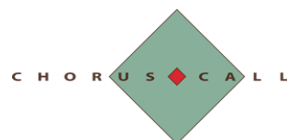


“Atam Valves Limited
Q1 FY’25 Earnings Conference Call”

July 19, 2024



MANAGEMENT: MR. AMIT JAIN – MANAGING DIRECTOR – ATAM VALVES LIMITED

MODERATOR: MR. DHIVIJ PATEL – MERLIN CAPITAL

Moderator: Ladies and gentlemen good day and welcome to Atam Valves Limited Q1 FY25 Earnings Conference Call hosted by Merlin Capital. 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. Dhivij Patel from Merlin Capital. Thank you and over to you, sir.

Dhivij Patel: Thank you. Good evening everyone. On behalf of Merlin Capital, I welcome you all to the conference call of Atam Valves Limited. On the management side, we have Mr. Amit Jain, the Managing Director and other Key Managerial Personnel. We must remind you that the discussion on today's call may include certain forward-looking statements and must be, therefore, viewed in conjunction with the risks that the company faces.

Now I hand over the call to Mr. Amit Jain for his opening remarks. Over to you, sir.

Amit Jain: Thank you, Dhivij. Good evening, everyone. I welcome you all to Atam Valves Limited FY25 Q1 Earnings Call. I am pleased to share that we have achieved a 10% growth in both revenue and net profit compared to the same period last year. Our revenue increased to INR11.48 crores from INR10.40 crores and our net profit after tax rose to INR93 lakhs from INR84 lakhs. In Q1, our EBITDA margins were 13%.

Typically, Q1 is a slow and soft quarter for us compared to the rest of the year. Looking ahead, we are confident in our ability to achieve our goals for the coming quarters. We are currently in an exciting phase and expect our growth to accelerate further. A significant upcoming milestone is the expected approval of our API license, which will be a key driver of our growth. I am confident of getting API approval very, very soon. I would further like to open the floor for the questions. Thank you.

Moderator: Thank you very much. We will now begin the question and answer session. First question is from the line of Tushar Vasuja from Yogya Capital. Please go ahead.

Tushar Vasuja: Okay. So my first question is on your API filing. So, what is the status on that?

Amit Jain: Okay. Your question is about API status, right? We have already filed for API and have provided all the prerequisites for the same. There was minor discrepancy which has been resolved from our end and hopefully by the end of August, we should have the API.

Tushar Vasuja: Okay, sir. And so, one more thing regarding your API. You mentioned that after API, for your API segment, you could get around 40% to 45% EBITDA margins in API files. But when we compare these numbers to other APIs, they are much in lower range, around mid range. So, how are we getting confidence of that 40% to 45% mark?

Amit Jain: See when we talk about bigger sizes of the valve, you know, about 60 inches, 72 inches, there are margins for those. And when you compare them with a small range of sizes, they are not

much margin, but still 25% to 30% is easily achievable. So you can say, overall, it will be around 40% to 45% because we want to extend our range till 72 inches.

Tushar Vasuja: Okay, so what is the range that we do now? Sorry? What is the size range that we do right now?

Amit Jain: We are doing up to 18 inches.

Tushar Vasuja: Okay, and that would be radius, right?

Amit Jain: Sorry?

Tushar Vasuja: That would be radius or diameter?

Amit Jain: It's a radius. It's actually a board size.

Tushar Vasuja: Okay. And so, just a hypothetical question. In case we don't get API, so what would be our, how would we move forward then? What would be our revenue mix after that?

Amit Jain: Well, it is hypothetical, but it is achievable and we will get the API. And especially, you know, with the range of valves that we are going to produce, definitely API will be there and we'll have good customer base. So, if your question is, if it is not there, then we are expanding our base in plumbing and fire fighting range of valves as well. So, that's again a good scope in the market.

Tushar Vasuja: Okay. And so, coming on to my next question regarding your guidance. In the last quarter, you gave a guidance of about INR17 crores. Because of some MSME issues, you weren't able to liquidate your inventory properly. So, you gave a guidance of about INR17 crores, but we actually achieved only INR11 crores. So, would you like to speak a bit about that?

Amit Jain: Sorry, can you repeat your question, please?

Tushar Vasuja: Yes, sir. I'm asking about your guidance because in the last quarter's guidance, you told that you would do around INR17 crores in quarter one on the basis that you were not able to correctly liquefy your inventory because of MSME issues. But we actually did around INR11 crores. So, can you please comment a bit about that?

Amit Jain: See, as everybody knows, last quarter basically was for, the election was there. So, you know, the big orders, they were not there because, big companies, they just wait for the outcome of the election so that they can expand their horizon or improve their projects. So, that's the only problem that we faced in the quarter one. And usually, quarter one is very soft in the whole year. So, our target was for 17. There is no doubt in it. But we will definitely, cope up with that number in the next quarter.

Tushar Vasuja: Okay, sir. So, what's the inventory right now? And if you could provide a split for finished goods and raw material, it would be really helpful?

Amit Jain: I don't have the numbers right now, but I can provide you. I can send the message and provide you the information later. I don't have the exact numbers right now.

- Tushar Vasuja:** Okay, sir. Fair enough. Sir, regarding our long-term target of INR1000 crores. Now, we had some hiccups during the past. We have not been able to meet our short-term guidance. But we have a long-term guidance of INR1000 crores, which has already been shifted once from 2030 to 2032. How on track are we to achieve that? Like, how confident are you regarding that amount and that timeline?
- Amit Jain:** See, we are confident of growing 35% to 40% for the next two years. Our expected top line over the next two years would be INR100 crores. Though we will outperform this as our API approval would be coming in next month. And post that, the room for growth will be exponential. We don't want to give any far-fetched guidance right now, but we'll stick to our growth trajectory of 35% to 40%.
- And when I say INR1000 crores, that's achievable. There's no doubt in it. Just because of some, delays in API, filing of the, API one. So that has caused a delay. Otherwise, we are on track. And we are confident that we will get that API.
- Tushar Vasuja:** Okay. And let's say you guys actually get your API approval next month, according to your estimates. How soon would we be able to commercialize those API vaults? Do we have the facility ready?
- Amit Jain:** Yes, we are expanding. We are already putting up some more machinery and making new molds and dyes for some of the products that we can easily make within our factory premises. So, we can see some growth for API in the quarter four.
- Tushar Vasuja:** Actually, API will commercialize in quarter four of this year?
- Amit Jain:** Yes, the orders, yes, you can say that. That will add to the top line.
- Tushar Vasuja:** Okay. And so, regarding, I have a question regarding replacement cycle of the valves. So, how often do our customers have to replace the valves? How often can we get business from them?
- Amit Jain:** If it's on the main line, usually we give, you know, warranty for 18 months. And after 18 months, either they replace or sometimes, if it's on a critical line, then they actually replace. Otherwise, they can do the part machining and redo the valve. So, usually, it's 18 months that we give a warranty for. And we believe that on a critical line, people changes valves in 12 months.
- Moderator:** Sorry to interrupt, Mr. Tushar. May we please request you to rejoin the queue as there are several participants waiting for their turn?
- Tushar Vasuja:** Okay, thank you. I'll get back in the queue.
- Moderator:** Thank you. Next question is from the line of Shaishav Vora, who is an Individual Investor. Please go ahead.
- Shaishav Vora:** Good evening. I just wanted to know that the promoter is holding...
- Moderator:** Mr. Vora may we please request you to use your handset? Your voice is not clear.

- Shaishav Vora:** I will get back. I'll get back in the queue.
- Moderator:** Okay sir. Next question is from the line of Rakesh Jain who is an Individual Investor. Please go ahead.
- Rakesh Jain:** Yes just wanted to understand that in the coming next the entire financial year, how will we cope up with our guidance like the single quarter that we performed this year does not... I mean, the gap is too large when I talk about achieving that INR70 crores or INR80 crores of guidance that we are talking about when we say we want to grow 30%, 35% from here on. So how will we catch up that gap?
- Amit Jain:** Like I said before that quarter 1 is always soft and this time it was election time. So the projects were not materialized. Yes and when I say that we will achieve that target, recently we got one very good project approval in Sun City. Like I said, we are doing some valves in plumbing and fire fighting as well. So it's all based on the approval thing.
- So Sun City is a quite big project and they have given approval to Atam Valves Pan India. So with this we can expand our base in the builder and contractor area as well. So step by step we are increasing our customer base. Like Sun City is there then we'll definitely move to some other contractors and builders as well. So achieving the ATCR is realistic and we can do that.
- Rakesh Jain:** Okay. So is it fair to say that we can I mean, for Q1 we have done around say INR11 crores. So for next three quarters we will have to at least do INR20 crores each quarter to cope up with those numbers. So we can do that?
- Amit Jain:** I can tell you from last four, five, six, seven years last quarter is always a big quarter for everybody, especially in our segment. And you can say that whatever we have done in three quarters we achieved that in last quarter. So we cannot say that every quarter we will achieve that number, but yes ATCR will definitely drop by the end of this year.
- Rakesh Jain:** Got it sir. And sir on margin side just wanted to understand that this quarter your margins have gone down by 13% sorry to 13% and ideally your margins are anywhere around 20%, 25%. So just to understand why that kind of fall in the margin and what is your guidance on the margin for full year at blended level?
- Amit Jain:** See, EBITDA will be around like I said before it will be around 20% to 25% for average EBITDA for the year. For this quarter the turnover is less. So that's the only reason. And we are developing and we are making new modes and expansion is going on and there are so many expenses that's going on. So that's another reason the margins have gone down, but we will cope up with that, with the numbers top line numbers.
- Rakesh Jain:** Okay. Fine sir. So I'll join back in the queue. Thank you so much.
- Amit Jain:** Thank you.
- Moderator:** Thank you. Next question is from the line of Shaishav Vora an individual investor. Please go ahead.

- Shaishav Vora:** Yes. So just wanted to know that the promoter holding was 70.79% on March 24 and it has come down to 60.99% now. So any particular reason why the promoter holding is falling?
- Amit Jain:** Actually we were approached by long-term investors and as an opportunity we thought this was the right time for dilution. Since we require funds for expansion post API and managing working capital. We are open to taking that as well if required in the future, but since our base is very small, we didn't want to dent our books. So the money that has been diluted will be pumped back into the business again for growth. We will always look to increase our stake again in the future.
- Shaishav Vora:** Okay, sir. Thank you. And sir about this pathway diversification, I think we discussed in the last quarter, last earning call also it's on hold for the timing?
- Amit Jain:** Yes, it is on the hold. We want to concentrate mainly on API.
- Shaishav Vora:** Correct sir. That's it. Thank you.
- Moderator:** Thank you. Next question is from the line of Aditya an Individual Investor. Please go ahead.
- Aditya:** Sir in one of your slides you mentioned that there will be a ramp up in exports once you get the API certification. So can you please quantify what is the export right now we are doing and what will be the export number once we get the API?
- Amit Jain:** See right now our exports is about 10%, but post-API our main focus will be on the exports only because margins are going to be good in the export business. So we would like to increase that percentage to at least 40%.
- Aditya:** Okay. And the other thing was there are some potential clientele that you have mentioned in the API integration side. So how much will they be contributing and still my questions remain unanswered as to what number that we are seeing right now from the export once we get the API?
- Amit Jain:** Those are the big clientele that we want to target, but it will take time to take them into our kitty. But to start with we will approach other players who have those API and we'll try to do OEM kind of things for them. So once we set up our infrastructure and product base then we'll approach these kind of clientele. So it will take around two to three years, but yes those clientele will be there for us.
- Aditya:** And your views on this wastewater management sector that you are exploring right now and what kind of things are you seeing right now?
- Amit Jain:** It's an exciting sector for us too, but we are receiving inquiries but our current focus is API. So it's premature to say anything right now, but surely some developments are happening over there. We'll keep you posted.
- Aditya:** And final question on this API certification side. In our sector maybe listed players do we have any player who's got this API certification already and anything on that?
- Amit Jain:** In India you're talking about?

- Aditya:** In India?
- Amit Jain:** Yes. We have players like Oswal Valves and Hawa Valves they are there. They have API from -- actually they are in Mumbai and Ahmadabad, they are getting good business from API.
- Aditya:** Okay. So they do similar kind of margins that we're talking about in API?
- Amit Jain:** Yes and recently Oswal has introduced 76-inch gate valve. So we are concentrating up to 72 and people are already expanding to 76.
- Aditya:** All right. Okay. I will get back into the queue and come up again. Thank you so much.
- Amit Jain:** All right. Thank you.
- Moderator:** Thank you. We have our next follow-up question from the line of Tushar Vasuja from Yogya Capital. Please go ahead.
- Tushar Vasuja:** Hello. Thank you for the follow-up opportunity sir. My question is we have given a similar guideline of INR80 crores for the last year also, but we failed to reach that. So what has fundamentally changed since the last time that we gave such a guidance like what can we do different now?
- Amit Jain:** So like I said we are getting approval in plumbing segment like Sun City we just got approval. And in last year it was MSME problem was there. So we are out of that and we are expanding our base in plumbing, fire fighting and hopefully for the last quarter API will contribute as well. So these are the changes, major changes.
- Tushar Vasuja:** Okay. And coming back to what I asked earlier regarding the replacement cycles. So we did some scuttle, but it is found out that usually a replacement life from a customer's perspective it's usually more than five years like valves they last for five years at least. So what's the reason for our warranty being so low like is it just a cautionary measure or do they actually replace the products, replace the valves periodically like that?
- Amit Jain:** People give a lifetime warranty as well, but those depend on what kind of valves they are. Some plumbing valves you can give lifetime warranty. They won't go anywhere. When you put the valve on the tank, overhead tank you hardly use that valve. So you can give lifetime warranty for that, but for the special application, critical applications like this oil and petroleum industry, you have to have regular checkups and 12 months, 18 months is the highest period that they have to change the valve.
- Tushar Vasuja:** Okay sir, but as far as my understanding we don't do petroleum and oil industry right now because we don't have the API certification. Is that understanding correct?
- Amit Jain:** Yes, but we are doing for these kind of Valves, but we don't have API to, send it to petroleum and other industry. But we are giving these Valves to the Boiler Mounting Industry for the pipelines. And they are changing walls every 12 months, 18 months. So that's our major customer base as well, Boiler Mounting.

- Tushar Vasuja:** Okay. And so another question regarding a raw material. So what's a raw material mix?
- Amit Jain:** So it's a Bronze. It's a Cast Iron. It's WCB. It's Stainless Steel 304, 316. These kind of raw material we are using for the Valves.
- Tushar Vasuja:** Okay, and what is it possible to give a percentage on how much it cost for raw material cost? What's the largest raw material that you use?
- Amit Jain:** See Bronze, it's very expensive. And if you compare it with Stainless Steel or WCB, but the process to make the Stainless Steel Valve is very expensive. We call it investment costing or loss-tax process. Is this the right reply to your question or your question was different?
- Tushar Vasuja:** No, my question was regarding that you guys must use a different set of raw materials, right?
- Amit Jain:** Yes.
- Tushar Vasuja:** So you have a set fixed cost at the end of the year that you guys spend this much on raw material. So what was the biggest contributor to that? What material cost the largest? What's the most critical for your operations?
- Amit Jain:** So it's the Gun Metal scrap.
- Tushar Vasuja:** Okay. And sir, one last question.
- Moderator:** Sorry to interrupt, Mr. Vasuja, may I please request you to rejoin the queue for any other follow-up questions, sir?
- Tushar Vasuja:** Sure.
- Moderator:** Thank you. Next question is from the line of Parthiv Dalal from Antique Stock Broking. Please go ahead.
- Parthiv Dalal:** Yes, hi. I joined a bit late. I wanted to check what is the plan for capacity enhancement given your roadmap for the next 6 years, 7 years?
- Amit Jain:** Yes, like I said before, we stick to our vision and we are going to be growing at least 35% to 40% for the next 2 years, 3 years. API is going to be big for us. And definitely when we say we want to make 72-inch range of Valves, we need good enhancement and infrastructure and capital base. So it will take at least 2 years to 3 years for us to set up a new unit. So you can say that in another 2 years.
- Parthiv Dalal:** What kind of capital costs are you envisaging for that?
- Amit Jain:** It will be around INR70 crores to INR75 crores, capex.
- Parthiv Dalal:** And typically, what's the kind of assets that you are investing, INR70 crores, INR75 crores?
- Amit Jain:** Sorry, I didn't get you.

- Parthiv Dalal:** What kind of asset terms do you have in that, this kind of a capex? So turnover to gross block, what kind of ratio is that?
- Amit Jain:** Sorry, I didn't get your question.
- Parthiv Dalal:** When you invest INR75 crores, that can lead to what kind of a top line?
- Amit Jain:** Yes, at least three times.
- Parthiv Dalal:** Okay. So then in towards your roadmap for 2032, you will be having to do at least 3 or 4 times such capex, right?
- Amit Jain:** Yes, [it will be 27:28], yes.
- Parthiv Dalal:** That will be ongoing in a day, right?
- Amit Jain:** Sorry, your voice is not clear.
- Parthiv Dalal:** I'm saying that will be ongoing capex over the next 8 years or whenever, because on a INR70 crores capex, you will generate INR300 crores offline. If you want to go towards INR1,000 crores, you're saying you will be in a capital spending phase for the next 8 years. Is that a correct interpretation?
- Amit Jain:** No, there will be another round as well for, to achieve that INR1,000 crores. But once we have that range of Valves with us and the clientele will be there, then definitely we'll have another round. In another, you can say 6 years, 7 years.
- Parthiv Dalal:** And that will be funded primarily through debt the first round?
- Amit Jain:** Sorry?
- Parthiv Dalal:** The first round will that be primarily funded through debt? You'll be taking debt to fund the first round?
- Amit Jain:** It will be both. It will be both equity and debt.
- Parthiv Dalal:** Okay, thank you.
- Moderator:** Thank you. Next question is from the line of Aryan Oswal an individual investor. Please go ahead.
- Aryan Oswal:** So how difficult it is to get the API certification as we have been trying hard to get the certification?
- Amit Jain:** See, it's not difficult when you are focused and when you have the infrastructure and when you have the system intact. It is difficult if you don't have these kind of things. We can say that it's not difficult for us anymore. It was difficult two years ago, but not anymore.
- Aryan Oswal:** So can we expect that it won't get delayed any further?

Amit Jain: See, we are confident because we have given whatever the requisitions were there. And since we are dependent on auditors and all we are confident that we'll get it by the end of August.

Aryan Oswal: Okay, thank you, sir.

Moderator: Thank you. Next follow-up question is from the line of Aditya an individual investor. Please go ahead.

Aditya: So just as you told that we'll be working as an OEM with the API peers, so will be the margins similar if we do that? Because I feel that when we do the OEMs, we might not get the margins that we are anticipating right now.

Amit Jain: Yes, they'll be different. There is no doubt in it but the quantum will be there to start with.

Aditya: Okay, so if you have any numbers like, I guess 40% to 45% is what you're getting and what would be the margins in the range if you do as an OEM?

Amit Jain: As an OEM, we can do up to 25% to 30%.

Aditya: Okay. That comes only when we are not, we might not get the customer that we are right now as a potential client.

Amit Jain: Yes. It will take two to three years. We'll definitely touch direct clients with our own brand and that will improve the margins.

Aditya: Okay. That will take around two to three years?

Amit Jain: Yes.

Aditya: This API, if we get it over the next one month or two, so when will we see the revenue recognition happening? Will it take around two to three years first to book some numbers? Or how is it?

Amit Jain: No, we'll start seeing the results in the quarter four itself. Once we have the API. Yes.

Aditya: Okay, this is the final question that I want to ask. So once we have this API, we have around 96,000 capacity. So do we need to increase that capacity or we'll be able to do it in this capacity only?

Amit Jain: we are -- the previous question somebody asked about the dilution. So we are only pumping in the funds in the system and we are expanding the machinery and infrastructure already. And that number of 96,000 will definitely be going to be more.

Aditya: More than what right now we are having.

Amit Jain: Yes.

Aditya: Got it. All right, thank you so much. All the best, sir.

Amit Jain: Thank you.

Aditya: Thank you very much.

Moderator: Thank you. As there are no further questions, I would now like to hand the conference over to Mr. Amit Jain for the closing comments.

Amit Jain: All right, I want to thank everyone for joining in. The shareholders, we are at an inflection stage and our growth will keep heading northwards from here on. We are confident of doing the top line of INR7280 crores this year and step by step ahead towards our goal. Thank you, everyone. Good day. In case there are any queries please reach out to our investor relations team. Thank you.

Moderator: Thank you. On behalf of Merlin Capital that concludes this conference. Thank you all for joining us and you may now disconnect your lines. Thank you.