



“Technocraft Industries India Limited
Q4 FY24 Earnings Conference Call”

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MODERATOR: **MS. DARSHA HIWRALE – SYSTEMATIX INSTITUTIONAL
EQUITIES.**

Moderator: Ladies and gentlemen, good day and welcome to the Q4 FY24 Earnings Conference Call of Technocraft Industries India Limited, hosted by Systematix Institutional Equities. 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. Darsha Hiwrale from Systematics Institutional Equities. Thank you, and over to you, Ms. Darsha.

Darsha Hiwrale: Thank you, Michelle, and good morning, everyone. This is Darsha Hiwrale on behalf of Systematix Institutional Equities. I welcome management to the Q4 FY24 Earnings Call of Technocraft Industries India Limited.

We thank the management for giving us an opportunity to host the call. So, today we have with us the senior management of the company represented by Mr. Sharad Kumar Saraf, Chairman and MD, Mr. Sudarshan Kumar Saraf, Co-Chairman and Co-MD, Mr. Navneet Kumar Saraf, Director and CEO, Mr. Ashish Kumar Saraf, Director and CFO, and Mr. Anil Gadodia, Group CFO. We'll now hand over the call to the company management for the opening remarks. Over to you, sir.

Sharad Kumar Saraf: Thank you, Darsha. I am very honored that you have given us this opportunity to explain to our investors the growth plans of the company and what we have done so far. In Technocraft, we have always treated the investors as our partners, and whenever any investor meets me, I always tell him that let us do our work and while you do your job.

Moderator: Sorry to interrupt, sir. Your audio is not clear.

Sharad Kumar Saraf: Is it clear now? Okay. So, as I was saying that in Technocraft, we consider investors as our partners and partners in our progress, and our endeavor is to deliver the best possible results that we can year on year and put the company on the proper growth road, which we have done. We have put up two new greenfield plants in Amravati and in Aurangabad, thereby taking the company out of the Bombay circuit. Both the Amravatis are now fully in operation. Already the trial production in Aurangabad has started and it will be in full swing operation very shortly. The results of Amravati and partially of Aurangabad will be visible during the year 2024-2025.

So, with these initial remarks, I would be happy to take any questions from the investors.

Moderator: Thank you very much, sir. We will now begin the question and answer session. We have the first question from the line of Viraj Mehta from Enigma Capital. Please go ahead.

Viraj Mehta: Yes, hello, sir. Congratulations for good set of numbers and thank you so much for doing this call for investors. Sir, my first question is to Navneet. In terms of growth plans for the Scaffolding Division, this year we have seen a decline in the volume for Scaffolding and for Formworks. Can you talk about the reasons for the same and what is the outlook for it?

Navneet Saraf: Sure. Thank you, Viraj. Am I audible?

- Viraj Mehta:** Absolutely.
- Navneet Saraf:** Okay. Yes. So, you have correctly observed that there is a decline this year in volumes for both Scaff and Foamwork. So, this year, two issues have contributed to this. One is the slowdown in the European market, which became very prominent from October last year due to the crisis with Ukraine and Russia. And as a result of that, our exports there have declined.
- And in fact, for the third quarter last year, October to December, we were running our Scaffolding Division plant at about... So, we were, since October till about February of 2024, the output of the Scaffolding plant was at 2000 tons a month due to the decline in these markets. And the other area where we saw a slowdown was in the infrastructure Formworks segment in India, where we saw delays in execution of the projects.
- And so, even though we were sitting on strong order books, which we still are, the execution of those order books have been slow because the cash flow cycle has been slow between the government and the contractors who are our customers. So, that's why that business, in the last financial year, which was averaging about 700 tons a month, was down to about 200-250 tons a month. The third Formwork business, which is our Aluminium Formwork, MACH ONE, has done well on the other hand.
- There, as you can see, the volumes have increased over the last year, but the combined effect of the Scaffolding and Infrastructure Formwork business saw the overall volumes drop. Having said that, from February onwards, things have turned around in Scaffolding, even though the European market continues to be slow, but we have seen a strong uptake in demand from the US, as well as the Middle East, as well as Australia and our domestic markets. So, from April this year, we are back to 3,000 tons a month.
- April has been 3,000, May has been 3,000, and in fact, next month, June, we are increasing the output to 3,250 tons a month, and that's going to gradually increase as we are now seeing order books increasing. MACH ONE continues to be strong, and Infra Formwork is steady at about 250 tons, but we expect that post-election results, we expect that segment will also pick up and the execution cycle will increase.
- Viraj Mehta:** Right. Navneet, my second question was regarding the Scaffolding division only. If I look at the realization of Scaffolding versus Formwork, and again, I'm just doing rudimentary math in terms of tonnage and revenue. So, if you look at that, how will MACH ONE 's revenue and profitability stack up vis-a-vis Formwork and Scaffolding?
- Navneet Saraf:** So, MACH ONE is similar. I mean, it is similar to Formwork. Actually, it's a little higher than the Steel Formwork business, and it will further increase because of our captive aluminum extrusion plant that's coming up in Aurangabad, and it is a little lower than Scaffolding because Scaffolding, the margins are higher because of our captive distribution model. So, it's similar to the Formwork MACH ONE margins. It's about 15%.
- Viraj Mehta:** Right, right. And over a longer term, not in one particular year, but let's say over two, three years when you reach from 3,000 tons a month to probably 4,000 tons, 4,500 tons, 5,000 tons a month

with your expansion, which has already come on stage. What is the sustainable margin you think you can do in this business?

Navneet Saraf: You are asking for MACH ONE?

Viraj Mehta: No, no, for the whole Scaffolding and Formwork business. Not for MACH ONE.

Navneet Saraf: Yes. So, I think the sustainable margin for the Scaffolding business is about 20%. And for the Formwork and for the MACH ONE business, it's about 15%.

Viraj Mehta: Got it. Sir, my next question, if you allow, is just last question is on drum closure. This year, we ended the year at INR530 crores, but the Q4 was very good with INR150 crores top line. Sir, can you talk a little bit about our market share vis-a-vis Greif today? What will be our market share in drum closure business today? And what does the industry outlook for the drum closure business looks like?

Sharad Kumar Saraf: You see, this is a very typical market. Greif not only makes drum closures and competes with us, but they are also very large manufacturers of steel drums. So, they have a captive market for their closure business, which is close to us.

So, if you remove that market, then our share is bigger than theirs. I would put the share at about anywhere between 55%-45% or 60%-40%. And it varies between 55%-60%. We have quite a large market share. And we are also trying to increase because there is some market taken by the Chinese, which we are going to work on and get that back.

Viraj Mehta: And sir, what was our utilization in our Chinese plant for drum closure? What utilization are we running at? And are we doing any expansion in China?

Sharad Kumar Saraf: We are continuously expanding in China. It is running over 90% capacity. And every time we are from time to time, we are adding machines and we are increasing the capacity. And there will be a further increase in capacity also. I am happy to say that this is one of the few Indian-owned greenfield projects in China that is quite successful, working very well.

Viraj Mehta: Right, sir. And sir, the last thing is on textile business. Obviously, we have lost around INR17 crores - INR18 crores this year, INR30 crores the year before. Obviously, we had a bumper year before that. Your views and publicly in one of the channels, in media channels, you had alluded to rethinking about strategically having this off or something we can do about this business. Where are we in that process right now, sir?

Ashish Saraf: Hi, good morning. This is Ashish Saraf here. I will take the liberty to answer these questions. So, in the textile business, we had in Bombay, we had most of our operations near Bombay spinning fabric and garmenting over the last 7, 8, 10 years. And we have now gradually shifted our operation of spinning from Bombay to Amravati near Nagpur, where we have a substantial cost and efficiency benefit in the spinning. So, the grey yarn manufacturing is now completely shifted there.

And that is doing reasonably okay. Even in the last 2 years, we have done close to about 10%-12% of EBITDA margin in the grey yarn, which used to be a loss-making operation in Murbad. So, that part, grey yarn is taken care of by doing this shifting of the operation.

We also last year consciously took a decision and shut down a loss-making operation, which was a melange yarn operation that was also declared to the Stock Exchange. So, I think in about October last year, we closed that unit down, which was a drain on the company. And those assets are now being sold as we speak.

Coming to the fabric and garment business, the garmenting also, because the Bombay costs were very high, we have also now shifted that completely to Amravati, which has a much lower cost of conversion from fabric to garment. And that has happened about 1.5 half years ago. We are now training the workers there.

We are employing fresh local workers there and training them up. So, now the skill levels have improved and we hope to see a good efficiency in this coming year, which will translate into good sales. We expect, last year we did a sale of about INR50 crores in garment, this year I think we should be touching close to INR80 crores, INR90 crores.

And I expect that there should be an EBITDA margin of about 15% in that business. Grey yarn will continue, it is expected that this year grey yarn will continue at this range of about 10%-12% EBITDA. Coming to the fabric side, yes, this segment has been under stress because last 1.5 years, the entire global apparel retail segment has been completely at a standstill.

And there has been no buying at all, there has been no sales in the retail stores. So, that has taken a hit, that has affected our fabric sale business. But now the US market is picking up back and the buyers, Walmart and Target and all these guys are back in the market to start placing orders.

So, I think in the next quarter, not this quarter, but in the next quarter we should see the effect coming to fabric because it takes about a quarter for the effect to come down to fabric and then to the yarn. Have I answered your question?

Viraj Mehta: Yes, you have. Thank you so much for doing this call. I just hope that we do this more one-off. I mean, we at least do it once every six months just to keep the investors giving the data and the presentation is fabulous. Thank you so much for the entire thing.

Ashish Saraf: Yes, that is a great idea. We can certainly do this every six months.

Sharad Kumar Saraf: Thank you for your suggestion.

Moderator: Thank you, sir. We will take the next question from the line of Riya Mehta from Equitas Investments. Please go ahead.

Riya Mehta: Thank you for giving me the opportunity. So, my first question is in regard to specific scaffolding. So, what were the peak volumes which we used to do earlier when the export was going as per plan?

Navneet Saraf: The peak volumes were 3000 tons a month for scaffolding.

- Riya Mehta:** And for formwork in India?
- Navneet Saraf:** For formwork, for the steel formwork business, it was 800 tons a month and for the aluminum formwork MACH ONE business, it used to be about 20,000 square meters a month, but we are doing more than that right now. We are doing about 30,000 square meters a month right now. So, what we are doing right now is actually our peak volume and that is continuously growing.
- Riya Mehta:** Yes, and currently for scaffolding, we are doing around 2000 was there last month and now we are again back to 3000-3050, right?
- Navneet Saraf:** Correct. Right.
- Riya Mehta:** So, my second question is what is the percentage of export we do to Europe and US? In terms of scaffolding? Yes, scaffolding.
- Navneet Saraf:** Majority of our export is to the US. I think US is about 75% of our scaffolding business. Europe is very small. Europe is about less than 10%, about 5%.
- Riya Mehta:** Got it. So, how is US doing for us for scaffolding? Because if I see that the volumes have gone down, I am sure that US business is also not doing as much as they had expected earlier?
- Navneet Saraf:** So, actually the US has not been affected. In fact, our quantity sale in the US in 2023-2024 is higher than the previous year, even though the total sale is lower, but the US specific sale is higher. So, in fact, that demand has not gone down. The reason for the overall fall is, like I said, due to the demand from other markets other than US. Okay.
- Riya Mehta:** So, is it fair to say that the 17% decline in volume in March '24 specifically coming from geographies other than US, right?
- Navneet Saraf:** That's right.
- Riya Mehta:** And in terms of steel formwork, what would be the percentage going for residential or because of MACH ONE everything is converted?
- Navneet Saraf:** So the steel formwork is entirely for infrastructure segment. It's not residential. And MACH ONE is entirely in residential.
- Riya Mehta:** Got it. In terms of drum closure, how much of our revenue will be coming from China in terms of percentage terms?
- Navneet Saraf:** Percentage would be, I think -- in terms of percentage, the revenue percentage I would not be able to tell you because the realizations are different, but as far as...
- Sharad Kumar Saraf:** It will not be more than 20%.
- Riya Mehta:** Not more than 20%.
- Management:** It should be about 15%.

- Navneet Saraf:** 15% to 20%.
- Riya Mehta:** 15% to 20%. Okay. And do we have...
- Sharad Kumar Saraf:** But there is no export out of China. It's all sailing China.
- Riya Mehta:** Yes, I am aware of that. And in terms of India's drum closure also, what is the capacity utilization we are currently working at?
- Sharad Kumar Saraf:** About 90%.
- Riya Mehta:** India's drum closure also. And are we doing any expansion or increasing the number of lines or the shifts?
- Sharad Kumar Saraf:** Expansion is more lateral. We are adding new products. And we have just added a whole range of plastic closures, which is quite unique. And we expect good results for the plastics in '24-'25. This is a very new factory already constructed and installed. So we do not expect a large increase in volume of the core products, which are plugs and flanges, but we keep adding new different specialties where the margins are higher.
- Riya Mehta:** Got it. I think that's it from my side. I'll get back in the queue for further questions.
- Moderator:** Thank you. The next question is from the line of Samarth Singh from TPF Capital. Please go ahead.
- Samarth Singh:** Yes. Hi. Thank you for the opportunity. Sir, my first question is on the drum closures, in particular, the plastic closures division. What was our sales for plastic closures in FY'24?
- Sharad Kumar Saraf:** Do we have a breakup?
- Sharad Kumar Saraf:** Plastic closures, yes.
- Sharad Kumar Saraf:** I will just fish out the breakup of plastic closures.
- Sharad Kumar Saraf:** It will be, what, about 20%?
- Sharad Kumar Saraf:** The plastics is a cheaper product and the volumes are not yet peaked. So while my colleague is fishing out the figures...
- Sharad Kumar Saraf:** Can you start your next question?
- Samarth Singh:** And, sir, that's a better margin product than our regular drum closures. Is that correct?
- Management:** Yes, better margin, but the volume is about 10%, I would say, in terms of value.
- Samarth Singh:** Got it. Okay. And you mentioned Chinese competitors taking some market share. Have they historically been in the market or are these new competitors?

- Sharad Kumar Saraf:** A little bit here and there they are there, but they still have not made any substantial breakthrough. For example, they are there in Russia where we have difficulty in shipping and they are there in some pockets where the customer does not value any quality or service or anything else, and he simply wants cheap, cheap, cheap, and he doesn't mind even if there are rejections or if there are quality complaints. So in those small, very small markets, they are there. It's not very significant. At the moment, we are not very much affected nor are we very scared about it.
- Samarth Singh:** And, sir, on the scaffolding business, I think like Navneet mentioned that 75% of our sales come from the U.S. and I think 5% or 6% comes from Europe. I think the numbers were the same last year as well. So I'm trying to understand how European sales, if they're only 5% of our top line, can have such a large effect in our decline in volumes for the year?
- Navneet Saraf:** The previous year, in '22-'23, we had higher percentage sales in Europe because we had some products being sold to some key customers in Germany, which actually got affected due to the downturn. And hence, the sale last year was much lower, less than 5%. So that's why that had a material effect in the volumes as well as the sale. And like I said, it was not just Europe. There was also a decline in sales in India because previously, we were also selling a good amount of scaffolding in India, which we were not selling this year. And so that combined had an effect.
- Samarth Singh:** Got you. And you mentioned U.S. is back up again. In Europe, I think we had hired a new sales head as well. And over the medium to long term, I think we are pretty bullish on Europe as well. Could you just talk a little bit more about that please?
- Navneet Saraf:** Yes. So we did hire a European sales head. And in fact, in the medium to long term, we are bullish. There is a key certification that is required for increasing sales of scaffolding in Europe, which we don't have, but we are in sort of the advanced stages of getting that. Once we have that certification in place for our products, which we should get in the next three to four months, that puts us in a very strong position and at par with European manufacturers. So I expect that while currently we are witnessing a recessionary environment in Europe, but the demand will pick up. And that coupled with this certification and our local presence, the prospects are good.
- Samarth Singh:** And lastly, the aluminum extrusion plant, have we completed the full capex? I think it was supposed to come up in phases, but I'm not quite sure whether all of it is done or only a part of it is done?
- Navneet Saraf:** Yes. No, a part of it is done, but we are in advanced stages of that. Almost 70% of the capex is completed. There is about 30% left. We are expecting to start trial production in July and ramp that up gradually. And I think we should be fully up and running by end of this year, end of this calendar year.
- Samarth Singh:** End of this calendar year. Okay. And in terms of P&L, that will not affect the top line, it should show in terms of margin expansion. Is that correct?
- Navneet Saraf:** Yes, because it's all captive consumption. So it will not affect the top line, but it will affect the bottom line.

- Samarth Singh:** Okay. That's it from my side. Thank you so much.
- Moderator:** Thank you. The next question is from the line of Prolin Nandu from Edelweiss Public Alternatives. Please go ahead.
- Prolin Nandu:** Yes. Hi, team. Thank you for taking my question. I have one question for each of your segments. Now starting with drum closures, what is our share coming from Europe? And typically, what is our dependence on chemical sector in Europe? Because what we are hearing is that there have been a lot of capacities which have been closed permanently, and those capacities are shifting either to China or some part of it to also India. So, overall, medium to longer term, does it require some change in strategy from our end to focus on where these new capacities are coming up?
- Sharad Kumar Saraf:** Our share of drum closures in Europe is about 30%, almost one third. Now it has gone down because of the Ukraine war and slowdown in Europe. And as you rightly mentioned about shifting of chemical manufacturing out of Europe, and we are dependent on chemical manufacturing because most of the steel drums go for packing chemicals rather than anything else. So there has been a hit in Europe. We went more aggressively in other markets and we are trying to make up for the shortfall in Europe. So, therefore, overall, our sales have not gone down. We have maintained our level. In fact, we have increased a little bit.
- Prolin Nandu:** Sure, and that should continue, right? I mean, these other markets that we have ventured into...
- Sharad Kumar Saraf:** Yes, because what we have got, we are not going to let it go. So if Europe sort of recovers, that will be an added benefit to us.
- Prolin Nandu:** Understood. Now second question would be on scaffolding. This new capex that you have announced, right, which is expected to start trial production in July, what is the capital, what is the capex in terms of rupees crores that has gone into this plant? And will it all be only back-end in terms of capital consumption, or will it also help us increase some of our end product sales? And this would be in the ALU MACH division, right? Am I correct in that understanding?
- Navneet Saraf:** The total capex that we expect, including working capital, is about INR280 crores. We have already incurred about half of that, and the other half is ongoing. Yes, the aluminium extrusions is for captive consumption, because this is basically backward integration, where we are putting up an aluminium extrusion plant for making extrusions. We currently buy that. But then the finished product is MACH ONE and that is all for additional sales.
- We are currently selling about 30,000 square metres a month from our Murbad plants, and we are putting up additional about 30,000 square metres in the first phase in Aurangabad. And then, you know, so the total output will double of this product.
- Prolin Nandu:** Yes, so when... So, coming back to this interview that Sarafji gave a few months back, where he mentioned that the top line is going to increase, right? So, that increase was this 30,000 square metres of additional capacity that we are putting in Aurangabad.
- Navneet Saraf:** In Aurangabad, yes, that's right.

- Prolin Nandu:** Okay. And that, in terms of additional top line, when will it start? Or this also, the trials will start in July, and it should become fully operational by end of December calendar year, which you mentioned for the extrusion plant?
- Navneet Saraf:** It will start in phases in this financial year. We will start production from August, and it will start in phases. The full effect of this increase of 30,000 will be seen in the next financial year, '25-'26.
- Prolin Nandu:** Okay, understood. All right. And my last question is on textile business. When you talked about some recovery in yarn and fabric also will come with a lag of one, two quarters. But if I look at this business from a 10-year perspective, right, cumulative EBITDA is still in negative for the last decade. Cash profits have been positive, but I mean, those returns on the capital that we have employed are probably at just about fixed deposits or even lower rate.
- So what is the management thought process on incremental capital allocation in this business, right? And can we think about going to the board and taking a resolution that we don't want to put any incremental capital apart from only the maintenance capital? Is that something that management can think about?
- Ashish Saraf:** Yes, hello. So regarding the EBITDA, so the way we are addressing this in the yarn business is that we have, over the last five years, the Bombay region had become very expensive, you know, for operations of spinning. And it took us about two, three years for us to shift to Amravati.
- And since the time we have shifted to Amravati, we have seen the negative EBITDA turn into positive approximately 10%-12% EBITDA, which is continuing even in the last financial year. And we expect that this EBITDA will continue even in this new financial year as well. So that is how we have addressed the historic negative EBITDA problem.
- And coming to the incremental capital, so all of this has been funded under the capital subsidy scheme. And for our first unit, which we started in 2019, out of a capex of about INR125 crores-INR130 crores, we have received close to about INR35 crores, INR40 crores we have received back from the government as the grant, you know, as a subsidy as part of the scheme. And then the second unit also, which we have now expanded and commissioned, that capex is about INR150 crores. So now that we will apply and we will similarly receive INR50 crores of the capital from the scheme. So this is how we are planning. Sorry?
- Prolin Nandu:** You said INR50 crores, you will get it back from the government?
- Ashish Saraf:** For our second capex, which we have done. Because we have already received around INR35 crores-INR40 crores we have received for our first capex. So we are keeping in mind the utilization of the funds of the company before we do any capex in the textile. This capex was required because of shifting operations. So the Bombay operations we sold, all the assets were sold and we recovered the money from that sale of assets. But going forward, we don't have any plans for any capex now anymore in spinning.
- Moderator:** The next question is from the line of Bhagyesh Kagalkar from HDFC Mutual Fund. Please go ahead.

- Bhagyesh Kagalkar:** Hi, sir. Thanks for the excellent PPT given. This is regarding your engineering and designing services. Last year you had done quite okay, although last quarter was a little bit slippage on the margin front. So can you throw more highlight on this division? And second is, since we are doing a lot of shipments to USA and Europe, so what are the difficulties faced on the logistics front, essentially the freight cost or even otherwise? Is that going to affect the business this year also?
- Navneet Saraf:** Sure. So yes, the engineering and design services division has done well. We have seen good growth over the last two, three years. Last year in particular, we had a 40% increase in revenue and profitability. So we closed the year at about close to INR200 crores of top line and INR37 crores of bottom line. So the prospects are good for this particular division.
- As far as the slight margin slippage that you saw in the last quarter, there's nothing abnormal about that. Compared to the same quarter last year, it was at par. And if you compare with just the October to December quarter, there can be some differences quarter on quarter. But that division, the demand is quite strong. It's 100% export oriented, mainly from the US and Western Europe and UK markets. So we will continue to see strong growth in that.
- The second question was regarding logistics. So there was some turbulence till about a month or so ago because of the crisis in the Red Sea. And we did see freight costs rise quite substantially. Having said that, that's now cooled down and freight costs have again come down and they've relaxed. We are able to manage that turbulence. We are able to pass on these freight costs in our price of products sold. So we don't as such take a hit. And the situation has now become better.
- Moderator:** Thank you. The next question is from the line of Ankur Kumar from Alpha Capital. Please go ahead.
- Ankur Kumar:** Hello, sir. Thank you for taking my questions. I wanted to understand about this new capacity of MACH ONE. What will be our revenue at peak? And how much time will it take to reach the peak levels?
- Navneet Saraf:** So our incremental revenue from MACH-ONE, which will be reached in the next financial year, '25-'26, would be about INR450 crores. That is what would be added. And that would be realized in the next financial year, '25-'26.
- Ankur Kumar:** Only INR450 crores, sir? Because I think in CNBC interview, Saurabh sir was saying it's around INR800 crores to INR1000 crores potential is there?
- Navneet Saraf:** That is cumulative. You see, there is also already existing revenue of MACH ONE, which is about INR400 crores, currently done from our Murbad unit. This will be transferred to Aurangabad. And in addition to this, we will produce additional INR450 crores from there. So the total revenue of MACH ONE product line will be about INR850 crores, which will be seen in '25-'26.
- Ankur Kumar:** So but additional there would be around INR450 crores only?

- Navneet Saraf:** Additional will be 450 crores.
- Ankur Kumar:** Got it. And sir, any guidance for this current year? How you should look at future?
- Navneet Saraf:** So for the scaffolding and formwork division, this year is looking stronger than last year. Last year, there was a decline in volumes, as I had mentioned earlier. This year has started off well. So, I think we should see plus for at least 3 months to 4 months of this year, we should also see some incremental effect from the Aurangabad plant, since production there will start in phases from August onwards. So we should see growth over last year, over '23-'24.
- Ankur Kumar:** Thank you. And all the best.
- Moderator:** Thank you. The next question is from the line of Vishal Prasad from VP Capital. Please go ahead.
- Vishal Prasad:** Sir, you have mentioned that we are doing INR280 crores of capex. So, this is for aluminium extrusion or aluminium extrusion and formworks?
- Navneet Saraf:** It is both. That is cumulative, extrusion plus the aluminium formwork.
- Vishal Prasad:** So, in last year AVM, we have mentioned that probably we will be expending INR350 crores in Aurangabad. So what is the change in the plan that capex has gone down by INR70 crores?
- Navneet Saraf:** That was a preliminary projected figure. After further detailing, we have managed to slightly bring it down.
- Vishal Prasad:** So this INR280 crores is for the first phase. So what is the total capex that we are looking at over a period of time?
- Navneet Saraf:** So, what we are currently planned in this first phase is INR280 crores. We have not planned, that will give us the incremental INR450 crores of revenue that I talked about. So, that is what INR280 crores is for.
- Vishal Prasad:** And could you talk about the opportunities that we see in the area of monolithic form work or MACHONE?
- Navneet Saraf:** See, presently 100% of our sales is in India and our capacity is fully utilized 100% and it is growing continuously. The market in India is very strong for it. We are seeing strong growth in that market. Already our order book is close to 2 lakh square meters at the present moment. So we are seeing a strong market here.
- In addition to the domestic Indian market, there is also demand from export markets like South America, US. African countries, Middle East, which we have not yet started tapping fully because we do not have enough capacity. So, once this new plant in Aurangabad is commissioned, we will also start tapping the export market. So, I think the demand is quite strong and there is enough demand to cover our existing and the projected increase.

Vishal Prasad: So, sir, if I have to understand the industry, like where these MACH ONE things are used, so where shall I look at? Who would be the end customer for these products?

Navneet Saraf: So, these are used by developers. So typically in residential buildings in developing countries like India, they do monolithic construction. And so developers buy such products. Mostly developers, sometimes also construction contractors, they buy these products for constructing the buildings.

Vishal Prasad: So, I was looking at the pictures that you have given in the presentation. So, these products are, let us say they put it for a building. So, they will stay there or these are dismantled and reused?

Navneet Saraf: They are dismantled and reused. These are not a permanent part of the building. It is formwork. So these are used, these are assembled and then the concrete is poured. And once the concrete is poured and the slabs, walls, columns are cast and the building is finished, these panels are reused for another project or they will be scrapped or re-engineered, etc. But they are not a permanent part of the building.

Vishal Prasad: So, in terms of reusability, let us say I use it for one project. So, there would be probably a lifetime of these formworks. So, in terms of years of usage, what is that?

Navneet Saraf: So, typically you see this aluminium formwork are used for a live, are supplied for a particular one project and they are used over a period of 3 years, to 4 years on that project. There are, they consist of certain standard items which can easily be reused. But then there are also non-standard and special items which constitute about 35%, which are project specific. So, they are definitely scrapped after the project.

Standard items sometimes are reused then for the next project and they can last good 5 years to 6 years and then subsequently they are scrapped by the developer. In aluminium, the scrap realizations are about 30%. So they are quite good. So typically the developers would scrap it after completing the project.

Vishal Prasad: And sir, INR280 crores that you had mentioned.

Moderator: Sir, I am sorry. Mr. Prasad, I would request you to kindly rejoin the queue for follow-up. May we request all the participants to kindly limit their questions to one per participant. The next question is from the line of Jinesh from Niveshaay Investment Advisors. Please go ahead.

Jinesh: And thanks for the opportunity. Sir, I would like to ask the realizations which would be having in formwork business. What is the realization per square feet?

Navneet Saraf: In the aluminium formwork business, the realization per square meter is approximately INR10,000. And in the steel formwork business, it is about a INR5,000 lakh, INR10,000 per metric ton.

Jinesh: And sir, we also have a plant of scaffolding in China. So how is it operating? How much of the revenues do it contribute? And how do we see it going forward? Can you please throw some light on it?

- Navneet Saraf:** No, we don't have a scaffolding manufacturing plant anymore in China. We used to have that several years ago. But after the US tariffs were announced, we shifted that all back to India. So, we don't manufacture scaffolding in China. We only do drum closures.
- Jinesh:** And sir, can you give on the competition we have in drum closures with Trishore?
- Management:** Yes, we do have a competition with Trishore. So, we like to remain lean and fat-free. So, with least possible overheads. And we also have a very high degree of technology automation on our side. So, we are able to compete very well.
- Jinesh:** And sir, order book on scaffolding and formwork, I missed the earlier participant's call. Could you please repeat?
- Navneet Saraf:** We have close to 2 lakh square meters of order book in aluminium formwork.
- Jinesh:** Okay, yes. Thank you, sir.
- Moderator:** Thank you. The next question is from the line of Lakshminarayanan from Tunga Investments. Please go ahead.
- Lakshminarayanan:** Sir, what is the total gross block that you have invested in the textile business?
- Navneet Saraf:** About INR400 crores.
- Lakshminarayanan:** And second, in terms of the scaffolding business, what percentage of business comes from India?
- Navneet Saraf:** Very negligible. Scaffolding business is almost 95% export. About 5% is from India. But the formwork business is substantially from India.
- Lakshminarayanan:** And in your businesses, if you look at it, engineering services or Drum closure or scaffolding, what's the kind of repeat business you get? And what I mean by repeat business is a client which has been there for the last year in FY'23 giving the business to you. What is the number in general for these three lines of businesses?
- Navneet Saraf:** So, it's different for each of the three segments. In Drum closure business, we have been in this for last 50 plus years. So, we have long-term relationships with all our customers. And so, the repeat business is very high. And in scaffolding, the business is mainly through our own distribution outlets in US and other countries. And we are selling to end-users to the contractors who are basically small, mid-sized companies.
- So, there, the percentage of repeat business is lesser because we are all the time selling to different companies. And in the engineering design services business, again, the repeat business is very high because there, again, it's long-term relationships with customers. So, that's how it is.
- Lakshminarayanan:** But you said it's high in both the Drum closure and engineering services in the north of 90% or 95%. How does one think about it?

- Navneet Saraf:** I think Drum closure repeat business will be almost 90% because most of our customers, most of our sales are coming from existing customers who have been acquired over several decades. As far as the engineering design segment is concerned, it will be about 50-50 because that's the business that's growing. So, a good 50% of the business comes from new customers and 50% from existing.
- Lakshminarayanan:** And my last question is, in terms of your strategic or operating priorities for the next three years, can you just mention what do you think how the business will do across the company or any specific business unit? I just want to understand your point of view.
- Navneet Saraf:** So, the main thing is if we take each of the businesses separately Drum closure business will be steady. We'll continue to be growing steadily and we will see good growth in China because China the market is growing. So, we are increasing our output there.
- Scaffolding, we will see strong growth because of the Aurangabad expansion, which will be visible in 2025-26 where we'll see incremental INR450 crores being realized. The engineering and design services business will also be growing strongly. Like I said earlier, there also the demand outlook is good.
- And textile business, I think, as Ashish has said earlier, due to the shift from Bombay to Amravati, we will see better performance coming from the spinning unit and also the garmenting unit. And hopefully, as the markets recover even the fabric business should post better results.
- Lakshminarayanan:** Thank you. I will come back in queue.
- Moderator:** Thank you. The next question is from the line of Gunit Singh from Counter Cyclical PMS. Please go ahead.
- Gunit Singh:** Yes. So, you mentioned that you will be setting off the textile operations in Bombay. So, what kind of proceeds can we expect from that and by when should that take place in your judgment?
- Ashish Saraf:** So, we expect to realize about close to INR27 crores to INR28 crores from the sale of the assets that we have that we are selling off in the Murbad unit.
- Gunit Singh:** All right, sir. And lastly, what would be the outlooks for 2025 in terms of top line and bottom line? Do you have any plans in mind looking at the scenario?
- Ashish Saraf:** Of which business?
- Gunit Singh:** Consolidated.
- Ashish Saraf:** Sorry?
- Gunit Singh:** On a consolidated level.
- Ashish Saraf:** Consolidated of the entire company?
- Gunit Singh:** Yes.

- Ashish Saraf:** Hold on.
- Sharad Kumar Saraf:** Hi, Gunit. Based on whatever expansion is happening and Aurangabad, you need to giving partly turnover in 2024-2025, we expect that overall top line should grow on a consolidated basis, should be more than 25% to 27% in the next year and going forward again 20%, 21% percent in the next year FY '25- '26.
- Gunit Singh:** All right. And what about the effective margins? Would we be able to maintain these or?
- Moderator:** Sir, your audio is not clear, sir. Can you use your handset?
- Gunit Singh:** And sir, do we expect to maintain the better margins or improve on these numbers in FY '25?
- Sharad Kumar Saraf:** With the margin, all the verticals are going to be better than the current year, the textile, drum closure or scaffolding or engineering division. So overall, the EBITDA margin of the company as a whole should be around 19%-20%. That is what the expectation is.
- Gunit Singh:** All right, sir. So we're looking at about 25% growth in top line, about 19%-20% EBITDA margin.
- Sharad Kumar Saraf:** That's correct.
- Gunit Singh:** Okay, sir. Wish you all the best. Thank you for answering our question.
- Moderator:** Thank you. The next question is from the line of Pritesh Vora from Mission Street India. Please go ahead.
- Pritesh Vora:** Yes. My question is about this aluminium formwork. You mentioned two things here. One is the extrusion and then direct sale of aluminium formwork. I understood that extrusion is already going and it will not increase your top line.
- But aluminium formwork will increase your top line. So can you please bifurcate what is the amount of extrusion you'll do which will improve your EBITDA margin and what amount of quantity you'll do aluminium formwork to sales, outside sales? And also, you're given some realization numbers. I missed the aluminium and steel realization numbers. So can you, if you can repeat that?
- Navneet Saraf:** The total quantity of aluminium extrusions will be about 1,500 tons a month, which is what is required for about 60,000 square meters of aluminium formwork production that we'll be making in-house. And as far as the realizations were concerned, INR10,000 a square meter for aluminium foam work and INR1,05,000 a ton for steel formwork.
- Pritesh Vora:** Okay. And sir, we've seen that aluminium formwork a lot of people are coming up and putting up capacity. Do you see that present buoyancy in this market may disappear when more and more people put this facility?
- Navneet Saraf:** Yes, there are more people coming up. There is competition in this segment but the demand is also growing equally strongly. Currently, there is more demand than there is capacity. And like

I said this doesn't even factor in demand outside India. So we are not too concerned about the competition that is coming up. And the fact that we are also putting up our own aluminium extrusion plant is something that is unique to us, which gives us some competitive advantage.

- Pritesh Vora:** Right. And thank you, sir. Thank you very much.
- Moderator:** Thank you. The next question is from the line of Aditya Shah an individual investor. Please go ahead.
- Aditya Shah:** Hi, sir. Just a couple of questions. One is, you mentioned that you're getting into the plastic closures industry on the drum closure side. I just wanted to know how big is that market and margin potential of that?
- Sharad Kumar Saraf:** The plastic closure industry is very wide and very big. These closures are generally used in small containers below 20 litres. And as you can see those are the consumer packs. And the market is huge. So I really cannot say how many billion dollars worth of market is there. And even we have started exports to U.S. and Europe also. So we see a huge market potential there. Now, as far as margin is concerned, it does have a reasonably good margin but there is also competition. And we have to be very careful. So we are operating with whatever best margin we can get in the market.
- Aditya Shah:** But how is the margin compared to drum closure? And what kind of capacity do we have compared to a regular drum closure?
- Sharad Kumar Saraf:** I would say similar. It's not less.
- Aditya Shah:** Okay. And what is the capacity that we've -- today that we have that we can potentially ramp up to?
- Sharad Kumar Saraf:** No, at the moment, we are operating at about 75%-80% capacity. But in plastics, it's very easy to ramp up the capacity because the injection blow moulding and other machines are available. So it's not a problem to ramp up.
- Aditya Shah:** And there is no risk of plastic closures to our regular drum closure business, right?
- Sharad Kumar Saraf:** No. These are two different sectors. These are two completely different sectors. One is, it's like a heavy vehicle and light vehicle, like a passenger car or truck. So these are different sectors.
- Aditya Shah:** Okay, got it.
- Sharad Kumar Saraf:** One is not replaceable by another.
- Aditya Shah:** Got it. So thanks. And last question, sir, from my side is, you mentioned that there's some certification that we're waiting for in Europe on the scaffolding side. And then a larger market will open up. Can we have some sort of idea on the numbers side?

How big of a market will Europe be once we have this certification versus currently? Reason being, USA, you guys have managed to grow so well and get such good market share. Just trying to understand why Europe is not having the same kind of traction.

Navneet Saraf: You see, Europe is a very tightly regulated market. And to get complete scaffolding systems going, you need to have certain certifications which are currently held by local European manufacturers. Some of these companies are doing, like, for example, there's Lair, which is doing more than EUR150 million sale in Europe.

And then there are other companies that are doing upwards of EUR50 million in Europe. I would say that once we have the potential of Europe is as big as what we are currently doing in the U.S. So, once we do have the certifications in place, I think we can do similar volumes in Europe as we are doing in the U.S. presently.

Aditya Shah: Okay. And is there any advantage that we had in the U.S. that we might not have in Europe where we might not be able to replicate the success or is it kind of a similar market once you have the certification?

Navneet Saraf: No, it's a similar market. I mean, we need to have the certification and we need to have inventory on the ground. So, the business model will be very similar.

Aditya Shah: Thanks a lot. Thank you.

Moderator: Thank you. The next question is from the line of, and this will be the last question for today, which is from the line of Pawan, an individual investor. Please go ahead.

Pawan: Thank you. And congratulations. Wonderful presentation. So, so I have a few questions. More in terms of, more in terms of 2, 3 years outlook. One, if you can talk about the defence business, people trying to develop some products, we have some success, how big that can become, how much time it will take. Two, regarding plastic closures, we had some patent-related headwinds or challenges in the U.S., if you can update about that.

And three, any other lateral opportunities that we see in terms, sorry, three would be the growth outlook for engineering services. Last year was like close to 45% growth. What could that be in terms of 2, 3 years later? And fourth, any lateral opportunities, because we've been continually adding new opportunities, which is amazing. So, four, four, sub parts.

Sudarshan Saraf: So, Mr. Pawan, I would like to first take up defense. So, we have been in defence for last 5, 6 years. Am I audible?

Pawan: Yes.

Sudarshan Saraf: So, defence, we have, one part of defence is for developing technologies for defence. So, under this TDF scheme, you know, the new government, Modi government took out many schemes, they rolled out many schemes in the second term, and one of them was TDF. So, we took a project to make Joule-Thomson coolers in defence.

And there recently was a conference in Delhi in DRDO Bhawan, and they declared that we are the only company that has been, that has successfully developed this Deep Tech Technology. So, this is a Joule-Thomson effect cooler for missiles that tracks the missiles, use it to track targets. And this is a device which is hardly 15 grams, you can put it on the palm of your hand, and it cools the infrared sensors that are used to detect targets to minus 175 degrees in less than 10 seconds.

So, this is fully developed, and they have declared that we have developed it. But we have to, we have cleared three milestones, and we have to now clear the fourth milestone by supply of some components. And then the export of this is banned, and then they will start sourcing from us.

Defence will start sourcing from us. So, this is one technology which we have successfully developed. And the other technology was to make an equipment to measure mass moment of inertia of objects that drop from air.

And this was the first time that this machine was developed. And it is now operational in ADRD, which is a DRDO lab in Agra. So, these are two major technologies which we have successfully developed. And so now we are known in DRDO, and now a lot of projects are coming through. So, we are doing projects for nuclear power plant in defence, as part of defence only. And also for HAL, and we are working also for DRDO, which is a prime DRDO lab.

And we are also working for a DRDO unit called as DMDE, which is doing high work for Navy. So, we have got projects and the business is growing. So, it is at this time, the business is small, but we expect it to grow fast. And we hope that the momentum remains and it picks up. It is directly linked to government spending on defense. And but we have made a good start by developing defense technologies.

So far, we have lost in defense in terms of revenue, we have not made profits. But we are considering this as an investment. And the size of what we have lost is not great it is very small for the size of Technocraft. So, we see this as a great development opportunity for Technocraft. And we are hoping that we can get into high tech space with defence. So, this is about defence.

And now, plastic closures, we are developing very fast. So, we are, we have a small share in plastic closures, but we are able to develop our, we are able to design and make our own tools and special purpose machines. So, that is a specialty in our company that we do in-house design, in-house development, and in-house manufacture of the machines.

And that is helping us in plastic closures, scale it up. So, we are able to make new closures very fast and get a chunk of the market. Right now, I think plastic closures only 15% of steel closures, but we have good profits, good margins, and it is growing.

There is resistance from U.S., because there is a large manufacturer of closures and they use, the moment we try to ship to U.S., they file a suit on us and we have to withdraw because the cost of litigation is very high in the U.S., though the chances for us may be good of winning it, but we don't take that risk with this company, which is a little bit nasty, but we are growing in other markets. And in drum closures, we have developed a lot of machines this year.

So, we make automated dies, we make special purpose machines for drum makers in U.S., and that business is also growing. Again, these businesses are small compared to overall size of Technocraft, so they are not showing up in any balance sheet, but we hope in times to come all these three things grow. Now, is there anything else you asked?

Pawan: No. Thank you so much. And there were two more businesses I wanted to know. One was about, for Navneet, the design engineering business, like what kind of growth we expect, and two was any other lateral opportunities that we have across businesses.

Navneet Saraf: Yes, so the engineering design services business will do well, prospects are good. As you observe, we had a strong year, FY '24, and I think going forward, we will continue to see good double-digit growth coming from this division. The demand is strong, and this division is like a little like it could be 50. Yes, so on a conservative basis, I think 20% growth over the next 3-4 years, year-on-year, is something that we should quite reasonably expect in this business.

Pawan: Okay, and any other lateral opportunities, like this MACH ONE has really become big for us. I remember once you spoke about making something for some tunnel boring machine, or something like that, some partnership, or in general, any other opportunities, lateral opportunities?

Navneet Saraf: No, so we are not actively pursuing any new business. We are, we have enough growth opportunities in our existing verticals, so we are going to increase that.

Moderator: Thank you. Ladies and gentlemen, as that was the last question for today, with that, we conclude today's conference call. Thank you, members of the management. On behalf of Systematix Institutional Equities, that concludes this conference. Thank you for joining us, and you may now disconnect your lines. Thank you.