Kennametal India Limited
CIN: L27109KA1964PLC001546
8/9th Mile, Tumkur Road, Bangalore 560073, INDIA
T +91 80 43281 444/215 | F + 91 80 28390129
k-in-kil@kennametal.com
www.kennametal.com

KENNAMETAL

June 9, 2023

Ref: Sec/Sto/2023/06/06

Corporate Relationship Department
BSE Limited
Phiroze Jeejeebhoy Towers Dalal Street,
Mumbai – 400001

Subject: Transcripts for the Analyst Call / Institutional Investor Meeting held on June 6, 2023

Ref : Kennametal India Limited - [Scrip code: 505890]
Our Letters No. Sec/Sto/2023/06/01 dated June 5, 2023 and Sec/Sto/2023/06/04 dated June 6, 2023

Dear Sirs,

In further to our above letters, we enclose herewith a copy of the Transcripts of video recording of the meeting held with the Investor / Analyst viz., ASK Investment Managers represented by Mr. Sumit Jain, Mr. Bharat Shah, Mr. Dhananjai Bagrodia, Mr. Gaurav Sharma, Mr. Priyam Khimawat, Mr. Kuldeep Gangwar & Mr. Gagan Thareja on Tuesday, June 6, 2023.

The said Transcripts is available on the Company's website at: https://www.kennametal.com/in/en/about-us/kil-financials/press-release---investor-calls.html

Kindly take the same on record.

Thanking You.

Yours faithfully,
For **Kennametal India Limited**

Naveen Chandra Prakash
Digitally signed by Naveen Chandra Prakash
Date: 2023.06.09 19:44:22 +05'30'

Naveen Chandra P
General Manager – Legal & Company Secretary

Encl.: As above

Management – Kennametal India Limited	Mr. Vijaykrishnan Venkatesan, Managing Director
	Mr. Suresh Reddy, Chief Financial Officer
	Mr. Naveen Chandra P, GM – Legal & Company Secretary
Investor / Analyst – ASK Investment Managers	Mr. Sumit Jain
	Mr. Bharat Shah
	Mr. Dhananjai Bagrodia
	Mr. Gaurav Sharma
	Mr. Priyam Khimawat
	Mr. Kuldeep Gangwar
	Mr. Gagan Thareja

Naveen Chandra

I've just now completed the disclaimer statement and I guess we are good to start with.

Vijaykrishnan

Sumit it's on to you.

Sumit Jain

Sure, So, Vijay and Team Kennametal, first of all, let me thank you all for this meeting. Before we kind of start, let me, kind of talk about people who are there in this meeting.

So, we have Mr. Bharat Shah, who is executive director of Ask Group. Then we have Dhananjai, who is the analyst who tracks capital goods space, and then we have a few of my other colleagues, including Gaurav and Priyam, and few more should join in. So, So, sir, actually, what we are kind of and there, please feel free to kind of chip in.

Can you hear us?

Vijaykrishnan

Yes, loud and clear.

Bharat Shah

Yeah. I can hear loud and clear.

Sumit Jain

Yeah, sure

Bharat Shah

I'm listening kindly.

Sumit Jain

Sure. sir what we are, I mean, keen to understand actually and I'll directly come to the things that we are kind of trying to get from this call, given the fact that we have just about 45 minutes of time, see clearly we are seeing capex cycle kind of getting a lot better as compared to what we have seen over the last 10 years.

We saw some amount of cycle probably from 2003 to 2010, wanted to understand how are we placed in this cycle versus what it was in the last cycle, because even in the last cycle, if I look at our numbers, I mean if one were to look at the cycle in entirety at that point in time, our revenue growth was just between 10 to 15% in a good cycle. In a cycle when it was, I mean the average turned out to be about 13%, over next 10 years, we were barely about mid-single digit. So, to that extent, good or bad, our numbers at that point were not, something that, it looked like that we are, we are in that business which actually is kind of displaying the strength that we have. So, wanted to understand the long-term underpinnings of this business one. Second, also, I'm keen to understand what is the overall opportunity size that we cater to, because there are multiple industries that are there, which we kind of cater but at the same time there are a lot of changes in the industry that are being witnessed, whether it is automobile or 3D printing.

So, wanted to understand your perspective of how things are kind of playing out there and 3rd aspect that we are really keen to understand is, I mean can India be really a manufacturing hub for our parent while we keep talking about supply chain behavior that will influence our addition. But at the same time, we do have certain strength. What are those strength really? I mean this Indian entity kind of present which would allow us to be significantly bigger entity over next few years while last 3-4 years on the export serve in decent but wanted to understand your perspective. So, these are key underpinnings that I'm keen to understand and then we'll kind of get into nitty gritty as well.

Vijaykrishnan

Thanks Sumit and that I might have to give a very elaborate answer for this because you I think you asked 6-7 questions and what do you termed as three questions. First, let's start with the Capex cycle. You're absolutely right. If you look at the data, look at the total number of machines which are getting imported and installed, the financial year 2022-23 was probably even better than 18-19, which was the previous peak in the country, and this is nothing to do with Kennametal. I'm talking about the industry and I'm sure that you are seeing the data, right? The important machine's growth was one of the probably, one of the highest in terms of percentage and number of machines which happened in financial year 2022-23 and also that happened predominantly during the back half of the year, right?

Because that's when the Capex cycle really started accelerating, now, some while, all of your analysts you are more familiar with all this but let me give my perspective on this too. The Capex cycle in India is going to continue from what we are seeing for at least the next few quarters, driven by one sustained domestic demand for goods which are being manufactured in the country and we are also seeing the transition of new projects from global buyers into Indian tier suppliers. When I say tier suppliers just not automotive, any tier supplier to any industry could be a tier 1 or Tier 2 or Tier 3. We have been seeing an increase in terms of projects which are coming into the country. You can, we can jargonized it and say whether it's because of China plus one or we have reached critical mass and quality which is acceptable to the global market. But whatever may be the reason we're definitely seeing an increase in projects which are coming into the country for established manufacturers, right? It could be out of components. It could be energy side. It could be general engineering. It could be any of the sectors. Now, what that entails is there are two things which are driving the Capex cycle. One is need for capacity expansion, two is to meet the quality which is required today, we need equipments which needs to be a little more automated so that and little more precise.

So, hence a lot of lines are also getting upgraded. Now, when you're talking about upgradation, it may not increase the volume, but for a capital equipment that's an opportunity because that's an upgrade which is happening after 20 or 30 years because most equipments range from 15 to 25 years of life, right? whatever we installed in early 2000s or late 1990s are all coming up for replacements. Now, there are two things which are driving the Capex cycle one is upgradation of the lines replacement cycle which is also driving higher quality and higher productivity machines one.

Two is need for capacity expansion because of domestic and export volume which is growing in certain sectors and three is new industries like aerospace, EV's, energy sector, right? these are all sectors which are or mining oil and gas. When I say oil and gas again, tier suppliers. We are, we are seeing the significant increase in new capacity which are coming up. Now all this is driving the Capex cycle now, is it a blip or is it or at least from what we are seeing, it might be sustained for few quarters, we can't say how three years, five years at this point in time. So, that's one of the things about the Capex cycle.

Now you related that with Kennametal's performance. I can't go back in history and talk too much. What? I'll give you two sides of how the Capex cycle impacts us. Now, If the Capex cycle is for replacement, nothing changes for consumable business, right? because you are just replacing machines. That means the capacity of consumption of consumable remains same. It could be for us. It could be for Sandvik. It could be for Taegutec, Tungaloy, is a tooling, it doesn't increase the volume of consumption, right? whereas a capital equipment supplier gains because it's a replacement cycle, when you're talking about new capacities or new sectors like aerospace, right? or drones, any of these or EV's those are absolutely incremental volume which drives the market growth for tools.

Now it depends on what type of cycle we are talking about. Today's cycle, its a combination of both its capacity expansion and replacement, which works very well for consumable business, right? We are on two sides of the business, 80% is consumables, 20% is capital equipment for us now capital equipment definitely that's good for us because this kind of expansion, probably the country you're seeing after a long time. So, which is great. We also believe it will have a drag impact on the consumer business, but with a face lag of 12 months because you order machines, it gets installed within 12 and 15 months, that's when you start seeing the pull through come for the consumables, right? and that's how the Capex it depends on because I can't talk about 2003, 2008, 2013 or whatever cycles we have, right? But we need to see what was the nature of the cycle, right? when the, for example 2018-19 was truly a capacity expansion cycle. 2016, 2017-18 not good, right? And we also saw that industry, anybody who participated in industry does not Kennametal significant expansion in the market opportunity, right? Now, thematically, if you have to see India's manufacturing, it's growing. There is a lot of optimism. There's a lot of, I would say robustness in terms of what we today can build. So, I believe that we should see a sustained growth in manufacturing growth, manufacturing output which will sustain the demand both in the Capex cycle and in the consuming cycle. So that's your answer to your first question alone, right? That's why I said you bucketed too many questions in the first question.

Sumit Jain

Yeah

Vijaykrishnan

Right? So, we believe the opportunity is real and they're to stay, for India is what we believe in the manufacturing sector and we play both in the Capex which is only 20% of the cycle for us, 80% is consumables, but also with the new sectors which are coming in which are highly performance driven like arrow is highly performance driven.

Sumit Jain

So just Interrupt here sir.

Vijaykrishnan

Yes.

Sumit Jain

You said 80% is consumables, this is for business in entirety, or you just talk about?

Vijaykrishnan

In entirety,

Sumit Jain

So.

Vijaykrishnan

Sumit hard metals is all consumables, right?

Sumit Jain

Correct, hmm, got it, right.

Vijaykrishnan

Your MTV machines is the Capex.

Sumit Jain

Yeah.

Vijaykrishnan

So that's our ratio depending on the year, you might have 82:18 or 25:75, but roughly 80:20 is the ratio.

Sumit Jain

Yeah.

Vijaykrishnan

Uh, I just coming back. I miss.

What is the second question, Sumit?

Sumit Jain

Umm so wanted also to understand, we all talk about 10-12 thousand crore industry size. If you can first understand the granularity of this industry size, what is? What are the areas that we really cater to within this 10-12 crore machine tool industry and what are the strengths that we have in that industry, the areas that we really?

Vijaykrishnan

Yeah. So, let me get this into two and again, Sumit, there are no estimates accurate estimates for let's say a tungsten carbide industry in India. It's not a researched syndicated data what is available, so the markets, what can Kennametal India placed today, there is the MTV which is a machine tools which is a Capex, right. So, you are probably somewhere close to what the actual market is. Probably the market will be slightly bigger than what you just indicated for the machines today, if you take.

Sumit Jain

No, sorry. Can you repeat? I didn't get what you.

Vijaykrishnan

There are two sides. Kennametal operates Kennametal India, operates in two sides of the business, right? There is the machine business, which we offered through WIDMA brand. So, that's probably very close to the size what you indicated in terms of market opportunity.

Sumit Jain

Ok.

Vijaykrishnan

Maybe it will even be slightly higher than what you just indicated, given the Capex cycle which is running. Now in that we play in a very small market space today and that's a significant opportunity. What we are seeing, and this is something which you have probably in other analyst call, we have spoken about, we have also mentioned this in our AGM that that's an opportunity which are really looking at because clearly that's when you see a 5% of $2 billion market is definitely bigger than 25% of $100 million market, right?

So, in terms of machines, it's a very large market and it's growing, and new technologies are coming into the country. So, we see that as an opportunity. Now if you look at the consumable side, which is your tooling and wear resistance solutions, there's no accurate estimate for that. Let's say give or take, it could be, depending on a year, it could range from 3500 close to 4500 crores, right? I'm talking about current state. Obviously, it will grow, so that's a business which is interesting because you're talking about and there's a very or abused example, but it's like the Gillette story, right? Your consumables is where the main business is, that's your blades, right?

Sumit Jain

Get it, correct. Yeah.

Vijaykrishnan

The machines are you're the holders now, while the Capex is big, but the consumer is what drives your business. That's why it's 80% of our business is on the consumables. So that's the rough market estimate, if you.

Dhananjai Bagrodia

Does this include export Sir?

Vijaykrishnan

But no, this is domestic, I'm talking about domestic, Indian market.

Dhananjai Bagrodia

Ok, perfect.

Vijaykrishnan

The exports.

Sumit Jain

And sir this is purely tungsten carbide-based market 3500 to 4500.

Vijaykrishnan

Yes, yes and again, Sumit, just a word of caution because this is a recorded meeting, there is no syndicated data available, ok, but you can, you can pull all the data from different competition, and you'll aggregate it somewhere it will come around that number.

Dhananjai Bagrodia

Sure.

Sumit Jain

But how should we think about this market? I mean, I mean fundamentally, is tungsten carbide-based market growing at a rate much faster than overall growth of the industry itself? I mean the usage of tungsten carbide, is it increasing given the way the whole technology is evolving, or we are seeing some other forms of? Kind of material being coming up in the marketplace, which can actually play a cannibalizer role in the market? I mean, how is it that this industry is kind of playing out?

Vijaykrishnan

Today see this has been a talk probably for the last two or three decades, that whether this industry would be cannibalized globally, right, with the evolution of lighter materials to machine, change in machining technology, you talk about additive manufacturing, 3D printing, but nothing has changed made an impact to this Industry because of, the two things. Let's look at India, because the discussion is about India.

The overall volume of metal which you need to be machined to just support the growth or consumption of the country is expanding, correct? There are more trucks being made, more buses being made, more, let's say EV’s being made, more valves are being made. Everything is being made more and those are all metal right now. If you're talking about metal, you have to machine it, unless it's a custom-built product where you're printing. Printing technology will evolve at some point in time, and we are not saying it won't evolve, but it has its own place in this, but we see that there's still with all these dynamics still the market in India I'm very specific about India will continue to grow.

Sumit Jain

Ok.

Sumit Jain

Would it be a different scenario globally?

Vijaykrishnan

It depends on the dynamics, because it's also which countries, so you look at what countries is going to drive the economic growth in the world. If global economy is going to grow at let's take this for this example, let's say 3 to 4%, some will not grow, some will grow at zero, some will grow at one, some will grow at 7-8%, 7-8% territories are ones which are going to try the consumption, right?

In terms of manufacturing, because India will drive a lot of consumption, China will also drive a lot of consumption. There are countries which will drive a lot of consumption and that's since we are in India, it gets very interesting, because there's just the share volume of machining which will happen in the country, will only increase at least over the next one decade. It's going to increase is what is the visibility?

Sumit Jain

So, is it fair to presume that our growth is in a way proportionately linked to the amount of steel or metal consumption that India has?

Vijaykrishnan

May not be Sumit, because see, when you talk about steel, what are the bigger consumers, its construction, infrastructure, right? So, because, amount of metal which will go into a, let's say a car or a truck or let's say a 2-wheeler or an energy equipment, let's say your turbine, it's disproportionately small to the value compared to a bridge or road or domestic construction of torch steel light, right? So, the bigger volume is there.

Sumit Jain

Right.

Vijaykrishnan

Yes, but it is easy to track the end markets, where we supply, because these are all see you know what the 2-wheeler growth is, you know what a truck growth is, you will know what a general engineering industry growth is, you know what the mining growth is. So, all these are linked directly to our growth. So, I would say that it is easy to index on sectors where we participate in our growth matters more than general steel growth.

Sumit Jain

Got it.

So, I try to presume that IIP will be something wherein we would directly be linked to let's say.

Vijaykrishnan

For general engineering industry, you are right, IIP is what we need to index. But we need to talk about certain sectors which are high yield sectors.

Sumit Jain

Right.

Vijaykrishnan

When I say, I yield, aerospace is a high yield for machining, right? because it's very precision, tough to machine competent. So, you have to find out what is the aerospace growth in the country is. Let's talk about, for example, suppliers to oil and gas but these are all export volumes. These are sectors where you again, you have a lot of machining. So, there are sectors where higher volume is involved, but those are driven by sector. But let's say general engineering, which is a big group of anybody who machines that is indexed on.

Sumit Jain

I Got it and fundamentally from a competitive scenario in our industry, are we seeing any change with respect to either unorganized player because there were host of unorganized players in the past, similarly, there was a Chinese competition as well and there were multiple MNCs as well. How do you see the whole competitive landscape for us over period and the kind of manufacturing process that we have built over the last few years?

Vijaykrishnan

Well, I won't say it as much as changed in terms of competition, if at all, I would say that there is a set of players, the customers who wants performance. They have a set of techs. I would say that the big three in tooling or hard metals obviously is Sandvik group.

Sumit Jain

Right.

Vijaykrishnan

Kennametal and Inc group, right?

Sumit Jain

Right?

Vijaykrishnan

We all are there in one huddle. It's all imported. Then we have the private label fares imported, but if you ask me whether that's point something which I worry about, the answer is no, because there is a place for everybody. Customers today are clear about what is the price they pay for performance, and they go to the brand which they want for a particular performance right? And we play in the top end of the market. Few of the brands what you said in competition, we are very clearly playing in the performance pocket where we offer end to end solutions.

If customers want the most difficult, let's say a solution or difficult project to solve is where people like us coming, right? And that is our strength. We come with technology, we understand engineering, we understand process and that's why we have been in that space for quite some time. So, not something which, I just answer, I'm not seeing much change in the dynamics.

Sumit Jain

Ok. So, our growth clearly is actually linked to growth of industry and that to those top end of the customers and new industries are also coming up. This is the driver rather than market share expansion being a driver for our group.

Vijaykrishnan

No, but it will be both. If you look at the last three years of growth, you would have seen our data in terms of, let's take hard metals alone.

Sumit Jain

Yeah.

Vijaykrishnan

Definitely, we have been growing in multiples of the market, of our end use market, right? That's happening both because we have been expanding with new product launches and we have been expanding footprint obviously in terms of manufacturing capacity or what we can make in India, plus in terms of our own reach into the market, be distribution, sales team on field. So, it's a mix of tailwind from the market and then share game.

Sumit Jain

Got it, and over period see I mean auto is pretty large dominant part for us. Is it safe to presume that at least half of our business, I mean not getting too specific but ballpark?

Vijaykrishnan

If you are talking about, while I'm not going to give you a very accurate level. But overall, over the last three years, our dependency on Indian automotive industry as a ratio has been coming down.

Sumit Jain

Right.

Vijaykrishnan

And let me put it this way, we might be between whenever between 40 and 50% now.

Sumit Jain

Sure. Do you think over longer term given the kind of opportunity that we are, non-auto will kind of grow at a rate substantially higher than the auto piece?

Vijaykrishnan

Yes, and this is an answer I had given in my every call. It will grow faster than the automotive because that industry itself is growing faster.

Sumit Jain

Hmm, got it.

Vijaykrishnan

Hence, all these sectors will be a in terms of percentage growth, it will be much faster than the automotive, the traditional automotive.

Sumit Jain

Ok and you're given your optimism of this cycle this time. Can we presume that our growth over next five years, seven years will be higher than what we saw in the earlier cycle, without getting into.

Vijaykrishnan

That's a very forward. That's a very forward-looking statement, Sumit, Dangerous to.

Sumit Jain

No, I mean this is more from a direction perspective as to what is it the durability of cycle. I mean, it's moved from that and the strength that we have.

Vijaykrishnan

See to make a statement on performance will be very presumptuous, right? Build the market so that let me put it this way, it's like the I make this example in many of the forums right today the market is like he travel in an airport, right? It's moving forward. It's not like the treadmill where you have to run in the opposite direction to stay in the same place. So, you we have a lot of tailwinds in the Indian market which will stay for a while. It's, I'm talking about specifically manufacturing sector and then it always comes to the operational excellence of a company, right? There are many large players we have to also respect. Some of the other big global brands which operate and they're also very seasoned and been around for a long time, right? all of us, I found our slots in the market and I presume the market is large enough for all of us to grow rapidly is what I would state at this point in time. Few of us are well positioned given we have been investing in technology and we have been launching a lot of new products. I'm talking about globally, so which enables our customers to achieve productivity solutions, which we want especially with the upgradation of the machines, what they are doing. So hence specifically if I look at it, yes, we are pushing with market is growing faster. We have good relationship in the market. We have a 60-year legacy, very strong customer base. We have been, it's there's.

I won't say that it's very difficult to say that any customer who does not know us in India so, so that's always an advantage and because we are in the, if there are, if somebody does a top-of-mind awareness survey, definitely we have on the top three, right? So, those are things which you should play, but I'm afraid I can't commit to you saying that we'll be growing faster than the last three years because it's too forward-looking commitment.

Sumit Jain

No, I was not talking of a last three year, but more about the earlier side.

Bharat Shah

I have come in to offer, yeah, businesses are all breathing and living organisms and organisms.

Vijaykrishnan

Yes.

Bharat Shah

And therefore, future is in very essential part of the present without it, without judging future, there is no future. In any case, therefore, our interest has never been knowing anything topical and specific, but certainly the destiny of the business and eventual, twists and turns that will be along the journey out of definitely interest to us. So, both the questions are these about evolving size of opportunity and our strength in weaknesses in the complex?

Vijaykrishnan

Yes, Mr. Shah. Thanks for bringing that up. All I'm saying is, see aspirationally any company wants to, India is one of the bright spots in the world, right? And for any MNC, it's a very good geography to grow now as freshly would you like, would we like to grow faster than market? The answer is yes.

No questions on that is a growing opportunity we are one of the top three brands in that space. Does that. I don't want to put it in words. That's all I'm saying because I don't want to be influencing any decision. That's all I'm saying, but definitely our aspirations are to grow faster than the market.

Bharat Shah

I see and the given the dramatic changes which are in the offing, especially on the shop floors and manufacturing and 5G, I think will further accelerate their journey apart from already some of the rapidly growing changes in our RPA and others in manufacturing, 3D printing, you yourselves mentioned, where are we placed in that journey, how good are you in terms of technology, candid assessment of that, how much are you spending on that area and how is the technology relationship with the parent?

Vijaykrishnan

No, I think it's a very good question. Mr. Shah, I think first time somebody has asked me this question in the last three years. So, thanks for bringing that up. Two things when you talk about technology, you know, when we invested a lot as you would have seen in the modernization of our plant, which is obviously room, sensor-based, certain areas where we are involved robots because these are just not for productivity, it's about quality and yield improvements because a lot of people talk about product. I don't even want to talk about productivity. What the lesser the human intervention, the higher the quality of the product when it comes to something like a carbide. So, those are very important that's why we had completely modernized some of our manufacturing facilities in here after many, many years and most of our machines today are capable, since they are all connected devices, we can pull our data. We can do an analysis so you, purely from our manufacturing site I would say all the new machines we have brought in are capable of the industry 4.2. Now the similar thing when there is a customer in India. Who is, are you able to follow?

Bharat Shah

No, we lost you for last one minute.

Vijaykrishnan

Ohh.

Bharat Shah

You are, you were talking about especially for carbide technology and then I think it traded off.

Vijaykrishnan

I don't know, Sumit, were you able to hear me or you also lost me?

Sumit Jain

I could hear you.

Bharat Shah

Ohh.

Vijaykrishnan

Ok, so Mr. Shah, probably because you are, you're in transit, it could be a signal issue.

Bharat Shah

Yes, yes, maybe.

Vijaykrishnan

So, let me again summarize just from a technology standpoint, both from our customers who are, let's say are on AIML based or on industry, ford auto, they have connected devices, they are, they are tracking performance in terms of tooling and how they efficiency. We are completely connected with all that processes with our customers because these are all today. It's not even a new technology. Most of our customers have already moved into those technologies. Similarly, our own plants in Bangalore, some of our machines are robotized, it's automated. We collect data so that's again, we also have certain aspects of industry 4.2 auto which we use in our own manufacturing and then obviously the benefits are all there to see in terms of quality and yield improvements, which is there to see now when it comes to additive manufacturing, this is a new technology which we adopting and we are probably one of the few companies in the world who can do a 3D printing of a tungsten carbide material and it's not just in the lab we also are commercial support. We do as a global technology platform, so we are keeping in line with where the market wants us and Kennametal over the years has always been a company which understands customer process. We are highly engineering oriented. We are highly technology oriented, so we have always been, I won't, I won't say that we are top of the heap, but we are let's say top 10% of in terms of technology what we use and what we adapt, and we always make sure that we are in line with what the new technologies are coming in the world. So, that's something which has always been our strength. You also talked about strength that's continues to remain our strength.

Bharat Shah

And if you make a candid that's assessment of our strength, weaknesses, opportunities. What will be some of the points be?

Vijaykrishnan

Yeah. Strengths first is. We have a very, very strong brand, when I say brand, not from our side but from the customer side. Their experience of Kennametal brand over the years is about reliability. We are there to solve problems and we are accessible, we are open, we are humbled so, the brand is very strong in the market. So, that's number one. Two is we are a large footprint, domestic manufacturing in India, which is a big advantage for us in terms of products what we make and supply to the Indian market, many large reach in terms of feet on street, probably one of the largest teams in the country in this business. I don't want to say we are the largest, but I do know that probably we are one of the largest in terms of feet on street. We are one of the largest channels, so obviously a reach in the market is very big. Technology is a big strength. Now I can go on, but I'm restricting, in terms of opportunity is obviously we spoke at length. New emerging markets are a big advantage for us because globally we are well positioned on aerospace. Aerospace is growing very rapidly in India. EV's well positioned. You would have seen enough articles on Kennametal's approach into EV globally, so EV's is already we are seeing that success in India for us in terms of EV components which are being manufactured. Energy is a big sector for us where we play well. So, all the new sectors which are growing is a strength of Kennametal globally too.

So, that's an added advantage for us, general manufacturing modernization in India plays well to any technology player that's not us. I'm including all the other top brands, which is also very good because when the market grows, everybody grows, which is a big advantage and then it comes to what you do in terms of strategy, how do you gain share and all that.

So, when you're on a growing market and you're a technology player and a brand which was well recognized, it's a big opportunity for us to capitalize on, three years, I would say that while a lot of people don't talk about it or credit cycle, cash flow is very, very strong.

Dhananjai Bagrodia

Yes.

Vijaykrishnan

And that also talks about very simply, are pushing in the market, right. It's always the that defines your pricing power and your collections power defined your brand strength in the market. So, that's definitely something one needs to leverage. So, when we, I don't know whether the threats perceive, it's not large, right? we are not seeing any dramatic shift in the consumption pattern in the coming years. 3-4 years back, we were wondering whether EV would make a dramatic shift, but we are not seeing that, for a simple reason, EV shift primarily is happening in two-wheelers. We don't have a big play in two wheelers as a company. I'm not seeing as a market exists, but we have never been a big player in the two wheeled segment because primarily it's aluminum and aluminum is not something we have a big play.

Hence, we don't see a dramatic shift in the market, not in terms of any policy changes, because it's a very fundamental product in terms of machining, which goes we are not seeing that. So, threats per say other than the usual business risk, we don't see any major threat to the industry.

Sumit Jain

Just on treat, how much of our products go into IC engines actually.

Vijaykrishnan

Yeah, IC used is still an IC engine is still very large, it's because it's a big driver of the we should even. Perfect, right? So will I see engines now? This is a debate which often happens right? EV versus hybrid versus IC. Now we continue to see promise in IC and hybrids.

By the way, hybrids consume more tools than even an IC engine, so but in hybrids and given the size a truck or a bus or what we call a commercial vehicle engine consume significantly larger, then a car, passenger car, passenger car consumes significantly larger. You know two-wheeler, right? So, while the EV migration we are seeing in two-wheelers, it's not impacted big way. We're seeing the migration in EV's because EV components, also, we are today supplying both in terms of our machines as well as tooling. We are supplying, so not something which I would place as a risk for Kennametal.

Dhananjai Bagrodia

And so just one question on exports, which?

Bharat Shah

And weaknesses.

Vijaykrishnan

Weaknesses. What I would say is some of it could be if we don't. Ohh so far we have invested to keep in line with the Indian market. If, if at all, we get into a situation again, I'm making a future statement. If we don't capitalize on this opportunity and slowdown our investments, that could be a, so, everything would be, if you're not acting on the opportunity that will translate into a weakness for us because today per say we are positioned well, we invested well, we've invested in not only equipment, machinery, we always invested in the team in terms of talent.

So, any slowdown on that we will result in a weakness for us, one. Two, we don't play well in a price value market, right? because we are not pushing there, we, we can't compete there and we don't want to compete there. But that could be 30% of the total opportunity in the country, but that's clearly our positioning. We don't want to play there. So, it can be viewed as prioritization of opportunity or it can be viewed as a weakness.

So, depends on how you want to take it, because we don't want to play when the margins could be under pressure, right? So, we don't want to play in such markets. So, that's and it's not our strength. Kennametal doesn't. I won't say that we are good when it comes to that kind of a market.

Bharat Shah

But thank you for that.

Dhananjai Bagrodia

Sir in exports, how does it work in terms of a country? Is it the global parent decides because it's a large part of our revenues.

Vijaykrishnan

Yeah, there are two sides of exports. If you look at exports, we have started the exports of machines recently in the last two years, you would have seen an increase. That business is headquartered out of Bangalore and that's completely based on the expansion plans what we do, ok, so that's directly exposed to customers. It's not inter-company when it comes to hard metals that's the inter-company exports and we have given this answer any time that is driven predominantly by which plant can make the best quality product and strategically how the global supply chain wants to work on it.

So that's predominantly intercompany. That's what I would say export sales to a customer, right? Whereas machines truly export sales to a global market.

Dhananjai Bagrodia

So, would that mean lot more sales coming to India because India's manufacturing base is expanding and we could be a low cost of producers, other geographies?

Vijaykrishnan

Need not be Dhananjai, because, the way decisions are made is based on what is the best technology and what is the best equipment already available right?

Dhananjai Bagrodia

Ok.

Vijaykrishnan

For example, today if the customers want a particular product in India, it's not that 100% of product we make in India to supply, what we do is, what is the best plant at the lowest cost for that particular tool, right? It's suitable for a customer in India. It could be made in Bangalore, it could be made in US, it could be made in Germany, it could be made in, let's say, somewhere, right? So, we mostly go on what is this for the customer rather than saying that we have to make everything in India, likewise this for customers in US or in Europe, right?

So, there are products which India is a very good strength. Automatically the system pulls in from India, so I won't generalize and say yes, an answer to the question what you asked.

Dhananjai Bagrodia

Ok.

Vijaykrishnan

Its more opportunity based as the Indian manufacturing capacity based on opportunity. The global corporation decides how to pull products from each plant.

Sumit Jain

Will you do, you think within the schema of Kennametal globally, India stands to improve dramatically on project execution skills because if I look at your CWIP fairly large amount of CWIP has been there for more than three years now. That project has not.

So, do you think that actually is a lacuna for us to really kind of accelerate our, I would say India being a manufacturing hub for the world or there is something else which could, yeah.

Vijaykrishnan

Yeah, Sumit I ask request to Suresh, CFO to answer that.

Suresh Reddy

Yes, Sumit, with in the last 2-3 years there were Capex, CWIP has been high primarily on one major investment that's been our master inserts building, ok, now due to COVID, there has been a delay in completion of that building, but that does not mean or restrict any capacity constraints for my manufacturing. That's a completely a new building where all of the inserts manufacturing gets moved into one single location rather than being scattered across the location current locations. It is a building setup.

Bharat Shah

In the same COVID period Government of India built new parliament building for certain size and complexity in matter of two years and five months.

Vijaykrishnan

Yeah, but that's also good. Sorry to interrupt on a lighter note, that the person who was leading that project, the MD who just retired from Tata projects, he is one of our independent directors. I hope you know that, Mr. Vinayak Deshpande. So, he was leading the project, right? So, we are quite familiar with that.

Suresh Reddy

Well, that, I mean, there are obvious reasons why we temporarily put on hold some of it to ensure that we do not run into any cash flow issues because we did not know how our customers financial positions would be in terms of ensuring our collections, ok.

So, we had to hold back that investment just for a couple of maybe 7-8 months, but that is a major building. I mean the whole project itself goes on, so one is the building, but there are a lot of other additions which we have been adding, so capital WIP, if you see today what we would be having with all the building has been capitalized. So, there is nothing but then future WIP will continue because there are newer areas where we are investing.

Vijaykrishnan

Sumit just to add some of our lead time, let's say most of our equipments, what we have we don't, 95% of the equipments come, which are imported and some of it are custom built. So, what happens at lead time of these equipments to come anywhere between 12 to 18 months for us? So, we'll always have that some rotation on that CWIP. That's what you're asking, right? So, you'll always have that because we are also modernizing. We continue to modernize. We continue to expand. What's happen is there is some amount of work in progress which you will see.

Sumit Jain

But from a capability gap perspective, to really cater to the export market at scale, is there anything that we need to bridge here locally?

Vijaykrishnan

No, I won't say we need to bridge. But again, the decision to export is more driven by global Sumit that's why I said that, but we don't have purely from a process or engineering capabilities or any of it, we don't have a gap. We need to also understand that while it's not connected to the listed entity, the Global engineering services is headquartered out of Bangalore, right? So, that all 70-80% of global engineering services people are sitting in Bangalore. While it's not part of the listed legal entity, but also all the engineering support is going out of Bangalore,

Naveen Chandra

Just a quick time check Sumit and team we can probably take one more question because we have a following analyst meet after this.

Vijaykrishnan

Because you wanted one on one, there is another six or seven people wanted to speak to us who are grouped immediately after this call.

Sumit Jain

Bharat do you have any question or should I continue with one last question?

Bharat Shah

No, no, please continue.

Sumit Jain

In our machine business, why did we choose China as a geography to? I mean, while we have done reasonably well there, but given all that's happening, I mean any specific thought process as to?

Vijaykrishnan

Excellent question, Sumit. So, we choose China for two reasons, China was the world's largest machine market for many years now China has been the world's largest importer of machines and also consumer of machines because of the manufacturing expansion which was having one. Two is when we were going through COVID, right? China was not going through COVID where the whole world was going through, and they were continuing to absorb machines. So, it became very interesting for us to launch in China, and it was successful. We had installed 100 machines within a very short time. Right? now, if you look at now that decision, whether it's right, it's still right now we're going through a phase where irrespective of how China behaves in the medium term, China will still be one of the largest consumers of machines, right? And we wanted to prove whether we can win in a Chinese market because then we get into, let's say, a Southeast Asia or Middle East and other markets. Now we knew that we wanted to test our model. Can you service, can you work through a channel partner? All that worked for us, so it's a pilot which helped us to understand we can win, right? today it looks ok Covid, recovery is slower in China and we are living through that impact in terms of exports of machines. But the decision was right at that time. It also proved that we could win in an export market, right? So, it was good for us too. So, now we are looking at other areas where we want to spread, I think.

Bharat Shah

Sumit, China is that Vishkanya who's hard to resist, but who's this is highly.

Dhananjai Bagrodia

True, true.

Vijaykrishnan

Yes, thank you.

I know, Sumit, you had a lot of questions.

Sumit Jain

So, that's a launchpad for our next growth market, is that right?

Vijaykrishnan

Yeah, but Sumit, we're running out of time because you know there are other analysts who are waiting on the other call.

Sumit Jain

Sure.

Dhananjai Bagrodia

Sir, just one last, just one bookkeeping question. Is it too late just around inventory days? Is it possible regarding a capital efficiency? Is any a guidance or like possibility about reducing that because most of our inventories working capital again stuck in inventory.

Suresh Reddy

So, Dhananjai, there has been some buildup of inventory when we were moving in into a new building, we did not want the customers to suffer. If there is any impact due to the movement of machinery, of course we are working on now, bringing it back to a reasonable level where we do not suffer on customer OTP.

Vijaykrishnan

It was a conscious decision to increase inventory to make sure we don't impact our customers during the transition, now the transition being completed. We are on the process of reducing the inventory. Should have been the last question, thanks a lot for your time.

Dhananjai Bagrodia

Thank you so much.

Sumit Jain

Thank you.

Naveen Chandra

Thank you so much, Thank you for your time, bye.

*****