HEIL/SE-18/2024-25

May 20, 2024

To,
The Manager (Listing),
The BSE Limited
Phiroze Jeejeebhoy Towers,
Dalal Street,
Mumbai – 400 001
Script Code No. : **543600**

To,
The Manager (Listing),
National Stock Exchange of India Limited
"Exchange Plaza", C-l, Block - G,
Bandra - Kurla Complex, Bandra (E)
Mumbai – 400 051
Symbol : **HARSHA**

Dear Sir/Madam,

Sub : Transcript of Earning Call for the quarter and year ended March 31, 2024
Ref : Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015

With reference to subject matter and pursuant to regulation 30 of the SEBI ((Listing Obligations and Disclosure Requirements) Regulations, 2015, please find attached the transcript of the earning call for the quarter and year ended March 31, 2024 conducted after the meeting of Board of Directors held on May 16, 2024.

The above information is also available on the website of the Company at www.harshaengineers.com

You are requested to take the same on your record.

Yours faithfully,

FOR HARSHA ENGINEERS INTERNATIONAL LIMITED
Kiran Kumar Mohanty
Digitally signed by Kiran Kumar Mohanty
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Date: 2024.05.20 09:59:00 +05'30'
Kiran Mohanty
Company Secretary and Chief Compliance Officer
MEM NO. : F9907

"Harsha Engineers International Limited Q4 FY 2024 Earnings Conference Call"

May 16, 2024

MANAGEMENT: **MR. VISHAL RANGWALA – CHIEF EXECUTIVE OFFICER - HARSHA ENGINEERS INTERNATIONAL LIMITED**
MR. MAULIK JASANI – VICE PRESIDENT OF THE GROUP AND CHIEF FINANCIAL OFFICER - HARSHA ENGINEERS INTERNATIONAL LIMITED
MR. SANJAY MAJUMDAR – STRATEGIC ADVISOR - HARSHA ENGINEERS INTERNATIONAL LIMITED

Moderator: Ladies and gentlemen. Good day and welcome to Harsha Engineers International Q4 FY'24 Conference Call.

As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touch tone phone.

I now hand the conference over to Mr. Vishal Rangwala – CEO of the company. Thank you and over to you, sir.

Vishal Rangwala: I thank you, Jacob. And hello, all. Welcome to our Quarter 4 FY'24 Investor Call. As per past practice, while our CFO – Mr. Maulik Jasani will take you through numbers in greater detail. I presume that you would have had a chance to go through them already. And I will talk through some of those general trends.

At the outset, I feel elated in reporting a much stronger Quarter 4 FY'24 numbers, both at India level as well as global level. I am also quite happy to report that quarter for FY'24, the actual results have turned out to be a significant improvement.

If we talk to India engineering business, talking specifically about our growth drivers, I am starting with bushing segment where we have started seeing a good traction. Though a bit late in last financial year which reflected by a healthy inflow of orders, thereby, improving our visibility in Financial Year '25. So, while we have closed the year with the sales of around Rs. 40 crores in the segment of bushings, we expect this business to grow significantly, probably nearly double, and expect to achieve a sale of at least Rs. 75 crores plus in FY'25. This is specifically for bushing segment. We continue to work further in this segment and win additional development and opportunities as well.

Similarly, I am happy to report that we have started seeing improved order flow from plants that have been set up by our key customers in India, which cater to their global requirements. This validates that we are the natural beneficiary of China plus one strategy implemented by our main customers. And no doubt we continue to have a dominant share in Indian market and we become a key beneficiary of all the increasing requirement from our customer.

If we talk about our business from Japan-based customer, though this has been a lower than our expectation in current or previous Financial Year '24, we expect this business to grow significantly in coming years. Further though, I cannot share specific detail, I can only say that we continue to work aggressively on our various exciting major outsourcing projects of our key customers in various part of the world, including Europe, Japan and USA.

Lastly, while our LSV business has not really grown the way the way we expected in the current year, which is largely due to subdued global demand under current, both in wind as well as industrial segment. We believe that this should start gaining traction in Financial Year '25. I am also happy to inform that we have witnessed a strong growth in stamping segment, particularly on the railway and the automotive side. Thus we saw sales jump to around Rs. 50 crores four stamping in FY ’24, and we again expect at least a 50% growth in business in the segment for FY‘25.

Our Greenfield project in India is on track. While major CAPEX is on the site development as well as basic infrastructure including utilities, as we have indicated earlier, in the first phase we are creating additional capacity for bushing as well as large size bearing cages. And we are targeting that this should become operational by Quarter 4 Financial Year ‘25.

I am happy and relieved to also report that China has already come in positive profit territory in Quarter 4 Financial Year ‘24, indicating a revival in demand from our key customers in China. And I am cautiously optimistic that this trend to continue through Financial Year 2020. However, I must say that Romania is continuing to face the headwinds in the form of no near-term revival sign either on the wind side or on the industrial side in Europe. However, we are currently working on the strategy of significantly improving the product mix by increasing the share of cages in Romania from current level of 15% to more than 30% in FY‘25. And based on this strategy, we expect Romania to at least reach cash break even in FY‘25.

Lastly, as you can see our solar vertical has all reported a decent growth in top line, and there is an improvement in bottom line also. This is largely on largely on account of renewed interest in renewables in the wake of positive renewable policy in the state level. While strategically we do not propose to allocate any significant additional capital to this segment, we expect the same to continue growing at a very positive rate. And also, we see that it will contribute to a bottom line.

Our targeted top line growth for Financial Year ‘25, on a consolidated basis, is around 10% to 15%, but our bottom-line growth expectation for Financial Year ‘25 is in excess of 25% over Financial Year ‘24. Thus, I feel confident that Financial Year ‘25 will be much better year as compared to ‘24.

I sincerely thank all of our investors for continuing to repose their trust and confidence in Harsha and I wish all of you a pleasant evening. Thank you and over to Maulik to walk us through numbers for Quarter 4 ‘24.

Maulik Jasani: Thank you, Vishal, for the overall business review. Hello, everyone. On a consolidated basis, Q4 FY‘24 reflects an all round improvement in the top line as well as the EBITA, and PAT margins compared to the last quarter.

For the quarter ended March ‘24, for engineering business at a consolidated level, we have achieved top line of Rs. 321 crores against Rs. 278 crores in the immediate previous quarter and against Rs. 325 crores in the same quarter last year. We have achieved consolidated EBITDA for engineering business at Rs. 60.6 crores in Quarter 4 against Rs. 48.5 crores in the last quarter and Rs. 56.5 crores in the last year same quarter.

Continuing focus on cost, improving sales as well as favorable pass-through situation for raw material prices and better product mix has resulted into improved EBITDA margin at standalone as well as consolidated level in the last quarter. For the financial year ended ’23-‘24, the company has achieved a consolidated revenue of Rs. 1,227 crores in engineering segment, against Rs. 1,299 crores last year, and annual EBITDA is achieved at Rs. 198 crores at 16.2% of the revenue against Rs. 218 crores last year at 16.8% of the revenue for engineering segment.

On solar business, we have achieved revenue of Rs. 165 crores and EBITDA of Rs. 1.8 crores for the year '23-'24, after adjusting Rs. 0.67 crores loss of the USA company and one-off cost incurred in the quarter one as we discussed in the previous call. Overall working capital cycle at consolidated level is around 141 days at the year-end against 144 days in the previous year end. The company has incurred a CAPEX of Rs. 25 crores in the last quarter, which includes the CAPEX out of the IPO money of Rs. 11.5 crores.

With this brief number on the financial side, I hand it over to the operator to take over the Q&A from the investors. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Harshit Patel from Equirus Securities. Please go ahead.

Harshit Patel: Congratulations on a good set of numbers. Sir my first question is, what kind of improvement do you envisage in FY'25, especially on the export front? This is because we have seen global bearing companies reporting muted end-to-end growth and the outlook shared by them is also not very encouraging. So, how do you see our exports panning out? I am not talking about your sales from Romania and China from those facilities, but what you produce in India and sell to the outside?

Vishal Rangwala: So, we expect our export to continue to grow. However, we have also received a muted demand expectation and forecast from our customers. So, we expect moderate growth on that front is the current projection. Now, it may change based on various segment, how things turn out. But right now we are also expecting moderate growth, not a significant growth from that segment. However, we are also continuing to work on some outsourcing opportunity, which might be a add-on business and which may add to that growth number. Harshit, they remain in the range of around 50%, broadly, exports out of India. And that is more or less comparable with the previous year also.

Harshit Patel: Sure. Sir, in percentage terms, how our exports would have grown or degrown in FY'24?

Maulik Jasani: Harshit, you can see that it is there in our IR presentation, and our exports from India is 49.3% in FY'24 against 51.6% in the previous year for engineering business.

Harshit Patel: Sir, secondly, the wind equipment demand in China seems to be in a bad shape. And since we supply the bushings to the companies who are exporting out of India, I mean, what gives you confidence that we will be able to grow more than 50% in FY'25?

Vishal Rangwala: So, two, three changes within that. One, our customers' focus is not to export to China, but it's outside China, Europe, US and other territories. Second, the demand increase is driven by, we were talking about earlier that how this bushing adoption is taking place. So, more and more gearbox going in with bushings, and that is what is giving us the confidence. And this is then supported by the projections by our customers. So, that is the reason we are confident of a significant growth in FY'25 for bushing segment, in spite of overall wind demand may be muted. We see that India demand in wind is still strong and our customers are moving from a normal gearbox or a without pushing gearbox to a bushing gearbox, and that is what is driving the growth for us.

Maulik Jasani: Just to add, there's a little bit of base effect also. See, here we have done 40 this year, which we should have done a little more, and now it is shifting. So, next year is the normal which we would have or wanted to do this year. So, that way also yes it looks very sharp, but this is how you have to actually look at it.

Moderator: Thank you. The next question is from the line of Amit Anwani from PL Capital. Please go ahead.

Amit Anwani: Congress for the decent set of numbers. Sir first question on Romania, you said we still continue to face headwinds, and the revival is slow, and we are going to increase the cages from 15% to 30%. So, if you could throw some more light on, are we shifting some production there? Or is it the increased demand? How significant is that in terms of revival of Romania? I understand we were doing largely castings. And what is the utilization level currently, we did talk about energy cost there, what is the status there, other things getting better from that aspect? Or is it the that there's no demand for from there which we are not able to meet as per plans that is still impacting?

Vishal Rangwala: So, Amit, basically we are seeing overall a muted demand in Europe. And that is one main challenge. On top of that, our semi finished portion is significant, is another challenge there. Now what we talked about, increasing cage share from 15% to 30%, we are seeing some traction in terms of more and more customer wanting to buy out of our Romania facility. And there are discussions about additional outsourcing by our customer. So, a combination of that we are expecting to grow the cage supplies out of Romania facility this year. And based on that additional conversion of cage, which is a higher value-added product, we are expecting that we will come very close to break even or better in Romania. That's the thinking.

And actually, there is some back end support from our customer in terms of award in that direction. So, we are continuing to win some additional orders in Romania to support this direction. So, fairly confident that we will be able to change or shift the portfolio based on what's going on right now. However, headwind still remains overall muted demand in industrial and wind market, which is a large size is our biggest segment when it comes to cages there. So, that that challenge still remains.

Amit Anwani: Right, sir. Second thing on the penetration with the Japanese customers, so just wanted to understand how much was the contribution this full year, and did we made any progress, what is the outlook?

Vishal Rangwala: So, we grew, I believe if I remember top of my head, about 10% plus last year. And that was expected to be higher and some of our projects which were in pipeline, it got delayed in terms of realizations. They are back on track and we are expecting that growth to come in this year. We are seeing already a higher flow or a forecast from our customer on that front. So, fairly confident of that happening. We are expecting again Japan based customer, and when I say Japan based customer not necessarily export to Japan, but supply to Japanese companies to grow significantly in the tune of 20% to 30%, that is what we are roughly projecting at this time for FY'25.

Amit Anwani: Sir, how much was the percentage contribution from Japanese?

Vishal Rangwala: Percentage contribution in terms of total revenue?

Amit Anwani: Yes.

Vishal Rangwala: I think we will have to check. But we will come back to it.

Amit Anwani: So, for wind bushing, sir, just wanted to understand, you said Rs. 40 crores and now we are expecting Rs. 60 crores in FY'25. Just wanted to understand, there's a lot of talk about, you are talking about muted market outside, but there's a lot of talk about wind additions in India. So, how's the outlook in Indian market? And second thing, are we the only vendor supplying to global MNC gearbox manufacturer, or is there a competition within India or outside where we are competing? So, just more color on the bushings market.

Vishal Rangwala: Yes. So, on the bushings side, I want to first clarify the numbers. We are expecting to grow almost to the to near 200%. So, maybe we are going from Rs. 40 crores to about Rs. 70 crores, Rs. 75 crores plus is our expectation today. This is, as I mentioned, from a competition point of view. I am not right now aware of any competition in India. Yes, there are suppliers who supply this product outside India. One, that's exactly the reason we are they are taking us as a bigger and bigger substitution supplier. Meaning what they were importing earlier, now they are moving 200% supply by Harsha, that's one move.

Second move I have talked about is how they are they are making X number of gearboxes. Not all gearboxes were you using this bushings. Now as a percentage, a higher number of gearboxes are using these bushings or maybe they are selling higher number of gearboxes with bushings integrated into it. And thereby the market is growing for Harsha. In India specifically, our customers, as I mentioned, are primarily supplying into Indian market, as well as globally other than China. And overall market outlook may be somewhat muted, India looks good. And primary this growth is coming not out of the wind market growth, but out of a conversion to bushing is what is happening.

Amit Anwani: Well, do you mean to say largely good part is coming from conversion then the new addition, is it a right understanding?

Vishal Rangwala: Correct. Or rather, any incremental requirement we are getting is shifted to bushings. That is what it is. We are not replacing the existing gearboxes per say, this is what our perception is. But incrementally more and more the new requirements are moving towards bushing in gearboxes.

Moderator: Thank you. The next question is from the line of Naysar Parikh from Native Capital. Please go.

Naysar Parikh: First one is, you mentioned in terms of the outlook for next year, can you just talk about what are the drivers of profits growing faster than revenue? And what pockets will we see the margin expansion?

Vishal Rangwala: So, if you see this year, at our international subsidies level there is a negative contribution to the extent of Rs. 14 crores, Rs. 15 crores, correct? So, one, as we already explained, China has turned positive. B, our strategy is to ensure that somehow, at least in Romania if it doesn't contribute more on the positive side, at least it should stop losses. So, that could be therefore a incremental direct addition to the bottom line. That is why assuming that India is continuing to grow maybe at a higher double digit, and Romania, China not growing that aggressively but maintaining more or less a muted growth, so overall top line would grow 12% to 15%, bottom line is bound to grow higher because of this typical change in the composition at the consol level, with India continuing to contribute more or less in the same percentage range of 20%, 21% EBITDA.

Naysar Parikh: So, India margin you are not expecting to increase significantly, it is international which will drive the profit growth?

Vishal Rangwala: India remaining constant or slight improvement, India will improve actually a little bit, definitely, product mix change. But international is stopping negative contribution and chipping in with a wee bit, little bit of positive.

Naysar Parikh: And just to be clear, this year, I think if just based on the numbers you mentioned, on a consol level India domestic business would be around 33% and two-third is rest of India, right, including international and exports, is that fair?

Vishal Rangwala: Can you just repeat your point?

Maulik Jasani: At console level India is 33%.

Naysar Parikh: India to India you are saying, am I right?

Maulik Jasani: Yes, within India, that is right.

Naysar Parikh: International, can you just give a broad split between geographies?

Vishal Rangwala: On a macro level, about 25% to 30% is Europe. And about 10%, 12% is Americas, another 10%, 15% is China, and the rest is rest of the world kind of.

Naysar Parikh: And in Europe, right, which segment is our biggest? Because you mentioned Europe there is slowdown and we are seeing it across industries. So, which are your top segments in Europe that you catering to? And how should we look at that for the next year?

Vishal Rangwala: So, from our portfolio we cater to, cross complete segment which includes wind to industrial to railway to automotive, and everything in between. And we are seeing a very muted growth projection on the industrial side, including wind. And maybe a little bit of better relatively improvement on the automotive side is what we are seeing. Again, nothing to say that it's full recovery, but some improvement is what we are seeing on the automotive side. That's how our order book is looking like. Beyond that, I mean, I do not have a very specific segment-wise thing, because right now our customers also do not precisely tell us exactly what goes into what segment.

Naysar Parikh: And if I can squeeze in one last question, what is your order book at the end of the year and order intake for Q4?

Vishal Rangwala: We do not really work on a long term order book. We get a forecast and that's what I tend to talk about kind of a rolling forecast from our customer. So, that becomes our indication for projection. So, we do not really talk about our order book as such, because that's how the industry works in the sense.

Maulik Jasani: So, just to elaborate, we have all long term, very long term contracts with almost all customers. And then we get rolling annual forecasts, and then they keep on sending POs as they need. So, that is why, if I annualize, then frankly my order book is almost for the full year. But then in reality the POs would be maybe on a monthly basis or something like that.

Moderator: Thank you. The next question is from the line of Aditya Shah from Vikram Advisory Services Private Limited. Please go ahead.

Aditya Shah: Sir, I have a question regarding our capital allocation policy. So, within that, what are our CAPEX plans for the next two years? And any reason for conserving so much cash?

Maulik Jasani: So, Aditya, as we have discussed, our overall CAPEX plan in next three years is around Rs. 300 crores, including the new greenfield site which is still under the construction phase. And as you have observed, the major cash conservation is on account of our IPO money which has been kept for the further growth investment only. And once we have a new site in place, we will have a major plant and machinery CAPEX in the phase manner we will continue. So, just to answer your point, it is around Rs. 300 crores plus in next two to three years, and we are also exploring if any right opportunities, we evaluate the various market opportunities available in our segment.

Aditya Shah: Right. So, Rs. 300 crores is your CAPEX. And any idea on what is the ROE that as a company we are targeting for the next three years? Because currently our ROE is pretty low at 10%.

Maulik Jasani: Yes, mainly as you rightly observed, it is on account of the cash reserves, cash allocations available with us, cash flow available with us, and it is actually pulling down. And once this everything will be deployed, maybe it will take another two years to reach to the peak, and maybe down the line four years our expectation is to generate the similar ROE pre-IPO time is around 17%,18%. After four to five years it will gradually increase year-over-year.

Aditya Shah: So, next five years our internal target is around 17%, 18%. So, probably till five years we would expect ourselves to be between 10% and 12%, am I right?

Maulik Jasani: It will gradually go up.

Vishal Rangwala: We expect that in next year the pace of CAPEX and all other investment plans would accelerate. So, I would say next three years we should reach 17%, 18%.

Aditya Shah: Last question is about any dividend policy as a company do we have or no?

Vishal Rangwala: Yes, we do have it and it is already there in place, and we are following that.

Moderator: Thank you. The next question is from the line of Jason Soans from IDBI Capital. Please go ahead.

Jason Soans: Sir my first question was, I understand that you said your customers were not telling you where your bearing cages are being employed. But sir, of course when you talk about India from macroeconomic perspective, there is a lot of talk on how the industrial side is pick up, CAPEX plans are very, very big for the next three to five years, of course, with a stable government if elected. So, I just wanted to know, from your perspective you did say that there is some recovery in automotive side, but I believe when you look at bearings, the industrial side also it will contribute very, very handsomely and meaningfully. And you basically supplying component or a bearing cage to that industry would definitely benefit out of it. So, sir, just wanted to know what is your view on the industrial side from a long term perspective?

Vishal Rangwala: So, again, from a long-term perspective on the industrial side we are very bullish. Rightly as you mentioned, we see a significant CAPEX investment in India. And since we are supplier in that segment, we should benefit. We continue to see growth in India, which includes industrial as well as automotive for the last year. And then we are continuing to see that growth, more than 10%, 12% growth we are seeing in India, a combination of industrial and automotive. And my comment related to industrial still muted but automotive improving was in reference to European demand or a global demand which we cater out of India as well as various locations.

Jason Soans: And sir, just in terms of bushing, if I got the numbers correctly, you said you have sold Rs. 40 crores worth of bushing is in FY'24 and Rs. 70 crores to Rs. 75 crores you are basically planning an FY'25, is that right?

Vishal Rangwala: Yes.

Jason Soans: But sir, again from a perspective, just wanted to ask you this bushings point, those windmill gearboxes, and they are seeing some muted growth, as you said, Europe also is muted on that front. So, sir, how will we achieve almost a double kind of growth? I just wanted some more color on that.

Vishal Rangwala: So, I think I will just elaborate on what I answered. One, I think what is happening is conversion of gearbox without bushing to with bushings. So, basically, if my customer is selling 100 gearboxes, maybe they were selling 20 or 30 with bushings, and thereby my demand was, based on that the 30 they were supplying. Now they are converting more models, bigger portion of their supply to bushings. So, basically, instead of 60 gearboxes out of the total 100 they supply are going with bushings, and that's what is increasing the demand for bushings. As Sanjay Bhai mentioned, we have talked about this in the past that when we won the order, it was about two customers we have, we had Rs. 120 crores plus order opportunity which we had won, which was supposed to mature in ’25-’26, or ’24-‘25 rather. And we are running one year delay on that. So, basically what was supposed to happen in ’23-‘24 is now realizing in ’24-‘25 is what we are seeing. In spite of overall global markets still muted, India is still doing decent. It's the conversion of more gearbox with bushing is what is driving this growth, which we were expecting when we started supplying to this set of customers.

Jason Soans: But this growth basically is coming from Europe only? Basically, this growth comes from Europe only, right, when you are talking about double. Or is there some growth from India as well in this?

Vishal Rangwala: No. So, for us, the supplies have gone out of India, our customer majority we are supplying to customers who are located in India. Our customers supply to Indian market the gearboxes, they also supply to European market and other markets. We do not have a accurate number of exactly where the gear boxes are going.

Maulik Jasani: But yes, that includes India also, yes.

Jason Soans: But you do expect good numbers in this segment?

Vishal Rangwala: Yes.

Maulik Jasani: And just, when you look at your subsidiary performance, I mean, if you just deduct the consol minus standalone. Now when I look at this, of course you plugged in the losses, losses have come down from the subsidiary. And when I look at the EBITDA margin, that's around break even, 0.3% for FY‘24. Now just sir, I mean, of course it's a combination of Romania and China, those are your main subsidiaries overseas. So, sir, going ahead, how do you look at the EBITDA margin for both these subsidiaries going ahead? I mean, just some color on that.

Vishal Rangwala: So, I do not have an exact number in front of me. From where exactly it's going to go from a percentage point of view, what we are sharing that definitely it has turned positive for China and Romania in terms of losses have also reduced. And ultimately, we expect the EBITDA margins to turn significantly positive, and expecting positive PBT, PAT from China, and roughly break even from Romania, that's the transition we are working on, that’s for the current year. But just to add, the targeted blended EBITDA at China level would be in the range of 12% to 13% and in Romania, in a good year, normal year it should be around 6% to 8%, not ’24-’25, okay?

Jason Soans: Right. This is the blended EBITDA what you expect in a good year, right, for Romania?

Vishal Rangwala: Yes, hopefully in ’25-’26, but it's too early to comment about that.

Jason Soans: Sure, sir. I understand that. My question was from, I mean on an FY‘24 basis it's 0.3%, I mean just talking only about the subsidiaries. So, just wanted to know how you see it going ahead. Sure, sir. And sir, just finally what I wanted to ask you is, of course your 30% to 40% business is coming out of India, and 35%, 40% is domestic, I mean, coming in from India. Just wanted to know from your side which pockets do you see, like for example say it could be railways, it could be auto, of course auto you have mentioned, railways. Which pockets do you see good growth in terms of domestic and exports, both, if I could ask you?

Vishal Rangwala: Sure. For FY '25, basically domestic side we are seeing a positive growth across, a little less on the industrial side of the things, partly because our customers also export to other market. But overall we are projecting growth or expecting growth from the railway segment, we are seeing growth on the automotive side. As well as projecting growth on the industrial side, a little muted versus relatively other segment on the industrial side. That's what we are seeing for India. Globally, as I mentioned, most of the growth projections are somewhat moderate, definitely there is a growth we are expecting over FY '24, specifically because it was a significantly down year, when we see a down year usually our customers also tend to conserve inventory and they take some action to reduce inventory, which sees a little bit bigger degrowth sometimes for.

And in a somewhat of a growth year that trend reverses. So, in general, we are expecting that from a international customer point of view, for established business we should see a moderate growth, not a significant growth. And then we continue to work on additional business opportunity with various customers, which would include some of the outsourcing projects as well as some resourcing projects. So, combination of that we still see internationally for us, Harsha growing about 8% to 10%, that's my rough average overall. And then India would grow more than 10%, 12%. And then the difference will be kicked in through the products what I have talked about, bushings and stamping and all that.

Jason Soans: And sir lastly, I just wanted to ask you, I mean, it is commendable that '24, I am just seeing your standalone results, so margins in your core engineering segment, you have managed to keep it at 21.7% or 22% odd levels, which is very commendable. Sir, do we think this should be a sustainable margin going ahead, 21% to 22%, for engineering I am talking about?

Vishal Rangwala: Yes, I think so, definitely.

Moderator: Thank you. The next question is from the line of Divyam Gupta from Gupta Family Office. Please go ahead.

Divyam Gupta: I appreciate the opportunity, sir. I just have one question regarding our solar EPC business. I know it's a really small part of our overall business, but when I look at our margins, we make early single digit EBITDA margins, but other players in this segment, they make mid teams margins. So, why are our margins so low in this segment? Thank you, sir.

Vishal Rangwala: So, Yes, couple of things within this. There is certain legacy to this business which has certain cost attached to that, which is driving the margins on a slightly lower side. Also, I think we are also not to scale in terms of the opportunity. Higher we scale, we could get a much healthier better margin in this. And again, we are also not very aggressive on scaling, because with that comes in additional capital allocation and other things. So, we are somewhat conservative on our approach. And the third big element is that there are couple-offs which we had faced. So, if I talk about fourth quarter or last quarter, basically we took Rs. 67 lakh loss on account of US subsidiary, which was created few years back and we had decided to wind it up, close it. So, that's the one-off.

Another one-off we shared, I believe first quarter or a second quarter, I do not remember exactly of FY ’24, where we had to incur a significant expense on one of the O&M contract where O&M payout is still yet to happen. So, all those combination of the two, three factors I mentioned. The margins are somewhat muted versus if you compare. However, we think that there is still a continued opportunity within that segment, and we want to play the right scale role and not be over aggressive. Otherwise, what we have seen in the past that it can create a receivable and other issues. So, we are trying to avoid that.

Moderator: Thank you. The next question is from the line of Saket Kapoor from Kapoor & Company. Please go ahead.

Saket Kapoor: Yes, just to take the conversation forward, what is our road map in terms of this solar EPC segment? And what kind of order book do we have and the execution period?

Sanjay Majumdar: So, our current, as I was mentioning, our current strategy is to focus on industrial rooftop or ground mounted. And right now, we are limiting our focus to the Gujarat state and not venturing out on significant projects beyond that. And we see that there is a healthy margin we can make with that, because of the favorable opportunity. I think we should continue doing this in the region of Rs. 150 crores, Rs. 200 odd crores. See what has happened, currently the government policy is very favorable. So, we see a lot of traction even in this limited sphere where we want to operate. And I think about Rs. 150 crores, Rs. 200 odd crores as a run rate now with the same level of capital allocation, with maybe mid single digit margin is what should happen.

Saket Kapoor: Sir, I think this rooftop part of the opportunity for 1 crore homes getting rooftop solar being installed. So, does that also provide a good runway for companies like us to get a pie, a share of what maybe in the anvil going ahead?

Sanjay Majumdar: Yes, you are right. But as Vishal explained, see what is happening, as an engineering focused company our entire focused capital allocation is on the opportunities where we are working. Solar happens just like that, okay. And we do not want to allocate more capital. So, we will be content with whatever little positive contribution this business gives. It goes sort of in an auto mode without too much of a management bandwidth being really focused on that as a growth. This is where we, honestly.

Saket Kapoor: Sir, just to harp on slightly more than, what are the synergies of we doing this as a business when we are not providing the right management bandwidth, we are not getting the requisite…..

Sanjay Majumdar: No. So, Saket, I will explain. See, maybe you have not caught us up earlier. So, this is more like a legacy business. This business was handled by Vishal’s younger brother, and then unfortunately we lost him. And then it's just merged into our business sort of to give us support and continuity to ensure that there is no sudden disruption, and that's about it. So, really it was not a synergistic move, but more of a action that we took at the family level, and now it just continues as a small division, that's all, nothing more to be read into it.

Saket Kapoor: And also this bushing part of the story, sir, what led to exactly this bushing into the gearboxes? And what's the outlook going ahead, that for going ahead the new boxes for the turbine which will be done, it will come with the bushings? Does any regulatory change? What has led to this demand?

Vishal Rangwala: So, bushing is an extension of our current competency when it comes to machine non-ferrous castings and high precision machine capability. So, that's what got us in there. Specifically on the bushing adoption in the wind industry, what we understand is happening is that our customers, gearbox designers are basically trying to reduce the weight to power ratio, basically shrinking the design size of the gearbox for the same power transmission. And one of the strategy to achieve that they have adopted is replacing some of the bearings with the bushings. These bushings are of high precision cylinders under which the shaft rotates. And basically, through adoption of bushes we are able to shrink the design, space taken by bushing versus bearing would be significantly different. And so this requirement by wind customers of reducing the weight and possibly also the cost overall of gearbox for the set power transmission is driving the conversion from a non-bushing gearbox to a bush design gearbox.

Sanjay Majumdar: So, just to add, we got this lead from our Romanian subsidiary three, four years ago. We found it very interesting. We developed it. We are very good at precision. Anything to do with precision is our core competence. And that is how we sort of branched out into this related diversification. And now it's panning out to be a very good branching out, because there's a lot of synergy with what we already do.

Saket Kapoor: Sir, just to conclude it is on the efficiency part, and then there will be an incremental demand since it will lead to lower operating cost for the windmill. This understanding is correct?

Vishal Rangwala: Yes, we believe that, efficiency not necessarily on the operation of the bushings, but overall windmill efficiency, gearbox efficiency in terms of weight and other things, yes.

Saket Kapoor: And sir, what is our capacity for the bushings segment as a whole? We did Rs. 40 crores annual number for FY'24 and you are looking for Rs. 70 crores, Rs. 75 crores for the next financial year?

Vishal Rangwala: Correct. Our capacity, as I mentioned that we had installed capacity with a potential order book of order of Rs. 200 crores, Rs. 220 crores orders in mind. So, we have installed capacity for that. And further, we are working with our customer to take care of next set of transitioning with this bushing kind of design for gearbox. In terms of overall market opportunity, you see, as I mentioned, we talked about this is a transition where we are moving from one design to another, and this will take time. And we ourselves started this in 2019 when we started making prototypes. And it was approved in '22, or end of '21 kind of thing. So, ultimately what we expect that when the full transition happens to the bushing, this could be a Rs. 5,000 crores to Rs. 5,000 plus crores market opportunity globally, and we are a very early entrant to this. Probably first one in India, and we are trying to tap into this opportunity, that's what is going on.

Sanjay Majumdar: And our targeted market share is about 10%, so about Rs. 500 crores at the peak.

Saket Kapoor: But this is one time business only, sir? Rs. 500 cores if you will target at its week will be one time?

Sanjay Majumdar: No, this is regular. So, the wind market will keep on growing. And currently we are not even looking at any replacements, we are just looking at the new incremental CAPEX and the gearboxes that are required for that.

Saket Kapoor: Sorry, sir. Thank you for correcting me. So, currently we have a maximum of Rs. 120 crores annual capacity?

Sanjay Majumdar: What Vishal said, that at the current capacity I can do Rs. 120 crores. As a part of my greenfield, I am adding another further capacities for bushing. We will keep on adding as we grow. It's a modular approach.

Saket Kapoor: Last question on the greenfield part and the employee cost also, sir. What steps are we talking for rationalization of firstly the employee cost? Or our business is structured in this way, I think so more than 10% is our employee cost, employee benefit expenses. And on the greenfield project, sir, if you could give us some more color, what would be the size of the product profile also? And we have mentioned in our presentation that the greenfield project is satisfactory and is expected to commission in FY '25, I think so for this Financial Year '24-'25 we will commission it?

Sanjay Majumdar: Yes.

Vishal Rangwala: So, what we have talked earlier that we are expecting to invest about Rs. 300 odd crores in the greenfield site over next two plus years. There we are expanding our existing product, basically our large size cage product portfolio we are expanding. We are doing some expansion of industrial bearings. As well as some bushings is what we have planned so far. And we are also going through a significant growth on the stamping component side. So, that's what is getting expanded on the third site, which is under construction, as we talked, will be commissioned in fourth quarter. And then we will continue to invest and that it will take couple of years before it can really –

Sanjay Majumdar: In a phased manner, yes.

Vishal Rangwala: So, it's suggested it will take some time before we can actually have a significant volume out of it. But these are very long term investments. Currently major investment going on in the building and land and other infrastructure which will be used as a foundation for the next phase of growth.

Saket Kapoor: What will be the asset turnover ratio when you say that it will be built in a phased manner?

Sanjay Majumdar: See, in my our industry, we estimate asset turn to be 2, but in a day one we cannot achieve 2 because the bigger chunk or the initial chunk of investment is going into infrastructure, which will be used as a foundation for a lot of other investments and so on. So, initially it may be lower but this is our benchmark, we average about 2 on the investment to turnover.

Maulik Jasani: And just to touch up, Saket, your point on the employee cost, it is around 10% at the standalone level, reason mainly is, we have a high mix of skilled and unskilled labor, considering that we do the precision engineering and we need a quite a good qualified engineers' teams deployed on the various activities, including the new product development activities and production activities. So, this is the average yield. And where we are focusing as of now is to improve the productivity as a overall output. And also to work on the various automations which we already deployed in various lines and we continue to deploy in other lines in the automation mode so that we can reduce on the labor cost.

Saket Kapoor: Last point, sir, a suggestion from my side, correct me there also. In our presentation, the number of plants we have and the product profile, I am unable to find any slide there. So, correct me if I am missing something.

Sanjay Majumdar: So, if you can refer to our previous investor relationship slide, we have a company overview in our quarterly presentations In the latest presentation we have just removed the company overview slides, considering that now it has been published almost last more 10 months.

Vishal Rangwala: So, we have two major plants in India near Ahmedabad, one in Romania, one in China, and the third greenfield site is coming up again just adjacent to our Ahmedabad plant facility. So, there' total five plants once the greenfield becomes operation.

Sanjay Majumdar: Yes, and details are there in the previous presentation.

Saket Kapoor: We should continue with that. We are still a very new company in the listed space, so a lot of investors interest would be there to understand, and you are doing CAPEX also. So, if you could add the same and provide us with an input of what actually is specialization in the different facilities, that would suffice a lot of queries. Hardly a page or two in your presentation would serve the purpose.

Vishal Rangwala: No, doesn't matter. Point taken.

Moderator: Thank you. The next question is from the line of Sriyam Kapoor from PL Capital. Please go ahead.

Sriyam Kapoor: Congrats on a good set of numbers. I just had a few bookkeeping questions, if you could help us with the revenue numbers for Romania and China individually for FY'24.

Maulik Jasani: So, China has done the revenue for the full year of FY'24 is around Rs. 90 crores to Rs. 93 crores, and Romania is around Rs. 224 crores.

Sriyam Kapoor: And if you could also share what the capacity utilization has been for Romania, both in your castings as well as the large size cages? And whether there's been any expansion outside India in the last year, so are there any plans for that going forward?

Sanjay Majumdar: So, on the casting front, Romania has a lot of capacities and it's very nominal utilization as of now, considering they have a huge capacity, maybe in the range of 20% to 25%. I do not have handy numbers. While on the cage front, the utilization is around 40% plus in Romania, and China is around 50% or 60% around in China cages.

Vishal Rangwala: And this is for the current quarter, recent numbers.

Sriyam Kapoor: And just last question, if you could also share, I believe you mentioned that Japanese contribution, I might have missed that, what's the share of Japanese revenue, you had mentioned earlier that you would get back to us. Do you have the number handy or would we have to take that maybe offline?

Maulik Jasani: Yes. So, Japanese, the last year sales is around Rs. 65 crores.

Vishal Rangwala: Yes. In fact this was also one of the earlier questions, so we just got the data, its Rs. 64 crores.

Sriyam Kapoor: Yes, I was just following up on that, so Rs. 65 crores in FY'24. And you expect this to grow maybe about 20% or 30% in FY '25, correct?

Vishal Rangwala: Correct. There was a some muted growth, but yes, it will improve this year.

Moderator: Thank you. The next question is from the line of Pankaj Motwani from Equirus Wealth. Please go ahead.

Pankaj Motwani: Sir, a follow-up question on bushing growth. So, bushing, just I want to understand the bushing growth is due to the conversions or switchgears or there could be some increasing volume of switchgears too?

Maulik Jasani: Can you repeat your question, sorry?

Vishal Rangwala: Yes, we didn't understand. Can you repeat, please?

Pankaj Motwani: So, I want to understand that you explained bushing growth is due to the conversion of switchgear. So, there could be some also design like increasing volume of switchgears?

Vishal Rangwala: No, I think maybe probably I said something which created this confusion. The growth is because more gearboxes are going with bushings versus earlier. Earlier it was supplied with bearings, and only some of those bearings are now replaced with bushing. And the gearbox with bushing included in it as a percentage is rising in our customers' supply, and which is driving the growth of the bushing.

Pankaj Motwani: Where are these conversions, I think these are happening in India or all over the globe?

Vishal Rangwala: Currently our majority supply is in India to our customers in India, some minor quantity goes outside India. However, we understand that our customers are sending these gearboxes supplying in India as well as supplying outside India.

Pankaj Motwani: And what are the margins in our bushings segment?

Maulik Jasani: They are comparable at India level, around 20%, 21% EBITDA.

Pankaj Motwani: And just a single bookkeeping question. So, if you look at our solar EPC EBITDA and PAT, so that are slightly different in our standalone and consol business. So, I believe that solar EPC business is in our standalone books only. So, what is the reason behind the difference?

Maulik Jasani: So, Pankaj, as we mentioned during the call, there is a Rs. 67 lakh of loss in standalone books on account of USA subsidiary closed down, and that was a solar subsidiary. And hence in a consol it has been eliminated because loss of booked in previous years in consol, and hence there is a gap.

Moderator: Thank you. The next question is from the line of Saket Kapoor from Kapoor & Company. Thank you. You may proceed now.

Saket Kapoor: Sir, can you provide me the mix of sales between our bearing cages and the bushes, and the split up of the same, what are the key components, sir, of the sales mix in percentage terms?

Maulik Jasani: Bushings numbers we have already given you. We have given you the stamping numbers, so rest are the cages and semi finished products in Romania and the byproducts, scrap cells, and we do not give that breakup.

Saket Kapoor: Roughly the split if you can share.

Vishal Rangwala: Saket, we do not give that break up so far.

Saket Kapoor: And lastly sir, have we had any IR for our company or is it in-house?

Vishal Rangwala: So, it is in-house. And Sanjay is also on the call, supports us on all the IR activities.

Saket Kapoor: Sir, we should ideally look for engaging an IR firm, because of the story of the company and also going ahead the type of CAPEX the country is witnessing, and how well the story can be gelled along with the CAPEX which is in the anvil of completion and then taking place. The investor needs to be abreast about the activities and that should be given with an improved quality of our investor presentation also. So, I request the board to take on note of engaging with an IR firm. There are various people associated in the country which can provide superior services for the investing community, so kindly consider.

Vishal Rangwala: Sure. Point taken.

Saket Kapoor: Please take note of it. And then lastly sir, on the AGM part also, we find it that today in the month of May we have announced our numbers, and we are done with it, and we are coming up with an AGM in the month of September. So, what led to this six-month preparation or four-month preparation to hold an AGM that was also as an OVM platform? And again, the dividend also of Rs. 1, although you have mentioned about the policy and all. But still that payout will happen also in the month of September. So, just wanted to understand that thought process if that could be taken on the call or if you want to one-on-one also I can understand that, but a four month gap.

Sanjay Majumdar: One important thing is, we have started, Saket, giving integrated reporting which requires some more efforts on finalizing the overall integrated reporting activities with our consultant and advisor. And we are not able to share the numbers with them in advance till the time we did the board meeting and put it in the public domain. And hence this is some incremental time for that additional activities in the air for integrated activity. We have noted your time and we are focused on reducing the timelines. As you can see that our board meeting is in the 16th May not in the last week of the May.

Saket Kapoor: Correct, sir. We hope for better interaction, more understanding of your company. Are you interested to meet investors also, sir, where investors can come down and meet also?

Vishal Rangwala: Yes, you can connect us and we can plan it accordingly.

Sanjay Majumdar: We meet regularly, there's no problem. We attend conferences, we attend calls. We are always available for all interactions, not a problem.

Moderator: Thank you. As there are no further questions, I now hand the conference over to Mr. Vishal Rangwala, CEO of the company, for closing comments.

Vishal Rangwala: Great. Thank you everyone for patiently attending this call and listening to our commentary and inputs. We hope you have received all the relevant information. And then as Sanjay bhai mentioned, you can reach to us and we can support if there is further gap we need to fill in. With that, really appreciate your time and thank you very much. And have a good evening.

Sanjay Majumdar: Thank you.

Moderator: Thank you. On behalf of Harsha Engineers International Limited, that concludes this conference. Thank you for joining us. And you may now disconnect your lines.