"Kross Limited

Q2 & H1FY'27 Post Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day, and welcome to Kross Limited Q2 FY '27 Earnings Conference Call hosted by Equirus Securities Private 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 touch-tone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ronak Jain from Equirus Securities. Thank you, sir, and over to you.

Ronak Jain: Good afternoon, everyone. On behalf of Equirus Securities, I welcome you all to the Q2 FY '27 Post Results Earnings Conference Call of Kross Limited. From the management side, we have with us Mr. Sudhir Rai, Chairman and Managing Director; Mr. Sumeet Rai, Whole-Time Director; and Mr. Kunal Rai, Whole-Time Director. I'll now hand over the call to Kunal, sir, for his opening remarks. Over to you, sir.

Sudhir Rai: Okay. I'm Sudhir here. Good afternoon to everyone. Thank you for joining us on the earnings calls of Kross Limited for the second quarter and half yearly ended September 30, '26. Alongside me, I have Sumeet Rai, Whole-Time Director; Kunal Rai, Whole-Time Director; along with other members of our management and our Investor Relations advisor, Kaptify Consulting.

I am pleased to share that Kross Limited has continued to build on the strong momentum recorded in Q1 FY '27. During Q2 FY '27, revenue from operations stood at INR235 crores, registering a growth of 80%. EBITDA was INR 30.6 crores and EBITDA margins of 13%, while profit after tax stood at INR (197) million, reflecting to a year-on-year change of 143%.

H1, FY '27, revenues from operations stood at INR419 crores, EBITDA at INR53 crores and profit after tax at INR33.16 crores. The investments we have made in the capacity expansion and operational capabilities are beginning to support our growth, and we expect the utilization of these expanded capacities to improve over the coming quarters. The company is completely focused on capacity expansion and gearing up for the coming years, which is also witnessed by a preferential issue to the tune of INR63.6 crores.

The sequential improvements in volumes, particularly in the commercial vehicles and trailer segment support our operating performance quarter during this quarter. While we have witnessed some pressures from rising consumable and commodity costs, the price revisions, including -- concluded with the OEMs and Tier 1 customers are expected to support us during the Q3 and Q4. We continue to focus on cost disciplines, process efficiency and higher utilization of capacities we have created.

Let me now share a few updates on our business segments and its key performances. M&HCV and commercial vehicles. The momentum in the commercial segment has continued with robust demand indicated by the OEMs. Based on our current indication, we expect Q3 and Q4 volumes to be stronger than Q2. Overall volumes and historically also H2 is always 20% up on H1. With the improvement in commercial vehicle volumes, the tractor trailer segment is also performing well, too. Our Q2 volumes have exceeded the earlier record levels of Q4 of '26.

Trailer segment and extruded axle beams. Commercial vehicles -- commercial production of our extruded axle beam has commenced and the capacity utilization of this is approximately 80% of our current output. This initiative is expected to provide us cost benefit and strengthen our manufacturing capabilities. This particular aspect of business by Q3 or Q4, we will be producing our trailer axles in this methodology only by the extruded beam process.

Agri segment. Demand in the Agri segment has remained consistent. We expect this momentum to continue into Q3, supported by relatively lower inventory levels of tractors in the market. Exports continue to make focused efforts to expand our export business. Exports now contribute approximately 8% of our component business. We remain committed to building a broader customer base and increasing the contribution of exports in our overall business. Year-on-year, we expect this year to be 45% higher than our previous year.

With these remarks, I would like to hand it over to Sumeet Rai to take through our expansion and other initiatives.

Sumeet Rai: Hi, everyone. I'd like to talk about our capacity expansion and new initiatives and also an outlook on the industry. Our capacity expansion program continues to progress. We have a focus on backward integration, improving cost competitiveness and creating capacities for our future growth plans. Our seamless tube facility is progressing as per schedule. The sizing mill and straightening mills have been received and installed, and we plan to undertake production trials in February or March of 2027.

This facility is expected to broaden our product capabilities and support our long-term growth plans. The company further envisages expansion through strategic increase in axle shaft production, forward integration into manufacturing by making Cold Drawn Tubes and enhanced investment in robotic automation for forging operations as well as machining facilities.

These initiatives are proposed to be undertaken and financed through the ongoing preferential issue, thereby strengthening the company's technological capabilities, operational efficiency and value-added product portfolio. Looking ahead at this industry, we remain optimistic about the demand across our industries. The continued momentum in commercial vehicles, healthy tractor demand and the planned ramp-up for our new products provide good opportunities of growth for us.

With this, I'll hand over the call to Kunal to walk you through our financial performance.

Kunal Rai: Good afternoon, everybody. I would like to take you through the key financial highlights for both the quarter 2 as well as H1 of FY '27. Firstly, on the quarter, which has just ended, September 30, 2026, our revenue from our operations stood at INR235 crores, registering a growth of 80% Y-o-Y.

EBITDA for this quarter was at INR30.6 crores with a margin of 13%. PBT is at INR (26.95) crores, which has changed and increased by more than 100%. Our PAT stands at INR19.69 crores. If you look into our sales segment mix for this specific quarter, our trailer segment has contributed close to 49% of our revenue, while the component business contributed the balance 51%.

If we look into the H1 highlights, the revenue total stands at INR419.4 crores as compared to INR270 crores of last year. EBITDA stands at INR53.32 crores and PAT stands at INR33.16 crores. For the half year, the investments in our capacity expansions and backward integration initiatives have started contributing to our operational readiness, and we expect our utilization levels to improve progressively over the coming 2 quarters. This should further support our margins as well.

Capex towards -- during the period has been directed mostly towards the seamless tube facility and other capacity enhancement initiatives. Overall, in quarter 2 and H1 FY '27, results reflect the early benefits of our strategic investments and improving the demand environment. We remain focused towards the profitable growth and operational efficiency to deliver sustainable value for all our stakeholders.

We now open the floor for further queries. Thank you.

Moderator: Thank you very much. The first question is from the line of Anubhav Mukherjee from Prescient Capital. Please go ahead.

Anubhav Mukherjee: **Hello,** Hope I am audible?

Moderator: Yes, sir, you are audible.

Anubhav Mukherjee: Congrats on an exceptional set of numbers. My first question is that our growth for both the tractor axle and suspension and the CV component segments have been much higher than the underlying MHCV segment like industry growth. So can you share some color on what factors have driven the higher than industry growth?

Sudhir Rai: I'll just talk about the trailer segment, and then Kunal can talk about the parts business that we have. So on the trailer segment, we have got good demand in the previous quarter. You see there are a few factors which increased the demand. Number one, the monsoons ended in about, you can say, July, and then the demand started picking up in August.

And now we are hoping Q3 and Q4 will sustain or even increase with the current demand that we have. And so there was a bit of -- people were waiting for those monsoons to get over to buy the vehicles. And basically, we have done a lot to increase share of business with our larger customers. So these 2, 3 things combined have driven the sales in the trailer segment.

Kunal Rai: Similarly, for our other business with the OEMs as well. Now we see that over the last 2, 3, 4 quarters since the time the GST rationalization has come in, demand from CV has been exceptionally good. And indications do suggest that the next 2 quarters, that is quarter 3 and quarter 4 should be even better. And we have a very diversified product base when we look into our component business.

Another driver on our component business has been on the exports, where a couple of years back, we really didn't have any and now it contributes almost 7.5%, 8% of our total component business. And that is also growing. So these are the factors mostly where we are being able to outpace the industry standard as per your question.

Anubhav Mukherjee: Get that. And how has been the feedback from our customers, trailer fabricators for the extruded trailer axles like if you can share some color on that?

Sumeet Rai: The feedback is positive as of now. We have in -- you can say, at the moment, 80% of the axles that are rolling out of the plant are with the extrusion process with the single piece. 20% of the axles are being made in the conventional way or the way that we were making it earlier.

So this mass rollout of axles has started happening from, you can say, the month of August. And we -- the feedback is positive, whichever customer is visiting us and having a look at the process is understanding the benefits of the process. And the benefits of the process will be seen over a longer time period and time frame, but we are getting positive feedback from the market.

Anubhav Mukherjee: And our receivable days before FY '24 used to be like 70 days or lower, then over FY '24 to '26, it got stretched. And even if I look at the first half balance sheet, it's still at like 90 days, given like the bull cycle, like do we see it coming down back to pre FY '24 level, some color on that.

Kunal Rai: It will eventually come down. You see the last 2 years, FY '25 or FY '26, at least the first half of FY '26, the business on the CV segment had been considerably slow. The receivable days also, I must point out, they do get stretched, especially in the trailer industry or the trailer segment. But if you look into our receivable days, which was in H1 of last year, they were in excess of 110 days. And if you look into -- for the quarter, it's almost come down back to around 81 days. And overall for H1 period, it's at around 90 days.

So with now things improving as far as the trailer segment, it would be getting better. And there is a small portion of our export business, which we still have receivable days above 120. So that would remain -- but that portion is only 4%, 4.5% of our business right now. But overall, we see that our receivable days will be at around 80 and our working capital cycle should be lesser than 90, 95 days.

Anubhav Mukherjee: And in the opening comments, you mentioned...

Moderator: I'm sorry to interrupt, Mr. Mukherjee. I request you to come back in the question queue for follow-up questions. The next question is from the line of Pritesh Chheda from Lucky Investment Managers.

Pritesh Chheda: Sir, just from the presentation, when you say utilization is 70% to 80% in extruded axle beams, so now basically on the expanded capacity of 7,500 axle per month, you are running that capacity at 70% to 80%. Is that the interpretation of this whole statement and bulk of the volume that you're producing is all extruded axle beam?

Kunal Rai: No, no, sir. That's not the information that's there. We are making currently 4,000 trailer axles, 4,400 trailer axles per month. On that, we are utilizing between 65% to 80% of our extruded beams, which we basically are mentioning that in the next 1 or 2 quarters, we will be switching to 100%.

Pritesh Chheda: So it's on 4,500 of your original capacity and not on the 7,500 of the expanded capacity?

Kunal Rai: It's not about the 4,500 existing capacity. It's basically on 4,500 of our existing sales and the manufacturing that we are doing of 4,500 axles per month. On that, it is at 80% today.

Pritesh Chheda: It's all now sold as extruded axle.

Kunal Rai: The extruded axles, correct.

Pritesh Chheda: Okay. Okay. No, that's clear. Second, if you could tell us for the quarter and for half year, what was the axle and suspension volume and what was the growth? So we get some idea on the volume growth?

Kunal Rai: Sorry, if you look into -- for which period?

Pritesh Chheda: I said for the quarter, quarter 2 and for the half year.

Kunal Rai: For quarter 2, we've done roughly -- we've done in excess of 10,500 trailer axles. There has been a drastic increase in our suspension business, which includes both mechanical and air suspensions. And if you look into our half yearly, we have almost crossed 20,000 numbers.

Pritesh Chheda: What is the volume growth, sir?

Kunal Rai: The volume growth, if you compare it to H1 of last year, it is almost to the tune of...

Pritesh Chheda: Both H1 and quarter 2, if you could tell the volume growth.

Kunal Rai: Volume growth has been more than 55%, (50%) % if you compare it to H1 of last year.

Pritesh Chheda: 55%.

Kunal Rai: Yes. H1 versus H1. And if you look into...

Pritesh Chheda: And quarter 2 versus quarter 2? Sir, firstly volume. So H1 is 55% and quarter 2 volume growth will be on this 10,500?

Kunal Rai: Similar, 50%, 55%.

Pritesh Chheda: Okay. And now you can give the value growth of axle and components, yes.

Kunal Rai: For which period?

Pritesh Chheda: For quarter 2, sir

Kunal Rai: Quarter 2 on our trailer segment, we have almost done almost 100%. As far as quarter versus quarter, we've done around 50% more. In quarter 1, we had done of this year around INR75 crores. And in quarter 2, we've done close to INR115 crores.

Pritesh Chheda: Sir, actually, I was asking -- seeking Y-o-Y growth.

Kunal Rai: Y-o-Y growth in quarter 2 of last year, we had done approximately INR58 crores, INR60 crores.

Pritesh Chheda: So INR75 crores this time versus INR58 crores?

Kunal Rai: No, INR115 crores compared to INR58 crores, yes.

Pritesh Chheda: Okay. And this Y-o-Y -- this volume growth that you gave for axles, 55% and 55% quarter 2 and H1, I'm assuming those are also Y-o-Y.

Kunal Rai: Yes, yes.

Moderator: The next question is from the line of Ankur Poddar from Svan Investment Managers.

Ankur Poddar: Congrats on a good set of numbers. So my first question is regarding our tipping jacks. So could you please help me with the volumes for this and the actual revenue from tipping jacks as well for the quarter?

Kunal Rai: We've done approximately similar volumes what we had done in the tipping jacks in quarter 2. We've done similar volumes what we had done in quarter 1. Once we get into quarter 4, we would be at a higher number. We've set a capacity of close to 800 numbers. We should be at at least 50%, 60% of that capacity by quarter 4.

Ankur Poddar: Okay. Understood. And in terms of value, can you tell us what the revenue was for the quarter?

Kunal Rai: The realization value of one tipping set is at approximately INR1.4 lakh.

Ankur Poddar: Okay. Understood. And my next question is regarding the outlook for the agri segment. So given that this year, the rainfall has been below average, how do we see the demand shaping up for H2?

Kunal Rai: So in the agri segment, it's -- we take it quarter-by-quarter. We see at least quarter 3 is a strong quarter in terms of volumes from the tractors being manufactured even in the month of November, October, TAFE has planned close to a production of 13,000, 14,000 tractors.

Now tractors are a little seasonal. I think post November, that is post Diwali period, they do see a dip. So -- and that's a cycle which is there every year. We didn't see too much of a dip last year, but it all depends how many -- how much of inventory all these tractor manufacturer companies are carrying and how they will have their production plan at least for quarter 4. But quarter 3, we should be seeing similar numbers as compared to quarter 2.

Ankur Poddar: Understood. And finally, so we have mentioned in our presentation that we are forward integrating into manufacturing of cold drawn tubes. So could you throw some more light on this as to what would be the end application? What are the time lines we are looking at and some potential going forward?

Sudhir Rai: Yes. See, cold drawn tubes is -- basically the input of a cold drawn tube is the hot drawn tube. And in the first stage of our plan is to produce the hot drawn tube, hot rolled tube. So there are -- in the auto component business, there is what you call some precision sizes, which can only be achieved by a cold drawing process. Now giving you an example, our own tipping jacks,

which we will be using, the seamless tubes, they need to be cold drawn because their size is a little more precise.

And also, it not only improves the size stability, but it also gives it more strength. The cold drawn tubes are stronger. So one, the expenditure involved in this is not as much as the hot drawn tube, and we will be spending close to, I think, it's about INR24 crores, INR25, INR20-odd crores in this area, in this cold drawn tube and the metal treatment involved with it. It's just basically this industry of seamless tube, you have to have this forward integration facility.

Ankur Poddar: Understood. So will this completely be for our captive consumption? Or are we planning on selling it outside?

Sudhir Rai: No, it is not. It is based on, one, if you want to sell certain cold drawn sizes, you will have to have this. And in Jamshedpur, we have to have this facility in our own shop. We cannot have this facility outside. There are certain manufacturers in Maharashtra and in Gujarat, where they have a lot of cold drawing facilities. But in Jamshedpur, there is none. So we have to have the facility in-house.

Moderator: The next question is from the line of Shubham Bhatra from Ambit Asset Management Company.

Shubham Bhatra: Congratulations on a superb set of numbers. Firstly, on the trailer axle business. So we have roughly grown our revenue 55% Q-o-Q, which is significantly higher than what the underlying industry has grown at. So just wanted to understand what is driving such a strong growth for us in this segment?

Kunal Rai: It's basically, Shubham, we are working more on different regions where our probably wallet share wasn't there too much. We are hopefully gaining better market share with both our existing customers and addition of a few new customers as well. That's as far as on the market share. The extruded beams, we have just commenced our line a couple of months back. And hopefully, with that, we should be able to improve that even further.

Shubham Bhatra: So if you could highlight which regions are this where we were not deeply penetrated and we are increasing our penetration?

Sumeet Rai: See we have been -- this is a continuous effort, and there's no like a specific region where we have done very well or fared poorly. But certain markets have recently got good demand after a very long time. One of these markets is Chhattisgarh. This has always been a strong region for us.

But so this extra sales, you can say, is because Chhattisgarh has got good demand, and we have got good orders from there. But like that, every region is contributing to the sales of this. And the demand on this Q2 has also increased quite a bit.

Shubham Bhatra: In terms of the revenue number, we did around INR116-odd crores from this segment in the quarter. This number is sustainable, right? Q3 and Q4, we should see numbers in this range or higher?

Sumeet Rai: Yes, sir. That's right.

Shubham Bhatra: So this demand could be sustainable.

Sumeet Rai: For this financial year, we see that -- at least for this financial year, we see the numbers to stay like this. Unless -- unforeseen can happen.

Shubham Bhatra: Got it. Secondly, on the capex that we were doing on seamless tube, if you could highlight what is the amount that we have spent till now and what is the -- we were going to spend, I think, INR167-odd crores. So how much of that has already been spent?

Kunal Rai: We've basically spent approximately INR50 crores on our -- from our term loan borrowing, see basically on the receipt of the equipment that we need to spend. As far as on the development plan is concerned, our furnace is mostly ready and the piercing mill is almost ready. We have a couple of more equipment, which is in transit. We should be receiving this equipment by, you could say, end of November or December. And hopefully, by end of Q4, we will be able to have some production trials on this.

Shubham Bhatra: So we will be roughly spending INR120-odd crores in the next 6 months to have the plant started, right?

Sudhir Rai: No, that's not the figure. You see, we -- the total budgeted cost is approximately INR170 crores, okay? Out of this is funded by INR110 crores via term loan. The rest is from internal accruals, okay? Most of the -- yes, most of the internal accruals have already been done because we are eligible to take the entire term loan.

So if you have to see how much we have spent, our own contribution is about INR60 crores, okay, INR60 crores plus INR50 crores -- INR70 crores, we have taken as our -- from the term loan, INR70 crores plus INR50 crores, INR120 crores out of the INR170 crores. That is the overall picture you could say as of Q2.

Shubham Bhatra: So basically, INR120 crores of cash flow has happened in the books, right, pertaining to the seamless?

Sudhir Rai: Yes.

Moderator: The next question is from the line of Vignesh Iyer from Sequent Investments.

Vignesh Iyer: Am I audible?

Moderator: Yes, sir. You are audible.

Vignesh Iyer: I just wanted one data point from your side. On the total capex that we have done in the first 6 months and what capex is pending for the rest of the year, if you could share that number?

Kunal Rai: So on the capex, what we are basically raising is -- close to INR60 crores we are planning on an immediate capex via warrants and pref shares, which we would be spending between the next 2 quarters. This is basically to cater to the increased demand which we are foreseeing in the CV

industry as well as in the trailer segment. And also on -- as we just mentioned on our seamless project, we are looking at a further balanced capex of close to INR50-odd crores out of the INR170 crores, which is there.

The H1 has basically just seen a capex on the seamless tube only, where earlier our debt was approximately INR35 crores, and now it is on INR80 crores. So it's basically H1 has seen mostly in the seamless tube category only. The H2 will be having for our capex expansion plan on our shaft lines on some robotic automation and also on the seamless tube.

Vignesh Iyer: So this INR50 crores on the seamless project will be entirely done in H2 itself, right, if I understand it right?

Kunal Rai: Well, yes, hopefully, we will be getting all our equipment in time. And if that is -- if that goes as per the time line, then yes, it should be done within H2.

Vignesh Iyer: Okay. So roughly INR110 crores of capex in H2.

Kunal Rai: Right.

Moderator: The next question is from the line of Rajat Aggarwal from Nilgiri Advisors LLP.

Rajat Aggarwal: Just following up from previous participants' questions. So once all the capex is done, what will be the total debt as of end of FY '27? Will it be like INR170-odd crores or it could be more as well?

Kunal Rai: No. The only debt we have taken is on our seamless tube project. We did mention that the total funding of the seamless tube, which the capex plan is INR170 crores, out of which INR60 crores is being done from internal accruals. The term loan we have available is of approximately INR110 crores, INR120 crores only. So that's the only debt that we would be looking at for this financial year if all the equipment that we have to receive is within the stipulated time. There are no further debt plans on any of our expansion plans that are there.

Rajat Aggarwal: Right. So as on date, as on 30th September, the total debt comes to around INR115 crores, including working capital. So if I were to add that INR50 crores, which we have not drawn till now, so it will be around INR165 crores, INR170-odd crores.

Kunal Rai: Yes. Yes, correct. So if you look into our balance sheet, our total term loan is at INR80 crores. And then we have our working capital and CC limit, which is at approximately INR32 crores. The further which will go on is basically on the balance on the seamless tube.

Rajat Aggarwal: Right, right. And also on the exports bit, so you had mentioned the exports have increased. A couple of clarifications in exports. Have you added any new customers? And do we sell directly to our customers? Or are these sold through the distributors?

Kunal Rai: No, they are directly sold to all customers, whether be it on our export front or domestic front, we directly deal with OEMs and Tier 1s only. Secondly is we have added a new customer in Europe for the supply of propeller shaft parts. And that is not in mass production yet. It's under validation stage.

Rajat Aggarwal: All right. And is it possible to give the breakup of sales in -- as in breakup in terms of OEM versus Tier 1 as a percentage of sales? Overall sales OEM and for Q2?

Kunal Rai: For Q2, we will have to calculate that. We have it segment-wise. Now if you look into our tractor -- if you look into our entire quarter 2, where 51% stands at our component business and 49% is the trailer segment. If you look into the tractor segment, it's close to 10% or 11%. That is obviously all with OEMs. And in the CV business, we are associated both with OEMs and Tier 1 companies. And our largest customer is approximately 15%, 16% of our top line.

Moderator: The next question is from the line of Dhwanil Shah: from i-Wealth Fund.

Dhwanil Shah: Congratulations, sir, on a great set of numbers. Am I audible?

Moderator: Yes, sir. You are audible.

Dhwanil Shah: Sir, just to reconfirm on the volume number side, if you can just help me get the axle and suspension volumes for quarter 2. I think you mentioned 10,000, that was only for the axles. But if you can also provide for suspension, sir?

Kunal Rai: I'll have a look at the exact volumes, and we'll have it sent over to you for quarter 2. And in case you do require for any other quarter, we will also share that with you.

Dhwanil Shah: And only for axle, sir, for quarter 2 was 10,000?

Kunal Rai: Yes, in excess of 10,000. Again, on the exact numbers, we will share that with you.

Dhwanil Shah: Okay. Because Q1, you had mentioned 9,500 and there is a growth of 50%, 60%. I'm just trying to understand.

Kunal Rai: Yes, there has been a growth on the axle. And a lot on the suspensions plus due to commodity increases, there has been a surge in prices as well. So all put together, we will share these numbers with you.

Dhwanil Shah: Sure, sir. And sir, just on the competition side, if you can highlight a few of the -- of our peers on the component side and on the trailer axle side. And how is the overall competitive intensity, sir, as of now?

Sudhir Rai: It's -- on the trailer side, obviously, there is York who are the market leaders in this segment, and there's Tata Motors as well who are in this business. There's BPW and Hendrickson also who are in the supply of axles and suspensions. On our component business, because of our diversified product range, we have different competitors for different products of ours where with a lot of products, we do enjoy a single -- or you could say being a single sourced or having a majority business share, but it all depends on the product families actually.

Dhwanil Shah: Okay. So like-to-like, it will be difficult for us.

Sudhir Rai: Absolutely. It's not that we are only competing against a single competitor. It doesn't work like that.

Dhwanil Shah: Sure. And sir, just one last question on the seamless tube side. So once the plant is up and running, say, by March, right, so how much margin improvement this can lead us? Because I think Phase 1 would be for our internal use only.

Kunal Rai: Correct. The Phase 1 will be on our backward integration or rather captive requirement. Yes, production trials of it would be starting in quarter 4. It's not that we would be 100% productionizing it by quarter 4 itself. It will take some time. We plan that by end of H1, we should be able to be completely backward integrated once it comes on our -- the benefit of it in terms of -- as compared to the existing price that we buy it, it should be at around approximately 8% to 10% lesser than -- or you could say more competitive than existing buying prices. But again, this is also a commodity and commodity prices keep changing quite significantly.

Dhwanil Shah: Correct. Sir, just trying to understand like-to-like, how much margin this can add once...

Kunal Rai: Well, the backward integration is going to be used for our trailer segment that is on our axles. And then on -- basically on our axle front, we should be having -- on the overall business, we should be having a margin of approximately 3% to 4% once we use our own seamless tubes for it.

Dhwanil Shah: Got it, sir. And sir, this seamless tube is overall 1 lakh capacity, right? So Phase 1 would be 50% of that?

Kunal Rai: Absolutely. Sorry?

Dhwanil Shah: Phase 1 would be 50% of that capacity?

Kunal Rai: No, no. 30% of it, 30%.

Dhwanil Shah: Phase 1?

Kunal Rai: Yes.

Moderator: The next question is from the line of Anubhav Mukherjee from Prescient Capital.

Anubhav Mukherjee: Sir, in Q1, you had mentioned that we had already received some price escalations, both for steel price and conversion cost. But despite that, sequentially, Q2 gross margins are lower than Q1. So have we like seen further raw material price increase? Can you give some color on that?

Kunal Rai: Absolutely. Steel has been increasing, you could say, every quarter. There has been only a part of the compensation on steel as a commodity, which we have received in quarter 1. There will be further -- in quarter 1 and quarter 2, both, there's just a part of it.

Secondly, in our previous quarters, we have not been really compensated for our increase on the consumable front on our input costs. We have very recently settled with most of our OEMs and Tier 1 companies on a conversion front as well. That impact would be coming in our upcoming quarters, that is quarter 3, mostly in quarter 3 and quarter 4. But steel as a commodity, we see increase going on in each and every quarter. I do believe that OEMs and mills are also talking about another increase in quarter 3 as well.

Anubhav Mukherjee: So it's like it's difficult to -- would be difficult to give a sense of when we can return to maybe like a guided 14%, 15% kind of EBITDA margins?

Kunal Rai: Yes, it is difficult currently. The companies are facing a lot of pressures in terms of escalation and then the settlements and everything. We do believe all of it will be compensated, obviously, retrospective, whether be it the steel as an increase or even the conversion front on our consumables and other aspects like oil and gas and tooling and everything. There will be compensation retrospective, but there is a lot of escalation and settlements are underway.

Moderator: The next question is from the line of Shubham Bhatra from Ambit Asset Management Company.

Shubham Bhatra: Just wanted to clarify on something. So I was going through the balance sheet. CWIP stands at roughly INR55-odd crores. And we mentioned that we have done a capex of around INR120 crores in the seamless tube facility. So the balance INR65 crores would be the value of land. Is the understanding right?

Kunal Rai: No, no, we don't have such a large land parcel which is there. I'll have to check that once. We'll have to check that once.

Moderator: As there are no further questions from the participants, I now hand the conference over to the management for closing comments.

Kunal Rai: Thank you, everybody, for joining in, and we appreciate everyone's participation and continued interest in the company. We are excited about the opportunities ahead and remain committed to deliver a sustainable and profitable growth. For any queries, please reach out to our Investor Relations team that is Kaptify Consulting. Thank you once again.

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