

October 26, 2023

To,
**The Listing Compliance Department,
National Stock Exchange of India Limited,**
'Exchange Plaza', C-1, Block G,
Bandra kurla complex (BKC),
Bandra (East), Mumbai-400 051,
Maharashtra, India

**Symbol: MACPOWER
Series:EQ
ISIN: INE155Z01011**

Subject: Submission of Conference call transcript.

Dear sir/ Madam,

The Company had organized a conference call for the Investors on Monday, October 23, 2023 at 2:00 PM to discuss the financial results for the quarter and half year ended on September 30, 2023.

The transcript of the said conference call held with the Investors is enclosed herewith. The Company shall also disseminate the above information on the website of the Company- www.macpowercnc.com.

Request you to kindly take note of the same.

Thanking you

Yours Faithfully

For MACPOWER CNC MACHINES LIMITED

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MACPOWER CNC MACHINES LTD

Q2 & H1FY24

POST RESULT CONFERENCE CALL

October 23, 2023 2:00 PM IST

Management Team

Rupesh Mehta – Chairman & Managing Director

Nikesh Mehta – Whole Time Director & Chief Executive Officer

Rajnikant Raja – Chief Financial Officer

Kishor Kikani – Company Secretary

Call Coordinator



Strategy & Investor Relations Consulting

Presentation

Vinay Pandit:

Ladies and gentlemen, I welcome you all to the Q2 FY24 Post-Earnings Conference Call of Macpower CNC Machines Limited. Today on the call from the management, we have with us Mr. Rupesh Mehta, Chairman and Managing Director; Mr. Nikesh Mehta, Whole Time Director & CEO; Mr. Rajnikant Raja, CFO; and Mr. Kishor Kikani, Company Secretary.

As a disclaimer, I would like to inform all of you that this call may contain forward-looking statements, which may involve risk and uncertainties. Also, this is a reminder that this call is being recorded.

I would now request the management, Mr. Rupesh Mehta to detail us about the performance highlights for the quarter that went by, the growth plans and visions for the coming years, post which we will open the floor for Q&A. Over to you, sir.

Rupesh Mehta:

Good afternoon everyone. I'm Rupesh Mehta, CMD of Macpower CNC Machines Limited. Dear friends, first of all, I earnestly welcome you all to Q2, '24 post result conference call. I would quickly run you through some of the regional highlight first. Then we will latterly discuss about our upcoming plans and growth.

So this quarter has been marked by Macpower's remarkable, highest performance in our history in all aspects. I am delighted to announce that our company has achieved the highest number of machines we dispatched in Q2, 332 machines we dispatched in Q2, which is the highest in our Macpower's history and second highest ever order book. Right now we have -- that is already in presentation, it is nearly INR190 crores. We have a breakups also in detail. VMC, HMC, VTL, defense including everything we have INR190 crores pending orders right now with the advance amount of INR 9.38.

Whatever the order we have right now, it is with the advance only. We not consider any of the order where we are not getting any advances. So we are the highest in 332 numbers of machines, highest in the topline by 63.10 Cr, highest in order book, highest in the EBITDA margin, 14.33%, highest PAT margin, nearly 9.75% to 9.8%, something like that. So this quarter is the recorded -- record quarter for the Macpower. Most of the details we had given you in the presentation. So if you would like to have some idea please get the

presentation from the Vinay and Kaptify team, they make very beautiful presentations.

Right now we have a 745 turning machines, 261 VMC machines, 7 VTL. It is Nexa product and defense. Including everything we have INR190 crore pending order and secondly what we have done, the biggest game changer in Q2 was that in direct-indirect expenses in India, in the manufacturing sector, in our peer companies we have the lowest direct and indirect costs. If you compare Q2 last year versus Q2 this year there is a minor difference in direct indirect expenses in terms of the value. But in terms of the percentage it's nearly 17%, which is the lowest in India. I have a study of other peers company. Nobody have less than 24% to 25% operating costs. So we controlled the operating costs, kept it the same, and improved the production or productivity. What took 11 days earlier, we did it in eight days. We have made a lot of effort and improved the order book also.

We have sales force in India of 44 something, now it is around 79, and we are increasing the force to 100. So it was an all round effort, distribution, production capacity, backward integrations, whatever we performed, we got the benefit in Q2. And I'm talking about the defense, six month order of defense, it is almost neck to neck with last year. Still we have another six months. So defense business will almost increase by 40% to 50% which is the higher end machines with the high technology and high margin machine. So if we talk about tender, about bid, tender bid are INR170 crores. We have bid for INR170 crores already which are yet to be open. The domestic figures are INR 384. So five...

Vinay Pandit: INR554 crores is the total bid submitted, out of which domestic is INR384 crores and tender is INR170 crores.

Rupesh Mehta: So if we talk of overall business, we have highest revenue, highest EBITDA margin, highest PAT margin and the utilization of the increased plant capacity, sales distribution network increased and all the figures are in the presentation, I think, Mr. Vinay. You have put all the figures right, should I repeat them?

Vinay Pandit: No, no, no, sir. I think you can talk more about your plans going forward.

Rupesh Mehta: Okay. So overall, this order book, which we have of INR190, if I talk about that, it is not a one time order book. Every month if we dispatch four machines, we book a new five machines order. So the order book keeps on going plus or minus day to day. But on average order

received versus order dispatched we are in plus around 20% to 25% every month. So for the next phase, we need to increase the capacity. So we were going to increase to 1,500 to 1,800 for the next financial year, in the last meeting we have decided to make it 2,000 capacity, which will cost us near about INR8 crores to INR 10 crores.

Second now in the sales and distribution 79 people are working in approximately 30 branches in India, that we are going to increase to 100, and they are joining in the next month. So we are strengthening the distribution network, strengthening the production, doing productivity improvement and controlling cost.

So I believe that in the next quarter, as usual 10% to 20% growth with same expenses and EBITDA margin will increase and the PAT also will be increased, and order book will be increased. So this journey begins now, and after that 2,000 machines there are some challenges of raw material key like turret and ATC [ph] [00:09:40] which is the highest value component after CNC control, the turret value is INR 1 lakh, ATC is of INR1.5 lakh. We are currently outsourcing that. Now we have started it in house for which we need INR12 crores to INR14 crores, which will be funded by in-house funds, and the realization of that will be 9 months to 1 year, which we have already recruited the team and the machine selection has been done.

So we will increase the EBITDA by backward integration, we will increase the EBITDA by controlling the expenses and we'll try to jump the revenue quarter to quarter every time because market shares of Macpower is not even 2%. So all the market is open for us because basket wise we have 335 models, which is the highest I think in India compared to our peers company we are neck to neck or highest in 335 variants. We have a neck to neck distribution network. Wherever they have a sales and service office or tech center we have the same thing there. We have lot of opportunity for the next Q3, Q4 or coming five years.

As we committed every year we will bring 20% to 25% growth. So we will continue this journey and for that we have already proved in Q2. In Q3 the order book, increased production, and also the order flow in the festivals, we will definitely give more surprising results in Q3.

Thank you, Vinayji. If you want to give something from the presentation, please do so, Vinay.

Vinay Pandit:

Sir, I think you covered all the points.

Rupesh Mehta: Okay.

Question-and-Answer Session

Vinay Pandit: I would request participants now to use the option of raise hand to ask questions. Anybody who wishes to ask a question may use the option of raise hand.

Sir, we'll take the first question which has come in chat from Mr. Ankit. His first question is what is the timeline for completing this INR190 crore order book?

Rupesh Mehta: As I said, INR190 crore is today's number, of Q2 closing. As on today's date that number has increased, because whatever we dispatch every time, for example if we dispatched INR25 crore and INR30 crore remains, that order book will not be completed of INR190 crore, but will keep on increasing. This is not one time order. It is the Q2 ending figure. Day by day it increases, as the ratio of dispatch against order receiving is more by 20% to 25%.

Vinay Pandit: The second question is what will be the revenue at 2,000 machine capacity?

Rupesh Mehta: Revenue, EBITDA margin will increase definitely with 2,000 machines, as the fixed costs is higher. When your top line increases the margins also jump up, like now we have 14.28%. What is it, tell the figure of 2,000. 14.23%, at 2,000 machines I believe we can go to 16% to 17%.

Vinay Pandit: Sir, his question is at 2,000 machine key capacity what will it -- how much revenue will you make?

Rupesh Mehta: Average unit price is INR20 lakh, of higher end and regular machines. So at 2,000 machines the plant capacity will be 400 Cr.

Vinay Pandit: And sir his third question is which sector is contributing to the best demand?

Rupesh Mehta: Even now consumptions wise, it is automobile. Overall 20% to 30% consumption is of that only. Otherwise as I have mentioned in the past, more than 3000 segment, die and molds, aeronautic, defense, general engineering, pharma, all have the requirement. The most business that Macpower gets is general engineering or automobile sector or defense.

Moderator: Thanks. We'll take the question from Shyam Maheshwari. Shyam, you can unmute and ask your questions.

Shyam Maheshwari: Yeah, thanks and congratulations sir on a good set of numbers. Sir, my first question is you are saying that there are tailwinds coming in the industry, are you seeing it across the industry or we have done something differently due to which we got such great numbers?

Rupesh Mehta: Industries have not done much, it seems, as it is not more than 5%. But Macpower market share, if you see, it was very less, top six companies of India have a 90% market share, like the Bangalore-based company's turnover is INR2000 crore. After that BFW is INR1,300 crore, LMW is INR1,500 crore. So other company are performing very well because their plant and machinery investment, and their operating cost, due to that their topline is big. Against that their interest is very high, and their operating cost is very high. I have never considered revenue as a business model, as these people have taken \$1,000 crore debt on \$1,000 crore, against that their operating cost, the metro city they operate in, it came to 25% to 26%.

So if you see the margin, no other company has such margins. I have always focused more on margins and keeping us debt free rather than topline. We did excellent as the market was empty. So we increased the distribution network. We didn't have plant capacity before, so it was no use to increase distribution. Now the plant capacity has increased, we have increased to 1,200 from 600 and then 1,500 from 1,200 and now 2,000. So I will definitely say that the execution of everything in Macpower was 75% and 25% is of the market.

Shyam Maheshwari: Understood, sir. Sir, on the capability side you mentioned a few names. You spoke of Bangalore-based Company. So capability wise what are these companies doing better in terms of generating so much revenue? Do you see a capability gap that they are doing better?

Rupesh Mehta: Their own distributions network is very big, production capacity was very high, and against that their debt is very high. So we have made a gradual growth model, of 20%, 25%, because some companies doubled the capacity in one or two years. And for that they took on substantial debt. It took two to three years to get the realization for them. I had kept a model in which we focused more on margins rather than topline. The operating cost should be low, there should be no interest cost, because what they are doing on INR1,000 crore, earning 2%, 3%, 4%, no one has 5% to 6% PAT.

So if I do even INR500 crore, I generate more revenue -- I will generate more PAT than them. The difference is they have capacity. See against INR190 crore pending order, you are dispatching INR22 crore, INR23 crore. Even now we have delivery challenges, we will also have to increase the distribution network. If I want to do these deliveries overnight, I will have to incur a CapEx of INR200 crore or INR300 crore. But the utilization of that CapEx won't come like the plastic bottle or PVC pipe plant, as just by putting money or CapEx the output won't increase, you also need skills, because this is a highly technical skilled component and backward integration is happening.

The turret that I was talking of the realization will be minimum one year. So we are keeping the model of gradual growth and remaining debt free and focusing on the margin. If we have 10% margin, we should increase it not lower it. If we want to expand in line with them, and make 2000 to 5000 machines, which is possible with the new land, new plant and machinery. But the time has not come yet to do that. Still we can product INR500 crore turnover in this plant only. The phase to divert the focus and make a 3,000 machines plant is after two years. The model of these people and ours is the same. We have the same product as them, the distribution network is similar. It is neck to neck competition. Some companies do not have the models that Macpower has.

The main thing is that in the past we made the maximum models, and spent money on R&D, on capacity. Now the realization has started in real time. We will continue that journey. But the mistakes which in have observed in my peer companies, that is High operating cost, direct-indirect and high interest cost. I have kept my model different from day one, that we focus on these things rather than top line and do 20%, 25% growth and I believe that after INR500 Cr, we can go till 20% EBITDA.

Shyam Maheshwari: Understood sir. That's very encouraging. One more question I had on the industry landscape. We were reading that CNC machines tools even now 60% are imported in India, majorly from China also we get a lot of machines. What is your view there? Is there an import substitution play also that is possible? Or capability wise, is there any edge that these imported machines have?

Rupesh Mehta: Yeah, it is very little imported. There are very less machines coming from China. But they are cheap and entry level models, in which we have beat China with the same and higher end features in Indian price, with German technology, German control, and Macpower has captured that market one sided, lower end machine, entry level. China

was only at entry level. Now it won't even be there after Macpower is aggressive in this entry level model also.

Second is higher end machines, from 5-axis machine, from double column machine, boring, like automobile machine tools is a very big area. There are lot of machines, grinding machine that are being imported, which India is not making. What India makes, the number one machines are turning machines, whose import is negligible. Second is VMC, whose import is not more than 10%, then HMC, VTL. What India makes that is not imported very much. I myself have imported a 7-axis grinding machine for spindle from Switzerland. These machines come more which India is not producing.

If we make those products against imports, doing backward integration or backward engineering, definitely that market is open for India, like HMC machines we used to import first. We ourselves have taken from Hyundai, Korea. We took it at INR2.5 crore. Now it is available in India at INR1 crore. So any machines India makes definitely the rates will be less than European and Japanese, the duty will be less and the availability of spares and service and reliability will be more. We are doing that business now, like VTL we have seven pending order and next month we are giving seven VTLs. What we had not focused on was our Nexa product.

We are focusing on double column, in Nexa we are bringing a double column. We had imported that type of machine with our IPO funds. Now India is making them. So gradually it is a big opportunity for India. We are all making the machines which were not made in India and if we make the ones which we are not doing currently, the requirement is there in these models. Import is still more now, but not the products which India is making.

Shyam Maheshwari: Understood. Because when I was seeing over a period of time even now 55%, 60%, such a high number of machines were being imported. So I was just wondering that didn't we as an industry think to put capacity and capture that market from the outside players.

Rupesh Mehta: No, when we talk of machines, helicopter, aeroplane, tractor, Mercedes, Maruti, all this mix, the machine tools that are being imported are a mix of all these things. Every company won't make everything. Whosoever has expertise in grinding, will do in grinding. We six players who are in metal cutting, and the biggest market is of metal cutting. 75% of the market in India is of metal cutting. So we are six players in the 75% market of metal cutting. All of us have the products in that. But grinding technology is different. Then sheet

metal technology like laser cutting and press pack, like the top cover of the car is made, that technology is different, but they are considered as machine tools.

That is a different focus. Some are cutting, any metal cutting guy won't go into metal pressing technology. These are different segments which are being imported. But India has proved. In 2010, our import was more than 65%. Gradually with a lot of help from government. They give funds for R&D, for backward integration. So technically HMC, double column, five axis machines, which we have given lot of machines in defense, all these were not made by India, now it has started making.

Even Macpower has started a new division, which is automation and robotics, which except for one or two people no one has it. It is in a growth stage in India. Many companies have got five to 50 machines installed. Now they have labor problem. So the robots and gantry will run those machines. One robot can run three to four machines. So we are starting that work. Even old machines of other companies or Macpower, if they want to automate them, so that no human labor is required, that work also we can do. We spent lot of money and time for that new development and technology. So there will never be any threat of imports, except for entry level model. But there was no one in entry level and Macpower's low operating cost, we have introduced some entry level models also in the market in which we have captured almost the entire market.

I believe that even now there is a lot of opportunity, even if India makes 22,000, 25,000 machines and if we talk about China, even now their consumption per month is what India makes. Even now there is lot of scope for growth, and without machine tools there can't be any manufacturing industry. So government is also pressuring to lessen imports, and they are introducing duties and encouraging us through the association to make the machines which India is not making and say that we will give you all the support and help you require. Our target is that in the next five years we will come to 50-50.

Shyam Maheshwari: Understood, sir. Sir, I have a few more questions but I'll get back and then go through the queue as there are people waiting. Thank you for that, sir.

Moderator: Thanks, Shyam. We take the next question from Kush Tandon. Kush, you can unmute and ask your question.

Kush Tandon: Good afternoon sir. Congratulations on a good set of numbers. Sir I have read the presentation properly and also heard your comments. But still would like to ask one thing, in this quarter was there any big order, high margin order, or high value machine order, was there any such event or going ahead sustainable next few quarters we can sustain this kind of growth going ahead sir. That's the first question, sir.

Rupesh Mehta: The regular business which is going on, the segment's business it was the same business, defense, education, Navy or routine VMC and turning. High margins means the fixed cost, for example we produced 338 machines and dispatched them, if we speak against that, we kept the operating cost and increased the production capacity, increased productivity. Overall the effect was due to that.

Second was in backward integration, some components like telescopic cover and the spindle, 50% we used to make, 50%, we used to take from outside for turning machines, that we have made it 100% in-house. Now in backward integration, some flanges, some low bars, some such small components which we used to take from outside, and some big components we made them in-house, due to which our logistic cost, rejection ratio, productivity and the cost of materials has come down. Against that dispatch was more and fixed cost was more. Due to all these factors this jump was there and this growth journey will continue.

Kush Tandon: Okay, thank you sir. Thank you. That is very helpful. Sir second question of mine was that you have put bids in defense and aerospace for INR176 crores and second INR554 crores bid is the overall, total number. What kind of success rate could you see in this which will get converted to order book, any ball park percentage or number?

Rupesh Mehta: Overall, defense tender, up to now my ratio is for L1, 10%. And for domestic also we get 15% to 20%. Plus we have not counted those bids which we have not submitted bids but they call and give repeat orders. That is 10% of total business in every month, in which the customer has 2 machines, he took in the last month and he sent a repeat order. Neither have we submitted a bid nor have we discussed with him, because it's a repeat order. Such orders are 10%. Order wise it will be that whatever we dispatch month on month, we will increased 20% of that in the order book every month. That is our target and definitely we are matching that target.

Kush Tandon: Understood. Now like we have INR190 crore order book and you are saying that daily orders are fulfilled and daily new orders come in. So

will the INR190 crore number keep on increasing, Q3, and Q4 that is what you mean to say.

Rupesh Mehta: You see Q1 closing.

Kush Tandon: It was INR176 crore.

Rupesh Mehta: INR176, it has become INR190 crores. Now when we speak next quarter it will be 20% more only.

Kush Tandon: Okay, okay. And sir, this 2,000 machine per annum CapEx, by when will it be done, when will it be able to come online?

Rupesh Mehta: The construction work has started. 45,000 square foot construction is going on. I think we will get the capacity utilization by '25.

Kush Tandon: In '25, okay. And I had one simple equation, I am seeing inventory is INR80 crore on books. In that there will be finished inventory also, because you make something and then dispatch it, till the advance doesn't come. Can you tell that number?

Rupesh Mehta: Yes, I can tell that. Now we have raw material of INR60 crore, approximately INR60.37 crores, which is being machined in the machine shop or is a finished machine or is raw material. Semi finished good we have of INR13.21 crore, which is being assembled on the shop floor. Ready machines are INR6.53 crores, which payments will come today, tomorrow, day after. It is ready against order. Due to holidays or delayed in making process, INR6.53 crores is ready which will be dispatched everyday or get added.

Kush Tandon: Okay, thank you sir. Once again, congratulations. And all the best going ahead, sir.

Rupesh Mehta: Thank you.

Moderator: Thanks, Kush. We'll take the next question from Vikram from Niveshaay. Vikram, you can unmute and ask your question.

Vikram: Sir, my question -- first of all congratulation on a good result. Sir, my question was, you were saying you were backward integrated and you are going into turret and also auto control component. Sir, how much scope is there for us? You said INR1 lakh is the cost of turret and INR1.25 is of that, so how much will we be able to save after backward integrating?

- Rupesh Mehta:** Rough workout we have done, according to that EBITDA will get affected by 2% minimum. It can be...
- Vikram:** Meaning we will be able to save INR20,000 to INR30,000?
- Rupesh Mehta:** We will be able to save, after all the direct-indirect costs, after completely adding it, net margin 2% difference will be there.
- Vikram:** Sir, second like you VMC market or your HMC machine, for which we have kept a dedicated sales team, and extra revenue they will generate. Now you were saying the number of the sales team, which is going to reach 100 from 44. Is this going to be completely in Nexa division or is it both, Normal, CNC 1 now...
- Rupesh Mehta:** **Normal including Nexa.** Nexa doesn't require too many people. Normally Nexa customers are corporate customers. It is a big deal, as the entry level machine for them starts from INR50 lakhs, INR60 lakhs, and goes to INR1.5 crores, INR2 crore. So Nexa requires just four or five people. Now in internal distribution we have created a separate team for a production series, and a separate Nexa team, and a separate team for regular machines. But in all the three baskets they help each other, that if someone wants a particular model or type of machine they forward to the concerned group. So indirectly all three help each other parallelly. So now we do not have two teams, in our internal organization we have three teams.
- Now the recruitment we are doing will be more in the regular team.
- Vikram:** Now this is the one in which we entered the lower entry market, for that also you will require these three teams?
- Rupesh Mehta:** We have not kept sales people for the low market, as that is a fixed price business, to beat China. We have kept a service person only.
- Vikram:** That is 20% of your EBITDA...
- Moderator:** Yes, sir. Continue.
- Rupesh Mehta:** We have not counted sales force in that. We have only kept service person, as it is a fixed catalog product and there is no other discussion in that. We are doing more in regular team, and in Nexa. We need five persons in sales there, but along with that we need 10 persons for applications, who will talk of programming and tool designing. So Nexa meetings will be more about technology, what will be my cycle time? In how much time will my product be made? What is the

accuracy? What is the setup required to be done? How much fixturing will need to be done? How much tooling will be required?

So for Nexa product instead of bare machines we have teams working on projects. It requires less team in sales but more for support, in application and designing on the field to talk about it. Second we are adding in Nexa robotics and gantry. The robotics and gantry team will work in Nexa and explain to the corporate customers that we can put the robot and gantry even in your existing machines and solve your manpower problems.

Vikram: Understood. For us from the generally order in hand to complete what is the time period?

Rupesh Mehta: Normally, if I say, 25% of the people coming are the same month booking. For example if there is 100 bookings, 25% are such that I want in this month only. We call them book and bill, immediately. Rest 60% is in the next month, and the rest is in 90 days. So maximum cycle is of 90 days, in which if we talk from the manufacturing side, there is SPM machines, whose component's lead time and designing time is more. If we talk about customer side, their bank loan work is going on, their building work is going on, and their power work is going on. So from both the sides we execute maximum in 90 days all the orders.

Vikram: Sir, what is the period in which the current order book of INR170 crores, INR180 crores, will be executed?

Rupesh Mehta: No, in that we can say that the customer delivery time is long, or for some customers in rare case the construction is not done, or their margin, like they won't take the machine without a bank loan, as they get a subsidy in that. So their bank process, their margin process can be delayed. So generally after the advance and order, after that we have a survey team, we get a survey done by them, when is your requirement for the machine, and process it, whether you have paid the margin money, the power is ready, the site is ready, according to that we analyze and send the name. For example if the order is of INR190 crore, they have done the analysis, that they will get the loan of INR30 crore in this month, and they have a genuine requirement, we will take the machine on the shop floor for which we have a 100% surety that they will accept delivery of that machine. If he occupies the shop floor and does not accept delivery and we make the INR190 crore machine, then we will have a storage place problem and also an inventory problem.

So we have a separate analysis team, along with sales in the branches, they get the feedback form filled by the customer, that thanks you have given the advance. Where are you in the process now? Have you given the documents to the bank, given the margin? Is your power okay? So according to that we try not to block the shop floor. Overall the folks ask for the machines in 90 days.

- Vikram:** Okay. And one thing you said at the start...
- Moderator:** Vikram, we have quite a few people in the line as well as in the chat. Can you come back in the queue please?
- Vikram:** Okay, sure.
- Moderator:** We'll take the next question from Ritwik Sheth. Ritwik, you can unmute and ask your question.
- Ritwik Sheth:** Yeah. Hello sir. Good afternoon. Sir, my question is, you said on the call that you ordered for seven axis machine from Switzerland, for your work. So my question is, who is the other player who works four axis and above along with you, who is the other player in India?
- Rupesh Mehta:** Everyone does it. All the seven players do it.
- Ritwik Sheth:** Okay, in volume. And in the INR190 crore volume, what will be the four axis and above split?
- Rupesh Mehta:** I think every month we get one machine in dispatch. Every month, there is a minimum of one machine of four axis and five axis simultaneously. There might be 12 to 15 orders pending with fourth and fifth.
- Ritwik Sheth:** Okay, and that value will be more than two, three axes.
- Rupesh Mehta:** Yes, more.
- Ritwik Sheth:** Will four axis be 10% of the order book?
- Rupesh Mehta:** No, four axis is very regular. There are three or four machines every month. But if we talk of the fifth axis after fourth, fourth and fifth, that is one machine per month.
- Ritwik Sheth:** Okay. Okay. Sir, capability wise which other player would you say they are better than us and we need to you know improve our technology in the higher axis?

Rupesh Mehta:

In our business there is no word such as technology. All six of us can make all the things. It depends on who is focusing on what thing, on what market. I don't think that in manufacturing capacity and capability -- during Corona time if Macpower, after seeing a video, makes a fully automatic machine, CNC machine with 17 axis, 1-7, to make N95 mask, it can make it in 3 months, because during that time the government told us during the lockdown that the country requires this. We made the N95 mask making machine, ISI, six layer, seven layer, 50,000 mask making machine per day.

We had done a project which you much have read in the presentation in detail, in which we did a project for making engine parts for T-90 tanks. We were L1, INR5.25 crore machine that was also a multi-axis machine, almost 9 axis. And for that the L2 was Sturak Germany, INR24 crore. No one in India undertook that work. But we had a challenge that we can do this. Ms. Nirmala Sitharaman had given us an award, HVF factory (Heavy Vehicle Factory). So everyone has the capacity. There is no such product that these six players in India can't make. But everyone has a model on how to focus on business, because out of six, three companies do not participate in defense. Two companies are focusing on export to generate revenue. Each has their own distribution model.

Macpower challenge was to increase production capacity more than distribution, because they have spent many years on R&D. Now the time has come for the realization, capacity has been built, so revenue was generated. Technology wise we believe all are neck to neck.

Ritwik Sheth:

Okay, okay. Thank you. Sir, my last question is on the industry, what is the size of the industry in India per annum, and you said that 60% is imported now. So what will be the total industry size per annum? What is the growth rate it is growing for the last three years?

Rupesh Mehta:

Vinayji, do you have that figure, consumption and...?

Vinay Pandit:

Yeah so the total industry size is around INR18,000 crores to INR20,000 crores in India right now, out of which import is 60% domestic manufacturing is anywhere between INR7,000 crores to INR8,000 crores.

Ritwik Sheth:

Okay, sir. Thank you sir and all the best.

Rupesh Mehta:

Thank you.

- Moderator:** We'll take the next question from Pankaj Gupta
- Pankaj Gupta:** Namaskar, sir. Sir, what is the life of our machines?
- Rupesh Mehta:** It's the same like an automobile. It will work very well for 3 to 5 years, then maintenance will come. You will sell the old machine. So take it same as an automobile, maximum 10 to 12 years. That too if you want to use it for cost generation at micron level, then 5 years is more than enough.
- Pankaj Gupta:** Is there like an annual maintenance service for tools, spares? So if you sell INR100 machines what will be the cost of the spare parts? And now in your business what is the fresh machines and how much is the AMC spare parts business?
- Rupesh Mehta:** In the business model more is on quality or reliability and service model is there which gives brand name and repeat customer. So we want that our spare parts do not ever give any problem, and if that revenue increases that means your machines have more problem. I take it as negative. I do not consider it a revenue model. But still out of the total revenue of Macpower we have 1% from spares and service. But I will not consider that as a model, because if the customer has to change spare parts every year, then the performance of your machines is poor, which will indirectly spoil your brand and repeat customers, as they will not spend so much money that they have to spend it every year.
- So if your service and spares revenue is less after sales, then according to my knowledge it is an advantage as they do not have any problems in running your machine. But still it is 1%, but I will never consider it as a revenue model.
- Pankaj Gupta:** Sir, the machine orders which you sell, are they mostly standardized or there is a lot of customization required depending on the requirement of customers?
- Rupesh Mehta:** 60% to 70% are catalog products, no change. 70% to 90% have minor changes, 5% to 25% change. If you want a concept-based designing, for which we get more margin and money that is around 10%.
- Pankaj Gupta:** Sir last question, as you said, you do not consider it an order book till you get an advance, so quickly what is your working capital cycle? How much is advance and how many days till the final payment?

Rupesh Mehta: No, if it is an INR1 lakh catalog entry level model, then it is INR1 lakh or 5% to 10% advance has to be given. And if SPM machine, last category which is 10%, which I said, has to be designed, in that you need to give 50%, and for minor modifications you need to give 25%. These are the rules of advance. We accept orders after that only. And the payment which you are talking about, no customer will get the machines without payment. You will get the machines after 100% payment. In exceptional cases if the customer is a old customer, connected with us, who needs the machine but whose loan has been delayed for one or two days, we give 1% of such customers this facility. The other outstanding is of defense, whose payment cycle is after unloading the machine they give 90%. 10% is after training, commissioning and job throughout.

So orders are not without advance and no dispatch without 100% payment.

Pankaj Gupta: Thank you sir. If we want some technology, meaning if we want to go into six axis, seven axis, are you thinking of any technology tie-up or is there a requirement or we are self-sufficient in technology?

Rupesh Mehta: We are sufficient. I think we spend 10 to 15 years for the technology only. Now the time has come for realization. We have made 17 axis mask making machines, not just seven axis, in which we configured 17 axis. But the market for such things in India is niche, there is not such a market in India that requires such type of technology. Now there is requirement for mid-segment and higher end segment. There is no market for very higher end multi-tasking in India, as we do not have such costly manpower. When the need arises, like we are doing robotics and automation, that is the most difficulty technology according to me, because you have to automate other's machines, that is the challenge.

So there is not such requirement for collaboration. But yes, collaboration in terms of the model, that we will sell your machines worldwide, and you sell machines which are not made in India, there are discussions on such models many times. We will do it when the time comes. But for technology Macpower does not require a 1INR or anything from other countries.

Pankaj Gupta: Thank you sir. Thank you,

Rupesh Mehta: You spoke about this cash model, advance of 100% payment, that's why if you see our cash it is always in negative. And always

Macpower has INR20 crores, INR22 crores in FDs and liquid funds, that is the reason, that we buy the material on credit and sell on cash.

Pankaj Gupta: Thank you.

Moderator: Thanks Pankaj. Before we go to the next participant we have a participant who is not able to raise his hand, Ajay Surya. You can ask your questions.

Ajay Surya: Hello?

Rupesh Mehta: Yeah.

Ajay Surya: Yeah. Basically sir, I had this question.

Moderator: Vikram you'll have to please hold. We have Ajay Surya who is wanting to ask a question.

Ajay Surya: Sir, this is Ajay on this line. I'm not able to join from my.

Moderator: Okay, go ahead.

Ajay Surya: Yes, sir. Sir, as you said now, there is a four axis market in India now. So now if you are saying INR18,000 crore, INR20,000 crore market size, can we bifurcate, what is the market for this many axes?

Rupesh Mehta: No, we don't have that much detail. But you can go to the Machine Tool Manufacturer Association website where the ministry figure is, but it is not that much. The biggest market in India is for turning machines, if you talk of number of machines. You match the automobile with our machine tools, you will understand the full machine tools business. If you take two wheeler, number of machine size, which means turning machines, the biggest seller is turning machines, for like two wheeler. After that is VMC, so take the car. After that you are talking of 5 axes, 7 axes, that is your 7 Series BMW, or S Class, you can consider all that.

You can distribute it like that. But if you want exactly figure wise, then IMTA, Indian Machine Tools Association's website has a lot of data available in detail.

Ajay Surya: Sir, one question was that our order book is very strong. What are the number of deliveries we are targeting, like the normal cutter machine target is 400 per quarter or the high end machines are 100 per quarter.

What is our future target? And by when do we want to reach it in number of deliveries?

Rupesh Mehta:

Average as per pending orders, per available inventory, because we need to have 14,500 component inventory. There are 325 variants. For 325 variants, we have to manage an inventory of 14,500. Say for example, I had made an announcement, we got an order from BHEL of INR5 crore, and so if I give the machine to them tomorrow, they will take it tomorrow. But the glass for that I will get from Germany after two months, the CNC system after 2.5, the gear box is 2.5.

So instead of going according to model, we go according to plant capacity and orders and against that the inventory that you have, so that your plant capacity gets properly utilized. If I give the INR5 crore to BHEL, they will take it. But it is not possible to make it so fast, because the components are unique. So to average out we have a per month target is mostly number of machines and the value of number of machines. So definitely quarter-on-quarter, as all of you know, in capital goods, the second is better than first, third is better than second and fourth is better than third. So it is the same pattern that is followed, because we have a huge pending order. And according to the economy, the order flow seen in the third quarter is big, and we have increased the distribution network through roadshows. We have a tech center in Jamnagar and through that we have captured 30% market share.

We are opening a tech center in Coimbatore next month. We are focusing a lot on the south market, and we are getting good business. There is a home town for LMW and Ace Designer, which are the top two companies in India, we are getting business from there, because some of the technical things which is the unique in the Macpower model, that we have a 45 degrees slant bed, we use a roller guideways.

Our machines have good production and productivity, compared to other machines is more. We have to prove all these things that we say. So the big players in the south, in their territories also we are getting good business. And we have executed many orders for VTL in Coimbatore, and we have orders for VTL higher end machines. So we will executive on number of machines and value wise. It will definitely be a plus quarter-on-quarter.

Ajay Surya:

Okay, sir. Thank you. That's all.

Moderator:

Thanks. We'll take the next question from Ruchit Shah.

Ruchit Shah: Hello, am I audible?

Rupesh Mehta: Yeah okay, Ruchitji.

Ruchit Shah: Sir, first of all congratulation. You were saying for a long time, we have increased the capacity and the sales growth will come, now this is a validation for us, that capacity and the number of machines we are selling have increased substantially. So congratulations for that. Sir, you are saying that our capacity will increase from 1,500 to 1,800 and even 2,000 too. So firstly by when will it happen and this capacity we have increased, but is there any other challenge which you are seeing, what challenges can come, to actually increase the sales that much?

Rupesh Mehta: It is two things, 2000 machines won't happen just by putting CapEx. First we need construction. For that we need land. We have enough land. Construction is going on. Second we need manpower. We will make it available easily. Third, we need material. For anything to do production, you need machines, manpower and construction. We have prepared for all of that. Some components might give a challenge after 2,000, that it is not available in the market in India. That component is spindle and turret and ATCs. Spindle we have already made them. Now we are making the spindles for the turning machines in-house. And we have VMC machine whose spindles we are currently importing from Taiwan. Those spindles also we have developed in-house. It is in R&D since two months. Maybe in the next two or three months VMC spindles also we will make in-house, which we were till now importing.

After that there are two challenges. We have to do the billing against the order book, as 99% people won't do it without bank loan. And Macpower is such a company in India which won't give credit. If my capacity is of 2,000 and if I don't get the money for 2,000, I only get the advance, then I won't realize on credit, even if 200 machines stay with me in stock. If you see quarter-to-quarter, I have made more than 350 machine. But the realization is of 332, as they gave the money. If I give credit I will get realization for the entire 2,000, but I won't give credit, because in capital goods there is a rule of Macpower that it won't work on credit.

So we will do realization of 1,800 machines from next financial year. And if we increase the order book, if I want to dispatch 2,000 machines, why not book 3,000 machine order, 100% will go out.

Second challenge will be to increase your sales force, and also service is as important as sales. So proper service and proper training to the

customer and the availability of spares in their home town, in their city should be there. So we have to work on these three things and for that my Vice President is almost on the field, he keeps travelling, and is strengthening the branch, along with HR.

Ruchit Shah:

Okay. Sir, so you informed that basically for raw materials we are doing backward integration, and that too majorly after going above 2,000, there will be challenges and that we are already addressing in one way. Credit is broadly a market thing, the requirement from the market and the availability to be there, that is not in our hands. That is from the market. So you said that overall in the industry, broadly our growth will come from two things. One our capacity has increased and majorly the growth that we get is from import substitution or from increase in industry size?

Rupesh Mehta:

No, our growth also comes from taking market share, because we are only capturing 2% of the market consumption. We do not have too much market share, adding up all the baskets together. Major share is from turning machines, second is from VMC. VTL, HMC, double column, entry level model, we didn't have any market share. Now we are increasing it. We can increase the total share of production of machine tools in India, if we increase the distribution network. So we want to increase market share.

Second won't happen with increasing the market share. Once Macpower deliver had gone to six months. Then we had thought that we would not increase distribution network, first increase production, and productivity. This is a negative effect. So we have to balance everything. When the production increased then we increased the distribution network. Now we will first increase the production and then increase the distribution network. Service is also important along with that. So there will three major aspects for Macpower. For other companies there are four aspects. For them they also have finance issues, where to bring working capital from, where to get money for CapEx, then invest the CapEx, working capital and then the goods will come. Then the customer will come.

Macpower doesn't have any challenge in that model, because it has a negative cash balance, we won't give credit. We have the reserve capital, with our own money. Since we have the money it won't be a challenge to Macpower. But when you are talking of 2,000 machines, then you will need lots of liquidity and CapEx. I have made that model zero, where we get the money from, we will have to take a loan. It will affect the margin, affect the PAT. That thing will never come in play. So we just have to increase the sales distribution

network. Simultaneously equally important is service and spares, we have to strengthen it. We have 78, 79 persons in service in India, equal to sales. We have to grow that. And we have made a rule at Macpower that at every 40 machines one service person should be added. We have made different groups. There are different groups for commissioning and training. There is a different group for within warranty. There is a different group for out of warranty, chargeable base.

So whatever the challenges come will be from an internal management side. I will not take external factors for challenges, that tom the market will shrink or market will go down and Macpower goes down. That will not happen. All the challenges are now in our own selves, because I have made so many products in the last 10 years that even if I bring two or three piece of any product the recession word won't come into play.

Ruchit Shah: Okay, okay, sir. So I think you are basically saying that we are increasing the market share through getting into new segments, new products, strengthened sales distribution and service. One thing from the point of view of understanding, our average machine cost is around INR20 lakhs price. And if the industry size is INR20 crores, so will we be on the premium side or will the market average for everyone be around the same, INR20 lakhs?

Rupesh Mehta: According to me, based on my 35 years experience, and I have represented Indian machine tools for 12 years. I am an encyclopedia on this business, I won't believe for a big player, top six players won't be more than INR25 lakhs. Individual person who makes only one machine of INR1 crore, that is different, but the big company, INR500 crore, INR1,000 crore, for them it is impossible to have a realization of more than INR25 lakhs, or INR30 lakhs.

Ruchit Shah: Okay, sir, thank you. I think...

Moderator: Thanks Ruchit. We go to the next participant. Mahesh you can go ahead and ask your question.

Mahesh: Hi, sir. Thank you so much for opportunity. Sir just wanted to know out of the total requirement, I mean, the parts or components you require to make a CNC machine, how much do you make internally, and how much do you take from outside? For example like casting welding, motor, sensors. So how many things you make internally and how many...?

Rupesh Mehta: The important component needed to make CNC machines is CNC controller, which FANUC, Japan, Mitsubishi, Japan or Siemens Germany, these three companies have 95% market share. The biggest player in the world Datron and Mau or Mori Seiki or Haas Automation, he alone makes 10 times what India makes, and distributes it worldwide, he also has to take the control from outside. It is not possible in-house.

After that Linear motion guideways is there, which are imported from Taiwan and Japan. Now Japanese company has put a plant in India. That too LM and ball screws are not possible in any manufacturer. Then there is sheet metal, consumables, if we talk about all these which is not possible. In terms of value if we talk, you have to take 30% from outside. If you make all the things, you can't make more than 60% in-house. Macpower is around 35%. For market improvement and backward integration, there is still 25% space, like I said Turret, ATC, I said some machining. After that foundry, the highest value in machines, casting, that also we can do through backward integration. So I believe Macpower makes 35% backward components. I don't think any company does more than 60% or more than 65% in-house. It won't be that I am making 100%.

Mahesh: Sure, sir. Sir, regarding when we supply machines to the customers so do we provide tools also? Or is it that the tools are produced by companies like Sandvik or Kennametal and so on.

Rupesh Mehta: If you want to supply in government and the last 10% that I said, SPM machine, which picture, cooling, you want a cooled up machine, you have to give to them. But very rarely they will take the tooling from us. We have to prove out the sample piece to them, whose tooling cost we have added to their cost. So this consumable they get from the local distributor, Sandvik, Kennametal only.

Mahesh: Sir, if I look at next five years, do you think this industry can grow 20% plus CAGR given the demand, manufacturing industry and China plus one and so many things are going on in India. Industry as an industry can grow in 20% plus for next five to seven years?

Rupesh Mehta: See, India's manufacturing sector, these industry will never close down. No country can grow without this industry. The government also knows this, because machine tool industries is considered the back bone of manufacturing. The contribution of 15% by the manufacturing sector to the GDP, the government has a vision of taking it to 25%. Then only will we be said to be a developed country. Employment will be given by the manufacturing sector only. What is

the primary requirement of that manufacturing sector? The primary requirement of that manufacturing sector is machines. If you are making textile machines you require machines. If you are making a plastic bottle you require machines. For power plant you require machines. If it's a dairy plant it requires machines. Engine parts require machines, defense, I have 3,000 segments of manufacturing which have a requirement for machines.

So this segment will definitely grow. If the country's manufacturing sector is growing then this segment will have to work 10 times more, and in that 10 times we will have to work even more, because 90% of the market share is with these six companies.

Mahesh: Sure. Thank you so much sir.

Vinay Pandit: Great. Sir, we'll take one last question which has come in the chat. Usually H2 is better for our kind of companies versus H1. So beyond Q4 looking at FY25 do you expect similar business momentum to continue especially on the volume side?

Rupesh Mehta: Both sides. In '25, definitely revenue will increase by 25% to 30% minimum and EBITDA will also increase by 14.5% to 17% to 18% in FY25.

Moderator: Right sir. Sir that was the last question for the day.

Rupesh Mehta: How many participants, how many total persons were there?

Moderator: Sir, there were 99. Now there are 72. People have logged off for other calls. Would you like to give some closing comments before we end this conference call?

Rupesh Mehta: Yeah, so overall what I said, thank you very much for spending your time. And first of all I would like to congratulate team Kaptify, for the beautiful presentation. I am saying from yesterday, it is attractive. Some technical things which are not in my mind, you have put that also, and the presentation is very good. So forward this presentation to all.

The journey we have started, we have spent lot of time on R&D, to build capacity, so it took some time for us to give growth. But now our plane has taken off, the helicopter has flown, it will not stop now. I am giving this assurance, and this journey will end with India's growth, Macpower's growth. The market is open for us. Our customer

base and the ratio of repeat order is highest and we will continue that, and we will continue to make this growth. Thank you. Vinayji.

Vinay Pandit:

Thank you so much. And thank you to the management of Macpower for giving us their valuable time. And thank you to all the participants for joining on this call. You may log off now. Thank you so much.

Rupesh Mehta:

Thank you everybody.