February 15, 2024

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

Subject: Regulation 30: Transcript of Earnings Call pertaining to the Unaudited Financial Results for the quarter and nine months ended December 31, 2023

Dear Sir/Madam,

Please find enclosed transcript of the investors and earnings call on the Unaudited financial results of the Company for the quarter and nine months ended December 31, 2023, which was held on Friday, February 09, 2024.

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

You are requested to take the above on record.

Thanking You,

Yours faithfully,

For Uniparts India Limited

JATIN MAHAJAN

Digitally signed by JATIN MAHAJAN
DN: c=IN, o=Personal, title=4415, pseudonym=57CE10F5C24ED1DE7B5409CF4264DDDE, 2.5.4.20=e3fc705527aaf20c69e82fd8ef3a9a41d8839d36101b61ecac0711594d6b71ad, postalCode=110055, st=Delhi, serialNumber=D5B1DB751344DCAEA44F0C205F807DA679A55E6357945C94BE95083C41AC9235, cn=JATIN MAHAJAN
Date: 2024.02.15 10:16:20 +05'30'

Jatin Mahajan
Head Legal, Company Secretary and Compliance Officer

Encl: As above

UNIPARTS GROUP

"Uniparts India Limited
Q3 FY '24 Earnings Conference Call"
February 09, 2024

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

Moderator: Ladies and gentlemen, good day. Welcome to Uniparts India Limited Q3 FY '24 Earnings Conference Call hosted by Go India Advisors. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

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

Monali Jain: Thank you, Muskan. Good morning, everyone, and welcome to Q3 FY '24 Earnings Call of Uniparts India Limited. We have on the call with us Mr. Gurdeep Soni, Chairman and Managing Director; Mr. Paramjit Singh Soni, Vice Chairman and Executive Director; Mr. Rohit Maheshwari, Group Chief Financial Officer; and Mr. Vivek Maheshwari, Vice President, Financial Planning and Analysis and Investor Relations.

We must remind you that the discussion on today's call may include certain forward-looking statements and must be, therefore, read in conjunction with the risks that company faces. I will now request the management to take us through the financials and the business updates subsequent to which we will open the floor for questions and answers.

I will now hand over to Mr. Gurdeep. Thank you, and over to you, sir.

Gurdeep Soni: Thank you so much. Good morning, ladies and gentlemen and welcome to the Quarter 3 FY '24 Earnings Call of Uniparts India Limited. We sincerely hope that all of you are doing very well. Prior to getting into the summary of the reported quarter, like always, I would like to reiterate that the core of our organizational functioning is guided by the principles of passion, innovation, integrity, excellence and teamwork.

The team has been working diligently and with passion over the years to establish Uniparts as a preferred supplier to global off-highway vehicle market. Uniparts is present both in the OEM and aftermarket segments in the off-highway industry with strong global operating model and wide customer base comprising of over 125 customers from across the globe.

Our products are shipped to over 25 countries worldwide. We at Uniparts believe that through our off-highway focus, well-positioned product offerings and marquee customer portfolio, we have a robust global business model to cater to the long-term trend of food security prioritization as well as infrastructure build out and modernization.

With the above backdrop, let me spend next few minutes sharing thoughts with respect to the current operating environment and business highlights for quarter 3 of FY '24. The North America agricultural equipment market demand continues to be soft and in the short term, especially for smaller equipment.

As guided previously, inventory destocking at customer's end continued through quarter 3. This destocking impact has largely bottomed out now and quarter 4 is expected to have very minimal adverse impact on this account. In fact, the aftermarket segment is witnessing early signs of demand stabilization and revival. The North American construction equipment market is stable with infrastructure-driven demand.

Demand from Europe-based OEM customers is stable to marginally down and the demand in the Indian domestic sector market has been witnessing some softness in the current fiscal year. Export models are more impacted due to the small agriculture softness in export geographies. With the foregoing reasons in the backdrop and in line with earlier guidance, quarter 4 is expected to be sequentially higher. End market softness persists, but being set off going forward into the next few quarters by new business coming in.

Following projects are poised well for either pilot or commencement during quarter 4 of FY '24. The UTV 3-Point Linkage pilot batch sales to end customers have started. First sales to the new aftermarket customer, which is the second largest retail store group in USA have also started.

First sales under the large projects from the world's largest -- I'm going to repeat that again. First, sales under the large projects from the world's largest construction equipment OEM are also going smoothly. The company's business continues to generate healthy cash flow, lending further strength to the balance sheet. Also, the dividend payout continues to be higher than guided with our dividend policy.

During the current phase of mixed external environment, we continue to focus on operational efficiencies and investments for growth and ensuring readiness of our facilities and resources. We also continue to augment our digital capabilities, aiding agility and optimizations. Uniparts has built a resilient business model and is confident to withstand the short-term challenges and emerge stronger and better positioned for future growth.

We are focusing on utilizing current short lean patch by investing for growth and ensuring readiness of our facilities and resources. Our focus and efforts are aligned with the medium-term business plan for achieving the targeted growth in coming years. We continue to focus on our operational endeavors, leverage our competitive strength and strong financial profile to optimize the opportunities emerging in the swiftly changing and evolving operating environment.

And with this, I would like to hand over to Vivek Maheshwari to discuss the details of our financial performance during the reported quarter. Thanks, and Vivek, over to you, please.

Vivek Maheshwari: Thank you, Sir. Good morning, all. I would like to share the following financial and business highlights for the quarter ending 31st December 2023. Revenue from operations for Q3 came in at INR259 crores, which is a year-on-year change of minus 21.7%. Reported EBITDA for quarter 3 was INR44.4 crores, which changed year-on-year by minus 48.1%. EBITDA margins reported at 17.1% for Q3. It may be noted that corresponding period last year had a one-off favorable other income element of approximately INR5.6 crores. PAT for the quarter came in at INR25.9 crores, which is approximately 54% lower year-on-year.

Operating cash flow generation for the reported quarter was at approximately INR46 crores. Net -- the net working capital comprising of big three elements of inventory, receivables and payables as number of days of revenue from operations on a trailing 12-month basis was approximately 148 days. Working capital comprising of the big three elements improved in absolute value by approximately INR34 crores. The business, therefore, continues to generate higher than guided cash flow. Uniparts' balance sheet continues to be net debt free, with group net cash position at approximately INR107 crores at the end of December 2023. capex for the quarter has been approximately INR6 crores.

Board has declared second interim dividend for financial year '23-'24 of INR6 per share, totaling to approximately INR27 crores payout to the shareholders. Inflationary pressure on operating costs remains in the medium term to be partially mitigated through operating efficiencies. Macro concerns over global economic slowdown, geopolitical uncertainties and impact of worldwide high interest rate continues to remain a key monitor.

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

Moderator: The first question is from Yash from Capital Advisors.

Yash: Sir, my question is in recent past is we had multiple fire incident at our plant. Can you briefly talk about some of these incidents. What led to such incidents and what corrective steps we are taking?

Vivek Maheshwari: So not in a very recent past, Yash. I mean the last major one was in 2019. So it's been a while. And there was some electricity short-circuit situation in the facility. And we have been taking adequate care like always, and no such incidents have happened in the last 2 to 3 years.

Yash: Okay. Because your DRHP says that there were 4 incidents since 2019. So that is why I'm coming with this?

Vivek Maheshwari: Yes. So that's what I'm saying. 2019 was the last -- those incidents, which took place.

Rohit Maheshwari: There is no concern after 2019 as such.

Moderator: The next question is from the line of Rushabh Shah from Buglerock PMS.

Rushabh Shah: So you had an inorganic opportunity in Europe on the Hydraulics side, which didn't work out in our favor. So I wanted to know what was your learning from that?

Paramjit Soni: So this was a long time ago. I think the one in Europe, we did the acquisition back before the Lehman crisis. And in Europe, once the downturn hit, it's obviously very difficult to downsize the companies over there and to reduce expenses. So it was a tough call for the next 2, 3 years period after that. And also, we were not able to -- the business was not in a situation where you could transfer product to India to lever the India manufacturing capability.

So we basically took a situation to say no, this doesn't work. And hence, why we actually sold the business back. We had bought it from a customer and I sold it back to the same customer, took a small haircut and we still work with the same customer, and we brought in all the hydraulic technology to India. But really took a small haircut of maybe just about if I remember, about EUR0.5 million is all we lost on that. But pretty much realized that if you're going to do a significant amount of number of people in Europe, then that's way more difficult compared to the U.S. and then in Europe, better to acquire companies which are higher on the technology but lower on people.

Rushabh Shah: Okay. Okay. So my second question is so whenever you introduce a new product into the market. So how difficult is it to comply with the international standards.

Paramjit Soni: For us, it's not that difficult because we've been doing it forever, for so many years, and we have all the marquee customers globally. So I think we -- all our facilities are operating to a certain standard and for many, many years. So for us, it's business as normal. I would imagine it may be difficult for some other people, but for us, this business was normal, frankly. It's something that we've always been doing.

Rushabh Shah: Can I say would it be difficult for a new company or a peer of your company to comply in the international standards?

Paramjit Soni: I would imagine it would be difficult because just to get qualification and just a vendor code with any of the big majors, it's a very, very involved process. I mean even for example, in recent times, when I had to just take on something like a Caterpillar, it takes 5 to 6 years just to get in and to do that despite us having so much stuff going on. So the entry barriers are fairly high.

And -- but obviously, for us, we have the advantage that the top 10 agricultural companies of the world, all top 10 are our customers and out of the top 10 construction equipment companies of the world outside of, China 5 are our customers. So for us, I think we already have a reputation in the market, which kind of helps us get more business. And I think our systems are frankly up there in any case, so.

Rushabh Shah: Okay. And sir, my next question is, so what is the replacement cycle of your products? And how frequently do you need to replace them?

Paramjit Soni: The 3-point linkage would have a cycle in terms of 8 to 10 years. And even on the PMP side, these are wear parts, so they will be a ware off in about 5 to 7 years. But most of the spare parts that we sell for these for the replacement market is actually sold to the OEMs only. So they control all of that. So our sales -- when we say our aftermarket sales, that's for a different set of parts, which is more the wilfit parts, all the OEM spare part sales are actually managed by the OEMs.

Moderator: The next question is from the line of Chirag Fialoke from Ratnatraya Capital.

Chirag Fialoke: I had a couple of questions. Just on the small ag demand and we see this in some of the American manufacturers also in their own reports. There seems to be a lot of weakness even in the end market. I was wondering if the management can talk a little bit about what are you seeing on the end market that is this softness. When did you see such as large cycle? And a little bit of color on what are the drivers for this market? Is it just real estate typically, so hence interest rates in some ways? Just a little bit of color on that? That's my first question.

Paramjit Soni: So let's talk a little bit about on the agricultural side on small tractors, which in the United States is more let's say when we talk below 70 horsepower we call, we term them generally as compact and utility tractors. So the application is definitely not farming for them means basically for utility purposes and even for large property owners to just manage their property. So it's more a consumer product here and a utility product rather than a farming product.

The drop in demand, if you're looking at all the major commentary, then the drop in demand this last year has been for most people, between 10% to 12%, but the channel inventory was so high that, that took a while clearing off and the actual reduction in manufacturing with some of these people, that was more closer to the 30%, 35% region.

So almost about -- even though the market went down by 10%, 12%, the overall reduction was close to 30%, 35%. And this is a significant one, but then it also comes on the back of all the -- during COVID, there was a massive increase and all the sales were very, very high at that stage.

So this is a bit of an anomaly just now. But having said this, now, most of it is kind of weaning away. Like we mentioned earlier, most of the inventory destocking is over. I imagine the demand is still soft. We still see like a mid-single-digit low demand. But compared to last year, this year, we will see a growth simply because you're not seeing the inventory destocking happening anymore. So compared to last year, you will see growth coming through now.

Chirag Fialoke: Understood, sir. Understood. And just on the new customer that -- who sort of -- commercialization will also start the aftermarket customers who commercialization will start in Q4. I think it's mentioned in the presentation. A little bit more color on that, what kind of quantum is that customers, where do you think it's going to end up maybe in the medium term? And also on the new order flow, if there's any quantification on what kind of commercialization of the new order flow is possible this year?

Paramjit Soni: So the new customer that we've taken on, that's more in the aftermarket, and this is a conglomerate, which has put together about 800 stores in the U.S. This is the second one -- second largest in the U.S., the largest one, most tractor supply company, which is also a customer of ours and has close to 2,200 stores now. So to put it in perspective, firstly, in the U.S., there may be a total of only 3,700 to 4,000 stores, and we are now servicing over 3,000 of those. So I think we've got a nice distribution channel into all of this.

So this -- and then the sales of this have already started now. So in this quarter, we already -- the first shipments have already started leaving. And I think the whole program is launching for them. It will get into their warehouses in this quarter and starting early spring -- late spring in April, I think it's already going to be in all the stores now. So it's all on track over there.

This program eventually to put it in perspective, right now with tractor supply, I think they're already like a $10 million account with us with 2,200 stores. These people have about 800 stores. So we do expect that this will also become like a $4 million to $5 million account once the whole thing is fully settled. But in the big -- it will take time to get in over there, maybe 2 to 2.5 years for all the full sales potential to come. So initially, it will ramp up with a couple of million and then going to end up in that number after about 2 years.

Chirag Fialoke: Understood, sir. And the new order flow, the China Plus One order flow that sort of is also mentioned. Is there going to be any commercialization of that flow in this financial year in the new coming financial year?

Paramjit Soni: Also, absolutely. In fact, that's already started. The one that we were -- the bigger one that we had from Caterpillar, which we were talking about earlier during our road show as well, that's launched on track. So the first shipments are happening actually in this quarter itself. And in the next year, you're going to see -- start seeing the full year impacts of that. So now it's pretty much running on track and that itself was a $9 million to $10 million plan.

So that's already started now. Also, at the same time, the third one, which we were -- the main projects that we were looking at on the launch of the new product and the UTV implements as well as the 3-point system for it. They're also -- the pilot batches are shipping out in this quarter itself. So frankly, all of the stuff which we were talking about earlier is actually all kicking in, in Q4 now, so.

Chirag Fialoke: Understood, sir. And so, typically from inquiry to commercialization or shipments of orders, what is the lead time that we generally face?

Gurdeep Soni: If it's the aftermarket and existing product, it can happen in 4 to 6 months. If it's an OEM product for a new tractor -- new model, it can even be 2 years. If it's an outsource of an existing product, which is happening on some of the China Plus One, it happens in about 12 months' time. So it varies depending on what the project is.

Chirag Fialoke: So new -- sorry, just to summarize that new products, it takes the longest. The placement products from other suppliers, the middle point and existing products just placing in the aftermarket is the shortest turnaround.

Paramjit Soni: Absolutely. Absolutely.

Chirag Fialoke: Just last question from my side, and I'll get back in the queue. On the gross margin front, this quarter has been decent, is there any element of freight coming out? How should we look at that? Was there a freight in the base that is not there now in the -- because you started at actuals there, if I understand it correctly. Could you just talk a little bit about that, sir?

Paramjit Soni: Sure. See, we -- frankly, even in the last call, we've been saying, hey, look at freight and material and everything together for our gross margins. And when you look at that together, then the gross margins are pretty much the same in line with what they were earlier. So freight has come off from there. So freight has probably reduced from the high levels by maybe down by 2 to 3 percentage points from there, so that's…

Chirag Fialoke: You would think of gross margins more in the 64% to 65% range. Is that how we should think about it? Including freight...

Paramjit Soni: Gross margin is 64.5%. But if you look at it gross margin together with the freight, then it's at about 60.8% is what you should look at. So it's about 60%, 61%, which includes the freight as well. All right?

Moderator: The next question is from the line of Jaimin Desai from Emkay Global.

Jaimin Desai: Could you remind us of the kind of opportunities that have been thrown up through the trend of dual shoring in clients apart from Caterpillar? What are the kind of opportunities coming your way? And secondly, encouraging to see commencement of supplies of 3PL for UTVs. Congratulations for that. How large can this opportunity be for us from a mid- to long-term perspective?

Paramjit Soni: We've stated earlier that we believe that this will be a $20 million to $25 million size in a 4- to 5-year period. That's the size of the UTV, ATV that we believe we will get from this. Coming back on the China Plus One, other than Caterpillar, we've done a lot. In fact, Bobcat has been awarding us significant new project.

Case New Holland has awarded us more new projects from this. So you are seeing more and more OEMs do this. And frankly, we are now other than seeing not just interest coming in for India, but we are also getting a lot of interest where people are looking to see if things can be done with Mexico as well.

So we will possibly have to look at this entire near shoring and see what we can do to service from a Mexican standpoint as well. A lot of the small equipment seems to -- manufacturers seem to be moving their manufacturing from the U.S. actually to Mexico. So Bobcat is moving. They've already said that they're going to move some of their compact track loaders into Mexico by 2026. And so they're asking us to follow them over there.

For us, it's an easier switch because the product comes from India, so instead of coming to the U.S., it just goes to Mexico. I think that's the beauty of our system that we can still easily adapt to all this. But you are seeing a lot of shift happen in all of this. So Bobcat is giving a lot. Case New Holland is doing a lot on this.

And obviously, Caterpillar, we are executing with many other divisions within Caterpillar. So earlier it was just the Building and Construction Product division. Now it is the ground engagement tools division. And so there are different divisions of Caterpillar, which are now getting on board as well.

Jaimin Desai: Understood. And so consequently, the share of warehousing in our revenue mix would continue to go higher and higher towards the 47%, 48% mark.

Paramjit Soni: We are on track for that. Frankly, right now, because some of the aftermarket business slowed down, which was some of it was on the direct side. If you look at it currently, it's already, Vivek, are we already at the 47%, 48% just now, Vivek?

Vivek Maheshwari: Yes. YTD is in the 46% to 47% range, yes, primarily because...

Paramjit Soni: Yes. So it's already over there. So once the aftermarket picks up, that would have dropped it down again, but because of all the warehouse business going up, I still believe the guidance we had given for 47%, 48% over the next 3, 4, 5 years, I think that still remains.

Jaimin Desai: Okay. And on the PMP side, you've spoken in the past about the U.S. intra bill. Would that be one of the main drivers still for that side of business? And what other drivers would be there?

Paramjit Soni: The construction business has multiple other drivers [Infrabill] is one of them. U.S. Housing is obviously a major one, and that is a little bit slow just now because of the interest rates. Having said that, the new home builds are still tracking to about $1.45 million to $1.5 million run rate on homes, which third-quarter perspective before the crisis happened in 2008-'09, it had gone up to $1.7 million, $1.8 million, long-term average used to be $1.4 million, $1.5 million, and then the Lehman crisis caused it to go down to as low as 600,000.

So pre-COVID, with all this stuff happening, we were still at the $1.6 million, but still the run rate is maintaining at the long-term average of $1.4 million to $1.5 million just now. So the U.S. home market still, despite the high interest rates, I think, remains fairly strong. And the new home inventory is very, very low.

So still, I think you will continue to see reasonable demand there. The construction equipment actually has been the brighter side of the business. Because of that now, PMP, which used to be maybe 40% of our business and 3PL used to be like 55% of our business. Today, actually, the PMP is about 55% of our business and 3PL is about 42%, 43%.

So this is the nice part about our business. When I used to say earlier, we operate in cyclical industries and having -- we derisked our business model by going partly into construction, partly into ag. And therefore, even if a down cycle happens in one industry, the other industry carries you. So right now, despite the down cycle in the ag, the construction is at least providing a good boost to us.

Jaimin Desai: Understood. Finally, 2 questions from my side, and I'll get back in the queue. On the hydraulics and fabrication side, I remember you're talking about looking for inorganic opportunities there. Is there any progress on that front? And secondly, just from a short-term perspective, wondering if you are affected by this whole thing going on around the Red Sea. Are you seeing any impact of that at all?

Paramjit Soni: Yes. So I'll answer the second question first. The Red Sea impact, definitely, it's there. I think we've seen freight rates increase by about $1,500 to $2,000 a container. And I think more importantly, it's taking another 15 days for the shipments to come. So I think we are back again to kind of providing planning for a little bit more lead time just now until this sorts out because they are having to circle around the whole continent to come through just now.

Having said that, I think from a delivery perspective to customers, with some of the inventory that we had, we are still monitoring that closely, and we're able to maintain all of that. So there's no outages happening based on that.

In terms of -- so what was the other question? The earlier one?

Jaimin Desai: Fabrication and hydraulics.

Paramjit Soni: Yes. So we've identified more companies over there. I think we are in conversation with a few, but nothing is at a very close stage. Just except a lot of active conversations are happening.

Moderator: The next question is from the line of Chetan Vora from Abakkus Asset Management.

Chetan Vora: Would like to understand how the channel inventory is almost we have done with the destocking part of it. So going ahead, considering the quarter 4 and the next year, how does it look like in addition to the low base of this year, sir? How the demand is shaping up, particularly from this quarter onwards and the next year?

Paramjit Soni: So sequentially in quarter 4, you will start seeing the growth in any case because quarter 3 has been low, and I think you will see some double-digit growth there. And as you go into the next year also, like I had indicated, I think we still -- by quarter 1 of the next fiscal year, you will not just see sequential growth. You should also see growth related to the previous quarter as well. So that cycle is going to begin in Q1 FY '25. And we do expect to see, like I said earlier, about a mid-teens growth in this next year easily.

Chetan Vora: But sir, if the channel inventories almost we are done with it. So next year, anyway, it was going to gain on a low base of this year, but are we seeing some constructive demand reliable in the system? Or it will be just on low base, and we are not in a position to see or foresee as of now how the demand will be shaping out.

Paramjit Soni: I think there are multiple things happening. Like I said, the small tractor market, even though it's going to be -- it's not growing, it's still -- last year was down by 12% and a lot of the inventory destocking happened. This year, we are going to see maybe still a 4%, 5% drop on that demand, but the destocking will not happen. So at least you are not going to see a reduction, you're going to see an improvement. However, on the large ag equipment side, I think you're getting close to the cycle now where the peak cycle will come.

Now the American gross receipts for farmers, if you look at the last peak, typically, it's a cyclical industry. If you remember even on the talk, I would say, hey, the typical cycle should have peaked in FY '23 or '24, but was extended and we think that the peak will go to FY '25. Well, that has happened now and the large ag, I think, is going to slow down a little bit now.

So we have seen early signs of that. What you are looking at is a situation where the American farm receipts, which in the last cycle, were averaging about $110 billion, $115 billion a year for these farmers as net receipts -- net income. During these last few years, it actually went up, it went up to $140, then in last year, it actually went up to $180 billion.

This year, it's dropped back to about $140 billion number, which is still way higher than the last peak of $110 billion. But it is obviously lower than the $180 billion number. And so you are seeing some of that slowdown come in the large ag cycle. Now construction seems to be going okay and all the new business seems to be going okay. So those are the guiding things that are happening just now.

Chetan Vora: So -- and in addition to the revenue growth in mid-teens as what you highlighted, how do we see the margin profile to improve?

Paramjit Soni: I think the margins will continue to remain in that 20%, 21% EBITDA range. This -- right now, you're seeing a bit of a reduction over here because of the delever impact and some of the new business expenses that we did upfront. But otherwise, you will see next year, we are back into the 21% region.

Chetan Vora: Okay. And lastly, the CAGR growth what you were mentioning earlier of 15% to 18% sales growth and 20% PAT growth, do you maintain that stance organic?

Paramjit Soni: Yes, I do. Yes, I do.

Chetan Vora: And that will be over what period, sir?

Paramjit Soni: So, long term, I am not changing. We're going through the cycle now, and I think for the long term, I'm not changing the stance.

Moderator: The next question is from the line of Abhishek from Auralis Capital.

Abhishek: I just wanted to understand who are our major competitors globally?

Paramjit Soni: So again, there are multiple in different segments. So when I look at the 3-point linkage, if I look at the segment above 70-horsepower tractors, then it's essentially 2 major ones. One is CBM in Italy. The other is GKN Walterscheid in Germany. Having said that, GKN Walterscheid in Germany is also a customer for me. If I look at the below 70-horsepower tractors on 3-point linkage, in the Indian market, we have people like Sudtrac and some smaller companies. And then in Japan, we have competition with a company called Delica, but Delica is also a customer for me.

So we seem to be in the foreign markets, at least at a situation where some of our competition is also our customers because we are sitting in a low-cost industry region. On the PMP side, we have competition in the U.S. from local manufacturers like General Grind, which is predominantly produced in the U.S. And then obviously, you have the China One, which is where our opportunity is because a lot of the China Ones are actually now getting replaced, so.

Moderator: The next question is from the line of Manu Jindal from Thorin Technology Solutions.

Manu Jindal: Sir, just I have a couple of questions. The very first question is about the variance in EBITDA margins, like as compared to last quarter, it has gone from some 26% to 17.2%-odd. Is that due to operating leverage? Or can you just give a bit of a flavor on that, please?

Paramjit Soni: Sure. Vivek, do you want to take that?

Vivek Maheshwari: Yes. So on a sequential basis, if you focus, it's purely operating deleverage because the revenue has come down by, let's say, INR33 crores, INR34 crores. And if you put together the EBITDA and the fixed cost close to 33% to 35% of that is lost, I mean, on the lower sales. So that's the key difference on a sequential basis. Year-on-year, there were some other incomes in the base quarter. And there were some inventory valuation tailwinds as well. So it's not strictly comparable that way. But the rest of it is operating deleverage again because the number over there was much higher.

Rohit Maheshwari: Majority is operating deleverages.

Paramjit Soni: Yes. But if you look at the 25.8% that you're looking for last year, like we never -- we said that, that had onetime things. I've always been maintaining that we were always more closer to 21%. So 21% was more the normalized one.

Manu Jindal: Sure, sure. And sir, what about the CFM versus agriculture margins, while the revenue breakup is given in the presentation, what about the EBITDA margin was some sort of margin profiling. Can you just provide that would be really helpful.

Vivek Maheshwari: So these are in similar ballpark. Actually, what matters is and what makes it vary is the channel by way these are being sold or what we call as delivery model because locally manufactured and supplied locally to OEMs in the same geography like India and U.S. that tends to be slightly on the lower side of the range, which is, let's say, 10% to 12% kind of EBITDA margin, while the higher margins comes if these are routed through our warehouses, which are high 20s kind of margin.

So it's just band or a spectrum and delivery channel pretty much defines what margins are and otherwise, between the product verticals, there's not much difference.

Manu Jindal: Okay. Sir, just now you mentioned in the last question that one of your German and Japan competitors are also your customers. How is it that? Is it just because of the labor arbitrage or how do they exactly become the customers? Can you throw the light on that?

Paramjit Soni: So for example, let's take up with Delica in Japan. So obviously, their cost structures are higher than ours. So for us, how that happened was we were selling to Kubota and Kubota, you know how Japanese customers are if their incumbent supplier was this other company, and they like to maintain long-term relationships.

So when Kubota moved to us, they moved certain tractor models and other tractor models and said, "Hey, we want to continue with the existing supplier, but can you supply these guys?" So technically, we are supplying to those guys and then those guys take it from there. It's just the way how Japanese companies will operate, right?

I'm lesser sensitive how my product cuts there as long as it gets there. So -- and then if you look at the other one with Walterscheid, when we look at -- so they make certain parts of the -- on -- they have more the draft links and the hooks over there for certain applications in which they had patents. And for all the other products, which involves a lot of the forging, machining and lower cost of, we support those products from India. So on the full system, they'll buy partial things from us and the rest they do themselves over there.

Manu Jindal: Sure, sir. And sir, what about the -- like this year would be the U.S. election as well? That is my very first question, like what -- have you in the past seeing the impact of U.S. elections on the spending in agriculture sector, number one. Number 2 is, what about the investment by the current Indian government and real estate? Are we in any way leveraging those investments towards our company. So these 2 questions.

Paramjit Soni: U.S. elections typically don't impact the farm economy here. I think is because the farm policies in general don't -- I think they last through administrations. I don't see that, that will make any difference to the farm economy here. And again, the infrastructure bill, I mean, these are longer-term things. They are already in play. The U.S., I think the way we like to say it here is that it's better that no governance happens because you have 3 branches of the government and even when an election changes, typically, it's very unusual that a single party has the Congress and the Senate and the presidency together.

So essentially, to get anything done is very, very difficult. And it's messy, which keeps the government out of the businesses over here. So in a manner that kind of...

Manu Jindal: No, no, sir, actually I was asking about the Indian opportunity in real -- towards the infrastructure sector, which the government is investing in. Are we focusing on CFM sector, CFM sales towards India, given the stance that there's a lot of infrastructure investments happening in India?

Paramjit Soni: We work with the domestic OEMs in India, but that market is significantly smaller for us compared to the foreign markets just now. It's going to be a very growing market in the future, but currently, the base for that is very, very small.

Manu Jindal: Sure, sure. And sir, any new patents or -- any new patents or IP, which we have applied. Can you throw the light on that? This is my last question only.

Paramjit Soni: We basically had the one for the hook, which I had mentioned earlier, so that -- so that we could extend on that greater than 70HP. So that's the only one. And then when we did the -- designed the 3-point linkage for the UTV ATV, then there we designed a particular features, which -- for which we have taken some -- applied for some patents.

Moderator: The next question is from the line of Mitul Shah from DAM Capital.

Mitul Shah: Sir, first question is on EBITDA margin. Right now, we are saying that our warehousing is around 47% kind of a number in terms of overall contribution. And because of operating leverage, we went below 16%. So going forward, when this other segment will pick up and warehousing will go down. So still, we are confident of doing 20%, 21% type of margin over medium term or how this operating leverage benefit or inferior mix going to play out?

Paramjit Soni: So as far as the warehousing model is concerned, like I said, original base case was that we were having like 43%, 44% of our sales, as I said, will go to 47%, 48% of that. And right now, it's already favorable to the 46%, and I think it will remain there or higher. So I don't see that causing anything negative over there.

The operating deleverage only occurred just now because of the lower sales. And I think you're going to see the turnaround come in any case now. Sequentially, you'll see it in quarter 4 and sequential -- and year-to-year, you'll already start seeing from quarter 1 of next year. So I think this is very, very short term. It will come back to the 20%, 21% to answer your question, it will come back to that.

Mitul Shah: Sir, just a follow-up on that. Is there anything onetime specific despite 47% warehousing margins going significantly lower apart from operating leverage anything 1 time impacted in this quarter?

Paramjit Soni: There are minor ones, Vivek, I think there are some maybe expenses based on some new business start-ups and stuff like that, where we -- when you start up a new business, there's some extra tooling expenses and stuff like that. But nothing earth shattering over there. Okay?

Mitul Shah: Sir, second question is on, again, agri demand. You highlighted earlier that larger tractor is closer to peak out and when weakness decline or to undergo down cycle. Is there a similar situation for lower tractor also, more or less similar would the...

Paramjit Soni: No. The lower tractor, like I said, that already you had the big decline already in the last year. You will have a minor decline in this year, but that was more the inventory -- destocking channel inventory coming out. So that kind of went through the whole cycle. I think the lower cycle is almost behind us, and that will essentially should -- by next year should already be climbing up back again.

The large one, I think that -- I'm just giving early indications that the peak is now here and now you will start seeing a decline. We are starting to see OEMs cut back on schedules on the large tractors right now. So when each time we look at our EDI looking forward, now you can see that whatever demand they had forward, they're actually cutting that down now. So we can see the early impact of that.

Mitul Shah: Sir, lastly, on the growth, as you highlighted, Q4 would be sequentially double-digit growth. Of course, it is supported by a very low base. But if we look at in terms of exactly asking for a number, but would that be better than this Q4, Q1, Q2 also?

Paramjit Soni: Would it be better than what -- yes, it is better than the previous quarters, right, so.

Mitul Shah: Yes, better than Q2, I understood, Q3, I understand because of the very low base that double-digit growth you are highlighting. So would that grow over or Q2 number also?

Paramjit Soni: I believe so.

Mitul Shah: Okay. And lastly on FY '25 outlook, considering all these price negative in terms of agri demand tapering down continue to decline, maybe marginally, still we are confident of doing healthy double-digit growth?

Paramjit Soni: Yes. The number that I gave you of mid-teens is after all that because we can already see that, right? And I think we are benefiting from the new business coming in. So clearly, it's a combination, in fact. If the large ag had not come down, I would have even gone way higher than this. So I'm already factoring that in.

Mitul Shah: And for that also we are confident of margin of 20%, 21% next year itself.

Paramjit Soni: Yes.

Moderator: The next question is from the line of Rushabh Shah from Buglerock PMS PMS.

Rushabh Shah: Sir, what other product line are we planning to introduce in the coming years? Are we looking for diversification in our product line?

Paramjit Soni: No. We continue to add new products in the product platforms we've chosen like, for example, in the fabrication and hydraulic new things are coming and I think other than that, as a complete new product line, we are not bringing anything different. We will simply grow the existing platforms. So our growth is going to come, like I said, on the 3PL side, from greater than 70-horsepower tractors, that's where the growth is going to come. PMP, there's still a lot of growth potential still sitting geographically as well because right now, we are still growing a lot in Europe and Japan.

In the U.S., the China Plus One is giving us enough over there. And then on the hydraulic and fabrication, those are the 2 platforms on which we are continuing to add new businesses and new product over there.

Rushabh Shah: Right. And sir, I wanted to know about your warehousing margins. You said you wanted to increase it up to 47% to 48%. How close are we towards that journey? And what steps are we taking to achieve that target?

Paramjit Soni: I'm not -- I didn't say that we will increase margins to 47%, 48%. I said the amount of our share of sales of warehousing is going to be -- of our total sales was 47%, 48%. We're already at 46%, 47% just now.

Moderator: The next question is from the line of Vaibhav Jain, an individual investor.

Vaibhav Jain: Yes, so my question is due to the election in the U.S. this year, is there any risk of the $1 trillion infrastructure bill sort of being retracted.

Paramjit Soni: No, none at all. I think that's all done. It's all moving ahead. Bills which are passed, I don't think they will go back on that stuff. So all that is under action. I think there is no risk to that, Vaibhav.

Vaibhav Jain: Okay. And also, could you explain the value chain on the distribution side in the aftermarket segment, who are the players and what is the value chain there?

Paramjit Soni: So in the U.S., obviously, you have the bigger distributors, but -- which we used to work with earlier. But now I think because of our own warehousing here, we've gone directly to the retail channels. So typically, you see, one, you have the large OEMs who have their own dealerships, right? So you can service and all these dealerships will also carry not just their own parts but also these will fit parts. So in that context, for example, all the deal dealerships in the U.S. already carry our stuff because we work through one of our customers to do that.

We do the same -- and then you have a similar thing, you have what we call a farm and fleet stores. This is what I mentioned when you look at a company like Tractor Supply Company, which had like 2,200 stores, it's probably $13 billion in sales in the U.S.. So this is a Walmart in this business. So they have their own stores. So we are working with them now.

So such -- these kind of stores total in the U.S., I want to say, are close to about 4,000, like I said, somewhere between 3,700 to 4,000 stores. Between tractor supply and the new accounts we've taken now, which has 800 stores, I think we are already covering about 3,000 of those.

So we've got a nice hold on this. And this is the kind of business, frankly, which just continues on and on and on. I think you've really got to shoot yourself in the foot 20 times before you'll get out of this now. It's impossible to get in, but once you get in, it just stays. And our ability to lever more products into this pipeline is high.

So right now, we're doing the 3-point linkage. You are seeing us launch the UTV ATV into this segment, right? So technically, we're using the same distribution of 3,000 stores to do this. And now we're looking at -- we'll look at more products to go into this pipeline. So this is a separate thing in the U.S. In Europe, all of this is done differently. They have large distributors.

So the big customers we have there are like Kramp, which is also, I think, EUR1.2 billion as a company now. So they are into all the distribution to all the different -- so they don't have chain stores over there. So they will service all the dealerships and stuff like that directly from these distributors. So all the top players in Europe, the major distributors are all our customers, and they've been like that now for like almost -- almost everyone is more than 20 years with us.

Moderator: The next question is from the line of Ashutosh from Mirabilis Investment.

Ashutosh: So first question is for 3PL for higher HP tractors. So any progress that you have made that you can share from the product development as well as business development side for 3PL for higher HP tractors?

Paramjit Soni: Yes. We're already working with Case New Holland on a few things. We're launching for some tractors in South Korea. We've got some new projects over there that we are working on. And now we're actually bidding on a very large project with John Deere just now. So there are new ones which are already in implementation, which are smaller projects, but a very large project is under a bidding stage at this time.

Ashutosh: Okay. Great, sir. And second one, so for FY '25, is if we were to exclude the sales for 3PL for UTVs and the new business that we are about to start with Caterpillars. So do you think we will still be growing the base business given that market is still kind of shaky and that you said large is about to go in a down cycle and small is still in an inventory correction phase. So if we were to exclude the Caterpillar as well as the 3PL for UTVs, do you think that base business will still grow?

Paramjit Soni: The base business, I think, will grow back a little bit on the aftermarket side, and it will also grow on the construction equipment side. We will see downside from the large ag equipment and a smaller downside from the small ag equipment. So overall, I think you will see a slight growth over there. A lot of the growth you will see is because of the new business.

Moderator: Ladies and gentlemen, due to time constraint, we will take this as a last question. As that was the last question, I would now like to hand the conference over to management for closing comments.

Gurdeep Soni: Thank you. So thank you, dear all. And I would like to reiterate that we are focusing on utilizing current aim period by investing for growth and ensuring readiness and efficient utilization of our resources. We remain committed to maintaining our high-quality standards and delivering exceptional outcomes. Our focus and efforts are aligned with the medium-term business plan for achieving the targeted growth in coming years.

With this, I would like to thank you all for taking out your time today for this call, and thank you, everyone. Thank you so much. Bye.

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