Kalyani Forge Limited
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KALYANI

KALYANI FORGE LTD
REGISTERED TO
ISO/TS : 16949 : 2002
FILE NUMBER : A10090-01

November 19, 2024

To,

Bombay Stock Exchange Limited,
Phiroze Jeejeebhoy Tower, Dalal Street,
Fort, Mumbai-400001
Scrip Code: 513509

National Stock Exchange Of India Limited,
Exchange Plaza, Bandra Kurla Complex,
Bandra (E), Mumbai-400051
Symbol: **KALYANIFRG**

Dear Sir/Madam,

Sub : Transcript of the Analyst/Investor Conference Call held on November 13, 2024.

Pursuant to Regulation 30 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find attached the transcript of the Analyst/Investor Conference Call held on November 13, 2024

The same is available on the website of the company www.kalyaniforge.co.in.

Kindly note the same.

Thanking you,

Yours Faithfully,

For **Kalyani Forge Limited**

Mrs. Rohini G. Kalyani
Executive Chairperson

KALYANI FORGE

KALYANI

KALYANI FORGE LIMITED
ANALYST / INVESTOR CONFERENCE CALL
Q2 & HALF YEAR RESULTS - TRANSCRIPT

The Company hosted an Analyst / Investor Conference Call (Virtual - Mode) to discuss the financial performance for the Second quarter and half year ended on September 30, 2024 on -

Date : Wednesday, 13th November, 2024
Time : 10:30 AM – 11:30 AM IST

The Management team represented by **Mr. Viraj G. Kalyani,** Managing Director of the Company.

E&OE - This transcript is edited for factual errors. In case of discrepancy, the video recording available on the website of the company will prevail.

Moderator: CS Rachana Agarwal (Company Secretary and Compliance Officer) & Mr. Rajkumar Diksangi (Company Secretary Trainee).

Moderator: Good morning, Ladies and gentlemen, and warm welcome to this Conference call of Kalyani Forge Limited for Q2 FY 2024-25 Financials and Future Prospects of the Company. This conference call may contain forward-looking statements about the Company, which are based on beliefs, understanding and expectations of the company as on date of this call. These statements/ presentation are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict. As a reminder, our Managing Director, Mr. Viraj G Kalyani, shall be making presentation and post that all participant will be a fair time and opportunity for you to ask questions regarding presentation and after the presentation concludes. Should you need assistance during the conference call, please signal to operator by raising your hands. Please note that this conference is being recorded. I now hand the conference over to Mr. Viraj G Kalyani, Managing Director of Kalyani Forge Limited. Thank you, and over to you, Mr. Viraj G Kalyani.

Mr. Viraj Kalyani: Good morning, everyone. Welcome to our, Investor analyst call for Kalyani Forge. I am Viraj G. Kalyani, the Managing Director and CEO of Kalyani Forge. I've been working in the company since the year 2012 and recently took over this role last year. Incidentally, this is our first investor call. So I'm sure we will, get a lot of feedback, from investors, shareholders, prospective, investors as well. And going forward, we will definitely keep improving this practice and make it a regular affair of the Company. So thank you everyone for taking the time and joining us. I will now take you through our, investor presentation.

Mr. Viraj Kalyani has confirmed on the visibility of the presentation for Q2 FY25 with Moderator.

Post confirmation on visibility Mr. Viraj G. Kalyani proceeded with the presentation.

Mr. Viraj Kalyani: So this is our investor presentation for Q2 FY25. Sorry, there's a typo here it's Q2 FY25 and H1 FY25 and the theme for our year is about gaining strength as you would have seen in our annual report, recently published. These are our company stats for some of you who may be, new to the company. We have been established in 1978 with around 50 years. of experience in the industry. We are publicly listed on the National Stock Exchange and Bombay Stock Exchange. We have a workforce headcount of about a thousand plus employees, and we are located in Pune, in Maharashtra, near the seaport of Mumbai and also in the automotive hub of Pune.

We have five plants, which are all in the same one kilometre radius. In Koregaon Bhima and Sanaswadi outside of Pune. These are Hot Forging Division 1, Hot Forging Division 2, Machine Components Division 1, Machine Components Division 2, and Cold and Warm Forging Division.

Our business segments are primarily passenger cars, trucks, industrials, agro, and turbo, about 60 percent of our business is in the automotive segment, which is passenger cars and trucks, and, we are fairly well diversified with about 40 percent of business in the industrials and agro verticals.

So, as I said, we are a well-diversified company leveraging common strengths across various market segments. As a strategy, these are the core segments that we are tracking, and we are increasing our market sharing. In the truck space, this segment is high volume and has high volume, high value forgings in every truck, which makes it very attractive for us and a very good fit for the kind of products we make. It is also a large and mature market globally and in India. It is a fast growing market. The passenger cars as well have high volume and high volume value forgings in every car, including in electric vehicles. This also is a large and mature market globally, and there's a lot of headroom for growth, of passenger cars in India.

So we are very bullish about this space. The industrial segment has been a steady and growing market for large engines, so we're able to manufacture and sell similar products in the industrial space, especially for stationary engines, gensets, off road vehicles, construction equipment etc. This acts as a hedge against the cyclicality of automotive markets. At the same time, we're able to leverage our automotive standards expertise. To differentiate with our competitors. In the agro space there's a high volume market for agro engines. Again, this is a hedge against automotive cyclicality and similarly, we leverage the automotive manufacturing experience.

Many of you may already be familiar with our products, but recently we have a decided to focus on fewer product groups and increase our market share in these areas. So our main product groups are engine, driveline, and axle. Of these, the engine products obviously are the part of the ICE market, which is the existing conventional, powertrain technology, but it has a very long standing staying power and we are, we believe that the ICE market will continue to, grow in absolute terms, even though there will be some growth in the electric and alternate fuels or powertrain technologies.

Then the driveline and axle products are both x-EV products or fuel agnostic products. So we are fairly well placed to, ride the wave of new powertrain technologies, as well as the existing, best technologies in the market. In the engine group, we have connecting rods, crankshafts, they are very high precision products and connecting rods have been our marquee product, since inception.

We are present across all market segments, and we make connecting rods of various sizes. We're also the first in India to make the fracture split connecting rod. The BS6 connecting rod or the Euro 6 compliant connecting rod. So we are seeing good traction, in this area. Our fastest growing product segment, however, is the driveline space where we have established warm forging technology, which is a niche area. And we are amongst very few players in India who are able to produce warm forging products like outer races, tulips, inner race, and tripods. These go in the half shafts between the wheels in passenger vehicles, typically in passenger vehicles. Similarly, axle product group includes stub axles, steering knuckles, and wheel hubs. We are growing in this group as well. It is our third largest product group, and we have recently won some orders in all these three groups, which I will talk about in the later slides.

Kalyani Forge has a growth formula, which is very important for our business for achieving our long term goals, as well as our balanced scorecard targets. So, number one is Strong Execution, number two, Business Development, and number three, Capex. And these are the three ingredients that enable and ensure growth of the company. This is the approach that we have set forth over the last one and a half years or so. And this strategy and approach is playing out pretty positively. And we're able to see the results. So I'll take you through each of these in a bit of detail.

So in terms of strong execution, we have our financial results, which are most important. In Q2 we clocked a total revenue of 62.85 cores, EBITDA of 8.29, cores and bat of 3.9 cores. As you can see, there is a significant growth in, income and especially in EBITDA and PAT. The main reason is we have, had a favourable product mix in our sales, focusing on more profitable business, and we have also taken a lot of steps on cost control, improving operational inefficiencies, lean manufacturing, and so on. So our EBITDA margin in Q2 was also at 13. 2%.

We have also been able to provide strong shareholder returns over the last five years, as you can see in the chart. Thanks to our shareholders, we have outpaced the, BSC Sensex with 180 percent growth compared to the market, which is at 100 or at 94%. Along with we this, we have strengthened our board with new independent directors joining following some vacancies we had due to retirement of the earlier board members. This is helping us a lot with the right kind of guidance, industry expertise and strategy to achieve our growth targets.

Our leadership team is also strengthened, with very clear, organisation structure across our manufacturing divisions, product lines and market segments. The leadership is also established at multiple levels so that there is a clear succession planning for the future. We have a cost reduction program in place where we're focusing on material costs, power costs, and productivity and we have a digital shop floor program, which I will talk about in the next slide.

The second ingredient of our growth is business development. And I'm happy to share with you that we have won record new orders. We have one total multiyear order book of 384 crores in H1 of FY25. So this translates to a peak annual value of 63 crores of new orders, as you can see in the graph. On the right and to give perspective, our existing forecasted order book for this year is 273 crores.

So it is about 25% of the existing order book that we have won new orders. There is a continuous new business development process which is on track. We had a similar order book winning in the previous year as well, and we are continuing this growth engine which was an area that required a lot of a lot of boost and we are seeing the results play out in in these Last few quarters.

There's a focus strategy on core products and segments. So by eliminating non-core products, we're able to give more and more attention to the right set of customers, to the right locations and market segments. And, therefore, we're able to fine tune our offerings as well as consolidate our internal processes, Capex, and all the decisions that go along with it.

This has greatly simplified our operations as well. So, we strongly believe in this focus strategy. Kalyani Forge also enjoys an entrenched position, with in the market with multi decade relationship with OEMs. And, so we are getting significant traction with our existing customers itself, while we do, target new customers.

New customer acquisition and larger expansion projects take us to capex. This is our third ingredient for growth. As you can see we have steadily increased our capex over the last five quarters in Q2 our fixed assets have grown to 62.5 crores which is, almost about 8 crores of growth. We commissioned several Capex product projects in Q2 FY 25, particularly in plant and machinery, our machining expansion Phase 1 is complete. And Phase 2 is underway. So phase one is, has been for the immediate, connecting rod machining lines. Phase 2 is in the driveline and axle space, where we have, recently installed new plant and machinery or new cells. And this will continue in the coming quarters, we have a new 1600 ton forging press also installed last quarter and the 4000 tonne press, which I had spoken about, in an earlier AGM, this is on track for completion in Q3. This has been a long pending project, which was on the back burner for almost a decade. And now we're happy to see this, come to fruition as it will unlock larger weight products thanks, especially for the truck segment and industrial segment.

Continuing on CAPEX, this is just an image to help you understand how we are expanding our machining capacity. We have done 5 layouts for six old machining lines based on lean manufacturing principles. With this, we have been able to save 50 percent of existing shop floor space and free it up for new expansion. So these are a lot of low hanging fruits that we are able to, utilize and therefore make very judicious capital expenditure for growth.

And finally on Capex side, we have a digital shop floor initiative where we have digitized a lot of our, machine data inspection and quality data to provide a lot of insights and analysis. The quality data helps in traceability and rapid problem solving for our internal teams, as well as with customers.

We have learning management and training tools, and this is enabling automation and predictive maintenance of machines. So these digitization projects are underway in collaboration with our Group technology partner, Kalyani Studio, which has been a software startup founded in 2016. So we're able to leverage a lot of synergies with this company.

And this is our leadership, the board of directors. Mrs. Rohini Kalyani is our executive chairperson, she has decades of industry experience, and leading Kalyani Forge for over 25 years and she's also happens to be the only, female leader in forging industry, and has been a pioneer in technology, the connecting rod, machining, fracture split technology, as well as the warm forging technology, these were all spearheaded under her leadership. So we're able to, really leverage her experience on the board.

Next is, myself. I'm the managing director. I've already given my, introduction at the beginning of the presentation.

Mr. Gaurishankar N. Kalyani. He's the Non-Executive and Non-Independent Director, He is also on the Board of various group companies. He has a lot of experience in commercial and other businesses.

In terms of Independent Directors, we have Mr. Ajay Tandon who recently joined, as an independent Director. He has been at the helm of affairs in the Tata group, being the MD of Tata Autocomp. He was also on the board of several Tata group companies.

Similarly, Mr. Jeevan Mahaldar, also joined, in the last quarter. He's, an Independent Director and he has been, MD and, board member, in the Minda group for several years, before that he had worked with, Tata Ficosa and several other global companies.

Mr. Abhijit Sen, he's also an independent director; he has been with us for several years now. He was the CFO of Citibank, in his earlier career days and has a lot of financial expertise.

So overall we have a deep expertise at scale, automotive domain knowledge, global exposure and strong strategic and leadership skills.

With that I come to the end of our presentation Thank you very much for your patience and for listening. I'd like to now hand over to Rachana, who will moderate for Q& A.

Moderator: Thank you very much, sir, on your insightful presentation on our Kalyani Forge Limited. I would request you, to close the screen share. Now all the attendees, investors and analyst, I request them if they have any questions, in regards with, our company, any processes progress I, request you to all, put your questions on forth. Kindly raise your hands or you can use the chat box for questioning.

We have a question from Mr. Amin, Good morning, sir.

Mr. Sunilkumar Amin: Yeah. Good morning, Mr. Viraj, How are you doing? I'm so happy that I'm related. See yesterday it was auspicious day, that was Dev Diwali and you have rather we have all celebrated the occasion with fantastic results. See the EBITDA, you could raise it from 7. 48 to 13. 2 in a quarter, it's unbelievable. Absolutely unbelievable. And I'm sure that with this, rapid run, we may definitely double that figure to say 15, is it?

Mr. Viraj G. Kalyani: Yeah. Our, goal is to get there. I cannot make forward looking statements, but, definitely improving EBITDA is, one of our top most priorities. And we have a clear operational strategy to increase it by improving our material costs, our power costs, and also, productivity, and lastly, improving the product mix, the pricing. So these are the more major leverages that we're working on.

Mr. Sunilkumar Amin: Absolutely great, sir. And I wish that, Kalyani forge may come out with, quarterly turnover of hundred crores Let's hope. Thank you. Thank you for your work. So nice.

Mr. Viraj G. Kalyani: Thanks for participating.

Moderator: Thank you, Sunil Kumar, sir. any other analysts, investors? Sir, we have one question from Mr. Mehul Jain asking. The question is, is this EBITDA margin sustainable?

Mr. Viraj G. Kalyani: That's a very good and important question. of course, this is, in many quarters, after many quarters, we have reached this kind of breakthrough level of EBITDA margin. We do hope to keep, it sustained at this level and we are keeping a tight watch on our, costs and operations. Our target is to grow the EBITDA margin as well as our contribution margin. So the first step is to stabilize the contribution margin, which is basically our Revenue minus, material costs, the direct material costs, that plays about materials are about 45 to 50 percent of our cost structure. So we need to, as long as we make that very sustainable, we can, we'll be on the right path.

Moderator: So we have another question from Mr. Ankur Agarwal.

Mr. Viraj G. Kalyani: Yeah. Please go ahead.

Mr. Ankur Agarwal: Hello, sir. Good set of numbers. Can these numbers be reflected in the future? And your top line, what is the contribution of auto and non-auto?

Mr. Viraj G. Kalyani: Auto and non-auto is fairly well balanced. Auto segment is about 60 percent of our revenues and 40% is the industrial segment, non-segment. Okay. Segment margins it depends based on the, product as well so if it is a critical product, margins are better if it has more value Addition machining, ready to assemble products have better margins at presidential, company called, assets. Top line, clean Charge top line, we have a target of growing our, top line, doubling our top line over the next few years. I cannot give an exact forecast. Not exact, but, let's say companies have an internal goal that in the next 4 5 years we have to go here and manage the margins like this. Yes. So our long-term target is to double the revenues to about 500 crores and, increase our EBITDA margin to 15%.

Mr. Ankur Agarwal: So we can say that the issues of past is over now?

Mr. Viraj G. Kalyani: I think, yes, most of our legacy issues or any sort of areas that needed a lot of improvement, those are done. Those are resolved. So we are now focusing on next level of improvement, next level of growth, new business, in multiple product lines.

Moderator: we have a Mr. Mehul Jain asking through chat box that, what’s your future CAPEX plan?

Mr. Viraj G. Kalyani: Our Capex plan for coming future, we have been planning, over three to four years cycle. Last year we did Capex of around 13 Crores. This year we have planned a significantly, larger outlay around, 25 to 30 cores. some of it is based on the business projections that we are getting from our customers.

Moderator: Okay. Next question is from sir; I would request if you can disclose your name. now the question is, what are the reason for such good operating margins and plans to sustain them?

Mr. Viraj G. Kalyani: Yes. As I've already answered this question, the operating margins have improved based on better price and product mix, as well as improving our operational efficiencies and cost reduction measures. We are working on sustaining this and the approach is to focus on our, largely on our material cost and contribution margins first and then achieving the rest. Thank you, Mr. Kamaldeep Singh for your question. Sales target for this and next FY and how we are planning to increase sales. I won't disclose our exact targets for each year as we don't make forward looking statements. But I can elaborate how we are planning to increase sales. As I had shown in my presentation, we have a focused strategy on three product segments i.e. engine, driveline, and axle. We are working closely with our existing customers. Thank you and we have received a record number of new orders around 62 crores of peak annual, orders we have one in H1 of FY25. So this is the effort that we are continuing and we have a three strong formula for growth, which is strong execution, business development and Capex.

On full capacity, your next question is on full capacity, how much sales are possible and capacity utilization currently and targets for this and next FY? *(reading question from chat box)*

Thank you for your question. Again, capacity is very, very important in the forging industry. It's also very expensive so we must be very judicious in allocating capacity to the right type of business. So, currently in our forging plants, our utilization is fairly low and in our machining plants, our utilization is much higher, this is because in our forging plants, we, had to phase out some non-profitable business and make room for better business from our existing customers.

And there's also, our efforts are to work on upgrading our forging machinery, reconditioning, modernizing, and so on, so we don't need additional capacity in our forging side, but machining side, we will be spending in terms of a new capacity based on every new business order or visibility that we get.

Moderator: Thank you, sir. Moving ahead, we have some question from Ankur Agarwal again.

Mr. Viraj G. Kalyani: Yes, please. Go ahead.

Mr. Ankur Agarwal: What's your debt? Will it remain as it is or how?

Mr. Viraj G. Kalyani: Our Debt is maintained as of now, we, we have a lot more headroom to take on more debt because our debt to equity ratio is fairly low, so we may take on some additional debt. But our general approach is about 75 percent funding of CAPEX, 75 percent from debt and 25 percent by internal accruals. I can't give an exact number, but this year's plan was around 25 to 30 crores.

Mr. Ankur Agarwal: what is the plan for current year or for next six month or so?

Mr. Viraj G. Kalyani: I cannot give the numbers yet however we are planning to have it around 30-35 Crores.

Mr. Ankur Agarwal: what is the plan for Next year?

Mr. Viraj G. Kalyani: I cannot give the numbers For Next year because we are awaiting finalizing and getting the board approval on the same. So probably by next quarter, we'll be able to give an update on this.

Mr. Ankur Agarwal: what will be ratio for Asset to sales?

Mr. Viraj G. Kalyani: Yeah, asset to sales ratio is very important. Generally, it's, 0.5%, so for example, one core of asset will generate two cores of sales.

Mr. Ankur Agarwal: Oh, two times. Okay.

Mr. Viraj G. Kalyani: Yes. So asset divided by sales is 0. 5 or a sales divided by assets is two times. Again, that's a very good question. And I want to elaborate that, the ratio for Kalyani Forge is quite low, which means our asset value is very low currently and that's why we are, able to take on more CapEx to enable the growth.

Mr. Ankur Agarwal: Okay, so in our type of industries, whether the work done on order book basis or regular type of work?

Mr. Viraj G. Kalyani: Again, that's a very important, question. Order book is typically given for a particular program by the OEM. So they have a start of production and end of production, plan, which is over, could be five years or 10 years. So when they give an order, it's an order for five to 10 years .

Mr. Ankur Agarwal: Okay, so what’s the current order book?

Mr. Viraj G. Kalyani: Current order book, our forecast is about 270 cores for this year.

Mr. Ankur Agarwal: Okay, that's good. Okay. Thank you. That's all for my side.

Mr. Viraj G. Kalyani: Thank you. Thank you Ankurji.

Moderator: Thank you Sir. One more question in the chat box. Asking, can we share capacity, utilization and numbers and targets?

Mr. Viraj G. Kalyani: Yeah. Capacity utilization, I can't give an exact number right now. I'll give you a ballpark, in the forging side, we have about, 50% capacity utilization in the Forging side and we have about 80 percent or 75 to 80 percent capacity utilization in Machining Side and our targets are to get to, in the forging side, to get to 70 percent utilization in the coming year.

There's one more question from Mr. Mehul Jain. How much company spends on new product development? that's a that's a good question. I honestly don't have the numbers at my fingertips right now, we will get back to you on this, but we have a pretty- significant outlay for new product development and it's, it's based on the, outlook from our customers. We are seeing some certain products are undergoing design changes and so we proactively, work on those and for new business where we have received orders from our customers, that's part of our regular, new product development activities. So it is a pretty significant, spend as well as effort that we put on it.

Moderator: So we have one question from Mr. Ankur Agarwal sir, asking now management con call is every quarter.

Mr. Viraj G. Kalyani: yes, Mr. Agarwal, we will make this a regular affair and we will try to ensure we have a call at least once a quarter. And it's nice to see the, participation of Shareholders and the investor community.

Moderator: We are welcoming one more question. Can we share sales CAGR for this and next two financial years?

Mr. Viraj G. Kalyani: No, unfortunately, we cannot give this kind of a prediction on the sales CAGR. Of course, it depends we have our internal targets in place for growing the top line as well as bottom line. We have a plan up to FY27, an annual sales plan, and we are working on the strategy, the strategy is also in place for that and we are executing on the same.

Moderator: Thank you, sir. We hope that all attendees are getting satisfactory answers and if they have any more questions, we welcome them all.

Mr. Viraj G. Kalyani: If some of you have joined here on this call, we will be sharing the presentation and the transcript of the call as well.

Moderator: So, with the permission of all attendees and our managing director, I thank you all the participants. And, put forward to end this meeting, if, there are no questions or any comments? yeah, we have one last comment from Mr. Amin.

Mr. Sunilkumar Amin: So, sir, it was a fantastic meet. Wonderful. And great going and see you every quarter. Happiest time forever.

Mr. Viraj G. Kalyani: Yes, definitely. This is very encouraging, and look forward to interacting with all of you next quarter. Thank you, Mr. Amin as well.

Mr. Sunilkumar Amin: Thank you, sir.

Mr. Viraj G. Kalyani: Yeah. Thank you everyone. Thank you to all the participants for this, interactive session. We look forward to participating and engaging with you, in the coming quarters, you can be in touch for any further follow up questions with our company secretary, Mrs. Rachana Agarwal. Thank you. And have a nice day.

Moderator: Thank you all participants. we will be posting this recording as well as transcript on the stock exchanges shortly and looking forward for your support and encouragement as always. Thank you all. And with this note, we are ending this meeting. Thank you so much.