"Vilas Transcore Limited H1 FY25 Earnings Conference Call"

November 12, 2024

MANAGEMENT: MR. NILESH PATEL - CHAIRMAN & MANAGING DIRECTOR, VILAS TRANSCORE LIMITED

Moderator: Ladies and gentlemen, good day, and welcome to the Vilas Transcore Limited H1 FY25 Earnings Conference Call.

We have with us today the Management of Vilas Transcore Limited – Mr. Nilesh Patel, Chairman & Managing Director.

Before we begin, I would like to state that this call may contain some of the forward looking statements which are completely based upon our belief, opinion and expectations as of today. These statements are not a guarantees of future performance and involve unforeseen risks and uncertainties. The company also undertakes no obligation to update any forward-looking statements or reflect developments that after a statement has made. Documents relating to the company's financial performance including the investor presentation have already been uploaded on the stock exchange and the company's website.

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 "*" and then "0" on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Nilesh Patel. Thank you and over to you, sir.

Nilesh Patel: Good afternoon, everyone. My name is Nilesh Patel, and I thank you all for joining our Earnings Call. We hope you had an opportunity to review our Investor Presentation which was uploaded to the stock exchange today.

We will be sharing key Operational and Financial Highlights for the 6 months period ending September 30, 2024. But before we dive into updates, we would like to take a moment to introduce our business model for those of you who may be looking at our company for the first time.

About Vilas Transcore Limited, founded in 2006, Vilas Transcore Limited is a manufacturer and supplier of power transmission and distribution components, serving primarily transformer and other power equipment manufacturers in India and internationally. We produce a wide range of Cold Rolled Grain-Oriented CRGO electrical lamination including CRGO Lamination Core, Slitted Coils, Stack Assembled Core, Wound Cores and Toroidal Cores. These components are integral to the efficient functioning of the power and distribution transformers. We operate from two ISO 9001-2015 certified manufacturing facility located near Por near Vadodara, Gujarat with a total production capacity of 12,000 metric tons per annum.

Expansion plan and IPO funds:

We recently raised approximately Rs. 95 crores through our IPO to support our expansion plans. These funds are allocated for constructing a new factory building and acquiring additional plant and machinery. Upon completion of the capital expansion, our plant capacity will increase from 12,000 metric tons per annum to 36,000 metric tons per annum, a three-fold growth. The expansion is currently underway. However, given the scope and scale, numerous approvals are required, which has led to some delays. Unexpected floods have also caused further setbacks. Also, we are leaving no stone unturned to make the facility stay from the heart and align with our future outlook of making it multi-product facility enhanced. While I'm trying to speed up the setup, we are not overly rushing at cost of any compromise. We now expect trial runs to begin by March with full-scale operation launching in April of the next fiscal year. Additionally, we are expanding our product portfolio to include new offerings such as transformer radiator and nanocrystalline cores.

Financial and operational highlights:

Now I'd like to share some key financial and operational highlights for the first half of the fiscal year ending September 30, 2024. Our total income for H1 financial year 25 stood at Rs. 167 crore, reflecting 4% increase year-over-year. EBITDA was Rs. 23 crores, up by 38% year-over-year with an EBITDA margin of 13.7%, which was after absorbing the IPO cost of nearly Rs.7 crores, profit after tax= was Rs.14 crores, up by 28% year-over-year. With a PAT margin of 8.6%, we maintained strong return ratio with ROE at 14.5% and ROCE at 16% for H1 financial year 25 and we are net debt free company.

Our improved margins this year are partly due to issues in China affecting global supply chains. Once these issues stabilize, margins are expected to return to previous levels. On the operational side, we are currently operating at over 90% capacity utilization, underscoring our efficient use of resources. Additionally, to ensure supply chain resilience, we have onboarded new suppliers to address any potential disruptions, ensuring a steady and reliable flow of materials. This enhancement not only supports operational continuity but also strengthens our foundations of future growth.

With that, I conclude my opening remarks. Thank you everyone. I now request the moderator to open the floor for the question and answer. Thank you.

Moderator: Thank you very much. We will now begin the question and answer session. First question is from the line of Jayesh Lad from Centra Insight LLP. Please go ahead.

Jayesh Lad: What I wanted to ask was regarding our CRGO silicon steel. Sir, what is the domestic capacity and demand as well as the international capacity and demand?

Nilesh Patel: So, our domestic requirement for this material is around 3,40,000 metric tons. That is what is the annually demand for the transformer lamination. Out of which, we produce in India around 1,00,000 metric tons and 2,40,000 metric tons comes from the outside as a form of import in the raw material.

Jayesh Lad: And second is what is the reason that the Indian producers are not producing CRGO silicon steel? What is the technology which is required which is not available in India? That's the reason we are so import dependent.

Nilesh Patel: Because this basic raw material which is HR, to make the HR for this CRGO steel is difficult and none of our steel plant was having the facility, technology to produce that kind of HR. Jindal Steel has done tie up with JFE Japan and now they are putting up the plant which will be in operational and maybe they will deliver the material by 2027 or so.

Jayesh Lad: And lastly, sir, what is the cost per metric ton of CRGO that is the mother coil you are importing and after the laminations at what price are we selling to our customers? And if there is any price fluctuation, are we in a position to pass on the prices to our customer or we have to bear the cost?

Nilesh Patel: Sir, this price for the mother coil varies from around Rs. 250 per kg to Rs. 350 per kg depending on the grades and thickness of the material. Sales cost always depends on the little bit of demand and supply chain. But overall, it is a 20% of the value addition in that. And whenever there is a fluctuation, we always book our material in advance so we know the futuristic price or the futuristic trend. So, according to that, we set our sales price and sales policy, increase in sales or decrease in the sales and we manage to majority of the time pass on plus or minus to the customer.

Jayesh Lad: What are the sustainable EBITDA margins? Like, if you can comment on that. Currently, we are making around 10%, 11%. And in future, what do you see where we can expand the margins to?

Nilesh Patel: EBITDA margin always depends on the situation, but the minimum what we have produced in last year was the minimum base margins. These six months, there were some kind of exceptional margins, but the last year whatever we have produced in March 2024 was the base margin, below that it never goes.

Moderator: Thank you. The next question is from the line of Khadija Mantri from Capri Global. Please go ahead.

Khadija Mantri: One is that I wanted to know regarding our CAPEX. So, it has been delayed by 3 to 4 months. And then once the facility is operational in April 2025, how do you see it ramp up? Will the entire 24,000 tons be able to be manufactured in FY26 or will it be gradually ramped up?

Nilesh Patel: Ma'am, your question was not clear. I am not able to understand. From whatever I understand that you want to know that when our fund is deployed and whatever the capacity will come, that in next financial year, we'll be able to reach 200% or not, that is what you want to ask me?

Khadija Mantri: Yes, precisely.

Nilesh Patel: So, our expansion, mostly 90% will be finished by the March 2025. Only 10% office building, roads, and some small, small infrastructure will be remained, which will be completed by April or May of 2025. So, once this entire infrastructure is ready and is operational, next year we are targeting to double fold our present capacity. So, we are making 12,000 tons right now and next year we are planning to make 24,000 metric tons. We have a capacity of 36,000 metric tons, but we always focus that it will be slow and steady. So, next year we will be targeting for 24,000 metric tons. If market supports and we are going to work hard in market support and we can do it more than that, that will be great. Otherwise, our minimum target will be 24,000 metric tons for the next year. And then after in March 2027, we will definitely reach to 36,000 metric tons. That's full capacity.

Khadija Mantri: Understood. And my second question is, transformers and rectifiers, they have announced that we would be acquiring some company in CRGO Lamination. So, that is basically they are planning to backward integrate. Does it impact our business or how do you see this?

Nilesh Patel: And till date only that one company we have heard about that they are thinking for the backward integration because the company what they are going to procure that itself runs on them only. So, might be they go for that and they bought that, but transformer and rectifier is not in our portfolio of the customer. We are selling them the material but it's very very minimal.

Khadija Mantri: And also, sir, I was wondering what's the reason for margin expansion in this first half as compared to last year's first half? Is it the product peaks or what is the reason that has led to increase in the margins? And you just said that it's 10% to 11% sustainable, but what was the reason for increase in the margins?

Nilesh Patel: The only reason of increasing this margin is that right now there is a scarcity of this material. It's not freely available and demand is also very good. So, we are able to increase our margin looking to the present situation.

Khadija Mantri: I wanted to know what would be the optimum margin that we can make in such scenario where there is high demand and supply crunch. Will it be 14% or it can go upwards also, for the industry as a whole I'm asking.

Nilesh Patel: If you ask me about maximum margin, I cannot judge. It can go more. It purely depends on the supply and demand. But yes, I can say the minimum operating margin for the industries is what we have done in last year because that I have experienced for 30 years.

Moderator: Thank you. Next question is from the line of Bhuvan M.G. from Tiger Asset. Please go ahead.

Bhuvan MG: My first question is, by how much capacity are you increasing nanocrystalline core? And would like to know about few market dynamics regarding that?

Nilesh Patel: Nano crystalline core is the new product, it's not the capacity expansion. We are adding up the new product. It is a highly technical product. We are having bit experience for that and we have to develop that product. So, it's a core. We are making right now core from the silicon steel. This is nanocrystalline material is a different kind of material. So, it's technology for processing is very different. We are having knowledge of that because we are running a small company called Nano Cryst Transcore in Manesar and we are making turnover of around Rs. 6- Rs. 7 crores over that. Now we are getting more and more demand for that. So, we are now adding that portfolio to our Vilas Transcore and we are going to manufacture the cores from here and going to sell to different customers in India. At present, in first year, we are planning to reach to around say 10 or 12 cores maximum. But yes, this particular product has a lot of different variants of the products, which is a technically different products. We have to develop that. And it's a long process, but it has a very good margin. So, that is why we have added that in our product portfolio.

Bhuvan MG: And if I'm not wrong, you will be one of the few two to three players who will be doing this, right?

Nilesh Patel: Yes.

Bhuvan MG: And expansion, what would be the working capital scenario? Would it be the same **?**

Nilesh Patel: Up to 600 crore, whatever the working capital is required, that we have in our cash flow. So, we are not going for any more debt or something for the working capital. We have that sufficient fund to run these operations.

Bhuvan MG: Of the Rs. 600 crore sales, your balance sheet can support the working capital

Nilesh Patel: Up to Rs. 600 crores, we have that working capital and beyond Rs. 600 crores, when we will reach after March 26, we will analyze if that time the same CRGO price is there and if we require, then we will have to take some more non-fund-based limits from the bank.

Bhuvan MG: Sir, as you mentioned there is a lot of demand and supply scarcity for CRGO steel ammunition and your comparable listed peer is making around 15% margins, and yours is around 10%-11%, so can we increase our margins to 15% in the present product portfolio?

Nilesh Patel: Sir, if the market remains in similar way, yes we can maintain that. But how market will react after 6 months or 10 months or a year, we don’t know. So, committing that we will definitely maintain this, is not the right thing. But yes, if the market remains same, it's not hard to maintain this.

Bhuvan MG: So, to summarize if market conditions are favorable then yes we can make 14% to 15%?

Nilesh Patel: Yes.

Moderator: Thank you. Next question is from the line of Nishant Gupta from Minerva Global Capital. Please go ahead.

Nishant Gupta: Sir, I wanted to understand what is the reason that the working capital cycle has shot up for the company despite the sales number has not grown by that percentage. When I compare the number of the inventory, the trade receivables and the short-term borrowing has also gone up to 15 crore. So, this is what I wanted to understand.

Nilesh Patel: Short-term borrowing is buyer's credit. That's one LC we have revolved to the buyer's credit because of the exchange variation rate. And it's not the kind of borrowing, it's already paid also. It was in the form of buyer's credit on 30th September. And right now our inventory is more because there is a scarcity of the material and we have to keep all the grades in the stock. Otherwise, we always keep one month our turnover in the stock. Right now, it is a two-month's turnover in a stock. And when in the market, there is a demand and short supply, our inventory goes up, and our outstanding goes down because we are able to sell material on the LC basis. We are able to sell material on the payment against delivery basis of kind of things. So, this is what it is.

Nishant Gupta: And so the reason for trade receivable going up to Rs. 61 crore?

Nilesh Patel: The credit receivable is Rs. 61 crore, out of which there are lots of sales against LC which we are not getting discounted from the bank and we are waiting that once the due date will come the LC payment will be coming. So, trade receivable like if I am selling on the LC and if I am getting it discounted, definitely trade receivable will be reduced. But we don't want to pay that interest also so that's why we are showing it as trade receivables, but most of the payments are against LC.

Nishant Gupta: So, if I can summarize this, you're saying that the inventories will eventually translate into sales in the coming quarters, which we have built right now. And the trade receivables are all realizable. Like there is no bad debt kind of situation that we see. Correct?

Nilesh Patel: Correct.

Nishant Gupta: So, the second question is since your upcoming capacity is delayed by 3-4 months, I read in your annual report that you are guiding for 30%-35% annual growth. Is this something that is still on track? For this particular year, are we seeing a 35% year-on-year growth for the full year and going forward?

Nilesh Patel: In this year, we never claimed that because our present plant, what we are running at present, is running at 90%-95% full capacity. So, in this present plant, we cannot do any 35% growth kind of thing. But yes, we are trying to achieve 10%-15% growth in this present plant by doing some kind of efficiency and all those things. But yes, when we will be starting up the new plant for the next financial year, definitely we will have a lot of growth over there. In present plant, we may forecast that we will do 30%-35% growth in present plant.

Nishant Gupta: So, one final question, since you mentioned previously to one of the answer that currently the imports is on a higher side as compared to the domestic production, are we seeing any risk of price going down of the import which kind of takes away the share from the domestic players or that risk is not there?

Nilesh Patel: At present, sir, what kind of shortages are there, I don't see any kind of price downfall in our material for the next one year or so.

Moderator: Thank you. Next question is from the line of Naman Parmar from Niveshaay Investment Advisors. Please go ahead.

Naman Parmar: I understand why the other expense has increased significantly YoY. It was due to IPO cost only or there was other expense also?

Nilesh Patel: It's just because of the IPO cost.

Naman Parmar: Secondly, how much exports are done in the H1 and how much you expect to do in the future and what's the margin difference?

Nilesh Patel: In my earlier concall, I said that in export there is no that much kind of benefits are there. In some of the cases we get 1% or 2% higher rates in export. Mainly it's a similar kind of the India's rate. So, at present, we are doing around 3% to 4% of our capacity in export because our Indian customers are not able to fulfill 100% from our present capacity. So, we are not focusing too much on the export, but yes, we have developed few customers and we are doing around 3% to 4% exports every month, which we will increase once we will go to the new plant and we will start the new facility.

Naman Parmar: So, it will be domestic.

Nilesh Patel: Yes.

Naman Parmar: Thirdly, why you have taken the short-term debt this time? It was due to working capital only or what was the reason for that?

Nilesh Patel: It was around when we were about to pay the dollar, the dollar price was high and we took around 30 days buyer’s credit to just manipulate with that pricing.

Naman Parmar: And lastly, currently we have a PGCIL approval till 220 kV, right?

Nilesh Patel: Yes.

Naman Parmar: So, we have any plan to enter into higher kVs like 465 or 765, or 400**?**

Nilesh Patel: Once we will go to the new plant and the new machines what we have bought, we'll be able to process the maximum capacity of the transformer. So, once that new facility will be started and it match with the requirement to the environment and all other criteria. So, we will definitely go for PGCIL approval up to the 765 kV or 800 kV class.

Naman Parmar: And lastly on the amorphous side, so how was the demand on the amorphous side and there was also a supply side issue on the amorphous also like CRGO?

Nilesh Patel: Yes, it's a supply side issue because the Indian government has stopped almost all Chinese suppliers in the metal. So, that is the supply side problems is also there but for that we have tied with the Japanese players, and we have placed an order to them also.

Naman Parmar: Okay, Japan and euro we have done?

Nilesh Patel: Yes.

Naman Parmar: So, there is no BIS regulation or anything has been come up by the government to increase the supply of the CRGO in the domestic?

Nilesh Patel: The government has put up a ban, we can't say the ban, but they have just hold the BIS license of the Chinese mills but they have started the Korean mills or BIS again which was kept on the hold and we have heard that they might restart one or two Chinese mills also. But even if they don't start, they don't start, we have made our plan that we have recently placed an order for the Poland mill for more, one Brazilian mill, Go steel which is an Arcelor Mittal mill. So, we have tie-up a few more mills and we have placed an order and started importing from them.

Naman Parmar: And lastly on the nanocrystalline and radiators, this all new product will be contributing how much to your total revenue?

Nilesh Patel: Radiator contribution will be 10% to 15% in total revenue and nanocrystalline core is not more than around 5%-6% in total revenue. That is also after 3-4 years.

Naman Parmar: The 5%-6% is after 2 to 3 years.

Nilesh Patel: Yes.

Moderator: Thank you. The next question is from the line of Jainam from Saltoro Investments. Please go ahead.

Jainam: I wanted to ask given the kind of demand that we are talking about, just wanted to understand why such a low revenue growth in the first half. What are the issues and what are we expecting in the second half if we could throw some light on this?

Nilesh Patel: Low growth is because whatever the plant we are running at present is running at full capacity. So, though there is a high demand, we are not able to take the orders which are coming to us because we are running at full capacity, the first thing. And second thing, in next six months, we have implemented some of the systems right now, Kaizen or some kind of things. So, that will give a growth, but not extraordinary growth. 10%-15% maybe for first six months and next six months maybe 10% or 15% more than this, but in this financial year because of this capacity constraint, this will be the round figures.

Jainam: And also can you explain what was the factor or the reason for delay in the capacity expansion especially given the context that fully capacity utilization is almost 100%. What led to the delay and what are we doing about it?

Nilesh Patel: The new plant we have started in somewhere around May and June and we targeted that we will be finished within 6 months and 2 months reduction commissioning will be done and we were about to start operations from February, that was our plan. Now it has been delayed by 2 months because of rain, there was a lot of rain and the site was closed for around 15-20 days. Usually this kind of rain was not happening in the last so many years. This was the highest flooding system in Baroda. Then the second thing is we are doing multiple products, so we have to take lots of approvals for the firefighting systems and all those things. So, all this has taken a little bit of time. And as it is a very big project, one or two months here and there is possible. These are the main two reasons. Otherwise all machinery and everything has been placed in order and it will be delivered in December onwards. It will be shipped in December onwards. December 1st week the inspection call has been raised by the oil supplier. We are sending our team for the inspection and everything in December and they will ship the December end machine wise and everything will be coming in January. January-February election commissioning will go on. In March we are trying to take the trial run and all those things. We have delayed by 45 day to 60 days.

Jainam: Understood. And you talked about the demand. But if you can give a broader idea particularly in the next 3 to 5 years given the kind of demand that is there for both power transmission and distribution. So, sort of long-ish view given that you have seen so many cycles, can you explain how is this cycle different to let's say the previous one, how are you finding it and how robust is the demand? That's the last question from my side.

Nilesh Patel: If you will see the transformer industry result in order booking and everything, you will understand that the present order booking is more or less all the transformer companies' book for 1-1.5 year of their capacity. If you go internationally, US and all those market, transformers companies are booked for next three to four years.

Jainam: Internationally, right?

Nilesh Patel: Internationally yes. So, there are lots of opportunities that the transformer is going to get exported from India. As well as in India, lots of upgradation of the transmission lines are coming. Solar and wind projects are coming. Transformers will be the essential and the needed thing. So, the kind of reason our prime minister is having for the green energy and our nation is going towards green energy, for next five years, seven years, definitely demand will remain and it will increase.

Moderator: Thank you. Next question is from the line of Akash Jhaveri from ValueQuest. Please go ahead.

Akash Jhaveri: My question was more on the revenue part, which was part of the earlier question also, revenue growth of 2%. I understand volumes would be flat, but with the CRGO shortage, shouldn't the realization growth have been higher than 2%?

Nilesh Patel: As I said, we are running on the 100% capacity. And in this kind of scenario, if you have a limited kind of volume, we have to sell. In March, April, the price was going up and up. So, our sell strategy was like that, April, May, June, our sales were a little bit on lower side. And then when the price has been gone substantially up, we started selling raw material. So, April and May, our sales were a bit down. We hold up them and that usually we do.

Akash Jhaveri: So, for H1, would it be possible to split this 2% in volume and value? What was the split of volume growth and value growth?

Nilesh Patel: It's a volume growth.

Akash Jhaveri: And also because, when we look at your customers, so say Voltamp Transformers, they reported a sort of a 12% decline in realization per MVA and also flat gross margins. So, it seems that for them also, raw material prices would have fallen YOY. So, we're just trying to understand is this shortage of CRGO going to reflect in prices later on and it's not reflected yet or, you know, or the shortage is more on the volume side but it's not really impacting value growth.

Nilesh Patel: I'm not getting your answers. You said Voltamp's 12% reduced is what?

Akash Jhaveri: The price per MVA, they report volume growth also that they have. So, their price per MVA actually declined this quarter YoY.

Nilesh Patel: I don't know about transformer but the basic is that CRGO price has gone little bit up not gone down and price has gone little bit up and copper may be gone down and their price may be get adjusted in that way because in transformer CRGO does not only play the role, lots of other things play the role. If oil goes down, copper goes down their value per MVA goes down and CRGO price has not doubled or kind of thing, so it's marginally has been increased.

Akash Jhaveri: The second small question I had was on this tax rate. Tax rate was 33% for H1. Just wanted to understand for the full year, will it be 25% odd or what will be the tax rate for the full year?

Nilesh Patel: What do you say, tax rate?

Akash Jhaveri: Yes, tax rate. We reported a higher tax rate, YoY 33%?

Nilesh Patel: I need to check. Tax rate, I'm not aware about.

Moderator: Thank you. Next question is from the line of Rupesh Tatia from IntelSense Capital. Please go ahead.

Rupesh Tatia: I just have one question, sir. If I look at CRGO prices, let's say before 2021, there were between 100 and 150 for maybe 10-15 years. And then because of whatever supply chain challenges, the prices, when I think from 100 to almost up to 300, 350 and now maybe they are around 250. And I also, in the same time, I see that before 2020, the margins that CRGO players were making conversion costs and all that was around 4%. And then now the margins you're talking about is 10%. So, how sustainable is this, for next let's say 3-4 years? And maybe you can explain it from, if new CRGO supplies coming in the market then maybe the prices will go back again to 100-150 range and then in that case how will you maintain 10% margins?

Nilesh Patel: Sir in India, we have a BIS and CRGO. Now if you see the scenario right now, Jindal has bought CSPL mill at the cost of say Rs. 5500 crores or something and India is protected with the BIS. So, kind of flooding situation in India for the CRGO is not going to happen again because even if the government will open Chinese mills, there might be one or two, not ten mills. And even when China sells to India, they sell that for the Indian market only. So, I don't see in near future that the price will go down in that way. But if you ask about Vilas Transcore, the margin was we have say EBITDA of say 12% or kind of thing. We have never gone down than that even before 2020 or 2019 or 2018, 2017 or whatever it was. Because when prices have gone down, our operating cost and margin, we are just in our sales cost mostly. And we have a few products like Toroidial core we have one of the largest in India, which is a very profitable margin business.

Rupesh Tatia: So, I'm looking at the number, March 2020 your EBITDA margins were 4%, March 2021 your EBITDA margins were 7%, then March 2022 onwards it went into double digits and it looks…

Nilesh Patel: No, March 20 there were 2 to 3 months with the factory was closed. 2021 there was a...

Rupesh Tatia: See, I understand COVID. 20 is COVID, but 21 is still 7%, I don't have data before. But maybe the other way to ask this question sir is the conversion cost you have is that per kg or is it on a percentage basis? So, let's say you get CRGO for 250.

Nilesh Patel: The conversion cost is per kg.

Rupesh Tatia: So, now currently it is like Rs. 40 to Rs. 50 you get and maybe Rs. 40 – Rs. 50 is the conversion cost. Is that a right understanding as of now?

Nilesh Patel: We basically work on our expense like, X is the material cost, then the scrap and then our cost of conversion and then margin kind of the things formula we work.

Rupesh Tatia: So, your value addition would be roughly Rs. 40-50 at today's prices. Is that the right way to look at it?

Nilesh Patel: No, Rs. 40-50 is not the value addition.

Rupesh Tatia: Then how maybe you can explain this a little bit?

Nilesh Patel: So, like our scrap ratio is X, then our operating cost is Y, and then our margin comes. So, this is how we evaluate our sales cost.

Moderator: Thank you. Next question is from the line of Yash Dedhia from Maximal Capital. Please go ahead.

Yash Dedhia: So, first question was on the line of CRGO prices. So, recently, few players have alluded that supplies from China are now getting back to the stream and BIS certification issues which are there are now easing out. So, in this case, do we see any kind of a) availability of material getting better which was not the case since past a year or so and b) the prices also improving?

Nilesh Patel: So, even if China, what you heard that China is getting these or it's going to start, we still didn't hear. But even if they start, Chinese mill are smart, even they sell the BIS approved material, they approve always give the X cost and non BIS material is Y cost. Same mill gives two kind of cost. So, if you are importing for India, it's not going to availability of material. Even if availability is increased, this kind of margin, maybe 2% or 3%, maybe go down and we can come to original margin. But that margin is sustainable margin because there is also demand in the market. That margin will go down when there is no demand and supply is too much.

Yash Dedhia: And sir, with the CAPEX on the horizon, is there any other company or anyone in the industry apart from us doing CAPEX in this line for lamination sheet?

Nilesh Patel: Maybe few companies must be doing like JB lamination we heard they are doing or Mahindra, they are also doing some CAPEX because demand is increasing. At present, we are not able to supply to lots of customers. People are coming this is a 50 tons of order and they need in three days, four days or eight days. Such kind of orders we are not able to take it.

Yash Dedhia: Correct.

Nilesh Patel: All transformer companies increasing their capacity, they will require the raw material. If their ancillary will not increase the capacity, ultimately they will not be able to produce more transformer.

Yash Dedhia: So, I understand that volume is something a major trigger in our industry, rather than playing on the margins. Volume is something which we should concentrate on. So, any new capacity, if we decide to add, what is the lead time we take to build that capacity?

Nilesh Patel: Building that again person to person vary, if somebody can get ready in say one year somebody can get ready in two years to building the capacity if they are having, if they are established player and they build the capacity here because they can be in market.

Yash Dedhia: So, for us, what would that be with the current resources we have?

Nilesh Patel: You are talking about figure?

Yash Dedhia: Yes.

Nilesh Patel: So, that's what I said, we have started the project in the May and we are coming into the trial production in March.

Yash Dedhia: So, less than a year and going ahead also, we can maintain the same pace or we can improve on it?

Nilesh Patel: This is our expansion which we have taken place and it will be over when we will start the trial production. Then capacity expansion if required, that's the second question because right now we have planned till March 27.

Yash Dedhia: So, for March 27, we at least will have to plan in FY26.

Nilesh Patel: So, this capacity what we have is for the 3,000 metric tons capacity. Now we don't have to do any CAPEX or we don't have to expand our company. We focus and we forecast that we will putting up the capacity for 3,000 metric, additional 2,000 metric tons. Out of that additional 2,000 metric tons, 1,000 metric tons per month we will achieve in financial year which is finishing in FY March 26. And another 1000 metric ton, we will achieve in March 27. So, we don't have to add any kind of CAPEX in that. If market is good, demand is good, we can speed up that process and we can achieve early. If not good, then this is the slow process which we have said that we will be going to achieve.

Yash Dedhia: And sir, this whole additional 2000 metric ton per month, is PGCIL approved or the approval is yet to be received?

Nilesh Patel: Not necessary that it will be sold only to the PGCIL approved customer.

Yash Dedhia: No, but the facility is approved or...

Nilesh Patel: Facility will be approved.

Yash Dedhia: And where are we in the approval process?

Nilesh Patel: Sir, approval process will be start once the facility is created.

Yash Dedhia: And then only we can supply to the PGCIL work. So, for that, it's part of PGCIL.

Nilesh Patel: Yes.

Moderator: Thank you. The next question is from the line of Yash Ginoria from MoneyBee Investment Advisors Private Limited. Please go ahead.

Yash Ginoria: Sir, there was an article which said that India is facing a 30% shortage in terms of CRGO steel. So, it was primarily because of delays in approvals by BIS. And also you mentioned once that some mills in China, their license was cancelled and they had to stop their factories for the 20-30 days in a month. So, I just wanted to understand, is it in place right now or do we still have issues?

Nilesh Patel: That license was cancelled in the March end only. And yes, the material from China is not coming right now. And none of the license for Chinese mill has been restored.

Yash Ginoria: So, from where are we sourcing our raw materials right now?

Nilesh Patel: We are sourcing from Russia, Germany, Poland. And recently we got the materials from Brazil. And the local two mills

Yash Ginoria: And have we started taking orders for a new plant?

Nilesh Patel: For the lamination new plants order that we will start from taking in March for the delivery of April**.**

Yash Ginoria: And sir, what is the current order book?

Nilesh Patel: We are always having order book for 30 to 45 days, so anywhere between 40 crores to 45 crores.

Yash Ginoria: Rs. 30 crores to 45 crores?

Nilesh Patel: Yes.

Yash Ginoria: So, you previously mentioned that we'll have a topline of Rs. 400 crores to Rs. 450 crores in FY25. So, are we on track or?

Nilesh Patel: No, sir. We plan that we will be starting our production in January, February and March and we will take that 2 months' benefit from the new plant. But due to this delay, we will not be able to reach to Rs. 400 crores or something, but definitely we will try to close nearly Rs. 360 or Rs. 370.

Yash Ginoria: And sir what is the current export revenue in our topline?

Nilesh Patel: 3% to 4%.

Yash Ginoria: Now, are you looking to expand this?

Nilesh Patel: Yes, once the new facility will be start, we will expand the export revenue.

Moderator: Thank you. Next question is from the line of Kushal Shah from Nexus Equity Growth Fund. Please go ahead.

Kushal Shah: One question from my side on raw material procurement side. So, from the balance sheet, what we can figure out is that there has been an increase in the short-term borrowings vis-à-vis the increase in inventory. So, is it right to assume that we have built up on the CRGO steel as we are facing some shortage. So, is it right to assume that we have built up on raw material inventory?

Nilesh Patel: Yes. Because of shortage and uncertainty, we are keeping a bit more stock so that our customers should not suffer and our growth should not stop.

Kushal Shah: And sir, second question on the new capacity type. So, sir, as you mentioned in the call and also in the presentation, that by the end of this fiscal year we are planning to launch a trial run and by April '25, we will be able to start our capacity commercial production. So, sir, any chances on further delay because as you mentioned that there are plethora of approvals are required and from the photographs which you have shared in the presentation. So, I mean any chances for further delay or not, I mean are you confident of achieving that timeline whatever you have mentioned?

Nilesh Patel: At present, as rain is not there and we came on the floor, all the PV structure has been manufactured at the manufacturing play. And in the next 10, 15 days, all the PV structures and everything will be at play. So, definitely we will upload some photographs after 20 days so that people will be able to understand what is the level right now. At present, we don't see any kind of delay more than that**.** The machines are also ready and we got the calls from China for the inspection in the first week of December. So, at present we don't see any kind of things because all orders have been placed and the advance has been given. So, it will be mostly in production time. And the new entire team is going to join in January and February. So, people will be joining in January and February.

Kushal Shah: So, sir, our expectation of achieving the 24,000 metric tons of production and sales volume by next fiscal which is FY26, I think we will able to meet their expectation, correct? Achieving 24,000 metric tons of volumes?

Nilesh Patel: Yes.

Moderator: Thank you. Next question is from the line of Chinmay Nema from Prescient Capital. Please go ahead.

Chinmay Nema: Could you give some color on your wallet share with your marquee clients? So, with Voltamp and the others, some general sense?

Nilesh Patel: Do you want to know the percentage of the sales to customers?

Chinmay Nema: No, sir, I want to know if Voltamp is buying Rs. 100 worth of lamination, how much of it is supplied by us?

Nilesh Patel: As per our knowledge, we are a large supplier to them because that's what they say. And in this six months, we have supplied them around 2800 or 2900 metric tons of material to them. So, we are one of the largest suppliers to them. Now how much percentage we are supplying to them, that exactly I don't know and there is no methodology to know that.

Chinmay Nema: Secondly, would you be able to give some sense around in transformer manufacturing, what is the share of electrical lamination and the cost? Is it a big portion of the cost in the manufacturing or is it like a smaller line item?

Nilesh Patel: It varies from 25% to 35% or 40% of the transformer cost, depending on the rating and the design.

Chinmay Nema: And lastly, so some of your clients would be only operating with private clients, others might also be into project businesses. So, they would have different degrees of receivable risk at their end. Does it translate to you or does it not? Could you give some color on nature of your contracts with your clients?

Nilesh Patel: So, this was the phenomena before 5-7 years or 10 years that the transformer company was not having the money. Right now, all the transformer companies are having a good cash flow situation. And there is a lot of demand of transformers. So, even transformer people do not sell lot on the credit basis. So, revenue-wise, nowadays we don't see any of the companies having financial crunch from our customers. We are having a very prominent customers in our customer book. Those are the cash rich companies.

Moderator: Thank you. Next question is from the line of Dhruv Agarwal from Research Zone Capital. Please go ahead.

Dhruv Agarwal: Firstly, how big is the total addressable market for the radiator and what kind of market share will be catering with this 7,200 metric tons per annum, sir?

Nilesh Patel: The radiator market exactly we don't know how much is the exact quantity for the market because there is no data available because this market is specifically with lots of unorganized sectors. There are lots of small small players who are making 30 tons, 40 tons, 50 tons kind of things. So, but when we say 600 metric tons, we need 3 or 4 customers. Like if you supply to Silchar or you supply to Voltamp, they must be buying 100-150 metric tons each.

Dhruv Agarwal: And secondly, I have a question on this other expense that we have reported this quarter. Sir, there was one-time expense of IPO cost of Rs. 7.5 Cr. as you have said in the opening remarks. Sir if we exclude that from the other expense, then the margins would be around 15% EBITDA margins. So, like you have guided for the sustainable margins of 10% to 11%, but seeing this quarter, if we remove this exceptional item, the margins would be 15%. So, any highlights that you would like to make on that, sir?

Nilesh Patel: No, as we said, when government has stopped the BIS marking of the Chinese mill, the price has gone up slowly, slowly, slowly. It's 4%, 5%, 7% kind of thing. And we were having a lot of bookings with the mills, and all old cost material we received. And in earlier one of the questions, I said that we hold up little bit in April and May and we started selling material from the majority of the material from June, July, August, September. That's the kind of tactics we always adopt to increase the margin. And some kind of incident comes and we play with that and increase the margin. This is a purely demand supply that the supply has been stopped and the demand was there, that's a market driven thing.

Dhruv Agarwal: And any guidelines that you would like to give as we are increasing the capacity, right, sir? So, we would be earning at operating leverage. So, in financial year 26, any kind of guidance that you would like to give for the topline, sir?

Nilesh Patel: As we said, it will be the double in capacity. The topline has to be around 650, somewhere Rs. 650 crores to Rs. 700 crores. The financial year 26, I said March 26th.

Moderator: Thank you. Next question is from the line of Siddharth Shah, an individual investor. Please go ahead.

Siddharth Shah: One was on the raw material cost. So, it seems H1 of this year versus H1 of last year, the raw material cost has come down. And I was just trying to understand given CRGOs in short supply, and we are just a converter, wouldn't the CRGO mills be charging us more to procure this? And maybe I'll stop there and then ask my second question.

|**Nilesh Patel:** I didn't understand.

Dhruv Agarwal: Sir, I think because CRGO is in short supply, we procure CRGO from the mills. So, wouldn't they actually be earning the higher margin versus us as the converter?

Nilesh Patel: Mills earnings vary from time to time. Sometimes mills may lose material and money in CRGO and sometimes they may earn more. That criteria of earning we are not able to judge**.** But yes, always like at present if you say CRGO in China, they are selling at X cost and the same CRGO what TKE is selling in India, they are selling X plus say 10% or X plus 20%. So, in India, mills are making 10% or 20% more margin than the other mill around the world.

Dhruv Agarwal: My second question was, I mean, we can look at the financials, but in your opinion, we earn like a 22%-23% ROCE which is very healthy. But someone like a Voltamp earns like a 50% to 60% ROCE. Why do you see that difference?

Nilesh Patel: Voltamp is a total transformer manufacturing company and they are having their brand and very much established company all over the India. You cannot compare Voltamp's data with another transformer company, Voltamp is just exceptional. If you see the data of other transformer companies, you will not find that much of lucrative to them. Everybody is having their own features, doing lots of exports. The EBITDA is good. Voltamp is having their brand value and lots of things, their marketing teams, marketing branches and all those things. So, I cannot compare that to what is our field data cannot be comparable with the transformer industry.

Moderator: Thank you. Next question is from the line of Suraj, an individual investor. Please proceed.

Suraj: Just wanted to know regarding the demand, just want to know the usage of the radiator in the industry, like the transformer we are selling, there will be requirement of one radiator for the transformer if we did**?**

Nilesh Patel: Radiator is used for the cooling of the transformer. So, that also goes on design. It's not the one radiator per transformer. Like if you see power transformer, it's around 10 or 12 radiators surrounding the transformer. So, that all depends on the design. It might be that 2% to 3% cost of the transformer.

Moderator: Thank you. Next question is from the line of Miten Shah, an individual investor. Please go ahead.

Miten Shah: Who is largest player in our market? And what could be our percentage share?

Nilesh Patel: The largest player in the market is KRYFS Power component. It's a private company. At present, our share is around 4% in the total market.

Miten Shah: How big would they be compared to us?

Nilesh Patel: They are 2.5x.

Miten Shah: So, as we're going to start this radiators business very soon, or the **amorphous** ones, what would be the margin for each of these business? Expected margin?

Nilesh Patel: Radiator margin is around 3% to 4% more than the CRGO margin.

Miten Shah: And for the **amorphous1.4.4** ?

Nilesh Patel: It's similar to CRGO.

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

Nilesh Patel: Thank you all for being a part of our conference call and for actively participating in the call. We appreciate your support and trust in us. We hope we have been able to address most of your queries. In case of further queries, you may reach out to our investor relation advisor, Stellar Investor Relations. Thank you, have a good day.

Moderator: Thank you. On behalf of Vilas Transcore Limited, that concludes this conference. Thank you all for joining us and you may now disconnect your lines.