



May 22, 2023

Ref: Sec/Sto/2023/05/09

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

Subject: Transcripts for the Investors Meeting held on May 19, 2023

Ref : Kennametal India Limited - [Scrip code: 505890]
Our Letters No. Sec/Sto/2023/05/08 dated May 19, 2023 and No. Sec/Sto/2023/05/05
dated May 18, 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 LIC MF Infrastructure Fund & LIC MF Large & Mid Cap Fund represented by Mr. Mahesh Bendre & Mr. Yogesh Patil respectively on Friday, May 19, 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 P
General Manager – Legal & Company Secretary

Encl.: As above

Management – Kennametal India Limited	Mr. Suresh Reddy, Chief Financial Officer
	Mr. Naveen Chandra P, GM – Legal & Company Secretary
Investors – LIC MF Large & Mid Cap Fund and LIC MF Infrastructure Fund	Mr. Mahesh Bendre
	Mr. Yogesh Patil

Naveen C

Good afternoon all of you, this is an investor call scheduled at the request of LIC Mutual Fund and I'm the Company Secretary, logging in to this call remotely and with us is our CFO, Mr. Suresh Reddy and also to assist him, Ganesh B my colleague. Yogesh is representing LIC mutual fund, with his permission we have started the recording of this particular meeting, all the, whatever data information that we're going to provide on this call is going to be strictly historical data. There is no intention to make any projections or futuristic statements, and in case any of the statements are construed to be futuristic, you know, Kennametal cannot be held responsible for the thing, with that I hand it over to Yogesh, to post questions to Suresh, our CFO. Thank you.

Suresh Reddy

Yeah.
Yes, Yogesh, lets.

Yogesh Patil

Shall I, yeah.

Suresh Reddy

Yeah, please.

Yogesh Patil

Thank you. So as per our annual report, our China contribution is 7%, right? Correct? It is 7% of sales, right?

Suresh Reddy

So, now you can't put a percentage like that, ok. See, because it all depends on. It is not all our business, it's only our machine tool business that is an MSG business where we supply some machinery and it is on order based, so never has it been a market share of seven of our total business there. So, it all depends on order to order when we are able to meet the requirements. So of course, last year as we have stated earlier, the order position due to China COVID and reopening has been very slow, so our supplies also have been affected due to that.

Yogesh Patil

Ok, so, the partly missing sales is largely due to China, I mean MSG business, China or maybe supply, because of certain different issues? Because see, everyone in this industry, user Industries grew, right? Transportation industry, metal and mining even some of the other abrasives companies are growing, but I think our results are not reflecting even in Q3 and Q4, there might be seasonality, there might be an issue of inventory or channel inventory. My question is automobile is doing extremely, other capital routes are doing very good and suddenly the numbers are looks pretty flat. Is my understanding is very different like are we? Are we not present in some of the product portfolio or maybe?

Suresh Reddy

OK, so if you have seen our segment results, hard metals are growing at around 9%.

Yogesh Patil

Yes, yes, yes.

Suresh Reddy

Ok, the degrowth is happening in the machining solutions.

Yogesh Patil

Yes, yes.

Suresh Reddy

Ok, so almost 25% over previous quarter.

Yogesh Patil

Yes.

Suresh Reddy

So, that is largely due to the China business, which is affected this year.

Yogesh Patil

Ok.

Suresh Reddy

Ok. But I will not put as a share or a percentage because orders quarter to quarter, it all depends upon how many machines we are able to get from China and.

Yogesh Patil

Great. Ok, see whatever data available in the public domain normally we advise and that probably.

Suresh Reddy

Other than that, the domestic market is strong, stable and that's our hard metal business as shown a growth of 9%.

Yogesh Patil

Ok. But I'm saying again, I have seen in the segment, but do you think 9% is sufficient growth considering what is happening in the economy and within 9% is how much is roughly volume and pricing? Because 9% to be, if you ask me, if the user industry is growing at much better place and at same time either we are present there or some of the products are missing there.

Suresh Reddy

So, I do not want to get into too much specifics there. There will be a mix because we also have some element of hard metal exports as well.

Yogesh Patil

Ok.

Suresh Reddy

To our related parties, where that situation also is a little weaker there.

Yogesh Patil

Ok. Ok. Ok.

Suresh Reddy

Yeah. So, you know how our auto sector is growing, transportation sector in India is growing.

Yogesh Patil

Yeah.

Suresh Reddy

And we are well, either on par or slightly above that growths in terms of domestic market growth in specific to the hard metals business.

Yogesh Patil

Ok, that's great. Ok.

Suresh Reddy

And also, the MSG business in the domestic market is absolutely doing fine, where we are impacted largely on the top line is due to the China impact of machines which this year has been very slow even the opening of the China market has been very slow.

Yogesh Patil

Hmm, Ok.

It means in machine division is there any roughly what utilization level you reach or is there some basic utilization level where we get some desired profitability is too high then hard metal.

Suresh Reddy

Yes, in both, there will be a level of utilization which will give us the optimal results.

Yogesh Patil

Umm.

Suresh Reddy

And this year, as you are, you would have seen in our press release, we, we did mention that there is an impact on manufacturing underutilization, Ok. So, manufacturing utilization in MSG business due to the China slowdown, there is an impact.

Yogesh Patil

Umm.

Suresh Reddy

Plus, as you would have seen in our earlier quarter, we have set up a new insert's facility.

Yogesh Patil

Hmm.

Suresh Reddy

So, that is a transition of lot of machinery during that.

Yogesh Patil

Ok. Umm.

Suresh Reddy

So, we had built up some inventory to just ensure that, during the transition into the new facility, there is no impact to the customer.

Yogesh Patil

Umm.

Suresh Reddy

So, we are doing some inventory corrections and due to that this quarter, there is an impact on the manufacturing activity.

Yogesh Patil

Ok.

Suresh Reddy

That's the only things I can see as an impact and of course, due to a one time cost of these machinery movement, there is an expenditure for machinery movement we have incurred. So, these are the only exceptions. Otherwise absolutely we know where we are headed.

Yogesh Patil

Ok, that's great, Sir, but this movement, I think last time you also spoke is largely obviously in the last quarter for this shifting of machines. But this shifting of machines will continue for next quarter or will be done?

Suresh Reddy

No, it is completed in Q3.

That's our Q3 in the last quarter, i.e., Jan to March, we are done with it.

Yogesh Patil

Ok, that's great. So, this shifting is largely for safety reasons or maybe any better productivity or better?

Suresh Reddy

No. See, we built a new building, completely new building.

Yogesh Patil

Ok. Ok. Ok.

Suresh Reddy

For the inserts plant, where it houses all the infrastructure of infra plants, comes under one roof, so we have to relocate machinery from one, the existing old plant into the new plant within the same premises.

Yogesh Patil

Ok, Ok.

Suresh Reddy

So, that means every single machinery had to be moved into the new location.

Yogesh Patil

That's true. That's true. But because of this, do you see better turnaround time because of this movement, we're shifting new basically new building.

Suresh Reddy

This is a modern facility. It has the capability to expand into the future.

Yogesh Patil

Ok.

Suresh Reddy

There are a lot of machinery. We have been adding in the last couple of years. We have been adding more automated machineries, so the quality of the product improves. The coating facilities have been improved, ok and due to environmental reasons also we had to upgrade some of the facilities, ok, so it adds to the capacity, it adds to the quality as well as environmental and safety norms, to meet the safety norms.

Yogesh Patil

OK, that's great.

Sir, Mahesh is joining from my side actually.

Suresh Reddy

Ok, hey Mahesh.

Mahesh Bendre

Hi Sir, there was some connectivity issue from my end so I could not join on my instrument. So, I'm just sitting across Yogesh.

Suresh Reddy

Ok, great. Yeah. Now I can see you. Otherwise earlier it was blur, maybe because you.

Mahesh Bendre

Thank you so much. Sir, what is the current utilization in our factory?

Suresh Reddy

Mahesh, that is a price sensitive information. I do not want to disclose them. However, I have mentioned the reasons why there has been an underutilization during our last quarter. Ok, so we are doing some inventory corrections and our China business has impacted our MSG piece of the business and utilization. So hopefully we will see how it goes in Q4.

Mahesh Bendre

Sir, are we through with all the shifting of machines?

Suresh Reddy

That I just confirmed we are completed that activity in the last quarter itself. So, there is no more movement of machinery going to be impacting us in the coming quarter.

Mahesh Bendre

And sir the inventory correction is over that, that we have because of that process is over.

Suresh Reddy

The transition into the new facility actually is a major activity which we are done. So, we had been building inventory for almost six months before the transition happened. So even the reduction also will happen in a phased manner because we cannot say I'll shut down for 2-3 months one shot and then clear up the excess inventory. No, we are doing it in a phased manner. It will continue. It will continue for some more time into this quarter as well.

Mahesh Bendre

Ok. And Sir, we have been hearing something, I mean, I'm just asking this because we have been hearing from many companies in public domain also that Chinese have come back big time in India again now in

abrasives and even the other capital goods companies. So, just wondering was that also impacted our sales in India?

Suresh Reddy

In which business are you talking about our metals or in the machines?

Yogesh Patil

Sir in general? Basically, in every most of the capital goods company or maybe consumables, actually Chinese company, we are not sure whether it's actually competing with us directly or indirectly.

Suresh Reddy

No, we have not seen, at least in our space of our business they are not coming back aggressively or taking market share, because even in China their activities have not even reached. So, we have our own metal cutting business of the group entities there. We have not seen the activity come back to its normalcy. There is a gradual slow improvement month on month, but it has still not come back to what it is, and the expectation is it will take at least December by the time they come back.

Yogesh Patil

Ok.

Mahesh Bendre

Sir the new plant that has come up for us. As they started producing, I mean we have released a press note that.

Suresh Reddy

Ok. See, let me tell you it is not a new plant. It is a new building.

Mahesh Bendre

New facility.

Suresh Reddy

Ok, new building.

Mahesh Bendre

Ok.

Suresh Reddy

Because we have been adding machinery in the last 3-4 years, all new equipments, modernization activities have been happening.

All we did was we set up a bigger facility which can cater into the growth for the future as well. So, if I need a capacity enhancement in the next couple of years, all I need to do is bring in incremental machinery wherever there is a bottom-line, that's all.

So, the existing machinery has been moved into the newer building. Because it is under one single roof, all the operations will be under one single roof for the inserts.

Yogesh Patil

In terms of the maybe this we also adding few products but over it let's take it two to three-year period which are the industry apart from that aerospace we actually put in looking for aggressively and we do have. We do have products in aerospace. But for next two years apart from transportation, what are the industry? Do you see an attraction, it is, it will pick up in the next one and two years.

Suresh Reddy

See in terms of hard metals, I think this has been consistently communicated by our MD also in our earlier conversations. So very, clearly general engineering is another area which is of focus for us and of course the infrastructure areas where it can lead to more construction and there could be areas where, we can also participate in supporting that activities through our infra business as well, because hard metal is of cutting tools, metal cutting business as well as infrastructure side of business as well, so there would be opportunities there.

Yogesh Patil

Agreed. But we do we see opportunity here in right now because activities are going on and naturally, we are just still struggling to find to correlate exactly, because some of the capital goods companies or maybe directly / indirectly auto companies, they are going let's say 15-20% at least. So, there is obviously, I'm just comparing hard metal part. I'm not comparing in machine part so compare the capabilities product portfolio. We thought we should grow much about at least 80, around 18-20%, as well as per our potential.

Suresh Reddy

So, in the hard metal business, you must also factor in that every single customer of ours. Even though his activity increases, he expects better performance of our tools so that they can consume less but produce more, ok, that is what they expect from us. So, every time they look at it, they will say bring me more better technology which can give me more life, ok. So that means his growth does not translate directly into our growth in terms of units directly that way, ok.

Yogesh Patil

Ok.

Suresh Reddy

So of course, it's a balance we have to play, between the price and the volume growth, because always when we develop a newer technology, we would be keeping in mind the end customer productivity improvements that comes.

Yogesh Patil

Ok.

Suresh Reddy

Because if we don't do, somebody else will. That's it.

Yogesh Patil

Yeah, definitely, definitely. See, we need to gain market share for our productivity, not because just for everything.

Suresh Reddy

That's true absolutely, and even you know the business. They also have the businesses to run, they come and negotiate with us as any other customer would with their vendors to say that, ok, fine my cost per component has to come down, come up with ideas, how we will do it.

Yogesh Patil

Ok, it definitely. I'm sure this will reflect one day in good profitability also and sir for machine part, obviously China might take some more time, but do you have any other export opportunity apart from China? Do you see or we are trying because now manufacturing is picking up everywhere right now?

Suresh Reddy

Absolutely, so there are certain markets which we are, but again, it goes with how fast we can expand and how much can we invest into supporting such businesses. We can't expand too fast where we cannot support, ok, because important in the machine businesses is how quickly you can support if there is a machine breakdown or if there is something to be serviced. So, we are looking at Southeast Asia markets as already we have stated.

Yogesh Patil

Hmm.

Suresh Reddy

Of course, we were just waiting for the COVID things to settle down everywhere. We are now, our people are able to travel, so we'll have to see if we are able to convert that into orders going forward.

Yogesh Patil

OK. And then.

Mahesh Bendre

Hi sir.

Suresh Reddy

Yes, Mahesh.

Mahesh Bendre

Yes sir, I mean, the object of this call to get what happened in the quarter and why we are showing sluggish performance, that was the objective. So, going forward do you think we will be normalized over the next one / two quarters in terms of financial performance?

Suresh Reddy

See, now I do not want to give, our Naveen is there. He will say I'm giving price sensitive information. I don't want to get there but like I've stated the one-time cost which is for the movement will no longer be there in Q4. we are continuing to do the inventory correction for what we had built up for the MSG master insert plant movement. There will be still some correction that may happen in Q4.

Mahesh Bendre

Ok, so from operational perspective, I'm not asking financial perspective, maybe three months down the line, we will be on track? I mean we will be operated normal level in terms of utilization operations and all that.

Suresh Reddy

Ok. The market is supporting us. I think we should be back on there.

Yogesh Patil

That's great. That's good.

Mahesh Bendre

And sir, is it reasonable to assume that because of the so many corrections going on at the, at a company level and even our profitability was also impacted because of all these initiatives that were taken.

Suresh Reddy

We are a manufacturing company. If there is a manufacturing underutilization, there will be an impact. Yeah. So, it is not that ok. The only the machining solutions group had a top line impact. But otherwise, hard metals was a growing business. The impact was primarily on the manufacturing under absorption which we had and that is also due to the inventory corrections that we were carrying on.

Yogesh Patil

Agreed, even sir see, we are deemed to know that there is a threshold limit for every plant and every business, right? So, I'm not asking you exact number because in every business is a different point and just for a research purpose we would like to know because since there are two different divisions and two different divisions were on different parameters and different geographies. So, I'm not claiming that obviously machine you rightly said negative operating leverage is playing bigger way, at the same time here also there. So, one side is negative operating, but when it could be a positive operating leverage, at something what number do you think maybe on annual basis this could be optimal level, let's in airline basically it's somewhere on PLF level 80 to 83%. So, I'm not asking.

Suresh Reddy

Yeah, see now our capacities are not that we build enough more than what is required. No, we are always incremental only when there is a bottleneck, we try to get it our lead time of any machine capacity, machine installation or ordering to execution would be around 10 months maximum. So, if there is any for imported machinery, ok, and most of our machines are all imported.

So, at the maximum, I will not have a spare where too much of a luxury of a spare capacity. If my demand is going, I would have already raised a request and waiting for a machinery to come in. So, that means that's an ongoing process of evaluation of a capacity and wherever we see a bottleneck, it will be immediately taken. So, that means whatever I'm anticipating next year, my gaps, I would have already taken an action of putting in a requisition for a machinery this year itself.

Yogesh Patil

But sir I'm asking slightly different side if correctly said the capacity can be added quickly but see our margins are depressed but at some point, of time higher utilization will reflect in the margins as well, right? Roughly I'm saying if the utilization gets improves from 20-30% from here then we left 200 bytes in margin improvement or just maybe 100 around 150.

Suresh Reddy

So, Yogesh, I would leave, you have the history of Kennametal for last five years. Don't go beyond too much into that. If you go to the last two years, which was the year when we had the maximum profitability.

One year back.

Yogesh Patil

Yeah, yeah.

Suresh Reddy

Ok. So, these exceptions we did not have that point in time.

Yogesh Patil

Ok. Agreed sir.

Suresh Reddy

Our efforts are to make sure we improve upon the performance what we have set ourselves in the previous years as a benchmark for ourselves.

Yogesh Patil

Agreed, agreed sir, the reason I'm asking you because every time.

Suresh Reddy

But I will not be able to give you a the pinpointed, this one, because that is something which. So, yeah. So, I don't want to give any indication in that direction.

Yogesh Patil

Agreed, ok, but see why I asked this question? Because every 2-3 years, every Company's dynamics are changing, industry competitive, everything is changing in last 2-3 years. Because industry is changing very fast. That's why I've definitely taken a reference of historical margin as well, but sometimes ground length situations are very different. It might be because of the more imports or maybe less imports. That is one in the market dynamic, the second is definitely because of the changing structure it might be more productive, I'm guessing, in that sense I was asking it.

Suresh Reddy

See, the more we produce domestically, the more we can. We have ability to manage our profitability. That's

an indication which I can give you and the focus is to ensure that we produce as much as possible domestically to the extent of our full capacities.

Yogesh Patil

And in terms of we, we import basically tungsten, so any major roughly? In past also have we faced any bigger problem in terms of availability also?

Suresh Reddy

Availability is not a question of a problem. It is a pricing, which is a market determined. So, availability it is not that it is available everywhere. So, it is available only at a few countries, but sourcing it is not a problem. But it is just the price, market price.

Yogesh Patil

Ok, and this is last question from my side, sir. In terms of machining are we not finding any opportunity in India for machine or we too far from those things actually?

Suresh Reddy

In fact, those are the actions which have already been taken.

Yogesh Patil

Hmm.

Suresh Reddy

And we are now diverting most of our focus to the domestic market and we are seeing some success there.

Yogesh Patil

Ok, that's great. That's it from my side, sir.

Suresh Reddy

Yeah.

Thank you. Thank you, Yogesh and Mahesh.

Yogesh Patil

And really, really thankful.

Suresh Reddy

Thank you.

Naveen C

Sure.

Yogesh Patil

Thank you. Thank you, sir.

Naveen C

Thank you, Yogesh. Thank you, Mahesh, Thanks Suresh. Thank you.

Suresh Reddy

Thank you, Naveen, see you. Yeah. Bye.
