August 17, 2023

BSE Limited Phiroze Jeejeebhoy Towers Dalal Street, Mumbai – 400 001 **Scrip Code: 543689**	**National Stock Exchange of India Limited** Exchange Plaza, C-1, Block G Bandra Kurla Complex Bandra (E), Mumbai – 400 051 **Symbol: UNIPARTS**

Subject: Regulation 30: Transcript of Earning Call pertaining to the Unaudited Financial Results for the quarter ended June 30, 2023

Dear Sir/Madam,

Please find enclosed transcript of the investors and earning call on the Unaudited financial results of the Company for the quarter ended June 30, 2023, which was held on Thursday, August 10, 2023.

The same is also being uploaded on website of the Company at https://www.unipartsgroup.com/home/quarterly_financial_results .

You are requested to take the above on record.

Thanking You,

Yours faithfully,

For Uniparts India Limited

JATIN MAHAJAN

Digitally signed by JATIN MAHAJAN
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Date: 2023.08.17 20:34:45 +05'30'

Jatin Mahajan
Company Secretary and Compliance Officer

Encl: As above

UNIPARTS GROUP

"Uniparts India Q1 FY24 Earnings Conference Call"

August 10, 2023

MANAGEMENT:	**MR. GURDEEP SONI - CHAIRMAN AND MANAGING DIRECTOR, UNIPARTS INDIA** **MR. PARAMJIT SINGH SONI - VICE CHAIRMAN AND EXECUTIVE DIRECTOR, UNIPARTS INDIA** **MR. ROHIT MAHESWARI - GROUP CHIEF FINANCIAL OFFICER, UNIPARTS INDIA** **MR. VIVEK MAHESHWARI - VICE PRESIDENT, FINANCIAL PLANNING AND ANALYSIS AND INVESTOR RELATIONS, UNIPARTS INDIA**
MODERATOR:	**MS. SHRIDA SHAH - GO INDIA ADVISORS**

Moderator: Ladies and gentlemen, good day and welcome to Uniparts India Q1 FY24 Earnings Conference Call hosted by Go India Advisors.

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 touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Ms. Shrida Shah from Go India Advisors. Thank you and over to you, ma'am.

Shrida Shah: Thank you, Seema. Good afternoon, everyone, and welcome to the Q1 FY2024 Earnings Call for Uniparts India Limited.

We have on the call with us, Mr. Gurdeep Soni – Chairman and Managing Director; Mr. Paramjit Singh Soni – Vice Chairman and Executive Director; Mr. Rohit Maheswari – Group Chief Financial Officer and Mr. Vivek Maheshwari – Vice President, Financial Planning and Analysis and Investor Relations.

We must remind you that the discussions on today's call may include certain forward-looking statements and must therefore be viewed in conjunction with the risks that the company may face. I will now request the management to take us through the financials and the business outlook subsequent to which we will open the floor for questions and answers. I will now hand over to Mr. Gurdeep Soni. Thank you and over to you, sir.

Gurdeep Soni: Thank you. Good evening, ladies and gentlemen, and welcome to the quarter one FY24 Earnings Call of Uniparts India Limited.

I would like to extend our heartfelt gratitude for the continued support and interest from investors, analysts and capital market participants.

Before we get into the details of the reported quarter, I would like to reiterate that the core of our organizational functioning is guided by the principles of passion, innovation, integrity, excellence and teamwork. The Uniparts team has worked diligently and with passion over the years to establish Uniparts as a preferred supplier to the global off highway vehicle market. The world today is prioritizing food security as well as infrastructure build out and modernization more than ever before. These trends are likely to continue in the long term and we at Uniparts believe that we have a robust global business model to cater to these trends through our off-highway focus and well positioned product offerings to marquee customers portfolio. Uniparts is present both in the OEM and aftermarket segments in the Off Highway industry with strong global operating model and wide customer base comprising of (+125) customers from across the globe. Our products are shipped to over 25 countries worldwide.

With the above backdrop, let me spend next few minutes sharing my thoughts with respect to the current operating environment and the business highlights for the first quarter of FY24. To start with, the North American small ag market demand continues to be subdued in the short term. There is softness in the aftermarket segment in both Europe and USA and this is extending a little more than earlier estimated. This includes inventory levels rebalancing at customer's end as one of the drivers for the softness. North American Large Ag and construction equipment market is performing well with healthy end user demand. Demand from Europe based OEM customers is stable. Demand in Indian domestic tractor market made a slow start of the year, but it is expected to pick up in the balance year. With the following reasons and the backdrop for the overall demand outlook remains soft in Q2 of FY24. Our new enquiry engagements are conversions owing to the China Plus One theme continue to have very good traction. The progress on new initiatives, namely the three-point linkage system for the utility train vehicles as we call them UTVs and the newly acquired account in USA, which is the second largest retail store group for farm equipment and accessories in North America, is progressing well on the expected lines.

During the current phase of mixed external environment, we continue to focus on the following. We are closely monitoring the macro and micro factors likely to have bearing on short-to-medium term demand, identifying opportunities to expedite new business implementation, operational efficiencies and costs, and augment the digital platform creating further agility and optimization to our business. Our efforts continue to be focused on executing our medium-term business plan. We stay course on our operational endeavors, leverage our deep customer relationships, global business model and strong financial profile to optimize the opportunities emerging in the rapidly changing and evolving operational environment. We further believe that our five key strengths that is our leading market presence in off Highways system segment, our global business model, our engineering and design capabilities, our robust financial performance metrics and our experienced and very passionate team continue to drive Uniparts forward. As large global players are increasingly looking beyond China, India's manufacturing sector is expected to benefit significantly from this and we continue to witness favorable impact from new enquiries. Further, the augmented global need for food security as well as infrastructure build out and robust income levels of global agricultural industry are expected to keep demand for new equipment at healthy levels. With this I would like to hand over to Vivek Maheshwari to discuss the details of our financial performances during the reported quarter. I hand over to Vivek, please and thank you.

Vivek Maheshwari: Thank you, sir. Good evening, all.

I would like to share following "Financial and Business Highlights" of the quarter ending 30th June 2023.:

Revenues from operations for Q1 came in at Rs. 297 crore, which is a year-on-year change of minus 14.4%. Reported EBITDA for Q1 was Rs. 60.2 crore, which is a change which changed year-on-year by minus 20.9%. EBITDA margin reported at 20.3% for quarter one. PAT for the quarter came in at Rs. 37.1 crore which is approximately 26.5% lower year-on-year. Operating cash flow generation for the reported quarter was Rs. 46 crore, the net working capital which comprises of the big three elements of inventory, AR and AP, as number of days of revenue from operations on TTM basis was approximately 147 days. Working capital comprising of big three elements improved in absolute value by about Rs. 9 crores during the quarter. The business therefore continues to generate higher than guided cash flow.

Uniparts' balance sheet continues to be net debt free with group net cash position at approximately Rs. 54 crores at the end of the quarter. CAPEX for the quarter has been approximately Rs. 8.2 crores. Inflationary pressure on operating costs remains in medium term to be partially mitigated through operating efficiencies. Macro concerns over global economic slowdown and impact of worldwide interest rate hikes continues to remain a key monitorable.

With this summary, I would like to hand over the conference back to the moderator for a question-and-answer session. Thanks very much.

Moderator: Thank you very much, sir. We will now begin with the question-and-answer session. We take the first question from the line of Saurabh Jain from Sunidhi Securities. Please go ahead.

Saurabh Jain: I have a few questions. My first question is, sir, last quarter, the impact of inventory destocking was Rs. 25 crores to Rs. 30 crores as you had mentioned on the last call. So, you had mentioned that this might go on for a couple of quarters, but the impact may not be of this quantum. So, could you tell us what was the impact of destocking in this quarter and what would be the course going forward?

Paramjit Soni: This is Paramjit Soni here, Saurabh. Thank you for the question, Saurabh. My estimate of the inventory destocking in this last quarter is in the region of Rs. 27 crores. So, ballpark in that number of 25 to 30 that I had mentioned, I think we are within that zone. We still see some of this cycling down. I had already mentioned last time that Q1 and Q2 will be soft and I do think Q2 will be soft. I don't think it will be to the level of Rs. 27 crores. I think it will be lesser as some of this is getting in our rearview mirror. My gut sense is that while it's difficult to tell, my gut senses but this destocking may take another quarter or quarter and a half at best and then we are out of it. But Saurabh, it's a moving target because it's very hard to predict these sort of things.

Saurabh Jain: Also, sir, during the last quarter, we had already toned down our top line guidance for FY24 from 15%-16% to high single digits, that's what we had mentioned. So, considering this quarter's performance, how do you see the year playing out? Would you further tone it down or high single digits look good with you? And how is the scenario shaping up in US and Europe, particularly in small equipment and precisely in this fiscal for the second half, since you have already mentioned that Q2 also is likely to be a bit softer. And if you could also give us some data how our clients are doing in terms of volumes in last two quarters, how John Deere or Kubota have fared and what is the guidance from them for the rest of the year?

Paramjit Soni: As far as giving the guidance for the full year, I think I want to refrain a little bit for the full year just now. I do believe it's a tough year. Quarter 2 will be tough as well. Let me give you a better guidance once I'm in half two or something as I get closer, but the sense on the, to answer your question on the overall markets and where it's going, I think the US, like Gurdeep mentioned, the US small tractor market seems to be more severely hit than what was earlier anticipated and consequently the inventory cut downs are also significant over there. The other aspect of our business which has taken the hit is the aftermarket, which is where it's very difficult to do with data because the aftermarket hasn't predicted that well for you. The OEMs still you have some data, but the aftermarket is more difficult to predict. But there also we're seeing significant more cuts than earlier anticipated and the inventory adjustments there are high. The construction equipment market in the US continues to remain robust. So, when you ask me for and so does the large equipment continues to be good. Europe has become a little bit more stable now. I thought it was between stable to up 5% for me till the last call. I think it's more stable now as far as I'm concerned, and the Indian market, I think the Q1 has been soft, but it is expected to pick it up. So, Saurabh, it's a little bit of a mixed bag. Sorry for the elongated answer, but our market is divided into so many different segments and two segments are not doing well. The other segments are doing well and some are stable. So, it's not a simple answer unfortunately. It's a long answer. Having said this, I think the robustness of the business model on having participating and making it more risk mitigated kind of remains and I think we're seeing the benefits of that. The key factor go forward is actually the amount of interest we are seeing on the new business and I think the rate at which we see this coming has significantly gone up, Saurabh. From an earlier situation, we used to have a run rate of about Rs. 200 crores of business. A year come in and awards already, I'm looking at the trailing 12 months at about Rs. 330 crores. So, it's actually significantly jumping and how much of this will translate into Q3-Q4 and Q4 I think you may see a quite a bit of numbers. But frankly, a lot of it you may see in the next year. So, that part remains very, very good. The traction on the UTV side remains very good. So, there are some pluses and minuses on this, Saurabh.

Saurabh Jain: Sir, my third question is on our margins. Our growth and EBITDA margins have fallen on an annual basis. And during all our previous interactions, we had mentioned that profit margins are likely to improve on account of rising share of warehousing and many other factors. So, your comments on that?

Paramjit Soni: I am still maintaining my earlier saying that yes, on the long term they will continue to improve and that is what I expect. If you look at what's happening just now and I'd mentioned this earlier as well, last year as commodity prices and trade prices were going up, we had some benefit come on our inventory side and I had said last year as well that in our financial there was a Rs. 15 crore benefit. As freight prices and steel prices are cycling down through the levels, I think you will see some of that correction happen. Part of the drop in revenue also you're seeing is because of the price corrections. And freight frankly has come back to about what it used to be pre COVID levels now. So, all that cycling through has already occurred. As you see this go forward, I think the margins are robust in each one. You see part of it is going to be if you look at the material for example, looks slightly more higher, but then, Saurabh, if you drop the freight by anything, the freight may have dropped between 3% to 4%. So, if you drop the freight from the selling price and the expense, technically you have a lower denominator and hence the material looks higher. But overall if you look at the combination of material and freight together, I think that's still in the same region. This quarter you're only seeing it a little bit simply because of the slightly lower volume and hence maybe the operating delver on that. But other than that, the key material cost, all our conversion cost, everything is still in good shape. Coming back, I had said to you earlier that our highest margins come from the warehouse business model. That still continues frankly till the last call we were saying, hey, we were at 44% and I would go to between 47% to 48% over the next three to four years. This quarter, we're already at 47% not because and I can't take credit for that. It's actually happened because that side of the business did not take as much of a hit as the aftermarket business, which is more coming from direct exports out of India. So, because the direct export went down, you see the warehouse business looking higher, but longer term, maybe this will cycle back a little bit, Saurabh, but then it will go back again to 47-48 of what I had told you earlier. So, I'm maintaining my guidance for that. So, even despite the lower sales, Saurabh, we're still over 20% in EBITDA.

Saurabh Jain: Sir, one thing, we have been mentioning our market shares in 3PL and PMP based on FY22 estimates. So, it's been several quarters since then and do you think there is any possibility that we have lost our market share in any of these segments? And if you could talk about little bit about the competitors, how they have fared during this period and also if you can talk about our orders in hand?

Paramjit Soni: So, Saurabh, in terms of market share, obviously the last mapping we did with that we don't actively map that every quarter or anything. But in terms of your question of, do you think you've lost any market share, I don't think so. In contrast, I think we may have gained a few because. for example, we gained new business with Case New Holland in the large tractors, right? So, as you're getting this it's coming off somebody else because of with all this resourcing happening. Even on the China Plus One, theoretically we are gaining market share as well, right? China's that product is shifting. So, do I have it mapped, Saurabh, the answer is no. Do I believe we've lost market share? I don't believe we've lost market share, on contrary I think we may have gained a little bit, but I don't have the exact mapping to answer your question to that level of detail just now, I can only give you my macro sense on it.

Saurabh Jain: Any thoughts about orders, order book or something?

Paramjit Soni: The order book is still good. Like I said, quarter two is looking tough, but quarter three and quarter four are looking good based on the new business as well. But the customers are still fluctuating the order book quite a bit. Especially as the market is dynamic, we've seen, like I said in last quarter for example Europe, I was flat to up 5%, but now I'm saying Europe maybe flat because I think they're reducing their order book go forward a little bit. But the US construction equipment continues to remain strong. The US large Ag continues to remain strong. The aftermarket and the US small Ag actually are even more worse hit than what I thought they would be. So, those two are actually getting pretty badly hit and India is expected to be flat. So, that's how the outlook is looking.

Saurabh Jain: My last question, sir. This quarter we have skipped our regular slide of revenue break up in terms of product vertical, geographies and market presence and agri and CFM segments. So, if you could provide us with the numbers or if you want, I can take it offline, but just a request that going forward we should provide these details. That would be helpful.

Paramjit Soni: I can give those now, Saurabh. So, as far as the geographical mix is concerned, Saurabh, there is no significant change. And again you should look at the full year versus the quarter rather than not quarter-on-quarter but to give you, when I'm giving you these numbers, these are full year FY23 numbers versus Q1 of FY24 because if you look at them quarter-to-quarter the variations may be larger. But looking in this way, Americas is still about 50% of our market. That's remains. Europe is still 23% that remains. India is actually slightly moved up from 15% to 16% of our market because Indian market hasn't been going down, it's more flattish, right? And then Japan has actually moved up from 5% to 5.7% of market and the rest of the world has kind of dropped from 6% to 4%. So, not a significant change per se. The larger change that you will see is more on product verticals as 3-point linkage business has actually dropped from 56% to more like 47% now. In contrast, our PMP business, which is more focused on the construction, has moved from 40% to 51%. This is in sync, Saurabh, is what I've been saying, the small Ag market in the US and the aftermarket which is also on the smaller tractor that is hitting the 3-point linkage, whereas the construction is robust. So, you're seeing that shift happen. From a margin perspective, it doesn't bother me on this shift because my margins are similar on both. And this is frankly part of our risk mitigation, Saurabh, when one segment is not doing another one is doing better. I think that's the robustness of our model. If I look at it by the delivery channel, Saurabh, we moved on the warehouse side. We used to be 44% for FY23, Quarter one actually has been at 47.6% on the warehouse. And direct exports have gone down from 29% to about 23%. And so clearly, you are seeing that shift, which I had mentioned in that the way warehouse has gone up a little bit. Similarly, Saurabh, when I look at the OEM and the aftermarket side of the business, OEM was 84% and FY23 is actually 87%. Now in the aftermarket, which was 16% has dropped to 13%. Again, in sync with what I'm telling you how the aftermarket is a bit softer. And if I give you the mix from a agricultural and construction market, Ag contributed 71% of our business, now is contributing 66%. Construction moved up from 29% to 33%. So, hope that gives you all the different permutation and combinations you need on this, Saurabh.

Moderator: Thank you. The next question is from the line of Pranav Muchhala from Reliance General Insurance. Please go ahead, sir.

Pranav Muchhala: My question was that particularly that what we've seen is if I look at on a Y-o-Y basis also particularly we've seen the topline degrowing by 50 odd crores to 297 crores. So, if you could help me understand how much of that would be an impact, particularly from aftermarket and rest from other segments and also if I could also understand that what has been the root cause for a sudden decline in the demand for US' small tractor market which has been hit much more than our anticipation?

Paramjit Soni: I don't have that breakout, but I can tell you out of the 50 crores like I was answering to the earlier question, about 27 crores of that actually came out of just inventory destocking. So, about 50%. plus of what you're seeing is actually not related to the true consumption at the end customer. It's actually coming off the portion of the inventory destocking happening. On top of that, I estimate close to about 8 crores-9 crores of that has come off from price downs related to freight in this thing. So, the real volume reduction has not been that high, Pranav. And to answer your question on the why the US small Ag is going down, I think the small tractor here is more a utility tractor and with the interest rates going up and stuff like that, I think this is the kind of commodity that has got hit here. It's not a farming tractor. The serious farming tractors are over 200 horsepower here. And because the farm income still remains strong that segment is still growing 8% to 10% in the US on the large. I think the small one is more becoming a consumer thing and this is maybe the consumer while the consumer spend in the US is good, I think it's the big ticket spend on the consumer side may be slowing down a bit.

Pranav Muchhala: Sir, one more update which I wanted to understand is that, we had recently tied up with one of the major players in aftermarket, especially TSC and we were pretty confident of making inroads with them and boosting our aftermarket sales with them. So, how is that fructified? Has that not been good enough to nullify the impact that we see over here in the small tractors? Has that not picked up well enough?

Paramjit Soni: No, it is running from an end market perspective, they are also equally hit from a perspective what the end market is doing and the inventory destocking is doing. So, they are not different to anything else on that. But our sales to them continue to be, but they are also performing the way the rest of the market is performing. What is really working well with them for me is, they are the ones I used to actually launch the UTV platform for us for the 3-point linkage and that frankly has been going phenomenally well. And I think the interest that we are seeing there is absolutely amazing and it's on track and like I had mentioned even the last time that opportunity alone is actually equal to almost the entire 3-point linkage market on the small tractor that I have US over the next few years. So, that with TSC is growing rapidly. We are exploring new China Plus One opportunities with them on other products which they want to resource out of China. That's still in the pipeline a little bit at the early stages, but the UTV ATV is doing phenomenally well with them and at the same time while I'm partnering with them to launch this, we've already started our work on all of this with let's say other aftermarket chains like Gurdeep mentioned, we've got the second biggest chain now. And now I'm actually taking this out to those guys with a slight 6-month to 8-month lag from TSC, we will open the next one on this and everybody showing a lot of interest on that. So, the relationship with TSC is actually very, very robust.

Pranav Muchhala: The reason I was asking is that, seemingly I feel that we seem to be stuck. If I look at Q3 top line 330 crores, Q4 328, Q1 close to 297. So, seemingly we seem to be stuck and with a decelerating trend. What is that we are trying to do that with over and about the inventory destocking which you know which is what it is that we try to diversify to at least up the hill and buck the trend in terms of a deceleration in the top line.

Paramjit Soni: Which is all the new business, which is what Gurdeep referred to earlier that we are going to implement all this new business and speeden it up. I mentioned to you already the awards last year were about 200 crores, this year on a trailing 12-month basis, they're already at 330 crores. So, you're seeing a significant jump in the new awards. We are focused on the execution of that. The UTV ATV you'll start see sales of that starting on quarter four when the launch happens. So, clearly, you will see a few of these things. So, what can we do? The market is the market. So, you are going to go ahead and make sure that all your other aspects on China Plus One the projects that you're executing as well as the other strategic projects you're executing, those run on track and go faster. So, we are executing on those.

Pranav Muchhala: How much does our order book stand as of, to get a perspective, if you could share?

Paramjit Soni: The aftermarket doesn't give me an order book beyond 90 days, so it's a difficult, if I give you an order book, I'm not going to give you an order book go forward. But the OEM order books, clearly, we have all the way up going forward, but the aftermarket doesn't. So, I can't really answer that question of how much the total order book stand. If you're looking at the total order book on how the OEM's go or something, I can get those numbers out and call those out for you. I don't have them of the top of my head just now, though.

Pranav Muchhala: And sir, one question which I wanted to understand is that, since USA is 50% for us, what are the challenges for us to move up in terms of HP up in the tractors, where it can hedge us in terms of in terms of the impact that we are seeing in terms of the small HP or the small tractor size? Is there any possibility where we can move up the HP and that can potentially hedge the impact?

Paramjit Soni: And that we are doing that. You're absolutely right that one of our growth areas was greater than 70 horsepower. We've made inroads already with Case New Holland in the United States this year. We'll see that come into the focus in production in next year. Similarly, the larger of this is actually being used in the European market, I think if you look at the large horsepower, let me just segment that again for you. When I say small tractor, I mean below 70 and when I say large Ag actually it's for me it's over 100 because there's really no category between 70 to 100. And then when you go from 100 to 200 is really the farming tractor in Europe. In the US that is still a little bit of that. But literally 200 plus is the real farming tractor in the US, so the 200 plus horsepower tractor, a lot, Deere, for example produces those linkage in house But till such time as they don't outsource that, that opportunity is limited. So, we focus more on the 100 to 200 horsepower and I think over there we are making some gains not just in with Case New Holland there but we're also looking at some projects in Europe with **agco** and at the same time, we've also looked at some projects with the companies out of Korea, which were further exporting these into Europe and the US. So, all those, Pranav, continue on track.

Pranav Muchhala: And sir, if you could also give me any update on the hydraulic cylinders, where is that going? Are we getting some traction over there? Are we getting some new orders or not?

Paramjit Soni: Yes, hydraulics not on cylinders but on hydraulic components. So, on that we've already launched the one that I had done earlier which was indirectly going to go to **danfoss** I think that is already in play one project and I think there are two more projects in the pipeline there.

Moderator: Thank you, sir. The next question is from the line of Chirag Uttam Jain from Emkay Global Financial Services. Please go ahead, sir.

Chirag Uttam Jain: So, just wanted to check, so one obviously despite the tough environment, our profitability and cash flow is quite strong and obviously we are sitting on a net cash position and at the same time obviously the external environment is relatively weak. So, how do we, are we thinking about our acquisition strategies especially in the newer segments? Can this be a good opportunity for us to accelerate our growth into the new categories in this kind of environment?

Paramjit Soni: Absolutely, Chirag, And I think we are very actively looking at it. And the company is sitting on, like in the last quarter I had said, hey, I was expecting to be net debt free by maybe May or June of this year. But we were actually net debt free already at the end of March. Today I'm already sitting on 54 crores of net cash even after paying a dividend of Rs. 27 crores in the last quarter. So, clearly the cash is high and I think we are very focused on looking at that. So, I'm looking at multiple things, Chirag and but again, have to do them strategically, have to make sure my return on capital is protected. I'm not going to do something which dilutes any of our core things that we want to achieve and the opportunities are coming, especially as it's in some of these things are things cycle down. I think you will with these high interest rates in the US, you will see some opportunities come up and maybe even in Europe. So, we will see what happens, Chirag, but we are very actively pursuing those, Chirag, to answer your question.

Chirag Uttam Jain: And second in terms of the down cycle in terms of the small agri tractor space, based on your past experience, typically how long does is last and especially when obviously when things will come back, I'm sure there will be restocking again to the earlier levels. So, any, thoughts around that in terms of how long this down cycle could last?

Paramjit Soni: I don't think. See the small tractor may only last maybe a year, year and a half as a down cycle. It's a consumer cycle, so I think we'll see how the economy goes in that. But here is the thing Chirag, which I think as we, so there's a down cycle happening. So, FY24 is getting hit. I actually believe in FY25 what's going to happen, Chirag? At the end of the day, you won't see the impact of the time down cycle because that's already out of the way. So, any reduction in sales we've seen in this year that will be added growth over normal. Then on top of that, you're going to see, in any case, the run rate that on new business has gone up, so you're going to see that come out. So, for me, FY25 is going to be way higher than my normal 16% predicted long term growth while this one is lower, I think FY25 will be significant higher in percentages. I'm still maintaining my normal long-term scenario of 16% that we will be able to do over the four year period-five year period. So, I'm not changing those Chirag, because fundamentally nothing has changed over there. It's a cycle, in our entire model we knew that cycles come and we've taken only the secular growth of the markets of 4% to 5% through the system and the rest was coming 11% to 12% of our growth was going to come from the new business, China Plus One and gaining market share. That portion is actually robust. So, if you are talking of just the cycles, it will come, it will go. It's not the first cycle I will see in my life. So, I do see FY25 significantly better. I do see whenever this cycle turns back you will see the increase from the stocking up go there, that's part of the business, Chirag, over here.

Chirag Uttam Jain: And just last thing, just to reconfirm, this kind of cyclical challenges is not impacting our structural initiatives to let us say expand our presence in large tractors or 3PL for UTVs or even let us say China Plus One, by and large that seems to be on track. There could be one or two quarters delay here and there, but by and large, let us say the medium story remains intact?

Paramjit Soni: Absolutely Chirag. In fact, it is like one of my customer says, you got to have your eyes on the horizon and your feet on the ground. So, the horizon part 3-4-5 years, all that is intact. And in fact we are executing. We have our feet on the ground executing everything. So, whether it's the hydraulics, whether it's greater than 70 horsepower, whether it's the UTV, all that is executing and I think it's all on track. What has taken, to be honest with you, what's taken me completely by surprise, is the scale at which these small tractor market came down. If you asked me on the history, I've never seen that larger decline. Does the decline happen? Yes. Does it happen to this amplitude? That is a new one, but this is where the business model becomes really nice now, because as this is happening, we are seeing still growth on our construction equipment side. We're still seeing growth on the larger ag side. So, I go back to the years when we were only in the small tractor. Can you imagine what would have happened to our company if we were only in that Chirag? So, clearly, I think the entire robustness of the model is, so my long term is completely remains and I've repeatedly said earlier, our company has lived through cycles and we really, really understand how to manage ourselves through cycles. If you look at what I've been saying, I think what I'm building the strength for the company today are to deal with volatility because everything when something changes that dramatically, that's what I think we have to build on. We're currently building some phenomenal digital tools to be able to arm us with significant better data to be able to deal with volatility as well and how we react quickly, but, Chirag, long term I think I'm not changing anything. I'm not changing my long-term guidance with just one or two quarters decline.

Moderator: Thank you. We take the next question from the line of Srinjana from RatnaTraya Capital. Please go ahead.

Srinjana: Just a couple of questions from my side. So, one is on the demand side. So, on the demand side you mentioned that on the small Agri business at the end consumers there is some inventory correction, which is happening. So, I just wanted to understand what kind of inventory correction is it like how much inventory were they holding previously and what kind of correction is happening on that side? So, yeah, that's my first question.

Paramjit Soni: It's not the inventory that I am holding at my end, it's the inventory, the channel inventory that customers and dealers are sitting on, they're cycling that down, which is causing the demand to go down. Like I mentioned earlier, when on the previous question when somebody mentioned you dropped about 50 odd crores and I said already about 27 crores of that is my estimate of how much the channel inventory has gone down. So, this is not my inventory that is going on that is that is something that we manage internally, our working capital and everything separate. The numbers that I'm giving you, the 27 crores out of the 50 crores is actually just the channel inventory which has gone down. All right.

Srinjana: Secondly, on the interest expense side, since we don't have debt as of now like in opening commentary, it was mentioned we have around 50 crores of net cash. So, just wanted to understand why do we have interest expense of around 1.1 crores this quarter? Is it related to some working capital debt or?

Paramjit Soni: No, I think we had some fixed term debt working capital debt actually finished I think a couple of months ago only. And so there is some term debt which gets paid every month. So, if I look at that at the end of June, you're sitting at about, so you're between 9 crores to 10 crores of that as balance, I'm sitting with about 64 crores-65 crores worth of cash and cash equivalents. So, when I give you my net being positive of 54, it's actually taking that 64 deducting the 10 crores that we have there and I'm giving you that number. So, the interest that you see is maybe it's going to keep coming down further because I've actually just in July paid off another term debt as well. So, wherever I can get rid of them, I'm getting rid of them if it makes sense for me to get rid of them. It's not a big concern to us on this time. I think my bigger concern is I need to quickly deploy the money in an acquisition, so that's what I'm focused on.

Srinjana: Just one more question, sir. So, on the other expenses side, it has come down even sequentially and year on year. So, is it because of this change in the mix where our warehousing share has increased, is it because of that?

Paramjit Soni: No, I think that's a great question that has come down because of freight predominantly.

Rohit Maheshwari: And inflation recovery zone.

Srinjana: So, warehousing share has gone up. So, in terms of, because trade would be less like that was my assumption that create cost would be less in terms when we do a warehousing sales. So, that translates into lower Opex for warehousing, is that understanding wrong?

Paramjit Soni: No, let's say, what do I mean when freight has come down, whether I ship material to our own warehouses or whether I ship it to some customers out there, my terms are where I'm paying the freight on the CIF basis or whatever. There was this entire sea freight in the pricing right. So, container cost to give you a sense so before COVID started, if you were shipping a container from India to the US, you were paying between all the way inland, maybe between $4000 to $5000 a container. To give you a sense of this, at its peak, it actually went up to $15,000-$16,000 a container. It is now back to the $4000 to $5000 a container. So, technically when you say lower freight costs as freight comes down, freight used to be between 3% to 4% of our sales in typical pre-COVID. It actually went up in last year in some quarters to as high as 7% to 8%. And now it's back to the 4% odd levels and it's still trending down as it's cycling through the system. So, that is what is driving it. So, when you see the other expenses come down, if you take 2%-3% off on just freight, that's the bigger one. The other part is that on the other expense, we changed our agreements with customers where we wanted to use the exchange rate to help us pay off inflations or inflation recovery and foreign exchange is helping us compensate and delver some of our fixed operating cost as well over there. So, it's a combination of both but the heavy lifting on this has been done by the freight cost.

Moderator: Thank you. The next question is from the line of Chetan Gindodia from AlfAccurate Advisors. Please go ahead, sir.

Chetan Gindodia: We wanted to understand regarding the order book position. So, as per last communication it was over 460 crores at that time from the OEM side that was to be there over the next four years. So, if you can give any update of the book or any new orders that you have received in last three months, that would be helpful.

Paramjit Soni: When you say the order book that is, I think you're referring to the new Business Awards that we have, I think that was the 400 plus number over the next few years, Chetan. Vivek, do you have that readily available? I know it was a little over 500, but I don't have the exact number in front of me. Vivek, can you help me out with that? Otherwise, we'll have to come back, Chetan.

Vivek Maheshwari: Yes, it is. These are awards and values of projects on which we are working and are likely to spread over three to four year period. So, it is a little over 500 crore as of now and this includes broad buckets of obviously the 3PL for UTV, then all the construction related awards that are coming through for the China Plus One reasons. Also, the high horse power projects and the hydraulic project that Paramjit sir had mentioned and also the new aftermarket account and new awards over there and some regular on our existing business, the regular additional awards. So, those are the key buckets.

Paramjit Soni: Chetan, that number has kind of increased from what we told you last time and that's in sync with what I'm telling you, couple of things are happening. During COVID nobody was able to process new RFQs and stuff like that. So, everybody talk China Plus One. But who could execute it? I think I've been saying for the last 6-8 months to one year that this is getting into execution mode now and you see that. You see that in couple of metrics. You see that, frankly we see that internally in the number of RFQ's we're getting and we're also seeing that in the number of awards we are getting. So, like I said, the awards, the early indicator for you is that the awards are going up, so if that went from 200 crore to 330 crore I think that is giving you a sync of hey, what's going to happen in the future, right? And so based with some of those, if you project that and these are annual numbers, so when you project that out, go forward the what you are seeking is the 3-4 year number and that's a consequence of all of that. So, as these awards are going up, more you will see the other part in the execution go up at a later stage as well.

Chetan Gindodia: And just lastly, how much of this 500 crore orders are projected to begin in the next one year period? I think the UTV ATV order and the high horsepower order from this new holding, the ones you pointed out. So, what would be the quantum of this, that would begin in the H2 or in say next one year?

Paramjit Soni: Vivek, you will have that number readily available, I know we have got 92 crores already implemented just now and which was part of that you are even going to see in quarter 4 and I think there is a balance implementation, which is showing Vivek, how much is that number? Can you tell me the numbers exactly, Vivek?

Vivek Maheshwari: So, the estimate as of now and broadly and obviously this is subject to fine tuning and it's all of it is indeed region of 150 to 175 for the next year.

Chetan Gindodia: This includes the 92 you just mentioned or more than that?

Paramjit Soni: 92 is more the annualized number. So, when you see it in the quarter, you will see one-fourth of that in quarter 4, right? And every Q is annualized numbers because that's the way we kind of internally look at it.

Chetan Gindodia: And this 92 and 150, these are the full potential when completely...

Paramjit Soni: Yeah, 150 to 175 that you will see that is the full new business that you will see in the next fiscal over and above any existing business that we have. So, the way we budget is we say hey, what was already the existing business and how much? Then we look at, we say, hey, this year for example, let's say we started a project worth Rs. 100 crores, but we only got two quarters of sales in this year. So, hence you still have the tail of that and you will get 50 crores next year more because now you will have a full 12-month impact. Then there are projects which will start within that year as well and you'll get some of that. So, we look at these into our Y1, Y0s and Y2s and kind of see where it is coming in and the number Vivek is giving you is an outcome of that is about 150 to 175 for new business that we can already see in the next year.

Vivek Maheshwari: Just to add to that, and since we are in August only, so as the year progresses further, so this number is subject to fine tuning and further evolving.

Paramjit Soni: Because as we do this and we implement some more things, I think you will see that change. But every quarter we kind of review them, but I think the real deep dive happens when our budgeting is happening that's traditionally what we do.

Moderator: Thank you. The next question is from the line of Mitul Shah from DAM Capital. Please go ahead, sir.

Mitul Shah: My first question is on this after market weakness. So, whenever we see recovery in this market, is it a steady gradual improvement type of based on your past experience or it is a very big spot happens like post COVID time of recovery in this type of market?

Paramjit Soni: Typically, the speed of these is fairly fast. But like I said, the decline, Mitul, that we saw this time the amplitude was very high. I've never seen that big a decline, right? Clearly, like I've been saying, volatility sits in the business now and that's how we deal with it. So, historically when it came, it also recovered quickly and you get the double whammy at that time people not only want that product or they also want to restock and hence when the market goes up by 5%-7%, that time you will see 20%-22% growth at that time because everybody wants to stock back up again. So, it will come rapidly as well whenever it cycles through. The market, it seems is getting faster and faster.

Mitul Shah: So, this phenomena can we expect in second half possibly?

Paramjit Soni: Second-half of what, next year?

Mitul Shah: Second-half, the year end FY24.

Paramjit Soni: No, I don't think you will see it come that quickly because the down cycle has started about six months ago. The down cycle once it cycle, so it will take at least a year, year and a half for this to come back.

Paramjit Soni: I don't think it goes like that. Again, you have to factor this is more a consumer product rather than a farming product over here in the US. The farming one is doing fine on the large Ag and again when you look at the India tractor market, which is also the small tractor market for us, you're not seeing the amplitude of this in India because India tractor market while Q1 may have been a little slower. But I think it will catch up for the rest of it and it's still going to be flat. It's only the US market which is driven by completely different reasons than farming.

Mitul Shah: Overall, how much contribution drop has come from USA in terms of broader breakup of revenue, US contribution compared to last two quarter, how much it is dropping this quarter?

Paramjit Soni: Like I just gave you the thing in terms of the US, I haven't compared quarter-to-quarter in terms of contribution. When I gave the geographical mix earlier to a question, the US is still the same. It was 50% of our market in FY23 in quarter one, FY24 is still 50% of the market. So, the US while it is contracting to me on the small tractor, it is also increasing on the construction equipment and the larger Ag and what is contracting for me on the aftermarket is both in Europe and in the US. When I gave you the geographical mix of the year versus this quarter, I said India moved up from 15% to 16%. So, that kind of tells you Europe and US is a little bit slower than India. So, that's the shift you're seeing. Japan also moved up from 5% to 5.7%, but then those are coming from the rest of the world because Mexico has slowed down. Brazil has slowed down. So, some of those have slowed down as well, but the big-ticket markets of Europe and US and India, if you look at it last year between these markets, I was still 50% US, 23% Europe, so 73% in these two and still in this quarter the same. India has moved 1% up. So, as a region, it's different and as a region, America is still fine for me because of the improvement in construction equipment at large Ag.

Mitul Shah: We did the products in these new orders, which is relatively faster growing segment now in terms of 3PL, PMP?

Paramjit Soni: Vivek, can you add from the breakout of the 400 crores-500 crores, Vivek?

Vivek Maheshwari: So, his question is in our view, which one is the faster growing segment? So, I believe and sir you can add to it, the awards which are coming through because of the China Plus One theme and which are largely on the construction side is one of the faster growing ones and 3PL for UTVs, it's a new market, but once the pilot is done, it can turn out to be a good one.

Mitul Shah: This sir was mentioning about the broader breakup of that 500 crore new order. If you can give that will be also equally helpful?

Paramjit Soni: Go ahead, Vivek, give the break out of the 500 where it's coming from ballpark from China Plus One construction and UTV and 3PL and hydraulic.

Vivek Maheshwari: I'll have to revert separately for that. So, I'll have to go into the details I think.

Moderator: Thank you. Due to time constraints, we will take the last question from the line of Mr. Shivam, an individual investor. Please go ahead, sir.

Shivam: I'm actually new to the company, as you have been mentioning that the margins are going up because of the change in the business model like more of the focus on the warehousing. So, just wanted to ask that is the largest sales in warehousing we are getting because in the last two fiscals there was also a supply chain disruption, so a lot. Of like, a lot of customers because we have moved towards the warehousing model. So, as these constraints ease out, so do you think that there will be a pressure on warehousing model as the supply chain disruption ease off more?

Paramjit Soni: I don't think so, Shivam, here's what I believe. How we see it? The product we do for our customers forms between 1 to 2% of their complete spend and we do a large number of SKUs for them. So, when you're thinking like that in your question, you're thinking hey lesser number SKUs, lesser complexity and hence why have warehousing, why not bring in indirect? Off Highway Market doesn't operate like that. We have thousands of SKUs, not the automobile kind of volumes lower mid volumes. So, the complexity is high and all these people want a rationalized supply chain which takes all these headaches away from them. So, we generally see. that they are willing to pay a premium and they want a risk mitigated solution. I've always said that our global delivery model is the strongest part of our business and that it makes us unique compared to the rest of our competition. And that is offering customer solution. Customers clearly know today that they can buy direct from India at a lower cost. They also know that they're paying a higher cost, running it through a warehouse. That's not hidden from them. They still choose to use the higher cost warehouse model. If you go back, you're saying, hey COVID one or two years or whatever, but let's go back even what 5-7 years ago, the warehouse was only 30% of our sales. Now it's 44. This is not a one- or two-year trend, one or two quarter trend, this is a longer term trend. In our business model, I already said when we are looking at the customers come in from a risk mitigation, I kept saying., hey!, people are talking about near shoring and onshoring in the US and we brought in the model of dual shore manufacturing where we will produce a part of it in the US, part of it in India, now what is that model? You produce 25% in the US, you produce 75% in India, but you still route that 75% through warehouse model. So, the warehouse model is more and more coming into play where people want this, so I don't see this as other trend. I think the warehouse will continue and we believe we will be able to drive margins from that.

Shivam: And sir, like you mentioned that the warehousing was there still like five years ago at 30% of your revenue. So, like what did really move the margin from like FY21 onwards to a higher 20% is the EBITDA margins?

Paramjit Soni: I think if you look at the 4-5 year history you will notice that we did multiple things. We actually the warehouse model went up, during that period took a very hard look at what makes money, what doesn't make money. We got rid of product which didn't make money. We focused very heavily on the bottom line. We transformed product we were producing in the US, we moved that to India to take a lower cost advantage. There were multiple things.

Shivam: So, you moved into the efficient model.

Paramjit Soni: Yes, originally we moved it from the 13%-14% is I said I'll go to the 17%-18% and when we came in we said hey, we even performed to the higher one because I actually got rid of business which didn't make money. And focused and that made us such strong financially, there our bottom lines are good or I used to say at that time we were a 21-47 company, 21% EBITDA, 14% PAT, 7% free cash flow. And that is after factoring in the 16% growth. This year what is happening, the north of 20% is still being maintained despite the lower sales, instead of 14% we've seen close to what 12.5% and 13% on that on the pack. Still being higher because you're seeing it when I'm not using that much on the working capital, you're still getting more cash flows with cash flows is still strong. But my normalized still remains. I am not changing from that at all.

Shivam: And sir on a broad basis, can you give a guidance of like what's your targeted ROCE internally that you want in the next 5 years that this much should be maintained at the minimum threshold?

Paramjit Soni: I used to say north of 25% if you had asked me five years ago, now I say north of 30%.

Shivam: North of 30% for the next five years, not going below that.

Paramjit Soni: Yeah, that my internal one. I used to say north of 25, but then we already achieved that and now you change your goal post as you move on in life.

Moderator: Thank you. Ladies and gentlemen, that was the last question for the day. I would now like to hand the conference over to the management for closing comments.

Gurdeep Soni: Thank you. Thank you, everyone for participating. It's really great and great questions that came in and we do look forward to the future and we are still very sure that the growth is coming back and it's going to be a great future for all of us. So, thank you everyone for coming in and goodbye.

Moderator: Thank you. On behalf of Go India Advisors, that concludes this conference. Thank you for joining us and you may now disconnect your lines.