"Tata Metaliks Limited Q1 FY2022 Earnings Conference Call"

July 14, 2021

ANALYST: **MR. SAHIL SANGHVI – MONARCH NETWORTH CAPITAL LIMITED**

MANAGEMENT: **MR. SANDEEP KUMAR – MANAGING DIRECTOR - TATA METALIKS LIMITED**
MR. SUBHRA SENGUPTA – CHIEF FINANCIAL OFFICER - TATA METALIKS LIMITED
MR. SANDEEP AGRAWAL - HEAD INVESTOR RELATIONS - TATA STEEL GROUP

Moderator: Ladies and gentlemen, good day and welcome to Tata Metaliks Limited's Q1 FY2022 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 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. Sahil Sanghvi from Monarch Networth Capital Limited. Thank you, and over to you, Sir!

Sahil Sanghvi: Thank you, Ayesha. Good evening to all. On behalf of Monarch Networth Capital, we welcome you all for the Tata Metaliks Q1 FY2022 Earnings Call. From the management side today; we have their M.D. Mr. Sandeep Kumar and CFO, Mr. Sengupta Sir. Joining us today is also Mr. Sandeep Agarwal, Head Investor Relations, Tata Steel Group. 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: Thank you Sahil. Thank you everybody for joining in. The Q1 performance of Tata Metaliks has been a stupendous one considering that Q1 was a COVID quarter and the second wave of COVID was at its peak, so we had an impact on demand everywhere whether it was the Pig Iron business or the Ductile Iron Pipe business; however, there were a silver lining and that was a powerful one, which is in the form of a strong Pig Iron prices and I think that helped us in lifting the profitability significantly.

Of course, there was another one which is the record sales volumes of Pig Iron this is primarily led by exports in the sense that usually our exports of Pig Iron is limited to 4%, 5%, but this quarter, we could move away to 25%. So primarily these two reasons for the jump in profitability one is the prices and actually there has been an increase in raw material prices as well but I think we will see the impact of that coming in from next quarter rather from Q2 onwards. As far as Q1 is concerned the spreads of Pig Iron have been the highest ever, the sales volume have been the highest ever, both these factors is primarily the PI business that is showing the profitability.

As far as the Ductile Iron Pipe business is concerned Q1 is traditionally a weaker quarter because the fund flow, the projects get approved, the fund flow starts happening so it takes a bit of time because the government approvals happen and especially after a very, very strong Q4 typically the Q1 is a weaker one. So that is one factor for slight muted performance Ductile Iron Pipe.

The second reason of course is COVID especially the restrictions imposed in the state of West Bengal by the government of restricting the workforce to 50% which meant we could not operate all our lines so we were operating at let us say about 60% to 70% of the capacity and that resulted in lower production, but as far as our demand is concerned and order books are concerned that is very, very healthy and if the workforce restrictions had not been there we would have done much better in the Ductile Iron Pipe segment as well.

The one factor where it continues to be low and it may continue in Q2 as well is the price of Ductile Iron Pipe because we had a good order load last year which towards the end of last calendar last year when we booked a very good order load while it give us comfort stability and continuity of sales, what it did not help us was that we are not about to take advantage of the change in prices that we have seen over the last few months in the Ductile Iron Pipe business. So the DI Pipe business has seen an increase in prices of almost 25% to 30% compared to say last year and the results of that will start getting reflected in the latter part of this year.

The Q1 we continue on the old prices even Q2 that there will be maybe a marginal increase or maybe similar and maybe Q3 there could be some improvement and Q4 onwards we will start seeing some jump there. So all in all despite the muted performance of DI Pipes which is primarily because of as I said workforce restrictions otherwise the DI Pipe business has also done extremely well considering it is a weak quarter.

We have had a fantastic performance in Q1 in terms of profitability, in terms of sales volumes and most importantly costs, I think we have been able to control our costs pretty well and the operating figures that we are normally do not discuss in these investor's and media calls are very, very good and they give us the confidence that going forward we will be able to sustain these.

So that is in summary the performance. The numbers as presume we already have it that if I could just kind of summarize them the sales of Pig Iron were about close to 90000 tons compared to 80000 tons in the previous quarter, the Ductile Iron Pipe sales were about 50000 tons which was a drop compared to 75000 tons in Q4 and I have explained you the reasons why.

Profit before tax is 135 Crores compared to 124 Crores in the previous quarter and this is a 9% jump and PAT profit after tax is at 26% growth at 95 Crores versus 75 Crores in the previous quarter.

EBITDA margins have been at 26% compared to 22% in the previous quarter. Actually the best way to compare is year-on-year, but because the Q1 of last year was a washout due to COVID we are not making that comparison. We are doing a sequential quarter comparison, the DI Pipe business is a seasonal business so it is not a fair comparison but still you will find that the numbers are quite good and helped by the market also due to our cost controls and operational improvements overall the performance has been I would call it excellent and I hope we can carry this forward into rest of the year.

I am through with the summary. Subhra you want to add anything?

Subhra Sengupta: No Sir you have covered all. We can go to the question and answer session.

Sandeep Kumar: Then we are through with the brief on the overall performance and we would be open to comments and we will take some question and answers.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Dhaval Doshi from Sundaram Mutual Fund. Please go ahead.

Dhaval Doshi: Good afternoon gentlemen. Thanks for the opportunity. Sir just wanted to know the near-term outlook in terms of post till lockdowns open up how is the trend as of now, and what kind of a price increase we can expect in Ductile Pipe since it was contracted as you mentioned, so we can expect in second half of the year, if you can give some sense on that in terms of the trend and what kind of cost escalations which we are looking at in terms of increase because of the increase in coking coal as well as iron ore price?

Sandeep Kumar: So if I got your question right, you want to know the raw material cost impact, you want to know how much is the price increase going to be and what was the first part?

Dhaval Doshi: How is the trend now post lockdown opens up in the month of June, July wise?

Sandeep Kumar: On the market front, on the outlook, well the markets had been pretty steady of Pig Iron. There has been the usual volatility, little bit of up and down. You see the Q1 actually if the demand in the foundries had come down to almost 30%, 40% because there was no labor or rather shortage of labor then COVID restrictions in many states and they also faced problems of working capital etc. So there were issues and the demand was not there actually but because we exported we were able to manage the sales deliveries. As far as the prices were concerned, the prices have been it is a commodity business so it is basically taking that path. Now that continues into Q2. There is not much of a change yes there would be some ups and downs. For example, yesterday we increased prices of our Pig Iron in the east by Rs.800 to Rs.1000 but the previous week the prices had fallen by Rs.500 to Rs.1000 so that kind of a weekly change up and down will continue to happen but by and large the prices continue to be strong. That is one. Secondly the foundries are coming back. The foundry clusters whether it is in Howrah, whether it is in Ahmadabad, whether it is in Delhi or Punjab or wherever, the foundry clusters are coming back strongly from 30% to 40% capacity utilization now they are at almost 60%, 70%, some have even touched 80%, so the demand pull is going to happen on the back of auto, agriculture, and engineering product offtake so that is happening that is beginning to happen we can see that. So Pig Iron biasness is therefore still looking strong. As far as Ductile Iron Pipe is concerned that is really taking off and you have it you have not yet seen much of it but that will really move into a different horizon over the next few quarters and why I say that I just in fact mentioned in the morning in the CNBC interview as well typically the supplies of Ductile Iron Pipe is about 1.6 million tons to 1.8 million tons per annum and why I say is at this level is because last two years because of the COVID the volumes have not taken off. Otherwise, traditionally the Ductile Iron Pipe business has grown at a rate of about 9%, 10% per annum over the last five years so what we are seeing is that 1.7 million tons of orders are already there with different producers as on date and about 1.5 million tons of inquiries are there in the market so that makes at about 3.2 million tons. In addition to that, we have schemes and which are announced or being announced for a volume which is another 2.2 million. So we are close to 5.5 million tons of DI Pipe order visibility which is typically a three years order load so that is a fantastic visibility typically we get a visibility of 18 months to 24 months, now what we are getting is almost three years so DI Pipe will I think just go through the roof unless something drastic happens, which as I said industry where there are heavy entry barriers, it is not like some other industry where people can come in like for example you want to make billets people can come in, secondary steel players can come in but in Ductile Iron Pipe business it is extremely difficult to get in both on the technical front and marketing front. So those entry barriers will ensure that the existing players have an advantage. It is going to continue for some time and I think this demand supply gap is really going to move the prices up. We have already seen the price movement up by almost 25%, 30% compared to let us say Q3 of last year and so if the prices were let us say close to Rs.50000 per ton of DI Pipe on an average then now we are already seeing upwards of Rs.60000 it is more like Rs.63000, Rs.64000 so that price movement has already happened but this is for new others which will get executed let us say over the next few quarters. So the price reflection in our net realizations and in our earnings would not be visible to you maybe until a quarter or two, so that is the difference. So that is where as far as cost is concerned, I was mentioning about the spreads the PI spreads the Pig Iron spreads have been at an all time high of upwards of Rs.18000 per ton usually have been in the range of Rs.5000 to Rs.6000 per ton if you look at the average of last five years last quarter it was at about Rs.14000, Rs.15000 so it is kind of three times the normal level. Now this is a level which is not sustainable and therefore will come down. Now whether it will come down to Rs.14000, Rs.15000, Rs.13000, and Rs.12000 is something for us to see. For Tata Metaliks, I think the cost control and the benefits of cost have been going up especially over the last two years. I think I do not know whether I mentioned to you we shaved off almost about 80 Crores to 90 Crores close to 100 Crores of costs last year through improvements in our fuel rates and PCI and operational controls. Now end of this year the financial year, FY2021 we commissioned our fourth power plant and that is a 15 megawatt power plant and we also expanded our coke ovens both these are going to give us major advantage in our costs. So I think despite the spreads coming down or let us say despite the raw material prices going up we should not be impacted to the same level as maybe some others because we are improving greatly on cost and cost front and that is something which is sustainable so that is the overall picture I do not know whether I fully answered your question?

Dhaval Doshi: Yes, covered Sir. Thanks Sir.

Moderator: Thank you. The next question is from the line of Falguni Dutta from Jaideep Securities. Please go ahead.

Falguni Dutta: Good evening Sir. Sir I just had one question on this given that coking coal costs have doubled so taking into account this coke oven expansion that is coming in what do you see the per ton impact just on account of this coking coal from Q2 and Q3?

Sandeep Kumar: Subhra you want to take that.

Subhra Sengupta: I can try it. The coking coal April and May it was moderate around $105 but in the month of June it has moved and currently it is $210. So that will definitely have an impact. However if you see that market coke price was much higher in last 10 to 12 months and a lot of competition they are buying coke from the market. In our case, definitely the cost will go up but over the period over last three, four years we have improved upon on that coal blend and you can use, to some extent interior coal of second run coal for the coke oven and to make good coke. That will keep our costs contained, but definitely the $105 was aberration kind of thing, in long time ever as we have seen that it is run between $160 and $240 kind of dollar so that is fine so that impact will be there but that will be definitely it will be also impact what MD Sir was saying in terms of high and also in the Ductile Iron Pipe and commissioning of the Pig Iron.

Falguni Dutta: Sir can you just quantity broad range of per ton impact, a broad range that this will have given the mix that you are using also?

Subhra Sengupta: If you see that coke oven, if the coke price goes up by say Rs.5000 per ton and your net coke is say Rs.480 to Rs.500 net of PCI then it will be Rs.2500 kind of number per ton can be.

Falguni Dutta: You mean to say that this doubling of this coking coal prices will just have an impact of 2500 per ton.

Subhra Sengupta: Per ton of hot metal. Because over the period, we have increased the PCI rate, which from the last year is somewhere FY2020 68 kg/ton of hot metal here and put upon to 115, 117. So that helps a lot and our exposure to coke is comfortably lower and the coal the PCI coal is much cheaper than the case the main coal or hot coking coal and per ton of coke price.

Sandeep Kumar: If I can just attempt to kind of summarize it and add to that see there are two or three levers to counter it, one is the linear coal blend which Subhra talked about, second is the additional coke captive coke that we are now getting compared to the market coke the captive coke is still much cheaper although the gap has come now and the third is the captive power plant the fourth power plant so these are the three ways in which we have been able to retain our cost competitiveness despite there being an increase in the raw material prices and therefore the spread for us may not be as bad as maybe for somebody else but there is definitely the spreads will get compress to some extent the question is whether it comes down from Rs.18000 to Rs.16000 or Rs.15000 or Rs.14000 that is what we will have to see but still compared to what you have seen an average Rs.5000 to Rs.6000 over the last few years is still at a very, very healthy level.

Falguni Dutta: Sir this Rs.18000 coming to Rs.14000 will also broadly I am saying will also include the increase in iron ore prices one we would have taken that and if you could just quantify how much would that impact the margins the iron ore cost increase?

Sandeep Kumar: This spread we take it from between coke and Pig Iron we do not include iron ore. So iron ore has been increasing iron ore has already increased if you look at it in Q1 this year there has been a major jump, but as of last week the iron ore prices in Odisha they fell in the latest auction. So we will have to see how much of it actually happen so they fell almost by about Rs.2000 in one of the indices the other one of course fell by more like Rs.500, Rs.1000 so it is still a little bit unfair as to how much will be the impact of iron ore because it went up in Q1 already and it seems to be coming down a little bit in Q2 in the first ten days that we have seen so we will have to see how much it goes.

Falguni Dutta: You mean to see some between Q2 and compared to Q1 we would not have an increase in iron ore if we compare Q2 with Q1?

Sandeep Kumar: Correct that is it rightly what I am saying. The Q2 may actually be lower in iron ore but as of now this is early days but just 10 days in July so we are not come to an conclusion but just mentioning to you that we need to keep that into account iron ore had already moved it reached to a record level internationally also at about $43 and so it is come down from there may be more like $10 or something both internationally and domestically.

Falguni Dutta: Thank you Sir. That is all from my side.

Moderator: Thank you. The next question is from the line of Nalin Shah from NVS Brokerage. Please go ahead.

Nalin Shah: At the outset, I must congratulate the management for the stupendous performance which you have shown for the Q1. I have two questions one is that what is the size of topline which will increase post these expansion addition of another 2 lakh tons or 220,000 tons which is expected to go on stream by the end of this financial year quarter last quarter of this financial year that is first and secondly what is the synergistic what you call the cost reductions or profit margin improvements we are looking at from the merger between Tata Long Products and Tata Metaliks if you can quantify that also.

Sandeep Kumar: Thank you very much for your kind comments. The second one you said is merger and the first one you said is what?

Nalin Shah: This is the topline which increased by how much based on the 2 lakh ton expansion?

Sandeep Kumar: If you look at our business currently, we have a turnover of let us say about 2000 Crores I mean this year will be up because the prices are up but if you look at it on an average over the last three years it has been a 2000 Crores topline. Now if we assume that as the normal and we do not consider the increase that has happened let us say in the last six months to nine months then going by that same logic is the 2000 Crores will become 3000 Crores. Why? Because the Pig Iron business and the Ductile Iron Pipe business are almost equally split in terms of the topline so 1000 Crores, 1000 Crores and we will add another 1000 Crores in DI Pipes so that will make it 3000. Of course, it will take into account with price structure etc., it may go up to 3.5 to 4 that is a different thing, how much of that is sustainable I do not know. The DI Pipe of course the prices to me look very, very strong and they may actually be more sustainable than the Pig Iron price. As far as merger is concerned, I think we will let you know closer to the date as to how much is the quantification etc., but generally speaking the merger benefits are more on the upstream side more on the cost front and things like the blast furnace sinter plant, coke plant, pellet plant, iron ore mine of Tata Steel Long Products, all of that is going to be beneficial to Tata Metaliks particularly I said the iron ore mine and the coke plant because we are still short of coke by about 20% so we can take it from them at cost. We can pick up iron ore at cost so that is going to be a straight benefit for us number one and number two is that generally sharing the resources, stores spares, raw materials, I think all of that will all hit the bottomline in some way or the other then of course there are the typical normal synergies of shared services, corporate services, functions like HR, accounts, finance, all of that you can rationalize all that so there would be synergies on all these. As far as downstream is concerned, we have different downstream, let us say businesses so I would not really think there would be a great amount of synergy there but there would be some amount of sales, networks etc., where there could be some synergies but most of the synergies are upstream, most of the synergies are in shared services, raw material front and we have not really quantified that at the moment in terms of trying to and explain that to you but we have some internal figures but we will share that with you once we are closer to the merger date actual merger.

Nalin Shah: Are you expecting merger timelines because I am aware that because of this the COVID-19 the hearing etc., are getting delayed but any this thing you have internally in mind that based on whatever the progress has happened that by September, by November, December when you expect this to be over?

Sandeep Kumar: See the merger process has got delayed because of the regulatory approvals that shall be deployed in November we were expecting the first stage to be declared within a month or two that is taking time, I think that is something which has already taken over six months. So I would think there from that logic, we are delayed by almost six months but how much more we are trying to do it faster, but it all depends on the regulatory approvals. So my sense is that it may take maybe another six to nine months, all depending on how the regulatory approvals come through, if they come through faster also because of COVID things got delayed but as we go forward maybe things might happened faster but all of it is dependent on the regulatory approvals and that takes its own time but still it is tough to really give you an exact date but possibly six to nine months.

Nalin Shah: In short we can say that before the end of the financial year it will happen definitely?

Sandeep Kumar: Will is a difficult term to quantify but let us hope so.

Nalin Shah: Thank you very much and once again I must congratulate for a wonderful performance.

Moderator: Thank you. The next question is from the line of Archan Pathak from Centra Advisors. Please go ahead.

Archan Pathak: Good afternoon everyone. Congrats for the great numbers and thank you for the opportunity. So as per my knowledge the DI Pipes realization are fixed through short-term contracts so do these net sales realization resultant to the global steel cycle or the global steel prices? To sum it up what I wanted to know is that there is the element of volatility exists in the net sales realization for the DI Pipes?

Sandeep Kumar: The DI Pipe business is not connected to the steel business directly. Indirectly everything is connected but not directly. The Pig Iron business is more aligned to that to the commodity prices.

What happens is that look realistically speaking it is the demand and supply which determines the prices and there is of course the cost push which is the raw materials. What is happening there in the steel sector is that there is a demand pull and there is a cost push and which is but which is what has led to this boom. In the case of Ductile Iron Pipe the demand for last year because of COVID and because it is dependent on the government funding for water infrastructure and the funding got diverted toward COVID relief, the funds were down now and therefore the deliveries and the real demand on paper you had demand but the real demand was not that and that is why last year the performance of the DI Pipe players was not all that great. In fact, it shrunk compared the price yet but with the government coming out with its schemes on Jal Jeevan Mission and its ambition to really transform the water sector with the amalgamation of different water ministries what is happening is that we are finding a great push on the water sector and that reflected in the inquiries in the orders and in the new schemes that are coming up and that is exactly what I was explaining a little while back and this demand does not seem to have enough supply and therefore my sense is that the prices will simply zoom up. So while you have seen the zooming up of prices on steel and other commodities we have not seen that in Ductile Iron Pipe which in any case happens with a lag because all players impacts each other but this one is not going to be impacted merrily by the commodities boom but by fundamental demand supply mismatch. It is going to continue for the next several years. So that is where I think the DI Pipe business appears to be very, very attractive and the existing players seem to have an entrenched competitive advantage because of the high entry barriers that you find for anybody else to come in. It is not easy to come and set up a DI Pipe plant. In fact the existing players also have suffered, many of them because it is a difficult business to be. So I think that is what the outlook. Today the outlook for the DI Pipe business is extremely strong.

Archan Pathak: Another thing I wanted to confirm the spreads which you provided earlier of around 18000 those are the EBITDA numbers right, EBITDA per ton?

Sandeep Kumar: No. The spreads are simply the Pig Iron price minus the coke price.

Archan Pathak: So can you provide the EBITDA for the DI Pipes?

Sandeep Kumar: Yes, so we had a see what we do is if you look at our EBITDA numbers that we give it out in the press release etc., there it is a transfer price so the DI Pipe business is an independent unit, it buy as hot metal from the Pig Iron business and therefore the EBTIDA numbers there can be somewhat misleading so what we also started giving you is the EBITDA numbers for DI Pipe from the raw material stage and if you look at that the EBITDA margins typically has always been about 20% for DI Pipes and this quarter has been in fact about 30% if I look at it from raw material to that but if I look at it from a transfer pricing perspective then the EBITDA is only 5% to 6%.

Archan Pathak: Just last question, can you tell us about the integration waivers like the iron ore you procure that you procure from Tata Steel right, but what would be the prices would it be similar to the market prices or at a concessional price?

Sandeep Kumar: So it is linked to the market price but obviously they give a long-term discount because it is a subsidiary company and although it is at an arm's length because it is at a for a long-term contract, whatever we will get in the market you will get something similar. So we do get it as slight advantage to the market. The more important point is more than the price it is the quality of material that you get from Tata Steel mines is that it takes a lot of impact so that is far more consistent and we know what is we are going to get it. As soon as you buy from different players every time you might get a different quality so that makes it difference.

Archan Pathak: Thank you so much for answering this.

Moderator: Thank you. The next question is from the line of Ashish Kejriwal from Centrum Broking. Please go ahead.

Ashish Kejriwal: I had two questions actually, one is on iron ore. What is your view on domestic iron ore prices given the fact that two of the mines in Odisha is going for out of the market maybe in August and secondly is it possible to share your view on coking coal prices why it has short up is it supply issue or some kind of demand improvement which we have seen?

Sandeep Kumar: I will request Subhra Sengupta to answer. He also handles the raw materials.

Subhra Sengupta: Iron ore our view or my view is that it has picked. If it goes further up, the downstream industries will start getting shutdown kind of thing and if you see there are lot of recommendations from the various Manufacturers Association of Odisha and Chhattisgarh are going to government so I think it has picked and it will be stable or it will come down little bit. On coking coal, I think we used to be happy to have that $100 kind of number but again the long-term numbers was $100, long-term numbers was $160 to $240 it is an average of $200 so and there is a huge drift going on between Australia and China and there is an $80 kind of arbitrage between the Australian coal to India and Australia coal to China. So and if the differences between Australia and China is sorted out definitely the price may go up rather than come down, but I think $200 is a fair price based on the long-term average and if it remains at that level will be continue to have this.

Ashish Kejriwal: That is okay Sir, my question was that what has changed in last few months which led to the sharp increase because the tension between China and Australia still continues and world at China production has not increased?

Subhra Sengupta: In the beginning of the month some of the traders were taking position as the steel price are very high in India a lot of closed units have started opening and also from the supplier side there are some restrictions in the quantity and those who have got that opportunity and got the cash they wanted to buy more to keep the stock, so both on the demand side it has gone up and there were some restriction in the supply side, both together it has come to that level, but the increase was very sharp in one month, it has become double but I think that number will be sustained at least first two, four months.

Ashish Kejriwal: So our view is that coking coal price will sustain at this level for some time?

Subhra Sengupta: Yes and the iron ore price it has been picked up and may come down slowly. It should not increase further.

Ashish Kejriwal: But given the fact that our demand is somewhat low especially in the weak season do not you expect a sharp correction in domestic iron ore prices?

Subhra Sengupta: May not be because after the changes of the amendment of the MMDR Act effective 20th March the royalty structure has got changed. Earlier the OMC, NMDC they use to pay 19.5% now it is become 42.3%. That 22.5% increase base in any case it will go up so we do not expect any sharp decrease because there is a change in the tax structure and duty structure but the business could be there but it will be slow.

Sandeep Kumar: If I can just add a couple of things I think to answer Ashish's question if you look at Odisha last year the auctions had happened if you remember in March for the month, the business which are expired in last year so the total capacity of Odisha is about 150 million ton, out of which after the reallocation of mine 70 million tons as captive which was earlier 40 so 40 went up to 70 and merchant came down to 80. So, if the merchant capacity has come down to 80 million ton so from let us say 110 and captive went up from 40 to 70 so 30 million tons moved out of merchant to captive. Now out of this merchant capacity of the 80 million tons, the current production if you look at Q1 is 15 million tons which means on an annualized basis it is 60 million tons so Odisha is short of 20 million tons of iron ore production on an annualized basis if we just compare so that is where the shortfall is also hitting the market; however, there is the Steel Authority of India was asked to release its material in the market players that helped metals to some extent, but long side you had international prices which zoomed into the highest ever. So these factors have kept the iron ore prices high but as the restrictions or let us say as we bottlenecks in iron ore production in Odisha gets relaxed, they get eased out, you will have higher production coming out and therefore to some extent the iron ore prices may ease out. We have seen the reduction of almost about Rs.500 to Rs.1000 per ton in last week's auction of OMC. We might see a bit more but what Subhra's point is because of the royalty going up these may not be as easy as it appears but I think primarily demand supply will dictate and as far as demand supply is concerned there is clearly a gap of 20 million tons on an annualized basis. As far as coal is concerned, the coking coal prices were artificially low at about $100 to $110 while the prices into China were almost about $80 high. China was buying from Canada, US, Mongolia, Indonesia etc., while India was buying from Australia because Australia was not selling to China or rather China was not buying from Australia so this is a political standoff and this happened after September or October last year and you saw a sharp deviation in the prices which were going into China and into rest of the world. That deviation and that arbitrage of almost $80 continue till today. So even though the coking coal prices have moved up and let us say 110 to 200 or 210 the Chinese prices have also moved up to $280 to $300. Why it has happened? It has happened primarily because of two reasons; one is the demand. The steel demand is moving so obviously there is a demand for more coking coal. China is producing like nobody's business. So it is stocking up the coal from other countries and same thing that is reflected ultimately in the prices from Australia into India in other prices. That is one factor second is there have been some issues production constraints in Australia of coking coal and what Subhra mentioned about some traders taking positions etc., but

I think primarily these are the two reasons. Ashish, I do not know whether I could answer your question?

Ashish Kejriwal: I think Sir you have mentioned it clearly but my only submission was that the factors between China and Australia that has been there for last 8, 9 months and the world at china product if we look at that has been somewhat flattish in last three months also so now this all of a sudden jump yes one factor, which we have mentioned about our traders taking position that can be possible but if that is the case I do not know whether it is sustainable at 210 or not because until and unless China and Australia tension erases it becomes difficult for coking coal to sustain at this level for lot. That is my though process?

Sandeep Kumar: I think it is very hard to predict prices for anybody. People have different views. What will come out is very difficult to say but these are some of the fundamental reasons for why the prices, even for that matter iron ore, Brazilian mines had some problems. So one of its major facilities its slime dam safety issues were there so it had to suspend production for some time. So similarly in Australia coking coal mine there was some suspension of coal production in some places so all these factors together contribute but primarily when there is a steel demand every other raw material is going up why would coal not go up that is my first two question, is not it, if iron ore went up from $88, $90 a year back or in March 2020 to 220 to 225 coke has gone up steal has gone up coal had to go up and the arbitrage to continues to be $80 so I think that is the perhaps some way of explaining that.

Ashish Kejriwal: Thanks for this answer.

Moderator: Thank you. The next question is from the line of Udit Sharma from Invest Finmart. Please go ahead.

Udit Sharma: Congratulations for posting strong set of numbers. I am really happy after seeing the numbers. Most of my questions are already answered I mean you have explained very detailed so I got the answer, I have only two quick questions as I heard the last few concalls so I know that the company focus is towards Ductile Iron Pipes so as you have already explained that post the Capex you use to clock 3000 Crores as a revenue and out of that 2000 Crores will go to Ductile Iron Pipe. If we do the spread then it is 70:30 ratio so just as a ballpark number, what is the aspirational margin target for Ductile Iron Pipes I know that right now the situation is very challenging but I mean from future perspective what is the aspirational margins target for Ductile Iron Pipe business?

Sandeep Kumar: At any point in time in Ductile Iron Pipe we have on an average made about 20% margins. If you look at the history, you will find on most occasions and most quarters we would have made roughly about 20% plus and this quarter has been exceptional because PI has gone up significantly while the lag effect on the DI Pipe prices continues but as I said there is a fundamental change which is happening in the Ductile Iron Pipe business and that is the demand supply mismatch with demand just booming like nobody’s business because of the tremendous investment by the Government of India as against an investment of let us say 20000 Crores, 25000 Crores per annum on the water infrastructure sector the announced investments are upwards of 7000 Crores, 80000 Crores. Now assuming that 50% of that comes in we are still double of what has happened in the past. Where is the new supply? So the demand supply mismatch will really push up the prices of DI Pipe. What we have seen today already have 30% increase in DI Pipe prices and that is primarily not because of the demand supply mismatch that is primarily because of the effect of Pig Iron, raw material cost push etc., etc. Now when the demand supply mismatch starts playing out I would tend to think that the prices are going to go up further so today we are at about Rs.60000 to Rs.65000 per ton which was let us say about 48000 to 50000 one year back I would not be surprised if it crosses 70000 sooner than later.

Udit Sharma: One more question can you please put some light on the order book in Ductile Iron Pipes how much order we have in our bucket? Is there any improvement from last quarter or like it is the same what we have in the last quarter?

Sandeep Kumar: Actually, there has been a deterioration in the order book and that was purposely done. We had about 16 to 18 months order books as of the last quarter. What we have done is we have tried to slowdown because these are all at old prices. Last year when the situation on Ductile Iron Pipe business was bad, we accumulated orders and now we find that the prices are moving up so it make sense not to rush because we will start seeing stronger prices in the coming quarters and therefore we are going slow in terms of order books today our order books are more like 14 months plus.

Udit Sharma: When we talk about new contract like we are slowed down because the old contract price was low now when we take the new contract that will go on with a higher prices right so that will in turn will increase the margins in Ductile Iron Pipes?

Sandeep Kumar: Absolutely, but you will see the reflection of this more in the second half and towards the end of the year because these older contracts still need to be executed and we would like to honor all our contracts, we do not want to like some of the players now have started kind of canceling orders we are not doing that.

Udit Sharma: Yes, so pandemic is a special kind of situation so once things will stabilize we can take a ballpark number as 20% in margins and might be it will go up right that is what I considering while calculating the numbers for future?

Sandeep Kumar: Yes, absolutely, I think 20% plus is a very reasonable number to take. In fact I would think it will go up.

Udit Sharma: Thank you so much Sir. Once again congratulations for a good number. All the best for future.

Moderator: Thank you. The next question is from the line of Saket Kapoor from Kapoor & Company. Please go ahead.

Saket Kapoor: Thank you for a very comprehensive discussion on various parts of the story. Sir firstly if we come to this DI Pipe pricing has been informed which is now currently rolling in the 63000 band Sir definitely it is all funded by the end buyer is the government so in this case how is the finances of government going to play out have they factored in this escalation of 30% going forward or how is this math going to work going forward since it is going to put pressure on the government finances?

Sandeep Kumar: First of all thank you for your kind wish. I think you are very right. It is a very intelligent question and I do not have an answer to that. Yes, you are right the government may not necessarily has considered or factored this. Nobody considers the prices to jump by 30%, 40% in a year's time. So we have already seen a jump of 30% compared to last year, but this year as new projects, schemes are being made and announced, I would imagine that they would start building these things and I would also think that some of these projects will get slowed down. So what they have announced let us say for the next five years may actually get executed over next several years because from where do you supply. You must appreciate that India is one of the most cost competitive DI Pipe players even better than China because we see that in the export market and still Europe are just not competitive and there is no other major players around the world, so we supply to as much as South America, and Africa and everywhere to Singapore to Hong Kong to every part of the world, so the point is that you do not have DI Pipes, enough DI Pipes in the world to come into India. China could have the only place from where it could have come, but their costs are also gone up and they had various restrictions and in any case, there is an antidumping duty on China, so I do not think the supply is going to come from anywhere, I do not think the government will have too many options, but to budget in for the increased prices and these prices are also a reflection of the higher raw material input costs on for surfacing so but we will have to see how it goes. So there are no answers to your question.

Saket Kapoor: Sir, you told about the 1.7 million tons the overall capacity, in the country, so in the pecking orders can you confirm, give us an idea, which companies are having what installed capacity or nameplate capacity out of 1.7 million?

Sandeep Kumar: That is not a problem. Between Electrosteel, Srikalahasthi and Jindal they control almost let us say 50% of the capacity and almost equal, Electrosteel is a little bit more between Electrosteel and Srikalahasthi. If you want the exact numbers, Jindal has a nameplate capacity of I think 5 lakhs tons, between Electrosteel and Srikalahasthi, they have maybe closer to 5.5 lakhs tons to 6 lakhs tons and the total capacity, installed capacity in the country would be more like 2.4 million and the production is more like 1.7 million tons to 1.8 million tons. There are players who have actually gone into more like bankruptcy places, or they have been under very bad conditions financially. So, they have not been able to produce in the same way. I would imagine that maybe all of them, will see better times and perhaps start producing more. So, the production capacity is 2.4, actual production if you see is not more than 1.7 or 1.8. This might go up, plus few morphine capacities like ours, and Srikalahasthi etc., will come up. So, as the demand moves up, the capacity will move up, but the new players will come and establish themselves will really take some time.

Saket Kapoor: Because Vedanta will also be a very strong contender with Electrosteel acquisition they are also having some nameplate capacity in DIP and they are expanding which is not a listed entity, so they will also be a strong contender?

Sandeep Kumar: They are already included in this 2.4.

Saket Kapoor: Sir, two small questions; for this year, what would be the production and the deliverables for the DI Pipes? Last year we did 194 I think so, if I am not wrong for FY2021. Sir for this year what would be the deliverables?

Sandeep Kumar: So, the deliveries, typically in H1 we do about 45% and in H2 we do about 55%. So, you can calculate. We should definitely do above 3 lakhs, we are already in 50 and maybe upwards of 220 is more likely scenario. It all depends on how COVID plays out but otherwise, we have done and we have achieved this number before. Capacity has not gone up, so we are definitely in the zone of 220 plus but depends on COVID. Like in the first quarter we could have done more than 50, but the production got impacted due to the workforce restrictions by the government, so we will have to see how it goes, but definitely 220000 is the number which should be easily achievable if things go right.

Saket Kapoor: Sir, in the raw material basket for the preparation of DI Pipes, what should be the constituent in percentage terms? If you are player who has iron ore and the back to back arrangement other players who are not aligned to it, if you could give the mix in the raw material basket in percentage terms for the DI Pipes production? That would be very helpful.

Sandeep Kumar: Subhra you want to take that?

Subhra Sengupta: I will do. The highest cost is the fuel cost, that is coke and PCI and that depends on the raw material cost, but practically it approximately comes to 40% to 45%, I am talking about the total DI Pipe cost, 40% to 45% is fuel related cost. The iron ore cost was lower earlier but going forward it will go up and up. Earlier it was on the single digit kind of thing, but today it will be approximately around 20% to 22%. These are the major. Remaining are small portions, small costs.

Saket Kapoor: Thank you for all the elaborate answers. On the inventory front also, Sir, is it on the DI Pipe only that the inventories are, the schedule ones were not delivered because of the COVID factor this year, increasing inventory for this quarter?

Subhra Sengupta: On quarter-on-quarter inventory quantity wise has not gone up much. Pig iron it has gone up marginally. DI Pipes could have done better but due to COVID in the customer site it has marginally increased by maybe 1000 tons kind of. So, very marginal number at this point.

Saket Kapoor: It is not a large number for this quarter, 22 Crores is the change in inventory?

Subhra Sengupta: Yes. That is one of the reasons. There are two things. One is that the price has also gone up. Inventory valuations have also got an impact because the raw material cost has gone up, the inventory valuation has gone up and on the Pig Iron, we have to increase it by 25 to around 3000 that itself is 10 Crores and DIP by 2000 that itself comes to 7 Crores to 8 Crores.

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

Dhaval Joshi: Thank you for the opportunity. Just a clarification, on the post-merger synergy on iron ore, you said, you are currently getting discounts, long-term discounts from procurement from Tata Steel, so post merger you said that you will get it at cost is that understanding correct?

Sandeep Kumar: No. Post merger, we can get it from the mines of Tata Steel Long Products, which is a different entity. See, today when we are buying from Tata Steel's mines, it is a different entity at arm's length pricing, so it is still at a market price, yes because we are buying on a regular basis and we have a long-term contract, there is a long-term discount. So we get it marginally better than the market price but when we are a part of Tata Steel Long Products, it is their own company, so we transfer or iron ore will happen at cost.

Dhaval Joshi: Net it is cheaper than what the current arrangement is? Am I right?

Sandeep Kumar: Yes. Predominantly, iron ore prices, let us say tripled in Odisha, over the last one year, our cost has also gone up three times, maybe over three points we will get some discount, but your costs has not gone up three times, so if you get it from at cost, you get that big advantage. So you cannot get everything from that mine but I am just saying that that Tata Steel Long Product has an iron ore mine, we can explore buying rather the iron ore for our own usage from the same mine, now to what extent it depends on quality or requirement, etc., so we will see all that but generally speaking, that is another source which can be used.

Dhaval Joshi: The entire requirement will be from Tata Long mines only, right or you have to depend on the external sources as well?

Sandeep Kumar: I think we will have to continue to depend on. I said, the exact percentage we will have to work it out depending on the exact requirement, but currently when we are not buying anything from Tata Steel Long Products, from that situation, we will be able to source a part of our supplies from Tata Steel Long Products which will come at cost and another part we can continue to take from Tata Steel is how I would tend to think. We will cross the bridge when we come but generally speaking, there will be an advantage of sourcing iron ore from your own mines, which are part of Tata Steel Long Products.

Dhaval Joshi: Got it. Thanks Sir.

Moderator: Thank you. The next question is from the line of Vikas Kedia from KCTM. Please go ahead.

Vikas Kedia: Sir thank you for the opportunity. My question is when you source the hot metal, where do you source it from and is that internal? When you say transfer pricing, I assume it is internal? When you go to increase the DI capacity, how do you plan to get the hot metal for that? I had a followup as well. So, on the pricing front, if you are sourcing it internally and right now the spreads are lower as you mentioned because of the transfer pricing, so when you start using it, how does the topline go to 3000 Crores in that case?

Sandeep Kumar: The hot metal is produced in the blast furnace. We have two blast furnaces. One blast furnace is dedicated to the ductile iron and pipe business and the second one is for making Pig Iron for sales. So, both are internal, but these two are different divisions. They used to be different companies also once upon a time, one was the subsidiary of the other, so therefore, but we have continued with the transfer pricing policy so as to keep it at arm's length and make sure that each business is competitive and stands out on its own. So that is one. So, when we increase our capacity of Ductile Iron Pipe we will reduce our production of Pig Iron and divert that hot metal towards the Ductile Iron Pipe new plant. So, let us to give you more clarity, if we have a 6 lakh tons of hot metal capacity today, and let us say we are producing 2 lakhs tons of Ductile Iron Pipe that means we have 4 lakhs tons of excess capacity of hot metal. Out of this 4 lakhs, we can divert another 2 lakhs for making bigger pipes in the setting plant. So, net-net from 2 lakhs tons DIP, we will become 4 lakhs tons and from 4 lakh tons Pig Iron, we will become 2 lakhs, although, I am just giving you the approximate numbers, 4 lakhs is not a correct number and we do not produce 6 lakhs, we produce less than that, but I am just giving you an approximate number, and aspirational numbers, which we hope to achieve. So this is just to explain to you how it works. As far as the topline is concerned, I mentioned that 1000 Crores of Pig Iron business and 1000 Crores of Ductile Iron Pipe business and we will add another 1000 Crores of Ductile Iron Pipe so that makes it 3000 Crores. Today Pig Iron is 50% of the business, tomorrow it will become one-third of the business. Does that give clarity to you?

Vikas Kedia: What I understand is the pricing of Pig Iron and to DI Pipes is 1:2?

Sandeep Kumar: Not pricing. I am saying the Rupee Crores turnover, yes, so if you are taking 2 lakhs and 4 lakhs literally then you are right, but actually it is not 2 lakhs and 4 lakhs liberally, so, in fact today he prices of Pig Iron, the net realizations are better than that for Ductile Iron Pipe. So, it is a bit of I would say confusion here. So, I think, just to put it simply, the Pig Iron business is 50% today, it will become one-third after the expansion. Expansion first phase is getting or likely to be completed by end of this financial year. Second phase will be completed by FY2023, second half of FY2023. So by then when we will have one-third of the total business as Pig Iron.

Vikas Kedia: Thank you.

Moderator: Thank you. The next question is from the line of Rajesh Majumdar from B&K Securities. Please go ahead.

Rajesh Majumdar: Good evening Sir. Congratulations and thanks for taking the call. I think, my question is on the lines of the last question in a way, I was actually wondering that on the merged entity of TSLPL with TML what are we looking at in terms of the product profile, in terms of sponge iron, Pig Iron, DI Pipes and finished steel? While you had given us some outlook on the DI Pipes, what it is going to be, Pig Iron also, what is going to be the overall combined entity, say two, or three years out in terms of volumes and captive integration of iron ore and coke with respect to the same?

Sandeep Kumar: Sandeep Agarwal, are you there on the line?

Sandeep Agarwal: Can you repeat?

Rajesh Majumdar: Combined entity of TSLPL and TML with respect to the overall product profile say two years out, in terms of Pig Iron, sponge iron, DI Pipes and finished steel, while we have some view of the DI Pipes versus Pig Iron now, what would be the combined entity's overall size in terms of each of these things with the captive integration on iron ore and coke thereof of the same?

Sandeep Agrawal: As of now in terms of MD has just explained to you in terms of the TML, but as far as TSLPL is concerned over the next seven eight years, we have aspiration to grow the long products business to about 10 billion tons. But as of now there is no announced expansion plan for long products. So, currently it is about a million tons, we look at adding to EAF inorganic expansion, organic expansion over the next eight, nine years probably it will go to about 6 million tons to 7 million tons compared to today about being about a million tons or so. But that will depend on that when the inorganic opportunities come, how this will fructify, we will need to see. As far as EAF is concerned, there would be more of the scrap based period facility. So that will not be really linked to the iron ore mines being there or not. As far as whatever would be through the DFPO route, there also one can look at it at the current mine obviously supports at about a million tons and maybe some increase can happen, but if we need to look at more integration we will need to see that there are two ways; one way is that obviously the new Greenfield mines are getting auctioned and we look at it or the other way is that currently the way that Tata Metaliks or Tata Sponge gets iron ore from Tata Steel on arm's length basis for long term discount that can be extended to.

Rajesh Majumdar: And the coke?

Sandeep Agrawal: Coal, Tata Steel itself has about 25%, 30% integration so the coal will continue to be in the market and more important point is that as far as thermal coal obviously India has thermal coal, but coking coal India does not have. So, India steel players need to rely on the market for coking coal. So, basically the overseas, Australia or maybe more of Pacific areas.

Rajesh Majumdar: One million tons TSLPL is now producing, how much of that is sponge iron and how much of that is steel?

Sandeep Agrawal: One million tons which I talked about DRI is separate thing and I talked about 1 million tons of the long steel.

Rajesh Majumdar: How was the DRI production?

Sandeep Agrawal: This is producing about 0.7, 0.75 million tons.

Rajesh Majumdar: So, once the 0.7 million tons, this entire iron ore requirement is currently captive, is available captive? I am saying for the sponge iron as well as the steel, iron ore becoming captive.

Sandeep Agrawal: Probably this is earning TSLPL call, but just to give you an idea that TSLPL used to be Tata Sponge, which does only the sponge business which had the facility in Joda. So that continues to buy iron ore from Tata Steel at arm's length basis, the similar the way that TML does. Then sponge iron, Tata Sponge bought TML and we renamed the combined entity into TSLPL. So, TSLPL currently has captive iron ore for their steel business, their DRI business continues to run on the Joda and DRI business continues to run on the iron ore taken from the Tata Steel. Logically that makes more sense.

Rajesh Majumdar: Right. Sir, coming back to TML, if you look at the current EBITDA composition a bulk of it is coming from Pig Iron and since you are going to increase the capacity of DRI which has a lower EBITDA per tons right now, over the years, this kind of years, this kind of profitability…?

Sandeep Agrawal: DRI capacity is going to be?

Rajesh Majumdar: Sorry, DI Pipe capacity, I am saying that we are increasing the DI Pipe capacity and cutting down the Pig Iron sales over the couple of years, and right now the Pig Iron profitability is much higher than the DI Pipe profitability. So, will it be such that after all these changes we make, the overall profitability of the company remains the same? I am talking of TML now?

Sandeep Kumar: That is true. The Pig Iron business is more of a commodity business and today because of the booming commodity prices, we are able to take advantage of that and that is why we see the profitability of the Pig Iron to be extremely high. Under normal circumstances, the EBITDA margins of Pig Iron business are much lower. Even assuming that it continues we must differentiate and not look at the transfer price but look at the DI Pipe margins from raw material stage and as I was telling you, that if you compare the EBITDA margins of DI Pipe business and look at it from raw material stage, then you will find that even this quarter the DI Pipe EBITDA margin is more than 30%. So, it is not that the DI Pipe margin is lower than Pig Iron. What we should do is look at Pig Iron from raw material, what is the EBITDA margin and compare that for DI Pipes from iron ore to or raw material to the finished goods for DI Pipe business. So, the margins on DI Pipes traditionally have shown or come out with the number of 20% plus consistently while say iron has fluctuated even if we assume that Pig Iron continues to do well, the DI Pipe will only go up from here and it is already at a very, very high level and it is much more stable business, it is a business where the entry barriers are high. It is a business where we are seeing a tremendous growth opportunity, so therefore all the more reasons for branching out into or rather expanding your DI Pipe portfolio.

Subhra Sengupta: May I add one more point on that, if you see the historically EBITDA the DI Pipe margin will always be at least 7% to 8% higher than the PI margin and that too a value added product. So, today the numbers are an aberration because of the high Pig Iron and as MD had explained the transfer price, the DI profit is inclusive the PI profit. The reason is that transfer price for pig then the DI profit is also much more than the PI. I mean in normal circumstances, it will be 7% to 8%, which are higher than the PI business.

Moderator: Thank you. The next question is from the line of Shubham Agarwal from Equitas. Please go ahead.

Shubham Agarwal: Thank you for the opportunity. Sir, firstly on the DI business, I wanted to understand given that you said the demand will be very strong over the next few years, what is the total industry capacity addition that is expected to come up in FY2022 and FY2023, if you have that number?

Sandeep Kumar: I do not have it readily with me, but it is not that a large capacity is coming up. I think in FY2022 Tata Metaliks capacity should increase by about a lakh, 1 lakh to 1,20,000 tons. Other than that there would be some minor increases here and there. I think Srikalahasthi and Welspun which is there in three years time, so I do not think that will come in FY2022. Yes, Srikalahasthi was expanding. Subhra do you remember?

Subhra Sengupta: It is mainly TML and Srikalahasthi, which are the prominent players. Welspun has increase and are increasing their capacity, but their capacity international is very low. So, we have to mainly consider the P&L and Srikalahasthi by 1.2 plus 1 by FY2022 and the new players it will take time, Welspun and all, at least two, two and a half years.

Shubham Agarwal: Fair enough. So there will be a significant mismatch in demand and supply?

Subhra Sengupta: We have noticed that Sathavahana Ispat that plant which is closed for the last three four years now they have been bought by JC Flower and they may get started maybe in six months down the line. So, that has got a dented capacity of 3 lakhs tons.

Shubham Agarwal: Understood. Apart from this any other inorganic acquisition of the existing plant that we may look at given you said, a lot of the plants are not working currently?

Sandeep Kumar: I meant Sathavahana only. It is not working and there are a couple of other plants which are at some optimal capacity, and they had problems with finances and profitability and running these plants is not an easy job. As I had mentioned it repeatedly in the past also that DI Pipe business is a difficult business to do and that is why you will find very few players at least doing well. Even Tata Metaliks has started with a loss and continued with the loss for a few years. So, other than Sathavahana which is of course the capacity I am already including in the 2.4 million tons that is not beyond that that is already included. The only two players Subhra just mentioned who will expand their capacities are Tata Metaliks and Sathavahana this year and we may see some more participations like Kudremukh Iron Ore wants to expand, but that is a government company and they will also take at least two, three years, so nothing very significant is going to come in

FY2022 and FY2023. This is my sense. You know there are players who may go in for some Brownfield, little bit of expansion and we have to see how it comes. As of now we do not find too many capacities announced. There is Welspun, there is Kudremukh Iron, there is Sathavahana, there is Tata Metaliks and there could be a little here and there.

Shubham Agarwal: Secondly on the order book, we currently have 40 month worth of order book and you said that the realization is lower and that is why we are not taking in further order. So, I just wanted to understand what would be our blended realization for this 40 month order book currently?

Sandeep Kumar: As I said last year, the prices were at Rs.48000 to Rs.50000, so most of our orders are booked what we have been executing as of last year. But as we have started booking every quarter, some quantities, the blended prices, the renovations would start going up, but you will see the effect of this more in the latter part of the year and mostly in Q4 onwards, we might see some of it in Q3 but mostly in Q4 onwards.

Shubham Agarwal: So, is it fair to assume that 40-months worth of order book is booked at around Rs.50000 only?

Sandeep Kumar: Yes. You can say so. For a sense it is okay although the numbers would vary from quarter-to-quarter but on an average you can say maybe another 50000 or 51000 whatever.

Shubham Agarwal: Got it. Lastly on the merger, so continuing on the question of a previous participant, when it comes to iron ore, utilization from long products, as I assume that the total capacity of Vijay II mines is only 2.5 million, which is completely utilized by Tata Steel long product, so do we have any surplus capacity of iron ore left in that mine or the capacity can be increased there?

Sandeep Kumar: I will request Sandeep Agarwal to answer that question.

Sandeep Agarwal: We would request, this is a Tata Metaliks call, probably to answer these question at Tata Metaliks. We have said that when we talk about the synergies etc., closer then we will let you know before commenting on that TSLPL has to make public disclosure on that.

Shubham Agarwal: No problem, Sir. Thank you and fair enough. That is it from my side.

Moderator: Thank you. The next question is from the line of Sailesh Raja from B&K Securities. Please go ahead.

Sailesh Raja: Thank you for the opportunity. Sir totally we have 40-months order book visibility in DI Pipes. Can you give us region wise mix and which regions will see stronger growth over next two years and with the capacity expansion, how are market share will improve from current level of 12%?

Sandeep Kumar: These are expansions coming in, we are hoping to take our market share to let us say about 14%, 15% in the next two years. For us the states, which are showing strong signs of growth and projects are Odisha, UP, MP, Andhra Pradesh, Maharasthra, Jharkhand and to some extent West

Bengal. Of course, there are other states, as well, Gujarat, Rajasthan, Kerala, Tamil Nadu, but lesser than the earlier ones that I gave you.

Sailesh Raja: Sir, also in the Pig Iron business, currently in 2Q what will be the realization you are getting in the domestic and overseas market for the foundry growth? In Pig Iron what is our volume mix between foundry and steel grade Pig Iron?

Sandeep Kumar: So we sell roughly about anywhere between 25000 and 30000 tons of Pig Iron out of which let us say 50%, 60% at least is foundry grade maybe even more. The realization of foundry grade, the prices of foundry grade Pig Iron today varies between let us say Rs.41000 to Rs.45000 depending on the market.

Sailesh Raja: What is the realization difference in domestic and overseas market?

Sandeep Kumar: Overseas the foundry grade the prices are marginally lower, but the volumes are not lower. What we have sold to China is mostly the steel grade where the volumes are higher and even though the steel grade prices are lower than foundry grade, still makes sense to us because the demand was simply not there in Q1 for Pig Iron. As I mentioned in the beginning the country clusters are operating at 20% to 30% capacity, so as a result, we got an option to produce foundry grades and keep stocks because we could no sell in the domestic market, because it was not there, or you produce steel grade and export. Since he steel grade market was doing well, we were able to export and that is how we could achieve record sales.

Sailesh Raja: Thanks Sir.

Moderator: Thank you. As there are no further questions, I would now like to hand the conference over to Mr. Sahil Sanghvi from Monarch Networth Capital Limited for closing comments.

Sahil Sanghvi: Thank you Ayesha. We want to thank the management for patiently answering all the questions. On behalf of Monarch Networth, we also want to thank all the participants for being on the call. Sandeep Sir, do you want to give any closing comments?

Sandeep Kumar: I think one comment which I think there should be more clarity is that Ductile Iron Pipe business in the long-term business it is dependent on the water infrastructure investment by the Government of India. The way the focus of the government is heavily on the water infrastructure with the formation of the Jal Sakthi Ministry by PM Modi a few years back and with the announcement of the Jal Jeevan Mission and if you look at the figures of Jal Jeevan Mission, both rural and urban, the investment by the Government of India is to the tune of 100000 Crores and there will be many additions coming in from the states, from World Bank, Asian Development Bank, so there are lots of funding agencies. So against an investment of let us say about 20000 Crores, 25000 Crores, every year, what we are looking at almost a four times the investment from Government of India. What we have to see is how much of it actually happens. So we assume that even if the investment is let us say half of it, it will become 50000 Crores or 60000 Crores, we still look at a number which is twice or thrice the average yearly number over the last four, five years. Therefore this is a great opportunity for the Ductile Iron Pipe players to really expand their business, grow their business and have sustainable good earnings for the next five to seven years. That is where we see Tata Metaliks coming in with its expansion capacity coming in on stream at the end of the year, the first phase and the second phase by next year and position really even. We are positioned ourselves as a premium player and that is where I think the major benefits of the Ductile Iron Pipe business will come to us. As we grow in the Ductile Iron Pipe business to that extent our Pig Iron business will reduce, but the advantage is that we will start selling only in the nearer geographies and not into the farther geographies. What it means is that even for the Pig Iron business our realizations will improve and therefore the EBITDA margins for Pig Iron business will also improve on a like-to-like basis. So on the whole I see a very bright positive optimistic future for the Tata Metaliks business as it stands today. That is the summary from our side. Thank you very much all of you for joining me and my colleagues, Subhra Sengupta and Sandeep Agarwal, for this call. Thank you once again Sahil and team.

Moderator: Thank you. On behalf of Monarch Network Capital Limited that concludes this conference. Thank you everyone for joining us. You may now disconnect your lines.