, we have some bit of the revenues coming from bus segment, which is kind of replacing the heavy-duty trucks and long-haulage trucks. So if you look at the part level consumption by OEMs, part level consumption by OEMs is certainly less than last year because bus consumes less material in comparison to the long-haulage multi-axle trucks.

So over multi-axle trucks, yes, we are still seeing a slowdown, and we have yet to see signs of recovery. So I hope I've answered you.

Moderator: The next question is from the line of Jinesh Gandhi from Ambit Capital.

Jinesh Gandhi: Continuing on this tariff question. So any sense on what are the existing tariffs from India to US in terms of your exports?

Ashish Garg: Yes, Jinesh. Currently, our exports to North American market is to the tune of 2% to 3% as direct exports and most of these sales are routed by or lifted by the Indian OEMs. Where there are kind of -- it's kind of a deemed exports. And the tariffs as of now, if we see are not significant in terms of the working, but we'll just provide you the actual number on the tariff.

Jinesh Gandhi: Secondly, with respect to our capex for this non-auto side. So given that it's a totally new segment for us and very few suppliers globally, how do you think about the time line for full ramp-up of this plant given the customer approval time lines and the stability of the plant? Do you think we can fully optimize the utilization in 2 to 3 years after commencement of the plant in FY '27?

Ashish Garg: So Jinesh, on the full-scale level, we expect asset turns to be around 1.2, 1.3x. But even at 0.8x kind of a utilization level, we will be able to generate high level ROCE upwards of 30% as revenues will be over INR500 a kg. And there are certain orders which are in discussions, large orders in this sector, where the sampling needs to be done in early 2027, and the testing period will be around 5 to 6 months.

So doing the sampling as the single orders are large, we expect to touch around 0.5 to 0.6 kind of asset turn on this in 2 years' timeframe and around 0.8x kind of asset turn in 3 years is what we are targeting on this.

Jinesh Gandhi: So it will take at least 3 years to reach 0.8x utilization?

Ashish Garg: yes, 0.8x is what we are expecting, but this can happen even faster because the discussions are ongoing, and we have recently announced this. So we'll have more clarity over it in the next 1 or 2 quarters.

Jinesh Gandhi: And any update on the 14,000 ton press and the large for power gen, how are they ramping up?

Ashish Garg: So on the 14,000 ton press line, the Industrial business that has gained momentum is on the 14,000 ton press line even in this quarter over there. And at the same time, we have certain CV products, which have already launched where we expect revenues to start coming from April onwards where testing has been completed and pilot lots have been supplied. At the same time, on the CV side as well, we have entered the development process for certain crankshaft for which the development process is completed and ramp-up is ongoing on the CV side as well.

Jinesh Gandhi: So would be still at about 60-odd percent utilization for this press?

Ashish Garg: Yes, approximately, yes, 57%, 58% on 14,000.

Jinesh Gandhi: And lastly, can you remind us of our -- how should we budget for our capex for FY '26? And how will our existing capacity of 127,000 tons shape up based on all the expansion which we are doing?

Ashish Garg: So we will -- we are looking at a capex of almost INR400 crores, Jinesh, in the coming financial year. Which will be including the capex and some advances for the heavy-duty line. And addition will be on the 10,000 ton press line and the 4,000 ton press line in terms of forging. And then similar capacities will be created in machining. So Pankaj will provide a detailed working to you for this.

Moderator: We'll take the next question from the line of Ajox Frederick from Sundaram Asset Management Company.

Ajox Frederick: Sir, can you explain or clarify the increased air freight cost. So the customer was ready to pay this higher. It was the customer's demand that's what drove this and then we were able to bill them for it. How does it work? I mean, just some basic understanding.

Ashish Garg: Yes. So basically, the existing supply base got disrupted due to certain issues because of which there was immediate change of shift in the source. And we are already suppliers to this customer in India. And basically, these air freight costs were taken by our one of -- it was kind of one of kind and it was taken over by the customer where this and [inaudible] is done by us.

Ajox Frederick: So the requirement was from customer side and hence, he took it up. That's how it works, right?

Ashish Garg: Yes. Otherwise, we have the supply through ocean route only and there is enough stock in pipeline normally to cover this.

Moderator: We'll take the next question from the line of Arjun from Kotak Mahindra Asset Management.

Arjun: Sir, the first question is regarding the expansion in heavyweight components. So while we mentioned the INR650 crores capex. So essentially, this is the capex to get the plant running?

And is this in phases? Or this is the first phase? And if there is demand, possibly it could be larger? And what kind of tonnage essentially should one build into this capex, sir?

Ashish Garg: Yes. Thanks, Arjun. So yes, this INR650 crores capex that is planned, it includes the first phase of the forging as well as the machining lines, where approximately INR300 crores will go on the forging setup and approximately INR200 crores will go on the machining side and balance towards the infrastructure. So on the forging side, we will be having certain capacities available. This is the first phase of capex.

And if we have to grow further, we have to invest on the machining side of it. So on the first phase, the capex that is planned can generate asset turns of, say, around approximately 0.8 to 1x. And if we go ahead, we just need the capex towards the machining side of it, where we can have even further asset utilization on the hammer line.

Arjun: So just to understand, sir, this machining will it cover what percentage of the forgings that we are looking at in phase one?

Ashish Garg: It will cover approximately around 40% of the forging capacity.

Arjun: Sir, just on the forging line, given, like you mentioned, it is one of the largest facilities in Asia and the second largest globally. So in terms of execution, while we have done a very successful 14,000 ton plant of late, are there any execution risks? And how does one look at this in terms of technologic requirements?

Ashish Garg: So we will not call it as it is. It's a brand-new equipment that we are buying, plus we have over 40 years of experience now in the forging domain, started with the hammers. We have a long history on the hammers where we have worked on these technologies for over 4 decades now. This is definitely one of the largest equipment -- second largest equipment in the world where definitely we will be needing the capability.

But on that front, we are working on the organization build-up. Being a brand-new equipment, we have full support from the service provider, from the manufacturer. And at the same time, in terms of the products that we have to do on this, we are already manufacturing close to 80,000 crank shafts now on a monthly basis.

So we know the requirements very well, but the equipment scale is altogether very different because we will be able to do up to 1.5 tons on it, which is almost 4 to 5x of what we are doing. So yes, definitely, it will require the skill set, but definitely, we don't see any challenges in that.

Arjun: Sir, just the last bit on this. While we mentioned asset turns of 1 to 1.2x, essentially, this would take time. So probably by 2030, do you believe this is possible of maybe 0.8x?

Ashish Garg: Yes, surely, it is achievable because some of the large orders and discussions are in hand. And the same products over here can fetch INR100 crores, INR150 crores of revenues. So definitely, this is something which is doable and achievable.

Arjun: Just to understand, you're saying the domestic market itself currently for these products is at least INR150 crores.

Ashish Garg: No, not the domestic market. Domestic market is also quite large. And overall, on a global side as well also, EPC is close to INR10,000 crores of market, which is majorly being dominated by one of the significant players in European sector, European market, which holds currently 40% of the market today. So we are targeting of the total level, if you see around 7% to 8% of the total revenue in this sector.

Moderator: We'll take the next question from the line of Mihir Vora from Equirus.

Mihir Vora: So my question was on the PV side. The recent order which we won in December, was it for a new customer or it's the existing customers only?

Ashish Garg: It's for the new customer as already indicated during our last call as well, but in the domestic side, yes.

Mihir Vora: In the domestic side. And sir, how is the export ramping up for the EV customer, which we have?

Ashish Garg: It has already started for North America. In fact, it has started in the month of December and it is kind of ramping up.

Mihir Vora: But is it on the expected lines which we had? Or is there some kind of a slowdown, which is impacting our volumes also?

Ashish Garg: It is ramping up as per the plan as of now. We don't see any issues. Plus one of the large order wins on the PV side is expected to ramp up in third quarter of next financial year, for which we are also putting up capex. That is also in line.

Mihir Vora: And secondly, sir, on the new capex, which we are doing. So here, basically, what would be our right to win as such? Would it be the low-cost manufacturing base, which we would provide? Or would it be technology and pricing both? How are we going at this?

Ashish Garg: Can you be a little louder? And can you come once again, sorry?

Mihir Vora: Yes. So basically, my question was that here, if we are competing with the global leader, say, having a 40% market share, and they would be here for a very long time. So what are we competing on? Are we competing on the costing because Europe is facing some kind of pressures in terms of costing? Or what is our right to win here?

Ashish Garg: One is the cost because there is a significant cost difference between the European supplier and us. And definitely, there are capacity constraints in this sector globally. So data centers, which currently consumes around 3.5% of the total North American requirement, we expect the data consumption -- the electricity consumption on data centers will be around close to double or maybe 3x going forward by 2030.

And you'll see a significant increase. And we are not seeing these type of capacities being created globally for these products. So definitely, there will be kind of a capacity constraint, which will be in addition to the cost.

Mihir Vora: Basically, so domestic also, we are seeing a lot of data center capex being done. So are we in talks with any domestic players as well here that going ahead, we can --

Ashish Garg: Domestic as well as the global manufacturers are same. They have plants in India as well. So if the demand for these data centers will come up in India, it will be catered by these large players only.

Moderator: We'll take the next question from the line of Sonal Gupta from HSBC Mutual Fund.

Sonal Gupta: Could you sort of quantify the impact of the steel price decline on the top line?

Ashish Garg: Yes. It is INR10 crores for the quarter. And around INR34 crores for the 9 months.

Sonal Gupta: Right, right. And are we still seeing a decline? Or I mean, like these things has stabilized and just trying to --

Ashish Garg: At the moment, as the domestic consumption for steel is majorly affected due to the infra sector, we are still not in a phase where we can say that prices will start ramping up. Definitely in the 9 months period, we have seen a significant inventory correction as well as we have taken a hit on the scrap prices. Because for the scrap, it's not taken into account by OEMs while doing our working.

So we have already taken a hit of almost INR15 crores to INR18 crores as of now in 9 months. And inventory has also corrected because of the steel price correction. But as of now, we are not seeing for next 1 or 2 quarters where the steel prices will start taking the hike. It is very important for the infrastructure sector to actually start moving.

Once we see some positive signs over there, I think we will start ramping up. So I think it's a little early to actually comment on this where we can say firmly that it will start going up.

Sonal Gupta: And I mean, like just in terms of the near-term outlook, right, like we've been in this stuck around like, let's say, roughly INR340 crores, INR350 crores top line for a while now, right, like since listing. So I mean, like -- I mean, just in terms of the visibility that we have in the near term, do you see some step-up happening in the coming quarters? Or I mean, like -- or are we -- it's going to take a slightly longer time frame before we really start seeing some of our other orders ramping up and then we see revenue top line growth, which is much stronger?

Ashish Garg: We have seen certain decline in our legacy business, which is as forged business, where there is a drop because a lot of products are being forged for some of the companies domestically, which are catering to Off-Highway and Farm Equipment sector in European market, which has seen a significant dip. In fact, some of our CV -- European CV orders have also taken a hit of almost 40%, 45% because of the inventory correction, which is there in the pipeline. But yes, on the new business side, we have -- we are doing well.

That has given a positive impact on the gross margin impact as well. And in terms of new revenues, yes definitely, there will be some improvements that we are seeing, will start happening because some of the products are mature and the capacity addition for machining has already happened. So we should be seeing a positive impact from these levels.

And the certain orders in terms of our on the PV side for the North American market are expected to pick up from third quarter of next financial year, which are in line with the development that we have done.

Sonal Gupta: And Ashish, I mean, like just on the overall environment, I know it's a very difficult situation on the -- especially on the Industrial side and international export markets. So -- but if you were to sort of look at it, I mean, like you see, like you said, there are some channel corrections, inventory corrections also happening.

So are we closer to the bottom here? Or -- and even if things normalize and these inventory corrections sort of impacts are taken away, then we see improvement? Or I mean, like there's not enough clarity at this point in time to say that how things will pan out in the near term?

Ashish Garg: Inventory correction has certainly happened according to us. We are not seeing further correction in terms. So inventory correction on the CV side for the last 3, 4 months on the European side, we have been seeing even the domestic. So that is largely completed where we are not seeing any further inventory correction taking place. So that has been done. We should be seeing positive uptrend from these levels going forward quarter-on-quarter.

Moderator: The next question is from the line of Mitul Shah from DAM Capital.

Mitul Shah: I have first question on overall manufacturing situation in North America. Sir, whatever you have done any basic studies, right now, how much is manufacturing base within the North America and how much is outsourcing or how they are depending on that. So even in case of tariff, as you indicated earlier that they cannot build the capacities overnight. So I'm trying to understand the situation on this front.

Ashish Garg: Yes, you are right. Automotive industry as well as the Industrial industry takes a lot of time in terms of its testing requirements. It cannot be done overnight because it's a long process. Plus the capacities -- one is on the testing, plus the capacities are not available in North America to cater to such kind of requirements because a lot of requirements are being catered from Mexico for the North American range.

And it's not something that can be done overnight. And definitely, it will have impact, but to what levels and I think that India will still be competitive enough to cater to these requirements if the tariffs are not big enough. So we -- currently, we are not worried because some of the capacities even for the large shaft business are not available in the North American market.

These are being catered currently from the European sector, where the cost implication is currently -- if you compare with India, is quite big.

Mitul Shah: But we don't have any ballpark number in terms of how much the local manufacturing out of overall forging requirements?

Ashish Garg: We don't have a number right now, but it is very less because we see a lot of products going out -- not coming from US right now. A lot of capacities have died out in US market for forging and castings in the last couple of years.

Mitul Shah: Yes, sir, that's what we are hearing in last 10 years, maximum is shifted outside as the outsourcing model. Second question, sir, we highlighted we have roughly 3% direct export to North America. Any indirect through Mexico or any other geographies where we are supplying to Tier 1 in those countries and they are supplying to North America. So any indirect number?

Ashish Garg: No. This 3% also includes the indirect number. But yes, it's not happening through Mexico.

Mitul Shah: Sir, last question on this new capacity that INR650 crores capex. Out of next year's INR400 crores, how much would be towards that and how much would be the routine capex? And secondly, on the same that it seems it is entirely non-auto side for such a large size component. Is there any possibility to supply to the auto segments also within that?

And in this, whatever we have -- right now, we are carrying out advanced discussion with a few clients. Are they from the domestic side or export side or which segments within non-auto? Can you provide any more detail on this?

Ashish Garg: It's majorly for the export requirements. we are in very close discussions to actually formulate into a business. And I think the next 1 or 2 quarters, we'll probably have more clarity over it. But yes, definitely, automotive cannot be due on these product lines, but these are highly fungible lines where we can forge -- within non-auto, we can forge very large components starting from 250, 300 kgs, we can go up to 2 to 3 tons.

Mitul Shah: Sir, at this 30%, 40% utilization in initial 1 or 2 years, what could be the margin differential compared to the current blended margin? May not be exact number, but what could be the ballpark difference generally these type of businesses have?

Ashish Garg: Roughly, this will go upwards of INR500 a kg and with a very high terms of gross margin. So -- and initially, we'll have certain costs involved with it with the ramp-up. But definitely, it will stabilize over 30% kind of EBITDA margin. Definitely, it will support that because the gross margin requirement is very strong. It will be upwards of 35%.

Mitul Shah: And sir, on that out of INR400 crores, how much would be towards that new and how much routine capex? Or how much would be the balance capex will come in FY '27 from that INR650 crores?

Ashish Garg: Routine capex is very less around INR30 crores, INR40 crores is the routine capex and balance is towards these large new equipment's.

Mitul Shah: Can we assume out of INR650 crores, more than 50% would be spent in FY '26 itself. So remaining will be in FY '27. Is it like that?

Ashish Garg: Yes.

Moderator: The next question is from the line of Vivek from Avendus Spark.

Vivek: As I understand from the last question that 3% of the sales is to North America. So I just want to understand what kind of tariffs will actually will lead to the un-competitiveness or from the -- from India to North America for the forging components?

Ashish Garg: So currently, there are 2 things. As Mitul also said, currently, the capacities are not available in the North American market. And these type of capacities cannot be created overnight. It cannot be created overnight. The cost impact between US and the manufacturing, the supplies, which are happening from India or from China or from Brazil, the differential in that is quite big. The differential is between 20% to 30%.

So it's not that easy to create a setup and start manufacturing. So this will not have the overnight impact for sure. And also OEMs will take a lot of time. If you look at some of the players in North American sector where they are already working in the forging domain are going through tough conditions right now. So even at the current price levels at what they are supplying, they are not able to make money.

So for the new capacities to come in, we don't see something which can happen overnight. So we don't see kind of an immediate threat to any of the businesses because capacities cannot be created overnight. There are testing time lines, plus there are cost impacts even at, say, 20%, 25% levels, we don't see that there is a threat to the business.

Moderator: The next question is from the line of Khush Nahar from Electrum PMS.

Khush Nahar: Just one question. Can you elaborate more on the type of new products you are working on? And are we still pursuing the bearing segment that you are targeting before?

Ashish Garg: Can you go on once again?

Khush Nahar: So I just wanted, sir, can you elaborate more on the new products that we're developing as of now across the segment? And are we still pursuing the bearing ring segment that we thought of entering before?

Ashish Garg: Definitely, we are -- on the new product development side, we have certain launches for the small crankshaft sector, which is for the portable gensets and the power vector sector, which is a new product for us. We were not doing less than 10 kilograms. We have, again, developing some of the components for the very heavy axle programs for European markets, which are largely for industrial usage for material handling systems and for large excavator and mining sector, which are in development right now, which will help us in expanding our footprint in terms of Industrial businesses. And on the pass car segment, we are exploring more components towards the light weighting technologies. On the CV side, the front axle beam is one product, which is launched and currently at a very nascent stage where we are kind of supplying the pilot lots.

So these are on the development side. We also have plans to bring in the ring rolling line, which can cater to the bearing space as well. But as of now, we have not formalized or won the business on the bearing side.

Moderator: The next question is from the line of Sahil Sanghvi from Monarch Networth Capital.

Sahil Sanghvi: I just wanted to understand, is there any progress on the Jammu machining capacity and any time lines and a bit more understanding on the tax incentives?

Ashish Garg: On the machining capacities, the plan was to touch 62,000 tons by end of quarter 4, and we are in line with those capex.

Sahil Sanghvi: So the Jammu plans --

Ashish Garg: Further, even for next year, we are formulating our clarity on the machining capex, which will be provided in the next quarter. But for this year, the planned capex on the machining side is very much in line.

Moderator: The next question is from the line of Manish Goyal from Thinqwise Wealth Managers.

Manish Goyal: Sir, a couple of questions. One on the new businesses what we have been securing in both Industrial as well as Passenger Vehicles. So would it be possible to give us a perspective as to what kind of visibility we have in terms of volumes for FY '26 and FY '27? Just to get a perspective that what can be the incremental revenue growth coming in from new businesses apart from the organic growth we see from the existing customers? That was my first question.

Second question is on the Industrial. So you did mention that we expect 18% to 20% revenue contribution. Probably by when do you think you will reach that? And what will it mean in terms of volume tonnage when we reach that? And does this include the new facility for the large equipment’s or that will be the incremental what we would get. These are 2 set of questions.

Ashish Garg: So I'll take your second question first. So Industrial business that what we are targeting 18% to 20% will come in the next 2 years. In terms of finance, Pankaj can provide you the data for this, which will take some time. And these are majorly for the exports. And this 18% to 20% kind of revenue that we are discussing about is it's excluding the new capex that we have announced because new capex will be largely catering towards the industrial sector.

So this is excluding that. If we start ramping up on that, then this certainly 18% to 20% will definitely look beyond 30% in the next 4 to 5 years. I hope I'm able to answer you on this question.

Manish Goyal: Yes. And like can you probably give us some indication that if you probably reach 20% Industrial, what could be the volume tonnage and what could be the average realization?

Ashish Garg: I think Pankaj will be able to provide this data in terms of segmental number on tonnage as well as realization.

Manish Goyal: Sure, sir. And sir --

Pankaj Goyal: And please go ahead Mr. Goyal.

Manish Goyal: And sir, can you also probably reply to the first question, like what is the visibility you have in terms of volume contribution incremental growth coming from the new businesses which you have secured across your business segments?

Pankaj Goyal: Yes. On the Industrial, the realization I've just check is around INR300 plus, which will continue to be maintained between INR300 to INR350 a kg on the Industrial side. And in terms of the volume metrics as we have been discussing. See, we have certain businesses, forged and semi machine businesses also taken in the business. We should be looking at in the next coming year between 10% to 12% kind of a growth for next 2 years in terms of volumes. But in terms of realization, we should be seeing a better growth.

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

Ashish Garg: Thank you, everyone. To conclude, we are confident that our investments in innovation capacity and customer partnership will drive sustained growth and value creation. 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 Strategic Growth Advisors, our Investor Relations Advisors. Thank you.

Moderator: Thank you, members of the management. Ladies and gentlemen, on behalf of Happy Forgings Limited, that concludes this conference. We thank you for joining us, and you may now disconnect your lines. Thank you.