



“MTAR Technologies Limited Q4 FY23 Earnings Conference Call”

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MODERATOR: **MR. IRFAN RAEEN – ORIENT CAPITAL, INVESTOR RELATIONS ADVISORS**

Moderator: Ladies and gentlemen, good day and welcome to the MTAR Technologies Limited Q4 & FY23 Earnings Conference Call.

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 this conference call, please signal an operator by pressing ‘*’ then ‘0’ on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Irfan Raeen from Orient Capital. Thank you and over to you, sir.

Irfan Raeen: Thank you, Neerav. Good afternoon everyone. On behalf of MTAR Technologies Limited, I extend a very warm welcome to all the participants on Q4 & FY23 Financial Discussion Call.

Today, on the call, we have Mr. Srinivas Reddy sir – Managing Director and Promoter; Mr. Gunneswara Rao sir – CFO and Ms. Srilekha Jasthi – Senior Manager (Strategy and Operations). I hope everyone had an opportunity to go through our Investor Deck and press release that we have uploaded on exchanges and on Company’s website.

I would like to give a short disclaimer before we start the call. This call may contain some of the forward-looking statements which are completely based upon our belief, opinion and expectation as of today. These statements are not guarantee of our future performance and involve unforeseen risks and uncertainties.

With this, I hand over the call to M.D. sir. Over to you, sir. Thank you.

Srinivas Reddy: Thank you, Irfan. Good afternoon to everyone. I would like to thank all of you to spare a valuable time to participate in Q4 2023 Earnings Conference Call.

I am joined by Mr. Gunneswara Rao – Chief Financial Officer; Ms. Srilekha Jasthi – Senior Manager, Strategy and Operations and Irfan from Orient Capital, our Investor Relations partners.

We have uploaded the Investor Presentation in stock exchanges and I hope all of you have gone through the same.

At this point of time, I would like to mention a little bit more on the market guidance given by us in terms of revenues and margins what we had said earlier. In terms of revenue, initially we had given guidance of 55% to 60% and during the Q3 earnings call, we have revised our guidance to 75% to 80%. We have achieved revenues of Rs.573.8 crores in FY23 as against Rs.322 crores in FY22, which is 78.2% increase and we have delivered the guidance revenue number as mentioned.

For FY24, we continue to confirm the annual revenue guidance of 45% to 50% increase in revenues on year-on-year basis.

When it comes to EBITDA margin, we had initially given a guidance of 30% plus/minus 100 basis points and revised the EBITDA margins during the earnings call of Q3 2023 to 29% plus/minus 50 basis points. We have ended the year with EBITDA margin of close to 27% instead of the guidance given at 28.5% which is on the lower side by 1.5%.

I owe the shareholders clear explanation regarding the lower EBITDA margins compared to the guidance given. One is the gross margins in Q4 has come down to 48.6% due to sales mix or you can say the product mix as clean energy reported much higher growth compared to the other segments. As we all know, clean energy gross margins are lower than the other segments. But this cannot be the reason because the operating leverage should maintain our EBITDA in Q4, which did not happen and initially the annual guidance margin was down by 150 basis points as Q4 recorded 25% EBITDA margins.

The impact was purely because of employee benefit expenses, which have increased by Rs.10 crores quarter-on-quarter basis, because we had to implement market corrections and salaries across the board for high skilled workers and our core engineering team and our management team during the quarter and the same was in line with withothers Industries. This had impact of about 5% in EBITDA margins in Q4. If not the margins could be 30% in Q4 and eventually we would have realized that 28.5% EBITDA margins for the year.

The strength of MTAR is high field employees on the shop floor, the core engineering team and the management team and this has been done keeping in mind the high growth prospects of the company moving forward, which we are really excited about. And I strongly believe that this one-time benefit will lead to a strong foundation for a growth company like MTAR the way we are looking at this point of time.

So, in spite of the above, the overall employee and other expenses dropped in percentage terms from last year to this year by 540 basis points and 410 basis points respectively which now stands at 15.8 and 7.7, respectively.

Moving forward, over the next two years, the employee benefit expenses will fall below a single digit percentage in comparison to sales. The above move did impact PAT which should have been at 110 crores which is now close to 104 crores.

Finally, I would like to inform all the shareholders that this decision would lead to much better performance moving forward, and the team has the passion, but it was high time to pass on this benefit to support the passionate team which was done without the team asking for it.

We would like to confirm that our annual EBITDA margins for FY24 would be around 28% I would say with a few basis points here and there. The steps which are very critical at this juncture is reduction in cost in terms of supply chain activities. Obviously, the employee benefit expenses as a % of revenue would drop, and also the reduction in other expenses that we are looking at, and a substantial increase that we are envisaging in the current year in terms of product sales, which will be more than Rs.120 crores which is a massive jump compared to the previous year.

When we look at our order book, we have given a revised guidance in Q3 earnings call for Rs. 1,200 crores of closing order book and we have ended with Rs.1,173 crores, which is very close to the yearend order book guidance given earlier.

Based on the orders expected and execution of existing and new orders during the financial year, we are expecting the order book to be at Rs. 1,500 crores by end of the current financial year FY24. We're not only expecting those orders from clean energy segment in fuel cells, hydel and waste to energy, wind sector as well. As we have done enough first articles during the past one year and also in the aerospace sector we have already started working with reputed MNCs, especially we also received a authorization to proceed (ATP) from GKN Aerospace in aerospace sector for close to a \$10 million. The expected order inflows should be around Rs. 1,200 crores in all segments put together in the current financial year which is very encouraging for us. And a lot of effort has been put in, not only in terms of achieving the revenue guidance, but also in creating a great platform for the future years during the last financial year.

Specific to nuclear energy. I do understand there has been a slight pushback in terms of orders being received from NPCIL. But they have taken a decision to first experiment on Kaiga 5 and 6 reactors to be given to major companies like L&T, Tata, etc., and the tenders have been floated for them to build the reactors in exactly four years' time. But the fleet reactors tenders will continue to flow in. But these two reactors, they wanted to ensure that they are done in exactly four years and adhere to take into 10 years.

The tender has been issued, but MTAR has exclusive capabilities in 14 such packages which is mentioned clearly in the tender as a qualified company and for these packages we are expecting close to at least about Rs.600 crores of orders flowing in the current financial year, and we have estimated on a conservative basis about Rs.500 crores finally, that would come in during this year and probably the rest would come in the next financial year, specific to Kaiga 5 and 6 I'm talking about.

And obviously the orders from the other segments, which we are very comfortable with in terms of aerospace, clean energy, space and defense. So, I said these two reactors have to be commissioned exactly in four years as mentioned by the CMD of NPCIL on a one-to-one meeting with him as well.

So, as I mentioned earlier, the rest of the fleet reactors will follow in the normal mode of operations as the case may be in the past.

The next important point which I would like to mention is on NWC. We have guided working capital days to be at 220 days and we have been able to achieve 230 days, down from 287 days in the last quarter, and we are making every effort to bring it down. And this number would come down further this year and we are targeting between 180 to 200 days by end of this year. And here again, we were forced to airlift lot of inconel sheets last year. So, we had staggered shipments done by sea close to about Rs.70 crores of inventory which is in transit but staggered over a period of time. But, we also do have credit terms with the various suppliers. This we had to do in order to avoid the air freight charges which were phenomenal. So, obviously this inventory, which we are talking about Rs.70-80 crores will get consumed over the quarters should not be an issue for the company. And that's how we'll further bring down the inventory levels quarter-on-quarter basis to improve our working capital days moving forward as well.

The ROC stands at 20% in FY23 as against 14% in FY22, and the ROE in FY23 stands at 18% as against 12% in FY22, and these percentages are expected to even improve further by end of FY24 as well.

Apart from the guidance numbers which I have given, we are in advanced stage to enter into an agreement with Fluence Energy for the energy storage systems which again comes under clean energy for both domestic and export markets. So, over the next three years, as we ramp up gradually starting from FY25 onwards, we are looking at revenues even touching at a level of about Rs.400 crores by end of the third year starting from FY25. And also we are entering into various agreements or received orders from companies like Voith, GE Renewable, Andritz, and there is another company which is really looking at us in terms of wind energy requirements. So, our fabrication unit which will be fully commissioned by June '23, will be able to cater to all these requirements but for Fluence Energy, we have to establish a separate facility for them, which we have the existing facility can be used for the domestic, but we're looking at a huge revenue base. So, we would like to look at a separate kind of facility to cater to Fluence Energy at this point of time.

The most exciting issue is that the bloom energy electrolyzers have been installed recently, as probably all of you must have heard and was done very successfully. The project what they have undertaken was completed exactly two months in delivering an equivalent of over 2.2 MTPD of hydrogen output, which is a great stride in terms of production of green hydrogen.

So, what it means to MTAR is we have been manufacturing the electrolyzers for them and as I said systems are established and proven in the market with high efficiencies, which they have proven. We are looking at this vertical to ramp up very quickly hopefully by end of this calendar year and then this vertical would be as strong as any other vertical that we have today.

So, we have a very clear bigger picture, which I would like to mention for the first time is that we have a very clear road map for MTAR over the next five years to be a Rs. 3000 crores company only through organic growth within its own innovations and manufacturing activity.

So, finally, I would say that we have a clear roadmap for MTAR to be a Rs.3000crore plus revenue-based company over the next five years by FY28 sustaining its margins through innovation and efficiencies entirely in an organic manner without considering any kind of JVs or inorganic growth as the road map is concerned. And we continue to work towards improving our margins and also trying to expand our customer base, which we have been doing, which is very evident in which I have mentioned about various customers that we are working with. And this will continue to be our endeavor to have a widespread of customers over the next five years in order to ensure that the exposure within each customer is within certain limitations.

Thank you so much. And I would like now to hand over the call to the CFO – Mr. Gunneswara Rao, who will take you through in detail about the financials in more detail than what I have said.

Gunneswara R. Pusalra: Thank you, Mr. Srinivas Reddy. Good afternoon everyone and a warm welcome to our earnings call. And first and foremost, I would like to express my gratitude for your continued trust and support.

I will take you through the financial highlights post which we will open the floor for questions and answers. We successfully achieved our revenue guidance with a significant increase in revenues; in FY23, our revenue reached Rs.573.8 crores, representing a growth of 78.2% compared to Rs.322 crores in FY22.

So, our EBITDA also showed a substantial improvement in absolute terms reaching Rs.154 crores in FY23, a 63.1% increase from Rs.94.4 crores in FY22 with a margin of approximately 27%. Though Mr. M.D. Srinivas Reddy explained reasons for the margin decline, in absolute terms, we maintained a margin of Rs.154 crores as far as the initial guidance is concerned. Like FY22 of Rs.322 crores revenue with a 60% initial guidance at a 30% EBITDA will give us Rs.154 crores of EBITDA. So, same EBITDA we maintain even after the reduction of the margin percentage, but absolute terms we maintained Rs.154 crores as promised initially. Profit before tax at Rs.140 crores in FY23, reflecting a growth of 70.6% from Rs.82.2 crores in FY22. Similarly, profit after tax increased by 69.9%, reaching Rs.103.4 crores in FY23 compared to Rs.60.9 crore in FY22. In terms of earning per share, our diluted EPS for FY23 stood at Rs.33.62, a notable improvement from Rs.19.79 in FY22.

We have reduced our net working capital days to 230 days in line with our target of 220 days by end of the FY23. Out of these 230 days, 92 days are related to work-in progress. So, we aim to further decrease our net working capital days less than 200 days by end of the FY24 through increased turnover, inventory reduction, shorter shipment days and change in our product mix.

Our return on capital employed improved to 20% in FY23 compared to 14% in FY22. While return on equity increased to 18% in FY23 from 12% in FY22, we anticipate further enhancement in our returns and ratios through an increased wallet share with existing customers, operating leverage in our product portfolio and revenue ramp up.

We understand the importance of reasonable business practices and sustainable development. Our commitment to corporate social responsibility remains unwavering as we strive to positively impact the communities with which we operate.

I also would like to mention that we have strengthened our management team by welcoming Mr. Raja Sheker Bollampalli as our new COO. Under his guidance, we expect to optimize our operational efficiencies to cater to the accelerated growth.

With that, I open the floor for discussion and welcome any questions you may have. Thank you, all.

Moderator: We will now begin the question-and-answer session. The first question is from the line of Deepak Krishnan from Macquerie. Please go ahead.

Deepak Krishnan: My first question is largely on your orders inflow guidance. You're indicating Rs. 1,200 crores order inflow this quarter and about Rs.500 crores coming from nuclear. So, how much would be Bloom order inflow in the coming year because last year we did closer to Rs.800 crores. What is the outlook in terms of hot boxes say for FY24 and then FY25, any comments on that that you can share?

Srinivas Reddy: The order inflow for this year, which I said is about Rs. 1,200 crores are primarily during the entire financial year. That's how we'll end up with Rs. 1,500 crores, which was the estimate is. It's primarily which I said for Kaiga 5 and 6 we're expecting at least about Rs.500 crores of orders coming in for sure this year, which had a detailed discussion with the CMD of NPCIL as well on the strategy what they're adopting right now, and also from the other fleet reactors that we're expecting. And I do understand there was a little bit push back on the order inflow, but now time has come where clarity is very clear right now in terms of getting these orders through. And obviously the inflows from clean energy segment are not only from Bloom, but we are going to get substantial inflows from various companies where we have done first articles with Voith, Andritz, GE Renewable and new companies are joining us in terms of Siemens Gamesa and Enercon, etc., And also, strengthening our aerospace vertical, we already received a letter of intent of \$10 million from GKN Aerospace, which we're expecting that to be converted to orders during this quarter or beginning of next quarter. So, overall it's a very nice mix of spread of orders coming in. I have mentioned a conservative number at this point of time, but would expect a lot more orders flowing in, but this would be the bare minimum that we are expecting and we should stick to this.

Deepak Krishnan:

Can you just comment on Bloom hot boxes shipments for next year?

Srinivas Reddy:

As of now, so basically we continue to do the hot boxes at the rate what we have done. We have done the highest number of boxes in the last financial year; I think close to about 4,500 boxes. And we will continue to do that, but they are looking at increasing that number, but we have not yet received the confirmation as of now, but we will hear from them by end of this quarter. There are some major design changes which are happening in Keeylocko, which that order is still on, which we have to execute. We still have to hear from them officially in terms of what they're going to do in terms of design changes, so that's about 1,600 units we're looking at. But that's something Bloom has to get back to us because they're looking at much higher power generation in change of design or what they want to do with it we'll know by end of this quarter. So, that would be the same number what I have given in the last call as well. And what we are really excited about is the electrolyzers which now since they've installed it and proven the hydrogen output with very good efficiencies and we have supplied all the electrolyzers to them. So, whatever we are going to do this year, we have an order for 142 numbers. But that's only batch production, but we can see some kind of volume production kicking in probably two quarters down the line. So, that's where we stand right now.

Deepak Krishnan:

Just a question on gross margin. Anything that sort of more one-off in nature that goes off or any cost that is building for future revenue, anything that can take the gross margin back to say 50%, 52% or would we think that say for a full year basis we are in this 48% next year?

Srinivas Reddy:

Not really, Deepak. The guidance what I've given is I have not even taken revenue guidance; I have not even taken Keeylocko into picture right now because there are some design changes going on there. So, if you look at that kind of revenue guidance I have given, basically the absolute numbers of other segments are substantially growing up in the current financial year. So, the gross margins would kick in back to about 52%, 53% moving forward as well. So, that should not be an issue at all.

Deepak Krishnan:

How are we looking at inventory days where we've done a substantial about 20 days improvement in receivables, largely inventory days and payable days have sort of gone up. So, what measures are we taking to get the inventory days back to closer to the 190-odd days in FY22?

Srinivas Reddy:

Yes, probably GR will be able to explain that in more detail, but we have put a specific task to reduce the inventory levels. Obviously, I've explained about the inconel sheets what we have done, and that's something which is stock in transit and also it is not due as of now. So, it will get consumed over the period of a couple of quarters. But overall we are looking at very seriously about getting our inventory levels down as much as possible, because we are working on various product mixes. To begin with, with new products being introduced, so over the next two, three quarters, we would obviously try to bring them down more and more.

Gunneswara R. Pusarla: Actually the inventory of after Rs.240 crores, Rs.72 crores is a stock in transit, which we may receive after 60 days to 75 days of time. So, that is the reason there is inventory and also payables both are there. Second, as M.D. said, these inventories we will use because last time we have airlifted so much of material and the cost is very high. So, we are taking a calculated risk and keeping our inventory carrying cost into consideration. I think by end of this financial year, we will try and maintain less than 200 days of working capital. And also this inventory having some of the long lead items for which we are working with a nuclear project, we got FMBC, FTS Systems, around 25% of the inventory related to that, and around 25% is stock in transit, remaining is the export related inventory which we will consume in four months or three months' time. And now that we got some clarity, slowly supply chain issues are relaxing. So, largely when we plan the inventory, we have to see what is a transit times and all. So, accordingly we will plan our inventory days. Suppose sometimes what happen, you may receive in 15 days, 20 days before because of the availability of shipping lines and other things. So, these are all the various factors are there. So, we have to balance all those things. But definitely having said that, we are actually working on it; now we are continuously monitoring on receivables, increasing credit period with major suppliers. So, lot of actions we are taking and we will try and reduce as much as possible by end of this financial year.

Deepak Krishnan: So, the WIP days have been closer to 90 days for a lot of time. Do you think it's largely coming from there or will it come from other than WIP with that number?

Gunneswara R. Pusarla: No, no, WIP is a separate number which is around 92 days' inventory is there and the maximum in that 80% is the domestic where long lead projects inventory, so which is actually good for the company because it is going to crystallize revenue in this FY24 onwards.

Moderator: The next question is from the line of Renu Baid from IIFL Securities. Please go ahead.

Renu Baid: So, my first question to you is, you did mention that many materials especially the inconel sheets required for exports and other business have to be enlisted, which also impacted gross margins. So, can you throw some input in terms of why the urgency of airlifting, were their issues in terms of your normal conventional shipment, which was coming through because through the year we were maintaining relatively elevated inventory levels, so why the last-minute emergency to airlift in and take a hit on the cost as well?

Srinivas Reddy: There are a couple of issues, somewhere really unforeseen. One is that we import inconel sheets from Germany as well from VDM. They had a cyberattack and there was an issue with them. So, we had issues with them in terms of dispatches. There are different sizes of inconel sheets. So, there was some kind of an imbalance. So, in terms of imbalance, US company were delaying because their input raw material got delayed in United States and which was not anticipated. So, we had to airlift to balance to make sure our production lines are not down. These are the factors. So, subsequent to that, it got eased out and they had enough material on hand. Especially for inconel sheets, air freight is very expensive. So, we absorbed the cost last year and now we are

in a pretty comfortable position in terms of the supply chain in terms of inconel sheets which GR has explained about having it in transit and staggered, which will come in useful for the next two quarters without airlifting any material. So, we had to spend enough money on that last year to absorb the cost.

Renu Baid:

Can you help us quantify in terms of fourth quarter gross profit or what was the impact on raw material to sales because of this thing? And also, will the cost escalation because of the global vendors will be passed on to Bloom or we will have to bear the cost increase?

Srinivas Reddy:

No, no, we don't have to bear any cost. If there is any increase in the raw material cost, every quarter it is reviewed and it is addressed accordingly, so we don't have to do that at all. In fact, there are a lot of design changes happening in Yuma as well, for example, we are using three borrow the parts for Yuma which is about \$750 which we import. Now they bought it down to two with some design changes which we work along with them. And similarly any cost escalation is obviously addressed at the end of each quarter and PO is amended accordingly. So, we are not affected because of the increase in cost.

Moderator:

The next question is from the line of Amar Maurya from AlfAccurate Advisors. Please go ahead.

Amar Maurya:

Just to again continue with this gross margin, like sir, was that high-cost inventory impacted the fourth quarter margin? If yes, what was the quantum of that high-cost inventory which got baked into the fourth quarter margin?

Gunneswara R. Pusarla:

The gross margin drop alone we should not see here just because the gross margin is good. It doesn't mean that the EBITDA will improve suppose say, today we are at 46%. So, if it is 58% EBITDA will not increase. So, there are some products like exports, for example, where the bill of material is 60%, we have a gross margin at 40%, whereas the value addition requirement is very low. In case of domestic projects, gross margin is higher and value addition is higher. So, in our company, since we are in various segments, the gross margin alone is not required to be seen. The EBITDA decrease is not, as our M.D. said, it is not just because of the domestic sale and because of export. There is a one-time correction in salaries we have done in line with the market benchmarking to our employees where our fixed cost is impacted. That is the reason for the lower EBITDA margin, not because of the gross margin lower and all. If the gross margin is lower and value addition will be higher in the domestic projects and vice versa for the export products.

Amar Maurya:

I'm confused. Basically what I'm trying to understand, your gross margin has gone down by 400 basis points, your EBITDA has gone down by 300 basis points. I'm talking about sequential Q3 to Q4, basically what I'm trying to understand is 48% gross margin, which we had reported in this quarter, is there some one-time RM impact into this and are you saying that from Q1 again the gross margin will bounce back to 52%, that is what I'm trying to understand?

- Srinivas Reddy:** Basically in Q4, our product mix was more towards the exports than domestic where the gross margin is lower in exports, but the operating leverage eventually as I explained to you, if not for the employee benefit expenses, we could have maintained EBITDA margins, right. As I said earlier, moving forward, our product mix where I said that even the domestic is going to be reasonably on the higher side. So, we'll bounce back as I've mentioned to Deepak as well, that we will go back to 52%, 53% moving forward based on the product mix that we're going to have over the next few quarters.
- Moderator:** The next question is from the line of Mohit Kumar from ICICI Securities. Please go ahead. Yeah.
- Mohit Kumar:** The first question would be revenue guidance; I missed the number. What are your guiding for FY24?
- Srinivas Reddy:** So, we're expecting 45% to 50% increase in revenue guidance for FY24.
- Mohit Kumar:** My second question is on the working capital. While you're guiding for a movement in the entire fiscal, can you take some improvement in the first half itself by the time you report the number in September?
- Gunneswara R. Pusarla:** We are trying to reduce, but as we said already, there are some existing inventories we will use in for the first half of the year and the third quarter requirement we try and get as per the need basis. So, we'll try and reduce our working capital by the first half of the year.
- Mohit Kumar:** Sir, can you speak about the new clients you added in FY23 and how do you expect the ramp up in revenue and the opportunity in FY24 and FY25 from the new clients?
- Srinivas Reddy:** See, we have added a number of new clients which I have said, starting from Voith, GE Renewable, Andritz, Hitachi, now we've added Thales, GKN Aerospace. So, we're improving our customer base with a very wide portfolio right now. So, we have more or less completed first articles with some of the customers and some are in progress, and also the new customers like Fluence Energy, Enervenue and all these customers are almost in the final stage of discussions. So, all these customers in engineering, once we have done with the first articles, the volumes will pick up, especially our fabrication also is getting fully commissioned by end of June, including the machining aspect of it. And Enercon is another company which are looking at us to take care of their needs for rotor and stator, very complicated assemblies that they're looking at. So, all this over the next two, three years would become a substantial business for MTAR, as I said, including Fluence and take all these customers into account, including GKN Aerospace in aerospace sector. Probably by end of the year, we're looking at 600, 700 crores of revenues kicking in from all these customers or even more.
- Moderator:** Next question is from the line of Vinod from Union Mutual Fund. Please go ahead.

Vinod: Sir, I just want to have your comment on Indian space policy which was approved by the cabinet in the month of April and also if you can just help me how MTAR will benefit from this policy?

Srinivas Reddy: Can you repeat please once again?

Vinod: There was an Indian space policy which was approved by the cabinet which was talking about institutionalization of private sector participation in the space sector. I would like to get your comment on how MTAR will benefit from this policy?

Srinivas Reddy: This is exactly what I'm saying. See, if MTAR is getting involved in design and development of its own launch vehicle in the small satellite launch vehicle, so ultimately, the government is looking at privatization in the space sector in a big way. But for any company to design and develop... that's what I said, it's a four-year period which we've already taken it up very seriously and we have actually completed lot of design work as we move on, we have already recruited very well experienced scientists in this area. So, this is something which is going to be a game-changer for MTAR four years from now, that's going to be a fully integrated system and our first developmental flight should be ready at the end of the fourth year. So, this is what the government is looking at. But again the government has also given the PSLV launch vehicle to private companies like L&T and HAL in consortium. But, there again, since MTAR is exclusive supplier of the liquid propulsion engines and various other modules that we supply for them, which they have been using for all their launch vehicles, these vendors again would come to us to deliver engines to them as well. So, we benefit in both ways, but we would like to ultimately develop our own product within the company moving forward. So, that's pretty encouraging and it all depends on how we design and develop our own products over the years.

Vinod: Just a second clarification, you said that in the clean energy business, the new clients like Voith and GE and SIEMENS are expected to contribute Rs.600 crores over the next three to four years. Currently, is there any contribution on the revenue side or order backlog from these new clients?

Srinivas Reddy: No, we already executed some orders. That's what I said, we just started doing first articles. I think we've executed some between Rs.15 crores and Rs.20 crores of orders or even more than that for them at the starting point. In engineering, first, we do the first articles, then the customer starts building up and slowly have to ramp up and take care of their requirements. And Fluence is something which we are yet to start; we are almost in the final stage of discussions right now and that's something the energy storage systems and the clean energy is going to ramp up in a big way over the next three years on a step-by-step manner. The vision of the company is to diversify very strong customer portfolio and also have enough revenues being generated from each of these customers. So, we've been very careful in dealing with that because in engineering we spend a lot of time in developing these products for them or developing whatever their requirements are. But we also look at the commercial aspects in terms of how much of revenues that we can generate on volume terms moving forward. So, we are in line with that target. I have clearly said that the vision of MTAR is to be Rs. 3,000 crores revenue base company by FY28,

and lot of work has been done in the last financial year, which does not reflect in numbers obviously. But this is the path forward as the platform being created year-on-year basis to achieve our end goal of sustaining those revenues and the margins what we're looking at.

Moderator: Next question is from the line of Deepesh Agarwal from UTI Asset Management. Please go ahead.

Deepesh Agarwal: My first question is on order inflow. You are guiding for some 1,200 crores of inflow next year, of which 500 crores is from nuclear. If I do the math, you are building a decline in the other segment order inflow, last year, clean energy itself was Rs.800 crores. So, what explains this kind of an estimation?

Srinivas Reddy: See, I have given a conservative estimate, Dipesh. So, whatever I said is Rs. 1,200 crores, but obviously we'll get a lot more orders in clean energy segment as such. But, at this point of time, I have given a very conservative estimate as far as the order book is concerned, which is substantial actually, but we would probably get much more than that, but the way I tell things that I would like to maintain a number and try to achieve it much more than what I say. So, that's what it is. So, obviously, you're right, we'll have a much stronger order book moving forward as well.

Deepesh Agarwal: Second question was on the working capital side. If I look at the working capital, there seems to be a significant increase in payables this quarter. So, is there a change in the terms with our vendors?

Gunneswara R. Pusarla The payable days because 72 crores of raw material is in stock in transit and the same thing is reflecting in the payable also that is another reason and some other thing is we are actually talking to various customers and increasing our credit periods earlier we used to pay advances slowly we are bringing into 30 days, 45 days some supplies even 60 days also. So, we are trying in both sides, but there is a stock in transit value is also included in the payable.

Deepesh Agarwal: Related question so earlier you had highlighted that in terms of receivables the transit time to US has increased which actually meant your receivables from Bloom had increased because they pay after they received the shipment, now what is the situation and globally the shipment timelines are shrinking?

Srinivas Reddy: I think it is stabilized now.

Gunneswara R. Pusarla Yeah, it is stabilized that is why actually last time it was 154 days now 132 days now last year it is 154 and now 132 days and we are closely monitoring and try to get as much possible and in case of Bloom there is no follow up required. It is actually on due date it will come without any intervention. They have a supplier portal wherein we will know when it is reached, when they are paying all those things.

- Moderator:** Thank you very much. The next question is from the line of Bala Murali from Oman Investment Advisors. Please go ahead.
- Bala Murali:** Earlier maybe one or two years before we have guided for 8,000 SOFC boxes capacity by FY24, so are you on track within delivery for order is available 8,000 SOFC boxes?
- Srinivas Reddy:** So, I have said 7,200 hot boxes including all the models put together. So, we are on track with it, except Keeylocko where some design changes are going on which is about 1,600 units which we will know by end of this quarter. Once that clarification comes from Bloom then probably we will be on track with that as well or probably they will increase the other units as well. So, we will know by end of this quarter.
- Bala Murali:** And second one is regarding this electrolyzer, so what could be our capacity for this FY24 and how much we can deliver if orders are available and then average realization for this electrolyzer?
- Srinivas Reddy:** So, as I said earlier electrolyzer they have already established the project in US where they were able to successfully commission it and display it to all their customers which is happening as I speak. So, based on the initial feedback it has been highly successful in terms of the efficiencies and what they have done. So, hopefully in a couple of quarters we will see a good ramp up happening and we have the capacity to handle and the ramp up obviously if the volumes really pick up as Yuma and things like that probably then we proactively look at capacities and then we act accordingly. So, we will address that once we cross the bridge at that time.
- Bala Murali:** And average realization sir any ballpark number?
- Srinivas Reddy:** As of today it is around roughly around \$23,000 per unit.
- Bala Murali:** And lastly even the four to five years' guidance I missed that number I think it is 3,000 cr or something else?
- Srinivas Reddy:** That is right. What I have said is we have a clear roadmap in terms of how we are creating a platform and building a customer base year-on-year basis and the kind of revenue growth we are going to consistently have sustaining our margins over the next five years we should be at that level of 3,000 crores these are road map five years from today.
- Moderator:** Thank you. Next question is from the line of Sriram Kapoor from Prabhudas Lilladher. Please go ahead.
- Sriram Kapoor:** I wanted to ask you about your defense segment and how you see that going over the next few years and within defense what sector do you specifically cater to, is it directly supplying to the

arm forces or do you supply to the DPS used like HAL, so if you could give some colour on that?

Srinivas Reddy:

Absolutely. So, as far as defense is concerned our percentage is very low, but our focus has been primarily on clean energy segment and nuclear is also part of that and space areas, but we are doing substantial work for the defense labs as of today and that is what we are doing right now, but in order to cater to the air forces and navies of the world the issue is we need to have the defense license which we probably by this quarter we will have the defense license with us. It is a long and tedious process to get such defense licenses so we are trying to get that which we will have it right now, but once we have that then in terms of technology and supplying the end systems obviously we need to collaborate with some of the MNCs which we have to see how profitable that is to the company which we are very clear in terms of maintaining our margins because most of the MNCs would try to pull away as much of share from the whole projects what they get in terms of make and buy. So, we are evaluating all these things. So, if I have good lucrative opportunities we will look at it, but primarily our focus is more on these other areas what we are looking at right now.

Sriram Kapoor:

My next question is on the key products that you have on the development which is your defense and Semicryo Engine and the imports substitute let us say bellows and heaters, what is the addressable market for these products and when will they begin to contribute significantly to your topline?

Srinivas Reddy:

See the products as you say the electromechanical actuators we are delivering this year all the orders what they have given us which we have taken it for the first time. We all import substitute products. We are delivering almost 7 crores to 8 crores of EMAS this year that is going to be a substantial achievement in terms of delivering the actual product which they are going to use instead of importing it. Roller screws we have already proved to DRDO about our capabilities which are importing from Rollviz Sweden. So, the formalities are pending in terms of getting the official note through in terms of Government of India to put an import ban. We are hoping that will happen by the end of this quarter so that is going to be a substantial product which we have taken 1.5 to 2 years to develop it. For the last 30 years or 35 years they have been importing it from Sweden so that should stop. So, with the progress what you have made here and bellows is something which we have already started and using it as well in house right now. We look at other opportunities where we can also make bellows for other customers as well which is that is another big market that we are looking at, but that we have to seriously look at it because right now we are busy in our own in-house consumptions for bellows, heaters and other thing which we are working upon. Ceramics, like the components what we are using in-house is also something which we are developing right now. So, a lot of these products and as I said the ASP is another product which we got commissioned and we got qualified and we started dispatching as well. So, last year we did 7.5 crores and this year we will do close to about 110 to 120 crores of ASP dispatch is happening this year. So, our idea is to really increase our product portfolio

basket over the next three-four years to make it a much larger revenue base which is a high margin area for us at this point of time.

Sriram Kapoor: And just last one bookkeeping question if you could provide the revenue split for Q4 FY22 between space and defense because last year in the presentation they were clubbed together at about 15.2 crores if you could provide the split first between space and defense?

Gunneswara R. Pusarla Defense it is 3% space we have not included any defense revenue.

Sriram Kapoor: In Q4 FY22 so that last year quarter that 15.2 crores purely stays there is no defense in that.

Gunneswara R. Pusarla: There is hardly any percentage defense is less than 3%.

Moderator: Thank you. Next question is from the line of Sanjaya Satapathy from Ampersand Capital. Please go ahead.

Sanjaya Satapathy: My first question is that you have given this salary hike suddenly in Quarter 4 how much of that has gone to top management, can you please give that bifurcation?

Srinivas Reddy: Most of it has gone towards the highly skilled employees the shop floor workers. So, I have been working with this for quite some time because these are the workers with lot of experience and also the core engineering team. So, the focus was primarily on that not on the top management as such.

Sanjaya Satapathy: And sir this is something which you could have planned for so considering that you had given a guidance in February and you ended up this expense, so just wanted to see whether anything suddenly changed for you and more importantly is there some kind of a process related deficiency there in the system that you are incurring many expenses which is coming out of turn?

Srinivas Reddy: This is not an outer turn expense. See, it is nothing to do with process related issues. It was a very conscious decision taken looking at the future outlook of the company which is only going to benefit the company and the shareholders in the long run. Obviously, it has an impact on the P&L, but it is something if you are investing in CAPEX you also need to look at looking at your own team of people who are working for the company for years and we felt that this genuinely this is an appropriate I mean when you look at the roadmap for the company over the next five years we really felt that this is a great motivation factor moving forward and that really does not really matter in terms of long term basis. So, it was a genuine decision taken which only benefits the company and the shareholders moving forward.

Sanjaya Satapathy: And my last question is sir are you getting into quite a few new product areas looks like in financial year 24 including valves and some other fabrication I assume that those will be far more better in terms of margin, but how difficult will it be for you to scale up in this category?

- Srinivas Reddy:** No, we have enough capacities. It is not that it is all about the developmental activities. So, MTAR has got enough capacities across the board. We have enough machines and as I said the highly skilled employees of the company these are the core strength of MTAR. So, the capacities are never an issue unless any bottleneck areas or any specific area where we need to build the capacity separately which are not part of the existing capacity then it is a separate issue so otherwise it is not a major concern at all.
- Moderator:** Thank you. Next question is from the line of Anika Mittal from Nvest Research. Please go ahead.
- Anika Mittal:** Sir my question is on the EBITDA margin, EBITDA margins in financial '21 was 34% approx. and Financial Year '22 it was 29% I mean this financial year it came down to 27%, so from 34% to 27% in three years, what is the reason for this and what will be the sustainability EBITDA in next say two or three years?
- Srinivas Reddy:** I have already said that one is sustaining the margins. We have taken various steps and we will sustain these margins moving forward and the product mix also has changed year-on-year basis. When you are looking at the product mix is also very important. So, we have considered that we are moving forward as well. So, we will be able to maintain such margins moving forward what I have said earlier in my speech as well.
- Anika Mittal:** Sir my next question is on FT Technologies with manufacturing in India obviously have plan to set up a factory in Gurugram, how do you see this deal as an opportunity going forward like we can we add FT Technologies as our customer.
- Srinivas Reddy:** No, we can have anybody as a customer. It is not about India abroad. First of all, most of the hydrogen sector electrolyzer are under developmental stage. You have Ohmium, for example, trying to develop an electrolyzer, you have various companies like that, but they have to make the prototypes and ramp up come to a level where they can actually look at associating with companies like MTAR. We keep talking about bloom energy being one customer it is not that way because Bloom has done those volumes and proven to the market, but others are still lagging way behind. So, as and when they come to the level of you know the requirements what they need then a company like MTAR can definitely work with them because we have the technology and where we have to work with them and build their products very easily for them.
- Moderator:** The next question is from the line of Amar Maurya from AlfAccurate Advisors. Please go ahead.
- Amar Maurya:** Sir, just one clarification this low-cost inventory basically the current inventory of 74 crores, is there any inventory of airlift inventory into that?
- Srinivas Reddy:** No, that 74 crores which in transit is by sea only that is what we have clearly mentioned. There are no airlift factors.

- Amar Maurya:** And all airlift inventories basically over by Q4 or do we have some airlift inventory left?
- Srinivas Reddy:** We do not have anything like we have used that up. Otherwise, why would we airlift it, we would not do it. So, if we have the time then we would rather move it by sea. We have taken that we have taken that impact already in the last quarter.
- Amar Maurya:** In terms of the gross margin recovery will happen in first half or in second half?
- Srinivas Reddy:** It will happen as we move on the first half itself that is not an issue at all.
- Moderator:** Thank you. Next question is from the land of Pradyumna Choudhary from JM Financial. Please go ahead.
- Pradyumna Choudhary:** My question was more regarding the green hydrogen space in India, so we are seeing a lot of developments there are lot of players talking about it, so like what opportunities do you see for your company in this particular space in terms of the kind of products or components we can be manufacturing and are we in talks with any major players?
- Srinivas Reddy:** Yes, we are, but see the issue as I have explained even for bloom it took quite a while to actually establish and they proved recently in the last one week what they can actually generate output for hydrogen at very high efficiency. So, it is all technology based. So, as I mentioned earlier depends on all these companies where they can build a proper electrolyzer with lot of efficiencies to bring down the cost of hydrogen then it makes sense. So, we have to see how it goes. So, obviously MTAR is there has the capacity to address such situations. So, probably we have to see over the next six to eight months how it evolves and how they can develop these electrolyzers.
- Pradyumna Choudhary:** But like what all products in the value chain can we be looking at one would be electrolyzer what else?
- Srinivas Reddy:** Electrolyzer is the main thing the entire electrolyte. We have the facilities and the technology to build for them whether it is PEM or SOFC whatever it is end of the day it is the entire electrolyzer the design part of it which has to work for them because it is their design it is not our design.
- Moderator:** Thank you. Next question is from the line of Dhavan Shah from Alf Accurate Advisors Pvt. Ltd. Please go ahead.
- Dhavan Shah:** My question is again on the gross margins front so you mentioned the last quarter we did some air lifting for the Raw Mat can you share the air lifting cost which is extraordinary in nature for the last quarter?

- Srinivas Reddy:** I think it is probably close to about 7 crores to 8 crores of material that we had to airlift the cost that we had to airlift roughly I am talking. I do not have the exact number to be genuine, but I think to my knowledge it is about that number.
- Gunneswara R. Pusarla** Around \$4 lakh, \$5 lakh that is value what you are saying is inventory value.
- Srinivas Reddy:** Overall he is asking about the air lift cost?
- Srinivas Reddy:** So, total is around.
- Dhavan Shah:** That is about 800,000 something, right?
- Gunneswara R. Pusarla** The total cost is that much.
- Dhavan Shah:** The second one is on the net working capital days so in the presentation you mentioned that roughly 138 days is other than WIP which must be having some finished good inventory also, so can you share out of 380-odd crore the inventory which is how much is the finished good and post you also mentioned that of the part will be supplied for MPCL in the first half itself, so how do you see the WIP days going maybe the inventory days because I think these 200 days will fall down to what level for FY24?
- Gunneswara R. Pusarla:** The total 380 crores of inventory 144 crores is WIP and 242 crores is a raw materials and out of 242 72 crores is stock in transit which is actually both reflecting in the inventory and payable. So, by end of the year we try to make like reduced inventory like next two quarters this raw material whatever we are importing, whatever is imported and whatever is in transit which we will use it in the one or two quarters and after that slowly we will try and reduce as per the requirement at the operations. So, thereby we can reduce the inventory days.
- Dhavan Shah:** One thing is at clean energy contribution for this quarter is roughly 73% versus the Q3 contribution was 80 odd percent, so how is the gross margin differentiation you already mentioned that the export business is doing a lower gross margin versus the domestic one, so what is the difference between export and domestic gross margin?
- Gunneswara R. Pusarla** In the export there is around 40% gross margin are there. In the case of domestic around 55% to 60% gross margins are there in some cases we have various projects, some are the having the even 30% also some are at 55 also so around you can say gross margins around 60% in case of domestic turnover.
- Moderator:** Thank you. Next question is from the line of Sandeep Tulsian from JM Financial. Please go ahead.

- Sandeep Tulsian:** First question is pertaining to the Bloom energy guidance I think the company itself has given guidance of about \$1.35 million for product revenue which is 50% higher, so in that contrast our guidance for the year where we are ramping up other segments as well nuclear energy and the other seems to be a bit on the conservative side. So, if you could highlight more specifically how much you are building in terms of guidance for clean energy segment and how much for the overall other segments as well for 24 that is space and nuclear energy?
- Srinivas Reddy:** So, Sandeep basically I have taken 55% or so for clean energy which is very conservative you are absolutely right, but I would like to stick to this guidance for now 45% to 50%. The good news is that the other part of the 45% is definitely going to happen. So, that absolute number is going to really give a lot of difference in terms of our margins as well. So, what kind of work we have done over the last one year or two years. So, obviously it is conservative guidance, but I would like to stick to that. I do understand that Bloom energy has given a guidance of 1.4 billion as compared to 1 billion last years. So, let us see how it goes. We will have more clarity by the end of June obviously the new orders will be placed as Sandeep last year also we did that for the next year as well the last quarter. So, we will see how it goes June, July, we will have more clarity on that.
- Sandeep Tulsian:** And just one clarification regarding this GKN aerospace \$10 million order, is it already booked and shown in our product segment or it is something that came after 31st March?
- Srinivas Reddy:** It came after 31st March. So, they have given a letter of intent to us so I cannot take that into the order book as of now. So, they have asked us to go ahead with the raw material sourcing and all that. The official order will come in this quarter itself and that is something we have done a lot of due diligence before they release their order to us their LOI to us. So, similarly with Thales as well. So, these are all the things the steppingstones for our future growth. We are trying to diversify to different customers, different segments and things like that where our profitability is even much higher. So, that is what we are looking at.
- Sandeep Tulsian:** What is this order book buildup of product segment if you could just clarify on that because this is a huge jump that we see on year-on-year basis?
- Srinivas Reddy:** See you are talking about the product portfolio.
- Sandeep Tulsian:** Yeah, product segment?
- Srinivas Reddy:** One is we are looking at the electromechanical actuators. The second is the roller screws. The 3rd is the ASPs which we are going to do more than 100 crores this year. We just got qualified in the last quarter of last financial year and we dispatched about 7.5 crores to 8 crores worth of products to them and then the ramp up has already started and we will be achieving more than 100 crores of that revenue. So, I have not taken into consideration the other products that we are doing. It took us one and half years to complete the development of roller screws and we are

almost there to get qualified. It is taking a little while because of the various issues how to prove DRDO and all that, but finally we have achieved that. So, all these things will accumulate and will result in revenue increase over the years.

Moderator: Thank you very much. Ladies and gentlemen due to time constraint we will take that as the last question. I now hand the conference over to Mr. Srinivas Reddy for closing comments.

Srinivas Reddy: I would like to thank everyone for joining our earnings call for FY23 Q4 earnings call and I hope I have explained very clearly about the margins and revenues and the future outlook of the company and I really appreciate the support from all the shareholders to MTAR and we are right on track and we believe in giving the guidance which we would like to adhere to and we have done that and I have also explained very clearly about the slight reduction in the EBITDA margins for Q4 and moving forward we will get back to the normal margins the way we have been delivering and please address this on an annualized basis whatever we do we will definitely achieve the margins what guidance we have given moving forward as well. Thank you so much.

Moderator: Thank you very much. On behalf of MTAR Technologies Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines. Thank you.