AWL/SEC/SE/2024-25/108 **21st November, 2024**

BSE LTD.
Phiroze Jeejeebhoy Towers,
1st Floor, Dalal Street,
Fort, Mumbai – 400 023
Company Scrip Code: 517041

NATIONAL STOCK EXCHANGE OF INDIA LTD.
Exchange Plaza, C-1, Block G,
Bandra-Kurla Complex
Bandra (East), Mumbai - 400 051.
Company Symbol: ADORWELD

Dear Sir/Madam,

Sub: **Transcript of the Analysts / Institutional Investors Meet**

Pursuant to Regulation 46(2)(oa) of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, this is to inform that the **Transcript of the Analysts / Institutional Investors Meet**, which was held on Thursday, 14th November, 2024, through the electronic medium of video conferencing (Zoom Platform), is attached herewith.

The Transcript is also available on the website of the Company at:

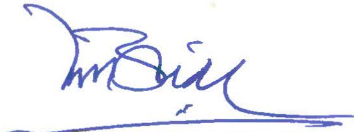
https://www.adorwelding.com/events-2/

We hereby request you to make a note of it and acknowledge its receipt.

Thanking you,

Yours Sincerely,

For **ADOR WELDING LIMITED**



VINAYAK M. BHIDE
COMPANY SECRETARY
Encl: As above

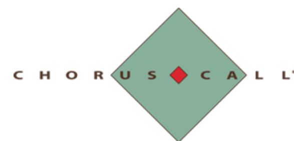
ador peace of mind | ADOR WELDING LIMITED

"Ador Welding Limited

Investor Meet Conference Call

November 14, 2024

ador peace of mind | ADOR WELDING LIMITED



MANAGEMENT: **MR. ADITYA T. MALKANI – MANAGING DIRECTOR**
MR. VINAYAK M. BHIDE – COMPANY SECRETARY
MR. SURYAKANT SETHIA – CHIEF FINANCIAL OFFICER
MR. KRISHNAMURTHY SURYANARAYAN – HEAD CORPORATE STRATEGY

Aditya T. Malkani: [Abrupt Start]We have entered the U.S. market. We have appointed two distributors in the U.S. market, along with an employee. We also have someone sitting in Australia. We've added an employee in Australia and also had a distribution over there. So in the international market, our focus area is slowly branching over and beyond the Middle East areas, which have also continued to do well and seem to have a lot of promising growth.

On the half yearly basis, the sales grew by 5%, and the international business grew by about 19%. Gross margins were at 29%, and EBITDA margins declined slightly due to increased fixed costs. PBT at INR46 crores compared to INR57 crores. An exceptional items amounting to INR10 crores has been accounted for merger related expenses, obsolete inventory, and gain on sale of property.

And therefore, we have a consulted impact at INR26 crores as compared to INR42 crores for the half year. I will now, sorry, I have to go back. I will now request Surya to walk through a few of these items, and then I'll come back to Chris.

Krishnamurthy S: Good afternoon, everyone. I think one item in the accounts for Q2 was this exceptional hit of about INR41-odd crores that we have taken in. This was mainly constituted by a provision on the valuation of one of the subsidiaries that became the subsidiary of Ador Welding based on the merger with Ador Fontech.

[inaudible 0:01:32], as it's called, is into the aligner business. And based on our core strategy and sustainable line of business, the Board felt that we should revise the valuation downwards. So we took an impairment of close to about INR32 odd crores. We had a merger related expense of close to about INR5.7 crores that we have provided in the book. This basically accounts for the stamp duty and other legal service fees that would be related to the merger cost.

We also had a reward and recognition to non-service employees who have been with us at Ador Fontech. That spend was close to about INR3.8 crores, which had happened in Q2. Based on the Ador Welding inventory policies, we decided to take a provision of close to INR1 crores in the current quarter on account of inventory of Ador Fontech company.

And during the quarter, we also sold a property in Cochin, which gave us income of close to about INR0.5 crores that have been recognized in the quarter. All this put together has a one-time exception of close to about INR41.7-odd crores.

Looking at the business for the half year, if you look at it, almost 78% of our total business comes through the products division. Services contribute to close to 8%. And M&R, which is the erstwhile Fontech business, was about 14% of our total business. Segment-wise margins, we have, as you know, that Q2 was a little subdued. The margins across all the three categories were slightly on the downward trend due to higher input cost and product mix.

We did see the product margins for Q2 at about 10%. M&R margins were close to 15%. And services, of course, had a negative 4% margin. On the working capital front, we did make a lot of effort. And the operative working capital has come up by about nine days. Inventory has slightly increased from March.

But on the receivable front and on the payable front, we have been able to optimize on the same and focus on improving a better cash flows, thereby improving the ROCE of the company. If you look at the PBT margins, there's a slight drop for H1 compared to last year, where we closed at about 11%. Margin we are down to about 9%. The ROCE has subsequently fallen from 21% to 19%. All these figures are without the exceptional hit. The debt equity has virtually been at negligible 0.8% as of September.

Krishnamurthy S: The merger, as we discussed many times previously, the value creation we expect to see in the manufacturing and supply chains. In fact, a lot of that has already taken shape. We've already formed the necessary divisions and already things have started moving on accordingly.

There's a lot work happening on product development, as well as on synergizing of cost structures. And we seem to be moving quite fast, which we were ready to do. We were just awaiting the order and now seems to be rolling out fairly quickly on that front.

A few updates on some key products. We are introducing a higher range of welding equipments. Most of these are competing against imported products. And we are continuously upgrading our technology accordingly. And we should see a new range of products being released over the course of December and January.

In addition to that, we have developed an in-house first time battery operated welder, which is now gaining traction, not only in select international markets, but will slowly get pushed in the Indian markets as well. And we expect this to play out over the next financial year quite well for us, subject to a few approvals and all. The product has also received CE approval and all of that. Now we need to get some customer approvals, and we expect that to play a big role going ahead.

This is just a few more features on the product related to the management of the customer management of the product. And we are right now doing trials at UK Rail and in the process of getting it approved for track repair. In addition to the international market, we participated in our biggest market, which is Saudi Arabia.

We participated in a very large exhibition and in October had very good traction. We expect that market to continue to play a very large role going forward. These are the other brand initiatives that are out there, continuously engagement and all of that on social media.

We now leave it open for question and answers. Before I come to question and answers, there are two or three very, I would presume, standard questions that arise that I'll focus on. You can remove this slide. The first is on the welding margins. Welding margins are abnormally lower in Q2, and we expect to return fairly fast to not only the steady state level we had prior to that, but within our target of pushing upwards from there to a few percent, which we think is definitely possible. So it's not like we now recognize the Q2 margins to be the new level, it's an aberration on that perspective.

On the flares front, we're happy to report that it's progressing in a much, much stronger basis right now. We are in the last six to eight months of the project and we're getting a lot of

confidence from the team in terms of their execution. We're very happy in terms of the monthly checks that we have and where we're hitting them, and it remains a tight period.

And as I said, we've been very conservative on our accounting. We've remained as such and I hope that as this project reaches a close, there will be a back-end benefit that will come into the entire. These are the two important things that I know would be on most investors' minds. And I'll leave it open to questions, so please go ahead.

Management: Yes, so those who want to ask questions can either raise their hands or can type in the chat box. Further, due to time constraint, we'll be closing this call by 5 PM. So please avoid from asking more than two to three questions and do not ask the repetitive questions. Now I'll hand it over to our moderator, Ms. Nisha. Nisha, over to you.

Moderator: Good evening, everyone. My name is Nisha and I'm the moderator for today's Q&A session. Our first speaker is Mr. Pritesh. Mr. Pritesh, you are now being placed in the meeting. Please proceed to ask your questions.

Pritesh: Yes, hi. So my question first on the products business, if you could share the H1 volume growth and why we don't see revenue growth in H1 and quarter 2. My second question is with the services business, this EBIT loss, you know, how should we either shape up of this segment in the future quarters? And my guess is, is it to do with the large order that we have taken an execution with respect to that or could share the progress of that order?

And my third question is the new division which gets added into the merger. Obviously, we haven't spoken on that particular division earlier because there is no conference call on that. So now with this division, what is the growth plan and how should we look at this division in terms of growth or output?

Aditya T. Malkani: Okay, sure. So Pritesh, two or three quick points we can get into. We've basically been on the product side, which is basically we're looking at volume being fairly flat toward [inaudible 09:50] on the H1 basis or the Q2 basis? On H1 basis, it's been pretty much a little bit 2% down as such. The revenue dip has happened as steel prices have tended to drop fairly sharply during this period. We are now seeing that bottom out sort of happen and kind of flattish around there. So we should see that kind of get into a better scenario going into Q3. And we have that slightly better than we did in Q2 so far in Q3.

On the revenue perspective, like I said, that's going to be steel prices. The EBIT loss in the services is very much related a lot in large part to that project at OTC. It is a very large part is related to that. And as I said, we've been very conservative on accounting on that front. We expect that traction has improved a lot. Like I said, over the next six, eight months, there is no -- we should be seeing a much different margin play out over there over the next coming quarters.

On the M&R division, I think you'll see the margins were presented on the M&R division. We presented that. I think it should be along those lines of what it was in Q1, a little closer to that Q1. More along the lines of what was the Q1, not Q2. Q2 was a little bit of a dip. We had some expenses over there. The M&R business does not intend, is not the type business that will

outperform IIP, stuff like that on a very large level. You basically look at the margins very particularly and you look at growth. And there is some low hanging fruit, especially on certain applications.

And the low hanging fruit for us is also the international market where we're pushing it more now that is part of Ador. I expect that growth rate to be pretty much the region of anywhere between a 10% level up and down a little bit on that front.

Pritesh: Yes, I didn't understand the answer to the first question. You said the volumes are flat. You always say look at our business in link with the steel consumption. In your opening slide, steel consumption growth was from 63 million to 74 million in H1 to H1.

Aditya T. Malkani: Not in the last three, four months. No.

Pritesh: No, no. H1 to H1 was your slide itself as a first slide on steel at a 13%-14% volume.

Aditya T. Malkani: But Q1 we didn't see -- Q1 we didn't see a good pickup. Q2 we saw a big drop.

Pritesh: So I was wondering in H1, why is the volume..?

Aditya T. Malkani: The volumes that we did in Q2 in terms of the growth. It's pretty much 12.3, 12.4, a little bit flat like that. We have not seen much of a movement in that front.

Pritesh: So you refer to volume flat for quarter 2?

Aditya T. Malkani: Volumes are flat for H1, they're 2% down. For Q2, the volumes will be slightly lower than that, if I'm not mistaken. Correct? H1 is pretty much flat.

Pritesh: Can you share the volume number for H1? Just like last year, you had a 60,000 ton volume. Can you share the H1 volume?

Aditya T. Malkani: No, I don't have that volume right now. We're pretty much flattish compared to the last year.

Pritesh: And on the second division, the answer which you gave, so this loss that we see, is it to do with that project or it's the division loss?

Aditya T. Malkani: It's through that project, which is encompassing most of the revenue and loss at the moment on that. And that is feeding through the entire system. And as I said, we were very conservative on our accounting, not only on that project in that division. So we're expecting that to turn towards the end.

Pritesh: And what do you mean by in six months' time, we'll see completely different? So what, you will see the project getting executed or the project going away? What it is?

Aditya T. Malkani: You'll see the project getting executed over the next six to eight months in its entirety. And you will also hopefully see the benefit of the conservative accounting coming back in some way or form.

Pritesh: So out of INR160 crores, how much is pending to be executed?

Aditya T. Malkani: I would say somewhere in the region of approximately 35% to 40%.

Management: Yes, basically 35%. As far as revenue is concerned, we put only 50%.

Aditya T. Malkani: So revenue will come. Balanced revenue is 50% of that.

Pritesh: So costs have been booked for in your conservative accounting. The revenues will flow. When will it start -- when we will start seeing that reflecting in your P&L?

Aditya T. Malkani: It's too early to say. Let's put it that way. It's already started. December, we have a fairly strong billing plan, but the bigger billing plan has come forward.

Pritesh: So is it that 15% of INR150 crores? Is it that we have a INR20 crores-INR25 crores of profit to be booked on that project?

Aditya T. Malkani: That's a bit of a stretch number on that account, because of certain budget increases and stuff like that. So I won't give the exact numbers. It's a little more conservative than that.

Pritesh: Thank you very much and all the best to you, guys. Thank you.

Moderator: Thank you, sir. We have next question from Mr. Kiran. Mr. Kiran, you are now been placed in the meeting. Please proceed to ask your questions.

Kiran: Hi. Good afternoon. Sir, a couple of questions. One, from a revenue growth perspective, of course, bad monsoons and steel, obviously the industrial activity was lower in H1. Do we expect, not the project per se, but do we expect the growth in products to come back? Can we expect the FY25 performance to be very similar to FY24? That's my first question.

Aditya T. Malkani: You know, to be very honest with you, the simple answer to that is, we saw in post the election and stuff like that, the results have been slightly more severe than we had all expected. A sort of just momentum of order booking or cash flows through the system, all of that is a little softer than we expected. Indicators are there that it's better right now than it was then, for sure. I don't know if you're yet at an exuberant level to show tremendous growth, but on an HY2 basis, we remain hopeful we will be able to show some good growth.

Kiran: Got it. Second question, sir. So this large ONGC order that we are executing, I mean, majority of the sales or revenue will get recognized over the next couple of quarters or two to three quarters. So FY26 growth then on this higher base, just wanted to get your commentary around because this is a large revenue number that we are recognizing. So FY26 again, this project is done. And is there any other similar size project that's going to come, which will cover our FY26 growth or are we starting back at the base?

Aditya T. Malkani: No, we have some projects. There will be some spillover billing firstly that will go to FY26, and then we have some other projects as well. You may not in this division see big growth. Through the flare and process equipment line, we could get some growth through our repair fabrication services line. But I would not expect that to be a very big growth on this account in

that division. What you will see or what we are aiming very hard to do is, of course, improve the margin realization of that division very significantly to prior. And more importantly, have some good growth if the market conditions are good, some good growth in the products business, which will automatically lead to a better overall margin.

Kiran: Got it, sir. But there will be a revenue, at least, even if we grow by 15%, we will just cover up the revenue that we had done in, or we will do in FY25. That's how I read it.

Aditya T. Malkani: Kiran, just to also tell you that we may not see very large offsite projects being taken on, but what we will see is smaller projects with higher margins, because there's going to be more margin focused projects that we are taking on. And also what we are doing is it will be small, but volumes will go up.

Aditya T. Malkani: What our learning basically has been, for those who have been shareholders for a while and over 10 years, is basic biggest learning has been that we don't believe it's in our DNA and either we were very good at managing projects which have large site work. So when we rejig this division based on the learnings that we've had, we've now said that we want to focus on projects which are in our manufacturing control within our plants, primarily with minimal to no site work, which is what we are rejigged our order book towards all of that. So that is what will play out over that time. We should hope we have much better margins and other key financial metrics to be better as well.

Kiran: Got it. So my last question then is a little more detailed. So from a 3D write-off perspective, , I mean, we've done the conservative accounting. So what I'm trying to understand is Ador Welding and Ador Fontech has the same top management, barring a few executives, right? Ador Fontech, when we kind of merged it, we are writing off such a massive amount and we did not reveal that information before we decided the merger ratio. So just trying to understand how did we suddenly find we're going to write it off and then get it back whenever that value gets realized.

Aditya T. Malkani: It's good you asked that question. It's a very, very valid question. So there are two, three elements here that you have to keep in mind. First is the nature of the dental aligner business in the last, I would say the last 6, 8, 9 months has changed quite drastically, which has obviously forced business projections and the reality on the ground is slightly different, number one. The second thing is the merger process was taking slightly long and I personally, nothing to do boards and stuff like that. I've always been a little conservative to say, let us try to ensure that the merger process happened correctly because those who are tracking 3DFT at the Ador Fontech level were aware of the losses as it was always being shown and declared aboard.

It was never anything that was a surprise on that front. So the idea was that we should just be a little conservative in terms of recognizing a few of those things. The third thing is we re-evaluated with the board very seriously on this business and now that you've given the scale of a different business and seeing what we're seeing on the burn as well as the potential of the 3DFT business, we felt we should realign ourselves and given the fact that we were doing what I would call pretty much a good cleanup in this quarter, we said let us be correct in terms of

how we position things. So that's the logic of where we are today and why we decided to take it right now.

But I think most shareholders from the Ador Fontech days who've been tracking it would have also seen that those losses have been there and would have known to some level that this could be a potential thing that would come up. On a consolidated basis, we don't have anything on the consolidated. I just want to say that.

Aditya T. Malkani: So Kiran, just to answer you a little more also, if you look at the consolidated numbers, you will not see this impact come on the consolidated because the losses have already been absorbed. So the network of the company had already been taken care when we used to consolidate. And that's why you see the consolidated accounts, the exceptional items would be shown would be only to the tune of INR10-odd crores compared to INR41-odd crores in these standalone books.

This will not have any cash impact or anything. This is just a valuation in the standalone.

Kiran: And there might be some recovery, or we are not expecting any recovery of amount, sir?

Aditya T. Malkani: See, the business will continue as of now. We are not saying that, you know, as a Board, we said, let us decide and see the valuation. On the future, we will come back to you.

Kiran: Because it was running losses. I'm just worried, sir, to be very honest. The worry, major worry, I understand there is no cash loss. My major worry is if the three, the deadline of business continues, that will continue to run in losses and start hitting our outdoor welding margins to some little extent, a minor extent. So that is the worry.

Aditya T. Malkani: So that is where the Board is very clear that we would not like that to happen. So, we will be very clear on that. Just give us a little bit of time and we're working out how to do that correctly. That's exactly what the board is on the same page. It's exactly that.

Moderator: Thank You Sir, we have next question from Mr. Naysar Parikh. Mr. Parikh, please proceed to ask your questions.

Naysar Parikh: So just a couple of questions. One is, you know, when we compare our, this quarter numbers with your peers, the listed one, we had around 10% growth. We are down even after we, you know, and that's after we are executing a large order on the Flare side. So I just want to understand, can you just talk a bit about our market share and what I'm seeing in the market and how should we look at H2 in that context?

Aditya T. Malkani: So, yes, so I won't comment on our peers or anything like that. I don't think that's a fair comparison or in my position to comment, to be honest. I will tell you that on the market share front, we do not see anything of any concern at all. I think what you have to keep in mind is that business model for player-to-player is undergoing certain changes based on the global outlook.

So I think you should just keep that in mind. Otherwise, I don't see on the ground anything of concern as such. What I do have a concern is on the margins in Q2 for sure, which we are working on improving. But on the sales front, I don't have a concern.

Naysar Parikh: And in the margins, is there any impact of, you know, higher discounting or something like that? And have we taken as in pricing actions?

Aditya T. Malkani: Yes, we have been slightly more aggressive in terms of clearing off a little bit. We have been slightly aggressive in terms of certain clean-ups that have to have been done and stuff like that. Yes. So we are seeing a little bit of impact on that for sure. As I said, it's an aberration of margins. It's not any new steady state margin or anything like that.

So yes, we've done a few things that we just had to conservatively. So we've done that right now. We don't see that as a telling on the next quarters in any way.

Naysar Parikh: Got it. And I think we've written off some crores or something of inventory also. Is there anything more we think that we still need to write off or?

Aditya T. Malkani: To be done now, I think to be done, I think nothing extraordinary to be done. Most of it has been done.

Naysar Parikh: Understood. And can you just talk a bit about the exports also? Obviously, you know, last year, exports did very well. And sorry, I missed the slides on the first five minutes. So just what was the export growth? And how are we seeing exports for the remaining part of the year?

Aditya T. Malkani: So we, last year, we closed exports at approximately INR120 crores, which are double from the year before. We have grown so far in H1 at about 20%. I'm hoping that we close the year at approximately 25% to 30% in terms of growth for the exports. It continues to remain strong. I'm also buoyant. by the margins also seem to be technically improving a bit as product mix.

We've also entered new markets. We went to the US in our own brand, which is something we're very happy to have done. We have a person on the ground, we have two distributors on the ground. Saudi market continues and the UAE market continues to be buoyant. We've just about started to make an entry into Australia.

So on the international front, so far going to plan and we're quite happy with the way it's moving.

Moderator: Thank you, sir. We have next question from Mr. Anand. Mr. Anand, please proceed to ask your questions.

Anand: A couple of questions. First is this, some restructuring costs, M&A cost. Have all of these been brought out in this quarter or some are to be apportioned in the remaining?

Aditya T. Malkani: I think, Anand, it's all taken in this quarter. And just to share with you the M&A, the merger related costs are basically costs related to stamp duty, legal fees, etcetera. That's pertinently

only for the merger. The merger was affected on, I think, 25th of September and we have provided for all the known expenses as of now.

Anand: Got it. The second question is, from the perspective of product in the product segment, consumables and equipment, if you can give us some context, which one got hit harder?

Aditya T. Malkani: The consumables got a slight dip. We now try and separate, look at it slightly differently. But just to let you know, since you have been studying it previously, the consumables have a slightly bigger dip, which is why the margins automatically get dipped a little bit. But we do not expect that to continue through the year.

Anand: Okay. So, consumables, margin, and in terms of sale, was there any particular…

Aditya T. Malkani: Consumables, sale and margin, both.

Anand: Okay. Got it. And from the perspective, this is more not related to this quarter, but from the perspective of ownership, we see several companies, several surnames coming up, Malkani, Advani, Lalvani. So, if you can, for the broader understanding of the people on the call, help us understand which families are involved in running, which families are in the ownership.

Aditya T. Malkani: Sure. So, basically, the primary controlling or holding company of Ador is a company called J.B. Advani and Company. J.B. Advani is a 116-year-old company, which is owned by five partners and continues to operate as a private company. These five partners have five… their surnames are Malkani, Advani, and all of that, which is basically that. We also have individual shareholding, for example, in Ador Welding, which is why you are seeing some transactions happen.

For example, I recently had a transaction where my sister wanted to personally sell some shares, and I bought her shares and all of that goes on. So, that is basically, in terms of, we sit on the holding company as well as we sit on the Board. The Board, the rest of the company is professionally managed.

I basically look at it from the managing director perspective and then the rest is professionally managed. I think they will be classified as promoters as well in the shareholding field. So, that is it. So, the Board is an independent board primarily from that perspective.

Anand: Got it. Now, that is very helpful. Thank you. And one last question. When we look at JB Advani and company, they have 90% of their revenue coming from Ador and this promoter company has been not showing, not being as profitable. In fact, it had losses in some of the years. So, can you comment on what exactly…

Aditya T. Malkani: JB Advani's revenue in terms of from Ador is tiny. It is about somewhere in the region of, I want to say, ballpark INR20 crores is what we do. The rest of it is basically primarily an asset holding company and stuff like that and we have rental income.

So, that is why it is fairly separate. However, from a revenue perspective, what has happened over many decades is, in order to protect certain copyright issues on equipments and stuff like

that and to manufacture in a more low-cost manner, we have a small unit of JB Advani in Pune that manufactures for Ador. We have a very clean-cut related party transaction pricing system which is audited at Verdi as well as at JB Advani.

All of that is checked not only by a separate auditor and the staff auditor according to very minor sort of… And at the end of the day, the business we are talking about is in the region of INR20 crores. So, it is nothing major in terms of revenue.

Anand: Yes. Thank you very much and all the best for the…

Moderator: Thank you, sir. We have next question from Mr. Jason. Mr. Jason, please proceed to ask your questions.

Jason: Sure. So, thank you, team, for giving me the opportunity to ask you questions. So, first of all, I just wanted to know, I mean, of course, I understand that steel is a very, very big raw material for us. Now, I just wanted to understand that when you look at steel, if you go one year back, steel prices have almost corrected by 13%. From 55,000, HRC has come to around 48,000, 49,000.

And when you look at, you said that volumes were flat 1H, but our growth as such is around 4% if you compare 1H to 1H. Now, I understand there is the equipment business also, which we have clubbed into the products piece. But still, so there is a 13% dip and there is a 4% growth.

Now, I just wanted to understand how does the steel cost being a pass-through, how does it work? If you could just give me some, give me some more colour on that, that how the cost pass-through works.

Aditya T. Malkani: On a normal basis, ideally, it should work on a 4 to 6-week cycle. This is normally how you should do it on a steel price basis. However, it also depends on what sort of demand you are sort of seeing.

What happened in Q2 was, we were normally trying to push that out over 4-6 weeks while the dip was happening. What happened in Q2 was the demand drop is much more significant than was expected to happen. This I am sure, you must be following the steel guys also, they would also tell you a sort of similar kind of probability on that.

Because of that, you cannot play it out over 4-6 weeks, and you have to take a call in terms of inventory and production. So we have to shorten that timeline a lot. But normally, on a steady state basis, 4 to 6 weeks.

Jason: 4 to 6 weeks. Okay, that is okay. But is it a complete pass-through, whatever the dip, I mean, whatever the cost of steel coming? Is that a complete pass-through to the customers or how does it work?

Aditya T. Malkani: Complete pass-through.

Jason: Okay, sure. And also, I just wanted to ask, I mean, of course, when you go back, you were looking at the capex cycle doing well in terms of a host of industries. But our growth has been kind of, you could say, not optimum. You could say we have the potential to do a lot more. So I just wanted to understand from you, is there something else like probably that the unorganized sectors are gaining market share, or the Chinese are gaining market share in the consumables segment or is there anything, any other factor being played out which is hampering our growth?

Aditya T. Malkani: I don't think so. I think, firstly, I honestly believe that core sector growth has not been as exuberant as it was expected in the last few months. I am not talking about that year. I am just talking the last few months. There is nothing that we specifically heard, but you are always correct that there is room for us to keep improving and that is what we are working very hard towards, but I think the last few months has been a little soft in various, various core sectors. So I am hoping for that, and we can see little signs of that in two weeks.

Jason: It is on loss assets for the Chinese or the unorganized sector, anything of that sort?

Aditya T. Malkani: No, I don't personally get very concerned about that at all. I think people who work on sort of qualitative products that we work on and the approvals and stuff like that, that we work on, I am never getting stressed about that. On the equipment front, of course, imports because 65% of welding equipments are imported and so that always does play a role a little bit, but not to a level where you should see a significant dip.

Jason: Okay. And Aditya also just wanted to ask you, what is, so of course Q2 is soft. Now, could we expect for a better H2? What is your outlook going ahead?

Aditya T. Malkani: Yes for sure. I think it is as I said, it is an aberration. It should be a better H2, especially in terms of margins. In terms of demand, it seems to be like I said, little signs are there of being better than they were for those 3 months in the middle. I don't have a crystal ball to go much beyond the next 6 weeks, 8 weeks in 2 months sort of to see which way is moving, but I definitely think on the margin front, on the execution of the projects, on all of those things, where we are seeing a lot more optimism than we've had for the last few quarters on those issues.

Jason: Sure. And just a related question, you had mentioned Champ 500 on your slide regarding more new launches of the equipment piece. Now, just wanted to understand that in terms of cost competitiveness, how is the product as compared to the imports, of course, which they…

Aditya T. Malkani: It is taking few months so cost competitive, but this is an application-based selling. So you have to possibly be able to sell correctly. It's not only that. But I'm not stressed about that part of it, but actually was stressed about how do we ensure we get the reach of the market and the application selling part of it. The rest, I'm not too worried about.

Jason: Okay. Sure. And just about this ONGC project, I wanted to understand. Now, I believe when you look at the project, it was a net of GST, it was a INR123 odd crores project. Now, I believe you had said that probably we'll execute a lot more in FY25, 75% to 90% and 10% spilling over to next year. We do still stick to that?

Aditya T. Malkani: And there are slight changes on that. Right now we should build.

Aditya T. Malkani: Already in the 50%, another 20%, 30% we will do in this. Maybe rest 10%, 15% will go.

Aditya T. Malkani: 15% I think will go into next financial year.

Aditya T. Malkani: Close to what you are saying 5%, 10% in the future.

Jason: Sure. On margin level I mean any ballpark?

Aditya T. Malkani: [inaudible 36:45] will be significantly better than what we have seen below the intentional order when we give at that time slightly below that, but over the next 6 months you will see a better margin play out, it's just the conservative accounts.

Jason: Sure. And just lastly just wanted to ask you – so I understand the M&RPs, Ador, Fontech piece will grow as per IIP, which you have mentioned before. Then we have the project business. Now, I also wanted to understand when you look at consumables, which is consumables and the equipment, which is your main business, IIP usually is trending around 5%, 6% post-COVID. So do you think, I mean, being the second largest player in the welding space with capex looking upbeat, can we grow at a pace of 2x? I'm just talking about the product space here. Can we grow at 2x the rate of IIP?

Aditya T. Malkani: It's very elastic. So what that means is that if you see IIP being flattish, when I say flattish, it means 3x or whatever it is, then you will see it along those lines. As you see IIP start to move upwards 7%, 8%, 9%, then you have an elastic impact on that. Then you go up to 12%, 13%, 14%, but if you're going to remain at 3%, 4%, I can't give you a 2x. It's hard to give a 2x number. As you start to move up there, that's when we see the incremental kicking along.

Jason: Okay. Sure. Thanks. Those are all my questions. Thank you so much.

Moderator: Thank you, sir. We have next question from Mr. Harini Dedhia. Please proceed to ask your questions.

Harini Dedhia: Hi, thanks for taking my question. So I have a question on the margin front. So yes, so pro forma margins for the combined entity are at about 10%, 11% for FY24. Two, three years down the line when we are beyond the flares project and all of that, where could we be in terms of margins and how much of those gains can come from any low hanging fruits that we have from the margin that you referred to and how much of it is something that we have to work more structurally on in terms of equipment margins?

Aditya T. Malkani: We discuss this all the time. So I think we're looking at about 2% being as low hanging fruit that needs to be worked on for the next year. And beyond that, we need to push a little harder for another 2%. I think 1.5%, 2% -- 3%, 4% is what we internally talk about. It's something that we have to deliver on.

It's the improvement margin. Something we talk about that will play out over 2, 3 years. It won't happen immediately. It will play out over 2, 3 years. But that's exactly what we talk

about is the improvement that is sitting within our control that needs to happen and should happen.

Harini Dedhia: Right. So half of that would be more coming from the synergies and then another half would be more from like the equipment going closer to consumable margins?

Aditya T. Malkani: It's product mix, it's fat being cut out the system. It's being smarter about how you handle your services division. It's exports growing with the right product mix as well. It's about the investments that we have made in domestic that pay off in terms of realizations. So there's 6, 7 things that we are working on that need to keep hitting. We need to start hitting all of those cylinders and make it happen.

Harini Dedhia: Got it. And the second question I had was, when I see Lincoln Electric's call globally and they called out that, they saw some volume growth in this geography. Esab India, of course, reported numbers. Esab India may be exporting to other Esab entities from India. So maybe not a fair comparison. But, just wanted to put, just wanted to understand a bit more on our volume growth, given that, these two large MNCs that operate in our markets have sort of called out growth opener...

Aditya T. Malkani: I don't like to comment too much on competitors. I do, I will tell you that they have certain segments where they are stronger than us. The renewable energy, where we are seeing a little bit of traction. There are a few other segments where they are a little more dominant, where I think they would have seen it, plus they have a low base effect on that.

Ours is a little more spread across the entire sector, across most core sectors, so it's slightly different. Also, keep in mind, we're talking the last 3, 4 months where this has been tight prior to that we were seeing volume growth reported. I don't think, don't know, my only thing would be, don't be so quick to draw a conclusion or a result on it yet. Just give it a little more time to see how it pans out.

Harini Dedhia: Okay, fair. Thank you so much.

Aditya T. Malkani: Thank you.

Moderator: Thank you. Since there are no further questions, I will now hand over to Aditya sir.

Aditya Malkani: There's a follow-up question, I think from Jason, it says on the text. Jason, go ahead. I think you're on mute or something. He's there, he's left.

Jason: Yes, hello.

Aditya Malkani: Hi, go ahead.

Jason: Hi, yes. Aditya, just one follow-up question I wanted to ask. When you look at the services division again, of course we have that big project and I believe the other equipment, which is the FPED, I think that will yield a steady state revenue of around INR30 crores, INR40 crores at least annually. Is that a fair assessment?

Aditya T. Malkani: That's a minimum. It's a minimum level, yes.

Jason: Right, so just, yes, that's the minimum level, yes. The heat exchangers and all those, that equipment, that must be a steady state level, which adds on to the project revenue as well.

Aditya T. Malkani: Yes, yes. We should be in a position to be beyond that next year also.

Jason: Sure. That's all I wanted to ask. Thank you.

Aditya T. Malkani: We're done? Anything else? Okay, thank you very much. We appreciate your time.