"Tata Metaliks Q1 FY2018 Earnings Conference Call"

July 26, 2017

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Moderator: Ladies and gentlemen, good day and welcome to the Tata Metaliks Q1 FY2018 Earnings Conference Call hosted by Centrum Broking 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 "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Abhisar Jain from Centrum Broking. Thank you and over to you Sir!

Abhisar Jain: Thanks Lisanne. Good evening everyone. On behalf of Centrum Broking, I welcome you all to the Q1 FY2018 Conference Call of Tata Metaliks. We are very glad to host the senior management of the company to take up this call. We have with us Mr. Sandeep Kumar, the MD of the company and Mr. Subhra Sengupta, the CFO. We will start with the initial comments from the management on the results and the outlook and then we will open the floor for Q&A. So I will hand over the floor now to Mr. Sandeep. Over to you Sir!

Sandeep Kumar: This is Sandeep along with me Subhra. Good evening to all of you and thank you Abhisar for connecting us. The board meeting was held yesterday and thereafter the results were announced and as you would have seen it. From a perspective of the investors, I think the results of the first quarter look good to me considering the circumstances that we were in. The raw material prices, which were moved up in Q4 of last year, actually suddenly moved up further and they were stabilizing in Q4 somewhat and then they suddenly started moving up because of a storm called Debbie in Australia that really hit the coking coal prices up in April and till the end of April the prices really went up, so there was if you look at Q1 of last year versus Q1 of this year is almost a doubling of the coking coal prices, the coke prices. So both coking coal and coke cost for us almost doubled, compared to that the pig iron business even though sequentially we sold much more in terms of pig iron, but the demand side and the price side could not sustain the increase in raw material prices, so therefore we had an increase of roughly about 20%, 25% in the prices of pig iron compared to almost 100% increase in coke and coal prices, so that was the major differentiator in terms of the two quarters.

As far as our main bread and butter business of ductile iron pipe is concerned there we did well and if you look at it both your volumes as well as your prices compared to Q1 of last year were up and of course we do not compare with last quarter because Q4 is typically in ductile iron pipe is the best quarter. So otherwise what happens in Q1 it is the heat, in Q2 it is the monsoon, so the first half is typically not as good as the second half and more specifically the Q4. So overall there have been setbacks from our raw material perspective for the industry as a whole and for Tata Metaliks, but on the ductile iron pipe with the completion of the expansion last year. The benefits of ductile iron pipe, the blast furnace, the shutdown that we have taken and virtually a new blast furnace came up in March that ramp up happened in last quarter, so all these CPP3 for us. We kept a power plant three that benefit has started accruing, so I think the benefits have started coming in, but because of the reason for raw material prices and GST, which hit us in June particularly for pig iron because there was an uncertainty, so there was an impact in terms of volumes of pig iron, so I think these were the two or three factors that led to lower than I think our expectations also for Q1. So that is a bit of breathing on the Q1. As far as Q2 is concerned, do you want me to talk about Q2 now or should I talk about later?

Abhisar Jain: Sir you can talk about the outlook as you wish.

Sandeep Kumar: So Q2, the coal and coke prices have again started moving up although not to the same extent as we saw in April and so there is a bit of volatility in the prices, but what is happening is that the pig iron side is also improving and we are starting to pass on the cost to the consumer on pig iron side. On the ductile iron pipe side even though our production and inventories everything was reasonably well taken care of in Q1, the GST impact is that the tax exemption, which was there for DI pipes till June is no longer there, so there is a 18% GST net-net there is about 9% to 10% impact, so that is the extra cost, but on the customer side most of the state government, the infrastructure projects there, there is no clarity as such that they will be able to absorb the full cost of it, so they are still waiting approvals, some state governments have started to give clearances, so there the pipes have started moving, but for others there is still an issue and there is a bit of sluggishness as we see in Q2 in terms of ductile iron pipe movement, but as far as order books are concerned we are comfortably placed in about 8 to 10 months of order it is only a question of moving it, so we would think that Q2 is also going to be a bit sluggish from a point of view of movement not so much from a point of view of cost and prices and the most of the impact, the benefits would start to come in H2 part of this year.

Abhisar Jain: Sure Sir! Sir shall we start with the Q&A now?

Sandeep Kumar: Yes sure.

Abhisar Jain: Operator we can start the Q&A please.

Moderator: Thank you. Ladies and gentlemen we will now begin the question and answer session. We will take the first question from the line of Raj Gandhi from Sundaram Mutual Fund. Please go ahead.

Raj Gandhi: Sir the merger of DI pipe division with pig iron suppose to get you some excise benefit, could you elaborate under GST you mentioned that there is some issue with regards to that going through?

Sandeep Kumar: The benefits of that. Already whatever had to happen has happened in the sense that there is no excise duty now, it is now GST, so it does not matter now, so the synergies are more in terms of both divisions for actually separate companies and therefore they had their own cost centers, they had their own organization, so there are synergies being now trying to get that two together it is like integrating two companies, so the synergies in terms of integrating the two are beginning to come and with that benefits are no longer applicable relevant now because it is not GST.

Raj Gandhi: But in that case it is not an advantage, but let us say just assuming you have Rs.1000 per tonne kind of disadvantage earlier that will not be there now right, so basically it means that under GST without the merger you would have got the Rs.1000 benefit, so it is not that the benefit is going to go away right?

Sandeep Kumar: Yes, it is correct. So it would not go away, correct. That is right.

Raj Gandhi: Sir just we are hearing of lot of DI pipe players in distress and all of that, so just give an option would you like to, if you had an option would you like to get something or buyout something in eastern sector itself or let us say western or some other markets, southern markets where you know it would help you diversify, so just what would be the preference be and also given that you have brownfield expansion possible since you have quite a bit of surplus big, so?

Sandeep Kumar: The growth part is obviously an option that we are looking at and as you would know that last year we completed the expansion of the DI pipes from 130,000 to 200,000 tonnes that 200,000 tonnes DIP our objective is to ensure that we sell that entire 200,000 tonnes profitably this year and therefore to consolidate on the expansion projects that we took last year take out the full benefits and go on for improve the cost efficiencies particularly on the upstream side because in the downstream side we think we are very, very competitive, but on the upstream side with the coke plant, the sinter plant with the power plant those benefits have started accruing in now. As you would have been told in the last concall last quarter by Sanjiv also that the MBF1 the blast furnace one, which was commissioned in March and that took some time for it to stabilize. So what has happened is that now that blast furnace is stabilized, there are some evacuation issues that have also been sorted out, so we have got some heavy duty equipment, which has been installed. So all those benefits on cost, etc., will start accruing from Q2, they do not get so much reflected in Q1, only part three, but having done that so I think what we are trying to do now is to make sure that we consolidate and get all the benefits of the investments that have been made last year. At the same time, we are currently conducting our own long-term growth strategy and that study is underway and once that gets completed in the next couple of months we will be in a position to more firmly place our foot in which direction we want to go. At the same time, if there are opportunities that come as you said there are opportunities available we will not be averse to looking at it.

Raj Gandhi: But Sir just in terms of whether we would like to do something in the same geography, so preferences to do in the same geography or diversify, anything on that?

Sandeep Kumar: That is something that is why I said we need to do our own long-term strategic planning because otherwise you will have people inequitably saying what we should be doing. Somebody might say that we should do it in Kharagpur itself because that is our base and somebody might say do it in south or west because you are not present. Both has their pluses and minuses and they need to be evaluated in detail and that is what we are currently doing and I think we will have some clarity very shortly and accordingly we will take the next step.

Raj Gandhi: Last question from my side on this. Given you are in a peculiar situation wherein you have so much surplus pig, when you are buying something it will have an associated pig so it will cost you accordingly, but for you since you have surplus pig the Brownfield will any time be cheaper because you already have pig and you are just adding DI line, so for you then acquisition to that extent will not be as fruitful right given your surplus pig, so just any colour on that?

Sandeep Kumar: Your points are definitely valid, but then you could also have an option of doing at both the places. What stops you from doing at both the places, if you do at somewhere else, it must come out of a thorough analysis rather than an intuitive feel it looks sensible and we will do it here. That is exactly what we are doing and we are doing a thorough detail study at the moment.

Raj Gandhi: Sure. Thanks a lot Sir!

Moderator: Thank you. The next question is from the line of Giriraj Daga from KM Visaria Family Trust. Please go ahead.

Giriraj Daga: Can you explain a bit more on the GST part you are saying that we had discussion with the government in terms of passing this additional 9%, 10% of cost, can you elaborate like what was the cost earlier and now how much it had been now?

Sandeep Kumar: Yes, sure. So what happens is that before July 1, 2017, the DI pipes that was sold with an exemption on excise duty. That excise duty was 12.5%, but there was CST or VAT or whatever that was applicable on top of that. Now that has been replaced by GST, which is 18%. So earlier the 12.5% exemption that you got is no longer available, but the contracts that you booked prior to July 1, 2017 did not have that clarity that if there is a change in tax whether the state government will absorb it or not. It is obvious that the government has changed the tax and the government project so they should absorb it, some governments have clarified, some state governments like Haryana, Odisha, their clarity has been obtained and they have started moving, but lot of other state governments are still in the process, so the files are moving and things have been worked out. It is taking a bit of time. It is between the state government and the EPC contractor and we as a ductile iron pipe player or in turn supplying it to the EPC contractor or in some cases directly to the government. So wherever it is to the government and where there is clarity we are suppling directly, wherever it is to the EPC contractor and he does not have a back-to-back clarity, so therefore the dispatches are to certain extent stalled. So that is what I meant saying that the dispatches are currently sluggish even though order books are full. We have a bit of an issue in Q2 from that perspective.

Giriraj Daga: I understood. Just hypothetical if some states say we do not want to give that additional percentage, when we hold on will we take a one time hit?

Sandeep Kumar: I think it is a question of being fair and I think some state governments have already agreed to that and I would think that others would follow soon because it is their project and I do not think 9%, 10%, 11% hit and EPC contractor would like to take, right. So I think that negotiation is mainly between the EPC contractor and the state government.

Giriraj Daga: Which are the major governments, which has given the clarity? Which are the major governments like Rajasthan, Haryana, Telangana, Andhra Pradesh, which are the major governments, which has given clarity and which has not given clarity so far?

Sandeep Kumar: Given clarity is basically your Haryana, Odisha.

Giriraj Daga: Only two states so far?

Sandeep Kumar: Odisha and Haryana.

Giriraj Daga: The rest of it yet to get that clarity?

Sandeep Kumar: So there are some movements, some EPC guys have got some their individual clarities, so they may have their own contracts, it is not that movement has completely stopped at other places, but I am saying the big chunks of orders are stalled and awaiting this confirmation once the confirmation comes through then I think this movement will start.

Giriraj Daga: Sure Sir! The next one is bookkeeping question, if you can provide the data points in terms of production and sales both for the pig iron and DI and coke cost for the year-on-year and quarter-on-quarter perspective both?

Sandeep Kumar: What exactly you want, sorry I did not get you?

Giriraj Daga: DI production, DI sales volume number for this quarter and subsequent year-on-year performance and pig iron production and sales?

Sandeep Kumar: Results is not it?

Giriraj Daga: Sorry. Volume numbers tonnage wise.

Sandeep Kumar: Yes, in the press release that has given, but maybe I can just mention that to you. This quarter as far as the DI pipe is concerned we have done 49000 plus compared to 39000 plus in Q1 of last year. There is a 10000 tonnes increase compared to Q1 of last year. So if you compare it to the sequential quarter it is down, compared to Q4 of last year it was 65000 plus, but now typically Q4 is the best quarter.

Giriraj Daga: I understood.

Sandeep Kumar: Historically that is the best season. When the weather is fine, the workers all in full flow and the laying of pipes happen, the funds are going to be, the government fund gets closed in the end of March, they are all in a hurry and typically the first quarter when the funds are about to get released and there is a delay, so Q1, Q2 is the weakest typically. Q3 is an improvement and Q4 is the best. As far as the Q1 compared to Q1 therefore has more relevance and there we have had an increase of almost 10,000 tonnes. As far as the realizations are concerned, there also we have had an increase over Q1 and that realization increased is almost about 6%, 7%, 8%.

Giriraj Daga: What is the volume number is, what is the difference on the sales number?

Sandeep Kumar: When I am saying volume I am talking about the sales.

Giriraj Daga: You are talking about the sales, and production?

Sandeep Kumar: Are you meaning the Rupees, Crores number?

Giriraj Daga: No, I mean the tonnage again volume.

Sandeep Kumar: That is 10000 tonnes more in DI.

Giriraj Daga: In DI and production also 10000 tonnes more.

Sandeep Kumar: What is more?

Giriraj Daga: Production like I am going to say inventory last quarter we had 65000 tonnes of production and 70000 tonnes of sales, so last quarter we had 5000 tonnes of more sales on inventory, so I just want to get the production and sales figure both, so that we can have some access on the inventory part also.

Sandeep Kumar: So the production number for Q1 was 47000 and we did about 49000 tonnes of sales, so we hit into the stocks.

Giriraj Daga: Correct.

Sandeep Kumar: It was 41000 tonnes in Q1 of last year.

Giriraj Daga: Understood and similar number for pig iron Sir?

Sandeep Kumar: Pig iron this Q1 the sales are about 53000 tonnes compared to 59000 tonnes in Q1 FY2017.

Giriraj Daga: I understood and what was the hot metal transferred from pig iron to DI?

Sandeep Kumar: The balance 47000 tonnes whatever we have sold, whatever we have produced if the hot metal transfers.

Giriraj Daga: 47000?

Sandeep Kumar: 47000 tonnes is the hot metal transfer, which gets converted into DI, so that is more or less bit of yield factor, but that is very minor.

Moderator: Sorry to interrupt Mr. Daga.

Sandeep Kumar: Coke we said the cost has increased by almost 100%.

Giriraj Daga: There is a number for tonnage wise number, that is all from my side.

Sandeep Kumar: The volume?

Giriraj Daga: No, the cost per tonne of coke in this quarter and fourth quarter and last year first quarter?

Sandeep Kumar: The coke price we have a variety of source, so I do not have average number, but just to give you an idea that the coke prices last year Q1 was say about Rs.12,000, Rs.13,000 per tonne that moved up to say Rs.23,000, Rs.24,000 per tonne.

Giriraj Daga: Understood Sir! Thanks a lot.

Sandeep Kumar: Almost doubled.

Moderator: Thank you. The next question is from the line of Sumangal Nevatia from Macquarie Capital Securities. Please go ahead.

Sumangal Nevatia: Good evening Sir! Thanks for the chance. First one bookkeeping question. The other expense looked a bit higher from 85 Crores, 90 Crores run rate to more than 110, so is there any one-off in there if you could just elaborate?

Sandeep Kumar: While I will request my CFO Subhra to answer, but just to give you heads up on that. It is mainly because there is an inventory increase in pig iron. There is a significant increase in inventory of pig iron in this quarter and therefore the excise duty block on that count has had a very big impact, but let Subhra answer in detail.

Subhra Sengupta: Actually it is mainly **(inaudible) 21:50** and one time that is in Q1 we have taken shutdown of MBF2 for 15 days and also it takes a shutdown of our induction furnace in the DIP for four days. The shutdown expenses and repairs and maintenance we charge it to profit and loss account of that quarter, so that itself around Rs.5 Crores to Rs.6 Crores. What MD is explaining that the increase in inventory of the foundry grade pig iron, quarter-on-quarter it has gone up by 13000 that excise duty on this inventory is loaded to the inventory and therefore the cost also and that is also approximately Rs.9.75 Crores as opposed to Rs.10 Crores. Now this Rs.10 Crores is negative we will find in the changing stock. In the changing stock in the 4D it is -3760 there is also it is included on Rs.10 Crores negative and the same is also included in the other expenses Rs.9 Crores to Rs.10 Crores. Another thing, which is the base issue in the last quarter Q4, we had a reversal of provision for doubtful debt whereas in the current quarter we have taken a provision for doubtful debt is around Rs.60 lakh. So all three put together the total impact is coming to around Rs.23 Crores. So one is one time that is repairs that is about Rs.6 Crores, one is the inventory impact, which is the net of between the changing stock and other expenses and third is the base impact about the last quarter-on-quarter, which earlier quarter we had got a lower base because of the reversal of the provision of doubtful debts whether in the current quarter we have taken it reversal of provision of doubtful debts.

Sumangal Nevatia: Understood. Second with respect to capex now they were planned to setup a PCI setup to basically substitute coke, so what is the progress on that project?

Sandeep Kumar: Yes so that project was cleared by the board and it is moving on, but it takes some time, it will take about 12 months to 18 months to complete that project, we will of course try and do that faster and once that comes in that should significantly impact our coke cost, so that is a big lever for us to further become more efficient on upstream business.

Sumangal Nevatia: Understand and what could be the capex for that project?

Sandeep Kumar: It is about roughly Rs.45 to Rs.50 Crores.

Sumangal Nevatia: To be spent over next six quarters?

Sandeep Kumar: To be spent over 12 months or so, the project timeline would be between 12 and 18 months, so the expenditure would be faced out accordingly.

Sumangal Nevatia: Understand. Next question is how much power do we buy from outside and what is the savings we are having from waste heat recovery, captive power plant?

Sandeep Kumar: Yes we got this captive power plant 3 that was almost 10 megawatt, with that coming in now we are buying from the grid roughly about 3 megawatts.

Sumangal Nevatia: What is the cost difference Sir?

Sandeep Kumar: There is a huge cost difference. We can just tell you that the cost of power in West Bengal is about Rs.7.5 to Rs.8. While if it is your own power from the coke oven it is hardly any cost, so you can ascribe some cost to it, but it is effectively free in the sense that it is some Rs.1 plus kind of. It is a major, major benefit for us.

Sumangal Nevatia: Understand if I may just ask one last question. Is there any plan to increase coke oven plant capacity from currently what I understand is close to 1.2 lakh, but we still require almost Rs.3 lakh annually, so is there any near-term plan to increase coke oven capacity and thus also power capacity?

Sandeep Kumar: Yes, so the coke oven capacity we are looking at couple of options, one is that we convert at some place else, so we do not have to invest in the power plant or even have to give space in our own land. The other is that we actually do it in our own space and also take benefit of power, so we are currently exploring both these options, but certainly we would be taking a decision very shortly in one of the two depending on the other factors, supposing if we are growing and if my land is limited and I would rather use that for my DI pipe or associated things done for the coke oven and I put the coke oven somewhere else or I do a conversion arrangement with one of the coke players, so we are looking at various options and very shortly will be closing that.

Sumangal Nevatia: That is very detailed. Thanks and all the best.

Moderator: Thank you. The next question is from the line of Vinit Maloo from Birla Sun Life. Please go ahead.

Vinit Maloo: Good morning Mr. Kumar. I just wanted to know on your excise exemption that you had so under what scheme was the exemption available and our understanding was that most of the exemptions were going to continue as a refund right?

Sandeep Kumar: No, this is for the infrastructure project, the government used to give the exemption; ultimately the pipes are going to the government, being used by the government. The government gives the contract to the EPC contractor. The EPC contractor like L&T or Gammon whoever in turn offers the contract to us, so it is a cost to the government either way and since it was for infrastructure, so there was an exemption. Now in GST since you have removed most of these exemptions therefore there is an additional cost of about 9%, 10%, which comes in.

Vinit Maloo: This incidence is on whom is it on the EPC contractor or is it on the material supplier like us who supplies pipes?

Sandeep Kumar: No, so that is what in the beginning I was trying to explain saying that currently there is a lack of clarity whether the government who will take it or the EPC contractor, obviously the EPC contractor is not going to take it in my opinion so easily because he has bid thinking that taxes are extra, but we would expect and we would be urging upon the government that look you are ultimately collecting the tax and it is coming back to you only, so it should be borne by the government and not by anybody else because it is your project and your tax right?

Vinit Maloo: Right, so there was no clarity on this earlier is it?

Sandeep Kumar: No, so there was a bit of confusion on this because people expected because the orders also have been picked up and GST even implementation, although there was people said they will do it, but there were lack of clarity on that.

Vinit Maloo: You would have been taking orders let us say in last few months January, February, March, April, at what point is clarity emerged and you would have started keeping a clause in your orders like this?

Sandeep Kumar: No, we had kept it, we had been communicating, any implications on account of GST has to be to your account, but what happens is that, so that is why the contracts are not cancelled, our orders books are there, but it is a question of they are not picking up the material saying that we are not getting clarity so you please hold, but some contractors have got clarity and some state governments have given clarity, so there it started moving like I said Odisha, Haryana, etc., but there is a lot of other state governments where the clarity has not come in, so therefore it is only a question of differing of those orders and getting those clarity and getting those files approved and thereafter I think that most of the places it should get cleared and that should not be a problem.

Vinit Maloo: So there is no impact of this on profitability as of now right, there is only slowdown in terms of dispatches because of this?

Sandeep Kumar: Correct absolutely, so order books are fully there, it is not that orders have been cancelled or something. We have 8 to 10 months of order that is not an issue. Question is when you want to executed you do not want to build up your inventory and we particularly if you look at it Tata Metaliks inventory compared to the industry average we are at one of the lowest, working capitals are very tight, cash flow management is very, very tight and Subhra sitting next to me is smiling all the way, he manages the cash.

Vinit Maloo: I am sure he is doing very fine job. Now I just want to understand your new blast furnace and this waste heat recovery power plant came up right, so now have they stabilized both of them in terms of production ramp up and also have all the cost and revenue been accounted for completely on an evaluation basis, how is it working?

Sandeep Kumar: You talked about blast furnace?

Vinit Maloo: Yes blast furnace as well as waste heat recovery plant.

Sandeep Kumar: Yes, so the power plant has stabilized, we have got the most of the benefits in Q1, Q2 onwards the full 100% benefits will come, blast furnace MBF1 came up in March, stabilization took a bit of time; therefore, there was some production losses, etc., in April. May and June have been much better, but there is also some evacuation issue, so they are also being sorted out with some equipment purchase, etc., from imported equipment, so that is underway, installation is underway at the moment, rather trials underway, installation already done, so I think from August onwards the full benefits of both the blast furnace and the power plant should be there, in fact power plant has already started, full benefits, but even the blast furnace.

Vinit Maloo: Lastly you are just clarifying on other expenses breakup, so the repairs and maintenance they cost about Rs.10 Crores right additional?

Sandeep Kumar: Rs.6 Crores.

Vinit Maloo: Sorry Rs.6 Crores, okay and this excise thing I am not really counting because there is anyway contra entry, so whatever is there installed is a reverse in other expenses right?

Sandeep Kumar: Yes it is a contra entry.

Vinit Maloo: Right and in terms of provision for doubtful debts how much was it in Q4?

Sandeep Kumar: Q4 was, reversal provision for doubtful debts?

Vinit Maloo: Yes reversal provision for doubtful debts how much was the reversal in Q4?

Sandeep Kumar: Rs.6.9 Crores.

Vinit Maloo: About Rs.9 Crores?

Sandeep Kumar: 6.9 say Rs.7 Crores.

Vinit Maloo: Rs.7 Crores, so we have got Rs.13 Crores of additional expenses versus Q4 in overall basis?

Sandeep Kumar: Yes because the Rs.10 Crores is contra only.

Vinit Maloo: Yes Rs.10 Crores is contra, alright. Thank you very much.

Moderator: Thank you. The next question is from the line of Dhimant Kothari from Invesco Mutual Fund. Please go ahead.

Dhimant Kothari: Good afternoon Sir!

Sandeep Kumar: Good afternoon Dhimant.

Dhimant Kothari: Understanding on this GST thing, so the clarity is not between whether the EPC contractor would be barring this or government, it is nothing to do with us right?

Sandeep Kumar: Yes, correct.

Dhimant Kothari: Sir the second thing, so you said there is a 10% disadvantage, so it would be transitionary, going forward the new orders would be booked accordingly?

Sandeep Kumar: Correct.

Dhimant Kothari: Is there any disadvantage or advantage or anything related to the concrete pipes, how the taxation has moved up in that part?

Sandeep Kumar: On the concrete pipes?

Dhimant Kothari: Yes.

Sandeep Kumar: So actually if you look at it from a benefit point of view technically the DI pipes are much superior, life is 100 years, so what happens is when it comes to commercial if you look it typically you have to convince the government, all the infrastructure project player that you look at the life cost, full life cycle cost. If you look at cost of 5 to 10 years then DI pipes tends not to be that competitive, so I think with this change that convincing because I think that is one thing that the DI pipe industry has to do more and more because it is good for the overall country that you use more of DI pipes. People do not seem to know so much, while the change was happening and the growth is that is why you find almost 12% to 15% growth in DI pipe industry, but I think much more can be done provided this convincing and persuasion happens from the industry as a whole.

Dhimant Kothari: No Sir, but that was any ways that before this also, but has GST done any good or bad to concrete pipes because it is 10% bad for us, so as there any change on the margin with GST coming in for concrete?

Sandeep Kumar: No, nothing, not that I am aware of.

Dhimant Kothari: Okay Sir!

Sandeep Kumar: Not that I am aware of, but I think we can check the doubt as to what is it, as how is it going to impact, so with clarity on GST once it comes in the pipe should move as far as getting new orders are concerned competing with concrete pipes that part needs to be understood better, which I do not have a clarity at the moment on, but I think there does not going to be much of a change on their part, the change is there.

Dhimant Kothari: So players like you would be capable to pass on this 10% delta going forward right?

Sandeep Kumar: Yes, correct.

Dhimant Kothari: Thank you. That is it from my end.

Moderator: Thank you. The next question is from the line of Srimant Dudhoria from Unify Capital. Please go ahead.

Srimant Dudhoria: Thanks for the opportunity Sir! In this continuation to the previous question, the advantage or pros or cons of DI pipe compared to other pipes we are increasingly hearing from civil engineers that HDPE pipes, DWC pipes increasingly used as a substitute for DI pipes, so do you see such pipes has threat to the DI pipe industry, which you can just share your thoughts on this?

Sandeep Kumar: HDPE up to a size of 250mm or 300mm you can say they are competitive, but once you go into the bigger sizes, which is where at least Tata Metaliks is more comfortable and more competitive we find that the DI pipes tend to be much more competitive than the HDPE and as far as life, etc., is concerned nobody competes with DI pipes on that plus also from a point of view of environment, sustainability, etc., which is become more and more an important issue as we go forward in the next 5, 10 years, I think that would give a certain advantage to DI pipes going forward.

Srimant Dudhoria: How about DWC pipes Sir, it is similar comparison?

Sandeep Kumar: I do not have the number in terms of whether I could tell you in the case of HDPE, which we have not seen much of competition from there, but going forward we will be evaluating all the competition much more as the GST impact becomes clearer to what extent, etc., and maybe I will be able to answer that question in the next quarter because we need to understand and assess the impact on other materials fully, which we have not done as of now.

Srimant Dudhoria: Sure Sir and secondly Sir the other income portion also there was a substantial increase in the number, so if you can just highlight if there were any one-offs and is there any more one-offs to come?

Sandeep Kumar: Yes, Subhra will explain, but as just said a little while earlier there were two major things one is the provision of doubtful debt of about RS.7 Crores, which was reversed in Q4, there were two parts one is the provision of doubtful debt and the other one was on the excise on the inventory, so the inventory had got added up so let Subhra clarify that.

Srimant Dudhoria: I was referring to the other income Sir?

Sandeep Kumar: Other income sorry I thought of the expense that you are saying.

Subhra Sengupta: Other income there are two major things, we just settled our entry tax in current quarter, we had got some excess provision in the interest that we have reversed around Rs.6 Crores and there is another thing for the one of the projects we have imposed LD for the delay.

Sandeep Kumar: Settlement with the party.

Subhra Sengupta: Settlement with the party that is approximately 3.5 to 4 Crores, so these two are already one-off cases and they are not repetitive in nature.

Srimant Dudhoria: Sorry Sir can you please repeat the first one Sir Rs.6 Crores what was that related to?

Subhra Sengupta: In Q1 we have settled all entry tax disputes with the government of West Bengal and we have some excess interest provision that we got reversed in the Q1 accounts.

Sandeep Kumar: So basically the West Bengal Government had come up with the policy saying that those who settle with us because the cases are pending in high court, those who settle with us by end of the June before GST becomes operational, they would not charge interest and penalty and we took legal opinion and there was also the court case had gone to Supreme Court, which had made certain remarks, which pointed out to us that it might be prudent for us to actually settle the case and so we decided to settle the case and therefore there were some extra provisions on interest penalty, etc., which we had provided for, those got reversed, so that is the extra income we got from there that is what Subhra was just trying to explain.

Srimant Dudhoria: Sure Sir! That was helpful. Thank you.

Moderator: Thank you. The next question is from the line of Raj Gandhi from Sundaram Mutual Fund. Please go ahead.

Raj Gandhi: Just a followup question on this. The issue with this GST thing that you are saying is that because it was manufactured before July you would have paid excise whereas now getting the set off on that excise will take time, is that the issue?

Sandeep Kumar: No what happens is that you had your excise exempt earlier, so excise was not payable, when you dispatch you pay excise.

Raj Gandhi: Right, the pipes are not on the excise.

Sandeep Kumar: Because you could get the certification for infrastructure projects for exemption, so it was project by project it was not that it was applicable for all, but virtually since the supply mostly to infrastructure projects it applied to most of our sales and that when the GST came in and exemption went off because under GST the government has removed most of the exemption, so therefore we have now have to pay that when you dispatch. You would collect it from a customer and the customer in turn will choose an EPC contractor will have to collect it from the government to whom he supplies, but here he does not have a clarity with the government as to who will absorb, so while some governments have clarified and they are absorbing and the EPC contractor has therefore started moving with us, some governments have not, so that is where there is a sluggishness in dispatches and which is what I am trying to explain.

Raj Gandhi: So basically it was under 0 excise, now it is 18% GST, so that is the kind of taxation going up?

Sandeep Kumar: But net-net impact is not 18 because there was CST or VAT and there is an input tax credit benefit also, so net-net it is about 9% to 10%.

Raj Gandhi: Which again if they are into project and all whatever they can recover sometimes they have paid the tax, so.

Sandeep Kumar: Correct so they paid the tax, they should be able to recover from the government, basically the price plus tax, whatever the price the tax government fixes that the end customer should be willing to pay, so in any case it is not gettable, take GST it is on the value added part, but it is going to the government, so either ways it is back to the government.

Raj Gandhi: Sure Sir! Thanks.

Moderator: Thank you. The next question is from the line of Sachin Kasera from Lucky Investment Managers. Please go ahead.

Sachin Kasera: Good afternoon Sir and congratulations for a good set of numbers. My question is regarding this coke oven material that you mentioned so what is the type of benefit we can get in terms of cost of production once it is operational?

Sandeep Kumar: From coke oven sorry?

Sachin Kasera: Coke oven material that in earlier query you mentioned that we are spending around Rs.45 to Rs.50 Crores for 1,20,000 tonnes coke oven battery, which will reduce our cost of coke, so how much will the benefit because of this?

Sandeep Kumar: So that is not on coke oven that is on CDI basically coal dust injection, so instead of coke, which is an expensive product you are replacing that with pulverized coal, so this is pulverized coal, which you buy, which is thermal coal. As you know coking coal is more expensive than thermal coal and then you convert the coking coal to coke so that becomes further more expensive. Here we replace the coke by not coking coal, but by thermal coal and a special variety of thermal coal, which got low ash and is able to be injected into the furnace and there is a major savings because it is a replacement, it is almost one to one. So this project is very, very important for us because it really improves the cost effectiveness of our upstream because blast furnace the major cost is the coke.

Sachin Kasera: So considering current prices of coke and the special grade of coal that you will be replacing it with what is the type of cost benefit can it bring to the company in terms of either absolute number or in terms of a cost per tonne if you could elaborate on that Sir?

Sandeep Kumar: Just to give you an idea. Typically the blast furnaces would be using coke to the extent of 500, 600, 700 kgs depending on their efficiencies I am not getting into the exact number, but I am just giving you an idea and you can replace that with PCI, which is pulverized coal, it is called PCI pulverized coal injection or CDI, which is called coal dust injection either way, so both mean the same and you can replace it to the extent of say 80 to 100 to 120 to 150 depending on efficiencies and depending on various other factors, so to that extent your coke rate, coke injection or coke consumption goes down that would give you an idea, if you are able to replace the 100kgs – the cost of 100 kgs of coke, you know the prices of coke today 22000, 23000, 24000, depending on what kind of coke, so you can imagine if it is 100 kgs what is the cost.

Sachin Kasera: What would be the cost of this pulverized coke that you use is it higher than the normal coal that is in the market or this is because of special index cost is higher today?

Sandeep Kumar: So it is thermal coal, thermal coal prices are also known to you, but it is typically lower ash, so 9%, 10% ash and 9%, 10% of thermal coal compared to say we can get 9%, 10% similar coking coal is much cheaper and if you compare it to coke it is still much cheaper, so just to give you an idea the cost of this coal would be 100 plus something and your coke today, the coke prices as I told you already it is about, I said $100 plus and your coke prices are $200 plus.

Sachin Kasera: It is a huge benefit, but what is the maximum amount that you can replace, so if you all say using 100 assuming we are using 500 or 600 of coking coal can we bring the ratio of this pulverized coal to say 30%, 40% or is there is a technical limit as to how much you can blend it along with coking coal?

Sandeep Kumar: So that is why I was saying if you can do about 80 to 100 kgs this is a realistic number, a good number to achieve that is what we should be looking at in the first phase at least, you can do more, but the bigger furnaces like Tata Steel Jamshedpur they can go up to 200, but bigger furnaces there were different outlook they make steel grade we make the peder and pipe grade so there is still some difference from that count also.

Sachin Kasera: Basically the proven technology companies like Tata Steel already have done so there is no reason for the technology as concerned we are fairly confident that it will bring in the desire results that we are looking for.

Sandeep Kumar: Yes Tata Steel is one of the best in coke rich today, it is one of, maybe it is one of the top three or top five in the world Tata steel Jamshedpur and Tata steel Jamshedpur is about two hours, two-and-a-half hours from Kharagpur. So while we are implementing this we have also formed a group with the technology group of Tata Steel, which should be meet on a weekly basis on videoconferences and we have started sharing practices and learning so that we ensure that the full benefits are realized.

Sachin Kasera: Sure. Are there any other initiatives other than this, which could result in significant cost reduction for us either on the conversion from hot metal to DI pipes or the production of hot metal itself?

Sandeep Kumar: So on the ductile iron pipe side most of the cost efficiencies have been achieved and we are very significantly low cost producer in the industry. As far as the upstream side is concerned, the hot metal side there we have scope for improvement and part of the improvement is coming in with the investments that were made last year and which I explained a little while back, but obviously there is lot of scope for further squeezing the cost and one of them is to the PCI CDI route and others as well. What we are doing is launching improvement project is not a project really an improvement program along with Tata Steel. Tata Steel ran with the management international consultant for the last two years on the similar improvement program and over the last two years they have saved, the numbers are staggering so I do not want to tell you the numbers because I am coming from Tata Steel three months back I am in Tata Steel so I ran in one of those programs, so we are trying to launch a similar program here along with the Tata Steel team and that would be launched next month and then we will be identifying each of those ideas and projects and I am quite hopeful that these should certainly help in further reduction in the cost.

Sachin Kasera: Sure do you have any internal benchmark for the next two to three years that this is the amount we would like to achieve in terms of production in cost of production over the next two to three years or it is just effort that will keep doing, which results in flow over a bit of time?

Sandeep Kumar: So there are certain benchmarks, but what happens is that we have many blast furnace, one of the benchmarks for Tata Steel is one of the lowest cost producers of steel as you would know in the world they have been ranked number one number of times in the past, but also that partly also because of their raw material, but now over the last few years their cost efficiencies have also improved significantly on the conversion cost. We are trying to learn from Tata Steel Jamshedpur on some of these elements. I would not say because not everything is applicable directly, but operations are very similar central plant, coke plant, blast furnaces, so that will certainly give us lot of I would say scope for improvement as we go along. Benchmarks we have something, but we will be wanting to expand that further.

Sachin Kasera: Sure. Thank you very much Sir and wish you all the best.

Moderator: Thank you. The next question is from the line of Dhruv Bhatia from AUM Advisors. Please go ahead.

Dhruv Bhatia: First question is that you have a capacity of 2 lakh metric tonnes in ductile pipe and you currently are doing in the quarterly basis almost 50000 tonnes, so how long if you have to explain that I understand you are going to take couple of months, your long-term strategy of growth, but if you had to put up a new capacity along with it take to commission it?

Sandeep Kumar: Typically if you put up a fresh capacity it would take almost 20-24 months all ductile iron pipe so that is the kind of timeframe, which if you put up a new capacity that is what it will take.

Dhruv Bhatia: You are taking about the brownfield right because you have land, so it will take for you 20-24 months to put up a new capacity in your existing facility?

Sandeep Kumar: Yes correct. We have excess hot metal, so in the upstream side there is no problem it is just putting up of the pipe plant and taking it forward.

Dhruv Bhatia: That means that since last year also you have done almost around 180, 190 lakh metric tonnes of sales that means that is the growth for you in ductile pipe would be limited for maybe the next two years because of constrained of capacity.

Sandeep Kumar: You are absolutely right unless of course you are going for inorganic growth.

Dhruv Bhatia: Alright, Sir second question if could you just tell us what the order book number would be in terms of actual value?

Sandeep Kumar: So just to clarify on your earlier point also. The capacity utilization of many of our units you will find and you will find that in Tata Steel also is more than 100% like for example even with the power plant you we want to go more, coke plant we want to do more, central plant we want to do more, so while 200,000 tonnes is the nameplate capacity, there would be a scope for debottlenecking it and taking it for upward also, but question is that is not going to give you a very big number so if you have to grow we have grow by adding capacity.

Dhruv Bhatia: Debottlenecking being more than 10% or that would be something fair number to work with?

Sandeep Kumar: I think I would hesitate to tell you a number at this point in time, but your guess would be as good as mine, but I think it is a fair number to say from your side 10%, 15%, 20% something which is what typically people get, but we have to evaluate because there are other facilities, etc., which you might need, so we need to see to what extent you can do it.

Dhruv Bhatia: Could you tell the order book and value term or may be in tonnage how much what is order book?

Sandeep Kumar: Yes 8 to 10 months of order.

Dhruv Bhatia: You mentioned on GST I wanted to understand is that since earlier there was no excise duty and now you will have to pay for it, first pay and then receive it from the customer as per the input credit that means your working capital to that extent of 8%-10% would go up right is that the right way to look at it?

Sandeep Kumar: You have to pay, but you will collect?

Dhruv Bhatia: Till the time you collect from the customer you will have to bear that extra working capital?

Sandeep Kumar: That is right.

Dhruv Bhatia: Alright Sir! Thank you.

Moderator: Thank you. The next question is from the line of Pratik Chaudhary an Individual Investor. Please go ahead.

Pratik Chaudhary: Good evening Sir! Sir could you give some clarity on the forward tax rate that we could be looking at because right now we are paying around 22%-23% and just if you could give some light on that?

Sandeep Kumar: Tax rate, corporate tax. Subhra will answer.

Subhra Sengupta: Actually we are under minimum alternate tax band so the rate is including the surcharge of approximately 21%, so in FY2018 will be 21% tax and based on the understanding that FY2019 also it will be 21% tax rate.

Pratik Chaudhary: FY2019?

Subhra Sengupta: It will be 21% tax rate not full rate. That will be applicable this year and next year that is what we are saying. 21% would be applicable this year and next year.

Pratik Chaudhary: For this the expansion, the environment clearance that we have filed where we have approval for some 3 lakh capacity so for additional if we decide to put up one lakh tonne line how much would that cost?

Subhra Sengupta: How much would that?

Pratik Chaudhary: Cost around about?

Subhra Sengupta: The capital investment would depend on what capacity we put up, as our saying that we are currently evaluating that as to what is it that…

Pratik Chaudhary: No, I am saying generally in the industry hypothetically if you put up one lakh tonne line how much would we spending as capital investment in that?

Subhra Sengupta: Typically for one lakh tonne per annum pipe capacity do you would end up with cost of say Rs.160 Crores to Rs.180 Crores it is a thumb rule kind of, but you may go in for larger capacity and the cost may not be so much, so let us see all that.

Pratik Chaudhary: But one lakh is close to Rs.160-180 Crores you said?

Subhra Sengupta: Roughly just a very rough number. So we have one of the very senior project person of Tata Steel who will run some number of projects is our consultant and we are actually working out of plan along with him and with us he is a kind of consultant in projects, so we have his knowledge and experience so and we are trying to work some of those numbers, but first of all we have some numbers, there was a plan earlier, we are just trying to make sure that the plan is a structured plan, is a systematic plan and where we want to go is coming out from the market side not merely saying look I want to grow because I can grow, but because there is a market with sales yes you should go and where you should go because there are sizes, there are other products, which you can do so what you should do, what products you should do, where you should do whether in Kharagpur or outside all that needs to be clarified rather studied and come out with a conclusive market based study so that is what exactly is currently happening.

Pratik Chaudhary: More on terms of the market dynamics right now in terms of demand and supply, what is the current situation we sort of taking a shortfall and we supply on the supply side?

Subhra Sengupta: The demand supply is more or less balanced it is not really industry is growing typically it has been growing at 12% to 15% over the last few years. India is growing with this government Indian Government focusing a lot of infrastructure we see this continuing, so right now it is happy story, but in fact that has also taken a toll in some sense that we are not really focused so much on exports because we would make to take advantage of the growing domestic market, but going forward we are also trying to work on the export market so we have putting a sales office in Middle East, Middle East is one of the market plus neighbouring markets and have a portfolio on the export side to take care of such exigencies like today like you have material but you cannot supply because of GST implication, so it is also a derisking strategy beginning to get into that more and more not that it was not earlier, but just we are trying to focus a bit more on export as a derisking strategy.

Pratik Chaudhary: But would not be really cost inefficient because rate would be a major add-on to the cost while we export the same product?

Sandeep Kumar: Yes it actually depends because geographically we are in the east and if we supply to south and west spreads are high, but when you supply to east and maybe some portions in the north and central we are great. Now compared to what if you say compare to east yes it may be disadvantages, but compared to south and west order-to-order, market-to-market so we have large number of customers to whom we have exported small, small quantities we are trying to focus and see which are those markets, which are going to grow or which are going to have attractive market for us and give us an attractive price so that is what we are trying to work out.

Pratik Chaudhary: And Sir what is excise thing that we mentioned this is only for us right because for other players they must be paying excise duty and this situation is arising only in case of us because our unit was excise exempt is that the correct understanding?

Sandeep Kumar: No, no it is not that our unit was excise exempt, policy of the government was that for infrastructure project of the government we could take an excise exemption so there was a certification, which the government used to give on the basis of certain completion of formalities and for example if I have got an order and then my EPC contractor would apply for that and you would give me the certification and on the basis of that certification the excised duty was exempt, so it was also applicable to others.

Pratik Chaudhary: And Sir last question on the income tax rate was our DI pipe unit income tax exempt?

Sandeep Kumar: No, not at all in fact just now Subhra said that we are paying about 21% MAT, so that is the minimum alternate tax.

Pratik Chaudhary: Because I mean usually the tax is 30%-33% so how does it work out at 21% Sir?

Sandeep Kumar: Yes, but past carry forward losses we had incurred losses in earlier years both in TS, GIT and TML, the difficult carry forward we are getting and therefore...

Pratik Chaudhary: When do those accumulated losses get over for us by then?

Sandeep Kumar: He clarified that this year and next year is going to be MAT, thereafter depending on what we make will depend on that after that.

Pratik Chaudhary: Thanks a lot and good luck.

Moderator: Thank you. We will take the next question from the line of Abhisar Jain from Centrum Broking. Please go ahead.

Abhisar Jain: Sir I will just squeeze in one or two questions. Actually Sir just wanted to know that considering that GST has had some impact on both the pig iron and the DI volume so are we looking at some revised production plans for the year or we feel that in H2 we should be able to cover up ground in both the divisions?

Sandeep Kumar: So pig iron is doing well now, we had an impact in Q1 because many of the guys were not clear, so they stopped buying. In the case of DI pipe it was the reverse. In June when they came to know that no exemptions so they maximize in some sense I would say June. There are limitations of cost in terms of because there are procedural hassles to it so it does not really help you too much, but at least it continued as per plan and typically as you know in the government sector things did not move so fast, so that is what happened, but in Q2 pig iron part is clear, but DI side is where we do not have clarity. Pig iron was not exempt.

Abhisar Jain: So but does it change Sir the whole year plan or you feel that H2 would be able to kind of normalize for both and that is why make up for the whole year?

Sandeep Kumar: No, we will certainly be able to make up, we have done almost on a annualized basis Rs.49000 somebody said by your capacity you should be able to achieve 100% capacity you have done one-fourth in one quarter, so we are not badly off if you look at it. Because of the pig iron the raw material that Rupees in Crores we have a problem, but in DI we have actually done well in Q1 and that is where the bulk of the money is. So there will be some sluggishness in Q2, which may impact because I do not know how things will move. As of now in July we are seeing the sluggishness and some we are pushing hard and maybe in August and September things get clarify and things are moving it is not that they are not moving, but just that they are not moving at the pace at which we had booked orders and plan for it. That is where we stand and Q4 is typically the best quarter, Q3 would be the second best. As of now we do not think for the year there is going to be a major problem there could be some hiccups in Q2 that is all I can think of.

Abhisar Jain: Sir just one thing on the DI pipe geographical breakup could you give an indication that outside of the east market what percentage we could be shipping out of which will not be on the east and would be any other market like south west combined percentage?

Sandeep Kumar: Typically 50% of our sales is in east that is the best NR for us, the best prices are there, geographically most proximate.

Abhisar Jain: And what would be the export Sir in DI?

Sandeep Kumar: So this quarter we are less than 10% so it is about 7%, 8%. Typically we should be doing 10%, 12%, 15%. When the movement is not happening and if you can do more of exports that helps release your stocks that is where the derisking text is otherwise I think 8%-10% on a regular basis is fine.

Abhisar Jain: Just one last question which you have been mentioning for quite some time that there is this new demand segment opening up for DI pipes in the irrigation segment with few governments opening up to direct sourcing of DI pipes for those irrigation projects. Sir could you give some update whether that momentum is picking up or is it slow and what is the expectation therein for the industry as such?

Sandeep Kumar: Lift irrigation project is what I think we have talked to you about in the past and for example Odisha has picked up quite well and we have got some good orders there and we are in fact executing them also because Odisha has also got clarity on the GST so that is there. Madhya Pradesh is another one, so lift irrigation is one of those areas, new areas and new subsegment I would say part of irrigation only where things are moving, but I would urge that we wait for a couple of months for things to stabilize, it is also monsoon, summer and monsoon are not the best way to derive conclusion is very quickly. All knowledge looks fine to me, just some hiccups here and there we should get clearer as we go on.

Abhisar Jain: But Sir just from more structure point of view that this lift irrigation demand for DI pipes was say two years back hardly existent is that understanding correct?

Sandeep Kumar: Yes so it was much, much lesser and something, which is emerging as one of the subsegment for us and attractive subsegment for us and that is why we are focusing on.

Abhisar Jain: Sure Sir! That is all from my side Sir and there are no further questions in the queue you can please make your final comments if any and then we will close the call.

Sandeep Kumar: I think I have spoken enough and I have said that maybe I repeatedly said there are few things, but just to summarize kind of Q1 does not look great in terms of result, but there is a factor of raw material on the pig iron side and on ductile iron side and also the raw material and also the fact that we were ramping up our blast furnace one, which we have been able to stabilize now so Q1 got a bit impacted partly because of market on the input side and also because we could not take before benefit of the new blast furnace. DI side the ductile iron pipe side I think we have done reasonably well Q2 seems to be a bit sluggish on ductile iron side, pig iron is doing well at the moment even though the prices of lead has started moving up again. The question is how much more impact can you make on the market side so we have also now trying to see what best in terms of better marketing and sales strategies and efforts we can do so there is to get some extra price you would also notice that compared to last year our volumes this year in pig iron is much, much more so we would end up doing a much higher volume of sales so if it is 500,000 tonnes of hot metal and if we to say 200,000 or whatever of DI it becomes balancing is about 300 so maybe it is 275-300 or 325 depends on the actual numbers and various factors, but I am saying by and large that is where the mix is looking like and overall on the cost side and on the market side both sides we were putting in very focused effort. On the cost side through improvement umbrella program along with Tata Steel, on the technical side again with Tata Steel we are in put a weekly program on the operating practices on the capital front side putting in the CDI project and this is I can tell you to give some confidence to the investors. Company is in good health, there are some issues, which are temporarily in any case is the seasonal factor of Q1 and Q2 is not going to be traditionally not the greatest of quarter plus the GST impact so going forward into H2 things should look up much, much more. I hope I have concluded and given some clarity to you all.

Abhisar Jain: Sure Sir! That is great. Operator we can now please close the call.

Sandeep Kumar: Thank you very much to all of you for joining and reposing the confidence in the Tata Metaliks and to Abhisar and the Centrum Team in particular. Thanks very much.

Abhisar Jain: Thank you so much Sir! Thanks a lot.

Moderator: Thank you. Ladies and gentleman on behalf of Centrum Broking that concludes today's conference. Thank you for joining us. You may now disconnect your lines. Thank you.