



Permanent Magnets Limited

“Permanent Magnets Limited
Q4 FY '24 Earnings Conference Call”
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Permanent Magnets Limited



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MODERATOR: MR. SAYAM POKHARNA – TIL ADVISORS

Moderator: Ladies and gentlemen, good day and welcome to Q4 FY24 Earnings Conference call of Permanent Magnets Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Sayam Pokharna from TIL Advisors. Thank you and over to you.

Sayam Pokharna: Thank you, Yashashree. Good afternoon, everyone. We appreciate you taking the time to join us today on this call. As a reminder, our Q4 and FY24 results along with the investor presentations have been intimated to the stock exchange and are available on the company website.

Joining us today to discuss the results and provide us a brief overview of the business for the quarter and for the financial year including the outlook for business. We have some esteemed members of the management team, Mr. Sharad Taparia, Managing Director, Mr. Sukhmal Jain, Senior Vice President and Chief Financial Officer. We will begin with a brief overview of the quarter and the year from Mr. Taparia, followed by a Q&A session.

Please note that any forward looking statement made during this call must be considered in conjunction with the risks and uncertainties that are outlined in our annual report. With that, I will hand over the call to Mr. Sharad sir.

Sharad Taparia: Thank you Sayam. Good afternoon, everyone. I welcome you all to the Q4 and financial year 24 earnings call of Permanent Magnets Limited. Thank you all taking out the time to attend this call. It is a pleasure to address you all today and walk you through our performance for the quarter and financial year.

So, regarding the financial performance. Our financial performance for the year has been mixed. We reported a 9% increase in the total income for both the quarter and the full year. However, our profitability margins declined in the latter half of the financial year. We have explained this in our presentation that this was due to the changes in the product mix.

The business from EV customers, some of the EV customers have been slow this year resulting in a decrease in the contribution percentage from our top line. Consequently, we decreased, we witnessed a drop in the gross margins which has impacted the EBITDA margin and PAT margin.

For the full financial year our EBITDA margins stood at 18% compared to 23% in the previous year. We are expecting a comeback from the EV markets sometime, but it is difficult to predict a concrete timeline for the same. Now, regarding the domestic smart meters market, the smart meters market is looking to be a promising opportunity. It is being driven by a policy push from the government of India.

The industry has a target of 250 million meters out of which only 11 million have been installed as of May 2024. Apart from the existing components that we are already supplying to the smart meter industry such as CT, shunts and assemblies, we are working to add more

products to serve a larger portion of this opportunity. These new products under development and the breakthroughs on this front will add to our growth from this segment.

Regarding the alloys facility an important development has happened in this year which is the commencement of our alloys facility in quarter 4. We have talked earlier about working on capabilities over specific products as a strategy. And it is fair to say that the alloys business has been born out of our casting capabilities.

This is a promising opportunity and it has some inherent advantages in terms of quicker scale up to commercial orders and longevity of business. We believe that this will be a decent contributor to our top line very soon. We are already in advanced talks with some prospective customers in the oil and gas, aerospace areas to begin commercial supplies for various alloys.

As a backward integration project, we have also made investments in hydrogen and nitrogen gas generation plants at our facility to improve cost competitiveness in this segment.

Updates regarding quantum magnetics: Business from quantum magnetics in the neodymium and other rare earth magnet space is expected to scale over the coming years. Our first objective to begin with components and assemblies made out of the said magnets followed by backward integrated into the magnets value chain. We have completed our initial capex for this project and we are expecting revenues to start flowing from the current financial year.

Regarding the outlook, looking ahead our outlook for the coming financial year remains positive with domestic smart meters and alloys as the key drivers of incremental performance. EV markets are expected to make a comeback, but it is difficult to predict a timeline for the same. One more news is that Mr. Nirmal Jain has joined us as an Additional Director, Non-Executive Independent Director. He has four decades of experience.

Mr. Jain is a fellow member of ICAI and ICSI. He has had key roles in JSW Group since 1992. His experience in mergers, finance, law and restructuring was instrumental in establishing JSW as a rapidly growing conglomerate. We welcome him to PML board. So, thank you all for continued support and trust in PML. We remain committed to delivering value to our shareholders and maintaining transparency in our communication/ I now request moderator to open the floor for questions.

Moderator: Thank you very much. We will now begin the question and answer session. We will take our first question from the line of Rahul Jain from Credence Wealth. Please go ahead.

Rahul Jain: Yes. Thanks. Good afternoon, sir. Just a couple of questions on the alloy business first of all. So, we have mentioned a positive commentary on the alloy business in our presentation. Sharadji, how do we look at this business in the coming 2 years? What kind of scale we can achieve in this business? Just to understand more about the business in terms of its economics, scale-up, margins, if you could share some more details on this.

Sharad Taparia: See, the alloy business is quite different as compared to the current business that we are doing. Alloys are standard alloys across the world and they are very long-lasting. Currently, most of

our products are customized products which means one product cannot be sold to another customer because the design belongs to that particular customer.

In case of alloys, it is a standard alloys which we can sell to many customers. So, the business model is quite different for alloys business. This business has grown out of the capabilities of casting which we have been doing for so many years for the magnets and we have experience in the nickel and cobalt and such super alloys based casting.

And therefore, we are very confident about producing the right quality. We have tested this with many customers and have got all positive results till now. Commercial supplies have also started to some of the customers and right now they are all evaluating our capacity versus what they are buying and orders are starting to flow.

And also, the longevity of this business is much higher because currently as you know the existing parts what we supply to EVs or to energy meter segment they have a certain life. When the customer changes the design, we have to again develop the new design what they offer us. And it takes about 1 to 2 years to establish that and then start commercial sales.

And typical life of these types of products can be maybe 7 years, 10 years, sometimes 15 years, but alloys is a very long lasting business because the changes in this technology generally happens over many, many decades. The margins, your question about the margins on alloys, I would answer it in, there are two ways we are doing this business.

One, buying the virgin materials and supplying the alloy in which the margins are comparatively smaller, maybe about close to you can say about 15% or maybe 20% and in case of job work where we buy the customer has some reworks or scraps which they generate and we are purifying those materials for them and adding some more elements into that to make a pure alloy there the contribution margins are higher because a lot of value addition is done to make that particular alloy.

So, as we go ahead this overall margins what will come from the alloy business will depend on the product mix of these two categories. I hope I answered your question.

Rahul Jain:

So just if you could share something like based on the inquiries, the commercial supply as Sukhmal ji also pointed out, commercial supplies are also starting. And this being a new kind of business for us. So, typically, maybe not the near term, but say next 2 years what scale this business can go up to given the applications and the customer inquiries or the customer feedback?

Sharad Taparia:

This has a very high potential. We are finding that customers are very interested. Also, because the defense sector in India is the business is increasing and nickel alloys, cobalt alloys are particularly we expect the demand to be quite high.

So, it can scale very well. Right now, our expectation for this financial year it can range maybe between a top line of maybe INR25 crores, INR15 crores to maybe INR30 crores something like that, in between somewhere like that depending on how quickly we are able to scale. And maybe in the next year it can multiply more.

- Rahul Jain:** And with regards to the quadrant also if you could share at what stage now we today are, and going ahead in next 6 months to 12 months where do we find ourselves and of course in say next 2 years?
- Sharad Taparia:** Quantum is established as a subsidiary of PML and it is in the business of making assemblies for electronic parts. And there the plan is divided into multiple phases, three phases, let say. And we have implemented phase 1 which is making the assemblies, the capex has been done and production has started in the new facility. Right now, we are in the final approval stages from the customer. So this year commercial supplies will start.
- And as we go along we will sometime within this year we expect that we will finalize the phase 2 which is one step backward integration. And phase 3 will be further one step backward integration which will be sometime maybe our expectation is in the maybe coming 2 years or 3 years. But that we will see first how the phase one ramps up. And depending on that, phase two and phase three, we will implement.
- Rahul Jain:** Sure. Sir, one last question. For last about 12-15 months, we have been working for back two years, we have been working on improving the value add to a customer trying to give him a solution. And modules was a part of that. So, at what stage now we are in terms of modules, we had mentioned that over the next two, three years, we should be there?
- Sharad Taparia:** Yes, the modules development is going on, it is going on well. But the start of the projects given by customer is a little ahead. So, commercial sales have not increased so much. But it is expected income in the coming few years. But I would say it may be '25-'26. Maybe significant sales can start from '25-'26, '26-'27 onwards. Because customers are, automotive customers work well in advance to develop the parts. And there are many, many iterations that happen in terms of design and changes related to the design. A lot of testing they do.
- Rahul Jain:** Sure. So, thank you so much, Sharadji and Sukhmalji and all the best. Best wishes.
- Sharad Taparia:** Thank you, Rahulji.
- Sukhmal Jain:** Thank you.
- Moderator:** Thank you. We will take a next question from the line of Anirudh Shetty from Solidarity Advisors. Please go ahead.
- Anirudh Shetty:** Hi. Thank you. Thank you for the opportunity. Just a few basic questions from my end because I am a bit new to your company. Sir, the last four-five years, our EBITDA has been well about 19%. And prior to that, it was in single digits. So, can you just explain what is that inflection point that led to that dramatic margin improvement? And FY '24 might be a soft from a margin perspective, but over time, as you utilized investments better and as a share of the product mix changes, what do you think is a sustainable EBITDA margin that you can work with?
- Sharad Taparia:** We have two major segments of business, which is energy meter and automotive. In automotive also, there are two parts. One is the EV-related sales and there is a smaller part which is related to conventional automobiles.

Most of the products being a customized product, each product has a different margin level based on the complexity and the materials that are used in that particular product design. So, in the last few years, we could scale up the products, the demand for the products which were more complex had increased. So, therefore, our margins were increasing.

In the last year, because those particular products' demand was lesser, so therefore, FY '24, our margins overall show a reduction. But I am not too much worried about the margin levels on year-to-year. We are looking at a long-term larger picture for the company to become large. We are still a very small company. So, we are working as an overall strategy. We have decided to work on capabilities and various products that address those capabilities.

We are not saying that we are targeting EV or we are targeting energy meter. We are saying to the world that we have these particular capabilities and any product related to that capability is within our domain. So, margins year-to-year may change based on the product mix. But our idea is to take this company to a much larger scale, much larger level, based on various opportunities created out of these capabilities. That is what we are pitching to customers and that is how we are able to introduce so many new areas of business. So, alloy is such a type of business and gas meters, for example, was such a type of business. So, such different opportunities are coming to us because of this strategy of ours.

Anirudh Shetty:

Got it. So, my second question is, we are making our economics suggest that we are doing something very unique. We are a lot of our business, we are the only supplier. You did explain why alloy and casting is a niche to do, but I just wanted your views on the core business, the magnetic sensing, and say, what is the technology challenge there that we've been able to solve? What is the difficult part of that business to crack?

Sharad Taparia:

You are talking about which business?

Anirudh Shetty:

Our magnetic sensing, our current sensing, and the magnetic assembly business. You spoke about the alloy and the die casting, but I wanted your views on the magnetic and current sensing businesses?

Sharad Taparia:

Yes. So, in the current sensing space, most customers have their designs. They come up with a concept and they give us a design to start with. And that design, we give our inputs to the customers to make improvements so that the cost is lower and the efficiency of that product is better because sometimes the designers do not know what losses can be there during the production process. And that we iterate and we give our suggestions. There are tolerances, which sometimes if they keep too tight tolerances, the cost increases for production.

So, we give them our feedback. Then they make the changes. They again come back to us and this iteration happens multiple times, maybe six, seven times. Then we submit samples to them. So, this whole process may take six months, one year, sometimes two years. And that input given by us to the customer is the key part.

That is the value addition that we are doing, which helps them to design their products and to finally implement in the new EV platform. So, that is really the value add that we are doing because and once the design, the understanding is that once the design is final, then PML will

produce the parts accordingly. And if there is a capability which is missing to produce that particular part, we initially do it by vendors and then later on install that capability within the company. That is the model we follow.

Anirudh Shetty: And is this also true for magnetic sensing where there is a lot of value add that we give to our customer through our inputs around how to mass produce those products or is that the value add different there?

Sharad Taparia: Yes. In some cases in magnetic sensing, their product is already established and they are just creating a new version. They do not want to change the design. All that work has been done earlier. So, in some cases, we are the second supplier. So, there the only criteria to get the business is cost.

So, if our price is lower than the existing supplier, we will get the business. And based out of India, we believe we have a good cost structure. We are a low cost country and also there is a demand from the customer to move to have multiple sources of location instead of one single source or one single country.

So, they would like to have multiple sources given the uncertainties going on, political uncertainties going on in the world. So, that is also helping us to get more inquiries in the magnetic sensing and magnetic assemblies space.

Anirudh Shetty: Got it. And one final question is who?

Moderator: I request you to join back the queue please as we have other participants waiting.

Anirudh Shetty: Sure.

Moderator: Thank you. We will take the next question from the line of Rohit from Ithought Pms. Please go ahead.

Rohit: Hello. Good afternoon, Sharadji and Sukhmalji. Am I audible?

Moderator: Yes, please go ahead.

Rohit: Yes. So, sir, in the alloys business, I just wanted to understand two or three more things. So, one is that these alloys which we are going to make or which are already started to make, these are all who are our competitors here and who could be our customers, if you can just answer that. And second question as a part of this is, so you said that we are trying to make it from two ways.

One is buying the virgin metal and then making it all from the scrap. So, in terms of going for, I mean, how do you decide or how does like which method is going to be predominant and where do we play? How does it like, what is the deciding factor for you or the customer etc. if you can maybe elaborate a bit more on that?

Sharad Taparia: So, I would not like to answer and name the competitors or the customers. We are relatively new in this business and developing. So, I will not answer that question. And your other part

was how do we decide? So, once we are approaching customers who are currently already buying the alloys, they have a certain requirement of quality. Sorry, there are two parts to this.

Customers who are already buying the alloys, they are mostly, they require that we buy the virgin raw material, which is metals, and melt in the right proportion, establish the quality requirements. Here, the main requirements are the impurities and the trace elements. These are the main requirements of the customer, which are difficult to achieve.

And that, because of our experience of so many years in the casting space, we have the technology to do it. And that is why we have been able to be successful. And we know that customers have tried this with many other suppliers, and they have not been able to establish this. There are only selected companies who can do this. For the job work where customers have scrap, there some customers have approached us where they are doing machining, or they are making products out of these alloys. And because of the products, they have some scrap generation.

When they sell the scrap, they lose value of the metal, because scrap is sold at a discount. What we are doing is we are converting that scrap into fresh material for them. So, we are in fact giving them a value add. They are able to buy that. Instead of buying a fresh material, they are able to buy this reprocessed material, which is in fact as good as the fresh material. So, it is a win-win situation.

Rohit: Got it. And, I mean, you said you can't name the competitors as such, but these are all import substitutes. Is that a fair assessment right now?

Sharad Taparia: Yes, there are import substitutes also, and then there are some domestic players also. And we are working on both.

Rohit: And sir, again, let's say...

Moderator: Mr. Rohit, may I request you to join back the queue, please, as we have other participants waiting? Thank you. We'll take the next question from the line of Rudresh Kalyani from Kalyani Private Business. Please go ahead.

Rudresh Kalyani: Yes. So, see, I see that the bank balance has got increased by three times. Can you throw some insights on that?

Sharad Taparia: Can you see, last year, our working capital had increased due to the growth that happened in the year 22-23. This year, we have been able to reduce mainly our debtors, the receivables we have reduced. And the main contributor is that one.

Sukhmal Jain: Yeah, main contributor is a reduction in receivables. And that is being played in FD for future requirements. So, can you see from working capital...

Moderator: I am sorry, sir, you are not very clear. Can you come closer to the microphone, please?

Sharad Taparia: In the year, the working capital, if you see the days, in financial year 23, we were at 150 days.

- Sukhmal Jain:** Okay, now 120 days.
- Sharad Taparia:** Now it is 122 days. So, we have recovered the receivables that were outstanding. And therefore, the bank balance has increased.
- Rudresh Kalyani:** Okay, thank you. And is it possible to give the breakup of the revenue between the different verticals?
- Sharad Taparia:** We have given broadly the application-wise, In our presentation, we have given the application-wise revenue. You can go through that. And it is 40% ... See, one minute. It is... So, 48% comes from energy meter segment. 30% comes from automotive segment. And then there is 2% from gas, 17% from other applications. Broadly, this is the mix.
- Rudresh Kalyani:** And my final question is, see, I saw that China's EV market has grown by somewhere around 33% in the previous year. So, do we do any business with them? And so, since we had a downtick on the EV, so I was just checking.
- Sharad Taparia:** We supply to China, but those are mostly customers in Europe and USA. So, they are the deciding factor. They tell us to supply to their integrators and we supply to Chinese companies to integrate. But our supply to the Chinese EV manufacturers is not there. They are buying from China. They are buying from suppliers in China only.
- Rudresh Kalyani:** Okay, any plans to enter the market?
- Moderator:** I request you to join back the queue, please, as we have other participants waiting. Okay, thank you. We'll take the next question from the line of Ankit Gupta from Bamboo Capital. Please go ahead.
- Ankit Gupta:** Thank you for the opportunity. First question is on the domestic smart meter side.
- Sharad Taparia:** Sorry. 'Can you speak loudly, please? We are not able to hear you.
- Ankit Gupta:** So, the first question is on the domestic smart meter front. So, if you can talk about what kind of opportunity exists here? How do we see the scale-up for the domestic smart meter segment for us over the next two, three years? And related to that, earlier we did not want to participate in a big way in this market because of low margins.
- So, now we are participating. So, what kind of impact do you see on our long-term margins, EBITDA margins, because of the scale-up which will happen in the domestic smart meters?
- Sharad Taparia:** Yes. So, see, smart meter total opportunity is, the plan that the government has announced is about 250 million smart meters to be implemented and out of which only 11 million have been installed. So, it is a very large opportunity and we never said that we are not targeting this segment.
- We were always targeting this segment. Margins are low, yes, but we are not in a position right now to our pipeline. Although it is an increasing pipeline, currently we are not stopping any inquiries that are flowing to us from this segment or any other segment also.

Once, if our pipeline is so big that we have to pick and choose, then we will decide whether we, obviously, we will select the higher margin business first, but that is not the stage currently. We are not limited by our capacity or any such factors. So, we are taking all the business that is possible.

So, on the market side, this is expected to grow quite well. It is going to scale up very well and it presents a good opportunity for us. We are going to add more products for this particular segment in the near future.

Ankit Gupta: So, for a single smart meter, what kind of supplies can we have? Currently, we are supplying out of this, let us say a smart meter costs INR2000. How much supplies can we do for smart meters? If you can talk about it and how are we increasing that since you are adding new products?

Sharad Taparia: We may be able to see for different customers, maybe different things, but it can range from, let us say, INR20-INR30 to maybe INR300-INR350, something like that, depending on the product.

Ankit Gupta: The second question was on the Quadrant JV. Quadrant JV, since we have established the first facility, how do you see the ramp-up happening on this part over the next 2-3 years? How do you see this segment growing for us and can it become INR100 crores-INR200 crores kind of segment, not in the near term, but let us say in the medium term, 3 years or so?

Sharad Taparia: Yes, it can become that kind of level and already the subsidiary has been set up, the plant has been set up, commercial sales are starting this year and the JV may happen in maybe 1 or 2 years, depending on when we are looking at some legal formalities, so those are complete from both our sides, from Quadrant side as well as PML side. We will go ahead with that, but that is not stopping the business. On the business front, we are going ahead and developing those products and now we are in the stage of customer approval.

Moderator: Thank you. We will take the next question from the line of Vaibhav Badjatya from Honesty and Integrity Investment. Please go ahead.

Vaibhav Badjatya: Hi sir, thanks for providing the opportunity. Just have two questions. Firstly, on the margin decline, to me it seems like apart from the product mix changes, there are other factors here because even if I assume that in the overall out of INR100 of total sale, even if there is a mix change of 20%, the 5% movement in the margin seems quite high to explain the decline in the margins. So, if you can help us understand out of the 5% decline in the margin that has happened in FY '24, how much of that can be explained by product mix and how much are the other factors? That's the first question.

Secondly, we have seen the US imposing some additional tariff on permanent magnets from China. So, I am not sure which segment of our company will get benefited or will get some benefit in the JV and if it is in the JV, then whether it is phase 1, Phase 2 or Phase 3, when we will get the benefit, if there are any. If you can just answer these two questions, that will be helpful.

- Sharad Taparia:** First, regarding the margin, it is due to product mix mainly. Secondly, there are some products which are substantially high margins. When you see the overall margin, it is a weighted average effect of all these products put together.
- So, when we see a reduction in the very, very high margin products, those then affect the bottom line significantly. So, that is all that mostly we can say. There is no other major factor due to the decline and we are not so much worried about margin decline because that is when those products come into demand again, again the margin may increase.
- So, it totally depends on that. We are more concerned about long-term strategy, long-term growth of the company and a faster growth that is our target, a bigger pipeline, more diverse businesses so that we are not dependent on EV segment or energy meter segment or government-related incentives. We do not want to put the company dependent on these factors.
- We want to have a very long-term, very stable, diverse company. We are mitigating risk. And therefore, our push on the capabilities and therefore the different areas of business. I hope this answers your first question.
- Vaibhav Badjatya:** Just on this, if you can give me the EV-related product sales percentage in the total sales because right now we have geography-wise sales and application-wise sales which does not have specifically EV. So, if you can give us whether the EV sale last year, say, suppose it was 20% and now it is 10%, what has been the change in terms of mix for EV-related product sales?
- Sharad Taparia:** The overall automotive sales is about 30%, which is about, let us say, INR60 crores roughly. And out of this INR60 crores, yes, maybe INR15 crores out of this is maybe non-EV, balances all EV-related sales.
- Vaibhav Badjatya:** And the proportion was similar last year as well, FY '23?
- Sharad Taparia:** Somewhat like that. Yes, similar. But within this segment also, there are products with different margins.
- Vaibhav Badjatya:** Okay, got it.
- Sharad Taparia:** Because all products are customized products. We must understand that these are not standard products that we are supplying.
- Vaibhav Badjatya:** Got it. And if you can answer my question on the...
- Sharad Taparia:** The second question, yes, yes. US has imposed a duty on the EVs as well as magnets also. And this may present an opportunity for us, but we do not know. I mean, we are still not ready for that to supply because we have not implemented Phase 2 and Phase 3. Once we implement, we have implemented phase 1, which is the complete assembly. So, yes, it is an opportunity, but not an immediate one. It can play out. Maybe in the coming years, it may play out.
- Moderator:** We'll take our next question from the line of Ayush Agarwal from MAPL Value Investing Fund. Please go ahead.

- Ayush Agarwal:** Sir, my first question is on the alloy business. You mentioned that this year maybe we can do INR25 crores, INR30 crores. In 4 to 5 years, what kind of target or vision do we keep for this segment?
- Sharad Taparia:** We have not set any target as of now. We believe it has a large potential. Yes. Domestic also, internationally also, and it can scale up quite well. So, I can't give you any particular number on the target. But it is scalable. It is scalable, and then many other opportunities can come out of this business also and this materials also. So, it's quite an exciting and new journey for us. I can't give you any particular number on the target.
- Ayush Agarwal:** All right. So, the other way to understand is that if you can tell us about the market potentially, the domestic market itself, how big is the market for cobalt alloys or the kind of products you are targeting?
- Sharad Taparia:** We are still doing the market mapping because alloys, there is a multitude of alloys, maybe thousands of crores. But we have still not decided our sweet spot for this. We are right now in the stage where we are getting inquiries, and we are checking our costs, and we are offering to customers.
- Some cases have been finalized. So, we have still not decided which is our eventually the target market within the alloy space. So, I can't tell you right now the addressable market size. We are too small right now. But hopefully, it will grow and we will merge. Let us say we will focus our attention on one particular segment of this.
- Ayush Agarwal:** Okay. Sir, one more question on alloys is that you mentioned when you buy the virgin material and then melt it and convert it into alloys, there you make 15% to 20% margin. Another segment that you mentioned that when you take scraps from the customers, what margins do you make then?
- Sharad Taparia:** That depends on the complexity. Sometimes, there have to be multiple refining processes and many other complexities. Sometimes, the losses are very high because the scrap is in bad condition.
- So, if the complexity is high, we can achieve a margin of maybe 30%, maybe 35%, even higher also. And sometimes, in the virgin also, alloys business, if it is a fairly standard, very regular alloy, which say low cost Chinese companies are supplying, we may go down to margins which are even very low margins like 7%, 8%, 10%, 12%. We can do that also. Because they are costly materials. Yes. So, it totally depends on the alloy type and the scrap type. And where exactly does that capability lie?
- Moderator:** May I request you to join back to the queue, please?
- Ayush Agarwal:** Pardon me?
- Moderator:** May I request you to join back to the queue, please? As we have other participants waiting.

- Ayush Agarwal:** One small question. Sir, what edge do we bring to this business? Like what is our exact capability here?
- Sharad Taparia:** Casting is the main capability and then related now metallurgy, the knowledge of metals, casting, and how to purify, how to achieve the required chemistry. That is the critical part of it that we are doing. And then based on this now, we will look at further forward integration also. We will see what other opportunities arise out of this.
- Ayush Agarwal:** Thank you, sir answering the question.
- Sharad Taparia:** Thank you.
- Moderator:** We will take our next question from the line of Gautam Goyal from HCMR Private Limited. Please go ahead.
- Gautam Goyal:** Yes. So, my first question is on like smart meters. So, you said like there is a market of 250 million meters and our product ranges from INR30 to INR300. So, like what are the typical margins that we make on our revenue on this? And like what is the percentage of market that we are aiming to tap like on this? And do we see our revenue share like which is 40% right now for fiscal year 2024 increasing in the coming years from the energy meter segment?
- Sharad Taparia:** The margins depend again on the metal content. If the metal content is high, then the margins are low. So, it can be ranging from maybe 10% to 20%, somewhere around that range. Again, depending on complexity and the metal content, it can be in that range. We see a good potential. It can increase. Our revenues there can increase significantly based on what new products we add and our approvals from customers, how that plays out in the coming years. Opportunity is quite big.
- Gautam Goyal:** And like what is the percentage of the market that we are aiming to tap like in the coming couple of years? Because like this scheme was initiated in 2022 and it's been going on since then So, like and also do we see any revenue increase like in terms of percentage for us in the coming years from the energy meter like from the 48%?
- Sharad Taparia:** Yes, that depends on how the 48% actually is this total number of sales, total sales that we have done. So, depending on how the other businesses grow and depending on how the energy meter goes grows, that percentage will be decided by that. We are not stopping any inquiry flow currently from any of these segments, energy meter, automotive. Yes, we think that it can grow quite well, quite significantly it can grow.
- Gautam Goyal:** So, do we have any competitors in this segment like directly the same assemblies or something like the sort of person that we supply to these electric companies?
- Sharad Taparia:** Yes, there are competitors, there are Indian companies who do that, there are Chinese companies who do that. So, we are competing against them.
- Gautam Goyal:** Okay, and just one final question, like as we are like venturing into like rare earth metals segment, especially the Neodymium magnets and they find that extensive application even in

like wind turbines, motors and like all the components and permanent magnets in there. So, like are we looking into like going into that space as well or we'll just stick to the electrical components first and probably later we'll see that?

- Sharad Taparia:** Quantum magnetics has been established for rare earth magnets assemblies for that purpose and that there the phase 2 and phase 3, the idea is to produce rare earth magnets in India. Currently 90% of the material is sourced from China, but India also as a source and Indian government wants Indian suppliers to produce rare earth magnets, but the industry is dominated by the Chinese and sometimes it is difficult to compete in this segment due to pricing pressure put by Chinese players. So, but with the complete Indian supply chain, some customers may be willing to pay a premium also for this. Our target is to enter into this segment, we are going ahead, but the phase 1 is only related to assemblies.
- Gautam Goyal:** No, so I am asking about like wind renewable energy. So, like these magnets find their extensive application in renewable sector, especially in the wind sector like the wind farms and windmills. So, like is it in the plan?
- Sharad Taparia:** We start with one application, we start with the once we start magnet production, then we will look at all the magnets that are required in wind or EV or whatever space they are needed and we will start taking orders based on the margins, margin level for each type of magnet. So, then it is not a problem to produce any type of magnet.
- Gautam Goyal:** Got it. Thank you very much, sir.
- Moderator:** Thank you. We will take our next question from the line of Prateek Chaudhary from Saamarthya Capital. Please go ahead.
- Prateek Chaudhary:** Sir, on the alloys side, since we have been there in this or we business or we have had understanding of alloys as well as casting for many years, what has changed now specifically in the industry or the end customers for us to be able to tap, very significant buyer of the market? What has changed now?
- Sharad Taparia:** The change is mostly within us. The change is not in the industry. We decided to focus on this capability and enter this business. So, we are pushing this. And but what is, sorry, what has changed in the industry is the increased demand in the defense sector by boost given by government of India, which they are indigenizing parts. So, the materials required by these defense companies will need super alloys and these type of alloys.
- Prateek Chaudhary:** So, up until now, were we having any deficiencies in terms of product quality up until now for us to not be able to tap it earlier?
- Sharad Taparia:** We started thinking about this, this casting as a business about four years ago. That was the first thought process. Until then, from the last four years, we were building and trying various options related to casting business, trying to see what margins are there, what can we produce, what equipment is required.

All those iterations were going on. Finally, now last year, we made the investment. So, it is now fructifying. So, I would say we could have done this maybe many years ago also. But okay, whenever we decided, we decided four years ago. So, it has come to life. So, the industry has remained the same, mostly except this requirement by the defense sector from government of India.

Prateek Chaudhary: And on the quantum side...

Moderator: Mr. Chaudhary, I request you to join back the queue, please, as we have other participants waiting. The next question is from the line of Vikram Saraswat from Niveshaay Investment Advisors. Please go ahead.

Vikram Saraswat: Hello. I have only one question. So, recently, US government imposed 100% duty on EV import from China. So, we are exporting to these companies. They are manufacturing in China and then supplying to US and Europe market. So, this will impact our business?

Sharad Taparia: Our main customers, the main customers who approve the parts are in USA and Europe. And they decide where the integration of these parts will happen. They can decide whether it happens in Mexico or China or maybe Eastern Europe. So, if there is a duty imposed, they may decide to change that location of integration or whatever. I do not think it has any impact on our business. At least today, we cannot see any impact on our business.

Vikram Saraswat: So, there can be a positive impact on our business?

Sharad Taparia: It can be if the demand from the European and American manufacturers increase for the United States market. It will be a positive impact for us because our demand will go up for those particular platforms.

Vikram Saraswat: Okay. Thank you, sir.

Sharad Taparia: Thank you.

Moderator: Thank you. We will take our next question from the line of Sanjay Kumar from Ithought Pms. Please go ahead.

Sanjay Kumar: Hi, sir. My questions are on the alloys segment. You said INR30 crores top line. Is it right to assume INR3,000 per kg realization? So, roughly volumes will be 1 lakh kgs. And the other way to look at it, we seem to have a 50 kg per hour wind machine. So, two days, three days, 8 hours also gives me 1 lakh kgs.

Sharad Taparia: It can. So, the alloy, nickel alloys range is around somewhere around 2,000 to 3,000 range. Cobalt alloys may be more expensive. So, and steels are cheaper. And the scrap processing, there we are only doing job work. So, there the top line is very less. So, INR20 crores to INR30 crores when we say top line expectation in this year is a mix of all of these numbers.

So, if for example, if the scrap business is higher, reprocessing, when I say scrap, I mean reprocessing. If that business is higher, the top line will be much lower, but the bottom line will be healthy. If you consider a full business from virgin alloys, your estimation is more or

less correct. It is about 100,000 kilos and the rate of let us say 3,000 is that, but it may be ranging from 2,000 to 3,000 roughly that way.

Sanjay Kumar: And the capacity will be 1 lakh kgs roughly?

Sharad Taparia: Capacity, we are doing some improvements. So, capacity, we may have a capacity by within this year sometime between maybe 150,000 to maybe 200,000 kgs roughly. That also depends on the cycle times, more complex the alloys, cycle time may be more. So, it really depends on again alloy to alloy.

Sanjay Kumar: Cycle time in terms of the liquid supply?

Moderator: Kumar, I request you to join back the queue please as we have other participants waiting. Thank you. We will take our next question from the line of Vivek Seth, an individual investor. Please go ahead.

Vivek Seth: So, these alloys which are being used in the aerospace industry, I believe they would be required to meet certain standards. So, is a company on track with your standards?

Sharad Taparia: We have to take certain approvals and also quality standard in terms of AS certification. So, we are in the process of doing that, AS certification. And then in the aerospace also they require. So, yes, to answer your question, we need some of them we already have and some we need to do.

Vivek Seth: Can you specify the standards we have already achieved?

Sharad Taparia: We have ISO, TS, OHSAS and also one more. We have this ISO, TS, OHSAS, IATF we have and AS is pending for this particular plant. The other plant we already have AS, for this plant we need AS.

Vivek Seth: Okay. So, since you did not disclose the suppliers or the customers, can you just confirm whether they would be government customers or the private companies that would be giving you orders?

Sharad Taparia: We are working both. We have inquiries from both the signals.

Vivek Seth: Thank you so much.

Moderator: We will take our next question from the line of Raghavendra Singh, an individual investor. Please go ahead.

Raghavendra Singh: Congratulations on the top line. A lot of people I don't think were expecting that. Could you like give some detail on the quadrant JV we have? Are we free to pursue agreements with other companies also for technical know-how considering the tariffs will kick in FY 26 and we should see demand decrease?

Sharad Taparia: Right now we have signed a non-binding MOU. So, right now legally we are free to talk to companies but right now we find that quadrant is supporting as well and we would like to go

ahead with them at the moment. They have a fairly good standing worldwide. So, we are not pursuing any other opportunities for rare earth magnets or any other companies. Right now we are not looking at that.

Raghavendra Singh: And are the vacuum induction furnaces also going to be useful for phase 2 of quadrant or is there some other equipment also which we need to invest in?

Sharad Taparia: It can be useful in the material production for rare earth alloys. Yes. It is one of the processes.

Raghavendra Singh: And how much more capex would be required for phase 2? In quadrant.

Sharad Taparia: We made an overall plan. It is just an initial plan that we look at the total business was phase 1, phase 2, phase 3 put together about INR260 crores. This was the plan. Now depending on how it, depending on the timeline, we will see how it is to be done.

Moderator: Thank you. We will take our next question from the line of Ashish Soni from Family Office. Please go ahead.

Ashish Soni: Sir, you mentioned this high margin, it is being impacted. So, when do you think this high margin product can come back to the track in terms of the demand? I think you had some slowdown. So, because I heard earlier commentary from some other spheres, not exactly competitor, maybe a partner that the EV demand or other demand can go up from next quarter onwards?

Sharad Taparia: No, that depends on the customer when they get their demand and that depends on the general EV demand related to Europe and USA. So, I cannot say exact time period when it can come back.

Ashish Soni: But right now, what is the direction you are seeing for that? Is it still soft or do you think it is two quarters away? What is your sense right now?

Sharad Taparia: We do not have any view from the customer right now. So, I cannot comment when it will happen. But our direction is not to depend on one particular segment and to diversify such that we are not affected by such kind of variations.

Moderator: Mr. Soni, I request you to join back the queue, please. Thank you. We will take our next question from the line of Rohit from Ithought Pms. Please go ahead.

Rohit: Yes, thanks again for the opportunity. So, just a couple of questions. So, one, you mentioned your quadrant JV can probably do INR200 crores, INR300 crores or so well if they scale up in two to three years. Can you talk about the margins there as well? I mean, how are you thinking? And just longer term, I mean not immediately, probably four years out.

There are various pulls and pushes there in the sense that smart meters are slightly lower margin. Alloys could be also slightly lower compared to where we are today in terms of company if we take one product, one way of doing things. So, as an overall company, you talked about you want to scale up the company much faster from a size perspective.

How should we think about margins? I am again not talking about next 12 months or 18 months, probably two years, three years, four years, out. How are you thinking? How should we think about margins and how are you thinking about that? You can maybe talk about that?

Sharad Taparia: We are building a pipeline of projects in this EV energy meter segment. And right now, we are not restricting ourselves from taking on any project. Our pipeline is although healthy pipeline, but still it is not such a large pipeline that we can refuse projects. So, therefore, we will grow whatever comes to us within this our capability range, we will grow. Once we reach a pipeline level where we have to pick and choose, then the time will come where we will pick and choose higher margin opportunities. So, I hope I am answering your question.

Rohit: So, just from, so if we are at let us say 18% and historically we have done much more than this. So, as a company, while you may not look at like a percentage margin, but I am just trying to understand is there a chance that in the interim time, let us say, by the time we scale up and reach a level where we can pick and choose, is there a chance that margins may be a bit subdued because in the interim, I am just trying to understand. Is that understanding even correct or that may also be not correct?

Sharad Taparia: Currently, the demand what we have experienced in the last half of FY'24 is at a similar level. So, you can say yes, in this quarter, maybe similar levels can be expected. But whenever it will pick up, then it will improve. So, it is purely depending on when the customer gives their demand. Although the customers are saying that they are trying to use the same products which we have developed in other platforms also. So, it may, they are also working on that.

Moderator: Thank you. We will take that as the last question for today. I now hand the conference over to Mr. Sharad Taparia for closing comments. Over to you, sir.

Sharad Taparia: I thank you everyone for participating in the call. Your questions are important for us and we strive to be transparent in our investor communications. If there are any unanswered questions, please get in touch with our investor relations team to take it forward. Thank you all.

Sukhmal Jain: Thank You Very Much.

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