TRANSCRIPT

LAKSHMI MACHINE WORKS LIMITED INVESTOR CALL - Q1 OF FY 23-24

Moderator

Ladies and gentlemen, good day and welcome to Lakshmi Machine Works Limited quarter 1 of Fiscal Year 23-24 Earnings call hosted by NSDL. As a reminder, please note that the participants line will be in listen only mode and there will be opportunity to ask questions after the brief by the company officials. Should you require any assistance during the conference call and to raise questions, please signal the operator by raising hands. Please note that this call has been recorded. This is Sameer from NSDL and we have with us Mr. V Senthil, Chief Financial Officer and B Dhanalakshmi, Senior General Manager of the company and over to you, Sir.

Mr. Senthil

Good afternoon, everyone and thank you for joining Lakshmi Machine Works Limited earnings call for Q1 of FY 23-24. We'll have a brief about the overall performance of the company for the quarter ended June 2023, followed by an interactive session. I would like to clarify that certain statements made and discussions in conference call will be forward-looking in nature. To begin with, let me explain about the overall performance of the company. Then we will proceed to the segment performance and then consolidated performance, the financial results that have been posted on the company's website and hope you have had the opportunity to go through the same.

The company has achieved a turnover of Rs. 1174 crores which is 21% higher than the corresponding quarter of the previous year. This is in alignment with the peak utilization of our capacity in the business and continued effort to meet customers' orders. PBT stands at Rs. 122 crores for the current quarter as against Rs. 88 crores for the quarter of the previous year. which accounts for 38% increase in the profits of the company. I'll go into division specific now. TMD revenue for the quarter stands at Rs. 944 crores as against Rs. 768 crores for the corresponding previous quarter resulting in 23% increase.

The profit increased from Rs. 66 crores to Rs. 83 crores. Currently we hold an order book of close to Rs. 5300 crores and these have been lined up for execution over the near term. The ratio of sales of domestic OEM, export OEM and spares stands at 73%, 8% and 19% during the year. The percentage reduction in export sales is on account of planned approach to declutter the manufacturing process within India and increasing the reach to customers abroad and we have made LMW international operational last year and this is the reason we are seeing the percentage drop in overall export OEM,in the standalone number.

Now I move to LMW International. The turnover is Rs. 70 crores for Q1. The office is now fully functional and this same period last year it was not operational for the full period. The order book on hand at LMW International is around Rs. 70 crores. In LMW China, we have clocked a turnover of Rs. 7 crores for the Q1 and for the comparative period last year it was Rs. 58 crores. There has been a significant push back of execution of orders this quarter and this is the reason for a very low turnover. The order book on hand at LMW, China is around Rs. 43 crores.

Now let me take up MTD and foundry division. The turnover of the division stands at Rs. 243 crores for this quarter as against Rs. 231 crores during the during the corresponding quarter of the previous year. Out of this turnover, the foundry turnover accounts for around 12.5%. We are still building capacity and we continue to invest in this business.

With respect to ATC, the turnover of ATC is Rs. 41 crores for this quarter as against Rs. 21 crores for the same quarter last year and we have been able to achieve operational efficiencies in the business and hence you see the profitable increase in this business and now we can start the interactive session Back to the moderator, please.

Moderator

Thank you so much, Sir. We would request the people who are in the attendees list to please raise hands. If you would like to ask questions after the communication of your name and unmute status from the moderator, that would be me. You can definitely go ahead with your question. We are waiting for people to raise hands. We would once again request the people who have joined here. If at all you have any questions, we can have your hands raised so that we can take up your question. Ok, so now we have a few people with their hands raised. The first person who raised the hand was Mr. Devansh Nigotia. Mr. Devansh, you have been unmuted. We can also have your video turned on if you like and we can go ahead with your question.

Mr. Devansh Nigotia

Yeah. Yeah. Thanks for the opportunity. Also, can you mention the order book and the movement between the order book last quarter and this quarter? And considering the spreads in yarn currently, what is an outlook, for the order book for the year end and if machine tools are considering the thrust for manufacturing which is there. What do we believe? What can be the most peak possibility in terms of revenue that machine tools can do over next 2-3 years? And will it be enough to navigate the cyclicality of textile machinery, can it become that big those some thoughts if you mentioned,

Mr. Senthil

Thank you, Mr. Devansh. Yes, the order book like I mentioned stands at Rs. 5300 crores of which Rs. 4900 crores is domestic and around Rs. 400 crores is exports. This is as of this standalone what I'm saying, now the same quarter. So, the previous quarter this was around Rs. 5800 to 5900 crores. As we know the situation with respect to the markets has been quite tough. So, the order flow has definitely been challenged and over the last multiple quarters we have mentioned that we have procured project orders which will last for 12 to 18 months.

We would as we go forward; we'll see more of upgrades and more of unitary machine kind of an order what we call modernization. So those are the orders which are getting booked. So the order book overall has come down by around I would say around Rs. 500 to 600 crores and if you net of the export orders which have got booked in LMW international, which is in LMW Middle East, you are looking at a reduction of around Rs. 400 to 500 crores of order book and we have executed more than what we have booked.

Yes, the spreads currently are not very healthy especially for the standalone spinning mills because of the movement of the price of yarn and I'm sure that our customers will be able to give us a better explanation on where they stand but as far as the way we look at the order book, the push from our side is to at least try to book in as many as what we can execute right. I mean that is what we are trying to work towards, but it is quite a challenge. I mean the challenge is not only in domestic market but even if you look at across the globe, be it in markets where we operate like Turkey or be it Bangladesh or Indonesia, it is the same. In Turkey the challenge is more on the economic front.

The issue has also been that their market, the largest market for them being Europe and it is really not helping with the higher interest costs and the generally the economy is not doing that great. So there has been a lot of challenges around this and that's where we are seeing this kind of an order flow into the system. Across multiple pockets, not only domestic but overall, the expectation perhaps is we'll have to wait, wait through one more quarter and we see how things go. But we are like what I mentioned already, we are looking to at least get back in orders as to what we can execute.

Now with respect to the questions, are we going to go become that big with respect to not going to write off the cyclical nature of textile business, I don't think it is possible. I think textile, machinery business is always going to be cyclical. But I mean, we did put out the information that the idea is to kind of expand the segment of market which we can address, which basically means that the upcoming auto Winder which will help us to go one step further and trying to expand the addressable market size and thereby bringing in more on the turnover side. So, we are working to address the opportunities and ensure that we are able to increase the market size, addressable market size.

This is as far as textile machinery division is concerned. With respect to machine tool division, if I understood you right, the question was what could be the possible turnover which can be So let me. Like I said, currently the utilization within the machine tool division is somewhere close to around 65 to 70% So yes, there is an upside to it and we continue to invest in that business. We have brought in new machines; we have brought in new space for execution of more orders.

So yes, there's definitely an upside potential for the machine tool business. But with respect to the order book, machine tool do not generally carry a very long tenure. Order book maximum we look at is only two months' worth of orders in machine tool industry. It's all short delivery machines, perhaps three of them there's a special equipment might go up to five to six months, but otherwise generally they're within two months. So, we don't have, we can't give a long-term order book, it's more of a short term. I think I addressed both the questions. So back to you Mr. Moderator.

Moderator

Thank you so much, Sir. Thank you so much for answering that. Our next person with the raised hand is Mr. Ritwik Sheth. Mr. Ritwik, we have unmuted you and can we have your video turned on for the question if possible?

Mr. Ritwik Sheth

Yeah. Hello, Sir. Am I audible?

Mr. Senthil

Yes, Mr. Ritwik, you're audible. Please go on.

Mr. Ritwik Sheth

Yeah, hi. Hi, Sir. Good evening, Sir, I have a few questions. Firstly, on the textile segment, Chairman, Sir mentioned in the AGM recently that, you know we're looking to introduce a couple of products in the textile market over the next 12 to 15 months and that will significantly increase our market or traceable market. So, can you elaborate what is the opportunity in India and globally as well and who are the key players in this particular product? Second question is on the machine tool segment, as you mentioned to the previous participant also that there's a huge, huge scope and opportunity.

But if I look at the last 7 to 8 quarters here around 240 to 250 crores on a quarterly basis, so has the industry MTD segment as a whole, you know been stagnant for the last couple of years or we have lost market share in last two years? And last question is on ATC, last 12 to 15 months have been really good as you have been mentioning that there's a good order book and product acceptance is there in the market for our products. So, what is the peak revenue that we can do from both the sides composite and metallic side. You know if we have is there is there a potential what do the peak revenue from this segment on current capacity? These are my three questions Sir. Thank you.

Mr. Senthil

OK. I think with respect to the comments made by our chairman there, there are two products, right? It was the winder and also the air jet. With respect to the timelines which he had given, it is more of well I think he also mentioned of 2025 or so the with respect to overall market. He had also given that it is close to a $2 billion market addressable market size for these machines, the competition for these machines are mainly three to four players internationally similar to what we have on the on the spinning or spinning segment or I would say for perhaps even a little bit lesser. it's only three players, some from the West, some from Europe, some from the East, and these products would get rolled up. Rolled out first would be the auto Winder which would get rolled out followed by air jet. We will keep you informed in terms of when the commercial launches of these products will happen. As of now, the products are being installed in few locations they are, but commercially as it launches, we'll definitely inform in the similar sort of meeting.

With respect to machine tool division, the observation is right. I mean, whilst we have a consistent performance of machine tools over the last 7 to 8 quarters, it is not that we have lost market share. It is pretty much we are; we are able to retain the market share. The market is I won't say we have gone through a little bit of an ups and downs you know in terms of auto sector there has been a pull in terms of new Capex for EV segment. So various things are happening in the market. But general consensus between all manufacturers is that the India story in terms of manufacturing is going to be very strong. I think that, as a consensus, is there among every one of us. The PLI schemes, if you see almost out of the 11 or 30 node sectors, six of them are core manufacturing. You can look at it as a for manufacturing which is going to help us overall. It is a very positive sign and it's that's where like we said we have been always building capacities to address this.

So, I think the market would grow, over a period of time, but as of now these are the numbers and this is in alignment with what the markets, is so on the turning centers, we have a market share of anywhere closer to 25% and in case of machining centers it is in single digits, it is a little bit less than 10%. So that market share still continues. With respect to ATC, we always maintain that yes, we have order books. It is only a matter of push out and pull in and it so happens that last two quarters there has been a lot of pulling of product components.

So, this is we have a lot of material, we have a lot of orders. So, it's been all pushed out and you, you know, post COVID, we have been discussing it for quite some time and now there's a lot of demand and that is the reason they are able to give us what they call in the trade. They're calling it surge orders where there is a sudden surge of demand for certain components what we do and we are able to take these orders as they come in. So that is why you see that the turnover has gone up and I would say this is a sustainable turnover and again in this particular case, this turnover, what you see here is only reflective of metallics.

Our composite division where we have invested closer to around 60 to 78 crores is still to give us turnover and I think that turnover will also get added as we go along. So as of now most of it is on the metallic side where the order books have been quite healthy and we are able to execute and with almost closer to full capacity in the metallics. I think that answers all the three questions. Back to you, Mr. Moderator.

Moderator

Thank you so much, Sir. Thank you. Going ahead with the next person who has raised the hand for the query we have with us Mr. Dhaval Shah Mr. Dhaval, you have been unmuted. We can also have your video turned on for the question if possible.

Mr. Dhaval Shah

Yeah, Hello, Sir. Sir, I just have one question. On our CNC business CNC machine, so there are some customers or there are certain. We say that we make our CNC machines on our own, So what sort of risk is there is there for our business like you know maybe they could, they could be assembling on their own or they could be making it from scratch, I don't know, but there are certain you know, manufacturing companies who say it. So, I just want to know your thoughts on it. You know am I understanding is something wrong or what is it.

Mr.Senthil

I think your question basically if I understand it right is that what about companies which are building up their own machines. Yes, I think if you are technically sound and capable, I mean it is possible and those type of machines we call SPM ie special purpose machines because that can kind of execute that particular work specifically it will do one type of an activity or if you buy if you have multiple or if you build multiple SPMs you will be able to execute perhaps the entire machine what you want but however the level of quality what is required to be built into another machine, the CNC machine is quite high and that’s where you see they are along with us, and there are handful of suppliers who we supply for market within India and if you actually see this market little bit more which also was addressed in our region. One of the questions basically was that how big is this market and to answer this, the machine tool industry is very large.

So, we are looking at close to Rs. 12,000 crores to Rs. 16,000 crores kind of a market size within India of which 40% is manufactured. The balance is bought out imported machines. So, from the size of it you can you should be able to derive the conclusion that it is not that easy to kind of manufacture things by themselves, people would manufacture, rather than import close to 6 to 8 thousand crores or by close to 4 to 5000 crores within India. So, it is not, that it can't be done if technically it is, it is technically it is possible and some companies where they have very good and large and where they have a good tech support it is possible for them, to do it but most of the industry would still buy out a machine because it comes with warranties, guarantees and also post-sales support and today the concept of IIOT is also built into these machines.

So, we are able to look at if there's a particular level of and let us say accuracy which you require and you're not able to get that kind of an accuracy. We are able to tap into the machine from a remote location and support that activity as well. So, a lot of things get built into these mother machines when we do it at a larger scale and to meet lot more requirements, varied requirements of our customer. So, you can take it was more of a general size of the commodity determines the machine what they buy and they can, they can put in multiple components within that particular machine and I mean that's the answer for the SPM versus what we do in terms of the regular mother, CNC mother machine back to Mr. Moderator.

Moderator

Thank you so much, Sir, so with that, we do not have any more questions. We do not have people with anymore raised hands. OK, now we have two more. So, proceeding with the next we have with us. Mr. Sarang. Mr. Sarang, you have been unmuted. Can we have your video turned on for the question, please?

Mr.Sarang

Hello. Am I audible, Sir?

Mr. Senthil
Yeah, you're audible. Mr. Sarang, please go on.

Mr. Sarang

Yes, Sir. Good evening, Sir. Good self-numbers. So how do you see the? Growth for the year in each of the segments and margins can be sustained the rest of the year. So that's my first question and second one.

Mr.Senthil
Is that all?

Mr.Sarang
So my second question is, so how is the comments from your clients, customers initially all our spinning mills had delayed their Capex plan, so what are you hearing from them right now?

Mr.Senthil

Ok, yes, with respect to the growth in each segment, I think I've already touched upon. As far as TMD is concerned, we are very clear that we are working on two of the new products which will broad base our market addressable market share. That will be the things to look forward to. Second thing within TMD export is something which you are now very clearly focusing on with our own assembly facility which is there in Middle East we are trying to focus not only for the TMD but also in the machine tool trying to give a very specific focus to our customers with this particular expansion and a foot outside the country.

As far as assembly facility is concerned while we did have LMW China, there have been a lot of challenges which we have also shared in the past on the conference calls and then addition was taken to address the export market very clearly and that was the plan that was what we have done last year with establishing this facility. So, I think these two are the clear growth engines within TMD. And as far as the margins are concerned, I think we over the last year our last price revision what we did was December at 21 and subsequently there is no significant price variation.

We had not made any changes because we were, we were clear that it was going to throw a lot of challenge to our customer and customers's customers, right. So finally, to overcome all the incremental costs, we had revised our prices in the month of May and that is going to some extent address our margins. So, we have seen our margins incrementally creep up. I think it is closer to 11 odd percent at TMD.I think it would creep up by another two to 2 1/2 percent subject to all the new prices coming in and we are also of course working on cost and cost saving initiatives I mean that was without saying with respect to Machine Tool Division I think that question was also perhaps I preempted the answer where we said we keep investing and like I perhaps I'm repeating it for the second time, but we see that there's a tremendous potential.

The only question here is the making available the models which would be in demand for the market specific. So, we are talking about when we talk, we talk about engineering pump and valve. Today we are talking since we are exporting to the Middle East market and we started since last year. So, we are talking about oil and gas industry. So, we have to create machines for these markets, these addressable markets. So that is the growth initiatives. As far as machine tool that is 1st to build capacities and 2nd to build machines for different markets. I think these are the two comments. With respect to the customers, yes, I would say it is very challenging. In fact, it is not easy with the cotton prices going up and down, but more than me, I think talking to our customers you would be better placed to understand the challenges what they face.

This is as for TMD and MTD is concerned.

In ATC, we have already mentioned there are order books, it's only a matter of execution which we covered.

One is the price and second thing is also on the market itself in terms of the export markets or the final product, the export demand for the final product. All those things definitely are challenges and we know these challenges and it is going to take some time to overcome this and that's all I would like to comment on ATC, back to you Mr. Moderator.

Moderator:

Sir Thank you so much, Sir. We have with us Mr. Devansh again with another question. Can we take him again?

Mr.Senthil:

Yeah,yeah,please.

Moderator:

Mr. Devansh, you have been unmuted. Can we have a question? With the video turned on, if possible,

Mr. Devansh Nigotia:

Yeah, thanks for the opportunity. There's some issue with my video. So that is why it's not launched. Yeah. So, in machine tools, clearly you mentioned the opportunity size of around 8 to 10,000 crore I think 2-3 years back. Now with these launches and the diversification in terms of categories that we are entering some EV initiatives also that we highlight highlighted and in we mentioned right now in pumps and valves in oil and gas and in Middle East also. We are looking to you know build few machine tools. So now how do you look at the opportunity size considering the current basket of products that we have and has it grown significantly in comparison to the last 2-3 years? Some parts

Mr. Senthil:

Definitely. I think it is a good question. I think many things have happened in three years, right. I mean we have gone through two major things If we talk about one will be the strong focus given by government's PLI initiatives. The second thing is also in terms of post geopolitical changes, the + one factor or – one whatever they call it, right, I think both are definitely giving us an opportunity because companies are relocating, engineering manufacturing is relocating. So, I think that is very clear and that's where perhaps three years back we were talking more about 8000 kind of a crore 8000 to 10,000 crores.

Today we are talking about up to 16000 crores. So definitely the market itself has grown we didn't ever had the export of electrical electronics in a such large manner. So yes, the fabric of manufacturing is definitely changing and that's where I mentioned that we are all aware it is changing and. We are also focused on how we, how best you place it now is it changing at this at a phase at which we are all wanting it to. That is a secondary question. But yes, the market size is increased, the market is, and it is set to continue to increase. That's our take on what's kind of happening.

Moderator:

So, thank you so much for answering that. The next person with the raised hand is Mr. Amit Shah. Mr. Amit, you have been unmuted. Can we have your question please? Mr. Amit. Mr. Amit, can we have your question, please?

Mr. Amit Shah:

Yeah, yeah. Sir, firstly on the executable. Timeline of this particular order. Backlog. So last year we did almost 4500 crores kind of revenue. Our order backlog gets something around 5300. So, what is the timeline of execution of this particular order backlog? Secondly, any exclude was(inaudible)

Moderator:

So extremely sorry to interrupt, Mr. Amit, but we cannot really hear you, Mr. Amit. I mean, the voice is breaking, Mr. Amit.

Mr. Senthil:

Mr. Amit.

Moderator:

Sir, we could not hear him and.

Mr. Senthil

I mean, I could still make out the first question. What his question was basically the turnover of last year being 4500 crores with 5000 crores of order book. When we can execute, will we be executing, I think, the entire order book. I think the answer to that is it doesn’t work like that Mr. Amit. What happens is that there’s a turn in the order book we execute. Yes, the orders of today gets executed over next 8 to 12 months and there is a full of orders because this is only, we are talking about the local orders, we do get in export orders then we got spares.

You can't simply go with the basic division of a number of 5300 because the 4500 is made-up of MTD Foundry and ATC all turnovers put together. We're talking about an order book of only TMD. So yes, it but as of now with any order what we take we're able to execute within 8 to 12 months. I think the rest of it I couldn't hear Mr. Moderator, yeah.

Moderator

Thank you so much Sir for answering that. If at all there is something Mr. Amit, that wasn't audible or the question registered.

Mr. Senthil

I think Hemang, Hemang is there.

Moderator

Yeah, yeah. We'll take Mr. Hemang. But if at all Mr. Amit's question was not answered or not registered, we can always, you know, have him mailing the question that will, I believe, be answered. Going ahead. We have with us Mr. Hemang Kotadia. Mr. Hemang, you have been unmuted. Can we have your question, please?

Mr. Hemang Kotadia

Hello. Yeah, good evening.

Mr. Senthil

Good evening. Good evening, Mr. Hemang, Please go on.

Mr. Hemang Kotadia

Sir, what is the reason you mentioned about the lower turnover in China subsidiary?

Mr. Senthil

They push out of orders there Mr. Hemang, see they're all certain projects and like here with a lot of combination of unitary projects and things like that there it is more of a capacity getting allocated to a few customers because our capacities are not huge like what we have here and since those particular orders got pushed out, there were no deliveries happening. So that has been the challenge at China.

Moderator

So, thank you so much for answering that as well. I believe we have no more raised hands. Ok, now we have one, we have Mr. Anirudh. Mr. Anirudh, you have been unmuted. Can we have your question please?

Mr. Anirudh Gangahar

Hello, Am I audible?

Mr. Senthil

Yes, Mr. Anirudh, please go on.

Mr. Anirudh Gangahar

Good afternoon, Sir. Sir is the TMD or rather other, the MTD capacity utilization ever likely to touch come close to the 100% mark because we are CUFS has been there for quite some time and when we say we are investing but the needle on the time to make a big ticket investment doesn't seem to be coming, so I'm trying to work at the other way around that, when will it be that at what level will you have a slightly bigger push because your commentary has always been quite positive as far as PLI and the opportunity is concerned, but we've been very cautious as far as you know putting the more investments into this division is concerned, which as another participant said could to some extent offset the citicality of the TMD. So, when can we expect the CUF to go up to let's say 80-90% and or alternatively, when do we expect some big-ticket investments that you may make into the division?

Mr. Senthil

See, I think that's where it is important that we keep investing right to answer the call when we see that it is coming up to 80%, we will invest more. Now what kind of investment goes in are only two. One is this requires space assemblies and it requires certain heavy machines and if you if you follow through this division over the last. Perhaps four years, you would see that the turnover has consistently gone up.

Now that is because at every stage, we'd anticipate what is that we should always invest further for. So, the idea is never to come to 90% or 95% and then invest later. The idea for us is to keep investing and to keep to ensure that there is enough headroom for us to grow the turnover all through and it is not, it is not too difficult to anticipate this and plan for this. Yes, Mr. Devansh.

Moderator

So going ahead, we have Mr. Devansh once again. Mr. Devansh we can go ahead with your question.

Mr. Devansh Nigotia

Yeah. So, can you share your outlook on Capex in TMD as well as machine tools for the next one to two years?

Mr. Senthil

Not I think as far as Capex is concerned, the current two years, 2 for last two years, we've been kind of investing only in balancing machines as far as TMD is concerned and we continue to do that, modernize balance. So that's as far as TMD and as far as machine tool is concerned like I said as we keep hitting the 80% mark of utilization then we keep investing for bringing it, bringing the capacity up further. I think that's the way we look at long, long term Capex in both of these units of course the new machines which will get introduced will have its own requirement as and when and if at all anything new of that requirement is there, we'll address it. Thank you.

I think no other question. Mr. Moderator.

Moderator

Yes Sir. I believe all the questions have been answered. We do not see any more raised hands from amongst the attendees. So once again, Sir, over to you.

Mr. Senthil

Yeah, I think that's all from our side, I think. Thank you very much for the, for everyone for attending and we'll say see you next quarter. Thank you.

Moderator

Thank you so much, Sir. Thank you so much Sir for answering all the questions. Thank you so much all the attendees. Thank you so much everybody for being here at this earnings call. Thank you so much. Thank you.