"Tata Metaliks Q2 FY2018 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Tata Metaliks Q2 FY2018 Earnings Conference Call hosted by Centrum Broking Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" and then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Abhisar Jain from Centrum Broking. Thank you and over to you Sir!

Abhisar Jain: Thanks Remo. Good evening everyone. On behalf of Centrum Broking, I invite you all to the Q2 FY2018 Conference Call of Tata Metaliks. We are pleased to host the senior management of the company today and we have with us Mr. Sandeep Kumar, the MD of the company and Mr. Subhra Sengupta, the CFO. We will start with the initial comments about the results and the future outlook about the company and then we will open the floor for Q&A. So without much delay now I will hand over the call to Mr. Sandeep Kumar. Over to you Sir!

Sandeep Kumar: Hi Abhisar. Good evening to all the investors. First of all thank you and thank all them for showing interest in Tata Metaliks and joining for this concall. I would like to begin by just mentioning that the Q2 despite being a monsoon quarter and despite being a difficulty quarter, we have done reasonably well. Sales of pig iron increasing from 52000 to 53000 tonnes to almost 82000 tonnes. There has been a slight drop in the sales of DI pipe, but that was expected as you would have heard from me in the month of July after our last quarter results that then the GST impact, is having a toll on the DI pipe industry and not surprisingly July was bad. August was mediocre, but September we made up a lot and the quarter on the whole was along the expected line, but obviously a bit lower than Q1. On the whole, the EBITDA has been better from Rs.60 Crores it has moved up to Rs.67 Crores and the PBT from 39 to 45.5. So that is the overall story and I can talk a bit more about the PI and DI pipes separately. For example if you look at the pig iron business the spreads that we got in quarter one and when I say spreads it is the gap between the pig iron prices and the coke price because coke is the major constituent of the cost of pig iron moved up from roughly Rs.700 in Q1 to almost Rs.2600 in Q2. This along with a 30% higher sales of pig iron in Q2 helped us achieve this increased EBITDA despite a slight drop in DI pipe, so this is the story of Q2 on a very brief discussion and I would welcome any questions anything specific that you want to ask.

Moderator: Sure thank you very much. We will now begin with the question and answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. We have the first question from the line of Saurabh Kapadia from India Nivesh. Please go ahead. Mr. Saurabh Kapadia you may go ahead with your question. Sir we can barely hear you if you could speak a little louder please.

Saurabh Kapadia: Sir Can you provide us with the sales volume and production date of DI pipe for this quarter?

Sandeep Kumar: The sales volume for pig iron is about roughly 82,000 tonnes and for the ductile iron pipes is about say 45600, so the exact numbers have been circulated in the press release, but just to give you more or less the exact number 81896 pig iron and 45629 ductile iron pipe as against 52731 of pig iron in Q1 and 49036 of ductile iron pipes in Q1. Did you get it or should I repeat.

Saurabh Kapadia: No got it.

Sandeep Kumar: It has been quick. I think we have given the press release a little while back. The board meeting continued a little longer than what we anticipated and so this got a bit delayed, but the press release has been sent and I think Abhisar should be able to circulate to all of you if you have not got it already.

Moderator: We will move to the next question. The next question is from the line of Bhavin Chheda from Enam Holdings. Please go ahead.

Bhavin Chheda: Good afternoon Sir. Sir a few questions if you can comment on the DI pipes and pig iron spreads also how they have been in the quarter and how they have moved up on a quarter-on-quarter in a Y-o-Y basis my first question. The second on the industry trend for the DI pipes how the demand has been post GST and what is your outlook and the third, any expansion plans you are looking at DI pipes and what would be your three year road map for the DI pipe business?

Sandeep Kumar: As far as the spread is concerned as I just mentioned a little while back for pig iron the spread between the pig iron prices and the coke price has moved up from Rs.700 in Q1 to say close to Rs.2600 to Rs.2700 in Q2. That is for pig iron. As far as the ductile iron is concerned, we normally do not calculate the spread as much, but just to give you a sense, the prices were more or less the same as in the last quarter, but the input cost because the hot metal is transferred from pig iron to ductile iron, so in line it is all market linked, so even though the two are division, but we do a market link pricing for transfer though the cost input for the ductile iron went up because of the increase in pig iron prices in Q2 compared to Q1 and that increase although it is a marginal increase, but still it impacted the ductile iron pipe EBITDA, so therefore you will see in the segment results that the EBIT for ductile iron pipes has more or less remained the same, it is Rs.29 Crores. It is reduced to Rs.28 Crores. It has more or less remained same despite a fall in volumes because of the improved cost efficiencies. If you see in the press release, we have mentioned about cost efficiencies, so we have reduced the conversion cost in Q2 compared to Q1. So that is made up the increase in transfer prices and the drop in sales and therefore the EBIT of Q1 and Q2 are more or less the same, there is a slight drop, but nothing very significant. So that was your first question. What was your second question?

Bhavin Chheda: Demand scenario of DI pipes and what is your outlook in your three year road map if any expenses you are doing?

Sandeep Kumar: So the demand specifically in the Q1 and Q2 and Q2 in particular because of the monsoons because at project site the work does not happen, so therefore the demand in Q2 relatively remains muted and then there are festivals. So, October also has been hit by festivals, so the demand has been a little I would say the supplies have been a bit sluggish. Ductile iron is not a spot market, so typically the order booking takes place over a six months, eight months, and nine months period, but what happens is that the actual dispatches, which then translates into sales that gets impacted and October has been impacted because of that because you know because of the Diwali festivals and Durga Pooja, etc., but this would get made up in November and December and therefore in Q3 we expect a reasonable uptake in demand compared to Q2, but basically as we are going forward December, January, February, and March are going to be the good months. That is how it usually works and so we see a good pickup in demand as we go forward. As far as a three year road map is concerned well, I think we had mentioned earlier that we are studying about various options, so we have done some studies. We have today discussed it also. The board has reviewed it and has given some directions in terms of where to grow and how to grow, etc., so we will be kind of evaluating now various options in terms of the details. The strategy is clear. We would like to grow and the growth, where, how, etc., has been worked out at a high level. It has been discussed with the board and after the board review, we would be going ahead. So as far as public information on that is concerned, we would be in a position to tell you more firmly fully in a quarter or two, but we are now having a clarity on what I would say direction in terms of where we want to go.

Bhavin Chheda: Thank you Sir.

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

Sumangal Nevatia: Thanks for the chance. First, Sir during the last cal you mentioned there were some issues with respect to GST. You are awaiting some clarity by a few states, so what is the status on that? Are all the issues behind us now?

Sandeep Kumar: Not all the issues, but most of the issues. I think most of the states we have been able to get a lot of clarity, but there are still some states where the clarity has not come in and there are parts of those order, so what has happened is basically the implications of GST and just to repeat in case some of you may not have heard earlier is that earlier there was excise duty exemption on ductile iron pipes for project. Now with GST coming in that exemption has gone, so all those contracts, which were signed before July 1, 2017 and where the clarity was not there in terms of who bears this additional burden of GST is where the confusion was and therefore in Q2 particularly in July that confusion lead to almost stalling of dispatches, but as far as we are concerned, we were able to make up a large part of it in September and some in August. Most of our contracts I would say have got cleared, but there are still I would say at least 20% to 30% of the contracts where we still need to get clarity and there have also been some renegotiations because GST impact means who will bear it, so all those things have happened and that is also another reason why Q2 was a bit on the lower side relatively speaking compared to Q1, but as we go forward things are getting better and better and hopefully most of it would get resolved in Q3.

Sumangal Nevatia: Understand. Sir second if you can share what is the update of the PCI project when could it start contributing and what could be the potential cost saving from it?

Sandeep Kumar: So the PCI project is on in full swing. Typically it would take almost about 18 months to complete it. We are trying to see if we can complete it earlier, so we have already ordered for imported equipment. We have already placed some order and so that was a vital one. We are working on the rest of it, so we are on track. In fact, I would say we are wanting to complete it before that before 18 months, but as you know this is a project, there is monsoon and there are some uncertainties, so to give an accurate picture right now it is difficult, but as per plan it was 18 months and we are trying to complete it much before 18 months is all I can tell you. As far as savings are concerned, 18 months.

Sumangal Nevatia: From which month?

Sandeep Kumar: So when we got our last when we started it say about three months back or something. So it should definitely start giving us benefit in the next financial year. Which quarter of next financial year is something, which we can maybe tell you more accurately as we approach closer, but definitely we are targeting to do it before 18 months and right now we are on track on our internal target? As far as saving are concerned, the savings are pretty clear. We will replace one is to one, one tonne of coke with one tonne of PCI. The prices of coke today for example are about $350 and PCI is would be say $120, so you can clearly see the difference.

Sumangal Nevatia: We will be able to replace 100 kg?

Sandeep Kumar: So you can target say 80 kg for sure and then go down extra, so 80 kg in many blast furnaces typically can do that. Like Tata Steel Jamshedpur does more than 200 kg, so we are trying to learn from them and we will learn from them in the sense, since it is not yet installed. Once it gets installed, we are in touch with them. We will see how to take it up, but I think let us be conservative and target 80 kg at least.

Sumangal Nevatia: Understand. Sir the next question with respect we heard there are some sick units on the block and even we are evaluating inorganic expansion, is it possible to share any update on that?

Sandeep Kumar: No I am sorry. I will not be able to tell you anything on that. All I can say is that we are evaluating both organic and inorganic. We have done some studies. We have recommended to our board. Board has given some directions. We are now working on the details, so as soon as we have something more concrete, I will be able to tell you. At this point of time, it is a little premature.

Sumangal Nevatia: Understand. Thanks. I have a couple of more questions, but I think I will get back in the queue again.

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

Raj Gandhi: Thanks a lot. Sir could you elaborate a bit on the pig margins, how are they behaving and your outlook on the same?

Sandeep Kumar: Which one Raj sorry I did not get you.

Raj Gandhi: The pig iron margin Sir?

Sandeep Kumar: Pig iron, so pig iron the Q2 has been good for us because as I mentioned both the volumes and prices have gone up but more than prices I think what is important in pig iron is the spread. I think if you handle the spread well, which is the input cost is coke, which is the big cost and the finished good is pig iron price that spread I mentioned to you has moved up by almost Rs.2000.

Raj Gandhi: Was that because of the inventory effect of having a low price coke so to say in that sense? Was there then some sort of inventory gain in this?

Sandeep Kumar: No, so the price is dependent upon two factors. One is that what the impact of say the raw material itself is. For example today, you will find the spread between coal and coke to be unusually high. This is our spread. So that is one factor that is a cost push factor. The other is the demand factor of pig iron on the market front. Depending on the two and also there is a sentiment, which is a third angle, which comes in, which comes in because of volatility, so how the market is going to be. So that is volatility angle and thus therefore the sentiment, so these three factors combined lead to… for example I will just give you an example. If you look at the last eight years' or nine years' history of the pig iron and coke spread the average is say Rs 4500 per tonne. If you look at Q1 of FY2017 the spread was Rs.8000. From Rs.8000 it has come to Rs.700 in Q1 of FY2018 and now it has moved to Rs.2600 to Rs.2700, so because of the volatile coke prices this unusual thing has happened, but on the long run, moving average could be Rs.4000 to Rs.4500 per tonne.

Raj Gandhi: Okay. Got it great and Sir just on this expansion sorry I missed it as you said that internally now we have a lot of clarity on that and you mentioned about giving some clarity in a quarter or two, so just as for now is it possible to share just here now is it going to be Greenfield or Brownfield at least that much is possible to share right now?

Sandeep Kumar: See we need to get something cleared and from our corporate governance point of view, I cannot share with you anything specific. I need to get something cleared by my board on a very specific business before I can share. All I can tell you is we are evaluating all options to grow. We are on firm footing and positive footing, so the rest you can understand.

Raj Gandhi: Got it. Great Sir. Thank you.

Moderator: Thank you. The next question is from the line of Jimesh Sanghvi from Principal Mutual Funds. Please go ahead.

Jimesh Sanghvi: Hi Sir just wanted to get your sense on the pig iron volumes. We have done almost 30,000 tonnes higher this quarter, so is it purely from the inventory that was lying at our plant or probably, so how should we look at the full year production and sales volume for pig iron if you can share some light on that?

Sandeep Kumar: It is a small quantity from the inventory, but basically from the increased production. If you look at it, we put up virtually a new blast furnace last quarter of last financial year. So the blast furnace was commissioned in March and then Q1 it is always ramping up. It is the quarter when things do not always go right, so Q1we struggled a bit with the blast furnace, but there are various other equipments that were to come up along with it. I would say ancillary supporting kind of, so there were some I would say enablers let me put it not equipment. So some of those enablers were put in place in quarter by the end of Q1 and may be early Q2, so therefore you had more or less the targeted production in Q2 and that would continue and in fact would hopefully improve in Q3 and Q4 both in terms of cost and in terms of production, but just to answer your specific question, we sold 82,000 tonnes in Q2, which if you look at it purely from a production point of view that would take care of almost the entire production or may be little more than the production, some amount of inventory was eaten up and most of the production was sold.

Jimesh Sanghvi: So if I have to look at say for the full year as such we should be in a position… saying for FY2019, we should be in a position to produce pig iron close to around 5 lakh tonnes?

Sandeep Kumar: Yes hot metal.

Jimesh Sanghvi: Hot metals of 5 lakh or 4,50,000?

Sandeep Kumar: 5 lakhs and second thing, on the other expense part there has been a sharp drop on a sequential basis as well as on a year-on-year basis, so anything in terms of one-time gain or something, which has been there or it is purely some operational parameters?

Jimesh Sanghvi: So I will just request Mr. Sengupta, our CFO to respond to that.

Subhra Sengupta: In the last quarter also, we have said the last quarter base is a little higher side because of the change in inventory the corresponding change in excise duty, which was a contra based in the last quarter Rs.9 Crores and there was one-time expenses in the last quarter about the repair and maintenance of Rs.3 Crores. Current quarter, the base has been a higher base, which is showing much lower. Only one thing is one time this quarter that is we have got a reversal of provision for doubtful debt of Rs. 4.7 Crores.

Jimesh Sanghvi: Rs.4.7 Crores?

Subhra Sengupta: If you see on the EBITDA we have improved on the cost efficiency. Therefore, we have improved on the consumption and on the repair and maintenance, so that is on a quarter on quarter it has come down.

Jimesh Sanghvi: You said your full year volumes on the pipe segment also can we expect something closer to 2,20,000 to 2,30,000 to be a kind of a peak volume on the pipe segment for the next two years?

Sandeep Kumar: I would say you should keep a number of about 2 lakh plus how much extra we can go will depend upon a number of things depending, so you can produce more or less depending on the size mix. We can give you a number and the size mix is not as per the **(inaudible) 24:15** so therefore we always say name plate capacity of 2 lakh. 2 lakh can become 2, 5,000 or 2, 10,000 whatever. It can also come down to 1,80,000 or 1,90,000 depending on the size mix. I think you should look at a number of 2 lakhs. 5 lakh for hot metals and 2 lakh DI pipe.

Jimesh Sanghvi: Sir lastly how are the spreads right now on the pig iron vis-à-vis coking coal as we discussed our talk in October, has the pig iron prices corrected of lately or the spreads remain as 2500 or something higher than that?

Sandeep Kumar: So both coke prices and pig iron prices have dropped somewhat, so coke has come down some say $381 to $382 to say $350 and pig iron has also dropped by say about Rs.500 to a little more maybe. So both have dropped. Spread in fact better or more or less same or slightly better, but I think it is a little spot market, so as we speak this is what it is.

Jimesh Sanghvi: And we largely sell in the spot market, there is no long term contracts or anything on the pig iron front?

Sandeep Kumar: No. Pig iron is purely spot.

Jimesh Sanghvi: Okay, fine Sir. Thanks a lot.

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

Vikas Singh: Sir just wanted to understand when you take the orders, so the prices of your DI price is it linked to pig iron and therefore it is like off and on any fluctuation in pig iron or raw material prices can have impact in your future, any possibility?

Sandeep Kumar: Yes so typically the ductile iron pipe what happens is that that something the order we book and that order is normally executed over six months or eight months over a longer period, so it is not a spot order, but it is a long-term order. Now therefore the finished goods price is fixed. Therefore what we need to do is to focus on the raw material prices, so that we can fix that or reduce that. That is the objective is it not, then only you can have the spread the margin. So in the case of pig iron the finished goods prices also change, but in the case of ductile iron pipe that remains constant for an order, for a contract because the contract is executed over a longer period of time and therefore what happens is for us the raw material is iron ore, coal, and coke, the main key raw materials. Now what happens is that the iron ore we have typically a long-term contract and we buy mostly from Tata Steel. It is a related party transaction, but it is at arm's length and it is linked to the market price, but market price also there is a spot price and there is a long-term price so it is linked more to the long term, so to that extent the volatility is somewhat limited there. Then comes the coal and coke, so we have our 40% of our coke consumption is captive, which means we produce the coke ourselves through a BOOT arrangement that we have in our plant and the coal is imported by us, the coking coal, it is mostly from Australia. So therefore the volatility is limited to the coal price only. The balance 60% is open and that is what we buy in the spot market coke, but what we are trying to do is to link up that also on long-term about another 30% to 40%, so that at least 70% to 80% of that of our coke consumption is on long term, so I can tell you more on that as we get the approval of our shareholders whom we have sought because that is also a related party transaction and it is basically buying from Tata Steel on long-term basis and there also the price would be linked to coal and not coke. So that way what happens, we are able to limit our exposure to only coal prices and not both coal and coke. I can tell you more about this in the next quarter or something whenever we do next because once let it get approved by the shareholders and then I can tell you more about this in the next quarter or something whenever we do because let it get approved by shareholders and then I can tell you.

Vikas Singh: Sir, it is a good assumption given that the orders you would be executing in 3Q that would have been taken one or two quarters back when the coking coal prices are very high, so since while the time you are executing the coking coal prices have come down, so you can have better space going forward?

Sandeep Kumar: Yes, so what happens is that if the coking coal prices come down, our costs come down while our prices are fixed obviously the spread increase as well. The coking coal prices can also go up to that extend the exposure remains to raw materials. That is what I am trying to explain to you saying that iron ore is less volatile and also covered a long-term contract. In coke, we are covering almost 80% of our coke consumption on long-term and linking it to coal and not to coke. Earlier it was linked to both coal and coke. We still have the exposure to coking coal prices, but not to both coal and coke, do you understand, so rather we are trying to remove another element from the volatility, which is coke price. This would be better half, but we will not be completely protected.

Vikas Singh: Sir understood and Sir what would be our current order book on DI pipes?

Sandeep Kumar: You can assume about eight months.

Vikas Singh: Sorry Sir I missed that?

Sandeep Kumar: Eight months.

Vikas Singh: Eight months, basically we can have over 1 lakh tonne right?

Sandeep Kumar: Yes certainly.

Vikas Singh: Fine Sir that is all from my side. Thank you for taking my questions.

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

Dhruv Bhatia: Thank you for the opportunity. My first question is the bookkeeping question, could you just, you the mentioned volumes of DI were 45629 versus 49000 that is sequential number right that you have given, could you give us some same quarter numbers?

Sandeep Kumar: Which one?

Dhruv Bhatia: Q2 FY2017 volumes of DI?

Sandeep Kumar: You want to know the volumes?

Dhruv Bhatia: Yes.

Sandeep Kumar: For the sale volume last quarter was 49000 and this quarter is 45629.

Dhruv Bhatia: Sir, I am asking for Q2 FY2017.

Sandeep Kumar: Q2 FY2017 was 37731.

Dhruv Bhatia: Could you give the same number for pig iron as well?

Sandeep Kumar: 66403 in Q2 FY2017.

Dhruv Bhatia: This is the external number right?

Sandeep Kumar: Have you understood or shall I repeat?

Dhruv Bhatia: No, I got the number 37731 is Q2 FY2017, DI volumes and 66403 is pig iron in Q2 FY2017 volumes.

Sandeep Kumar: Right.

Dhruv Bhatia: These are external volumes right in pig iron?

Sandeep Kumar: Yes.

Dhruv Bhatia: Sir, second question was that you mentioned right now was on the 40% of your coke is manufactured in-house, what scope do you have, what levels can you go up to for manufacturing it in-house?

Sandeep Kumar: Sorry, I missed your call, actually there is a call from media house also I just trying to sorry for that, can you repeat it sorry?

Dhruv Bhatia: Sir, you just mentioned in the previous call that 40% of the coke is manufactured in-house.

Sandeep Kumar: Yes, correct.

Dhruv Bhatia: Till what level can you go up to, what percentage in terms of manufacturing it in-house so that you?

Sandeep Kumar: As of now we are 40% is what is our capacity, so we cannot go anything more, but what we are trying to do is to have a long-term arrangement with Tata Steel for purchase of coke linking it to coal price for which we have to sort shareholders approval. So once we get the approval because it is a related party transaction.

Dhruv Bhatia: What level can it reach Sir?

Sandeep Kumar: About 80%.

Dhruv Bhatia: Up to 80%?

Sandeep Kumar: Yes.

Dhruv Bhatia: Sir, in terms of you said that since the spreads of pig iron prices have gone up have you seen any increase in prices of DI pipes for the current orders that you are getting?

Sandeep Kumar: Any increase?

Dhruv Bhatia: Yes.

Sandeep Kumar: Not really. I think our contributions are quite healthy, but we have not seen any increase, but I would also tell you the reason for that is because quarter two has been a bad quarter for DI industry. In fact if you look at the inventories of some of the other players, my suspicion is they are at a much higher level. Everybody has been struggling. I would think we are much more reasonably placed in terms of both inventory and sales, so quarter two has been a really bad quarter for the industry and therefore I do not think people would have got better prices. In fact we have refused to take lot of orders because of lower prices rather live with the old orders than book new orders at lower prices and you know when things are bad people sometimes get desperate so may be some people may have sold, but we have not. We continue to hold the price.

Dhruv Bhatia: So whatever we say there is a pricing pressure currently for industry?

Sandeep Kumar: It was there in quarter two and that is why in quarter two we did not booked much though we did book orders, but not much, but I think as the season changes and as you go forward things will improve.

Dhruv Bhatia: Last thing is on demand environment how do you see the industry growing for the ductile pipes is there about 15% type volume growth that can be expected for the industry or what type of growth are you anticipating for the industry as it?

Sandeep Kumar: The numbers that has been touted is anything between 10% and 15%, optimist say to 15%, pessimists like Tata Metaliks say should be 10% if I can say that so it will be anything between 10% and 15%, it is difficult to say, I think there is a factor, I think we just take a broad number and range say 10% to 15% that would be more reasonable to say.

Dhruv Bhatia: Sir, in last call you had mentioned that whenever you plan to expand the capacity for DI it will probably take around 18 months for you to set up in your facility?

Sandeep Kumar: Yes, it may be 18 to 24 months.

Dhruv Bhatia: So you know you have mentioned that you can go up to 2 lakh plus volumes, plus-minus 10000 for DI pipes, so that means that you will be limited for growth for FY2020 on onwards right, if the industry continue to go you will continue to lose share because you may constraint with volumes?

Sandeep Kumar: You can, but this not the only way to grow.

Dhruv Bhatia: Thank you.

Sandeep Kumar: Thanks.

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

Abhisar Jain: Sir, my question is on the DI pipe industry again so if the demand growth is still holding up say at even 10%, then we are talking about yearly addition in volumes of the industry at anywhere between 1.5 to 2 lakh tonnes, so where is the supply coming for this kind of volume because it seems for next year there is not much of supply growth from the existing players including you, so what is your take on that?

Sandeep Kumar: Industry capacity utilization is not very high now. It is about 70%, 75%, so we can easily produce more.

Abhisar Jain: Some of those players who have not been able to produce like the Sathavahana Ispat and the Jai Balaji Industries they seems to be having working capital issues and debt issues and the NPA issues, so do you think that there will be a catch up in production from those companies or will it be more from the stronger players also having lot of capacity, which is still not utilized?

Sandeep Kumar: Yes, I would think you know some amount of rationalization of the industry should happen logically because you cannot have so much of our valuation somebody having less than 70% capacity utilization, somebody is having 100% like Tata Metaliks so obviously there will be some amount of I would stabilization going forward, but it is an opportunity for the entire industry to have a healthy growth and healthy margins going forward, so people would, other suppliers are quite smart. I would not say that they are not also looking at opportunities and there would also be some amount of addition in capacity, which could come up I would think, logically if the industry is growing then people would obviously from 70% capacity utilization, as it inches up towards 80 and 90 people would invest, people would not sit idle, what happens is typically that where the growth is happening and from where you can service that is one factor and the other is the people tend to think whether the growth is really happening or it is happening in bouts or in phases or it is happening continuously, but also takes a toll, and third is of course the capital investment. People have suffered in the past and you know today about the NCLT cases, etc. Some people may be also a little constrained because of that, but going forwards as things improve people would invest I would imagine.

Abhisar Jain: Sir, actually the question was also coming from the angle that the DI pipe related pricing or realization in the DI pipe has not kind of moved up even when the raw material or the pig iron price because of the hot metal cost, cost of production has seen massive increases so when the demand is good and the supply is still kind of catching up because of several issues around capacity utilization and around struggling players, why the DI pipe realization not able to kind of grow up for the industry?

Sandeep Kumar: You know, the DI pipe, actually if you look at it the prices have been quite healthy, it is not that they have been healthy, the margins have been healthy for us also and may be for others, I think the last one or two quarters have been a bit of a struggle that is one. The other is there is iron capacity also, so to that extent people also tend to get a bit, there is an opportunity for them to increase production, the moment the market becomes a little constraints people may get into desperate and reduce prices, but on the whole the outlook to me looks positive and the numbers show that, but going forward we can be able to see how things pan out.

Abhisar Jain: Sure and Sir just one question for Subhra Sir, Sir there seems to be quite a bit of increase in the inventory and the receivables on the half-year balance sheet which has come out, so is that will be more of momentary basis and will adjust by the year-end or is there a trend there?

Subhra Sengupta: If you in the totality on H1, DI pipes total volumes have also increased by 20%, the average trade period is 45 to 50 days. Second is that what has happened in the quarter two is that DI pipe has become with GST so earlier the base 40000 now the base has become 46000. That has also increased the volume of the debtor and the pig iron the debtors have gone up because of the volume again. If you see the March versus June, March the volume of the pig iron sale was very limited, but in June it has gone substantially. In September it has substantially gone up. When it goes up, it goes to a distant market it is a bigger trade period with higher credit period. Inventory, lot of inventory is on the price impact because of the increase in the coke and coal price. So some extent it will get moderate and to some extent it would stay also.

Abhisar Jain: Sir, understood and Sir just last one what would be the capex guidance then for this year considering that we have only the PCI project and nothing else as such on board?

Subhra Sengupta: PCI we have capital project cost was around 50 Crores and we have started giving the orders to some extent 20% to 30% in the next financial year, rest would be mainly the customer care.

Abhisar Jain: The full year capex for FY2018 would be how much Sir, approximate including maintenance?

Subhra Sengupta: In H1 we have done 43 Crores and H2 we will be doing another 30, 35 Crores.

Abhisar Jain: That is all from my side. Operator we can move to the next questions please.

Moderator: Sure. The next question is from the line of Yogansh Jeswani who is an Individual Investor. Please go ahead.

Yogansh Jeswani: Sir, thanks for the opportunity. Sir, my question is regarding employee expenses that have gone up both Q1 and Y-on-Y can you just throw some light on that Sir?

Subhra Sengupta: An Employee expense on the Y-on-Y, which has gone up because of the volume has increased in the DI pipe so we have increased the number people.

Yogansh Jeswani: Even in QOQ?

Subhra Sengupta: Y-O-Y is the main reason and on the Q-O-Q we have also done the long-term settlement with our DI pipe workers and supervisors, we have made some arrear payment that is one time and also we have increased the number of people, bonus and things.

Yogansh Jeswani: Sir, is it safe to assume that this 26.8 Crores has the one time effect?

Subhra Sengupta: To some extent. That is approximate not more than 1 Crore to 1.5 Crores.

Yogansh Jeswani: Not more than 1 Crore, Sir on a yearly basis what should be factored in, percentage?

Sandeep Kumar: 90 Crores could be approximate, could be around 95 Crores.

Yogansh Jeswani: Sir, secondly I would like to understand a bit more on the POS machine, one of the POS machines, regarding receivable, so are you said that the GST issue increased the price and realization, and I have seen a higher receivable number so your working capital has also gone up to the same extent so can you just throw some light on how are we looking at on the debt with working upon these factors too?

Subhra Sengupta: The debtors have increased because of two reasons, one is that volume has gone up, second is the GST has increased the rate of 15% and the inventory also to the large extent for the coking coal and coke prices. On the debtors side we are working on the various enablers to reduce the book debts to some receivable purchase agreements, discounting of the LCs and as the coking coal prices are getting little bit softer we may see that little going into inventory also, but to reduce the debtors from the book and balance sheet we are trying to take various means to bring it down, this is factoring the receivables.

Yogansh Jeswani: Currently the same to the working capital short-term borrowings that has also gone up considerably around 98 Crores?

Subhra Sengupta: Short-term borrowing has gone up, but other financial liability that has come down substantially from 276 Crores to 199 Crores, but the other financial liabilities includes the current maturity of long-term debt so that has come down, but the point what you said is right, but what all the total borrowings from H1 has little bit one half predominantly because of the higher blockage in the working capital.

Yogansh Jeswani: Sir, what kind of debt equity ratio are we targeting by this year-end?

Subhra Sengupta: Our internal target is long-term target is 1:1, but we will try to bring it down initially by 1.5 times.

Yogansh Jeswani: That is it from my side. Thank you.

Moderator: Thank you. Due to time constraints, we will be able to take two more questions. The next question is from the line of Sunil Jain from Nirmal Bang Securities. Please go ahead.

Sunil Jain: Good evening Sir. Thank you for this opportunity. Sir can you talk about how do you see the order booking as of now in DI pipe segment?

Sandeep Kumar: It is about eight months you can take, seven to eight months.

Sunil Jain: So we are comfortably positioned in that. You said that you are lagging in order booking and all?

Sandeep Kumar: No, in Q1 also order booking was never problem, issue always there is, the order booking has to get converted into dispatchable orders which means that your purchase order is through but there is inspection, there is security payment so sometimes there is a mismatch, so orders will happen, but it may not happen in the month or in the quarter that you intend to happen that is where the problem comes in.

Sunil Jain: Okay, still few states you are negotiating and also whether the supply to them is there or it is on hold?

Sandeep Kumar: Wherever there is no clarity we are not supplying but actually we also supply not only to the municipalities but also to the number of contractors. So typically these issues are mainly between the EPC contractors and the government, which then in turn impacts us. So some contractors agree to take a hit, some contractors will ask us that you share the hit and some will ask the government to take a hit, so it is a three way process. Depending on what has been contracted, how it has been contracted. So lot of it has been cleared, but some of it I was saying about almost 20%, 30% of orders are still under I would say discussion from a GST point of view between the contractor and the government or between the contractor and us.

Sunil Jain: Are we likely to take any hit on any of these existing whatever wherever the negotiation has happened in that?

Sandeep Kumar: Some hit we have already taken, some hit in the sense we may have lost some orders but that is a small nothing very major and with the comfortable order book of eight months it does not matter even if you lose 90%, but I am saying obviously 20% means not 20% would be lost, may be 5% might get lost I am just saying number, I do not know because some discussion is happening. Since we are in a comfortable position at the moment, so normally it should not hit us because 20% is a normal thing, 20% of your orders in any case all the time you are either booking or negotiating or whatever it is okay parallelly we are also booking orders, so it is not a big deal.

Sunil Jain: Lastly things can you share exactly how much is the gross debt including this maturity?

Sandeep Kumar: Sorry gross?

Sunil Jain: How much is the gross debt?

Sandeep Kumar: Rs.517 Crores.

Sunil Jain: Thank you.

Sandeep Kumar: This includes Rs.100 Crores of preference shares.

Sunil Jain: Thank you.

Moderator: Thank you. We will take the last question from the line of Paras Adenwala from Capital Portfolio Advisors. Please go ahead.

Paras Adenwala: I joined a little late so if I am repeating some questions please pardon me. You sound quite positive on outlook and yes going from what the governments have been announcing looks like the scenario seems to be reasonably good at least in terms of announcements. So in terms of actual execution on the ground, how do you see the outlook now you may want to say that okay looking at the way our turnover shaping up looking at the way we are expanding our capacities, the outlook seems to be pretty promising but this is based on the announcements of the government is giving or you are actually seeing good amount of happening on the ground?

Sandeep Kumar: The fact that we have about eight months of order books means that we are comfortably placed and we are also booking orders continuously and we are coming out of a situation when we have seen one of the bad quarters. This last quarter was one of the bad quarters okay in the recent past. Partly because of the fact there was monsoons and end of festivities etc., and beginning of the festival season partly also because of that and partly because of GST, so I would think the best way to look at it is to wait for some more time and see how things pan out. As of now if you ask me I only see things in a positive frame of mind because we have come out of last two quarters, which are not the best of the quarters. So traditionally Q3 and more importantly Q4 are the best quarters. So going forward on an annual framework thing should be better I would say how much better I cannot tell you but certainly better and on a long-term basis if you see that is where if you are hinting saying government projects. The government projects for us if the government projects mainly so we are serving either the government municipalities government directly or through the contractors who are serving the government. So the order flow is very reasonable and in fact I would say well and it continues to be good despite the last quarter being not so good.

Paras Adenwala: If you have to split up the order book geographically which are the states, which really contributing the most in terms of business?

Sandeep Kumar: So for us always the eastern region and central region being friendly we like to target these geographies and these are the states where we have maximum of our orders. Eastern regions, Odisha, Bengal, Chattisgarh, Madhya Pradesh some extent Jharkhand so these are states where we would like to target the most and that is where most of the order books come from, but is not that other states we do not supply. We supply in South, we supply in West whether there is percentage we would like to sell more here obviously it is more favorable effect wise.

Paras Adenwala: So in terms of favorable outlook would you kind of generalized that it is across India or it is only few states especially in those states that you are operating in term?

Sandeep Kumar: We take orders all over not only in east but I am saying the predominance of orders is in this region that is why I am saying. So generally the outlook is positive. Now I am not specifying which states etc., because as I said what has happened is when you have 18% impact of GST the projects that was say supposing 100 Crores project was approved and 18% comes in on top of that project cost becomes 118 Crores so the government also some of them are struggling to resolve this dilemma, asks the centers for more fund, or trying to manage within the same so it is a bit of situation, which is little fluid situation so it is unfair to really take view based on this because many other states have been able to resolve and some more in the process of resolving. I would think up better picture would emerge may be after next three months and then hopefully all this behind us.

Paras Adenwala: Most probably in FY2019 you could expect acceleration in terms of order flows would it be fair to say that?

Sandeep Kumar: I would think that FY2019 should be better than FY2018, but for us we are restricted by volumes. We are already 100% capacity utilization somebody who is at 70% for him it is better.

Paras Adenwala: Finally these orders would essentially be for all the sanitation purposes or are there any other areas where ductile pipes are used?

Sandeep Kumar: There is water, sanitation, irrigation so drinking water then irrigation projects, drift irrigation and sanitation. These are three main areas.

Paras Adenwala: It would be essentially in urban areas or it is Tier-1 and Tier-2?

Sandeep Kumar: It is mostly bigger projects come go to Tier-2 and Tier-3. It goes to because bigger pipes coming in from the source of the river and water come in from there. In fact the Tier-1 you would typically the last mile connection is smaller dia and it is more HDP and the other pipes. Ductile iron pipes are for the long distance bigger dia pipe that mostly from the water source to the treatment plant and then the distribution.

Paras Adenwala: And large part of your business would be in larger dia?

Sandeep Kumar: Yes. Larger dia what we focused on, but we have mix I would say more or less 50-50 or 45-55 kind of but obviously larger dia is better.

Paras Adenwala: Thank you very much and all the best to you.

Moderator: Thank you very much. We will take that the last question. I would now like to hand the conference back to the management for any closing comments.

Sandeep Kumar: Thank you very much. I would like to thank Centrum and I would like to thank all the investors for taken their time on off talk to us and I hope the DI Industries and Tata Metaliks in particular keeps on satisfying rather meeting the expectations of investors. Thank you once again.

Moderator: Thank you very much. On behalf of Centrum Broking that concludes this conference. Thank you for joining us ladies and gentlemen. You may now disconnect your lines.