Investor Meet 29.10.2024

Company Name: TechEra Engineering (India) Limited
Type of Meeting: Investor Meet (One to One)
Date of Meeting: 29/10/2024
Time of Meeting: 3:00 p.m.
Attendees:

1. Mr. Nimesh Desai: Managing Director, TechEra Engineering (India) Limited
2. Mrs. Pratiksha Kumbhare: Company Secretary & Compliance Officer, TechEra Engineering (India) Limited
3. Mr. Rajesh Vora, Jainmay Venture Advisors

Mrs. Pratiksha Kumbhare: Welcome to the first Investor meet of TechEra Engineering (India) Limited. Today we have Mr. Nimesh Desai, Managing Director of TechEra Engineering (India) Limited and Mr. Rajesh Vora from Jainmay Venture Advisors who is an interested investor. Now I would like to ask Mr. Rajesh Vora to start the conversation.

Mr. Rajesh Vora: So, congratulations. Congratulations on building a very interesting business and you have done pretty well in the last few years to grow. Maybe I would love to understand a little bit about, you know, how did you got this business idea to start this kind of very unique business and, you know, how you came across to the IPO, how was the journey? It might be a good way to start.

Mr. Nimesh Desai: I will answer your first question. So, how I started, why I think that we should be into the business of aircraft building, equipment design and manufacturing. So, what happened, we were in, I was having the earlier company and we were into the automation system.

So, automation, there are a lot of people are there in the automation. So, how to make your steps into that market with the automation? So, from that idea, I elaborate my mind, what do we do differently? So, first we understood that what should we do to attract the customer. So, first I felt that we should have to be, every person attracts the same thing that he likes from the first sight.

If we go to any shop, so first we see the shirt shown outside, then we go inside, then we see the rest. So, the product which is your appearance should look very good. So, how you can create the appearance of your product very good and how you can make it different from others? So, others means you should elaborate your thought process in such a way.

So, the basic requirement is that the customer is giving you money because you have to give a good quality. So, there is no point of discussion about it. So, what I did is, and the biggest thing is that to give aesthetic improvement to the product, you have your basic parts which we are manufacturing that build that equipment, it is important to look good.

If one looks good, then the whole team will look good. So, we said that if there are 100 parts in an assembly, and out of those 100, if they look good, then the equipment will look good. So, who are these 100 people in our team? So, what will we give to the team so that they will give a feel to the part, their own passion.

And when there is a passionate feel, then the whole structure is different, the thought process is different. So, when we started this, in 2013, I got this idea. So, I thought that why not do a small job of aerospace.

So, if we tell people that we are doing aerospace, then it will be a matter of pride for us. Because in 2012, no one was doing aerospace. Such a company was very rarely found.

If we go back 10-12 years, then what did we do? We got an order from a company called Tata Advance. They got an order from a small Italian company. So, they used to make fixtures in that.

So, I requested them to give us 2-4 parts to make. So, we can do it in good quality. We will also get to know what is different in it.

It is an engineering part. So, today I make an engineering part for design and fixturing for aerospace. And I make a part in automation.

What is different in it? So, we took a small order irrespective of the value. I don't care for the value at that time. So, after taking that order, we took a meeting of the supply team in a small company.

And we told them that now we are going to do aerospace work. So, all of a sudden, everybody felt proud that our company is doing aerospace work. So, after that, whenever that product from one stage to another stage, from another stage to another stage, when there is a movement, it is a process.

From raw material to conversion of operation number 1, operation number 2, operation number 3. So, when he used to make a part and handover it to another person, he used to say that we are doing aerospace work, please make it carefully. So, this feeling of ownership came. From there, the output of our automation product came out.

I mean, we had taken it that our automation quality enhancement will be good. So, that's why we do aerospace work. We don't even know what aerospace is.

So, we give them pride that it will be a good product. So, over the period of one and a half year, we understood that people started creating a good quality product with the same cost which we used to incur earlier also. So, it is just a paradigm shift from making a thought process, converting that thought from making a good product.

Either it is aerospace or it is automation. Don't make a difference of it. So, because of that, the outcome was tremendous.

So, the automation system that was made became an aesthetically creative item. It does the same work. So, the design of the product that came out from there became very elaborate.

And we felt that it is good. So, we forwarded the same culture to automation. So, from there, with that aesthetic look, we had a joint venture with a foreign company.

I am talking about my earlier company. Then, we started working with big companies like Volkswagen and BMW. So, the category of Tata Motors and Mahindra and VW and BW categories.

If I am a supplier, if I work in VW and I work for BMW. So, your point of view and if I work for Tata and Mahindra, then your angle will be different. So, we reached that quality level.

And because of that thought process. So, from there, we realized that let's do small parts. Let the supplier or the team member know that we are doing aerospace work.

So, from there, we started manufacturing small parts of the fixtures. And we continued doing that. Sir, when you are talking about Volkswagen and BMW, did they make auto parts? No, no, we used to make automation systems.

For the manufacturing plant? Yes, we made the engine assembly line for Polo. We made the engine assembly line for Vento. We made the engine assembly line for A4.

We made the engine assembly line for Q7. In Aurangabad, in Skoda's plant. So, that engine assembly line, that automation was in our blood at that time.

So, we started doing aerospace work. Understood, understood. So, from there, our aerospace thought process was elaborated.

And then I studied a little. So, then I felt that I don't know when this will be converted. But I don't know, a business, an entrepreneur has an instinct.

I always believe in my instinct. You have followed something 10 times with your instinct. When it has worked, it has worked.

If you have got 8 out of 10 success, then you have to believe your instinct. This is my overall calculation as a promoter, as an entrepreneur. So, I think that what I am doing, I am on track.

So, at that time, I studied what the aerospace industry will be in India. I am talking about 10-12 years ago. And I felt good to work.

I was getting a feel. I was doing a good job passionately. Such a momentum was being created in the company.

So, because of that, we started doing aerospace work. And we were also doing automation. So, one year came like this.

I am talking about 2017. Our turnover was 19 crores. We achieved 53 crores after that.

In one year. And that was happening because of the aerospace industry. It started flowing in 2016-17 when the first biggest order of Indian Air Force was given to Boeing.

That is called the 16th number of Apeche and 17th number of Chinook helicopter. And that is going to be the turnaround for the Indian aviation industry. Our growth started from there.

Mr. Rajesh Vora: So, you supplied directly to Boeing or did you supply to HAL?

Mr. Nimesh Desai: HAL, I am supplying directly. Right now, I am not supplying directly to Boeing. I am supplying to their tier 1 supplier.

Mr. Rajesh Vora: Okay. So, the big order of Chinook helicopter in 2018, that was to Boeing directly or to tier 1 supplier?

Mr. Nimesh Desai: No, Tata Boeing.

Tata Boeing Aerospace Limited is a company. And they are manufacturing Chinook for them. Apeche and 17th number.

Mr. Rajesh Vora: So, Tata is with both, Airbus and Boeing both?

Mr. Nimesh Desai: Yes, both.

Mr. Rajesh Vora: And you have found that customer as an entry point to get into aerospace?

Mr. Nimesh Desai: Yes, exactly. Because Airbus and Boeing is not like you can go anywhere and get it. For that, preparation is necessary. It is a very long process. We have to prepare ourselves to meet and talk to them and to take their direct vendor code.

And I believe that until you are fully prepared, don't put your foot or hand in anything. I believe that there should not be any failure. So, we will be fully prepared.

Now, we know Boeing, we know Airbus directly. They know us very well. So, now the road has become a little easier for us to go to Airbus.

So, let us hope that in the next year, we will get a direct vendor code from Airbus. This is what I can see. This is what I can understand.

Mr. Rajesh Vora: So, tell me, what I have understood, I met Rakesh Chopdar of Azad Engineering, you know, few months back. And I have studied that company very well and we own that company also. We have a stake in that company. The company I have studied is a US company called Hyco. What I have studied is a very difficult business. It is a very long gestation period. Approval is made for each part. Part by part approval is made. So, it is a very difficult journey.

So, from automation assembly line to link line, it is relatively much easier compared to aerospace parts requirement. So, please explain your progression from other products. This aerospace, very critical application, difficult to get approval.

How did you do that journey?

Mr. Nimesh Desai: Sir, when we established this company, we started with aerospace in 2018. Because in automation, you need to integrate a lot of things. Electrical, Electronics, Hydraulics, Pneumatics, and connect everything with a mechanical system, then it becomes a line.

It is a huge funding requirement because you have to procure everything either from Siemens or Mitsubishi or from Amron. There are a lot of electronic companies out there. So, to buy that, you have to pay upfront money.

And that automation line runs for 4 months, 5 months, 6 months. So, that holding period becomes very long. So, that is why we thought that we will work on our strength first, which is mechanical, which is the manufacturing sector, in which there is no such system.

And in 2018, we had a thought process that we will definitely come in automation. So, after that, the first year went very well. 2019 was very good.

But unfortunately, we were in the only industry, which is defense aviation. And because of COVID, the whole aviation industry broke down. And that was the major setback in that industry.

And it came down so much that we faced a lot of challenges. And basically, our capital goods, from our goods, they make their commercial aircraft or defense aircraft. So, they already broke down that we will hold capital goods.

And this happens anytime. Capital intensive industry. And this is a very big capital intensive industry.

You need a lot of machineries. So, that is why the setback was very big. But still, my instinct was that if anything happens, we will move forward in this industry.

And we will go to a very different level. I knew this the whole time. So, we took the decision to sustain at any cost.

So, this matter of sustain at any cost had a very big impact. Any cost means nothing for that. Even if we have to sell the house, there is no problem.

But we will not move. But we will not move from this industry. And that was exactly what we did.

And we got recognition from vertical stabilizer 737. The assembly line that we made for TATA, that became a very big milestone for us. Vertical stabilizer for 737 MAX.

Okay. It is a big one. Yes.

The one that is at the back, the vertical one at the end of the aircraft. Yes, I know. Something like that.

Yes. Two are like that. Correct.

Two are at the sides and one is vertical. Correct. I know.

So we got the order for the vertical assembly line. Even Boeing people were amazed with the quality which India can produce.

Now I will not take my name because I am a part of our Indian nation and at that time we were representing our India in terms of making the fixtures. First time in India, the biggest part, Boeing even first time in India also, we are the first supplier for that assembly line and customer is awesome happy. We did not get a better reception than this because when Ratan Tata and Nirmala Sitaraman was there, when they inaugurated the first helicopter of Chinook, I am the only invitee being as a supplier.

So we have a lot of milestones with Tata, when they started Chinook building in India, we were the only supplier for that first supplier. Tata Technologies, when they started manufacturing sector, other than the design, we are the first supplier. When 737, the vertical stabilizer manufacturer, we were the first supplier.

When C295, this is what aircraft, we among many of the suppliers because the content was very big. As a one cannot do it. No, wonderful.

Mr. Rajesh Vora: So I think Tata, your relationship with Tata started with Tata in aerospace and that is opening many doors for you. Very good. Now, in this journey, you have travelled a lot after COVID.

Mr. Nimesh Desai: Now, last 2-3 years, performance has improved quite dramatically. Yes. In 2020, there was a loss of 6 crores, now 5 crores have come on profit.

So, you have to understand the impact of COVID. Apart from that, what changed? Your margins are also reasonably healthy. We entered in.

So, we learnt from COVID that we need a sector which can survive. So, automation cannot be better than this. Because we already knew.

We had already done it. So, at that time, we entered with IDBI Capital. So, they invested in our company being as a compulsory convertible preferential sales.

So, we started automation from there. And we got a huge order of 7 crores for Bhojraj's front-loading washing machine. And that was the big jump in our organization.

Mr. Rajesh Vora: So, when you say automation, Nimeshji, you mean factory automation, not assembly automation.

Mr. Nimesh Desai: Yes. We have seen that the front-loading washing machine comes from IFB or Godrej. No one else had it. So, now, Godrej also wanted to do it.

So, he made a design of his own. And there were different parts in the design. So, when you dismantle the whole washing machine, there are a number of parts.

So, first you have to make a part. After making the part, it has to be assembled from the washing machine. Then your washing machine is ready.

So, this is one washing machine. But if their target is to make a washing machine in 2 minutes, then automation is needed for that. So, they released an RFQ.

They told us that these are the components. This is the first component. This is the assembly.

And this is the last assembly. Now, you design the entire system in between this, so that our washing machine can be assembled in 2 minutes. So, we did a complete study on where to do robotics to assemble in 2 minutes, where to do testing, how much time can be given for testing, maximum conversion of packing.

So, after studying all these things, we made a design concept. We presented that concept to them. And then they agreed and accepted.

This is the way to go into automation. You get a concept. You create a design with that concept.

Correct. And you tell them. They are convinced.

Then you give a quotation. And then you get an order. And then you implement.

So, we did the entire line assembly in our company. We took the entire trial here. We made a washing machine here.

And then we dismantled this assembly line here in our company. And put it in their plant.

And then they assembled it. So, we have a 2-year warranty. It's already done now.

So, that was the biggest automation. So, this means that you gave the complete solution. Yes.

The maintenance must be with you. Yes. We tell them from the beginning that this part will last for so many years.

This part will last for so many months. You have to replace it in this month. Like we say today, predictive maintenance.

We know how many times you operate this part. And where you have to change it. We give them the complete instruction.

Hmm. So, this whole plant, this automation system, what will be the revenue? I mean, you gave the whole system in Godrej. What I gave now was around 6.5 crores.

Mr. Rajesh Vora: Okay. Very nice. I understood.

Mr. Nimesh Desai: So, this was done one time. Plus, we get some maintenance separately. But that's a small amount.

That happens after 2 years. That's our consideration. Sir, the best thing what I learned in this, the less maintenance the customer has to do, the better.

That's my target. Why should he have to spend for your product? We don't have to earn money We have to tell the customer that you don't have to spend anything. We have to keep the service free.

Why do we have to take care of the revenue? Hmm. Ultimately, what is wear and tear, we have to do that. Right.

That's why we should focus on that business.

Mr. Rajesh Vora: Correct. So, your automation was 10% of revenue in FY22. I read the DRHP. That's 40% now. Right.

Mr. Nimesh Desai: Correct. So, you have focused a lot on that. That is one.

So, we are a separate team. Yes. Now, this mix of 60-40, 60 aerospace and 40 automation, in the next 3-4 years, will it be 50-50 or will it increase? Aerospace will increase.

It looks like aerospace will increase. They will get 25%. Because, what will happen? Revenue will increase.

Hmm. If you are in 50 crores, just I am roughly giving you an example. If you do 25 crores in 50 crores, it will be 50-50.

Correct. But if you do 25 crores in 75 crores, it will be 33. Correct.

Of course. So, what we will try to do is, because this sector, the defence and aerospace sector is moving forward very strongly. Correct.

So, we are, we believe that, with our new investments, we are coming to part manufacturing. Which is actually, the main sector of independent engineering. As of now.

Correct. Which they have been doing for 10 years. Airfoils are their main.

So, we are starting in that sector. But, it won't take us that much time. Because, what we did was, part manufacturing is a very critical area.

Correct. It is so difficult, as you said correctly. Every part is verified 10 times.

Every part has to be documented for 10 years. So, it is a critical phase. So, again, the thought process is, if we enter, then we will enter only after it is confirmed.

Otherwise, we won't enter. Hmm. So, what we did is, by going into tooling, MRO and ground support equipment, we understood the culture of the aerospace and defense industry very well now.

So, now we are ready to enter this sector. That is the reason, and we started with HAL. So, we got a big order right now from HAL.

Yet, we don't have machinery for that. Okay. Means, we have machinery, but because machinery for the tooling is the same, machinery for the part manufacturing is almost the same.

Because ultimately, only the part is made. Correct. But, what happens in part manufacturing, only one part is made again and again.

Hmm. What happens in tooling, only one part is made at a time. After another, another part is made.

Correct. But machinery is the same. Correct.

Mr. Rajesh Vora: So, the order you got from HAL, Mr. Nimesh, how big is it, whose machinery you don't have?

Mr. Nimesh Desai: Sir, I don't disclose the value now, but… Okay. If you look at the percentage, it's a substantial amount. Okay.

Mr. Rajesh Vora: Now, since it's on that, I will ask you this, what is your order book now?

Mr. Niemsh Desai: In today's date, we already have an order booking of 20 crores. It's already 21-22 crores. And maybe, by December or November end, or by December 2nd week, our current year's revenue planning will end.

So, our marketing and sales team will get 105 clear days to work for the next year turnover. Okay. So, you have a secured order till March 25th.

Mr. Rajesh Vora: Yes, yes. Understood.

Mr. Nimesh Desai: So, it will work on the next year's order.

And when we go into part manufacturing, there is a contract. It's not like they give you a part today. So, they give it to you for 5 years.

Because they have done a lot of work on you. Correct, correct. So, once you enter into that segment, then you need not have to worry.

They think how to take you forward. Correct. Absolutely.

So, this is the biggest difference this industry has to work with. So, we are thinking that once we go into this segment with machinery, I think within 6 months to 1 year, we will move forward substantially. So that, you have to plan how to make the road ahead.

Mr. Rajesh Vora: Understood. So, in that, I will begin. You have raised the money of IPO.

Mr. Nimesh Desai: Correct. We have raised 36 crores. Out of that, 20 crores is for CapEx.

Correct. So, where will we invest those 20 crores? The same plant where we are sitting right now. Where I am sitting.

Mr. Rajesh Vora: You will do expansion there?

Yes, all the machinery will come there. If the plant has a capacity of 1 unit or 100 units, then it will double, it will increase by 50%, it will increase by 20% by investing 20 crores.

Sir, for example, our product, in today's date, we have 3 divisions. One is aviation, another is automation. Correct.

So, both the divisions are entirely separate. There is no interaction with each other because both have different cultures.
Mr. Rajesh Vora: Correct.

We don't mix with each other. And, there is no manufacturing of any component of automation in-house. We do it from outside.

Okay. Because it is available outside. People meet.

Yes, exactly. To work properly. So, and in aviation, we have 3 segments.

One is design and manufacturing of tooling systems for building the aircraft. Second is ground support equipment. Third is MRO.

So, these 3 segments, these 3 segments, we are in aviation. And our fourth is being added. That is part manufacturing.

So, how will that happen? As the year-on-year increases, they say that today it is at 4th, tomorrow it will go to 3rd, then 2nd, then 1st. And then we will be the major, our major content will come from part manufacturing. And then we will see the further study that we will make part manufacturing a separate sector, build it in a separate organization and develop another company or contain it in this.

But, the whole division will be separate. Today it is separate. Where I sit, there will be no manufacturing of tooling systems.

It will be in the next plant. In this plant, only part manufacturing will be done.

We will definitely take help. Because that part, you can think that the thing from which that part, the thing from which the aircraft is made, its accuracy is very close to this. Obviously.

So, we are already in close manufacturing, close tolerance manufacturing sector. So, part manufacturing will be easy for us. But, the challenge is get it done, get it into the system, get it into their own way of working style, go into their part segment, align with them, this thing will do a great job.

I have no doubt about that that we cannot make that part. So, the challenge is not there, the challenge is to align with their system. Which is a big role we will be playing as a management.

Because people from the bottom level cannot do that. Understood. So, what I was asking you about 20 crore capex, we are increasing that capacity in aerospace plant, in the same plant.

Correct? Correct. Okay. And as I asked you about thumb rule, it will increase the capacity by 20%, 50%, 100%,

Mr. Rajesh Vora: how much will it increase?

Mr. Nimesh Desai: 2.5% will increase.

Mr. Rajesh Vora: In the IPO amount Rs. 6 crore is for Working Capital and Rs. 5 crores for repayment. So what is the cycle of Working Capital?

Mr. Nimesh Desai: 90 – 120 days. If Automation big project comes then conversion will be big. We have to tap the order from payment terms also. It depends on order value.

Mr. Rajesh Vora: In your business, how you see the unit of measurement, like kgs, machine hours etc. How do you measure the capacity utilization? What is your current utilization?

Mr. Nimesh Desai: Because we are in tooling, we have to check the machines. Right now our utilization is 80%—82% which is a good utilization. If customer accepts the process then the same process is followed. After starting of part manufacturing then the utilization will be huge above 95%.

Mr. Rajesh Vora: So, now 75%-82% is for tooling?

Mr. Nimesh Desai: Yes its for tooling.

Mr. Rajesh Vora: And for ground handling or MRO what will be the utilization?

Mr. Nimesh Desai: Its less for ground handling. Its critical for defense.

Mr. Rajesh Vora: When our new capacity will get started?

Mr. Nimesh Desai: Within 6 months. Machines will come in 3 months.

Mr. Rajesh Vora: In 1-1.5 years you will utilize whole amount or less?

Mr. Nimesh Desai: Utilization will be done in 1 years. It will continue for 3 years. We have to prepare graph for next 3 years.

Mr. Rajesh Vora: So if utilization will be completed till March 2026, then revenue will also get 2.5 times till March, 2026?

Mr. Nimesh Desai: No its not like that, we will get work done from outside, I think next year revenue will get increased from 40%- 45% and year on it will be like that only. Outsource will be a challenge.

Mr. Rajesh Vora: What will be the revenue increase in March 2025?

Mr. Nimesh Desai: Yes 30%-35% growth will be there.

Mr. Rajesh Vora: Now you have built a very good business, Your top 3 customers is half of revenue, is it risky? But in this business its like that only.

Mr. Nimesh Desai: In automation business our customer base is likely to increase. We are thinking on how to get this automation in aircraft building, we are finding a way out.

Meeting ended with Vote of thanks.