



# **RACL GEARTECH LIMITED**

**Q3 FY2021 EARNINGS CONFERENCE CALL**

**26<sup>TH</sup> FEBRUARY, 2021**

## **MANAGEMENT:**

**MR. GURSHARAN SINGH - CHAIRMAN & MANAGING DIRECTOR**

**MR. DEV RAJ ARYA- DIRECTOR & CHIEF FINANCIAL OFFICER**

**MR. PRABH MEHAR SINGH- VICE PRESIDENT, FINANCE & OPERATION**

**MS. SHAGUN BAJPAI- COMPANY SECRETARY & COMPLIANCE OFFICER**

**ORGANISED BY- MAS SERVICE LIMITED**

**Shagun Bajpai**

Ladies and gentlemen good day and welcome to the Q3 FY2021 Results Conference call of RACL Geartech Limited. I am Shagun Bajpai, Company Secretary & Compliance Officer of RACL and I shall be your Moderator for this call.

Before we start the proceedings, all the participants may please be informed that this Conference Call may contain forward-looking statements about the company which are based on the beliefs, opinions, and expectations of the company as on date of this call. These statements are not guarantees of future performance and involve risks and uncertainties that are difficult to predict. 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, you may post your concern/queries, if any; in the Question Answer box available on the right-hand or they may raise their hands as available in the right hand corner of the screen, if they want to speak during the proceedings. Please note that this conference is being recorded.

We have today with us the Management of RACL Geartech Limited, represented by Mr. Gursharan Singh, Chairman & Managing Director, Mr. Dev Raj Arya, Director & CFO and Mr. Prabh Mehar Singh, Vice President Finance & Operations.

We will start with brief update on the business through a presentation, followed by question and answer round.

I now invite Mr. Gursharan Singh for his opening remarks. Over to you Sir.

**Gursharan Singh**

Thank you very much Shagun. Good afternoon to everybody. On behalf of RACL Geartech Limited, I extend a very warm welcome to everyone for joining us on our earnings call today. Since some of you may be hearing us for the first time today, we will give you a quick snapshot on our company and then will walk through the operational and financial performances.

RACL as an acclaimed gearing solution provider, is recognized worldwide for its well diversified range and quality of products. We offer complex engineering solutions in the field of Transmission Gears & Shafts, sub-assemblies, Precision Machined Parts & Industrial components to domestic as well as global markets.

RACL has created a brand image in providing gearing, braking & suspension part solutions to:

- \* Premium Motorcycles & Scooters
- \* 3 & 4 Wheeler Passenger vehicles
- \* Alternative Fuel Hybrid Electric Cars
- \* Medium commercial Vehicles
- \* Heavy Commercial Vehicles
- \* Tractors
- \* Agricultural Machinery
- \* Off Road Vehicles
- \* Light Cargo Vehicles
- \* Recreational Vehicles like sea scooters & snow vehicles

I would like to now handover the call to Mr. Prabh Mehar Singh to take you to the financial performance walkthrough.

**Prabh Mehar Singh**

Good afternoon everyone my name is Prabh. I am working as the vice president looking after Finance and Business Development, and my core target is to improve operating profitability and I am working in the organization since 2016.

For next half an hour, we will cover the numbers for last quarter. These numbers in any case were released after our board meeting on 13th of February, 2021. So we will just try to run through some highlights of the quarter after that we will apprise all of you regarding the new developments, which we have done in terms of our business diversification strategies, some new customers we've added across last 2 years and also, the company's effort to move towards the future of mobility.

Later, we would take up questions from the participants.

So, before we start the presentation, I would like to mention the standard disclaimer that the intent of this call is to not pass on any information which advises you or recommends you to make any sale or purchase or have any influence on the market price of the stock. The transcripts and presentations of this concall shall be submitted with the stock exchange and displayed on the Website of the Company.

So this in this last quarter, which we ended on 31<sup>st</sup> December, 2020, in terms of total revenue, or the total sales we did was Rs. 65.47 Crore out of which the export sales was as usual predominant. Rs. 46.28 revenue came from the exports market whereas Domestic was Rs. 14.93 Crore and other was other income, which contributed in the form of other operating and non- operating income. Out of the total sales, 70% of sales came from the exports market and the remaining was from the Domestic Business. The profit before tax was Rs. 11.77 Crore.

Further, if you compare the Year on Year performance, that is Q3 last year versus Q3 quarter this year, we had our sales up by 17%, the operating margins, or the EBITDA up by 44% from Rs. 12.22 Cr. to Rs. 17.62 Cr and the profit before tax was up by 49% from Rs. 7.92 Cr to Rs. 11.77 Cr.

During the year, the quarter on quarter comparison, we can say that in terms of revenue, the 1<sup>st</sup> quarter in any case was marked by the lockdown, which we all faced, and hence quarter 1 to quarter 2, we had a growth 100% because of the low base factor. But quarter 2 to quarter 3, again, we registered a growth of around 30%. However in this quarter, the highest sales per quarter was recorded in the last quarter. Further, in terms of EBITDA, I think again, quarter 1 to quarter 2, base effect was there but quarter 2 to quarter 3 improved operating margins by 30%. And this was on account of many improvements that we did in terms of Quality improvement, efficiency improvements and eventually there were certain new prototyping orders we have been working on. Profit before tax again, if you compare quarter 2 to quarter 3, the growth was around 45%.

However, in terms of year on year profitability for 9 months, yes, the decline of around 16%. But I think that is clear as for the 1<sup>st</sup> 3 months, we were totally shut down and after re-opening, we were running 1 shift, in terms of capacity utilization. So, obviously, this year our total sales should be more or less equivalent to last year numbers are probably lesser. We still have 1 month to go, but eventually that is reflecting on our total sales performance for the year but in spite of a sales number being going down, we were able to improve our profitability margins in the 9 months segment as well. The EBITDA margins grew by 13%. And the profit before tax has grown by 5% year on year, compared 9 months.

So this was regarding the numbers, but the other purpose of this call is also to apprise you regarding some new customer additions we have done and some new segments we have entered into. As we discussed during the AGM about the company's intention to enter into the electric side and how to de-risk ourselves regarding the new mobility solutions, which are coming to the market.

Also, there are questions from many of you regarding our expansion in the domestic market. So, in terms of new customers, in the domestic, we have added a new customer in the Indian market is Escorts Kubota. Kubota is a Japanese Company for which we are working since 2004 and now Kubota and Escorts have formed a Joint Venture in India, which came into operation a couple of years back and now we have received business orders from them. We're very pleased to inform you that the commercial supplies to this joint venture have started from us and from this year August, we have started to supply to this customer and it is going to be a good domestic business for us. Secondly, we have also brought in TVS into our customer portfolio. TVS and BMW also have entered into a JV for a 350CC Motorbike, wherein we shall be supplying our products. We have added 1 more customer again which is Kawasaki India. So, in terms of domestic market, we've added 2 customers in the automotive segment and 1 in the agricultural tractor space.

In the exports market, again, you see some big companies coming up. We have CF Moto which is a Chinese company and they have a joint venture with KTM and most of you would know that KTM is a big customer for us. We are directly exporting to KTM in Austria. Now KTM has entered Chinese Market with CF Moto for a new project and we are the supplier for the transmission parts, which we're supplying to Austria as well. This shall be an addition in terms of new customer and country. Next we have Moto Guzzi, which is a Piaggio Company that manufactures high end smart sport bikes. Piaggio has already been one of our biggest customers and now we shall be supplying to its foreign counterpart. Another big addition to our customer list is ZF which is one of the biggest automotive component manufacturing company across the globe and we shall be supplying chassis component to ZF. This is the part of our diversification strategy as these parts shall be for car segment. We shall also be supplying some critical components for both electric and hybrid cars and are also discussing new projects with them. We have further added MAN Trucks. However, MAN Trucks was working with us some years back but they exited India. But now, we again get an opportunity to work with them and have huge orders and the capacity expansion shall be utilized for them too as Trucks are not going to get converted into Electric anytime soon. This is our overall business strategy

We are aligned for future mobility solutions. We have adequate infrastructure in the form of Gear Grinding machines. Our Gear Honing machines play a very important role in controlling the NVH and noise parameters in Electric mobility. We have now entered into Chassis manufacturing for the trucks. We are also diversifying ourselves on the Engine side and exploring possibilities in other components which will remain in place irrespective of the changes in future mobility solutions. We are also at infancy stage with some customers for some new projects.

The parts that we shall supply to ZF will have application in hybrid cars so irrespective, even if they switch to electric, these parts will remain in the car. Our existing customers have launched some electric projects, and we have a very minuscule presence as of now, but we are moving with them.

So this was a highlight for Q3 financial performance and updates on our business activities and future plans. We have a vision of 2025 to Rs. 500 Crore turnover and the team is firm footed and we are working towards achieving our target.

Thank you. Handing over to Shagun for Question- Answer session.

**Shagun Bajpai**

Thank you Sir.

I now declare the Question- Answer session open for the participants.  
I would now invite Mr. Debashish Neogi to ask his questions.

Mr. Neogi.

I guess Mr. Neogi is facing some issues. In the meanwhile we can take questions from some other participant.

I would now invite Mr. Ayush Mittal to ask his questions.

**Ayush Mittal**

Congratulations on such a great performance in the recent times. I would like to know that the operating margins of a company have improved quite substantially in last 3 years, we used to do kind of 12-13% and now, we are doing close to 25% margins. What are the key reasons for this change? And how much of the recent margin expansion is sustainable going forward?

**Gursharan Singh**

The Company focuses greatly on the improvement of our Human resources as we feel they play the most role in any business operations. Our workers and employees work very hard and in a very efficient manner and the Company, in turn, keeps them motivated. Further, the fixed costs amortization also adds to improved margins. Thirdly, exports prove to be a more profitable business as compared to domestic market, adding to better margins. However, market dynamics and market fluctuations are there.

**Prabh Mehar Singh**

Adding to what Mr. Singh said, I think there are a couple of more factors that is in the last few years, we have done some inward integration as well. So our forging press work is usually outsourced in terms of, let's say, 60% through my vendors and 40% in-house but that was not the case 3 or 4 years back, because then we had just started to build upon the in house capacity. So that also has helped us to improve our raw material consumption. We are now thinking of adding some more internal capacities.

Secondly, many of the jobs, for example, heat treatment, which have a high cost, we resort to outsourcing strategy because that way, our overheads are higher and that way we are putting that outside the shops. So that also helps, and, thirdly, in terms of manpower and productivity, we have more internal productivity due to dedicated and motivated workforce. 10 to 15% capacities in-house through many productivity drives and trying to reduce rejections as when you are working for exports markets you cannot work on higher rejections. This also helps greatly in improving margins.

**Ayush Mittal**

You talked about some prototyping that we have done this quarter. Is that also some reason that we have seen a bump up in the gross margin?

**Gursharan Singh**

Yes, you're right because we did some prototyping and it was a kind of windfall for this particular quarter obviously there but that was not the major factor, but yes, it has impacted.

- Ayush Mittal** Given the steel price increase, what kind of range do you feel is a sustainable range for us in terms of margin?
- Gursharan Singh** For all domestic customers, we are a very clear raw material indexation mechanism so whatever increase is there in the steel prices, we get the same increase in price from our customers. In the exports market, there is a mix. In certain places there is raw material indexation and in parallel there is foreign exchange indexation also. Some customers do not take any foreign exchange benefits and similarly do not pass on to us. So, with those customers we have two way indexation, and we are fully safeguarded. Where there is no indexation, there the foreign exchange fluctuation and rupee depreciation helps us to compensate for steel price. In that way our steel price is fairly hedged for all our customers.
- Ayush Mittal** My next question is around this expansion that we're doing, and the new customers that we have added. So, can you confirm the quantum of the expansion? Rs. 50 Crore capex was informed in the AGM, so are going ahead with that or there is any increase to the capex.
- Gursharan Singh** It is still the same as Rs. 50 Crore.
- Ayush Mittal** And how much has been the progress on this expansion? Where are we, as of now?
- Gursharan Singh** Plans are ready now and in fact, the samples out of our production batch have already gone. The next phase is in March, and I think by the end of this calendar year, we'll start production.
- Prabh Mehar Singh** But that will not mean that it starts reflecting in our year sales number because the project will be in the starting stages. The real volume will come in the next financial year. We are fully ready and have started supplying samples to our customers.
- Ayush Mittal** We were doing gears only and now we are doing chassis components and so many other things. So how does this complementary to what we're doing? I mean, you get to utilize the same machinery, same technology or is it that we will require new capabilities going forward?  
And do we also get to see similar kind of profitability on asset terms on the investments that we're making?
- Gursharan Singh** We are retaining our core competencies i.e. Gears. So when we enter into Chassis component, they are also Gears in one form or another. So that way we are not deviating from our business but rather diversifying by entering into Chassis Component. And simultaneously, we are de-risking ourselves against the onslaught of EV if it happens in a big way because the Chassis component, whether is a fuel car or an E-car or a hybrid car, that part will remain.  
  
Whatever technologies we are investing in, shall be suitable for E-Mobility solutions also. In EV segment also, gears will be there but the precision of the gears will increase manifolds. Many Indian manufacturers will not have those technologies that we have already put in. This is kind of for strategic investment decisions we have taken Chassis component, new machines and technologies can do any kind of Precision Gear.
- Shagun Bajpai** Thank you Mr. Mittal. The next question is from the line of Mr. Sahil Sharma. Please go ahead.
- Sahil Sharma** What kind of competitive advantage is that company enjoys and how difficult it would be for someone with money capital to just replicate the business?

- Gursharan Singh** Only technology alone cannot create the product. The biggest asset is Technical competence and our skill set. We have been in the business for last 30 years and our teams of design and manufacturing have been with us for decades. They have the required knowledge and experience.
- In India, there are very less Gear Manufacturing machines and technologies and eventually the equipments have to be imported from Japan or Europe or US. Not everyone invests in such expensive machineries or add to their costs.
- Plus even if they do that, they may also get successful, but will have to go through the learning curve, which we have attained over years of hard work. The gear manufacturing market is very big and has room for everybody.
- Sahil Sharma** My next question is that as a large part of automotive industry is moving towards EV so I was wondering how we track things like what percentage of our revenue currently comes from parts that are agnostic to the EV disruption and how we see that mix evolving. Also, in future if all makers have to be EV then how much would be the top line? And what would be your plan to move towards 100% revenue being de-risked from EV?
- Gursharan Singh** Actually, when it comes to EV, even the big brands do not have an EV share of more than 1%. EV is still at infancy stage particularly in India. And everybody's preparing for the future everybody is launching new models and test marketing.
- We as component manufacturers don't have this much appetite that we produce a gear and wait for it to sell and gain our money. For us, we have created our technology base compatible and are waiting for the OEMs. The big companies also do not have any major share of revenue coming from EV business. They have ventures into EV Scooters, etc. but the numbers are still miniscule and the product is still under development stage.
- But, from our perspective, where we have created our facility, which is totally EV friendly. The moment, there's a demand we will be there. And we have orders from European Motor Bike makers for their model and we shall be the single source for their entire kinematics for their EV and in case of our existing customers also, our parts are being deploys for their EV models, launched if any. But the market is still required to develop throughout the world.
- Prabh Mehar Singh** To add to that, I think what you're wanting to know is if tomorrow EV is 100%, what the risk we have? So, we are not into those mass Commuter 100cc and 150cc bikes. We are supplying for high end 1000cc bikes, tractors, and high commercial vehicles which will take another 10-15 years to convert fully into EV. Yes there is EV presence on the 3 Wheeler side but that is also very minimal as of now. But if our customer moves, we move with them.
- But most of our products are in any case not very risk prone. On the other hand, we are creating new capacities and synergies so that when the EV comes in for existing or new customers, we can add that to our portfolio without losing the existing business.
- Shagun Bajpai** Thank you very much. The next question is from the line of Mr. Sagar Saxena. Please go ahead
- Sagar Saxena** I wanted to understand that all these large clients that we have, like, KTM and Kubota, what kind of market share would we have and how do we see it moving in 5 years
- Prabh Mehar Singh** We do not diverse customer specific penetration as a public number. But I can say that 45% of our business is in the two wheeler sector, 19% in the agricultural space, 13%-14% is in the ATV i.e. All Terrain Vehicles, 5 % in commercial vehicles and rest is amongst others.

- Sagar Saxena** But just a broad outlook that we do expect to gain market share in terms of the business doing with the same customer.
- Prabh Mehar Singh** Yes. Infact whatever 20-25% compounded growth we have achieved in the last 3 years is attributed to our old customers as we have not added many new customers. And even for the new customers, which are adding, the revenue contribution will start in 2 years only, so, this means my existing customer is growing or my existing customers adding new parts to which I'm also getting the business.
- Sagar Saxena** What plans do we have into forward integration and transmission aggregates? So, how are we doing on that front and what is the plan about?
- Gursharan Singh** We are providing complete assembly for rear wheel axle drive, kind of a small gear box for the European E-Mobility manufacturer. This shall be our forward integration. We also have similar orders from other customers.
- Sagar Saxena** What would be the competition in the segment?
- Prabh Mehar Singh** We ourselves are our own competitors. Our yesterday's performance decides our tomorrow's number. If any car has a failure tomorrow and any of my products fail, then eventually that will run me out of business. In that way we have created our own niche. However, there are other companies, we do not think competition is outside competition is within. We keep on updating ourselves to match the demands of our customers in terms of technology and capacities.
- Shagun Bajpai** Thank you very much. The next question is from the line of Mr. Kshitij Goel. Please go ahead.
- Kshitij Goel** Can you share a bit more about your 2025 plans and what kind of capacity utilization are you running currently.
- Gursharan Singh** Our current capacity utilization is as per industry benchmarks which is 75% and we are doing 72-72% as there is always room for improvement, but otherwise we are utilizing our capacity in optimum and that is the reason we are continually expanding.
- Prabh Mehar Singh** Mr. Ayush wants to know our growth potential from existing business in FY 2022. So, I would like to say that keeping in mind the base effect we show grow around 25% in terms of the 5 year plan we have.
- Shagun Bajpai** Thank you very much. The next question is from the line of Mr. Vaibhav Badjatya. Please go ahead.
- Vaibhav Badjatya** The receivables positions of the Company has been consistently around 90 to 100 days for most of the year. Why there is such a high credit period because we don't see it in other auto component manufacturers?
- Gursharan Singh** We do a lot of bill discounting but we do not set off our receivables until the actual receivables come back to the Bank as that is an unethical practice. And as, you know, in the export business, the minimum payment time is 60 days from the bill of lading. Also we are in the North part of India, it takes about 15 days the material to reach at the ports so eventually it comes to 90 days credit.

Also, the customers have their own policy which are followed across the globe and as suppliers we abide by those policies.

So, I once again thank all the participants for joining us today and for your continued trust and faith in the management and you constantly motivate us to perform better and better.

Thank you so much

**Shagun  
Bajpai**

Thank you Ladies and Gentlemen. On behalf of RACL Geartech Limited, I conclude this conference call. You may now disconnect your lines. Thank you.

Notes:

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