"Tata Metaliks Q1 FY-23 Earnings Conference Call"

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Sahil Sanghvi: Good evening, everyone and welcome to the Tata Metaliks Q1 FY23 Earnings Conference Call hosted by Monarch Networth Capital. Just a reminder that all participant lines are in listen-only mode right now and muted and request you to keep on mute for a proper conference call to happen. After the initial remarks from MD sir and CFO sir we will open the floor for questions and the manner we will follow is that you shall have to raise your hand and I will unmute you and you can go ahead and ask the question. I request you to limit the questions to two so that everyone gets a chance. Over to you Sandeep sir for the introductory remarks.

Sandeep Kumar: Good evening, everybody. So, I will start. I think I'll keep my statement brief. If you have read the press release, it captures the Q1 performance very succinctly. But just for the benefit of those who might not have read, I will just briefly talk about it. Quarter 1 performance has been terrible in one sentence, even though the revenues have been up by about 11% compared to year-on-year, Quarter 1 of FY22, but sales volumes have dipped by 24% in case of pig iron and about 8% in the case of ductile iron pipes. The profit before tax has come down from 134 crores in Q1 FY22 to just over Rs1.73 crores to be precise. Now the question is why this terrible performance and we will explain that. We would also like to give you the confidence that this is a one-off quarter. There are the three major factors for this terrible performance. One is on the count of government which is outside our scope. Second is market and third is operational. All these factors have conspired in a sense to work against us.

So let me start with government. As you all know Government of India imposed an export duty of 15% on pig iron and other steel products on 22nd of May. So, 15% export duty on a price of pig iron which was running between Rs. 60,000 and 65,000 per ton meant almost Rs. 10,000 of immediate drop and pig iron is a daily market. It's a daily market, it's a weekly market. So almost Rs. 10,000 of realizations down which if I multiply with the volumes between 22nd, 23rd of May and end of June, we lost almost 40 crores in EBITDA over that period. So that was one.

Secondly if we look at the spreads, the spreads of pig iron. That is between the prices of pig iron and coke, which typically in the last 5 years have averaged at the level of about Rs. 5,000-6,000 per ton, actually became negative or breakeven and actually negative. This was the lowest ever spread in the last 10 years. Why, because coal and coke prices went through the roof. There is still no explanation, very clear and cogent explanation for why the coal prices went up by so much. Just to give you some figures, in the month of March the coal prices that is March this year, the coal prices touched a high of $670 FOB from Australia. If you look at the prices a year back, that's in Quarter 4 of FY22, January to March last year, the prices were at about $100 to $110. It's a 6 to 7 times multiple jump in prices over the last one year and that really in a sense crushed us. This kind of a movement in the raw material prices have never happened. This was the highest ever and the spreads were the lowest ever. So that was the second factor.

The third factor was the operational. We took shutdown of both the blast furnaces and the ductile iron pipe all of this in one quarter. Normally we phase it out, so that the impact averages out. Unfortunately, we took all of them together and there were reasons for that. One of the furnaces was not operating at its most efficient manner. So, we thought it's better to take the shut down and repair refractories now. And any case once a year we have to do it and therefore that impact was also significant, both in terms of volume, the shutdown costs and of course fuel rates. All of this has actually hit our bottom line tremendously. And that is why this performance. Now if I look at how was Q2, well the pig iron prices have stabilized. In fact, they are looking up now. The coal prices have dropped. Let's say if you take the figure of May, in the month of May the coal prices average price was $508 flats average of prime hard coking coal. That's now come down to almost $275 in the first 15 days or first 14 days of July, the average of July. The spot price is actually $240. So, within two months or withing one and a half months, the prices have actually halved. Therefore, the coke prices have accordingly come down. So, what does it mean in terms of spread, the spreads from negative have now moved to positive territory. So therefore, this is looking good, positive now, still not recovered to the same level of 5,000 to 6,000 but coming close to it. So that's the positive.

Ductile iron pipe business coming to that, it's been a weak quarter. Why, firstly because the prices have been so volatile, the buyers have been holding on. They've not been picking up because in anticipation of price drops, we have just held on to the orders. So, we were releasing orders on a monthly basis rather than on a yearly business or on six months or nine monthly basis. But with prices stabilizing I think order release will also begin to happen. On a positive note, the Government of India has investments on Jal Jeevan Mission which is the flagship project of the Jan Shakti Ministry of Government of India, is now estimated to be over 1,25,000 crores in FY23 from the Central Government alone. There's an equal participation 40% to 50% from the states as well. So, we're looking at (+2,00,000) crores of investment which is likely. In reality this may be much lower. Just to give you a sense, in FY22 that last year, total investment by the Central Government was only about 20,000 crores under Jal Jeevan Mission. As against 20,000 the announcement or the budget, total including unspent amount is now 1,20,000. Overall, it gives a positive impact. There are some other numbers on DI pipes orders. The visibility of DI pipe orders on projects together is roughly about 5 to 6 million tons. The installed capacity is let's say 2.6 million tons. So, we are looking at order visibility, our project visibility of 2-2.5 years which is tremendous considering today's industry order load of hardly about 7 months. I would close at this and start on with the question answers. So, I'm through with my opening statement which is pretty long but I thought it would explain. Thank you.

Sahil Sanghvi: Thank you Sandeep sir. So, we will just wait for question queue to assemble. Rohan, you have raised your hand, please unmute yourself and ask your question.

Rohan: I just wanted to understand that bulk of the impact in the cost which we have seen is in the coal side. So how are we managing that? Because in notes also it was written that our coke costs have gone up by 30%, so are we doing any change our strategy in procurement of coking coal and what is our current inventory? At what quotation period or what blend cost it is?

Sandeep Kumar: You are talking about coke cost?

Rohan: Yes. Coke or coking coal. Do you procure coke or coking coal?

Sandeep Kumar: Yes, we do both. Actually, we have our own coke ovens that serves about 80% of the total coke consumption. So about 20% we buy from the market i.e. 15% to 20%.

Rohan: How are we placed in the price terms, what is the blended coal cost per ton? Inventory I am asking.

Sandeep Kumar: Yes, so while I give Subhra to answer in detail but just to give you a sense, the coke prices which were ruling it almost close to Rs. 60,000 or above Rs. 60000 per ton, let's say a month or two months back have now come to slightly above 40,000. So, they're already down by 50%. The impact of that will start getting visible in our stocks only from the second half of July and August. So, the cost is already down, number one. Number two is since 80% of our coke is in house which means we import coal for that, we have fortunately not bought coal at high prices, too much of coal. So, we've actually held on to very minimal inventory in the last few months therefore the impact of the high-cost inventory on our overall cost will be much limited I would say. But I would give it to Subhra, our CFO to respond to that in more details.

Subhra Sengupta: So as Sandeep sir has answered. So, your first question was that inventory level where we are in the normal circumstances the inventory level is 3 months to 4 months but as we have bought less, in last 4-5 months we are fortunately buying less. We are having inventory level of around 1-1.5months. So fortunately, we will be able to take the benefit of the coal price faster. The second part of the question was that what was the strategy, now on the strategy earlier also we have talked that the coal cost is one of the major costs in our cost structure and one of the ways we can keep our margin intact which may have some relativity about the coal. So yes, we are seriously now working on the hedging of coal based on the firm order of DIP because the DIP order book is normally 8 to 10 months and the coal is available in 3 months. So, to match both the asset and liability we will try to do some hedging of coal.

Rohan: Subhra sir, if I understand it correctly, you are saying that whenever we'll book a long term order like 6-8-10 months DIP contract we will correspondingly buy coal in that contract.

Subhra Sengupta: You are partially correct because the coking coal market is not that liquid, its illiquid market. We may not be able to do 9 months kind of long position on the coal but presently the normal inventory is 3 months we'll try to do 3+3, at least 6 months visibility should be there.

Rohan: In one of the last earlier conference calls this was mentioned that Tata Metaliks does some coking coal hedging. Is this the hedging you were talking about?

Subhra Sengupta: Yes, we have to do this.

Sandeep Kumar: Just to come in here, two points what Subhra is saying. One is of course the hedging of coal. So that's one. Secondly what you do is you tend to order more coal which we had done last year. We ordered for almost 6 months. So, there is a working capital cost but then you hedge you out, so especially when you are buying at $100 and the prices move up that helps. But of course, you need to take those calls. Second one is the hedging on the exchange, let's say Singapore commodity exchange. Number three is which the ministry has now introduced in a much wider way is the WPI of pig iron. So, the DI pipe prices are being linked to WPI of pig iron. It was always linked but very few state governments were actually including that in the contracts. Now the Central Government Jal Shakti Ministry has had couple of meetings with us in the last 2-3 months. There is an agreement that we should link it up because what is happening is that the contractors, EPC contractors also can't handle such a massive increase in prices. So, with the result the DI pipe projects were getting delayed. That is also the reason why only 20,000 crores got spent last year. But as this thing, WPI of pig iron gets adjusted to the DI pipe prices, it to some extent cushions the cost impact. So those are the three ways.

Rohan: So, we are saying we will be doing hedging in all the three ways?

Sandeep Kumar: Yes. Correct. Third way will be common for everybody. It's not only for us but that's also getting operationalized now in a much wider, larger way. That's at least the intent of the Central Government. That's the advisory which is going to the states.

Sahil Sanghvi: Mr. Saket Kapoor you may go ahead and ask the question.

Saket Kapoor: Coming to where you just were explaining to us, about that this WIP of pig iron prices if you could elaborate the abbreviation WIP stands for?

Sandeep Kumar: WPI.

Saket Kapoor: The inflation index you are speaking.

Sandeep Kumar: Yes. Wholesale Price Index. It is declared by the government every month. So just like the other WPIs.

Saket Kapoor: So, it will be indexed to that?

Sandeep Kumar: Yes, it will be indexed to that.

Saket Kapoor: Have we seen this implementation or only the circular is there. Taking into account the order booking, have that been implemented into it, the imports also?

Sandeep Kumar: No. Some state governments were already implementing it, had already implemented it. So now the Central Government has realized that its projects are not moving. One of the main reasons is the volatility in prices. So, they constituted a committee. That committee we had also sent our recommendations and we have interacted with them. So that committee has concluded that WPI needs to be included in every contract and that advisory is going to the state governments or it has gone whatever. I'm saying going forward that will get taken care of to some extent. Not fully but to some extent.

Saket Kapoor: About this inventory part, if you could explain this Rs73 crores of inventory which we are seeing for this quarter.

Subhra Sengupta: Saket you are talking about the change in inventory that we have?

Saket Kapoor: Yes, change in inventory.

Subhra Sengupta: So, there are two reasons, if you see that in March '22, our both PI and DIP inventory was quite low. Maybe one is below 1000 and second one is below 2000. Both has gone up, PI is more intentional as the price was in a free fall mode. We have intentionally kept it. We have not sold and kept inventory. As MD sir was saying that in the month of July there is a upside on that inventory what we have hold. In DIP normal inventory is 5000-6000 but March was very abysmally low but also as the end of the June there was a lot of issues on the sites and to some extent to the customers. Maybe 2000-3000 more we could have sold. But doesn't matter, we would be able to make it up in 2QFY23. So, pig iron is intentional, DIP is okay type.

Saket Kapoor: So which can then get evened out in this quarter only?

Sandeep Kumar: Definitely. Saket the way to understand is the inventory or finished goods has up in this quarter compared to previous quarter but that is natural. In March end you'll always find, we try because it's the year end. We make all the efforts because the projects also need to complete in terms of their financial capital. Everybody wants to buy up and use up the capital. Usually, the inventory is one of the lowest and this year in particular that is FY22 March, we have one of the lowest ever inventory in the recent past. So, from a very low base in Quarter 1 it has gone up which is nominal. I think it's hasn't gone up so significantly but because the prices had also moved up, pig iron and DI pipes therefore the value of inventory looks much higher.

Saket Kapoor: We spoke about this plant shut down and also the performance of the blast furnace not at optimum level. So today where are we in terms of optimum production and also how are the blast furnaces refurbished and how are they performing?

Sandeep Kumar: Both the blast furnaces we took shut downs, the annual maintenance shut down. Typically, it is for refractory repair. It's a once in a year that we do. So, one of the furnaces was having operational issues. So, we thought we rather combine it with the shutdown instead of doing it later. That is what happened in April and May but it took a lot of time to do that because to order the equipment, the contractor all of that takes time. That is why I explained to you the poor performance is also on account of that. Now June onwards, especially second half of June onwards, the furnaces are performing well and they are in a same way as what we used to do 6 months back or what we did in the month of March. We are now back to the normal levels and I hope that Quarter 2 will be much-much better from an operational perspective as well.

Saket Kapoor: On the pig iron front, you quantified that Rs40 crores was the EBITDA loss we incurred if I am correct, for the June quarter. For this shutdown and the upkeep and the additional cost can you quantify on ballpark number what have been the hit for us on account of this maintenance and shutdown?

Sandeep Kumar: On account of the export duty and on account of shutdowns the total impact on EBITDA would be anywhere between 70%-75%.

Saket Kapoor: You articulated about these 3-4 factors I think which you explained earlier, so out of those factors just putting aside this export tax part issue which is also on the relook if we take into account the current steel prices. So how are the other factors currently aligned for our business? If you could give some further understanding and also on the order booking currently and how are the DIP prices currently in what vicinity, if you could answer?

Sandeep Kumar: Yes. I mentioned about three factors, export duty and I said 40 crores on account of that. Then I said there were spreads which have been negative. Now I don't want to account any factor because spreads keep varying and that's a market related thing. The third one was operational which is maintenance shut downs and the loss because of the operational issues. So, I said number one and number three together was about 70-75 crores. So, if 40 crores is on account of first factor, the second factor is roughly about 30-35 crores. So does that explain, so that's the first question. As far as DI pipe order book is concerned, we have roughly about 7 months of order books and the DI pipe prices, they have from a level of Rs. 50,000 per ton, a year and a half back, they have moved up to Rs. 80,000-85,000 in the month of June. And now the softening of raw materials, they've come down by almost 10%, let's say in the last 2 to 3 weeks. So obviously the drop in DI pipe or the increase in DI pipe is much slower because pig iron moved up from 30 to 60-65 but DI pipes moved up from 50 to 80 or 85. The increase also was not so much, similarly the drop also is unlikely to be so much. In any case the order books for next 6 to 7 months we already have and with the greatly increased demand if the government outlay of FY23 actually plays out then we'll keep the prices at a reasonably high level, may not at be at the same level but at the current level but at a reasonably high level. So to me the H2 of this year is going to be crucial and we are going to be much better than what we would have seen in the recent past.

Sahil Sanghvi: Mr. Vikas Singh, you may unmute yourself and ask your question.

Vikas Singh: I just want to understand, you talked about (+2,00,000) crores kind of the investment from the government but you also said that the realistic assumption is lower. Can I have what is Tata Metaliks realistic assumptions in terms of the government investment in the sector?

Sandeep Kumar: To give you a sense, last year the Central Government spent was about 20,000 crores on JJM, Jal Jeevan Mission. There's an equal amount from the state government which is expected to have come in. Let's just assume the Central Government investment, now Central Government allocations for this year including the unspent amount of last year and the unallocated budget of last year. Together comes to 1,25,000 to 1,30,000. Out of which if we assume that only 30% gets spent,I don't know how much will get spent but let's say 30%, my own sense is maybe 30%. That could take the figure to about 35,000 to 40,000 crores which is almost double of last year. But you can imagine that I am hazarding a guess, the government expenditure will depend on various factors including their own actual liquidity and their own cash flows. But so far, the tax receipts have been robust. There is a lot of pressure from—I understand from Prime Minister's Office on the—on the Jal Shakti Ministry to complete the mission in the next 2 years. In my opinion that's just not possible, so it will go on. But my sense is that it will go on till 2030. Maybe 70%-80% will get completed by 2027, the next 5 years but because of that we can see the movement and pressure from the Jal Shakti Ministry on the players to supply material. There have been number of meetings and interactions. I've had a meeting with the secretary Jal Shakti on various issues and I understand what their mind is. They're very sincere about it and they're pushing a lot but how much of it will actually come through is little difficult to say. I'm guessing maybe 30%.

Vikas Singh: Given the industry push best kind of the production and volume, so what kind of basically portion or the volume together industry can execute in a year's time if everybody tried to push for 100% of the production? I just wanted to the maximum whatever the government desire but there is a limit to industry in order to fulfill those desires. So, what is the maximum industry can push in terms of volumes?

Sandeep Kumar: The industry capacity is roughly about 2.6 million tons. There are some expansions happening and new ones coming like Welspun and our Tata Metaliks expansion is going on. Let's say the capacity goes up to 3 million tons. Typically, the operating capacity is at about 80%, so let's say 2.4 million tons. So, if we have 2.4 million tons and if the total visibility of projects and actual orders and I can give you some breakup of that later, it is coming to almost about 6 million tons. I can see that for the next 2-2.5 years there is a clarity in terms of how much orders have either come in or will come in because the industry can only do 2.5 million tons.

Vikas Singh: Just one last question in terms of our CAPEX. Can you just tell us where we are, how much we have spent and by when our first batch of 1 lakh tons of DI pipe would come in?

Sandeep Kumar: CAPEX typically, we are now spending 250 to 300 crores per annum on CAPEX, roughly that is the expense and this year we'll be on similar lines. Our as far as the DI pipe new capacity is concerned, the new line, the Phase I has been commissioned more or less because there are different machines and different lines. There are some teething issues which are being sorted out but production has already started. We normally take about 3 months for everything to be stabilized. So, from H2 the main production will come out. Although production has already started even last month there has been some production, July this month will be better. Obviously as we go, we'll start running three shifts from second half of this month. So, I think they are on track. There have been delays on account of machinery coming in from China and also the technical engineers not being able to come. I think I'd mentioned that using a digital technology is like augmented reality we have been able to commission the plant but obviously that is slower than doing it in a physical way which is taking time but the production has already started and we should see additional volumes coming in particularly in H2 from the new plant.

Vikas Singh: And matching blast furnace capacity has also been increased?

Sandeep Kumar: So, blast furnace already has excess capacity but we had also debottlenecked rather there was a project to debottlenecked it to increase the capacity. So roughly you can assume that a capacity of 6 lakh tons of blast furnace is there after this debottlenecking 6 can go up a little bit. So, let's say it was 5. We produce I think highest we produced it was 565. So, from 565 we can go up to 6 lakhs easily. But that would happen maybe, may not happen this year, may happen next year, 6 lakhs. So, we will tell you because there are various things on the anvil. So, capacity wise we are good enough. As far as DI pipe is concerned the capacity of the existing plant is 2.5 lakh tons. The new capacity is another 2 lakhs or 2.5 lakhs so we will still be at 4.5 to 5 lakhs. There will still be a surplus of 1 to 1.5 lakh tons minimum on the hot metal side.

Sahil Sanghvi: Mr. Ashok Patel, you can unmute yourself and ask your questions.

Ashok Patel: My question is are we expecting anymore shut downs in any of our blast furnaces in near future?

Sandeep Kumar: No, there will be no planned shutdowns, the long ones. Typically, every month there is a small shutdown which is okay which is already considered in the plan but normally the annual shutdowns are all over. We expect the next three quarters to be much better in terms of operation wise.

Ashok Patel: So over next one-year entire year we won't be seeing any volume loss arising from the maintenance shut downs as such?

Sandeep Kumar: No, maintenance shut down there would not be but our one of the furnaces has to go in for a major overhauling and repair. So that we will tell you once the time comes in and that's more likely towards the end of the year or early next year.

Ashok Patel: You explained in a very detailed manner, the procurement and entire protocol which you follow in terms of procuring coking coal but can you explain me what would be our average inventory prices of coking coal right now?

Sandeep Kumar: May I just ask Subhra to respond that whatever we can give.

Subhra Sengupta: If we see that in the initial remark what MD was saying, in the month of May the coal price was $500, in the month of June was $370 and in the month of July so far average is $275. So, we have got some June coal, we still have got. Hardly any May index coal still we have got. So as earlier I was saying that fortunately we are having only one month and one and half months. So, majority of the coal is June index.

Ashok Patel: So, can we expect it to be roughly around $350?

Sandeep Kumar: How much?

Ashok Patel: Around $350.

Subhra Sengupta: June index was 370 and July index so far is 275, so for the quarter itself you can take the number what you have stated.

Sandeep Kumar: But it will also depend on what is the price going forward.

Subhra Sengupta: If we get it, in August it goes up to 350.

Ashok Patel: So, my question is that export duties of 15% were announced towards May end, so we only effectively saw one month of lower pig iron prices in this quarter because of export duty but next quarter entire quarter would be these duties would be applicable. So, do you see the realizations holding up to the current level or you expect them to slightly on a softer side?

Sandeep Kumar: The pig iron the export duty was implemented or made effective one 22nd of May. We lost almost about 30 days there and maybe 8-9 days there. But I think the after that the raw materials have also come down. What's more important is the spread between the finished goods and the raw material rather than the absolute value of price. So, as I was mentioning in the quarter gone by, the spreads were negative in the marketplace or maybe just about breakeven. Those spreads have now come into positive territory. The average spread over the last 5 years were about 5,000. We have still not reached 5,000 in the first 15 days but we are inching towards that. The pig iron prices have also started moving up. We have already revised prices in our markets. I think we are now getting into positive territory and things should be much better.

Sahil Sanghvi: Mr. Abhishek can you unmute yourself and ask your question.

Abhishek Ghosh: Just in terms of the entire number that you have given out, 20,000 this year and possibly a higher number in FY23; what is the proportion of DI in that?

Sandeep Kumar: I didn’t get your question. Proportion of DI in what?

Abhishek Ghosh: Is that number of Rs. 20,000 crores that is entirely spent towards the DI or is it towards the entire Jal Jeevan Mission? That’s the number I want.

Sandeep Kumar: That's the government's investment on Jal Jeevan Mission. So, the central government’s investment is about in FY23, we estimate is going to be about Rs. 1,30,000 crores, Rs. 1,25,000 or 1,30,000 crores and roughly 40% to 50% so roughly half of that will come from the state government so total is Rs. 230-240 crores is there, is what is the theoretical number. In reality it’s going to be 30% of that or 25% of that; is my estimate and I can be wrong.

Abhishek Ghosh: Out of the total spending, how much is for the DI?

Sandeep Kumar: So, DI pipes, out of that typically you can take about 20% to 25%; depending on a lot of factors; it depends but roughly whatever is the investment, you can assume that 20% to 25% would go towards DI pipe supply.

Abhishek Ghosh: That is what you are referring to as 2.5 years kind of an order backlog?

Sandeep Kumar: No. I'm talking about the total, total investments. So, if we talk about if the expenditure is Rs. 30,000 crores and 25% or 30% of that is on DI pipes so it's say Rs. 10,000 crores. It's but that's on Jal Jeevan Mission, there are other projects as well.

Abhishek Ghosh: Given that the opportunity space is so huge compared to what is the current capacity, are you seeing lot of competitors putting up lot of DI capacity out of that 2.5 million tons that what were there? Any sense around that and how difficult is it to get the qualification and other things, some thoughts there?

Sandeep Kumar: DI pipes industry has a high market entry barrier, both in the marketplace as well as on the operational front. It's not like making a steel pipe wherein you get a hot rolled coil, you buy the hot rolled coil from any manufacturer, turn it around, weld it and start supplying. This is a pretty complex process and it's not easy. You don't get manpower; you don't get easily trained manpower and then of course there's a lot of technical glitches to it. So, anybody who comes in new, faces a lot of these issues and we have faced that when we set it up in 2009 so we know that, number one. Number two on the market side, typical of government projects, many of the contracts, the state governments contracts will ask you to show an experience of let's say 5 years-3 years- 7 years depends on. They don't get access to all the contracts. So, there are restrictions. So, the first few years are not so easy for a new player. The incumbents obviously have an advantage and therefore both on the population side and on the market side, the incumbent players have a definite edge and will continue to command premiums and certainty from the customers.

Abhishek Ghosh: Since there is also lead time, fair amount of lead time in putting up a DI plant, from the current 2.5 million ton of capacity that India has; what is the broad sense that you have? How much capacities are coming through?

Sandeep Kumar: From 2.5 million tons, as I was mentioning we will go up to 3 billion tons by next year.

Abhishek Ghosh: Just one more thing in terms of the pig iron part of it, how are you seeing the overall demand while you spoke about the spread part of it that it was kind of negative in this quarter and now it's kind of improving not yet back to the 5,000-6,000 levels but if you can just talk about the demand as well in terms of sectoral trends it will be helpful.

Sandeep Kumar: So, pig iron, roughly about 12 to 13 million tons are traded internationally, out of which 50% comes from Russia and Ukraine. Pig iron when the Ukraine-Russia conflict broke out in February, 50% of the trade was gone. The prices in US if you look at, there's a place called NOLA, New Orleans, there the prices were before the outbreak of the conflict were at a level of $550 to $600. Post the conflict, start of the conflict the prices zoomed up to ($+900). Those prices have now come back to a more realistic level at about $650-670 since last a couple of weeks. So, prices have stabilized from that perspective, the demand in the US market and European countries continues to be strong but there's a demand supply mismatch because obviously a lot of material from Russia and Ukraine is still not coming in but they're finding their own ways to go in but obviously it's at a reduced level. So, demand supply mismatch in the international market is still there. The 15% export duty, what it does is reduces our realizations but because there is a demand supply mismatch, the overall price of pig iron is of almost about $100 higher than what it was in early February in the international market. Before it was 550, now it’s 650. So, it’s more or less now stabilized. That's the sense internationally, domestically because the prices were very high, the consumers of pig iron or the customers of pig iron put a hold on purchases because it was not making sense to them. But the domestic players, suppliers of pig iron started exporting so they could manage. But now exports are not as remunerative but the domestic demand is now picking up and also because of labor going away to Bihar and UP and all that, they have come back in July because of the sowing season. The season will now start and many of the foundry clusters like Ahmedabad and Punjab and Delhi. So, the demand should pick up as we go forward. To give you a sense of number, the foundry clusters, different foundry clusters were operating in the capacity of 40% to 50% capacity utilization in the last quarter. They are moving up to 60%-70% is what we have seen in the last 2 to 3 weeks. That's the sense we are getting. So, things are looking better from a demand perspective, price stabilization perspective and international perspective.

Abhishek Ghosh: This demand movement is because of auto?

Sandeep Kumar: Auto is one, engineering is another one, agriculture is the third one, tractors and pumps and all that.

Sahil Sanghvi: Mr. Manish Goyal, you may unmute yourself and ask the question.

Manish Goyal: On the segmental revenue what you report in pig iron, the revenue which is reported is on a complete hot metal production I believe because when we try to arrive the number on the volumes, the realizations look to be much higher. Just wanted to clarify that we need, basically how should we look at it?

Subhra Sengupta: If you see that segment report the third month, it is the net inter-segment revenue is netted off. If you reduce the pig iron sales, net it out with the inter-segment revenue, that gives the pig iron sold outside parties.

Manish Goyal: Just to clarify, you mentioned that now the coking coal prices are down to $240 to 250. Ideally it is Rs. 20,000 per ton because earlier you said it has come down from 60,000 to 40,000. So, I just want to clarify.

Subhra Sengupta: Yes 60 was coke and coke has come down to 40 and that 250 normally goes to 20,000 but we have to consider the freight, which itself has been $20 kind of thing, $20-25 plus the customs, not customs, they are net zero customs, the port charges and the local freight. So, we have to consider $20-25 for the sea trade, another $20 for local freight.

Manish Goyal: In DI pipes the realization was around Rs. 60,000 in the Q1. So, when do we see the benefit of new order exit mission and what kind of average realization, we can see going forward say in Q2 or Q3? If you can give us some perspective?

Sandeep Kumar: The high-price orders have been at Rs. 80,000-85,000 per ton not at 60,000. So that was DI pipes so that's landed, landed prices. Those prices have suffered by about 10%-12% in the last 1 month but that's okay because they're still very high but what's more important is the spread. With coke prices having come down from 60,000 to 40,000 or 42,000, the spreads are now much healthier. What had happened in between was that the DI pipe prices are now almost competing or the pig iron prices are competing with DI pipe prices. So that was the problem. Typically, there is a gap between pig iron prices and DI pipes. How much can we take that average between this pig iron and DI pipes. Anywhere between Rs. 7,000 to 13,000 per ton and they were almost touching neck-to-neck. Despite the increase in price of DI pipes because of the raw material push we were not making margins on DI pipes. That's why your margins on DI pipes have been affected. Your sales volumes have not come down drastically. Rest 49,000 in Quarter 1 of FY22 we have done 45,000, it's only a 4,000 difference but margins are not good at all because of the raw material push which is a one-off. I would not say one-off but I would say which is a more like a very outlier. We haven't seen this kind of raw material push in the last 10 years.

Manish Goyal: I was just trying to understand that when do we see that benefit reflecting in which quarter?

Subhra Sengupta: I just want to clarify one thing Manish. While MD has said 50,000 and the softening up by 10%, he meant landed price including GST and, in the accounts, it is net of GST. So, when you see the top line of either segment report or the normal report, it is always net of GST but inclusive of freight. So whenever 80,000 or 75,000 first of all you need to get it divided by 1.18 and if you do 80,000 divided by 1.18, it will be almost 64,000 or something like that and we have already reached to that say 60,000 level kind of number. I would be happy that if you can maintain that because what important is the spread. If with these kind of pricing if the coal price is like a 50%, the spread will be much healthier even with the 80,000 with the high price of coal.

Manish Goyal: Last question, just to clarify on the pig iron domestic demand; sir mentioned that the demand is improving now with the foundries' utilization going up. Just want to get a sense like what was the decline in demand and what are the current foundry grid pig iron prices?

Sandeep Kumar: Foundry grid pig iron prices were ruling at almost 60,000 before the export duty announcement. They've come below 50,000. So almost more than 10,000 is around. What else was your question? I missed it.

Manish Goyal: Like in probably last 4-5 months how has the demand trend changed like it had declined and now improved? Just want to get a sense on that.

Sandeep Kumar: I just mentioned to the previous question that the foundry, we're operating at about 40%-50% capacity utilization. Now that is going up and some places, we are finding in up to 70% also so things are moving up. There's also the export demand because a lot of guys also export castings to US in particular. That has now again moved up and therefore the demand for pig iron is also moving. I think in some way or the other, the export market, the international market does influence our prices and our demand either directly or through the end user. That's now having a positive impact.

Sahil Sanghvi: Participant, You can unmute your line and ask the question.

Participant: I just have three questions from my side. My first question would be, in one of your earlier investors call you had mentioned that beyond 1000 mm DI pipes cannot be used. So, is it because the price point that steel pipes get more competitive or is it like some technical aspect which does not allow DI pipe usage in application with its 1000 mm? My second question would also be outside China, I believe India is one of the biggest, one very cost competitive DI pipe player. But what is the reason behind it because while we are sufficient in terms of iron ore from the entire country perspective but I mean India still a net importing country for coking coal. So, what makes us competitive outside China? These two questions.

Sandeep Kumar: The first question was 1000 mm. Up to 1200 mm DI pipes in India are manufactured, in China they go up to 2800 mm. What we have found is that in general or the larger dia, the demand is very limited and mostly it is taken up by steel. So, steel becomes more competitive. It has more flexibility. You can carry hot rolled coils to the sites and then have a mobile machine to weld them and manufacture steel pipes which is not possible in the case of DI pipes. So, both flexibility of handling and ability to handle big dia-pipes at project sites becomes complicated in addition to the costing. These are the two reasons why steel is a more preferred material of construction for pipes for larger dia. That is the first question. And the second question was?

Subhra Sengupta: Second question is that India doesn’t have coking coal.

Sandeep Kumar: Yes comparativeness, so India is the second largest producer of steel while it doesn't have coking coal but it does have iron ore. It has a good ecosystem for the iron and steel industry. It has good manpower and I think we are competitive, extremely competitive and I think these factors and a large market, domestic market all of this helps in making us very-very competitive in the world market. In fact, if you look at DI pipes, I would dare say that India now is perhaps the most competitive of the DI pipe players in the world market. China was, China continues to be but in many-many areas we are finding that we are better off than them when going to the export markets and the reason for that is that Chinese government has put a strong restriction on emissions on carbon and they are going in for de-carbonization in a big way. Also, on emission norms that is adding to their costs. By 2025, this iron and steel industry in China has been told to kind of comply to certain norms and also the fact that the export duty rebate the Chinese government used to give I think which was earlier 15% has now come to 5% or 6%. So, all these factors have made the Chinese industry less competitive compared to the Indian industry but this is in general. Again, player to player it will vary and the advantage that the Chinese have is economies of scale. They have large plants. That's their advantage but they are losing out on some of the other factors. All in all, India is becoming more and more competitive and I would dare say that some of us are perhaps more competitive than most Chinese players but not the entire industry necessarily.

Participant: I just want one clarification on the points of below 1,000 mm is DI cheaper than steel pipes?

Sandeep Kumar: In general, yes.

Participant: And just last one question, you spoke about PI and pig spreads. How relevant would that metric be rather than looking at PI minus coke spreads, shouldn't we look at PI minus coke cost per ton of PI because I mean like you said the where you were sounding that its breakeven or let's say spreads are negative but it's not like your loss-making right. Even let's say if pig iron prices are touching Rs. 1 lakh and your coke prices are let's say 5,000 less you'd make huge tons of money, right. I mean just looking at absolute spreads or looking at the spreads per ton of pig iron wouldn't that be more relevant?

Sandeep Kumar: So, it is only for simplicity and to give you a sense, let me tell you otherwise you are right.

Subhra Sengupta: You are technically correct. Of all the plants we have got different efficiency. Some has got 600 Kg coal rate, coke rate, some could have got 650, some could have got 950. This number is purely for the simplicity purpose.

Sandeep Kumar: To give you a sense just to where we stand.

Participant: But it's not like a negative spread, you would be loss making. That's not correct, right?

Sandeep Kumar: No.

Participant: Because your fuel rate would be like 500 kilos of let's say coke and another 150 of around PCI, right? In terms to hot metal production?

Sandeep Kumar: That you are putting words into our mouth but what we are saying is that, directionally you are right. The spread being marginally negative doesn’t mean we lose money. What I'm saying is that we're not making money, it also depends on the other cost as well. But you are absolutely right that we need to see the actual cost of coke going into it. Since coke is almost about 60% of the cost, 60%-65% of the cost, that’s why for simplicity we are talking about the spread between PI price and coke cost. Otherwise, you need to get into other factors as well, how much is iron ore, sinter, fluxes all of that.

Sahil Sanghvi: One question that is commonly asked in the chat is regarding the merger with Tata Steel Long Product. Any kind of update or any kind of progress you can address on that?

Sandeep Kumar: Not really Sahil. I think as I had mentioned last time you will have to wait to hear from Tata Steel on that.

Sahil Sanghvi: Falguni Dutta, you can unmute yourself and ask the question.

Falguni Dutta: Just wanted to ask you, what is the coke cost per ton of pig iron in Q1 for us? The absolute coke cost per ton of pig iron?

Sandeep Kumar: Absolute cost of coke?

Falguni Dutta: Yes, per ton of pig iron cost? I mean per ton of pig iron cost? I mean let's say the cost of pig iron in Q1 per ton, what was the cost of coke?

Subhra Sengupta: That would have got two factors, one is the coke price, what is our efficiency. If you see that what MD had said the coke price was substantially higher and it was almost Rs. 53,000-54,000**.** He has also mentioned that in this quarter we have taken shut down of both the furnaces in one quarter, which has led to our poor performance. So, in that if we talk about Quarter 1 numbers that will not give any indication about the number. We need to see what the normalized coke price is and what is the standard fuel rate and the efficient price, according to which we calculate our coke cost per ton.

Sandeep Kumar: So, let me just try and give you some, make you some numbers, give me some sense what were the numbers. Let's say if 600 kgs is if somebody is using coke of 600 kgs, let's say and the coke price today is let's say 40,000. I tell you it will be more like 42,000-43,000 I am just for simplicity as given round of number. 40,000 into 600 kgs is 24,000. So, 24,000 would be per ton of pig iron. That is the cost of coke. Against a pig iron price which is slightly less than 50,000.

Falguni Dutta: Current price is around about that, the number you mentioned for pig iron?

Sandeep Kumar: Correct. That's what I said. The foundry that pig iron prices are today less than 50,000. Could be 48,000-49,000-50,000 depending on the market while the coke cost per ton today if I assume 600 kgs, it will dependent, there is as the previous participant said there's also PCI and all that so I'm just simplifying, I am saying if you only use in coke then and if your average number is 600 kgs then you would spend Rs. 24,000 per ton of pig iron.

Sahil Sanghvi: Yogansh Jeswani, you may go ahead and ask your question.

Yogansh Jeswani: If we look at pig iron as a whole it is typically very volatile in terms of margin unless one has iron ore integration. And we also have DI pipe as an advantage so we can use our pig iron production into DI pipe and continue to maintain stable margins. With this expansion why didn't the management go for a higher DI capacity and utilize the entire hot metal production and make our margins more stable as a company overall and if you could also share, going forward will you be doing that directionally like putting in more DI pipe capacity and reducing the pig iron sale that we do to outside market or do we want to continue making some sale of pig iron and DI?

Sandeep Kumar: Theoretically you're right, DI pipes did see a margin of (+20%). Pig iron will give you more like 10%-12%. But what happens is that it's a balancing figure as well. You can't have absolutely one-to-one, number one. Number two it also diversifies your business and when the business is good so for pig iron with last year, we had spreads of almost Rs. 20,000 per ton, we've made Rs.135 crores profit. That was mainly because of pig iron. So, I think in for both these factors keeping some amount of pig iron is always good and specially because pig iron when we compare on a volume of Rs. 3 lakhs or Rs. 4 lakhs tons then your margins are lower but when the volumes come down to 1,00,000-1,50,000 your margins are much higher because then you're serving geographically proximate markets and where we command a much better premium, freights are much lower. So, then the margins are much better only between 15% and 20%. It's not so bad unless volumes are very large. Does that make sense?

Yogansh Jeswani: Absolutely. One more question on the overall strategy side, while if we go out to get our own iron ore mines when we had the understanding of how to run because of Tata Steel and also the cash balance goods are and that would have been a very logical step for us?

Sandeep Kumar: We get our iron ore from Tata Steel mines. Most of the iron ore that we get is from Tata Steel mines and we are not into mining so we will have to open up another vertical. It requires management bandwidth. You need to have scale. Earlier what happened the mines were only for captive purposes; we could not sell. It's only recently that the government has allowed. So, you would produce, have an iron ore mine but then not able to scale it up because your volume requirements are lower. All these factors led us to not invest in a new mine and stick to our basics which is to produce pig iron and DI pipes.

Subhra Sengupta: I just want to add one more point that it is good that we have so far not invested. If you see the last year or last year to last year, the iron ore mines got auctioned at the rate of 90% to 130% value and on those mines, one of the biggest kind of thing that the trader who used to have 3 to 5 million tons kind of turnover now got totally the mines got stopped. Lot of premium because of the high royalty they have committed to the government, they had to reduce their production or cut down the production. That is one point. In addition to that, that those were taken on that time is traveling a lot because the market price have crashed like anything.

Sandeep Kumar: What he is saying there was too much of competition for the mines which resulted in obnoxious bidding, there was a bidding war and people have bid all extremely high numbers. They've now landed themselves in trouble because that's their commitment to run the mine and to pay to the government. So, in a hindsight in a way it was a good decision.

Yogansh Jeswani: Last question from my end. After this DI pipe capacity comes up on stay, do we have more land available at the current facility to go for the next level of expansion or will we need a Greenfield land side for next level of expansion, 2-3 years-4 years down the line, whenever that happens?

Sandeep Kumar: We don't have too much of land. We think we can accommodate something more there in Kharagpur. We are still evaluating but it's going to be a little tight. In any case if you want to build something of our scale, we will have to go outside. We have been looking for further expansion outside, we are evaluating and as and when we find something interesting; we will obviously let you guys know, let the market know. But as of now we don't have anything firm either in Karagpur or outside. In any case in Kharagpur the expansion project is still on. The first phase is more or less completed. The second phase will get completed next year.

Sahil Sanghvi: Sanjay Malik, you may unmute yourself and ask the question.

Sanjay Malik: I just wanted to come back to the earlier question of the merger and I know you can't comment on timeline because it's a complicated and long drawn process but what's happened in the last 18 months is that I mean the world has become a very different place, since you announced the merger. Whether it's political, economic, regulatory, everything seems to have changed. Now looking back 18 months, all I wanted to understand is that you would obviously have had a strategy and decided how complimentary the two businesses are and what the synergies are and what the aggression to your overall earnings per share would be. I just wanted general feedback if that's possible on in standing here today, do you feel that all the assumptions that were made, have are generally favorable today or haven't changed much or are worse compared to what was the basis of the merger 18 months ago?

Sandeep Kumar: Sanjay thank you for the question but I'm sorry, I will not be able to comment much on it. This is handled primarily by our parent, Tata Steel so it's best to put them this question and they will be able to respond to you. On the timeline or also on the what is how they see it. Please excuse me but really not in a position to respond to this question.

Sanjay Malik: So, the decision making for the merger is entirely driven by Tata Steel. I mean the two merging companies therefore don't really have a say in the matter, is that right?

Sandeep Kumar: The company, we are a listed company. Obviously, we have a say, we will not say that but I'm saying the justification and the strategy is a group decision. Because you're asking me about the group strategy and because the timelines have been getting extended therefore, I don't want to make any comment. Every time I say doesn't get fulfilled so I have actually got embarrassed too many times so that's the reason I am saying please excuse me. So let it take its own course. In any case whatever is there Tata Steel will in any case announce it, communicate to you. I don't want multiple channels confusing the market. It is from that perspective also I'm just trying to say that we would not like to comment. Don't get me wrong. It's just from that perspective.

Sanjay Malik: No, I fully understand. The only point is that unfortunately there are two sets of shareholders one of Tata Steel of which I'm not a shareholder. It's difficult for me to relate into the two companies. Is there some way that someone can connect? Can we connect to Tata Steel or can they put out something that confirms that the basis of the merger is still intact? Is there some communication of any kind that can come out?

Sandeep Kumar: Yes, I'm sure Sanjay, they will come up with some communication shortly and I appreciate your point that you are a Tata Metaliks shareholder. You will get to hear something sooner than later that much I can tell you. I just don't want to as I said, don't want to have multiple communications and also because of the bit of ambiguity in terms of the timeline. There's no point in my talking about it. It's for that reason that I'm not saying that but I have my understanding of that communication will come sooner than later. Just hold on for some more time. If you don't get to hear from us sooner than later and that sooner than later would mean next few months, then please feel free to formally write and we will try and see if we can get you a considered response.

Sahil Sanghvi: Thank you. That's all sir for today. Just wanted to thank you for very patiently answering all the questions you and Subhra Sir and also thanks to all the participants for participating in the call. Sandeep sir or Subhra sir would you like to give any closing comments?

Sandeep Kumar: Thank you Sahil. I think it was a good question-answer session. I hope we have been able to clarify a lot of points. On the DI pipe business, we didn't talk much but I just want to close saying that in terms of the order books, we are currently at about 7 months. But as I was mentioning that Quarter 3 onwards, I see a big thrust and in terms of industry order book, currently it's about 1 million tons and there is about roughly 1.5 million tons or rather 2 million tons of orders being negotiated currently. 1 plus 2 will make it 3 million tons. This is a clearly visible order of the industry. 1 million tons in hand and another 2 million tons under negotiation. There is another 1.5 million tons which is out for tender but bidding has not yet happened and another 1.5 million tons where projects have been announced but bidding has not happened. So, a total of 6 million tons of DIP is visible to us whether ordered, whether tendered or whether at project stage. Therefore, from a demand perspective the DIP is going to be pretty strong and therefore we from the industry feel very strongly about the bright, I would say prospects of the DIP industry going forward. With this I would like to close. Thank you very much Sahil and Monarch for hosting it and to all the investors for hearing us patiently. Thank you. See you soon. Bye-bye.

Sahil Sanghvi: Thank you, bye.