"Tata Metaliks Limited
Q1 FY2021 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to Tata Metaliks Limited Q1 FY2020-2021 earnings Conference Call hosted by Monarch Networth Capital 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, please signal an operator by pressing "*" then "0" on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Sahil Sanghvi from Monarch Networth. Thank you and over to you Sir!

Sahil Sanghvi: Thank you, Inba. Good afternoon to all. On behalf of Monarch Networth Capital, we welcome you all for the Tata Metaliks Q1 FY2021 earnings call. From the management side today, we have MD – Mr. Sandeep Kumar Sir and CFO – Mr. Subhra Sengupta Sir. So without taking much time, I will hand over the call to Sandeep Sir for the opening remarks. Thank you and over to you Sandeep Sir!

Sandeep Kumar: Thanks Sahil. Good afternoon and welcome everyone. Well, the Q1 has been a mixed bag for us. As we all understand and acknowledge the fact that this pandemic has had a major impact on the economy and I think our industries both ductile iron pipe and pig Iron have also not been spared. However, after the initial disappointment of closures in let us say towards the end of March, we actually got back to action sometime in May and have had a vertical ramp up, I would say in the month of June, once the unlock 1.0 was announced and we could get all the labor back.

However, in Q1 we had started the sales dispatches from end April because what happened is with the government started giving permissions gradually the state government and the local government for increased number of employees, so as we got the increased number of employees we started getting one asset after the other back and by June 1 or June 2, we were back fully at least we initiated the resumption of operations of almost all the units.

What I mean by different units is if you were running one power plant and coke plant during the lockdown in early may, we started with one glass furnace more like I think May 11 or May 12, thereafter we started also the ductile iron pipe plant and interestingly for you we did a solid charge which means we did not use hot metal initially because before the hot metal started coming in, we could use solid charge so we used a mixture of scrap and pig iron and used that to start producing pipes.

Of course, it is not as efficient not as cost efficient as hot metal charge because obviously you have to melt it and therefore those an extra energy consumed but it is interesting way, it is good from our long term sustainability point of view and it also can handle your production whenever your glass furnaces are down at least you do not lose production completely.

So that was the interesting thought and then of course in June we had both the furnaces back, complete three shifts running of the ductile iron pipe plant and all the auxiliaries and associated facilities up, so June was very good month for us and in fact July has been still better, so last two months has been very satisfactory from our operational performance point of view.

As far as the market is concerned, the markets have actually looked good in fact they never looked very bad although when we started the lockdown in end March, we thought we are doomed but actually despite all the doomsday hearings, the things did not go as bad as we had anticipated and therefore you find that we could make at least an operating profit an EBITDA of about 11 Crores or so.

That was primarily of course driven by the ductile iron pipe business but we have had excellent I would say collections, none of the customers defaulted, they delayed in payments but almost everybody including government departments have paid of course not 100% but the way they have paid it is all in line with the regular pattern and we have had actually been able to reduce our working capital significantly. So we have had some good silver lining there despite all the negative things that we had and what we experienced. On the whole, the numbers through the press release you would be already aware of but just to summarize, we had revenue in Q1 of 210 Crores which was down by almost 55% to 60% EBITDA of 11 Crores versus like say 49 Crores year-on-year and of course PBT of -16 Crores.

Well the sales of ductile iron pipe were at 27000 tons compared to say 54000 tons a year back so 50% down, sales of pig iron 32000 tons versus 72000 tons a year back as far as prices are concerned, pig iron prices were down from Q4 to Q1 by 10% to 11% while ductile iron pipe prices were down by 4% to 5%, so this is the overall picture.

I know you have special interest in ductile iron pipe where I think our segmental EBITDA was over 9% compared to 16% a year back, so that summarizes the picture of quarter 1, I can talk about quarter 2 as well and how things are going, things are looking pretty well but I am sure there will be questions and I can cover that if not then towards the end I will cover.

I think I am through. Subhra, do you want to add anything?

Subhra Sengupta: No, the results mainly what MD has said mainly on the volume gas due to lockdown made up till mid May there were no production and sales, so that is the main reason, other things are I think was not much change compared to quarter-on-quarter.

Sandeep Kumar: Just to clarify what Subhra just said no production was there, but sales were there from end April the sales had started while deliveries had started, no new sales that is what he means. It was basically full orders been executed. Let me hand over back to Sahil for the question and answer session.

Moderator: Thank you very much Sir. Ladies and gentlemen, we will now begin the question and answer session. Our first question is from the line of Sumangal Nevatia from Kotak Securities. Please go ahead.

Sumangal Nevatia: Good afternoon Sir and good performance in this challenging time specially in the month of June, going forward if you could share what would be ramp up schedule in 2Q and how are we looking volume from FY2021 onwards if we have some better certainty on the remaining nine months that is one and second, last quarter you were evaluating the pace of timeline of commissioning our expansion projects so if there is any further decision and certainty of as per if you could share that as well? Thank you.

Sandeep Kumar: Thank you for your questions. I think as far as Q2 is concerned, we are looking pretty good at the moment on pig iron which is the more volatile one. As far as ductile iron pipe is concerned it is monsoon season, you know that during the first half and especially during monsoons, the work at the sites get affected and therefore we should not expect anything major but it should be in line with what we have seen in the past years. There could be some impact may be 10% to 20% because of COVID which sometimes, some sites gets closed but that is very difficult to say because when somebody gets infected how he or she infects the others and then the site gets closed or office gets closed, it is difficult for anybody to forecast but as of now things are not as bad as they seem to be when we were in April. As far as FY2021 is concerned, I think we are reasonably good in as far as the ductile iron pipe business is concerned although Q1 was a big concern for us because there were hardly any order bookings, very limited bookings we did but now we are finding in the month of July and number of states have come up and there are tenders all across which have been floated whether it is an UP which is a big one where we find big project coming up, whether it is an if you look at Madhya Pradesh, Haryana where there is an RC tender then you can look at Odisha where there is a rule water scheme so there are number of places where we find things are looking up and of course Telangana is another one then Andhra Pradesh is another one so there is a visibility of anything between 600,000 to a million tons of enquiries which on top of our current order load even if you can get 10% to 15% of this we are pretty much comfortable. The question is when do you execute these orders? My sense is that nothing will start until the end of Q3 so with our existing order load, we should be able to manage Q2 and Q3 and thereafter the new ones will also add to the queue, so overall things look good on DIP though there will be some pressures because of prices also there is an uncertainty in the sense that there are sites which get impacted locally and that can impact the business but if you ask me do you have the same optimism as what you had let us say six months back, I will say I do not know because to what extent the government will be in a position to fund this depends purely on the government, their ability to raise revenues has been constraint, you know the GST collections last month so it will depend a lot on that but there are big schemes and if these schemes do get converted into orders then I think we are placed pretty well over the next few years at least. As far as our expansion project is concerned well we are already delayed by I would say almost four months to five months, I would think we should budget a delay of another two months to three months at the minimum and I can tell you next where we are placed. There are various reasons for that. One is of course we are being conservative with cash although our financial position and our cash position is extremely good I think it must be one of the best for our kind of company in the industry in the metals industry and you can check that, our debt to equity, our cash, our net borrowings I think are extremely good but I think we are just being a little careful with cash and our collections etc., have been just excellent, I was just worried that we might end up with some bad debts but fortunately for us there is none and none in the sense that of course there are always little bit here and there but from the old one, but from the new ones after COVID there have been nothing, so we are pretty much I would say on a strong wicket. We just have to buy time because nobody knows how this pandemic will pan out and therefore there is a need to be a little careful and cautious with your cash and therefore on from this context, we may need to look at some more wait and watch. However, we are not kind of delaying everything, the power plant and the coke plant which has immediate returns and where we have already reached the final stage that should come on stream by Q4 of this year and as you know the power plant has a major benefit on a bottomline so that we should start seeing it from next financial year. As far as the DIP is concerned, there are some equipments etc., where orders have been placed on imported equipments etc., where some of these equipments are ready but we just need to see whether we can get these equipments, when can we get these equipments, our sense is that we may have a delay of at least two months or three months further on. I hope Sumangal I am able to answer your question to your satisfaction?

Sumangal Nevatia: Yes Sir. Just one follow up so on the DIP expansion side, some delay with respect to on the supply side, we are basically waiting for some better certainty on the demand side to profit with that?

Sandeep Kumar: No, it is nothing to do with the demand. Demand I think overall the economy how will this COVID pandemic, how will it impact the economy we should not forget that we know little of how things will pan out. We should not get excited because last two months have been very good and if tomorrow the situation gets worse in the economy then we want to ensure that our balance sheet is healthy and we do not falter so it is just a talking a bit of precaution, we are not delaying majorly but what we are doing is we are may be trying to see if we can wait and watch for a couple of months more before we go the full hog even last three months what we have done is we have continued the work on site the civil and structural work, the imported equipment supplier has continued to manufacture stuff, we have paid him, so it is not that we have not done and we will continue the work but in a smaller way. What we are doing is just we are waiting and watching for may be in the next few months see what is the situation on vaccine and then take a call because I am sure you are looking at the news of worldwide, there is a new surge of infections in various places like in China, in Australia in fact Victoria Province in Melbourne has been badly affected and people they had opened the schools, so we should not get too excited and too optimistic too soon on how this pandemic will roll out, it is still playing its part, it is up and down and I am sure the same situation will be in Delhi and Mumbai. We should not celebrate too quickly so we have just been a little conservative and wait and watch. We have the money, we have the ammunition, we just made to fire it at the appropriate time so while we will continue in a small way but we would go the full hog may be after two months to three months so by the time when we have the next call, I will be able to tell you where stand, so we will keep reviewing it every month and taking up all.

Sumangal Nevatia: Understood Sir and just to clarify the first part of my question, based on the current order book, we are having some certainty of 2Q and 3Q and then as far as DI Pipe is concerned so we can do somewhere around 50000 quarterly in 2Q and 3Q then 4Q phase will depend on how the government order enquiries get converted into orders, is that the right summary?

Sandeep Kumar: No, if you look at it theoretically, we have an order book of 8 months to 9 months so we can pretty much manage this entire financial year but if you look at reality, in reality what happens even though you get the order but LC have to be opened, bank guarantees have to be given, inspectors have to come and inspect, sites have to be ready so what happens there is a difference between a theoretical order book and practical order book. The practical order book pans out month after month. There is a whole host of logistical challenges which you need to sort out, so what I am saying is at any point in time, we like to have nine months to 10 months of order, we are slightly short of that eight months to nine months but we were may be at about six months let us say in the month of May, it is picked up in July and I am saying things are picking up still more, how exactly months to months will pan out will depend on COVID that is the point I am saying. We do not have a paucity of orders and I am also saying the future order pipeline looks healthy from an enquiries point of view, now these have to get converted into firm orders and get converted into deliveries.

Sumangal Nevatia: Thank you very much. I have more questions. I will get back in the queue. Thank you.

Moderator: Thank you. We will take next question from the line of Mithun Aswath from Kivah Advisors. Please go ahead.

Mithun Aswath: I just wanted to understand what is the capacity utilization currently and by when do you think, we can get back to Q4 sort of level, that is the question?

Sandeep Kumar: I missed your question, can you just repeat?

Mithun Aswath: I just wanted to understand what is the current capacity utilization at the plant in July and when do you expect that to get back to Q4 sort of levels where you know we were doing very well, just wanted to understand that and number two was though last year as well your capacity was X but you produced 110% of that, has there been any more debottlenecking and your capacity has gone up, was the second part of the question?

Sandeep Kumar: We are already running at 100% capacity so more than capacity, see our way of looking at it is we have design capacity, now if you look at design capacity, the design capacity is done with a certain product mix. Now that was let us say, 185,000 tons of ductile iron pipe. We are pretty much doing more than 2 lakhs for the last four years to five years. Now every year it has been increasing except the last year. If you say what are you doing today considering the summer and monsoon months, we are doing more than 100% so we are doing as good as we would normally do in the past, if you look at our average of last three years, our June and July have been similar to what we have done average of last two years to three years. So we are already at 100%+ now question is whether it is 110% or 115% will depend on two things, one is our efficiency and second is the product mix. We think at efficiency we are already at more or less 100%. Product mix depends on the market where it will vary and I think on the basis of two months it may not be wise to say where we are normally over a period of one year, the product mix if we see that is much better, so what is controllable is internal efficiency from that perspective we are certainly at 100%+. As far as quarter is concerned, Q4 is typically a very good quarter, the best quarter from a market pull perspective because most of the government agencies trying to complete their budget and therefore the demand of dispatchable orders is the highest, so what we typically do is we build stocks and we execute in Q4 but typically the second half of the year has let us say 55% to 60% of the orders and the first half would have anywhere between 40% and 50%. So I hope that gives you a sense. Did I miss out any question of yours?

Mithun Aswath: Also I wanted to just understand in terms of the pricing, how worst is it now compared to may be the Q3-Q4 of last year and do you think pricing could come back, how long do you think would take to pricing to come back?

Sandeep Kumar: The ductile iron pipe prices have been pretty much stable and actually prices in Q1 have been slightly better more than the price I would say the spreads, spreads have actually been better than Q4 so that would be the surprising thing for you but then it is only a month, it is not fair to compare like that. As far as price is concerned it fell by almost 5% in Q1 compared to Q4. Prices are under pressure or bit of pressure but that is expected because the coal, coke, iron ore everything have gone down in fact coal have gone down by 20%-25% over Q4 so things are if the raw material goes down, you are under more pressure to reduce your prices but compared to that a 5% drop is nothing, we may see a bit more of drop but then so long as the spread remains robust, we are fine, so I hope you understand. My price per se is not important, my price minus my cost is more important, my raw material prices go down, my market finished goods prices go down, it does not matter, so long as I am able to manage the spread. The spreads are good at the moment, they are of course not as good as Q4 but they are compared to the situation we have faced we are better off than Q1, Q2 and Q3 of last year from a perspective both for pig iron and ductile iron pipe. In fact they are in prices have rebounded and we have seen an increase of almost Rs.1500 to Rs.2000 per ton over the last I would say 10 days. How long this rebound will remain is difficult to say. There are two main reasons for the rebound. One is on the supply side there are some constraints and the number 2 is on the demand side, there have been a lot of export demand which some of this pig iron players have fulfilled in fact export demand has been very good in fact steel also a lot of steel has gone to China similarly a lot of pig iron has been exported but that is mostly the steel grade not the kind of product that we make but the steel grade does have some impact on the foundry grade because there is a bit of substitution effect. Is that clear?

Mithun Aswath: I will come back in the question queue. Thank you so much.

Moderator: Thank you. We will take our next question from the line of S Kapoor from Jai Balaji Securities. Please go ahead.

S Kapoor: Good afternoon Sir. Firstly, you were just explaining about the pig iron prices, so could you dwell that it will get translated to our grade also what were you trying to explain and in your release also you have mentioned about it that with the improving demand including healthy exports of pig iron and some limitation on the supply side the prices of pig iron are showing an upward bias, so if you could just add something more on that?

Sandeep Kumar: That is exactly what I was trying to explain saying that the pig iron demand has actually shown a healthy pull because of the foundries which was about 50%-60% capacity in June they are most to now almost 80%-90% at many, many places, it is not yet 100% everywhere but in an average you can say they are at about 70% to 80%, so there is an increased pull from there. On the supply side, a lot of pig iron has gone for exports so there has been a curtailments in supply although the steel pig iron is not the same as the foundry pig iron which we sell but by diverting the steel pig iron what happens is that the substitution effect is also lower so therefore our foundry pig iron prices have now moved up by Rs.1500 to Rs.2000 over the last seven days to 10 days, that is what I was trying to say. So we are in a pretty good position on pig iron at the moment. That is what I was explaining.

S. Kapoor: Sir, for this quarter as it is a monsoon quarter and DIP contribution would be lower this increase is sustained would be adding to the bottomline directly, this increase?

Sandeep Kumar: Yes, certainly it will add to then and with raw material prices down and pig iron prices up certainly the spread is higher and therefore it should help us. The only question you have to guard against is that pig iron is very volatile. How long will this sustain is difficult to say we have just past one month out of three months so, we will have to wait and watch how things go.

S. Kapoor: For this quarter, Q2 what should be our hot metal production what are you envisaging for working with if things remain the same as status quo today what should be the production numbers for the hot metal?

Sandeep Kumar: In a COVID pandemic year it is always a little I would say full hardy for me to forecast anything but just to tell you that today we are running at almost 100% capacity and our production on an average is anything between 45000 tons and 50000 tons per month. We have to take into account our shutdowns etc., taking that into consideration the monthly production between 45000 tons and 50000 tons per month you can assume. We may take some shutdowns etc., which curtail our production and we may also do that keeping in mind some of the factors like market etc., but we will also have to see the furnace condition and then do it. But for the moment the furnace has been exceedingly well, the coal injections have been at a record levels in fact they have exceeded by a very high limit, the plant-1 at which we had budgeted our project we are very happy with the way we are having the coal injection and the fuel rates have tended south and the coal injection has gone up. On the cost front what is controllable I think we are doing well, from the market side at the moment on pig iron it is looking good. The question is will it sustain the answer is I do not know at the moment it is looking good.

S. Kapoor: Right, and Sir we have shown given in the release also that our realization on DIP has also moved down with the raw material pass one and this is going to be the likely continuity or it was also mentioned that in the nearer market of Odisha there were some orders which we have catered to. That order is already over or still they are in the pipeline and what should be the DIP delivery were scheduled for Q2 with which are working although taking to account COVID it is very difficult but still the planning has to be there from your side and then execution will depend on the external factors?

Sandeep Kumar: Yes, as far as our planning is concerned, you can say we are planning that on a month-to-month to basis depending on the situation. There is no point of planning too much ahead on an operation’s side. We will take a call month-to-month as of now we are going full hog, July has been a full hog, August will be a full hog, September we will take a call in end of August because what happens is that certain sites get affected then they are closed for let us say 10 days-15 days. We have a situation wherein even in our plant there are labors which have got affected by COVID although very small number so, what happens you have to do those cases, you have to quarantine people what we have done is we have started doing duty rostering and we have tried to do rotational shifts so as to minimize that risk. But we are not the only ones who control this it is also on the market side. To answer your question Q2 ductile iron pipe is doing reasonably well as in line with what a monsoon quarter is nothing more than that I do not expect anything better than that if we are able to just fulfil the demand as in a previous monsoon Q1, I would be happy. At the moment July has fulfilled that let us see how August and September goes. If you ask me as on date how is it looking, I will say it is looking good in the sense considering a monsoon quarter.

Moderator: Thank you. Our net question is from the line of Abhisar Jain from Monarch Network AIF. Please go ahead.

Abhisar Jain: Sir, good to hear that we are back to running at full capacity and the demand is improving. My question is related to some of the cost efficiency projects that we have been taking over the past period and you had mentioned about the PCI so, just wanted to know about run rate and how the blast furnaces are reacting to that. Also, we had Oxygen project with that also wanted to understand that, once we have another leg of these cost saving projects coming in later part of this year what would be the integration and benefits that we can look at?

Sandeep Kumar: From a cost reduction perspective the major driver has been Oxygen and PCI so Oxygen helps in increasing the PCI. Both these projects have been delivering well in fact they have surpassed our expectation much more than what we had thought particularly PCI and now we are thinking how we can increase the Oxygen content because, what happens is up to a limit if you increase the Oxygen you can keep increasing your coal injections. So, our coal injections have if I look at last year compared to that we are at least at about 50% more then what we were doing last year. We are very happy with that, the way it is going the furnaces have been very smooth if you remember in one of the calls I had said, we had done a six to seven months structured improvement program on our blast furnaces both on operations and maintenance putting basically systems and processes in place, ensuring a better daily management these are the things which many companies do not talk about and they do not think it is that important. They only look at technical inputs. Well technical input is certainly very important but so is the procedural part how do you put systems and processes in place so that there is consistency and not surprisingly we find Q4 was excellent and Q1, June and July have been again excellent. So, we are seeing the results of all this. As we go forward our automation and digitization initiatives will start yielding results may be from next year onwards but we are working like for example on predictive maintenance being able to predict when the machine will fail, we are collaborating with various agencies, we are creating our center of excellence on robotics in our plant perhaps the only one in the industry anywhere. I think we are doing a number of things just like the cost reduction initiative which are very visible to the financial community. Similarly, these initiatives will start yielding results ultimately in some form or the other and we are very clear that these have to be tied or linked to any of the three KPI's either it has to be safety or productivity or cost. We cannot be doing anything just for the sake of doing it. That is why it is a long journey, but we will see the benefits of that may be in two to three years' time, tangible benefits and the other benefits we are already seeing.

Abhisar Jain: If I wanted to just ask you for that number on the PCI would be above 100 kgs now any indications?

Sandeep Kumar: Yes.

Abhisar Jain: Okay, and Sir on the coke side what part of coke are we now sourcing between our own production and Tata Steel and what portion would still be bought outside?

Sandeep Kumar: Subhra also looks after the raw material procurement. I will request him to answer.

Shubra Sengupta: As of now 50% of our coke is coming from our inside plant and our coke oven will come in the Q4 the new portion of that then almost 75% will be in-house and balance based on the pricing and the quality we are either buying from the markets or buying from the Tata Steel i.e., Hooghly Met Coals. As the plant was closed for April and however the coke oven was working we did not need buy any coke for Q1 so, we buy from Tata Steel or from market, the balance portion.

Abhisar Jain: Right Sir and Subhra if you can also indicate some ballpark gap between the PCI and the coke prices at this time, I know this keep fluctuating wildly?

Shubra Sengupta: If you see the long-term average if it is Rs.7000 last two year's average Rs.11000 mainly it is Rs.9000 to Rs.11000 in last three years.

Abhisar Jain: Just one last thing this for Sandeep Sir wanted to know about the medium-term to long-term outlook for the DI Pipe industry obviously we had done a very detailed work before taking a call on the expansion project as such. We have had the external consultants doing the study so, just want to know from you that leave alone this year where in government finances are very stressed and it is a pandemic year everything is just not in place. But as such the others triggers for the whole industry because of the various initiatives which the government needs to take and which is taking for that drinking water and other segments where DI goes. So, those all are intact or is there any positive or negative change that you see?

Sandeep Kumar: No. In fact we are quite positive about the water infrastructure sector and we may be looking at different ways to grow further. This pandemic has set us back a little bit, but we do not see the long-term outlook changing anytime soon. In fact, I believe that the government will come out with a major package on the demand side, so far it has come on the supply side. Demand side has been largely left to the private sector to handle. But I think the government has no option but to kick start the demand side by announcing major plans on infrastructure. Those infrastructures could be road, railway, bridges, water; I think water will not be left behind. So, my pursue view is that water is going to remain an attractive business for the next five to ten years certainly because is the country which is very poor in water infrastructure therefore there is no way the government and water being a political commodity as well it is not easy to any government to ignore it. So, hopefully things should be back. It is just that we need to handle this pandemic year wisely, not get too carried away by two months of good business that is the reason why we have tried to kind of go a bit slow on the project. But as I was just explaining both coke plant and power plant should be back, should be commissioned by quarter-4 and these are two which are immediately paying back power in particular the difference in price, in grid and our captive power so, it is consistently attractive and DIP of course even if it takes may be it gets delayed by three to six months we do not care so much because we have enough ammunition so we are attacking the cost and we are also trying to grow. Meanwhile, we continue to examine opportunities which at the moment may be bit on the back burner, but we are very clear if we have to grow, we need to look beyond expansion in Kharagpur.

Abhisar Jain: Right Sir, thank you so much for the clarity and best wishes.

Moderator: Thank you. We will take our next question from the line of Saket Kapoor from Kapoor Companies. Please go ahead.

Saket Kapoor: Thank you for the opportunity. Sir, the only point that I was left was about the liquidity position which you were explaining since this is pandemic year and majority of our work is through the EPC part. How is the liquidity position with our EPC contract and who are the major ones through which the executions will be coming up in the coming two quarters?

Sandeep Kumar: You are basically asking me about the liquidity situation of the EPC contractors, right?

Saket Kapoor: EPC side and our liquidity will be dependent on that only if my understanding is right Sir?

Sandeep Kumar: Our liquidity position is extremely good and we have been able to collect customers in fact absolutely the last two months the collections have been wonderful nor bad debts at all touchwood till now and most of the recoveries have already taken place. In any case because you must understand that in domestic in the letter of credits even if you have a letter of credit although it is secure but if you do not negotiate in time because of the lockdown and your documents do not reach somebody can always create a problem. So, those kinds of issues we did face but ultimately it was resolved, and people understood that look in the long run you cannot play around with this. So, there are obviously you have some customers who can create such problems. Fortunately, for us therefore we have survived that or rather we have actually overcome that and there have been no issues at all. There might have been some delays, but we were able to take care of that. We are extremely careful, and we are ensuring even on the pig iron side where we used to get open credit earlier, we have now converted almost everything into secured credit either cash or secured credit. That is the major change which has happened which has also reduced our inventory. Again many of you might remember that when March 2020 was supposed to be the period when many of the merchant leases iron ore leases in the country were expiring and auctions had taken place and these were to be transferred to the new lessees. What happened is that COVID came at the same time so we mind for hit the new owners could start the production, anticipating this we had increased our inventory last year to take care of these concerns. Fortunately, that inventory has helped us but the government what it did is that for two years the transferrable leases which had been transferred to the new owners they do not need to get any new statuary currencies on environment and forest so the lease automatically gets transferred for two years of course there are some formalities but, the major issue that happens with any mine is getting the environment and forest stratums and it takes many years. So, the government has transferred that on interim basis for two years. The permissions have been let us say rescheduled by two years' so, they do not need to worry for next two years and they also allowed the existing owners to sell their stock up till September that means until next month. Therefore, the iron ore availability, the problem got reduced but also the fact that the pandemic impacted the steel industry also ensured that there was no major problem and in fact the availability was a little bit more and demand was less and therefore you find a drop in iron ore prices of almost Rs.500 per ton at least in Eastern India. Therefore, our liquidity position just to answer your question remains good we have been able to control our working capital so reducing our inventory and debtors primarily and I will ask Subhra if he wants to add anything on that. As far as the EPC contractors are concerned, they have also been getting the money in fact we have been getting money from the government departments directly. There have been some delays but surprisingly there have been no major defaults till now. There are contractors who are facing problems but on the whole, what we find is we had got our money quite smoothly and there has been no major impact there might be there in pockets which I would not be aware of but we have not seen any major impact anywhere. Subhra you want to add anything.

Shubra Sengupta: Sir, you have already covered. One point I just want to stress upon once again that this pandemic also gave us opportunity to change our business process altogether and as there will be change but all pig iron business now we have converted to either cash and carry or the secured level and you will be surprised that on quarter-on-quarter our debtors on pig iron business has come down substantially and which will continue to help us to reduce our working capital.

Saket Kapoor: Right and what is our currently working capital requirement Subhra Sir?

Shubra Sengupta: Our gross data if you see the March it was Rs.290 Crores which we will try to always keep below Rs.250 Crores. Similarly, our inventory all put together iron, SWR, all it was Rs.380 Crores which we will try to keep within Rs.300 Crores.

Saket Kapoor: This was the figure for June Sir, or March figure you have said?

Shubra Sengupta: Yes, that is why I said June will be as the volume was less, it was lower than Rs.250 Crores but the inventory we will be trying to see it within that Rs.300 Crores level.

Saket Kapoor: Right, and then next month Sir, the fund infusion deadline is also coming to an end by September, the infusion will happen by the promoters?

Shubra Sengupta: It is a Tata Steel call but most likely Tata Steel I cannot comment but biblically it should come.

Saket Kapoor: That would be more cushion to our, since the capex program is extended by a quarter so that point will also be adding to our current requirement only?

Sandeep Kumar: Yes, that is why I was saying that we are very comfortably placed from the liquidity front and we are flushed with cash. The question is you want to spend cash now or you want to wait for a few more months and see how the pandemic behaves. To certain extent we are erring on the side caution but immediately attractive ones where the returns come immediately the power plant and the coke plant that will come more or less in time in Q4 that will get delayed only to the extent of two-three months we are originally planned for say in December it might now come February-March.

Moderator: Thank you. Our next question is from the line of Mithun Aswath from Kivah Advisors. Please go ahead.

Mithun Aswath: Just wanted to understand what the capex would be for doubling the capacity which we had embarked upon? Has there been any cost increase since we had estimated and these warrants which Tata Steel also hold when is that amount of Rs.20 Crores to Rs.25 Crores going to come into our company and thirdly, what is the current net debts of the company?

Sandeep Kumar: Shubra you what to answer?

Shubra Sengupta: The first point is that the warrant amount is Rs.168 Crores that will come end of Q2. Total project cost is Rs.600 Crores plus as of now we do not think that there is any cost increase visible delay. We are renegotiating for that payment terms and all. We do not expect any increase in the cost and the third question was that net debt the net debt on June 30, 2020 is approximately Rs.150 Crores.

Mithun Aswath: Out of that Rs.600 Cores how much is the capex is already been completed?

Shubra Sengupta: Rs.115 Crores to Rs.120 Crores.

Mithun Aswath: Since you are concurrently working on putting up this capex how long would it actually take for it to operationalise even if there is a one quarter delay. We expect may be this capex to come on stream the second quarter of the next fiscal?

Shubra Sengupta: We expect that it will come on stream third quarter next year, the coke oven on power plant in the fourth quarter of current year.

Mithun Aswath: Thank you.

Moderator: Thank you. We will take the next question from the line of Karan Sharma, a private investor. Please go ahead.

Karan Sharma: Sandeep Ji good evening. I have a very small question governments in Madhya Pradesh and Uttar Pradesh they have given some short-term and long-term incentives to various industries are there any changes or incentives offered to you specifically or are there any incentives in the pipeline that you are in know-how of?

Sandeep Kumar: Where?

Karan Sharma: Government of West Bengal?

Sandeep Kumar: No, there are no incentives given by Government of West Bengal.

Karan Sharma: I am sorry to cut you in between like MP has allowed more working hours for labors and certain changes in the labor laws, have there been enacted here, are there any changes which would work for betterment of our company?

Sandeep Kumar: No, not really. There are specific changes made by the government, the West Bengal government in the manner in which you are referring to Madhya Pradesh or some other governments. Neither there had been any policies or rebates for investment.

Karan Sharma: Thank you.

Moderator: Thank you. Our next question is from the line of Urvija Shah from Isha Securities. Please go ahead.

Urvija Shah: Sir, my question is that sitting from your position for a very short-term say the next two quarters which say somewhat demand if there in China which is coming back, what is the raw material price trend that you would estimate to be per all our key raw materials including iron ore and coke and coal?

Sandeep Kumar: So, it is very difficult to do a forecast on raw material in the long-term, but you know we can best talk about let us say what is happening now and maybe a month or two from now. In general if you look at the coal prices, the hard coking coal prices compared to Q4 have dropped by almost 25% in Q1 obviously because of the pandemic because China got impacted, China is the biggest steel player and therefore that impacted plus Brazil got impacted which is a major iron ore supplier so even iron ore got impacted but if you look at it now things are pretty much smooth in fact prices have gone up a little bit, okay, on the domestics if you look at it I mentioned that Rs.500 per ton drop in Eastern India we find in both iron ore fines and lumps in Q1. If you ask me now what is going to happen in September the existing merchant mine leases which were to up to September the existing leaseholders were allowed to sell from stock not to mine after March because their lease has expired but they were allowed to stock iron ore and sell so that would get finished so there could be some I would upward pressure on iron ore prices in the domestic sector in Eastern India because there could be possibly some shortfall if there is a mismatch between demand and supply so that is one aspect which we need to keep in mind. Second, internationally also availability of iron ore from Brazil and Australia should become better as let us say I am assuming that in the next two months to three months Brazil which has been hard hit by the pandemic just like us there things become better. However, always very had to say, that is on iron ore. As far as coking coal is concerned it is primarily Australia and let us say, Canada, there are of course bits and pieces coming in from Russia, Indonesia etc., but primarily these two are the players so highly consolidated industry iron ore and coking coal also to some extent. The coking coal prices in China have been high and therefore the steel demand and the production has been good so therefore the ability of these steel players to pull in the coking coal at higher prices should remain so long as China continues to do well and my feeling is that China should continue to do well they have got over the pandemic although there is a resurgence in a limited way there but they are far better prepared to handle this than any other country with the kind of government that they have, the kind of system that they have. So, if China is able to manage this and is able to manage the steel demand then I think the raw material prices should remain firm. There could be some ups and downs that is what I would think. I do not know whether that answers your question, I am attempting to give you some sense.

Urvija Shah: Thank you and another one is that if I may put it very honestly at some point you sounded very optimistic for the resurgence and also you said that the government is not spending as much as it should have or the demand side full is not there, so if you can give a color like say in percentage terms, is it only the 50% of demand that is back in a market or how do you see that panning out in DI Pipe?

Sandeep Kumar The DI Pipe what I mentioned was that the new demand is coming in from the state governments of Uttar Pradesh, Madhya Pradesh, Odisha, Haryana, Telangana and Andhra Pradesh and little bit from West Bengal as well. So, we are receiving enquiries which is anywhere between 600000 and a million tons. These enquiries when will they get converted into orders and dispatchable orders, typically they may take anywhere between one quarter to two quarters so, they may six months, they may take eight months what I am expecting is that by end of this calendar year we should start seeing some of that order load getting fulfilled so Q4 should definitely be good maybe somewhat in Q3 also but our existing order load of about eight plus months is reasonably good to take care of the situation for the next two quarters to three quarters particularly next two quarters so we are not unduly worried but yes we would like to have at least nine months to ten months of order load and we are slightly lower than that. As far as the government spending is concerned, what I was a little conscious of was that the government has not come out with anything major on the demand side, whatever they have announced, Prime Minister Modi announced was more on the supply side, so it is a matter of time before the government will spend on the demand and the only way to kick start the economy in a big way is through the demand side by the government spending on infrastructure and water infrastructure will be a part of that. Therefore I am more optimistic on the government announcing investments sooner than later, it might happen in the next three months, it might happen in the next six months I think they also want to see which way the pandemic is going to behave and then announce gradually, that is the sense I am getting but we will have to wait and see.

Urvija Shah: Sir the last question would be what would be say our estimate market share currently?

Sandeep Kumar: Our market share continues to be at a level of 12% to 13% so that is the level at which we are in Q1 also but I think it is not fair because Q1 most people did not you know, say one and half months or two months the production was restricted, so it is not right to every quarter unlike in a car industry or some other industry.

Urvija Shah: I understand.

Sandeep Kumar: Broadly 15% is okay.

Urvija Shah: Thank you.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I now hand the floor back to Mr. Sahil Sanghvi from Monarch Networth for closing comments. Over to you Sir!

Sahil Sanghvi: Thank you Sandeep Sir and Shubra Sir for the detailed explanation. On behalf of Monarch Network I would like to thank you all the participants for joining the call. That is it from my side. Thank you, Sir.

Sandeep Kumar: Thank you Sahil. Thank you Abhisar and thank you all for joining us in this call. Stay safe.

Moderator: Thank you members of the management. Ladies and gentlemen on behalf of Monarch Networth Capital Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.