Sector: Castings & Forgings | RESULT REVIEW Q4&FY25 | Declared On: 14 May 2025

Nelcast Limited

RECOMMENDATION SNAPSHOT				
*CMP	MCap (Rsbn)	Recommendation	Target	Potential Upside
Rs127	11.0	Accumulate	Rs160	26%

as on 15th May, 2025

About the Company:

Incorporated in 1982, Nelcast Limited (Nelcast) is the largest manufacturer of ductile iron castings and is a leading producer of grey iron castings with an installed capacity of 160,000 metric tons/year. The company supplies castings for commercial vehicles (CVs), tractors, off-highway vehicles and railways. Nelcast is a leading supplier to several marquee OEMs (Tata Motors, Ashok Leyland, TAFE, Eicher Tractors (TMTL), Volvo-Eicher Commercial Vehicles, SAME Tractors, Escorts Tractors, International Tractors (ITL), Daimler India, Caterpillar, etc.) Tier-1 (Automotive Axles, American Axles, Dana, Rane Madras, Rane-TRW, ZF India, etc.) as well as export customers (Meritor, American Axles, Daimler, Dana, Comer, ZF Industries etc.). The company has manufacturing plants at Gudur and Pedapariya in Andhra Pradesh, and Ponneri in Tamil Nadu. It is the only casting manufacturer with a product range from 0.5-400kg. The company is chaired by Mr. D. Sesha Reddy and has Mr. P. Deepak as its Managing Director.

Results: Quick Glance:

- The net sales for the quarter reported a growth of 11.6% to Rs3,298mn as compared to Rs2,955mm in Q4FY24
- The Ebitda margins for the quarter stood at 9.0% as compared to 5.3% in the comparative quarter last year
- The company reported profit of Rs135mn as compared to Rs51mn in the same quarter last year
- The EPS for the quarter stood at Rs1.56 as compared to Rs0.58 in the corresponding period of last year
- For the full year, the revenues and PAT de-grew by 1.2% and 31.5% respectively while the Ebitda margins stood at 7.1%
- The Board has recommended a dividend of Rs0.50 per share of Rs2 for FY25 subject to shareholders' approval

Conference Call Highlights:

- In terms of performance, as anticipated, FY25 witnessed consolidation during 9MFY25 on account of various macroeconomic headwinds. However, there was a swift recovery in Q4FY25 which is witnessed in the quarterly performance as well. Going forward, the company is witnessing green shoots backed by strong order pipeline and improved profitability on account of improved efficiency
- In terms of the **industry performance**, in FY25, the Indian tractor industry domestic sales witnessed a substantial increase of 8% y-o-y, driven by higher minimum support prices for key cash crops, improved replacement and construction demand, and favourable monsoon conditions; with outlook remaining strong going forward as well. The M&HCV segment experienced contraction in volumes for tippers and haulage trucks during FY25 which was largely attributed to a demand slowdown due to the general elections. The M&HCV segment is projected to experience volume growth in FY26E following a flat trend in FY25
- For Nelcast, in FY25, M&HCV contributed 36.8% of the total revenue, Tractors: 22.6%, Exports: 5.9% Railways: 1.8%, Off-highway equipment: 2.5%, and Others: 0.4%
- **Exports:** The exports stood at Rs1,288mn in Q4FY25; growth of 21% y-o-y. The export market has shown signs of recovery, and the company anticipates this momentum to sustain. Europe is a market where it is pursuing to further strengthen its position in this market. There is a robust pipeline of orders for exports, encompassing both existing and new products, building a scenario for a favourable upward trend in export growth for FY26E
- The **Ebitda/kg** came in at Rs14.8/kg during the quarter. Going ahead, the focus remains on achieving Ebitda/kg target of Rs15 per kg, backed by new high value products and improved utilization across facilities.
- The company has reiterated its vision towards capturing the **EU markets**. RFQs were received from customers in Europe wherein audit of the facilities is in process to qualify as suppliers. There are 4 new customers in the process of approving the plants; significant advancements being achieved in the same. The Management is optimistic of receiving orders for product development by end of the year and mid next year to get into production
- The company has indicated of **new business** of USD30mn and more in the pipeline both on the domestic as well as exports front
- The installed capacity has been created for 160,000MT per year which can be further enhanced by 50,000MT within the existing plants with minimal investment. This expansion would be considered in FY27E once the benchmark utilization would be achieved
- There has been no significant impact inferred from the **tariffs** so far and if any, the duty would be largely borne by the customer with no major disruption anticipated for Nelcast

Please Turn Over

Conference Call Highlights (contd.):

- With regard to **new product development**, the company is developing a high value product weighing 500kg part of the off-highway segment (high end tractors). The product is already being made in the US and China and now resourcing has been given to Nelcast. The samples of the same are expected over the next 3 months and production thereafter to start by end of the year. The other new products under development are more complex and larger in size with more than 50% of them being from the off-highway segment
- **Financials:** (i) The production for Q4FY25 was 23,100T while FY25 stood at 83,600T, roughly 52% overall capacity utilization. For FY26E, 100,000T kind of production is chalked with 45% of the volumes in H1 and 55% in H2FY26, (ii) the capacity utilization stands at ~40% currently for the Pedapariya plant; this is expected to have a major ramp up once the new orders get into production to 60% in the current year. Ponneri and Gudur plants are currently running at ~90% and ~55% utilization respectively. The Management has always indicated 75-80% utilization levels needed to Ebitda/kg of Rs15/kg which is the target for FY27E, (iii) the net debt as on date stands at Rs2,161mn with cash at Rs782mn, (iv) the company has guided of 20% higher volumes growth for FY26E, (iv) capex for FY26E and FY27E is expected to be at the rate of depreciation; i.e. Rs240-250mn/year until 80% capacity utilization is achieved

Financials:

Performance (Q4&FY25)									
Q4&FY25 Result (Rs mn)	Mar-25	Mar-24	y-o-y	Dec-24	q-o-q	FY25	FY24	y-o-y	FY26E
Total Revenue	3298	2955	11.6%	2914	13.2%	12517	12669	(1.2%)	13900
EBITDA	297	156	90.8%	173	71.9%	885	923	(4.1%)	1001
Other Income	46	37	23.3%	57	(18.4%)	171	143	19.8%	171
Interest	95	79	20.0%	88	8.1%	353	316	11.8%	341
Depreciation	66	60	10.6%	61	8.0%	248	241	2.7%	266
Exceptional Items	0	5	-	0	-	38	178	(78.9%)	0
Tax	46	9	-	20	-	120	142	(15.5%)	147
Net Profit	**135**	**51**	-	**60**	-	**373**	**544**	**(31.5%)**	**418**

Outlook and Recommendations:

The company has reported a robust Q4FY25 performance, the much needed one after a long consolidation phase. Revenue in Q4FY25 increased by 11.7% y-o-y, driven by significant growth in exports resulting from the new business wins. The Ebitda margins came in strong at 9.0% compared to 5.3% in the same quarter last year. Although the 9MFY25 were challenging for the company; FY25 closed on a flat note on the revenue front. The margins came in range bound at 7.1%. Adjusting for the exceptional items across both the comparative years; profits came lower by 8.4% y-o-y. There has been a strong rebound witnessed in the exports which grew by 21% y-o-y which boosted the volumes as well as the margins along with a favourable product mix, making Q4 the pivotal quarter shifting the company finally from the prolonged consolidation amidst the macroeconomic challenges. The Management expects this trend to persist forward as well. There has been a robust recovery seen in the Ebitda/kg at Rs14.8 for the quarter with further expansions expected in the same going forward as well. The target of achieving Ebitda/kg of Rs15 remains intact supported by a revenue growth of 10-15% driven by favourable trends in the CV space and overall exports. Exports have been strong for the quarter with no significant risks regarding tariffs seen in the near term. On the outlook for exports, FY26E is expected to be relatively stable with H1FY26 in line with that of FY25. There are no major spikes anticipated in the H1FY26 while ramp up can be chalked from H2 onwards based on the customer orders. Currently being 35% of the overall revenues; for FY26E also it is expected to be in 35-40% range, with the longer term vision of contribution from exports to be 50% of the revenues. In terms of the new products, the new client addition for a product in the off-highway category adds to the existing offerings and reiterates the focus of the company. The Pedapariaya plant in Andhra Pradesh now boasts a newly installed 1MW in-house solar power plant, reinforcing the dedication to sustainability and cost-effectiveness while reducing carbon footprint. This would further enhance the cost efficiency, leading to better margins in times to come. Expansion across the Ponneri plant would help to increase the efficiency for exports going forward. Additionally, with new product launches and new technology introduction in the automobile industry (the backbone of the industry which are also the direct beneficiaries) including casting players like Nelcast are bound to benefit. The company has depicted resilience in the tough macro conditions and is optimistic of a better placed FY26E ahead. We maintain accumulate on the stock for a revised target of Rs160.

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