



## AIA Engineering Limited

August 4, 2023

To,  
The Manager (Listing),  
**The BSE Limited**  
Phiroze Jeejeebhoy Towers,  
Dalal Street,  
Mumbai – 400 001  
**Script Code: 532683**

To,  
The Manager (Listing),  
**National Stock Exchange of India Limited**  
“Exchange Plaza”, C-1 , Block – G,  
Bandra-Kurla Complex, Bandra (E)  
Mumbai – 400 051  
**Script Code: AIAENG**

Dear Sir/Madam,

**Sub: Transcript of the Investors' Conference Call held on August 2, 2023**

Pursuant to Regulations 30 and 46(2)(oa) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed herewith the Transcript of Conference Call held between the Company and Investors on Wednesday, August 2, 2023 to discuss the Unaudited Financial Results and performance of the Company for the Quarter ended 30<sup>th</sup> June, 2023.

The aforesaid transcript is also being hosted on the website of the Company, [www.aiaengineering.com](http://www.aiaengineering.com) in accordance with the Regulation 46 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.

Kindly take the same on record.

Thanking you.

Yours faithfully,  
**For AIA Engineering Limited**



**S. N. Jetheliya**  
**Company Secretary**

Encl.: As above

**“AIA Engineering Limited  
Post Results Conference Call”  
August 02, 2023**

**MANAGEMENT: MR. SANJAY MAJMUDAR – INDEPENDENT DIRECTOR –  
AIA ENGINEERING LIMITED  
MR. KUNAL SHAH – EXECUTIVE DIRECTOR –  
CORPORATE AFFAIRS – AIA ENGINEERING LIMITED**

**Moderator:** Good evening, ladies and gentlemen, and thank you for standing by. This is Neerav, the moderator for your call today. Welcome to the post results conference call of AIA Engineering Limited. We have with us today the management team of AIA Engineering Limited. At this moment all participants are in listen-only mode, later we will conduct a question and answer

session. At that time, if you have a question, please press star and one. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I would now like to turn the conference over to the AIA Engineering management team. Please go ahead, sir.

**Kunal Shah:**

Good afternoon. Good evening to everyone. This is Kunal and we also have Sanjay Bhai here on the call with us. This has been -- it's not been long since we last interacted for the fourth quarter numbers. And we hope will make a quick wrap up on numbers and get into Q&A for this call. We don't have a lot of updates, but nevertheless, we'll be happy to answer those.

We've done 73,000 tons -- 74,000 tons of sales. And I think it's after many years, we've broken the number barrier of 70,000 in the first quarter. We generally were between 62,000, 65,000, 67,000. So 74,000 tons and roughly equivalent production for this quarter, which translated to about INR1,220 crores of product sales, EBITDA of INR402 crores and profit after tax of INR272 crores. They are materially higher than first quarter last year and mostly comparable with the fourth quarter of last year.

From an other income standpoint, we've done INR19 crores of operational other income, which is largely incentives for export. Our other income, most of it which comes from treasury that's about INR56 crores, and that compares to about INR4.8 crores fourth quarter last end of March. There's a small exchange gain about INR2.86 crores for a total other income of INR59.51 crores, total other income, non-operational other income and INR19.29 crores operational other data.

Our treasury net cash is about INR27.50 crores. And -- with average yield of above 7% on that total corpus, which is where there is some M-to-M loss we had in the first quarter last year and of course, a smaller corpus and which is where there is a much smaller treasury income in the first quarter of last year when you look at it sequentially.

Moving on, our working capital days are around 100 and significantly lower than -- materially lower rather than 118, 120 days that we had for a long period and some part of that coming from the reduction in overall stock that we are carrying finished goods, all earmarked for a customer, but on account of supply chain, easing up. There is some amount of respite that we have over there. So I think the peak finished good stock that we had of about INR1,000 crores plus, which is about INR890 crores now. So there is a INR100 crores reduction in just on that account.

Raw material is largely at about 30 days. So total 100-day working capital cycle, broadly 74,000 tons, we've got 53,000 tons coming from mining and the balance about 20,000 tons -- 21,000 tons coming from non-mining, which is cement, and some amount of thermal power in India.

Our order book continues upward of INR600 crores, and we've reported some amount of foreign exchange contracts. But as you all know, the spread has reduced. The premium on

foreign exchange derivatives has reduced as the interest rate differential is reduced. So -- and that's also reflected in a smaller foreign currency coverage open from here on.

Some notable things that probably we would share. One is on the capex side. We discussed about INR510 crores of capex for the full -- for two years, which included INR200 crores of the overall older cluster restructuring, which is creation of warehouse space, creating some pattern storage and related infrastructure, restructuring some old plants and some debottlenecking.

We will see about 20,000 tons of additional non-grinding media capacity that will come up with that. So there was INR200 crores on that account. INR250 crores on the grinding media work that we're doing, which will take -- the 80,000 ton grinding media plant and which is expected to come up by end of next year and another INR60 crores plus on captive renewable power generation. Of that after about INR510 crores for next -- between '24 and '25, we've done about INR63 crores in the first quarter towards all these 3 line items.

There was an announcement yesterday about Peru. We've formed a subsidiary in Peru in the way that country works and in line with our work that we're doing in Latin America. The lawyer there -- law firm created that entity and then had to transfer it to us. That's how the entities get created there it looks like. And so it was termed as an acquisition. But it was only basically creating a fully owned subsidiary in Peru. Just to clarify the announcement that was done yesterday.

We also have a sunset review for the duties that are there in Brazil, which are currently at 11.8%. And the outcome of that process will be known by end of March. So we'll continue to work on that and doing a bit, working with the authorities in Brazil on that.

Another thing is for mining liners, we've done about 9,000 tons of mill liners this quarter. And from what -- we did about 25,000 tons last year, full year, and we hope to do about between 30,000 and 35,000 tons this year. So that's on track and about 4,000 tons of that coming from the new plant, so which is all getting settled very well.

Our captive generation now stands at 64 megawatts. And because of the -- sorry, 38 megawatts -- our total installed capacity is at 64 megawatts and our captive is 38 megawatts. But as you know, it has a lower PLF generation, so about 22% of our total power came from our own captive renewable sources. We are happy about that.

And lastly, you will see a little higher tax provision for this quarter, but that's the sum total of - - we've got all the subsidiaries outside India within India, and that's a point in time. I think for the full year, our tax will continue at about 23%, but this is just a point in time profit as is. And once the transfer pricing adjustments, etcetera, are done, which are all year-end activity, tax will be at 23%. So there is no other reason for the higher tax -- the tax is at 27%, 26.7%, I think. But -- this quarter, but it will normalize to 23% for the full year.

From a market standpoint, I think absolutely, the commentary remains what it was for the fourth quarter. We continue to remain focused on the mining sector. Metals that we are focused on, which is copper and gold, remain to be metals of interest for the world in terms of

its end use. And to that extent, there is a lot of interesting conversations that we are able to do on account of the solutions that we provide to our customers, which is -- which we've discussed extensively on our calls. And that allows us this excitement that there's this whole conversion story as far as moving from forged to chrome is concerned and the whole mill lining opportunity in terms of delivering improved throughputs, lower power consumption for the customers.

So I think for the full year, we did about 292,000 tons. We will -- we hope to add about 30,000 tons on that this year, including the mill liners. We may do a little more or a little less, and we'll keep sharpening that as we go forward.

With that having said, we'll have Sanjay Bhai share his input and then we can go on...

**Sanjay Majmudar:** Thank you very much, Kunal. So good evening, everyone. And yes, business as usual. All the basic parameters remain the same. We have done reasonably well in Q1. Bottom line appears to be the operating margin after adjusting the treasury income is at about 28%. It is including the other operating income. But as we always say, it is a function of product mix. It's a function of a lot of factors that come in play, the pass-throughs, the reducing freight cost impact and all that.

So I think we are doing pretty good. And as Kunal explained, the capex plans are absolutely on track and the efforts for conversion is going with full force, and we are hopeful of continuing traction. On an annualized basis, we believe that we should keep on growing the way we have been anticipating. I think with this, Kunal, let's open the house for Q&A.

**Moderator:** The first question is from the line of Akash Bhavsar from Equirus Group.

**Ashutosh:** Yes. This is Ashutosh here. Hi Kunal, firstly the overall volumes looks good and others volume this quarter was a bit low. Is it like a quarterly phenomena or should normalize on a full year basis?

**Sanjay Majmudar:** It will normalize. It will normalize.

**Ashutosh:** Okay. And you mentioned 30,000 tons we plan to add this year, the same guidance as earlier.

**Sanjay Majmudar:** Yes, yes. it is absolutely the same.

**Ashutosh:** Okay. Okay. And they were -- obviously, tax rate is higher, as you mentioned, it will normalize, but there are some line items saying that there's INR8.3 crores provision related to some withholding taxes recoverable and overseas reduction. What is that exactly?

**Sanjay Majmudar:** That is the reason why -- it's very typical to one of our subsidiaries. Yes, Kunal will explain.

**Kunal Shah:** So there is -- we've been doing work outside at one of the countries that we operate in, that is like you have TDS in India. When you pay outside, you do a tax reduction and source and then there's a recovery adjustment of tax -- in that, we are facing some sort of issues in terms of recovering that. So as a cautious, prudent method, we are -- we have shown -- we have written

that off while we make efforts to recover that. Going forward, we have claimed an exemption over there. So this is just a onetime old issue that continued.

**Ashutosh:** Okay. Got it. And lastly, as an outlook, obviously, we have the guidance of adding volumes, and we have put up a subsidiary in Peru. How is South America as a market looking for us, what we have done and how do you see it going ahead?

**Sanjay Majmudar:** Of course, we remain extremely bullish on North America, Latin America. Peru is extremely critical for us. We are strengthening our presence there and the subsidiary formation is an effort to have a more direct presence in this critical market. So it's an ongoing process. And it's a part of our overall strategy.

**Kunal Shah:** Nothing specific to report on.

**Sanjay Majmudar:** Yes, yes. Like you know, we have more than 15, 16 subsidiaries in all critical markets. We need a POP, point of presence, there, and that is what the subsidiary would do.

**Ashutosh:** But like are we getting good traction in Latin America as such? I mean -- because that's a big market for copper and gold as well. So are we getting good traction orders from there in that market?

**Kunal Shah:** Nothing specific to report.

**Sanjay Majmudar:** We are working very hard in those markets. And of course, our endeavour is to fructify a lot of conversions. I think we are working very hard. Let's wait and see. That's all I can say at this point in time.

**Ashutosh:** And you mentioned 9,000 mill liner volume in this quarter, 4,000 was produced on the new plant. Is that correct? 4,000 is the new plant?

**Kunal Shah:** Yes. Correct.

**Moderator:** Next question is from the line of Garwit Goel from Nvest Analytics. Next question is from the line of Dhananjay from ASK Investment Managers.

**Dhananjay:** Congratulations on good set of numbers. Wanted to ask regarding OP per ton...

**Moderator:** Dhananjay, your voice is not coming clearly. Can you please speak a little louder?

**Dhananjay:** Yes. Sir our OP per ton has increased sharply because of the reduction in sales costs. Is that something which we see stabilizing. Will this be something similar going ahead? Or would we have to pass this on back to customers? How would that play around?

**Kunal Shah:** Freight is -- like our other raw material cost is conceptually a pass-through. There's a timing difference, but freight rates are going down, that will be a pass-through.

**Dhananjay:** Okay. So then any guidance on what OP per ton would be then a fair estimate for the year considering because 46,000 is significantly much higher than...

**Kunal Shah:** We don't have a fixed price. It's not an absolute number, no, because I mean -- it will depend on the selling price. Selling price is a function of because we are telling -- guiding in terms of margin -- operating margin, which is a 1%, 2022 is a directional guidance that we're giving as far as margins. We've done better. But that, I think we'll not be able to split here and say how much.

Now as far as the average realization is concerned, it will fall in line with raw material and freight, but there's also a product mix angle at it. So it's very difficult to give a guidance whether it will be INR150 crores or INR140 crores or will stay at INR160 crores. But if raw material remains at current level, it should be around INR150 crores. I mean, broadly, that's where it should stay.

**Sanjay Majmudar:** Little more perhaps. But, yes, as Kunal said, a lot of factors that play. But currently, this quarter, we did about INR165 crores average realization. It should hover in that range, plus/minus 5% or something of that sort.

**Dhananjay:** Sure. As the other volumes, any reason why there is a decline year-on-year considering, let's say, cement volume.

**Sanjay Majmudar:** It's just a function of quarterly typical requirement of a given set of customers. You should not read more into it.

**Moderator:** Next question is from the line of Bhoomika Nair from Dam Capital Advisors.

**Bhoomika Nair:** Yes, sir, a good set of numbers. Yes, sir. Sir, just I mean, I know we don't talk much about percentage margins, but we've seen a very strong margin profile in this quarter. While realizations have broadly hold on -- held on. So is that kind of quarter 2 with the lag in pass-through of the lower prices, etcetera, for this quarter, sort of raw material, freight, etcetera?

**Sanjay Majmudar:** So Bhoomika, there are 2, 3 reasons, which are coming in play. One very important factor is product mix. So if the product mix is more tilted towards bigger or larger castings, then definitely the margin profile will improve. There is also an effect of how do you put it, the freight costs going down, etcetera. And then there will be some lag with which it will be passed.

A much better way of looking at us is it should normalize and stabilize in the range of 22%, 23% or 24% and thereabouts on an annual average basis, some quarter may look to be very good. I'm not saying that this is not sustainable over a longer period. All I'm saying is quarterly trends cannot reflect the annual trend. That's all.

**Bhoomika Nair:** Got it. Got it. Got it. Sir, the other thing is, obviously, we're seeing a lot of traction in terms of volumes, which is where you also guided roughly 40,000 tons of incremental volumes for...

**Sanjay Majmudar:** 25,000 to 30,000 tons is what we are talking about. Our endeavour will be of course a little higher, but let's see.

**Bhoomika Nair:** So, sir, your -- where are we seeing traction? Where are we progressing? How many new clients are we seeing? Some -- a little -- whatever way you can give some colour in terms of where -- what kind of volumes are under trials which can possibly kind of go up, etcetera, plus also on the -- if you can give some colour on EEMS, how is that kind of progressing?

**Sanjay Majmudar:** Okay, Bhoomika, there are a couple of things that we will definitely -- see, we will not give you client-wise details. It is not our policy. However, having said that, there are several new mining locations, at least 30, 40 new mining locations, which are under trial stage. Obviously, when we are talking about this, it is meaning that there will be different stages of progression at different mines. Some of them are at a fairly advanced stage, I would say. Some of them are at the initial stage. But based on all that and based on the indications available, we are fairly confident that this 25,000, 30,000 tons should be forthcoming.

There cannot be a timetable to it given that the typical process with which the conversions happen. Having said that, I think we are fairly confident that this should happen and this should be on a sustainable basis. This is point number one. Now your -- what was your second question you said?

**Bhoomika Nair:** Sir, on EEMS.

**Sanjay Majmudar:** Okay. So as we said, there are multiple approaches. One, the EEMS i.e. the typical patented mill lining design with which we are working is one of them. And the DP EEMS, everything collectively works. It is not just 1 particular factor.

**Kunal Shah:** And moreover, Bhoomika, idea was to talk about what's the solution? I mean, trying to get into how many tonnages to what each solution is, I don't think it's beyond the point relevant. Idea is to sell casting, right? Idea is to sell our product. And that was only to demonstrate that there is a design intervention, there's an alloy intervention ultimately leading to a disproportionate outcome for the customer.

**Moderator:** Next question is from the line of Ashwani Sharma from ICICI Securities.

**Ashwani Sharma:** My question is again on the margin. So if you look at this quarter, 28%. In the previous calls also, we have been kind of guiding that there's some reversal will happen. So at what point in time, maybe in the next quarter or quarter, if you can give some indication that it will normalize to 22%, 23%, which is in line with your guidance. So how do we see this, sir? Your margin profile going ahead?

**Sanjay Majmudar:** There are a couple of clarifications I would want to give. We have been saying that a minimum sustainable margin for our kind of business is in the range of 22% to 24% pure operating margin. We have also always maintained that our endeavour will be to improve the margins. Having said that, our focus currently is on conversions and market share gains where we would have to definitely also consider that we will have to price the products for every new entry that I get the product will be priced competitively.

So the point here is that I'm saying this is definitely a sort of a base margin based on which -- we are working. In some quarters, we have done well. Just for your understanding, Q3 of FY



'23 was very good, exceptionally good. Again, Q4 because of the transition effect was normalized a little bit. Q1 is very good, again, where there are factors like reducing freight costs, reducing the raw material costs or maintaining raw material costs at a steady level and improving the product mix in favour of certain larger castings, which has changed the profile of Q1.

I made it very clear this should not again be regarded as sustainable. So in Q2, you may again find us coming to 25%. We don't guide on a quarterly basis. We only give a minimum base level margin guidance so that investors are clear that this is how the company operates. Now if I have done that in a particular quarter, we have cautiously making a statement that this should not be extrapolated to mean the margin for all the 4 quarters. That's all.

**Ashwani Sharma:** Secondly, on the Brazil thing, you touched upon Brazil thing in your initial remarks. If you can put more some light on this?

**Kunal Shah:** So the duties were applied for 5 years and the period ended. So there is a review that happens in which they will reassess what sort of duty to apply. And that's a little bit of a collaborative process. So there is a -- where we are required to submit information on all that we're doing, our costs, etcetera. So we are engaging with the department that runs this process.

**Sanjay Majmudar:** It is a routine process.

**Kunal Shah:** It is a routine process, and we'll be able to know what the new duty would be from 11.8%. What will it change to? The whole process at the end of it will get determined, which will be by end of March.

**Ashwani Sharma:** So what is the current volume that we are doing to Brazil?

**Kunal Shah:** We'll do about...

**Sanjay Majmudar:** The full year about 8,000, 10,000 tons.

**Ashwani Sharma:** 8,000 to 10,000 tons. Okay.

**Moderator:** Next question is from the line of Atul Bhole from DSP Mutual Fund.

**Atul Bhole:** Sir, just one question. In sectors like chemicals or cables, etcetera, we are hearing commentary of clients going for destocking because of supply chains are normalizing and they would have stocked the inventory because of the earlier disturbances, so are you seeing such kind of sort of...

**Sanjay Majmudar:** No, nothing of that sort, our business is very different, I think.

**Atul Bhole:** Okay -- because of B2B angle, there are no destocking related issues...

**Sanjay Majmudar:** We had a long-term solution provider. Our growth is primarily focused on a conversion opportunity where the penetration in mining of our kind of high-chrome solutions are significantly lower in the range of 20%, 25% of the total demand, rest being met by

conventional forged products where our entire endeavour is to convert the customer or the mines to our solutions where the question of stocking or destocking will not come.

Once we are onboarded, it becomes a very long-term engagement, and we get our indications about annual requirements as we maintain inventories in warehouses across the globe to make sure that the customer requirement is met. Now if there is -- so for example, if the client or the mine is already having earlier stocks of conventional products, they will first wait to exhaust them, give us initially lower orders and then gradually increase. So -- but our whole angle is very different.

**Moderator:** Next question is from line of Garwit Goel from Nvest Analytics.

**Garwit Goel:** Sir, my first question is on the total industry size as of today for grinding media balls? And how much of it belongs to high chrome grinding balls?

**Sanjay Majmudar:** So again, this industry, you have to dissect I would just very quickly...

**Moderator:** Garwit, sorry to interrupt you. Sir, sorry to interrupt you. Garwit, can you mute your line, please? There's a bit of disturbance from your background. Yes. Sir, you may continue.

**Sanjay Majmudar:** So if you look at mining, we are talking of a replacement opportunity of 2.5 million to 3 million tonnes, an addressable opportunity for the ore types that we are focused on is anyway in the range of 1.5 million to 2 million tonnes. Penetration of high chrome between us and our competition is in the range of 400,000 to 500,000 tonnes. And that is where the conversion opportunity we are working on.

In cement, it is close to about 300,000 tonnes. And it is, I would say, entirely serviced by -- it is converted into high-chrome use so that cement industry is more or less flat for us.

**Garwit Goel:** Understood, sir. And sir, how fast this penetration is going to be? Like we are guiding for only 10% to 12% volume growth, which seems a little bit conservative. If you look at your factors that you are talking about, like migration thing and industry growth and the capex we are undertaking, etcetera. So what is stopping us to have 20%, 25% kind of growth if our product is so good for our customers and -- considering the growth that the -- considering the growing metal demand at the global level, sir?

**Sanjay Majmudar:** You see there are multiple factors that come to the play. All the mines, they have their own sets of compulsions, mine manager, who is at the ground level. He operates with a limited budget. We are talking of a fundamental shift for which we are focused. Again, the process is very long. You have to go, you have to take trials, you have to convince the mine that this is workable for them. So you work on the chrome advantage as a cost-saving factor, then you work on the down process advantages that our solutions offer. You also work on the mill lining typical solutions.

After all this, it takes 1 or 2 years for us to convert every customer, even then after taking all the benefits, they have their own internal compulsion. So all these processes, it is a very, very painstakingly minute micro-level process, which takes its own time. And therefore, the

conversion process itself is very slow, and therefore, we are always conservative in guidance and we're taking the target rates of conversion. So it's fairly complicated. It's not like you set up an -- automobile robotic line and you start producing. It's much more complicated than that. That's why it takes time.

**Garwit Goel:** Understood, sir. And sir, going ahead, if we see our June quarter. June quarter is lower as compared to other 3. So is that correct understanding that we will have improvement Q-on-Q from here? And can we assume we should witness 20% kind of Y-o-Y top line growth this year?

**Sanjay Majmudar:** Sir, we are very clear that our quarterly trends should not be looked into as -- so you know, for example, if I have done 74,000 tonnes, it doesn't mean I will do 74,000 tonnes only as a extrapolation. What happens is that as we convert and there could be, therefore, quarters where we are flat quarters where you will see a decent volume growth, so I would say that overall volume growth of about 15% is what we have guided this year, there's about 25,000 to 30,000 tonnes. It did not come on a quarterly basis. It is not a sum total divided into 4. And I can't even say that what will be Q2 and what will be Q3.

**Garwit Goel:** And the last one is, sir, you mentioned 7% is on those treasury balances. So sir, this is too low. So -- which is lowering our overall ROC as well. So why are we not considering rewarding the shareholders in terms of buyback and all, sir?

**Sanjay Majmudar:** You see what is happening. The market is very big. We are working on several opportunities. We want to conserve our cash until such time that we reach an internal targeted level of penetration because we might come across any growth opportunity, we will need working capital. We are aggressively going on cash also -- capex also. So currently, we are working for the Board guidelines of about 20% distribution.

I think going forward, we are very consciously reviewing it every quarter, every 6 months. And we will take considered call going forward. But we think that shareholder reward also will come in the form of a growth and that is what we are targeted upon.

**Moderator:** Next question is from of Amar Kedia from AMBIT Capital.

**Amar Kedia:** Congratulations on a good set of numbers. So my question is relating to one of the comments that you had made, I believe, a couple of quarters ago that freight costs at that point of time were elevated, and you had mentioned that if the freight costs come down, then you will be a little more competitive for the Latin American market. Now that freight costs have more or less normalized, are you witnessing incremental traction for the Latin American markets? Or we still have some time to see that?

**Kunal Shah:** I think the -- yes, Latin America freight was a big issue. So we lost time because of travel. We did a lot of work before COVID. We almost lost 1.5 years, 2 years for COVID. Shipping rates were high. it's now back into the market, right? So I think for the last 2 quarters, we've been talking about it. We are going -- I think shipping has become like your utility in terms of predictable, expected and working business as usual, right? So I think those converse, but it will not be everything okay, and it starts -- there is effort in a journey and a period linked to

that. We'll be happy to share updates as they come along. Nothing specific to report at this time.

**Amar Kedia:** Okay. So should I -- and my understanding of what you said is that, okay, the competitive scenario is now better, but it will take -- it will still take some effort and time for that to yield results. Is that the correct understanding?

**Kunal Shah:** Yes. And which is why we are giving a volume guidance. So it takes into factor of that, right? We cannot isolate 1 part of our business and waiting -- keep waiting for that to grow. That is not the only lever that we have for growth, right? So there'll be other parts of the business that will also grow and which is where that forms part of this 30,000 tonne guidance that we're sharing for the full year.

**Amar Kedia:** Sure. Sure. And the second question is, would it be possible to share what was realized ferrochrome prices for the quarter gone by as well as what are the prices today?

**Kunal Shah:** I think it's about -- previous quarter to this quarter, a few percentage points lower, but not materially different.

**Sanjay Majmudar:** Very marginal. It's fairly stable right now.

**Amar Kedia:** Okay. Somewhere around INR115 a kg also.

**Sanjay Majmudar:** Exactly. It is varying in that range.

**Kunal Shah:** It's a report grade. So -- you can't segregate, but it's in the same range, yes.

**Moderator:** Next question is from the line of Devanshu Sampat from YES Securities.

**Devanshu Sampat:** Just 1 question. I just wanted to understand the frequency of negotiation that we have with clients.

**Sanjay Majmudar:** Sir, it's a very detailed engaging process. So we have a front-end team of 60, 65 people across the globe who would go and open up the doors, along with the assistance of the local people, then where there will be a pitch, then there our technical guys, back end, front end, they will work together to design a solution, to design a wear part with a particular metallurgy, given the requirement, given the typical mining equipments or the typical mining or cement -- sorry, we will talk more of mining only. So typical mining operating conditions. Then there would be trials. There would be results which are evaluated. There would be further trials, further validations until our final solution is reached.

So a lot of this work happens at the mine end itself. A lot of it also happens at our back-end operations. So it goes as a synchronized way. Typically, it might take anywhere between at least 1 year to 1.5 years for us to reach the stage where we can confidently and convincingly tell the client that this is the final solution, which is also equally acceptable to the client. Then it goes into the pricing negotiation, then it goes into contracts. Contracts are typically long term. But all of this takes a lot of time. It's a very engaging -- continuously engaging process.

**Devanshu Sampat:** Okay. So -- and sir, this is -- I mean, you are referring to for new clients side over here. I'm just asking in terms of somebody who's already there as if when the realization...

**Sanjay Majmudar:** [inaudible 0:37:19] slowly and gradually that would also as and when they need some service, some input, some technical issues, then our engineers go. Otherwise for an ongoing client, that engagement, it continues through annual indication of the quantity that they would require year-over-year.

**Devanshu Sampat:** Okay. Okay. So is there a particular time in the year this happens or it depends on each client to client, right?

**Sanjay Majmudar:** It depends on the client to client. And these are very typically continuous -- it's not so cyclical. Once you are onboarded, it is more or less continuous matching with his own mining production.

**Devanshu Sampat:** Okay. Okay. So just to get a sense, would it be fair to assume that probably the new negotiations that are happening would be somewhere close to 5%, 7% lower realizations that you mentioned versus what is that in 1Q?

**Sanjay Majmudar:** Again, it's very, very difficult to give a percentage statement because some of the mines we approach on a DP-related benefit or the down process related benefit. Some of the mines, many mines approach on the mining liner advantage that we bring in, in form of reduced power consumption costs at the SAG mill stage or improved throughput on an overall basis.

So pricing is, of course, very important, but not always the first point of discussion. But yes, eventually, when it comes to the final pricing negotiation, it is a very hard negotiation. Client wants much improved benefit at a cost which is matching with his budget, current budget. So that's always a trade-off. But again, it depends on product to product. If you are talking of grinding media, it's different. If you are talking of liners, it is different. So very difficult to make 1 statement.

**Moderator:** Next question is from the line of Amar Maurya from AlfAccurate Advisors.

**Amar Maurya:** So sir, like you indicated that this EBITDA per tonne boost, which we are getting is primarily led to the product mix change, largely more of a large casting kind of a product. So is it there like in the total order book of around INR600 crores, INR650 crores, what would be the mix of this large casting order book?

**Sanjay Majmudar:** No, no, no. Amar, so let's make 2, 3 things very clear. One, the participant asked or made a statement about EBITDA per tonne, but we are very clear in what Kunal replied and what we always say that internally we don't track on EBITDA per tonne for the very simple reason that I don't work with a standard product. There is a very wide variety of products. There's a wide disparity of pricing. Some products are high volume, therefore, relatively lower value. Some products are very high value, but relatively lower volume.

It's very -- and that product mix changes quarter-over-quarter consistently because we are servicing a very wide network of customers across 125 countries, and they don't have a

standard type of requirement, correct? So a much better yardstick to track us is a percentage EBITDA or an operating profit margin that we can definitely aim as a base operating margin of 22% to 24%. We can do better year-over-year, quarter-over-quarter.

It could be different as the product mix changes, the pass-through comes in play, the freight costs comes in play. So, so many factors. Therefore, I think, a much better way is not to look at EBITDA per tonne, but to look at the percentage operating margin that we have generated or we can generate on a sustained basis.

**Amar Maurya:**

But then even if I look at percentage EBITDA per tonne, like, yes, what we all are trying to understand is basically every analyst has gone wrong from last 4 quarters. Basically, everybody is assuming 23%, 24%, and you are basically beating the numbers. So that means there is something which we are understanding -- probably we are not able to understand.

So I mean, what we are trying to understand is that is this the momentum of high-margin product mix is likely to sustain because as you are indicating that now you are servicing to a probably a larger sized product because normally in a larger-sized product, your fixed cost reduces significantly, right?

**Kunal Shah:**

Kunal here. Let me understand the quandary, and there is -- which is where we've clarified that we are not -- what we are seeing is a quarterly guidance. AIA is not giving a quarterly guidance first point. AIA is giving a directional conversation in terms of what is our business model will defend a 20% to 22% operating margin. There are periods we've done better for a variety of reasons, which we try and keep explaining, right? But directional margin is going to be that. Now it is not for us to give that quarterly. That's not somehow, that's not something that we've done for the last many years, correct? Because there are variables we don't understand. Some continue for a longer period to go against the way we think about things. Some don't, right?

So to that extent, we believe it's a futile exercise to try giving a quarterly guidance on margins. That's the point. Comparing of 25% to a 22%, 22% is a directional guidance, 25% is an actual quarterly performance. So there will be a delta. Quarter-over-quarter, it is not a better product mix that has generated the additional -- it is 1 part of the better margin. But there is also a lag, right? Costs have gone down. My selling price has to adjust. My selling price has some total of lots of customers, lots of products done with different formularies. Overall, there is a pass-through. Some is benchmarking the previous quarter. Some could be benchmarking the quarter before that. While that adjustment comes this quarter margin has seen, our costs have changed, right?

So there is a lag process. Overall, costs have gone down, my selling price will follow down on a lag basis. right? We haven't said it is going to -- it does take 2 to 3, sometimes 4 quarters for all of it to get passed through. Directionally, it will get passed through, and which is where this 20% to 22% operating margin as a directional guidance comes along. After all completion, while all that pass-through happens, something else may change, right? So that is a real life where the directional guidance only mean so much because real factors come in and do the adjustment. So that's where we are with the margin answer.

- Amar Maurya:** So normally, the lag of pricing pass-through takes, are you saying that 4 to 5 quarters to percolate into the customer...
- Kunal Shah:** Generally, it takes 2 to 3 quarters. right? But the rate is also, the costs are also going down each quarter, at least the freight cost. Raw material went down and went up, right? So to that extent, there is that now to split every order and every customer and then explain each of the difference is something that I don't think we'll be able to do, right?
- Sanjay Majmudar:** And that also demonstrates that as we also maintained, we do have a lot of avenues to improve the margin. But the current focus is on market share gain. And therefore, we are conservatively giving a benchmark rate, which we think we can deliver on a sustainable basis. That's all.
- Kunal Shah:** I think we can take any other questions offline, moderator. We can probably get down with the call. Yes?
- Moderator:** Sure sir. Would you like to make any closing comments?
- Kunal Shah:** Yes. thank you all. And as always, Sanjay Bhai and I remain available offline for any questions. Thank you. Have a good evening.
- Sanjay Majmudar:** Have a good evening. Thank you.
- Moderator:** Thank you very much. Ladies and gentlemen, this concludes your conference for today. We thank you for your participation and for using Chorus Call conferencing service. You may please disconnect your lines now. Thank you, and have a great evening.