

NITIRAJ ENGINEERS LTD.

“Nitiraj Engineers Limited
Q2 & H1 FY25 Earnings Conference Call”

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NITIRAJ ENGINEERS LTD.



**MANAGEMENT: MR. RAJESH BHATWAL – CHIEF EXECUTIVE
OFFICER AND MANAGING DIRECTOR – NITIRAJ
ENGINEERS LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to Nitiraj Engineers Limited Q2 and H1 FY25 Earnings Conference Call. 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 the star then 0 on a touch-tone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Rajesh Bhatwal, Managing Director of Nitiraj Engineers Limited. Thank you and over to you, sir.

Rajesh Bhatwal: Thank you. Good morning to all. This is Rajesh Bhatwal from Nitiraj Engineers Limited and we are having this conference call for discussing the results of H1 and Q2. The major highlights what I would probably like to put up is we have done a lot of work on development in this H1, the half yearly period. We have designed and launched roughly about 12 new models which will definitely attract a lot of new applications in coming times.

Also, we have expanded our factory and increased the carpet area by about 45,000 square feet because we are running short of space looking at the business, upcoming growing business. And what I personally feel that things are okay other than Q1 which was little low this time for a lot of reasoning and we have already explained that after the Q1 itself. So Q2 is recovering very well and we have got very good hopes for Q3 and Q4.

I would request the coordinator to go ahead with the QA session now. And once again, I welcome all the investors and stakeholders to this meeting. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Agastya from CAO Capital.

Agastya: Good morning, sir. Thank you very much for holding the conference call, sir. It's much appreciated. Sir, I have three questions. The first one is there is clearly quarter and quarter improvement that is very, very visible in Q2. And you mentioned that Q3 and Q4 will be stronger. Can you quantify what you are seeing in Q3 as of now across various product lines and geographies?

Rajesh Bhatwal: Yes, see, Mr. Agastya, I'm not allowed to give you the figures for Q3 and Q4.

Agastya: I'm not asking for figures. So let me let me put it more clearly. So if I look at last two quarters, we have seen Y-o-Y declines. So do you think the recovery is strong enough that we will start growing on a Y-o-Y basis?

Rajesh Bhatwal: We will be better at the end of Q3, sir.

Agastya: And sir you had initially mentioned that you are targeting 25% CAGR going forward. So again, this year, extraordinary circumstances in Q1, which led to substantial drop in revenues. But for the entire year, do you see yourself growing over last year's INR100 crores revenue?

Rajesh Bhatwal: See, actually, whatever we have given that is in next three to four years, 20% to 25% CAGR. So, Mr. Agastya, we are very confident the way we are progressing and doing things. The things will not be appearing immediately in every quarter. You may not see the results.

But if we talk about a period, we are very sure we are going to achieve the expected growth in the organization as long as top line and of course, when the bottom line is concerned. When it comes to Q1, we are trying to recover out of that. And by the end of Q3, we will be fully recovered.

Agastya:

Excellent, sir. Sir, can you give some commentary on the German market, how that is panning out now? Is it recovering, sir? Because there is a lot of slowdown in the Western market, especially in Europe. And especially in Germany, especially the industrial base of Germany. So, any commentary from your, from your point of view, what you are seeing in the German markets now?

Rajesh Bhatwal:

Yes, see, we are in the process of having collaboration with one of the leaders in Europe. They are from Germany for manufacturing electronic weighing scales. The project is going on for about six to eight months now. And we have developed some two different models for them as per their requirement and their designs. Okay.

Now, in fact, the communication is on. They are satisfied with our last supply, which we have sent them about 25 platform scales as on sample basis, as per their designs. And the work is on. We are expecting initially maybe an order of not very big, but 300 into maybe 100, about USD30,000-USD40,000 to begin with. So I think probably it should be done within a couple of months.

I mean, these are all estimated figures. But then we will be very happy to manufacture electronic weighing scales in India and then export them to German. This will be a contract manufacturing kind of an understanding. We will not have our brand put up, but we will be putting up the principles brand itself. And it will be sent.

Agastya:

Sir, how big is the opportunity over the next five years?

Rajesh Bhatwal:

Sir, it is very, very difficult to predict today. But one thing is sure that, I mean, what we also understood that they are I mean, quality conscious people. We are also trying to upgrade up to their expectations and the standards. So let us say, and it is not only that one particular manufacturer or the company in Germany, we are expecting once this link gets established very well, there will be some other people also would be trying to approach us.

Because now India is the next destination for most of the European countries. And they are trying to somehow come out of China, because this company was also getting their contract manufacturing made in China earlier. But now they are trying to focus in India. So opportunities, it is very difficult for me to say. As a vision also, if I just give you some figures that would not really carry very big kind of impact. Let us hope that we will do good. That is all I can tell you.

Agastya:

Understood. Sir, before I go back in the queue, one final question for this one from my side. Sir, updates on the drone business. There were certain test flights which were supposed to be conducted. Is there any updates on that side?

Rajesh Bhatwal:

See, there was an inspection from DGCA Delhi. See, the drone business was supposed to be taking place into two different steps. The first one is we wanted to start a drone pilot training

institution. So for that, there was a lot of documentation and preparation. We all did that. And then there was an inspection from DGCA. And the people came and inspected our site at Dhule. And then as an auditor, they took out some kind of a compliance lapses and all that.

So, we fulfilled that also. They are accepted now. And the file has been submitted further to their higher-ups for approvals. So I am expecting that should come maybe within 8 to 10 days or even shorter time. And we will get the license finally for the drone pilot training institution. And we are already having a lot of excitement in this area.

People from rural areas and other places also, they are inquiring a lot of things every day over here. Those who want to enroll themselves to become a pilot for flying drones. So that is almost on the verge of getting done now. Number two is drone manufacturing. So what we had mentioned last time that it should be done by mid-November.

We will be applying with all the certifications. Because see, you require a lot of certificates of every different parts of drones from different laboratories. So only one certificate is yet pending to come. Rest all of them have come in positive way. Just one certificate is pending, that is EN test. Rest I think material reports, stress test, flame test for UIN plate report, battery life cycle test, everything is already been received.

So hopefully by November end, we should be getting all the certification in our hand and we will be applying further, for the manufacturing of drone. Again, after applying, it is a process which is already been given in our, what do you say, on the board we have already given the various kind of duration required on 26th of October. We have given the clarification. So the first one is getting done on time. The second one could be delayed by about a week or two.

Agastya:

Great, sir. So if I were to look at the two timelines that you have given on the drone side, would it be prudent to consider at least some revenues flowing in from the drone segment in the next financial year?

Rajesh Bhatwal:

Next financial year, surely. This financial year, the chances are bleak. How much probably we may add will get started somehow. But next financial year, definitely we will be expecting some kind of things to add in our turnover. Sure.

Agastya:

Great, sir. And sir, so if I go back to the base business, if I look at the last year full numbers, there were a couple of segments where there was degrowth. I am talking about last financial year. There was the jewellery segment and the currency segment. So have they improved this year? And going forward, what is your sense on these two segments in particular?

Rajesh Bhatwal:

See, when we talk about having sale little bit reduced, that percentage was very small. So this year, in fact, as I mentioned in my initial note itself that we have developed lot many new models. See, our strong point is basically a technical side. So for the jewellery, we are launching a new model by December end. That's in dyes and making right now.

And for currency counting machine, we have already launched a model by in July end. So that is also picking up now. And marketing is basically, you know, 2% or 3% plus minus this keeps

happening. I mean, we are definitely taking a lot of extra efforts in doing things. So I hope that by this year ending things, figures will be better in those segments also.

Agastya: Excellent, sir. So like the German opportunity that you have discussed, are there any other such markets where you are looking at, where there are inquiries or where you are taking the initiative and trying to enter?

Rajesh Bhatwal: Yes, see, Germany is basically an opportunity for us to do contract manufacturing in their brand, which I explained, right. But then our export division is trying, because see, every year we are having some kind of exports in certain countries like Middle East, we are giving to Oman, UAE, and some of the SAARC countries, sometimes some African countries also.

But now we are trying to do it more systematically. We have appointed an export manager who is based in Mumbai only, comes, keeps coming to Dhule as and when required. So we have got some inquiries on hand, on which he is working in different places. That we are planning to sell our own product, not a contract manufacturing.

Agastya: Right. Sir, if I come to your cost structure and your P&L, so in terms of margins, other than operating leverage as the company grows and the scale increases, or like we have seen in Q1, when the revenues declined, the margins also like obviously took a hit. So if I remove that part completely, and if I look at just the variable costs, how do you see like over a period of time, what have you seen in terms of your raw material cost variabilities?

What is the volatility that you see? What are the critical raw materials? Was there a particular year where you got surprised because of substantial increases or substantial falls in your key raw materials?

Rajesh Bhatwal: See, only issue we faced a little bit during COVID era, two years, like most of the semiconductors, I mean, you must have heard the news that automobile industry also suffered badly because semiconductors were not available. So, that kind of a thing was faced by all the electronics industries throughout the globe, I would say.

So we faced certain issues in getting the ICs on time. And the prices were also increased. But now everything has come back. I mean, the pricing structure has come back matching to the previous period than, I mean, before the COVID started. And the availability is also quite comfortable now. Let's hope that even Indian government and we all are trying to make ourselves more self-sufficient on semiconductors.

A lot of things have been talked about and investors are coming from foreign countries. So hopefully in coming two, three years, India itself will start making the ICs and other things. So I think electronics should grow. We should have a good time in coming time, coming future. Right now, we don't have any problem on any of the raw material procurement or any kind of issue. It's very comfortable now.

Agastya: Understood, sir. Sir, one final question from - actually two questions from my side and then I'm done for the day. So one is as we ramp up if I look at the - like the 5 year commentary that you have provided that we are targeting a 20%, 25% CAGR on the revenue side, how much

manpower do you need to add sir or your permanent employee base how much will that increase by?

Rajesh Bhatwal:

See, what we are doing is we have got lot - lot many times we have institutional orders from government and other sectors. I mean at present we are already running an order worth about INR30 crores plus GST which has already been given on the board, the information about this order. So with this we have to anyhow finish it - finish off by December end so that we are free to take further bigger orders for the last quarter.

I mean, that is how our plans are. So, whenever we get such kind of big orders, we have some contract labors appointed and we get that job done. For our commercial business which is stable and our regular business, we have got our permanent team, but then for this kind of additional orders, we have additional people appointed.

Agastya:

Sir, a similar question on the capex side again to the kind of opportunities that you have are to me, at least, they seem pretty big. So what kind of capex would you require every year? Is like a INR5 crores number every year ballpark that kind of capex? Is it a good assumption, sir?

Rajesh Bhatwal:

See, frankly speaking, Mr. Agastya, if our turnover was about INR100 crores last year, so we were running short of space. So, this year we did invest about roughly about INR5 crores, wherein we increased our floor area by about 45,000 square feet to 50,000 square feet and then we installed four industrial lifts, three conveyors, staircases and everything in a very proper fashion, so that in future we can work very comfortably as and when we keep on getting additional business.

So, when it comes to building or infrastructure, I don't think that we require to expand further up till maybe the turnover of INR150 crores plus roughly. If it goes further then again we'll have to increase, we'll have to construct another new building or a shed within the existing premises where we have extra room right now. And when it comes to machinery I cannot 100% predict and tell you right now because there are so many developments taking place every day worldwide.

So whatever things we feel that okay we visit the industrial exhibitions and other automation, wherever we feel okay so and so machine is important for our factory which will increase the speed and reduce the labor cost we just purchase it. Let that be about a INR1 crores or INR1.5 crores or maybe INR50 lakhs. So, all such kind of investments cannot be predicted. That can just happen on the time need basis.

Agastya:

Understood, sir. Sir in terms of the drones and also the existing businesses that you have, how much if you can go like segment by segment, what is the percentage of bought out components and what is the percentage of internally manufactured components? Like for example, when you start manufacturing drones, how many components will you have to buy from outside and how many will you make yourself? So, what will be your value addition, sir or is it just an assembly that you are planning to do?

Rajesh Bhatwal:

Correct. See, as far as drone is concerned, our R&D and lot of people are trying to - we are working on it as long as manufacturing is concerned, but we have already made three drones in

which selecting the components or various assemblies from throughout the world, from different countries and also in India is a challenge. This is a new line for us.

So I do not want to give you a really a very big picture unnecessarily. I am a very practical man. So initially what we will be doing is most of the components will be bought out - components or assemblies, but then with our capabilities and experience of over 35 years, 37 years in the industry, when it comes to electronics and assembling of all kinds of mechanical plastic parts in-house, molding shop, press shop, everything we have in-house.

So, it will be a gradual process over a period, maybe a year or two, most of the parts will be indigenized and that is where we get the price benefit over the others.

Agastya: That is precisely why I asked the question, sir.

Rajesh Bhatwal: So, Mr. Agastya, I am telling you very practical things. It is not that I have got some magic wand in my hand. This is the process by which we will be going, that is how it will be.

Agastya: Understood, sir. Sir, thank you very much for answering all the questions patiently, sir. Thank you very much. I really appreciate it. All the best for the coming quarters, sir. Thank you.

Rajesh Bhatwal: Thank you so much, Mr. Agastya.

Moderator: Thank you. The next question is from the line of Usha Shah, an Individual Investor. Please go ahead.

Usha Shah: Good afternoon, sir. Thank you so much for holding this conference call. So, I have two questions. One is so looking at the last two quarters, our results are not that good according to what have been mentioned in the presentation. So, I would want to ask that what is the certainty of our numbers that they would be at least stable moving forward?

Rajesh Bhatwal: Yes, there are two ways I can answer your question. Number one is our Q1 performance was extraordinarily low. We have already given the explanation after declaring the results of Q1, mainly because of the central elections took place and that is why we could not get any kind of institutional or government business in that period.

That is why it affected. Also, the first quarter is a low kind of a business for us every year as long as our commercial market is concerned. Q2, we record very well and Q3 we are already filled with lot of orders which have already been declared on the board. So, we are fully loaded right now. I believe that Q3, Q4 will do very good and we should be at par at least the last year or slightly ahead that is we are trying our best.

And I do not think it is a problem, it is like a 20 over match. So, unless the 20th over and the last ball is bowled, nothing can be said, something like that, but then we are trying our best to increase our business in coming years by making lot of developments, adding new features and the new models, training our marketing team and increasing our approach, our spread all over the country.

Usha Shah: Thank you so much, sir. My next question is that what is the current utilization of our plant given that we are also expanding?

Rajesh Bhatwal: See, actually in electronic kind of industry ma'am the install capacity is not really based on our infrastructure right away. It all depends on our business. The more business we can generate, we can almost make those many machines, manufacture those many machines. Of course, ultimately there is some limitation like which I explained while discussing with Agastya that whatever infrastructure we have at present, we can do a turnover of about INR150 odd crores without having further expansions of land and other things.

So, it all depends because when we get the institutional orders or government orders, it is a big order to be done in a short period. And that is where you require a bigger space and bigger infrastructure. If these orders are spread very well throughout the year, then we don't require any expansions.

Usha Shah: Understood, sir. Lastly, I would want to ask, so is there any base order book which we have all the years or all the order book is totally dependent upon the demand from government and other institutions?

Rajesh Bhatwal: See, like if I tell you today's time, right now today is maybe 28th of November. Okay. We are right now manufacturing the highest number of machines. We are manufacturing almost 6,000 machines a day because we are in a process of executing a big order. And our commercial business is also at the peak because the festive season and other things are still on. So, probably August to January is the period where we are highly booked.

And if we have a lot of orders for the year ending from government segment, then we are booked till March end also. April, May, June is slightly a lower quarter, but then rest of the time we are really booked.

Usha Shah: Thank you so much, sir. And lastly when are we targeting to start our exports completely?

Rajesh Bhatwal: Exports are on, ma'am. We are doing the export anyway. If you're talking about Germany, yes the communication is on and it's on process right now. I am hopeful to get about - we are hopeful to get about USD30,000 odd order in coming time and we'll begin with that. Apart from that, we are selling our products to Middle East countries, especially Oman and UAE, where we have the distributors.

And we have about four distributors in Nepal also. So, we are selling our products there and some of the other SAARC countries and African countries, we are already selling our products.

Usha Shah: And what was the export percentage in this financial, in this quarterly result?

Rajesh Bhatwal: See, actually the percentage of export what we are doing, maybe last year was about INR1.5 crores to INR2 crores roughly I can tell you and the figures are not readily available with me. So, the percentage is less, percentage for export is less. We are taking special efforts now to increase the business on export, exports.

- Usha Shah:** All right, sir. Thank you so much.
- Moderator:** Thank you. The next question is from the line of Pradeep-ji, an Individual Investor. Please go ahead.
- Pradeep:** Thank you for the call. I was - I think some of the questions were answered with the previous questions. I have a few more questions. Last year, we made I think around INR18 crores EBITDA and looking at the PBT the 20% CAGR, is it still applicable for the next year also or is it, I mean, our project needs from the next year?
- Rajesh Bhatwal:** You're talking about '24-;'25?
- Pradeep:** Yes.
- Rajesh Bhatwal:** Yes, it is going to be applicable this year also, almost the same ratios we are working at.
- Pradeep:** Great. So, previous year I think we did a sales about INR100 crores with an EBITDA of INR18 crores and the upcoming year, I mean, the year which is going to close at March, the upcoming March 25, that is 24-25, we are still at least going to make 20% with sales and EBITDA?
- Rajesh Bhatwal:** If we can maintain the top line, then the EBITDA will be maintained. If it is lesser then definitely the ratio would be slightly different, but then I think we should be in a position to do all right by the end of this year.
- Pradeep:** Great. Thank you. Thank you so much, sir. I think that is the only question I have.
- Rajesh Bhatwal:** Thank you so much, Pradeep-ji.
- Moderator:** Thank you. As there are no further questions from the participants, I now hand the conference over to Mr. Rajesh Bhatwal for the closing comments.
- Rajesh Bhatwal:** Yes. Thank you. I thank all the investors who are present for this concall and we as a team at Nitiraj Engineers we are trying our best to grow further and with your all support and understanding, things are definitely moving in the right direction. I am hopeful to get much bigger business in coming period, but then I don't want to give any kind of figures or talk something in the air.
- Only when the business would come in, that will be seen on the board's notifications also very well. So please, I mean, once again I thank you for attending this program. And if there are any other questions or any queries you people have about the organization, about the companies working, feel free to ask us anytime by whatever means. And we'll be definitely happy to reply you correctly. Thank you so much.
- Moderator:** On behalf of Nitiraj Engineers Limited, that concludes this conference. Thank you for joining us. And you may now disconnect your lines.
- Rajesh Bhatwal:** Thank you.