



June 10, 2022

Ref: Sec/Sto/2022/06/04

**Corporate Relationship Department
BSE Limited**

Phiroze Jeejeebhoy Towers Dalal Street,
Mumbai – 400001

Subject: Transcripts for the Institutional Investors Meeting held on 7th June 2022

**Ref : Kennametal India Limited - [Scrip code: 505890]
Our Letters No. Sec/Sto/2022/06/03 dated June 7, 2022 and no. Sec/Sto/2022/05/10 dated
May 30, 2022**

Dear Sir / Madam,

In further to our above letters, we enclose herewith a copy of the Transcripts of video recording of the meeting held with Investors / Analysts viz., Mr. Priyaranjan (representing HDFC Mutual Fund), Ms. Veena Patel (representing Narotam Sekhsaria Family office) and Mr. Yashwardhan (representing office of Mr. Kamlesh Shah) on Tuesday, June 7, 2022.

The said Transcripts is available on the Company's website at: <https://www.kennametal.com/in/en/about-us/kil-financials/press-release---investor-calls.html>

Kindly take the same on record.

Thanking You.

Yours faithfully,
For **Kennametal India Limited**

A handwritten signature in blue ink that reads "Naveen Chandra P." with a small flourish at the end.

Naveen Chandra P
General Manager – Legal & Company Secretary

Encl.: As above

Management - Kennametal India Limited	Mr. Vijaykrishnan Venkatesan, Managing Director
	Mr. Suresh Reddy, Chief Financial Officer
	Mr. Naveen Chandra P, GM – Legal & Company Secretary
HDFC Mutual Fund	Mr. Priyaranjan
Narotam Sekhsaria Family Office	Ms. Veena Patel
Kamlesh Shah Office	Mr. Yashwardhan

Naveen Chandra:

With all your permission, the recording of this meeting has just started. I would like to start off by introducing myself, I am the Company Secretary and Legal Counsel for Kennametal India Limited. My name is Naveen Chandra, with me in the board room is Mr. Vijaykrishnan Venkatesan our Managing Director and also Mr. Suresh Reddy who is our Chief Financial Officer, virtually present our, you know, the investors Mr. Priyaranjan from HDFC, Mr. Yashwardhan from Kamlesh Shah's office and Ms. Veena Patel representing Sekhsaria Family Account.

So, I would before I hand over the floor to the investors, I would like to read out the disclaimer to this investor meeting:

"We will not be making any forward-looking statements on this call and we would be restricting our talk to publicly available information only. Nothing stated during the call should be inferred or construed as forward looking or outlook statement from the Company. All details and data being talked will be strictly historical and market estimates based on publicly available reports. Any statements made during the call if construed as forward-looking statements might involve risks and uncertainties and the participants in this meeting are cautioned not to place undue reliance on these statements that speaks as of that dates. With that I handed over to the investors to post any questions and the management is happy to answer them."

Veena Patel:

So, I just like to begin, am I audible?

Management:

Yeah, yes, yes.

Veena Patel:

Yeah. So which are the growth areas that the company has identified in the last three to four years, especially in the non-automotive space and that practically has been driving our growth in spite of the auto segment still not performing?

Vijaykrishnan Venkatesan:

Hi Veena, So I will cover broadly, because a similar question might come from the other two investors too. So, when you're looking at the industry, right, and looking at growth, now one cannot say that there is no growth in automotive, right? while at aggregate level automotive industry could be a soft or went through a dip and it's coming back.

Our focus has been one: driving productivity solutions. I'm first addressing one of the parts of your question, which is automotive. Now we continue to drive productivity solutions that our customers hence there could be of growth opportunities there and similarly, there are a lot of new products which Kennametal launches through the year. Now we talked about three to four years, so the new products which come and if the customers finds that useful to them, that's an added business, right, so that's just talking about automotive. But beyond automotive, when we look at, I'm going to answer this much more broadly at Kennametal India level, but what segments which get attractive, first of all is general engineering, right, when we talk about general engineering, everything other than the sectors what we define as an automotive or energy or aerospace, right, every other manufacturing, what we call the core general manufacturing continues to grow in the industry, right? It's MSME's are part of it, but there are also large accounts which are part of it. So, the general engineering sector has continued to be a good area for us to focus, while there are other segments which are niche but been quite promising is energy sector, when I say energy its both the traditional energy sector, which is, turbines which are made for, let's say, thermal or nuclear and also wind, right, so the energy sector has been quite good in terms of how it's performing in the country and the next area is the aerospace market.

Hope this answers your question what you had post.

Veena Patel:

All right. And just continuing with this same look question and then pass on to the other participants is how is the competitive intensity in the non-automotive space for our company?

Vijaykrishnan Venkatesan:

So, we don't have data because this is not an industry which is really documented, right? So, if you look at competitive intensity per se, I won't differentiate vis-à-vis, let's say a sector, because it's goes by product lines, I'll give you an example, if there is an insert which goes for a particular application, it's the same insert, which goes for whether it's an automotive component or it's, say, a general industry or it's going to be an energy or let's say, somebody who builds a component for a railway, it's not very different. So, I won't say that it is much different in terms of competitive intensity. It is about which players exist in the country and it's, from my standpoint, it's all consistent of irrespective which induce segment we talk about.

Veena Patel:

Ok.

Yashwardhan:

So, I also had a question on the machine tools. So currently I think there are doing around 60 crores of machine tools and most of that is probably exports. So, what is the strength in the machine tools and what is the scope further in this segment?

Vijaykrishnan Venkatesan:

You are talking about the machine tools or you are talking about the machines, right?

Yashwardhan:

Yeah.

Vijaykrishnan Venkatesan:

Ok. Last year number would have been our annual report would have shown a higher number than INR 60 crores with MSG, INR 110 crores last year, if I may be of one or two crores here and there, it's roughly INR 110 crores as per the last financial year, INR 110 crores, right?

Suresh Reddy;

Yeah, 110 crores.

Vijaykrishnan Venkatesan:

110 crores. Now this is a very large business. again, I don't have a number which I can directly give you, but as you know the size of the machine Tool industry, when you talk about machine tool industry, it's I'm talking about the machines itself, it could range anywhere between, depends on which all machines you had, which can range from a \$900 million to a \$ 1.4 or \$ 1.5 billion in India, right, it depends on what you define as addressable market, but to answer your question is it's big? The answer is yes, it's quite large, it's a quite large opportunity which exists in the country.

Yashwardhan:

Got it. So, currently the, but this year we exported around 60 crores, right?

Vijaykrishnan Venkatesan:

You are again referring to last financial year, right?

Yashwardhan:

Yeah. Last Financial Year.

Vijaykrishnan Venkatesan:

Yes.

Suresh Reddy:

Are you talking about FY22, June 2022 or?

Vijaykrishnan Venkatesan:

Previously, the one which we published the Annual Report FY21.

Yashwardhan:

FY 21

Vijaykrishnan Venkatesan:

FY21.

Yashwardhan:

FY21 was INR 60 crores and FY22 you are saying about INR 110 crores ?

Vijaykrishnan Venkatesan & Suresh Reddy:

No No No.

Vijaykrishnan Venkatesan:

we are not giving any data for the current year.

Yashwardhan:

Ok, ok.

Vijaykrishnan Venkatesan:

So last year, FY21, the sales of machine tool business was INR 110 crores.

Yashwardhan:

Ok

Vijaykrishnan Venkatesan:

You said INR 60 crores, I corrected saying that it was INR 110 crores is what was the sales. Exports what you might be seeing in the annual report, it includes hard metals, right, that's also intercompany exports, so that is different from just the machine tools.

Yashwardhan:

Got it. Ok.

Suresh Reddy:

we have the two segments of hard metals and Machining solutions group. The Machining Solutions group is the segment which manufactures the machines.

Yashwardhan:

Got it. Ok.

Suresh Reddy:

So the last year we were at around INR 110 crores.

Yashwardhan:

Ok, but do you see of like a huge scope in this segment per say, because if the addressable market is so big, do we plan to put a little bit of focus on this as well?

Vijaykrishnan Venkatesan:

See I will not, I will be a little cautious on saying in terms of there's no numbers which we can discuss here, right, even the nature of the call but, are we the focusing the answer is yes and it's a large business and we have a significant strength in that business within the country in terms of capabilities, so the question is how much we can be competitive in the industry and how well we can interact with customers to increase our business.

Yashwardhan:

I feel, I think Kennametal India persuades doing the machine tools, right, because the parent is not involved in this business. So, what is the parent like the parent company's view on this entire segment?

Vijaykrishnan Venkatesan:

Very good question. So, it's a business which is in India, I would say it's headquartered, let's say in Bangalore. Now, this business has been there for more than it's it started in 1984, ok, so it's been around for quite a while. We have more than 4000 installations so far, customers are extremely happy with what, so this business comes under the brand WIDMA. And that's the name of the machine or the brand under which we sell. There is a lot of strength in the business in terms of the teams understanding of customer processes, there is a lot of design and engineering strengths within Kennametal India to drive the business. So given that it has been a very strong legacy business and customers are very happy with the machines, what we supply. So the view, what corporate has is to continue to grow the business.

Yashwardhan:

Ok

Veena Patel:

Just a continuation to this question itself. Has there been any thought process from the global parent side to develop India entity as an outsourcing hub? Because we have two different brands parallelly being in position in India. One is the Kennametal brand and other is a Widia brand, so the Widia typically happens to be more of a kind of a trading segment. But any plans that probably we can also develop a capabilities of producing in India itself and going ahead turn out to be an outsourcing hub for our global parent.

Vijaykrishnan Venkatesan:

Veena, just I want to little go a little deep because you talked about the brand first and also then capabilities of becoming a global hub, first is in terms of brand strategy which is globally articulated, so when we talk about the products which we supply from the Kennametal range, the Kennametal brand is what we push in as full service solutions provider, right, so it comes in the, let's say, much more deeper, wider and deeper solutions what we provide for our customers. Now when it comes about a Widia brand, it's positioned in what we call performance. Now it's not traded, so Widia is also our go to market model is

very similar for Widia too. It's something which we deliver drive value to the customers, right, but just that there are certain aspects of Kennametal products, especially the brand where, let's say in aerospace segment, we'll have more to offer from a Kennametal's table than a Widia's table, but when we look at certain segments like general engineering, a Widia product would be a much more go to brand for us, so it's the same what do you call technology, but depends on what product portfolios we make in these two brands, right, one is more suited than the other end depending on which segment we offer, now to look at as you know in the Annual Report we have, there is a category called exports, right? Most of it is intercompany exports.

Veena Patel:

Ok.

Vijaykrishnan Venkatesan:

Now the way, Kennametal uses it looks at opportunities in terms of where we make the best quality product at the lowest cost, right, it's usually the cost, quality cost and delivery and it's a global manufacturing footprint, so, it's not that one plant would be favored than the others. It depends on capacity utilization, footprint rationalization and speed to market right, which is the most efficient way to service the customer requirement irrespective of where the customer is, based on that the volumes are given to a particular plant for exports.

Veena Patel:

Right.

Vijaykrishnan Venkatesan:

Suresh you want to answer?

Suresh Reddy:

Yeah, sure. Why you assumed Widia as only trading? Ok, maybe because we had a WITPL subsidiary which used to trade a Widia product, but actually it is manufactured in our Bangalore plant, most of it 80% of the Widia brand is manufactured in our plant, but a couple of years back, we had a strategy to push the Widia brand through a subsidiary and hence it was rooted from manufactured in KIL, Kennametal India Limited, but sold through WITPL 100% subsidiary of Kennametal India Limited. So that is why may be you have seen that as a trading, but actually it is a manufactured in India but sold through WITPL. Now we have collapsed it back to Kennametal India Limited itself, so it is part of Kennametal India business itself. Whatever we manufacture in Bangalore, most of it would go to the domestic market.

Veena Patel:

Ok, my this question was precisely on the premise that we have undertaken a lot of modernization and upgradation related expenditure because we went VRS in the initial period then brought out a productivity enhancement initiatives. So probably our quality would now be of such a level that we could start sourcing to a global parent also, so I just wanted to pick your brain on that particular aspect.

Suresh Reddy:

Vijay, can I take that?

Vijaykrishnan Venkatesan:

Yeah, please go ahead.

Suresh Reddy:

So, VRS thing is more on bringing in operational prudence in terms of cost management, Ok, nothing to do with exactly modernization too much, but of course, there would be some amount of modernization initiatives also where we are bringing in automated machinery where it could give us some headcount leverages, ok, but if the business is growing, then I cannot say I'll take off the people too much as well, but that is more to bring in the cost because our cost also had to be looked at in terms of rationalizing the whole cost structure. So modernization, investments to a certain extent, yes, new equipment's with modern capabilities have been invested in. Then we have been investing for capacity building. If you have seen, we were 570 crores in five, four years back or five years back. So, we are now close to 900 plus, so the capacity additions also goes into that CAPEX investments. Then of course we are also looking at building some amount of infrastructure in terms of building to house the new additional capacities where there is movement of investments. In future, may be the similar investment may not be required, but incremental investments to meet the volume requirements would be required.

Veena Patel:

Perfect. Thank You.

Priyaranjan:

Yeah Hi, my question is related to the cutting tools industry. I mean, the cutting tool industry is highly dependent on the Two-Wheeler industry and where the liquification is happening like maximum, so what kind of the growth if the provider industry or?

Vijaykrishnan Venkatesan:

You are not audible

Suresh Reddy:

Not very clear, Priyaranjan

Priyaranjan:

Hello. Is it audible?

Suresh Reddy:

A much better but it could be,

Vijaykrishnan Venkatesan:

It could be better, better than the, when you spoke the first time.

Priyaranjan:

Ok, so let me try.

So my understanding of the cutting tool industry is more from say from Two-Wheeler angle. So, Two-Wheeler is actually high, highly high consumable industry for your kind of business. So if the electrification trains picks up in the Two-Wheeler industry which is what is going around in the market and the government focus is also complete electrification in its 5 to 10 years period. So what is the risk we see in the in the industry for our kind of product because I guess Two-Wheeler will be one of the key components.

Vijaykrishnan Venkatesan:

Thanks Priyaranjan.

See, You look at Kennametal India, right, you're looking at the total company at this when you are asking that question now, two Wheeler, any one segment, if you dissect you, you look at the total business, right, right from Two-Wheelers, then Four-Wheelers. You are looking at commercial vehicles, you look at off road vehicles and you look at railways and you get into steel manufacturing, I don't think our dependence as a company would in any subsegment would exceed a double digit figure in terms of dependence, first, ok, because there are, we are extremely diversified, when I look at from Kennametal India Limited.

Now, getting into your specific question, so hence if you ask me as the head of Organization I will not be worried about that transition, now why I'm saying that now Two-Wheelers now little bit of technical answer to this, a lot of machining in Two-Wheelers is on aluminium, it's a lighter, lighter components and aluminum is a very different kind of requirements when it comes to machining. Now just imagine the same with a cast iron and a steel when you're making trucks and buses, the volume is much higher. Hence the consumption of tools, I just want to correct for Two-wheeler industry may not be as large as some of the other industries.

Priyaranjan:

Ok.

Vijaykrishnan Venkatesan:

Well, yes. When you look at your numbers of two Wheelers being made, it's very high, but in terms of consumption, it for us, it may not be the largest.

Priyaranjan:

Understood, and such typically in say in this cutting tool and machine tools business, I think so, if I'm not wrong, so in any aluminium, we says when aluminium cutting etc. typically one tool requires for a week or so, maximum three days to a week, so the consumable, the consumable nature of this business is highly make it highly dependent on the capacity utilization of the those end user customers, right? if I'm not wrong.

Vijaykrishnan Venkatesan:

Priyaranjan, I only caught some of your question because you're not audible. Now please understand, It is when you're talking about specifically Two-Wheelers, so Two-Wheelers, it depends on its you look at how the automotive industry works. You have an automotive OEM, you have a Tier 1, Tier 2 and Tier 3 supplier. It depends on component industry. So it's a very large industry. It's not one customer, right? It's if you talk about Two-Wheeler industry it could be 500 customers because it's just not the automotive OEMs. The OEMs are not the major customer is always a component makers, one and two is that, I said that we are highly diversified as a company, both in terms of end use subsegments, right, When we clubbed, automotive, we clubbing auto components, we're clubbing everything together, but you break it down. we don't have any over dependence on any one industry more than the best case would be a single digit high single digits in any one subsegment, right, and secondly, we also if you notice our approach this this turnover, see I, I'm answering something without listening to your full question, so if I'm not able to answer your question, you might have to repeat because you're not audible very clearly to us.

Priyaranjan:

Understood.

Vijaykrishnan Venkatesan:

No, right? So my answer to that is to be I'm not that looking at Two-Wheel as, will it have an impact? My answer is maybe there is a marginal impact, but not something which will be material enough for us to worry.

Priyaranjan:

Understood. And in terms of say, you're you, you have mentioned about \$1.5 billion of industry size and still are, I mean our top line is still very, very small compared to that or even if I look at Sandvik or Iscar etc. also their top line is I mean is not so huge. So where is the maximum industry lying is it? Say that an organized segment, which is getting the maximum benefit also the maximum business from the \$1.5 billion industry?

Vijaykrishnan Venkatesan:

So Priyaranjan, you might have missed it. The answer was towards the machine business, we are not talking about cutting tool business. The cutting tool business size while it's not documented so I'm not at liberty to tell you the size of the business, it's not that large. The answer which I again it's not 1.5 billion. I said the machines which India consumes is anywhere between \$800 million to \$1.5 billion given which year we are in. We are talking about capital equipment, this is not the cutting tools.

Priyaranjan:

Ok

Vijaykrishnan Venkatesan:

Cutting tool market size would be much smaller than that.

Priyaranjan:

Ok, so in terms of our product portfolio as of now, so what kind of in machine tools in the machine side, how much we can address that market out of \$ 800 million to \$1 billion?

Vijaykrishnan Venkatesan:

See, today we offer four different product groups in the machine business we make what we call the tool and cutter grinder under the ECOGRIND brand. We are major stake business is what we call special purpose machines which are designed custom built for customer requirements. We have what we call the VTL or vertical turning lathe and we have what we call the dip hole drilling. In addition to it, we make what we call the fixtures, now it depends on how you classify, right, the addressable market could be let, let's say it's a billion dollar, this is not the markets I'm giving you a percentage, you know if it's 100 is the market size depending on how you look at the portfolio and what the customers looking one can today address between 10 to 20% of the market.

See the reason I'm giving you a range is because it's not the sometimes, uh, special purpose machine can be a VTL. It can be something what we call the horizontal machining center or a vertical machining center, right? It transcends a little bit, so it cannot be very accurate. So, you can say at this point in time or addressable size between 10 and 20% of the market today.

Priyaranjan:

That's very helpful. And in the machine side, the, the, the competition that are the same, Sandvik / Iscar?

Vijaykrishnan Venkatesan:

No, no. The competition is very different in when it comes to machines. We have three major global players, DMG Mori, then we have Makino and we have Mazak, these three are very large global players in India, so while see, I'm giving you what? In terms of what they offer, which is very similar to what we make, right? Then in most of the other categories we have, let's say BFW, which is an Indian machine builder Bharat Fritz Werner, we have also the Ace group, Ace designers AMS that's the other group and in one particular product category which is the tool and cutter grinder, the major global competition, would come from Anchor and Walter.

Priyaranjan:

And, your major key raw material will be the tungsten and cobalt etc. if I am not wrong?

Vijaykrishnan Venkatesan:

Yes.

Priyaranjan:

So, what kind of, I mean the commodity pressure you see in those kinds of commodities and I think the cobalt is always on our upswing because of the batteries, uses of batteries, etc. So how should we look at and how easy is to price to projection of rise to the keep the margin in the market?

Vijaykrishnan Venkatesan:

It's this is commodity, right? And one good thing about while I request my CFO to add to this, it is visible to everyone, right? Tungsten or Cobalt is something it's not that it is a commodity which is not tracked or it's not available, anybody can Google and find the spot pricing, so it's quite visible, now, how much can be passed on it, It depends on, I'm going to keep a very generic answer here. It depends on the brand strength of individual companies, but given that it is a commodity, it's like steel or it's like copper or it's like gold, it's it goes on how you track in terms of total commodity prices because that's very simple. So, to that extent, I think our end customers do see the shift in or the inflated prices on this commodity, so to that extent, I think there is understanding that there is an increase in the prices.

Suresh you want to add something?

Suresh Reddy:

Yeah. Yes, of course. Like any other cost increases, this is something which we cannot hold or absorb. This is too big for us to absorb. So wherever appropriate, we take appropriate pricing decisions in terms of increases and that would be in discussion with the customers we make sure that it is passed on as well.

Priyaranjan:

And in terms of your export, I mean, I think the previous participant is also asked about the export opportunity doing this export, the capacity utilization angle of your and your other sister concern utilization or is it like say, India becomes some of the companies look in companies, the India is the some of the low-cost locations. So they are raising more and more outsourcing from here so. What's your thought process on that?

Suresh Reddy:

Priyaranjan, actually, we couldn't hear it very clearly I mean,

Vijaykrishnan Venkatesan:

I think, this is a repeat question of what Veena asked.

Suresh Reddy:

On the exports? Utilization of our capacities for exports?

Vijaykrishnan Venkatesan:

It's been driven by global utilization of individual plants or it's if we can be at a lower cost than the rest, will there be a...

Suresh Reddy:

Well, actually, you know there would be multiple factors when a global decision is taken. Ideally what they would look at is in country for the country, ok, of course, where there is capacities that could be leveraged on that could be we could look at a cost leverage and then supply to the group companies to utilize our capacities. But beyond that, we would not move in to set up exclusive facilities because already facilities would be created for those countries globally. Unless we have a product or some other country has a product which we do not have capacities, then we may import such products or we may also support them for that product which is exclusive to say, India.

Priyaranjan:

Got it sir.

Suresh Reddy:

Yeah, because we do not, we do not build in, we do not invest in machinery where we do not have volumes here for domestic market. So, it would be much better for me to import and sell so that way it would be more cost effective for the local entity as well.

Priyaranjan:

Got it got it sir. So, I will now take a pause for other participants to ask.

Veena Patel:

So, I just don't want it to note that the new product launches that have happened in the last three to five years. So, what would be the percentage of the sales coming from these new launches?

Vijaykrishnan Venkatesan:

I won't be able to give a very accurate figure veena on for a full company level, but in hard metals probably we will be hovering between let's say between 16 and 20%.

Veena Patel:

Ok ok.

Vijaykrishnan Venkatesan:

Because in capital equipment, the way we define new products could be very different.

Veena Patel:

So I just gave a very longer period, three to five years because we had the two years of the COVID impact also.

Vijaykrishnan Venkatesan:

That's why I said it's it'll be anyway between 16 and 20%. Half the products launched in the last five years.

Veena Patel:

So it's a percentage of the sales coming from the new product launches, which will be made in the last three to five years.

Vijaykrishnan Venkatesan:

Percentage of sales coming from products launched in the last five years.

Veena Patel:

Ok, perfect... perfect... perfect... Now when we have to speak about the launches that have been made purely from India entity where the designing, the manufacturing, everything has been done here itself. So we had the ECOGRIND machines which comes under the WIDMA segment. So apart from that, have we meet few more launches in the similar fashion?

Vijaykrishnan Venkatesan:

So if you look at our social media posts recently, we announced something called HOBGRIND, which goes for regrinding of Hobbs. The gearing Hobbs, right, and that came from the MSG platform. It's a new product launch what we introduced under the brand name of HOBGRIND. Now, we do products which are designed out of India and it's launched out into the market. So yes, the answer is yes.

Veena Patel:

Ok. And probably the pipeline still remains very strong of the products that would be designed and manufactured from India

Vijaykrishnan Venkatesan:

Yeah, I'm not going to make a forward-looking statement, but I think we are adequately covered.

Veena Patel:

Ok, but at least rather my question. So now the next question is like, which are the areas that you have identified after taking the leadership position? Because I believe your completed more than like 15 months taking the leadership role over here? By which you can make the company grow more than the industry growth in India. I'm just repeating once again, which are the areas that you have identified by which the company will be in a position to grow faster than the industry, which are those areas I want to listen from you.

Vijaykrishnan Venkatesan:

Ok, so you are asking a very strategic question. So, the way I and by the way, I think I spent more than 15 months, I think I finished 21 months I think in my current role. So the way we are looking at is, see, well, when I came in, the timing was I joined when the wave one was running. So, it's an interesting period to come in so the focus was we knew that the markets won't grow or rather the markets are going to shrink. So, our focus has been in three directions: One is how do we add sales from new products right, second one is add sales from new customers, customers were nonexistent to us; three is grow sales from geographies which were not present when I say geographies or it could be segments market segments both, now geographies applies to only one business for us, which is the machine business because since we headquartered out of here, we are looking at going beyond India and that business, so those are the three which we put as, okay what is additional revenue we get from new products ? That means it's share gain, new customers again share gain, new geographies again share gain, so I'll drive has been that now this is more from let's say a business perspective, but in addition to that as part of the global drive we were also looking at cultural transformation of the organization, right. So, there has been this, it's something which is publicly placed globally, so that's something and also talent development becomes extremely critical if you want to drive this kind of changes in the organization or the talent depth, width is extremely important when you're trying to grow in a markets which are not growing, so the those are the five I would put, but primarily is new products, new customers and new geographies that has been the drug.

Veena Patel:

Ok, Any specific area that you think the still we need to work on?

Vijaykrishnan Venkatesan:

Not something which comes to mind on or nothing comes to the top of the mind. Because if I tell you something out here, which is, it becomes competitive intelligence, right? So that's why I'm holding back on that answer. So I'm going to refrain from answering that question if you don't mind.

Veena Patel:

Ok, ok.. no because see whatever had to be done or as far as the business restructuring was concerned, because I've been tracking company for a very long time, so we initiated with the VRS schemes, wherein the extra labor force was been moved out. Then we inducted a lot of new age machinery where in the labour productivity was supposed to be improved and the requirement of the laborers would be on the lower side and the new product launches came in and thereby then we moved on for the various distribution channels, engagement, so these were the things that have been happening and they probably have started looking into the numbers also now going ahead to drive the growth, what are the areas or what are things that you really want to have to do now?

Vijaykrishnan Venkatesan:

Like what I answered earlier, too, right? What we are doing is our major growth will have to come from new products and new customers, right? When I say new customers, it's a large market, whichever product lines you take, there's enough space for everyone in the industry to play but what differentiates it, the companies which can offer the right productivity solutions to the customers, because today customers are more looking at cost per competent, it's not price, it's the cost per component, right and companies which have good technology products, higher quality products are able to drive the cost per component and I'm not answering just for this from a Kennametal side, any good player in the industry, if they can offer the right quality and reliability on the product and supply timely supply would be the ask what the customers are looking for because price per se may not be the translations always the total incurred cost for a customer, so the cost you could have the highest price product, but if the customers end to end cost is lower in terms of their total consumption of a tooling solution for the year, then that that brand as an upper hand right customers are more and more looking at productivity then, again, in any market there is customers who look purely at technology, purely productivity and there will always be customers who want the lowest price, but markets where Kennametal place, I think most customers are looking at productivity and cost per component, so it's a good for us given we are a technology player.

Veena Patel:

Right, so like what are the efforts that have been put by the company as far as the localization is been concerned because always we have highlighted this as one of our agendas in the past also. So how far are the progress has been made on this particular front?

Vijaykrishnan Venkatesan:

So, when it comes to localization, it, several things drive the localization right. One is, what's the, So the way we look at first of all local, I will come to localization a little later. What we look at is what is the best way to service a customer requirement in terms of product performance, First. Second is consistency of quality then cost to the customer and delivery which is speed to the market. If you look at these four parameters, if let's say today there's a product which we make only in one plant in the world and there is one single customer in the country and the best way to service the customer requirement is to import because our objective is to service the customer requirement. But let's say there are 100 customers who want the same requirement, what is more or what is better way to do it? So is there a localization and having inventory out here helps the customer to reduce lead time of sourcing, look at inventories so that they have confidence that we can turn around in supply so the business case is what drives localization right and India is a growing market, it continues to grow in spite of pandemic, in spite of EV's the market is a growing market, manufacturing sector continues to grow, so as we see the local demand keep depending on product line, so it's a very dynamic exercise, right, we cannot say that what we will localize three years from now, what could have thought, something would be five years could happen six months from now because it's based on customer requirements, so we keep a very constant vigil and there is a

well-established process on localization which we do it on our let's say the reviews are done on a quarterly basis, so it's something which is a pipeline.

Veena Patel:

Ok..ok..oj..And how far have we tweaked our raw material sourcing policy because we have the critical raw materials been entirely imported, so what really Mr. Suresh has worked on because we have seen the significant improvements happening in the gross margin front.

Suresh Reddy:

Well, so I cannot do much about the mines because minds are wherever it is. I cannot move them to India. Ok, yeah of course

Veena Patel:

But you have definitely picked your sourcing strategy?

Suresh Reddy:

No, like I said, I think we answered this sometime back, wherever it cannot be held on by us. I cannot absorb the cost of raw materials to a large extent, okay so I have to pass it on to my customer, so we take appropriate price increases to make sure at least we are offsetting the raw material increases. Of course, wherever we can bring in productivity improvements, those at least we can share with our customers so that their burden is lowered. But that is something which is a work in process constantly, so we need to keep working constantly with both our customers and as well as our vendors, but very little we can do for to change the source because it is all natural, it is all dependent on the location where it is available, so in today only few countries have that.

Veena Patel:

No, I completely agree to that point on the pricing trends because the cost rise at we have seen in the raw material prices we have trying to pass on through to your customers, I was been trying to refer to the fact of this supply chain disruptions that we have seen or played. So how we have been managing with regard to availability of those raw materials for our manufacturing.

Suresh Reddy:

So again this is again a global sourcing also helps here. ok, it is not that we are dependent on one single source. So, we do have some mitigation plans, so, I can always fall back on my group companies if at all I need some support in terms of sourcing as well, so, if I don't get in through our regular source, we can always depend through alternate sources where the global would have already sourced.

Veena Patel:

Ok, perfect... Perfect.... Perfect...Just a touch base on the fact that the utilization levels have been significantly decent and the amount of CAPEX that you have done recently would be sufficient to manage the growth for the next two to three years. The major chunk of CAPEX has already been done?

Suresh Reddy:

Ok, so we have seen a higher CAPEX in the last couple of years that is actually during the modernization phase globally it has happened and including in India, we have done that capitalization. So, from now on we can expect more of incremental CAPEX to build in capacities, where I need capacity

Veena Patel:

But the quantum of the CAPEX would be on the lower side?

Suresh Reddy:

Yes.

Veena Patel:

Final question from my side, like what would be the drivers of growth for our business as well as on the margin improvement front? Because your answer is major extent, but still I want some more insights on what are going to be the good drivers for company?

Vijaykrishnan Venkatesan:

Yeah. So I'm going to answer It's again, it's a broad question, right. So, what drives growth if you do a sources of growth kind of a chart. One first block is a market growth.

Veena Patel:

Alright.

Vijaykrishnan Venkatesan:

Ok. Now in the current scenario, nobody can predict where the markets are growing, but market growth is more a tailwind at this point than a than a given fact. It is in India, it's a given fact, but now it's if it happens, it's a tailwind.

Veena Patel:

Alright.

Vijaykrishnan Venkatesan:

Right ? The second one is, your, your capacity to gain price. Because it adds to the top line in the given environment, inflatory environment, the price becomes another big aspect of growth. Now, the third area is purely on the market share gains, so that market share gain is what I clearly explained, it's going to come from new products, it's going to come from acquiring new customers and expansion into new geographies. And again, I answered new geographies applies only to the MSG side of business which is machine tools and not the hard metals side, ok, because that's an India head quartered business and that gives us an opportunity to go beyond India. Now that's purely on how we are, what we are looking at growth. The fourth area specifically is products which we have not sold till now, right. that's completely new products to the market, those could be the fourth driver of growth when we look at Kennametal India, now in terms of gross margins, it's the usual Veena, it's I'm going to give a very theoretical answer. The first one is mix management, right? It's about when you sell, the more you sell of high gross margin product, the overall gross margin improves. Two is managing our productivity in the shop floor, right? We need to make sure

our overheads are getting absorbed and being a little more prudent on sourcing strategies to make sure that we limit the inflation of the incoming costs. So, I think that's the three, which I would say in terms of making sure our gross margin improvement sustains.

Veena Patel:

Perfect. Thank you so much.

Priyaranjan:

Yeah hi, is it better now?

Vijaykrishnan Venkatesan:

It is better, It is better.

Priyaranjan:

Yeah, yeah. So, my question is on your distribution strategy. So, how much you are directly distributing and how much is through the distributor channels and is it across, I mean, across the key industrial area where you are, you have all along the distribution line?

Vijaykrishnan Venkatesan:

Yes. So, Priyaranjan again, I'm going to answer split the whole business into two parts. The hard metals is where a lot of distribution happens. We have more than 230 distributors across the country. I think we have more than adequate coverage reaching out to the remotest industrial area available in the country across our distributors span right from the northern part. You take any point in the country we have distributors who can reach to a customer, so we have a well-covered distribution network in the country for hard metal business where I would say we are around 80 to 85% or roughly 80 to 85% is through the channel. When we come to the machines business, right, that's a capital equipment, so all customers by directly.

Priyaranjan:

Understood.

Naveen Chandra:

Just a quick time check here. We are bang on time. Two. One minute, you know, to the scheduled time one minute exceeding the scheduled time.

Yashwardhan:

Couple of questions, sorry if you can. I can take a couple of moments of your time.

Vijaykrishnan Venkatesan:

Yes, sure, sure. Go ahead

Yashwardhan:

Yeah. So down to the gross margin that we're talking about before in the last nine months, I see that the gross margin is increased by 300 to 400 basis points, but just want to ask whether this is sustainable going forward? or with this sort was just like a one off thing?

Suresh Reddy:

No. So like I will not comment directly. That will again look more futuristic. But like just now, Vijay also talked about a lot of actions leading to this. critical would be capacity utilization because that will give me the leverage which will straight away add to my bottom line. So that has been helping me compared to the last two years of COVID, of course, this year our utilization has been much better and hence there is a better profitability what you are seeing now apart from the other price increases actions that we have been working on.

Yashwardhan:

What is the current utilization?

Vijaykrishnan Venkatesan:

We may not be able to give that figure, sorry about that because again that becomes very specific data that's not something which we publicly announce.

Yashwardhan:

So, in terms of exports in FY21 I think was around INR 187 crores out of which INR 60 crores if you remove the machine tools, so it'll be around 125 crores of exports. So, what is, I just want to ask you what is driving this export? Is it some sort of like a product specific or parent is leveraging the low-cost advantage on Indian plants?

Vijaykrishnan Venkatesan:

See it depends on the like we repeatedly answer this question right, it depends on there are certain product portfolios which because we make because of domestic demand, there are particular product lines which India will be a larger producer of those product lines. Hence it makes sense because then you get the cost leverage because it's a economies of scale. So that could be one and two is wherever we have capacity available and global team wants to leverage the capacity then those volumes are given into the India manufacturing facility that's the two areas where because it's again we want to clarify. Our primary objective of manufacturing in India is to service the requirements of Indian customers because India is a growing market. Beyond that, the reason for exports could be only two, One the global sees there is spare capacity, which can be leveraged, and two is if there are any product lines which are very specific and we have a competitive advantage being made in India, that's when the exports are looked at.

Yashwardhan:

In terms of, sorry, coming back to the machine business currently its around INR 110 crores so if we have to go from INR 100 crores to INR 500 crores like, How do we achieve that whether will the parent help us like are they really that interested that we can go to a INR 500 crore business in the machines business?

Vijaykrishnan Venkatesan:

I'm going to be a little cautious in answering because again, there's a number and you're looking at a forward looking statement and it'll really impact because you're talking about 4X growth right? Now, I, let me give it a very generic answer. Whether are we looking to grow the business, answer is yes. Whether there's a support from corporate, the answer is yes, so I would leave it at that, ok.

Yashwardhan:

Thank You.

Naveen Chandra:

Hey, thank you so much for all your time and participation, truly appreciate. You know, it's a privilege to be servicing our investors. Thank you again.

Vijaykrishnan Venkatesan:

And thank you for all the nice questions. Thank you.

Veena Patel:

Thank You sir.

Suresh Reddy:

Thank You.

Yashwardhan:

Thank You so much for you

Vijaykrishnan Venkatesan:

Definitely. Next time we should meet face to face rather than doing this online.

Yashwardhan:

Yes, definitely. It's a pleasure.

Suresh Reddy:

Thank You

Naveen Chandra:

Thank You.

Vijaykrishnan Venkatesan:

Thank You.
