"Technocraft Industries India Limited

Q3 FY '25 Earnings Conference Call"

February 12, 2025

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Moderator: Ladies and gentlemen, good day, and welcome to Technocraft Industries India Limited Q3 FY '25 Earnings Conference Call 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. Anshika Patnaik from Systematix Institutional Equities. Thank you and over to you, ma'am.

Anshika Patnaik: Thank you, Yusuf. On behalf of Systematix Institutional Equities, we welcome you all to the Q3 and 9M FY '25 Earnings Conference Call of Technocraft Industries India Limited. From the management side, we have Mr. Navneet Kumar Saraf, Director and CEO; Mr. Ashish Kumar Saraf, Director and CFO; and Mr. Anil Gadodia, Group CFO.

I will now hand the conference over to the management for the opening remarks followed by the Q&A session. Thank you.

Navneet Saraf: Good morning, everybody, and welcome to the Technocraft quarterly results investor conference call. This is Navneet Saraf, Director and CEO. So as you all have seen, it has been a mixed quarter for Technocraft this December 2024. While we have seen an increase in sales compared to the last quarters, we have seen some pressure on the bottom line. We'll be discussing these further in the call.

Predominantly, what we have seen is impact of depreciation, particularly in our Scaffolding and textile units on account of the new units that we have set up. And so that's contributed. And along with that, there has also been some mark-to-market losses that we have taken on board this quarter. So it's been a mixed quarter overall. And I would now like to take it to questions. Thank you.

Moderator: First question is from the line of Chetan Kirti Vora from Abakkus Asset Manager.

Chetan Kirti Vora: Sir, I just wanted to understand what's the outlook on the Scaffolding, as the execution has been quite strong. But in terms of profitability, it has been quite subdued. I understand the reasons mentioned by you, but it is now 5 quarters in a row where the margins have been hovering at around 13% to 15% range, wherein we used to make anywhere between above 18%. So, how do we plan to bridge that part?

Navneet Saraf: Yes. So yes, you are right that the margins have been under pressure. But basically, if you see the past four quarters, what we have primarily observed in Scaffolding, is there has been a marked increase in depreciation because we've set up the new plant in Aurangabad where total capex of about INR 220 crores has been incurred and the plant has started. And so we have started depreciating the assets.

In this quarter, October to December itself, the total depreciation was about INR 5 crores, just under INR 5 crores. And whereas in the preceding quarter of September, it was about INR 2 crores. So there's a INR 3 crores increase in depreciation in this quarter itself compared to the last quarter. So basically a major reason because after depreciation quarter-on-quarter, the segment profit of Scaffolding is more or less the same compared to the last quarter, and it's actually higher than the December 2023 quarter. So that's really been the main reason.

Other than that, I think the margin profile as such has been intact. We've continued to have there has been in the past, some impact, which I have mentioned in our call about freight. I think it was June or September quarter where freight costs had increased significantly. So we have taken some hit due to that. So that's also been the case. December quarter is also seasonably a little weak. So that also has some effects.

But overall, the prospects continue to be robust. Our new capacity in Aurangabad is taking shape. We will now see gradually increase in output coming till December, the output from that facility has actually been very, very, very small, and it has negligible impact on our top line and bottom line, but we'll start to see a material impact coming from the March quarter of this year onwards. And then as I said earlier, in the next fiscal year, we will see a stronger impact of that particular plant coming.

Chetan Kirti Vora: So you mean to say that so far, the revenue growth of 28%, what you are reporting in Scaffolding, it is the new plant, which is commissioned, the contribution of those plants in this number is quite low, right? This is the organic growth, what we are seeing?

Navneet Saraf: Yes. It is actually negligible. It's actually zero because we have the Mach One output has been zero till December. What we have seen is only some of the backward integration started aluminum extrusion, but that's also been in testing, debottlenecking kind of phase. So this 28% revenue growth is purely out of the Murbad units.

Chetan Kirti Vora: So if you were to just if you were to directionally if you can guidance, if you were to exclude the fronting cost of the newly commissioned plant, whether the profitability is maintained for the Murbad plant at around 20%-odd sir, for the Scaffolding?

Navneet Saraf: So this quarter, the profitability was INR 39 crores. And like I said, INR 39 crores had a INR 5 crores depreciation of the Aurangabad plant included. So without that, it would have been INR 44 crores.

Chetan Kirti Vora: Right. But the other overhead cost also would have --

Navneet Saraf: Which would be about 15% of revenue.

Chetan Kirti Vora: Right. And -- but apart from depreciation, the other overhead cost of the Aurangabad plant also would have got including this, right?

Navneet Saraf: Exactly. So, without all that without those fronting costs, like I'm saying, without those fronting costs, our margin would have been maybe 16%, 17%, closer to the 20% mark.

Chetan Kirti Vora: Okay, sir. Sir, on the engineering vertical, I was just slightly worried to see the revenue growth since last two quarters has been like negative 1%, 2%. And the margins have also declined. And this quarter, the margins have gone all time low of 10%. I understand that, we are ramping up the bench strength. Can you explain what is leading to this revenue decline? And how do should one see this engineering vertical?

Navneet Saraf: Okay. So first of all, I don't see a revenue decline. Compared to the September quarter, the revenue has marginally gone up. Maybe you're saying compared to the December '23 quarter, there is a small revenue decline.

Chetan Kirti Vora: Yes. Maybe, I was comparing with the December '23.

Navneet Saraf: Firstly, the December quarter is always seasonally a little bit of a weak quarter because of Christmas holidays and so you lose billing because of holidays over there. So that's one aspect that contributes. Then the other major aspect is, like I mentioned before, this year, we have increased our sales and marketing spends considerably. We've increased that in the U.S., in Germany, in both these geographies.

We've also increased our bench strength by starting new verticals like plant engineering and automation, where we've been recruiting heavily. And these are so in this business, it takes about a year for materially new revenue to come in for new verticals.

Now, we are seeing actually on the ground, we are seeing good positive traction because our strategy of getting larger accounts is actually working. We've been able to open several new accounts. We've been able to open several new accounts in new verticals, like plant engineering as well. But it takes time for the revenue from these accounts to ramp up.

Similarly, when we had even seen the strong revenue growth of 38% in this business in March '22 or March '23. Prior to that, a couple of years, we would have seen some pressure on the bottom line, because we would have increased our costs and it takes a year longer for the revenue to come in.

So it's the same thing. We will see a jump in revenue as we start to see the revenue from new accounts and new verticals start to materially increase, which we should start seeing in the next financial year, but the demand environment continues to be strong. The markets are strong, and there is -- we are not seeing any slowdown as such.

Chetan Kirti Vora: Right. So could you quantify from what to what the employees have gone increased on the sales and bench strength?

Navneet Saraf: So I don't have exact numbers with me. I can give you rough figures. We have increased our sales and marketing expenditure this year by, I would say, roughly about INR1.5 crores to INR2 crores a month, so that's the increase.

In addition to that, we have also increased costs by hiring senior delivery heads in verticals, like plant engineering, for which I don't have exact numbers. I mean, we can give it to you separately offline, but that's in addition to that. But INR 1.5 crores to INR 2 crores definitely has increased on account of additional sales and marketing spend.

Chetan Kirti Vora: So going forward on optimal utilization, what revenue can this vertical generate for us on an annual basis, sir, which used to do anywhere between close to INR 230 crores, INR 240 crores -- INR60 crores yearly -- quarterly.

Navneet Saraf: Right, right, right.

Chetan Kirti Vora: So it can be ramped up to what levels?

Navneet Saraf: So based on the new vertical we have created and the capacity that we have created and the bench strength we have created, we are actually good to do about INR 270 crores in revenue based on that. Additional that's what our revenue target is, which is in the immediate preceding year, in the next year.

Chetan Kirti Vora: Got it. Got it. And sir, the other income has gone quite low. Can you explain the reason for that?

Navneet Saraf: Anil, do you want to take that?

Anil Gadodia: Yes. Chetan, the other income has gone low because of the mark-to-market. So December quarter, whatever investment we have, we have to take it to the value as on 31st December. So December 2023, the market was robust and it was quite high, whereas in December 2024, the market was down. So mark-to-market has led to difference

Chetan Kirti Vora: Okay. Got it, sir. And sir, Navneetji can you guide us how is the full year outlook looks like for '25 and '26 for the company as a whole you know?

Navneet Saraf: For '25, '26?

Chetan Kirti Vora: Yes. For FY '25 as well as FY '26.

Navneet Saraf: Right. FY '25, I think we have 1 quarter left, and I think we are going to see from a revenue standpoint, we will definitely see revenues to be higher than December quarter, because some of the seasonal effects will go away. March is always a little bit of a better quarter. We will also see, I think, better bottom line, because we will start to see more positive impact coming from Aurangabad plant.

We will also not see the holiday effect coming for the engineering services business. So I think March '25, last quarter should be definitely better both in top line and bottom line than December quarter, as is always. As far as next fiscal year '25, '26 goes, I think Drum Closure is steady.

We will see similar growth in that as we had seen last year. Scaffolding, we'll see, like I've said before, the increment coming from the Aurangabad unit, which should see about INR400 crores net increase in top line and about --

Chetan Kirti Vora: That will be the next year itself, sir?

Navneet Saraf: '25, '26. Yes, fiscal year '26.

Chetan Kirti Vora: So INR400 crores over and above the organic growth organic growth is what we are seeing, right?

Navneet Saraf: Yes. I mean, taking into account everything, I think we should see a net increase of at least INR 400 crores in top line.

Chetan Kirti Vora: Okay. Okay. I got it.

Navneet Saraf: Okay. Which would be partly growth from Murbad, partly growth from Aurangabad, and we should see a corresponding growth in the bottom line wherein at least about INR70 crores or so, we should see increase in the bottom line.

Engineering business, we should see us getting close to that INR270 crores revenue based on the new capacities that we have created. So that's we should see ramp-ups of new accounts, and we should see that happening as well. And so I think -- and then on the textile front, while Ashish can tell you more, but I mean, overall, we are seeing cash profits now.

The reason why it's negative is, because of depreciation. So while challenges are there, but we are seeing some improvements in our spinning as well as in our utilizations in garments, etc. So I think next year should be better than this year. So that's how we see the next year. Overall for the company.

Chetan Kirti Vora: And lastly, sir, if you can guide us on the margins front on the annual basis, the Drum Closures, Scaffolding, and Engineering, sir, for the year as a whole?

Navneet Saraf: So Drum Closure will be similar to this year. And Scaffolding will obviously be better than this year because of better utilization of assets and same would apply for engineering.

Chetan Kirti Vora: Got it. Got it. And lastly, if Ashishji can explain what's the outlook on the textile side, that will be great.

Ashish Kumar Saraf: I think textile side, this year, we have started a new spinning unit, which took some time to stabilize. So we haven't seen the full benefit in the top line of that in this year, but we will see it in the next financial year. So that unit will add about INR200 crores to the top line of the textile division. And the fixed cost will kind of remain the same. So we'll be taking advantage of economies of scale. And hopefully, the EBITDA of the spinning will improve further to what it is now.

The market outlook for India seems to be positive, especially in the ready-made segment, because of what we can see happening between U.S. and China, and I think it's just going to get worse. I think there's a lot of opportunity which will come into India's way in the ready-made segment.

So that's where we are also focusing on, and we're trying to ramp up that and strengthen operations in the garmenting side so we can convert all our raw material and sell it as a finished product rather than selling the raw material as it is. So that's the plan for next year. And we hopefully, that will pan out in better bottom lines.

Moderator: Next question is from the line of Uttam Reddy from Reddy Enterprises.

Uttam Reddy: Now that the Aurangabad plant capex is completed, can you guide, if you have any major capex is planned for the next 2, 3 years, any big projects coming up?

Ashish Kumar Saraf: No, nothing significant. In the next 2, 3 years, we don't have any significant capex planned actually in any of our divisions. Aurangabad is going to be maintenance capex.

Uttam Reddy: Okay. Secondly, sir, the taxation on buybacks has changed starting from 1st October, 2024. So is that something the management will continue to pursue in terms of buyback? Or if not, how will the shareholders be rewarded?

Ashish Kumar Saraf: Yes. We will discuss this in the Board meeting. You are right that the buyback is no longer tax effective as compared to dividend. The Board will take appropriate decision for rewarding the shareholders, maybe in the form of dividend, but it's too early to say anything as of now.

Uttam Reddy: Okay, sir. And thirdly, lastly, actually, I see that we are doing a lot in the defense space. Last time we spoke about JT coolers. This time, I saw some pictures of some missiles and all that collaboration with Israel. Can you give some guidance on how large of an opportunity this might be speaking for the defense sector as a whole that we are pursuing?

Navneet Saraf: Yes. As of now, the defense sector is quite small. Basically, defense as such takes a lot of time. What happens is you make a product and go to DRDO or to the Defense division of Government of India and present and these are the products we have developed. And to convert that samples or the product that has been developed into a commercial order, it takes a lot of time.

And we are discussing with the France company and another company from, let's say, which one was that? Israel. Israel, yes. So there are 2 countries we are talking to, but it always takes time. So very difficult to predict what will happen for the defense, but we are putting all efforts for success of those products.

Uttam Reddy: Okay. Okay. Sir, for FY '26 in previous con calls, we have given a rough guidance of an increase in top line by INR450 crores and the bottom line by INR80 crores or so. So we are sticking to this guidance, correct, sir?

Navneet Saraf: Yes. So like I said, yes, for Scaffolding segment, we are expecting somewhere between INR400 crores and INR450 crores increase in top line and INR80 crores increase in bottom line coming due to full capacity utilization in Aurangabad, yes.

Moderator: Next question is from the line of Viraj Parekh from Carnelian Asset Management.

Viraj Parekh: I just want to follow up on the first participant's question, the Scaffolding business. Currently, I understand we have a new capacity come on stream and we have certain overhead expenses, which are chewing off our margins. But when you say that, if you normalize those, we would be inching more towards the high-teens margins.

But as we ramp-up the capacity going ahead and as I see our volume data for Scaffolding, it's at 8,100 or 8,000 MT, which is similar as H1 last year or if not more. So do you think that, there's scope for margin improvement in Scaffolding beyond the high-teens as we optimally utilize the capacity and even improve the product mix?

Navneet Saraf: Yes. So Scaffolding, one major contributor, which is going to come is the European market. We have recently obtained the B certification last month, and we've become the first non-European company to get that. As a result of that, we are now certified to do our own distribution to end customers in certain key countries in Europe like Poland, Czech Republic, Norway, Sweden, etc.

Already, we are ramping up our sales presence there, and we are already seeing good transaction on the ground. So this has largely been an untapped market for us. Scaffolding, just the scaffolding segment, I'm not talking about the formwork segment here. That's a different ball game.

But just the Scaffolding segment has largely been relying on our U.S. market, which is a good 95% of the total scaffolding revenue. So there, we are continuing to grow, but obviously, there, the growth percentage will become smaller, because we are becoming a dominant player. So this is going to be one major increase. And it's going to give us additional margin because we are selling direct to the end user.

Similarly, on the aluminum formwork side, it has largely been a domestic business for us right now. That continues to grow, but we are also starting Saudi Arabia. And there, again, it's a virgin market, and we are seeing strong growth potential there. We've employed our own salesperson there. We've also set up a distributor there. So I think these 2 geographies, Saudi Arabia and Europe have the potential to give a big jump in revenue and margins for the Scaffolding as well as the formwork segment.

Viraj Parekh: Just one thing which maybe I didn't understand. We've been saying that the demand has been good and that for Scaffolding segment, and that is reflected in our volume numbers. But when I look at our PPT, it's certain that in the segment outlook that the demand is still pressure on margins due to geopolitical disturbances slowdown in U.S. and Europe, and you're optimistic on this.

So if we are at current levels of volume, if we are still seeing that demand can improve further, is it that the product mix currently is a little bit on the weaker side, which is also an impact on our margins apart from the overheads of the new capacity?

Navneet Saraf: So the product mix is actually very optimal. Our product mix, we have designed the product mix to have the best impact in all our markets.

Look, as far as geopolitical conditions are concerned, obviously, there are geopolitical disturbances. You have heard about the tariffs that Trump has introduced.

Luckily, it's not come on steel or aluminum products of ours. It's only on raw material. And so the Russia-Ukraine war continues. So globally, there are a lot of disturbances, and there is a lot of uncertainty. And by no means are we living in a very booming economic market worldwide. It's challenging.

But in spite of these challenges, I think due to our product mix, due to our business presence and the way in which we sell with our own distribution presence, we are able to navigate and we are able to continue to grow. That's what we are saying, when we say about the geopolitical disturbance. And I hope that answers your question, if I've understood your question correctly.

Viraj Parekh: Right, sir. The second is on the Drum Closures piece of our business. There, sir, I think our outlook has been good this year in terms of mid-teens kind of growth. How do you see next time you already answered the question that you do see that business growing well, but I want to be a bit more specific in terms of we already a global leader with good market share.

So if you can elaborate a bit on our plans to grow in terms of volume, maybe it's gaining more market share? Or is it entering new geographies, because when I look at our volume, it's kind of at 186 lakh sets or 170 lakh sets. So is it going to -- what are we seeing on that front in terms of the volume growth?

Navneet Saraf: So one major growth segment is China. We are now the largest Drum Closure supplier there, but our market share is still only 12%. So the market in China is growing. So we are adding capacity there. And there, we will see volume growth. So that's we are in a strong position there with our own manufacturing plant.

Outside of China, the volume growth depends on growth in drum production, which is not substantial. So there, we will continue to see whatever organic growth happens with our drum producer customers in most of the markets. And the good thing is that we are very well diversified.

So we are not exposed to any one particular geography, even though, there has been very much slowdown in Europe, we've been able to continue to grow because we've been able to grow in other countries. So I think China is where the volume growth will come from. Barring that, we'll see similar single-digit growth in volumes.

Viraj Parekh: Sir, in terms of China as a market, are we able to -- will we be able to perform at those 30%, 35%, 36% kind of EBIT margins, which we operate at a console level? Or as we see China piece growing, like how is the market, if you can explain me in terms of competitiveness, in terms of pricing?

Navneet Saraf: So first of all, we have never operated at 35%, 36% EBIT level in China. China, the EBIT margins have always been lower. It's been about 20%. And the market is definitely more competitive than other countries. So it will continue to be that. We are able to command a better price in China compared to local Chinese producers, because of our brand. We'll continue to command that and we'll continue to maintain the 20% EBIT margins.

Viraj Parekh: Right. Lastly, sir, just a bookkeeping question. I see our tax rate for this quarter has inched slightly upwards. If you could help me understand that. Hello?

Ashish Kumar Saraf: Yes. What you say is correct, it's around 28% as against 25% because of consolidation effect of all the countries taken together. So there is a minor adjustment that needs to be done for the other country. But otherwise, overall, our tax rate in India is 25%.

Viraj Parekh: So going forward, this should more normalize at 25%, am I right?

Ashish Kumar Saraf: Correct. Correct. On an annualized basis, it's always been around 24% or 25% at the most.

Moderator: Next question is from the line of Riya Mehta from Aequitas Investments.

Riya Mehta: My first question is in terms of our volumes in Scaffolding has increased by around 50% if we let go the formwork. However, on a total basis, we are up by 28%. So have we seen pricing gone down by around 20%, 25%?

Navneet Saraf: Scaffolding. Can you repeat the question?

Riya Mehta: On Y-o-Y basis. So our volumes in the Scaffolding division, so basically, that is basically a Mach One and Scaffolding division has almost grown by 50%-odd in terms of metric ton. However, our overall has grown by 28% on a Y-o-Y basis. So is it fair to say on a Y-o-Y basis, our pricing has reduced by around 15% to 20%?

Navneet Saraf: So yes, the increase in volume has largely been due to Mach One because Mach One, the sales this year is substantially higher. I'm not sure how much higher is the Scaffolding sales volume in metric tons compared to last year. It may be similar actually. I don't think there, there is a very substantial jump in quantity.

And as far as the revenue growth is concerned, I really don't have data to tell you whether there has been some decline in pricing compared to last because in aluminum, the price fluctuates with LME. And so it really depends on what was LME last year for the same period and this year for the same period, because raw material constitutes almost 70% of the selling price. So there is a lot of fluctuation.

Riya Mehta: Got it. So actually, our Scaffolding has gone up from 5,300 metric tons to 8,000 metric tons.

Navneet Saraf: And so has the aluminum formwork. So that --

Riya Mehta: Yes. So our pricing of aluminum has gone down by 15%, 20%?

Navneet Saraf: It is quite possible, because like I said, the pricing of aluminum formwork varies with the LME. In fact, the price is never fixed. So it is quite possible.

Riya Mehta: Got it. And formwork, we've seen a little decline in volume by around 7%. So what is happening there? This is because of domestic India slowdown?

Navneet Saraf: No, not slowdown. I mean, this is a smaller piece. This formwork is only for infrastructure. And it's a smaller part of the business. It's very restricted to a few customers. So there can always be some reduction in offtake or some slowdown or delay in the project ramp-up cycle kind of a thing.

Riya Mehta: Got it. And in terms of you just mentioned we are adding capacity in Drum Closure in China. So what would be this capacity addition?

Navneet Saraf: So currently, we are already doing about 2 million sets a month in China. And we are expecting to increase this to 3 million sets, which will happen gradually over the course of next 3, 4 quarters.

Riya Mehta: 3, 4 quarters. And how much percentage of revenue is China currently?

Navneet Saraf: China would be roughly about 15%.

Riya Mehta: 15%. So going forward on a whole -- on a Drum Closure basis, we would see a certain decline in margins because China, as you mentioned, is 20% EBIT margin business. Is that a fair understanding?

Navneet Saraf: Yes, possibly. It all depends on how much growth we have in the other segments. We have always said that, the EBIT margin in Drum Closure is about 30%. We see fluctuations. Sometimes it's higher.

Normally, we always see higher than what we predict. So when we say 30%, it's always a mix of what we get from other countries and what we get in China. Europe, last couple of years has been slow. We are seeing some recovery happening there. So you never know. We may see more increase in Europe business at higher margin, and that may also compensate for the lower margin from China.

Riya Mehta: Okay. Europe would be how much for our Drum Closures?

Navneet Saraf: I don't have exact percentage over here.

Ashish Kumar Saraf: 30%, 30%, 30%.

Riya Mehta: Okay. That's good to know. Now, second question in terms of Engineering division, we had mentioned that our costs have been front-loaded because of the expansion. So how is it going? And what kind of inquiries are you finding? How is the progress on that end?

Navneet Saraf: Like I said, we have actually signed up a few large accounts already opened this year. We have also opened new accounts in plant engineering, which is a new vertical that we have created. And there is business going on, but the business is currently in small revenues. So we'll see a ramp-up of that as we are building our credibility and all that. We are seeing ramp-up happening.

Riya Mehta: So is it fair to say that our costs would be now not increasing at the similar pace as revenue?

Navneet Saraf: Yes, not on the sales front because that we have front-loaded this year. But there will be increase in our delivery capacity as revenue picks up.

Riya Mehta: Got it. So we expect FY '26 to have similar 15% to 20% growth in revenue for this segment?

Navneet Saraf: Yes.

Riya Mehta: Got it. And margins to be on an upward trajectory, right, from now a year?

Navneet Saraf: Yes, yes, yes.

Moderator: Next question is from the line of Kaushik Mohan from Ashika Group.

Kaushik Mohan: Sir, I hope I'm audible now. Sir, one of my questions got really answered. And I just wanted to understand that you also told that you will be discussing with the Board and then coming up with the dividend. If it is what kind of benefit that we can see if it is not happening through a buyback because the taxation benefit is not there -- not at all there.

Ashish Kumar Saraf: So the Board will definitely consider rewarding the shareholder in whatever form possible. There are various forms in which the reward can be passed on. So let's wait for some time, let Board decide about the dividend, its policy.

We used to declare dividend prior to 2016 and '15. But after that, we shifted to buyback because that was more tax effective for everyone. So wait for some months and the Board will come with whatever best proposal one can think of.

Kaushik Mohan: Sir, I have a longer term one more question. I just wanted to understand, do we have any like plans or anything sort of this that we will demerge our divisions and then separately list them, or like something like textile getting into something like that. Do we have any ideas like that?

Ashish Kumar Saraf: No, we don't have any

Kaushik Mohan: But in the long run or anything.

Navneet Saraf: Yes. Look, we don't have any plans as such today of demerging any division in the long run. But you never know, we'll see depending on the -- as things go forward and depending on -- we have to keep weighing pros and cons. If there is any -- if something changes in taxation or something changes in regulatory environment, which makes us feel that, that is possible, we'll look at it. But as of now, we don't have any plans to demerge any division into a separate company.

Kaushik Mohan: Got it. And sir, last question from my end. Sir, I just wanted to understand, what is the strategy towards European markets for the scaffolding?

Navneet Saraf: As I had, I think commented on this, we have just got that certification, the B certification. And that now qualifies us to sell Scaffolding in European market to end users, okay? It's a very, very tightly regulated market.

So with that now, what we are doing is we are creating our distribution presence, which means we are going to open yards and create optimum amount of inventory and have the salespeople there. So already, those efforts are on, and we are already seeing results happening on that.

Kaushik Mohan: Okay. Sir, do we have our own warehouses there? Or like are you planning to put out some warehouses. Like whatever the plans we have in U.S.?

Navneet Saraf: Yes. So we already have a sales company there for some time. We are already selling some ancillaries of Scaffolding there for last several years, which did not require certification. Now, we are able to sell the core products. So we have a warehouse, but we maintained very minimal amount of inventory there, because our sales was quite minimal. Now, with the certification, we'll be ramping up that warehouse and keeping inventory of our core products.

Kaushik Mohan: Okay. So what will be the price difference between European market, Indian market as well as U.S. market and Australian market?

Navneet Saraf: So European market is actually the highest price. So I think the -- for the similar -- you cannot compare with Indian and Australian because the products are different. But the European, you can compare with U.S. So the European market price should be about 10% higher than what we get in the U.S.

Kaushik Mohan: 1% higher than what we will get in U.S. So that will be a revenue contributor. So if I assume the revenue contribution from U.S. market as well as European market becomes in the same similar like 50-50 in the going forward. So that means that our revenue numbers will look on a greater side because I think European markets are having more stringent rules is what my understanding? Is my assumptions are right, something like that?

Navneet Saraf: Not quite because, firstly, the European market will not be 50-50 with U.S. because U.S. is a bigger market. Also, the current certification that we have doesn't include all the countries in the European Union.

For example, Germany is excluded. So we cannot -- we have that much -- that's a different certification. So this certificate is actually for Poland, Czech Republic and certain Scandinavian countries. So combined effect of those will be about $10 million to $15 million a year. U.S., we do about $55 million, $60 million a year.

Moderator: Next question is from the line of Sarvesh Gupta from Maximal Capital.

Sarvesh Gupta: Sir, on the tariff part, so because of the recent tariffs, which have been put on China by U.S. So how does that impact our business, especially because we have a presence in the Drum Closure division in China as well?

Navneet Saraf: The China plant only sells in China. We don't export to the U.S. from China. So there is no impact of that. And outside of China, the impact is positive because right now, there is no tariff on exports from India to the U.S. So the tariffs on China is helping our plants in India.

Sarvesh Gupta: Okay. And secondly, sir, you mentioned, I think, about a new product that you guys have developed related to AI. So what is that? And if you can dwell a little bit on that?

Navneet Saraf: Sorry, I don't recall saying anything about AI. So which product are you talking about?

Sarvesh Gupta: Sir, in the presentation, I think you had said about a new product development, which has come.

Navneet Saraf: You are talking about -- yes, yes, yes. Okay. I got it. I got the clarification. So this is pertaining to our Engineering Design division. So we have developed a new platform for visual detection.

And that is something that we have developed in Technosoft in our IoT division. And yes, that is currently in testing stage, and we expect to get good traction of that amongst in our existing markets.

Sarvesh Gupta: Understood. And sir, if I understood it correctly, so you were saying that on the Scaffolding division, if we exclude the Aurangabad facilities overhead and the depreciation, which has come because of that, then net-net, we should be like on similar sort of an operating profit margin compared to previous year's same quarter?

Ashish Kumar Saraf: Yes. Yes.

Sarvesh Gupta: So the only impact which we have seen in the margins is because of the new facilities overhead as well as the depreciation, which has come into it.

Navneet Saraf: For the most part, yes, predominantly.

Sarvesh Gupta: Okay. And on the Engineering design services, like again, you said that we have increased probably the sales and marketing cost by INR18 crores to INR24 crores on a yearly basis. So that has had some impact. So that I understand. But on the revenues itself, I think we have seen only a 10% sort of a growth in the last 12 months. So that has been relatively tepid given the smaller scale of this division. So how do we look at the revenue growth part, sir? I mean, we could have probably done much better.

Navneet Saraf: You cannot get every year -- you see you have to understand that we are -- we had 38% revenue growth last year over the previous year. So it is not possible for this division to have 35%, 38% revenue growth because of the sales cycle every year. So we have started this year from a higher base, because last year, the revenue was INR198 crores and the year before, it was INR138 crores.

So now this year, naturally, the revenue growth is only 10%. But the -- like I said, the capacity that has been created now is for INR270 crores revenue, but it will take another year for that to be recognized to materialize.

Sarvesh Gupta: Okay. So it is mostly a base effect which has sort of played this year. And maybe in next year, we should have a higher sort of a growth trajectory?

Navneet Saraf: Yes. Correct.

Sarvesh Gupta: Okay. And finally, on the textile division, so we are seeing sort of similar sort of environment? Or are we seeing any improvements going forward because I think because of the cotton prices, etc, there were some hopes of sort of better performance across the board in the textile industry. But even in other yarn players, we haven't seen this quarter to be good. So how is the environment shaping up?

Ashish Kumar Saraf: It's very difficult to say, because there is so much of shifts happening in the world with this Bangladesh situation happening, then Trump coming in, we don't know what he's going to do.

But we are -- overall, the industry is a little optimistic as far as India is concerned in the ready-made sector.

Spinning, I don't think there is going to be much change in the market. Cotton prices also have kind of remained pretty much range bound last 3, 4 months. Spinning side, I think, will be status quo. We will just be taking advantage of the economies of scale in our division by doubling the capacity and keeping the fixed cost the same. Our focus is going to be more towards the ready-made segment where we, as an industry, we feel that there, India has a good chance to outperform.

Sarvesh Gupta: Okay. And we had made some shifting also, I think, of our production facilities?

Ashish Kumar Saraf: Yes, yes. We shut down our Murbad operations of spinning, and we set up a new manufacturing unit in Amravati near Nagpur. So there, we are getting a lot of benefits of subsidies and power subsidy and the cheapest power cost in Maharashtra. And also, we are having the advantage of capital subsidies there.

Sarvesh Gupta: Okay. And finally, just one bookkeeping question. What is the net debt or net cash as of now as on December?

Ashish Kumar Saraf: Net what?

Sarvesh Gupta: Net cash or net debt?

Ashish Kumar Saraf: Yes. So cash equivalent is around INR440 crores and the working capital loan is around INR490 crores.

Moderator: Next question is from the line of Akhil Parekh from B&K Securities.

Akhil Parekh: Most of my questions have been answered. Just two small quick questions. One is what kind of impact we can see because of the rupee depreciation on our overall business? That is one. And second is what is our overall exposure to the U.S. markets? And do we see tariff risk to our business? Those are the two questions.

Navneet Saraf: So there is no material impact right now on our business due to the disturbed geopolitical conditions globally. As I said earlier, yes, there is a lot of turbulence in various countries, with all these tariffs and Russia, Ukraine and other disturbances happening. But we have been able to navigate, and we are not seeing any kind of a big drastic reduction in demand.

Certainly, there has been some slowdown in demand growth. U.S. is a major contributor. Like, for example, in our Scaffolding business, about 90% of our Scaffolding sales alone is in the U.S. So obviously, we are affected by any kind of a major disturbance there, but we have not seen such a disturbance.

And as far as tariffs are concerned, right now, there is no tariff on our products to the U.S. from India. Trump has only increased the tariff on aluminum from 10 to 25, but that's on raw material. So our products currently continue to be unchanged.

Akhil Parekh: Sure. But if the aluminum prices decline or steel prices decline, obviously, we'll see that impact of our realization of our end product. That understanding is correct.

Navneet Saraf: Sorry, you are not very clear. What did you say?

Akhil Parekh: I'm saying, if the aluminum prices decline, our realizations will decline accordingly. Is that a fair understanding?

Navneet Saraf: Of course, yes. For our aluminum formwork products, yes, of course.

Moderator: Next question is from the line of Vikas Gupta from Wealth Guardian.

Vikas Gupta: My few questions regarding some numbers. So you said the cash is around INR440 crores and debt is around INR490 crores. Is that right?

Ashish Kumar Saraf: That's correct.

Vikas Gupta: Okay. And there was a reduction in other income. Can you just quantify the amount and the reason for that?

Ashish Kumar Saraf: So the reduction in other income from INR19 crores to INR6 crores -- sorry, INR25 crores to INR6 crores, there are two major impact, is the fair value of the investment, which is done mark-to-market, it's around INR22-point something, let's say, INR23 crores.

Vikas Gupta: Okay. And so generally, how many SKUs do we have in Scaffolding division?

Navneet Saraf: SKUs?

Vikas Gupta: For maybe the past?

Navneet Saraf: Okay. Yes. We have more than 500.

Vikas Gupta: Okay. And generally, how many new SKUs or past do we develop in a year?

Navneet Saraf: There is no such fixed number. I mean, we are currently developing one new system, which will have about 10 to 12 SKUs.

Vikas Gupta: Okay. So annually, we are developing new products, which is like --

Navneet Saraf: That's not to say that, we will be developing so much every year. It depends on our markets and our product development strategy.

Vikas Gupta: Okay. And sir, last question is on the market size opportunity. So can you just give us a brief idea about the size of individual segment, the market opportunity that we have?

Navneet Saraf: Size?

Ashish Kumar Saraf: You want to know the size of the market, right?

Vikas Gupta: Yes, yes, yes.

Navneet Saraf: Yes. So we are in 4 different verticals. So there is not like one size. In each segment, Drum Closure, we are the second largest. Drum Closure, roughly, there are about 200 million drums made worldwide, excluding China, another 100 million made in China. So about 300 million drums. We are already catering to about 80 million. So we are about 40% market share.

Scaffolding, it is very difficult to give an estimate of the total size because there are various ways in which the market -- I mean, totally globally, if I were to say the Scaffolding market would be worth about $50 billion, but that includes material and labor, which also is a big chunk. We don't play in the labor segment. We only play in the material supply segment.

So if I were to consider just the material supply segment also, it may be about $10 billion as the total market worldwide. And that's just Scaffolding. Formwork is a different ball game. Engineering services is again a multibillion-dollar industry, Tech ER&D services. Textiles is again a big market, very difficult to give a size, give an estimate.

We know what the total exports of textiles is from India. Again, it's more than $500 billion. So yes, that's -- I think that's the best way I can answer.

Vikas Gupta: Sir, one last query is on the rental side. We used to do some rental of Scaffolding in U.S. Has there been any pickup of that or anything I know, as we talk about opportunity.

Navneet Saraf: I think in terms of clarification. We never used to do any rentals of Scaffolding in the U.S. We only do some very small amount of rentals of certain formwork products and only in the Indian market, and we continue to do that.

Vikas Gupta: Any plan to start the rental in U.S.?

Navneet Saraf: No, we don't. We don't. We don't have any plans to do that.

Moderator: Next question is from the line of Chirag, an Individual Investor.

Chirag: Sir, I wanted to understand a little more about the outlook for the formwork business more from a medium to long term. We understand that now the business will give us INR400 crores more of revenue in the coming year. But how do you see that growing, say, in 3 to 5 years?

Navneet Saraf: Right. So one of the major products in our formwork segment is aluminum formwork through our Mach One product line. This year, FY '25, we will be doing about INR520-odd crores in revenue, almost close to double of what we did last year.

Now, this is purely from the Indian market. I mean, 100% domestic. We clearly see an opportunity to double this in India itself from the growth, traction, etc, that we are receiving.

Currently, we are already based on our order booking and based on production that has already started in the new facility in Aurangabad, we are already averaging right now about INR60 crores a month in revenue currently from January onwards. So we easily see that INR450 crores of additional capacity that we will get for the full year next year actually can get easily absorbed in the Indian market itself.

Having said that, we are also starting Saudi Arabia. Now, Saudi Arabia, we recently had a team from our company visit. We've employed a salesperson there. We have a distributor there. And we are seeing some very strong growth numbers coming from there. We are receiving inquiries, etc.

So we are seeing that, that could actually be even bigger than the India market, which would require us to further add capacity in Aurangabad, which is a problem because we already have set up the large aluminum extrusion backward facility, and we have enough land available there. So we will be continuously adding on the forward side in our Mach One front there.

So over next -- if I were to take a 3- to 4-year outlook, not just the next year, next year outlook, we've already shared. But if I were to look at a 3- to 4-year outlook, I see the formwork segment being INR2,500 crores, about 5x what it is right now based on India, Saudi Arabia and South America is another market that we have started. There again, there is strong demand for these products. So that's how we see it.

Chirag: Understood. Sir, is there any pricing difference that we see in the Indian and Saudi Arabia markets?

Navneet Saraf: No, very similar.

Chirag: Very similar. And sir, generally, in the past, you have said that, the margins are generally around 15% to 20% for this business. Is there any outlook for that as well that how do you see this evolve or stick at the same levels?

Navneet Saraf: Yes, it is at 15% to 20%. It is competitive, because there are new players coming in. So we do expect to see competitive pressure in margins. But we are addressing that because of our backward integration. So the aluminum extrusion plant -- we are the first company in India to set up an aluminum extrusion plant, backward integration. That will add 2%, 3% to our margins. So given that, given our scale, given our quality, we should be comfortable in maintaining 15% to 20%.

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

Navneet Saraf: Thank you very much, everybody, and it was a very nice interactive session, joining with all your questions. Please do feel free to reach out to us in case you have any further questions. Thank you, and have a good day.

Moderator: Thank you. On behalf of Systematix Institutional Equities, that concludes this conference. Thank you all for joining us. And you may now disconnect your lines.