

“Nitiraj Engineers Limited Q4 & FY22 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to Q4 and FY22 Earnings Conference Call of Nitiraj Engineers Limited.

This conference call may contain forward-looking statements about the company which are based on the beliefs, opinions, and expectations of the company as a date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict.

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 “*” then “0” on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Rajesh Bhatwal -- Chairman and Managing Director of Nitiraj Engineers Limited. Thank you. And over to you, sir.

Rajesh Bhatwal: Good morning, everyone. Welcome to Nitiraj Engineers Limited’s Earnings Conference Call for the 4th Quarter and full year ended 31st March 2022. I would like to begin by expressing my gratitude to you all for taking the time to join us.

On the call with me today are Mr. Kailash Agarwal – Chief Financial Officer, Mr. Ashish Sharma – Senior Manager Finance, my daughter Prachi Bhatwal, who has joined us in the business a few days back and probably working with R&D as well as developing the Home Automation products, Mr. Ajay Bhatwal – Vice President Marketing.

To begin with, we have come a long way since inception and crossed several milestones over the recent past. Today, we are among the leading manufacturers of Electronic Weighing Scales and Systems, with over 30 years of experience in the industry. Based in Dhule, Maharashtra, Nitiraj Engineers began its journey in the year 1989, and has emerged as a dominant player in India with strong and wide geographical presence.

Owing to our focused efforts, the company enjoys a premium market position in this segment. In line with our strategy, we continue to expand our footprint with focus on market penetration and sustained investments in Research & Development to support progress. We continually strive to identify new avenues of growth and effective utilization of existing resources. Being a technology driven company, product innovation is the key to reaching our desired vision. We have a strong and efficient in-house R&D team who continuously focus on knowledge and skill upgradation.

Along with this as our strength, I would like to add that the manufacturing facility has technologically advanced machineries and most importantly, I would like to add that we are a zero-debt company. Our new state-of-the-art manufacturing facility is located at Dhule, Maharashtra spread over across eight acres in MIDC. The facility has been divided into four

buildings, tool room and moulding shop, main factory, our printing facility clubbed with the canteen building and administration office with a production capacity of 4000 machines per day.

This manufacturing facility produces diverse range of products ranging from industrial range, commercial range, jewellery range, healthcare range, and household range in Electronic Weighing Scales to Currency Counting Machines and Home and Hotel Automations.

Along with this, the company also has wide and diversified distribution network of over 400 dealers across India and 19 branch offices across Maharashtra, Odisha, and Chhattisgarh catering to more than 10 lakh satisfied customers.

Along with branch offices and dealers network, our company has also entered the online space to capture untapped customers who prefer buying products online. We have recently started an export wing at our Head Office at Dhule, to increase our sales overseas.

Coming to our Standalone Financial Performance, Q4 Financial Year '22:

In Q4 Financial Year '22, our company achieved revenue of Rs. 13.59 crore, reducing 10.55% year-on-year. This is mainly due to declining government orders during this period.

EBITDA stood at negative Rs. 0.23 crore as against Rs. 1.67 crore in the previous corresponding period. Continued fixed expenses incurred combined with lower sales, lead to contraction in EBITDA.

PAT for Q4 financial year '22 is at negative of Rs. 3 crores as compared to a profit of Rs. 0.7 crore in Q4 financial year '21. Exception lost this quarter due to shutdown of Parwanoo unit had major impact on profit. Q4 financial year '22, EPS stood at negative Rs. 2.92.

Turning to our Standalone Full Year Financial Year '22 Results:

In financial year '22, our company achieved revenue of Rs. 39.63 crores decreasing 25.79% year-on-year. This is mainly due to lack of orders from government, offset the rise in sales from branch and dealerships leading to lower sales. This has mainly happened because most of the government budgeting was diverted for COVID affected pandemic.

EBITDA stood at Rs. 1.79 crores as against Rs. 8.11 crore in previous corresponding periods. Lower sales volume coupled with continued fixed expenses hampered margins.

PAT for financial year '22 is at negative Rs. 3.36 crores as compared to a profit of Rs. 3.63 crores in the financial year '21. Exceptional loss in Q4 due to shutdown of Parwanoo unit had major impact on profit. Financial year '22, EPS stood at negative Rs. 3.28.

This is all from our side. We can now open the floor for questions.

- Moderator:** Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Rohan Mehta, an individual investor. Please go ahead.
- Rohan Mehta:** What was the reason or rationale behind the shutdown of this Parwanoo facility because I believe we had decent ties with the government officials also. So, was there no scope of further expansion over there, I mean, getting good business and revenue from there?
- Rajesh Bhatwal:** Yes, Mr. Rohan, basically, the plan was shutting down our operations at Parwanoo was laid down in 2018, which when we purchased the land in Dhule and we wanted to bring everything under one roof to control our expenses and further growth and proper control of the operations. So, we had to shut down Parwanoo unit anyway. And there was no connection of having any government kind of connection because of which we are getting better benefits being in Parwanoo. In fact, in Parwanoo unit, we had started for taking the excise exemption, in the GST era the benefits were all over.
- Rohan Mehta:** So, we should have relatively lower expenses now in Dhule compared to the Parwanoo facility when that was operational?
- Rajesh Bhatwal:** Perfect, that was the plan.
- Rohan Mehta:** What is the current capacity utilization at the Dhule unit?
- Rajesh Bhatwal:** Roughly about 70%.
- Rohan Mehta:** And any new products under development I mean is the utilization expected to increase in the near future?
- Rajesh Bhatwal:** Yes, now since everything has come down here to Dhule, we all are going through a lot of planning for utilizing the capacity 100% or even taking it further. We are having certain kind of plans in our hand like there are some products under development, and we should be utilizing the capacity fully.
- Rohan Mehta:** So, these products would be related to Home and Hotel Automation or something else also?
- Rajesh Bhatwal:** Yes, mainly it will be a Consumer Electronics in Home and Automation. Number two, we are also planning to take our analytical balances development further in which we will be developing the density and gold purity measurement balances. Also, we are planning for some kind of parcel scales which will also measure the weight as well as the volume of the parcels.
- Rohan Mehta:** So, these products are currently under development, right?
- Rajesh Bhatwal:** Yes, these products are currently under development.
- Rohan Mehta:** Would you share some light on the timelines as to when we can expect some of the new products to rollout. And then what kind of just a rough ballpark estimate of what kind of growth so we

can estimate from these new product segments like Home and Hotel Automation and the Consumer Electronics?

Rajesh Bhatwal: See the Home and Hotel Automation products are going to be consumer products for us. And we have been working on it for almost three to four years now. And the products are getting stabilized, the Trial-I in the market is going on, we have installed roughly about 350 to 400 products all over India already. We are getting a lot of feedback from the customers and our marketing team. So, we are trying to do further development on the product, also trying to add some new features into our Home and Hotel Automation product. This product should take us way ahead only thing is once we are prepared and ready with all kinds of ranges, then we will be planning heavily on the marketing.

Rohan Mehta: Speaking of marketing and product development, do we have any rough budgets for our R&D and marketing?

Rajesh Bhatwal: See for marketing this financial year we have kept on advertisement mainly. The budgeting was roughly about Rs. 50 lakh in current financial year.

Rohan Mehta: Are we exploring online sales also?

Rajesh Bhatwal: Yes we are doing online sales also, but so far we don't have much of responses on the online sales as long as weighing scale is concerned. We are selling the person weighing scales online. Because weighing scale is controlled and covered by the Weights and Measures Act, it's not very convenient to sell it online other than the domestic weighing scale products like person weighing scales, but home automation products will be definitely coming online in coming period, which will fetch much better business.

Rohan Mehta: Just if you could shed some light on the geographical split of the revenue across India, which areas we are getting more growth prospects from?

Rajesh Bhatwal: See, at present our maximum sale is in Maharashtra itself, it's roughly about 35% to 36%. Next is Odisha and Chhattisgarh, where we have our branch network. We have almost 17% to 18% in Odisha and Chhattisgarh roughly about 10%. Then we have Madhya Pradesh, West Bengal, Telangana, Rajasthan, these are our little strong points. Areas where we are little weak is on the northern side, which we will be trying to focus more, and maybe States like Kerala we are little poor so we will be trying to work hard over there, to increase our market share.

Rohan Mehta: So, that must be the reason why we opened branch offices in Maharashtra, Odisha, and Chhattisgarh, recently.

Rajesh Bhatwal: No, Maharashtra, Chhattisgarh and Odisha branches have been working since many years, maybe about 20 to 25 years and mainly because we have branch offices where we have a very strong presence.

Rohan Mehta: Is there any commission policy as such for the branches and the dealer network, I mean, what's the kind of commissions that we work with?

Rajesh Bhatwal: See when it comes to branch network, the team is employed by us. The complete team, we have hierarchy like the front-end of sales executives, then the branch managers, regional managers, zonal managers. And all these people have been given their monthly targets. There are different incentive schemes that we offer to them. And based on which it works. We are selling to the customer directly through our branch offices. We are not selling it through the dealers.

Rohan Mehta: Are we getting any advantage from the Make In India campaign in India?

Rajesh Bhatwal: Not really.

Moderator: Thank you. The next question is from the line of Aniket Redkar, an individual investor. Please go ahead.

Aniket Redkar: I have a couple of questions. As you mentioned in the presentation that Dhule factories equipment with very advanced technology to produce many other electronic items so, do we plan to enter any specific sector or already we are developing any new product for the same?

Rajesh Bhatwal: Yes, Mr. Aniket, see we already have the lines, because of which we are very well-known all-over India as we are leading in Electronic Weighing Scales. So, electronic weighing scales is our core line. We are planning to develop certain new more products for taking it further. Apart from that, we are trying to enter into consumer products like Home and Hotel Automation, plus we have got about three, four different sectors in which now we are planning to get into any one or two of them in coming future, like domestic gas connection meters. We have got an offer for some kind of tie-up; we are trying to work out on it. And also we are trying to get into PDS, Public Distribution Systems in which probably business should be very high.

Also, there are some more opportunities from foreign companies which we are trying to tie-up, it will be a little difficult for me to give you any kind of commitment over here unless we really come up with something. But we are trying our best to add on little more kind of product ranges in different sectors.

Aniket Redkar: I believe that there might be a competition from China or unorganized sector for weighing scale. So, how do you face this challenge?

Rajesh Bhatwal: See actually, China competition is there in every segment today if you go to see worldwide not only in India. But then when you are manufacturing it in India you have giving good quality, providing proper services, and having professional kind of approach with the customers, definitely it works. I don't find any kind of issue with China competition so far.

When it comes to unorganized sector, well it's there everywhere and it's going to remain, that really doesn't matter much. When your brand sells people ask for it. We have more than about 1 million customers in India, satisfied customers. So, it's going to grow further.

- Aniket Redkar:** And are we getting any kind of parts from China? I mean, are we sourcing any parts from it?
- Rajesh Bhatwal:** Yes, from China we do source certain kind of semiconductors or load cells or some kind of electronics part.
- Aniket Redkar:** Because currently the lockdown which is going on over there so how do you see that kind of impact on our company on our production?
- Rajesh Bhatwal:** Well, Mr. Aniket, last two years during COVID time not only our company, but every company faced it in plus or minus kind of ratios or proportion. So, it's going to be there. Today there is probably a lockdown in China, tomorrow God forsaken it should not happen in India, but we can never say that. So, we cannot be sure about it right now. And in case if China doesn't supply goods to India, we have our other options open. It's not that we are totally dependent on them.
- Aniket Redkar:** Mr. Hung Sin is associated with our company since how long?
- Rajesh Bhatwal:** Mr. Hung Sin is associated with the company right from the inception of the company, way back in 1989.
- Aniket Redkar:** And as the company partnered with any foreign company?
- Rajesh Bhatwal:** No, we don't have any foreign company partner. Mr. Hung Sin is the Indian born Chinese, okay. So, he is the Indian Citizen. Its only that his parents are Chinese. So, that's why his name is Hung Sin, he is Indian.
- Aniket Redkar:** When did we start online sales? And what would be our strategy for the same and how much revenue we can expect through this online sale?
- Rajesh Bhatwal:** Yes, we started online sales on Amazon since 2018. And as I answered the previous question for Mr. Rohan that online sales, we are not really focusing much as on now, because we have to get into consumer products. The whole electronic weighing scale thing is controlled by Legal Metrology Department of Government of India. So, only the consumer products, electronic thing like person weighing scales can be sold online. So, those we are doing. And we are, again developing a lot of new attractive and cheaper person weighing scales. You know, person weighing scales on which everybody, it's a home-to-home requirement, everybody wants a person weighing scale for weighing themselves that line is coming up on a very strong way now. And we should be doing good on the online business for that.
- Aniket Redkar:** As you mentioned in the presentation, that revenue decline mainly due to the decline in the government orders during this period. So, most of our orders, most of our business is basically dependent on the government orders or, I mean what would be the contribution of our business from government and non-government?
- Rajesh Bhatwal:** Yes, Mr. Aniket if you see our business through, we have basically three avenues, branch network, the dealer network, and the government business. In the financial year '22, our branch

and dealer network is continuing to grow further. And as we are adding up the new products, for example, analytical weighing balances and home automation systems on which we will be focusing more on marketing. At the same time, we are trying to further develop some newer models into that. We are very sure that our business other than government should grow rapidly.

When it comes to government business, we have been doing consistently over the last maybe about eight to 10 years. Last year itself, the government business was declined mainly because most of the provisions, the budgeting from the government was diverted to COVID kinds of products. I mean to fight with COVID that's the main reason that government did not allow much of budgeting for other products. That's why it was a decline last year. This year also we are expecting very good business from government too.

Aniket Redkar: But as per my experience, most of the government order we get, we won't be able to get the revenue or the income from the government on time. So, what would be your plan in terms of the government orders?

Rajesh Bhatwal: Definitely, we are going to continue because we are one of the very strong contestants for all kinds of government tenders and all that. The payment cycle is okay, it take sometimes three to four months for payment to get realized. But then we are comfortable as we are debt free company, we have got sufficient working capital with us to sustain that much.

Aniket Redkar: What does our product portfolio look like and which are the top three contributing products in terms of the revenue?

Rajesh Bhatwal: See we are doing best in commercial weighing scales, which contributes roughly about 75%. Then health range weighing scale is also doing good, in last year if you see but in the coming period, it's going to grow further. We are expecting a contribution of health range weighing scale to improve further. Currency counting machines also we are doing good, these are the three ranges where we are doing good.

Aniket Redkar: Can I get the contribution for each segment in terms of revenue?

Rajesh Bhatwal: Commercial weighing scale is roughly about 75%. Health range is about 10%. Currency counting is about 5.5%. Jewellery weighing scale is about 4%. Stereo meter and Infantometer put together is about 3.25%. The EMFR balance is Electromagnetic Force Restoration Balances, which we are now going to emphasize more on marketing and that's going to be upcoming line for us. Last year it contributed about 1.5%, we have been working on this project for almost six years, invested a lot of money on development. But now we are sure that this particular electromagnetic balances will contribute better, and it will add into our profits. Security and access control which I have been talking about Home Automation products, which has contributed hardly about .3% to .4%, and this is where we feel that will be growing faster. That is what is the distribution of different ranges what we have.

Aniket Redkar: What is the main reason leading to decline in the EBITDA?

Rajesh Bhatwal: Mainly because the top-line got declined (1). (2) The expenses there are certain fixed expenses which could not go low even if the top-line, the sales were down. And most importantly the shifting from Himachal Pradesh, Parwanoo to Dhule that shifting cost was also added grossly. And whenever you switch off any unit which was working for 17 years, there are a lot of other unseen losses which come up. So, those also were added in Q3 because we shutdown Parwanoo unit in February 28th, that's the reason.

Aniket Redkar: So, just because of that also the PAT has also reduced substantially this year.

Rajesh Bhatwal: Yes, obviously.

Aniket Redkar: What is our ideal working capital days, debtor days and the creditor days and also the inventory days?

Rajesh Bhatwal: If you say about '22 financial year, the inventory days were 142, which was raised as compared to previous financial year mainly because there was a panicky situation last year due to pandemic. And we had to buy a lot of semiconductors and ICs because there was a huge shortage and the lead times were very high. So, we had to store a lot of ICs because to continue catering services to our customers and producing products on time. So, last year, the inventory days was about 142.

Aniket Redkar: If you can see there is a difference in the consolidated PAT and the standalone PAT. So, have you partnered with another company or I just want to understand that?

Rajesh Bhatwal: Standalone PAT consists of Profit & Loss of Nitiraj Engineers only and consolidated PAT consists of PAT of Nitiraj, plus PAT of our associate company Hyperdrive Information Technology Private Limited, which is engaged in software development having office at Bangalore and USA.

Aniket Redkar: What is your guidance for the top-line and the bottom-line for the next couple of years? How you see the trend, the top-line, the bottom-line.

Rajesh Bhatwal: Yes, see now since we have all come under one roof, and a very big world class facility here at Dhule we are going to control all our operational costs and expenses #1.

#2 We are going to focus on increasing our top-line by all means, in selling more our electromagnetic balances and focusing more on more consumer products at the same time increasing our sales in the areas where we are little poor. And we are going to top-line ahead. See the top line goes ahead and the expenses are going to be controlled definitely we look forward for a much better bottom-line in coming two to three years.

Aniket Redkar: Any other major CAPEX require in the near future?

Rajesh Bhatwal: Not much CAPEX, expenses have been done to a great extent in last three, four years, in the time we started constructing this factory, shifting Himachal factory to Dhule. Maybe some

amounts on making new models where we will be making certain dyes and jigs apart from that not much.

Aniket Redkar: This new automated plant can it be used for a new opportunity; I mean diversified into the other businesses also?

Rajesh Bhatwal: So, that's what I have been saying that we are looking out for certain opportunities in diversifying into two to three different products in coming time. We are trying to work up the possibility, what products we can diversify. These facilities what we have in Dhule, can definitely make any kind of electronic product, since we have a tool room, molding shop in-house, we have a fabrication shop and print shop in-house. We have got complete electronic assembling automation machineries here. So, we are definitely trying to enter into newer revenues.

Aniket Redkar: As far as NLB series, being a niche product is concerned what kind of future growth do you see in this product? I mean what kind of potential margin we can earn.

Rajesh Bhatwal: See NLB series is a technically advanced product, when it comes to other our electronic weighing ranges. Those can be manufacture or made by a lot of people, and they are already doing it. But when it comes to NLB series, there are very few players in India. And there is much better value addition into this product. There is a huge market for NLB series in India. And we are going to focus only on that. I cannot tell you probably the figures, but then we are expecting much higher sales in three years. I mean, every year it should be growing. And we should be doing much better on that.

Aniket Redkar: Last two questions, what is the contribution to the total revenue from exports?

Rajesh Bhatwal: Last year the exports were, I mean exports anyway, we were not really focusing earlier. So, last year the export sales was roughly about Rs. 34.31 lakhs. But now, we have started a new wing for exports at our head office, we have appointed special people who are good at exports and experienced people. And we have started a lot of work on exports. And we look forward for much growth in exports business, in coming times.

Aniket Redkar: As we know, we had faced the power outage in some parts of the cities and the coal shortage is also there, now they are importing the coal. So, how you see the power backup plan for our plant in future?

Rajesh Bhatwal: See basically, Mr. Aniket, we don't require first thing is a very huge kind of power because it's electronic manufacturing unit. And it's based in MIDC where all the industrial associations are very much after the MSME people for providing us good supply. So, far we are not facing any problem. But if tomorrow if there is total dark outage or if there is a power shortage all over the country. I won't be able to predict but then we already have three gensets of about 100kw and the complete factory runs on the genset in case of any power failure is there.

Moderator: Thank you. The next question is from the line of Rohan Mehta, an individual investor. Please go ahead.

Rohan Mehta: As you were mentioning earlier that current capacity utilization is around 70% odd and with the new products that are in the pipeline, once this capacity utilization gets filled up, is there any rough timeline, you see when the CAPEX might be required since you mention that right now, you are not looking at CAPEX. So, any timeline on when the new products will come to market and if and when more CAPEX would be required?

Rajesh Bhatwal: Mr. Rohan, actually in our industry, even if suppose we go probably about 200% or 250% of the present production, we may not be requiring very big CAPEX, only thing is as and when we develop new products, we have to develop more dyes and jigs, which I mentioned. Apart from that, machinery may not be required. We may require a little more manpower and system works. I mean, if you say capacity utilization, it all depends upon what new products are developing, but we don't require much of CAPEX investment any further.

Rohan Mehta: And maybe some new products we can see coming to the market in this financial year.

Rajesh Bhatwal: Yes, surely this financial year has just begun, it's only one and half months over so, we have lot of time in hands and we are developing a lot of things.

Rohan Mehta: And just lastly, you mentioned to the previous gentleman that you bought a fair deal of ICs and semiconductors, which also affected expenses in the last quarter. So, with the semiconductor shortage and crisis going on worldwide, is it affecting us right now? Is it likely to affect in the future or are we hedged for that?

Rajesh Bhatwal: What I told Aniket, about the inventory days, that it has really added in to expenses the stocks are there with us. See this is the time when the whole world is going through, if you see automobile industry, they are also affected badly because of the semiconductor crisis, which has been spoken so much about. So, what we have been doing is we have been developing a lot of newer circuits for looking at the availability and the lead times of the semiconductors, which we receive from Europe, China or even Japan kind of countries. So, we have been doing so that's our continuous work. In case if suppose some of the ICs are not available, then we switch over the circuit, design the new circuit, and then again go on. I mean of course, we have to fight the situation out, when it comes to this particular crisis, but we are equipped with it. I don't think that there will be any problem that we will be coming to standstill or something like that.

Rohan Mehta: Just lastly, what in your opinion would be the ideal working capital cycle for us?

Rajesh Bhatwal: It should be roughly about 125 days to 150 days.

Rohan Mehta: This would be good for good cash flow and for comfortable working capital --

Rajesh Bhatwal: Yes, it again depends if we are having government business, then the recovery is a little delayed. But when it comes to our dealers and banks network, there is hardly any outstanding for any period. It's almost online. So, --

Rohan Mehta: You mentioned also that you are trying to increase non-government related projects also?

Rajesh Bhatwal: Correct.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today. I now hand the conference over to Mr. Rajesh Bhatwal for closing comments.

Rajesh Bhatwal: I would like to take this opportunity to thank each member of Nitiraj Engineers family. I would also like to thank our clients, creditors, banks, financial institutions, and other stakeholders. For any further queries or information, please get in touch with our Investor Relations team. Thank you so much.

Moderator: Thank you. On behalf of Nitiraj Engineers Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.