"Tata Metaliks Limited
Q2 FY2020 Earnings Conference Call"

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Moderator: Ladies and gentlemen good day and welcome to the Tata Metaliks Q2 FY2020 Earnings Conference Call hosted by Monarch Networth Capital Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I will now hand the conference over to Mr. Aalok Shah from Monarch Networth Capital. Thank you and over to you Sir!

Aalok Shah: Thanks Raymond. Good evening all. On behalf of Monarch Networth Capital we welcome you for Tata Metaliks Q2 FY2020 earnings call and the future outlook. From the management side today on the call we have MD, Mr. Sandeep Kumar and CFO, Mr. Subhra Sengupta. Without taking much of your time, I will hand over the call to the management team. Over to you Sandeep Sir!

Sandeep Kumar: The Q2 performance for Tata Metaliks has been I would say in some sense a mixed bag although quite disappointing in other sense. The sales volumes have increased for both our businesses, both pig iron and ductile iron pipes, it is 77000 tonnes of pig iron we sold compared to say 72000 in last quarter and as far as the pipes are concerned 56000 tonnes compared to say close to 54000 tonnes last previous quarter. If you look at the EBITDA, the total EBITDA came down marginally from Rs.49 Crores in Q1 to say Rs.46.5 Crores in Q2, but I think the interesting thing is the mix between the pig iron and the ductile iron pipe. Ductile iron pipe EBITDA has zoomed to 20% compared to 16% in Q1, but pig iron has been a big let down and had a negative margin and that has pulled down the overall EBITDA margin for Tata Metaliks from 9.8% in Q1 to say 9.1%.

Overall if I look at it typically our EBITDA margins have moved or have remained at a level of about between 14% to 16% considering about 20% for DIP and about 10% for pig iron that is the way it has traditionally been, but this sudden drop in pig iron is a result of the slowdown in the core sector of the economy which all of you must be pretty familiar with and I need not elaborate. Our pig iron is mainly going for auto and other engineering castings, which have been affected badly and that in turn has impacted our sales considerably.

In addition to that, our performance in pig iron operations has also not been up to the mark, we have had to shutdowns of both the furnaces and as you know each shutdown takes about five, six, seven days and also these ramp up takes up a lot of our fuel, so net-net we have been impacted mainly because of the market, but also because of our own operational performance and that has led to an negative EBITDA margin for the pig iron business. On the other hand, the ductile iron pipe business has done very well and it has continued to do well despite the monsoons and the heavy monsoon towards the end of the last quarter, which has continued in fact in some parts even in October, so that is the overall story. I think if I look at the outlook for H2 as far as we are concerned, we are very optimistic, I think the raw material prices have in some sense bottomed out or there are indications bottoming out, so the lag effect of the prices of raw materials would start reflecting in our spreads between pig iron and raw material and we are already seeing a much improved performance both operationally and from the market side in October for us. So that gives us the optimism, the performance of October and I do not know how things will behave because this is a very uncertain one how the raw material should behave, but at the moment it looks as if the raw materials may be bottoming out.

Ductile iron pipe as you know H2 is typically a better half and we think we can do much better than what we did in H1, although H1 itself I think was a record for us if you look at our historical sales, so on the whole, a lot of optimism for H2 that will depend I think to an extent on the pig iron market and largely on our own internal performance where I think we are much more in control in H2. I am finished with the opening comments and would be open to all kinds of questions and clarifications that you guys might have. Thank you.

Moderator: Sure. Thank you very much. We will now begin with the question and answer session. The first question is from the line of Saket Kapoor from Kapoor & Co. Please go ahead.

Saket Kapoor: Good evening Sir. Festive season greetings. If you could give us how the raw material basket has behaved, the description for the entire raw material basket for the quarter, how the prices have behaved?

Sandeep Kumar: When you say raw materials, I would say primarily if you look at it, the coking coal prices they have in Q2 come down compared to say Q1 and they came down to as low as $142 as a reference price, today the price is about Rs.150 and it has come down from 160, 165, so it came down by about $15, $20 in Q2. As far as iron ore is concerned, it has more or less remained the same may be there is a marginal drop in October, but otherwise it remained steady. As far as coke is concerned that has had significant drop, the market coke prices have come down from a level of about 25000 to 26000 to say about 21000, 22000 now. So, we have had a significant drop in coke prices, a reasonable drop in coal and more over a flat iron. That is the story on the raw materials.

Saket Kapoor: Can you give the price trend in pig iron in particular Sir in the absolute number terms, how have the trends been for, if you take Q1 versus Q2?

Sandeep Kumar: So, the pig iron prices would have come down from roughly 29000, 20000 to say 27000, 28000 in fact depending on the freight and I am talking about this in the eastern region. If you take it farther, then obviously the freight would get added up. So, you can say a couple of Rs.1000 drop, Rs.2500 drop in pig iron, but what happens is the pig iron price drop is immediate while the raw material price impact happens over a period of time, so if you try to work that out in a simple arithmetic manner, you will not be able to come out with the correct conclusion.

Saket Kapoor: The price trend for this month October has been in the same vicinity or have they moved up with respect to raw material also bottoming out?

Sandeep Kumar: No, so the pig iron prices have more or less remained the same, it is just a marginal drop or similar price, but raw materials now we will start getting the benefit of the fall, because obviously with the raw material prices there available, you have to buy and then it to get delivered. Supposing if it is coming from Australia and then when it comes in when you convert into coke, so there is a lag effect and that is why my optimism that H2 would be better because we are not seeing any major fall in raw materials now whatever had to happen has happened. Of course, I cannot predict that it will not happen in future, but I am saying at the moment the prices look stable in fact they have slightly strengthened for coking coal and coke is also now holding on about Rs.21000, Rs.22000. While pig iron is holding on say about 27, 28 I am just talking about is the foundry grade pig iron which we set. If you compare it to steel grade that is much lower may be 23, 24.

Saket Kapoor: But our mix is higher on the industrial grade and automobile grade?

Sandeep Kumar: Our prices are much higher as I said the foundry grade prices are 27, 28, 29 in that range depending on the market and the exact grade while if you look at the steel grade or the basic grid that would be lower by Rs.3000, Rs.4000, Rs.5000 again depending on the producer and the market.

Saket Kapoor: Last point Sir, I will come in the queue, it is only a followup. How should we take this number of Rs.16.5 Crores loss in pig iron, what factors resulted in and then I am coming in the queue Sir. Thank you.

Sandeep Kumar: Is that a question or is that got…?

Saket Kapoor: I was just putting forward my last question then how should we take this loss Sir, there is one-off item in the pig iron category where we have posted loss of 17000 or is it the totally operational due to the lag effect of the raw material?

Sandeep Kumar: You are talking about the EBIT?

Saket Kapoor: Yes Sir, I am talking about the segment result in the pig iron wherein we have posted around Rs.16.5 Crores loss, so that I wanted to understand when the prices have remained in the vicinity of what Q1 was, so are there any one-off items due to which this has resulted in this loss or how do you explain this Sir and then I want to come in the queue again.

Sandeep Kumar: What I was saying was that the pig iron prices have dropped by Rs.2000 to Rs.3000 per tonne and that impact is visible on a month-to-month basis while the raw material prices I am telling you the drop, so the lead time for the raw material is may be 45 days, if it comes from Australia, so the impact of that would be visible in the next quarter. Do you understand, so your finished goods starts getting… so your sales start getting impact by Rs.2000 to Rs 3000 per tonne compared to Q1 immediately while your raw material drop actually happens over two to three months so that is why you will see the difference, so therefore to explain the Rs.-16 Crores, Rs.-17 Crores in pig iron is in two parts, primarily because of market which is the difference, so that is why we have been using the term spread which is the gap between the pig iron prices and the coke price. The spread has come down to say about Rs.2500 in Q2 compared to in Q1 of Rs.3600, so almost about Rs.1000, Rs.1100 drop, so we monitor the spread because both these things are out of our control, so long as we can manage the spread between the two, we are okay. So, to explain to you between Q1 and Q2, the spread drop by about Rs.1000 roughly and that is one of the major factors for this loss.

Moderator: Thank you. The next question is from the line of Jatin Damania from Kotak Securities. Please go ahead.

Jatin Damania: Thank you Sir. Sir I checked in last quarter also we had taken the maintenance shutdown for one of our blast furnaces and due to which the production was impacted, so what was the key reason, where we have taken shutdown for both these blast furnace and how do we see the hot metal production going ahead?

Sandeep Kumar: You are right, in fact in June and July, we had very good production, we had record production and after the furnace was relined actually in the month of May and one of the furnaces, the bigger furnace, but what happened was that because of high heat flux and the technical reasons when you drive it at a such production and there are some issues in terms of cooling etc, the refractory got damaged and it needed repair and that is why we had to take the furnace down, so when you get too ambitious and you want to produce at a very high level then sometimes you push the furnace a bit harder then what it can take, so that is why I said he operational issues in Q2 and in any case once a year we take the shutdown and the other furnace, in any case we would have taken the shutdown, so that is why both the furnaces went down and that has impacted us also and so these two factors both the market as well as shutdown taken for both the furnaces in Q2, one of them was planned, the other was unplanned.

Jatin Damania: So, do we still continue to maintain our guidance of pig iron, the hot metal for the full year, because ductile iron anyways you are doing good with 230 to 40000 tons volume run rate but how do we see for hot metal production the pig iron for the full year?

Sandeep Kumar: I do not think we gave any guidance in terms of what is the production going to be, but if you look at the first half, we have done a production 260 right and in the second half we should do much better than 260, although we would not like to drive the furnace too hard so as to face the same problem, but what will happen is we will be able to take out much more cost, so we may not produce much, but we are focusing more on cost reduction, so improved fuel rate, increased PCI, increased oxygen, so there are some clear enablers with us and that we will be able to take out the cost and therefore that will hit the EBITDA quite hard in a positive way.

Jatin Damania: Last question before I come back into queue, Sir we commissioned the new oxygen plant in the quarter right, so what was the total saving or are we expecting, we got in Q2 or it was marginal and we will see bigger benefit coming in the subsequent quarter?

Sandeep Kumar: It was marginal, it got commissioned only in July and it takes time to stabilize etc, but basically the annual benefit, we have indicated earlier is going to be between Rs.10 Crores and Rs.15 Crores and most of the benefit should start coming in H2.

Jatin Damania: Thank you Sir, I will come back in the queue again.

Moderator: Thank you. The next question is from the line of Shriman Dudodia from Unifi Capital. Please go ahead.

Shriman Dudodia: Thanks for opportunity. Sorry for hopping on this question again on the plant shutdown, the intention of the plant shutdown in Q1, was it different as compared to the Q2 because Q2 you are mentioning that it is more because of the factory relining, was the purpose different in Q1 and has the furnace stabilized now and also you can please quantify on the cost incurred during this shutdown and due to the factory relining?

Sandeep Kumar: The shutdown that we took in Q1 for one of the furnaces was planned that is an annual shutdown you take and you bring the furnace down, you reline it so that was as per plan, but obviously what happens is that it impacts your overall production and also the time taken to ramp up and bring it down, your fuel rates go up. In Q2, the same furnace had to be brought down because of a refractory repair, it was not for relining, it was more for refractory repair and the second furnace in any case was planned for refractory upgradation so both these and earlier we do the more better coke rates we get, so we thought instead of deferring into Q3, the second one was not so critical, but we thought it will improve the coke rates, so we took that also in Q2, but once a year is already planned.

Shriman Dudodia: What was the cost impact because of the shutdown, because if I look at other expenses line item, that has moved up quite sharply in this quarter, so if you could quantify the cost impact?

Sandeep Kumar: Say Rs.4 Crores to Rs.5 Crores.

Shriman Dudodia: Okay, got it and Sir can you quantify on the total debt on books right now and what portion of the payables is also a debt?

Sandeep Kumar: So we have a total debt of about Rs.200 Crores which was say Rs.400 Crores in the beginning of the year end of last financial year and I think we were at about Rs.165 Crores at end of Q1 if I remember correctly, so the debt has moved up, but that is because the creditors yielded has gone up and there is a liquidity issue I think we are quite comfortable from a cash flow position and especially with the equity infusion of the parent but there are suppliers so we are able to by giving them cash discount, we are able to give get better prices, so that is what we have done in Q2, but we have brought down the inventory significantly. If you look at the inventory, I do not do it reflect anywhere or not, but we have been able to bring down the inventory significantly.

Shriman Dudodia: Got it. Finally, while the oxygen plant started recently in the last two months, the PCI started well ahead, so is the full impact of the PCI saving already visible in this quarter's financials?

Sandeep Kumar: Not full impact, but I would say 60%, 70% of the impact is visible. We will start gaining on that, so the annual impact of the PCI is almost Rs.30 Crores, Rs.35 Crores and we have started at about… we are now at say about 60% 70% level.

Shriman Dudodia: Thank you. I will get back in the queue.

Moderator: Thank you. The next question is from the line of Ritesh Gandhi from Discovery Capital. Please go ahead.

Ritesh Gandhi: Actually, with regards to your DI pipes EBIT that you have declared is it slightly higher because of the transfer pricing and the pig iron spreads being low which in turn is reflecting in higher margins for the DI pipes?

Sandeep Kumar: Yes, that would also be a factor, but even if you look at it from an iron ore to…from the raw material to DIP perspective, you were still get EBITDA margin of more than 18%, 18.5% I think. It is not saying about a percent; a percent and a half could be because of transfer price.

Ritesh Gandhi: Got it and how is your actually pipeline looking with regards to the DI pipe and also if you could give us a slight update on the capex plan and how it is progressing?

Sandeep Kumar: Did you ask for the order book?

Ritesh Gandhi: Yes, in the pipeline of additional…the order book existing and also actually the pipeline?

Sandeep Kumar: We have a comfortable order book of today about 10, 11 months so we are quite comfortably placed that way as I have said in the earlier calls also, the question with us normally it is not the order book, but the question is of executable orders it was although you have a contract the exact timing of the shipment is determined by the customer which in turn depends upon the fund flow from the government with design parameters, the inspection, financing instrument that they give it to us because we sell to the private parties almost 100% on secured credit instruments otherwise we do not sell so those things something sometimes delays the dispatches, but otherwise per se the order book is very healthy it is at about 10-11 months, I think the ductile iron pipe industry in general is doing well and as we go forward in the Jal Shakti Ministry the new plants come in, this will see a double digit growth so there is no issue in terms of demand.

Ritesh Gandhi: Any update on your ongoing capex and timing, if it is on schedule?

Sandeep Kumar: So, the capex for us is very much on track, the capex plan for the growth, the ductile iron pipe major equipments have been ordered out, they are most frequent to be imported. Then the high level of automation that has been planned in that, so we have taken sometime and deciding because many of these things do not exist anywhere in the country or even in most parts of the world so that is one. Then the power plant, the new power plant 15-megawatt power plant that we ARE building that has been given to Thermax and that is also, there also the construction has started then, so these are the two main, the coke plant expansion is also on. Our partners have got the EC and the CTE and which has consented to establish by this state pollution control board and they have started the filing work so all and all I think the capex growth plans are on track, the first phase by completion end of next year.

Ritesh Gandhi: Got it thanks. That is all from my side.

Moderator: Thank you. The next question is from the line of Vimal Gohil from Union Mutual Fund. Please go ahead.

Vimal Gohil: Sir my question is actually on your margins and to be specific on gross margins, over the last few quarters, we had some sort of challenges on unplanned plant shutdowns, the pig iron business not really doing well, but however DI business has done exceedingly well at least last one year. Despite the contribution from DI pipes moving up, our margins have not shown that requisite amount of improvement. So, on a steady state basis where do you see gross margins going forward on a long-term basis where should we know, how should we think about your gross margins going forward?

Sandeep Kumar: When you are saying gross margins, you are talking about absolute or you talking about percentage.

Vimal Gohil: Percentage?

Sandeep Kumar: So, if you look at percentage I was saying within general you can take… our thumb rule is 10% or thereabouts for pig iron and 20% or thereabouts for ductile iron pipe and average for Tata Metaliks at say about 15% that is what has been the story line I think over the last couple of years and we continue to be in that zone.

Vimal Gohil: EBITDA front, right?

Sandeep Kumar: EBITDA margins.

Vimal Gohil: Okay 10% for pig okay.

Sandeep Kumar: But this quarter has been very bad for pig so pig has been in minus, but otherwise I am saying generally it is in that range for us and so long as we were able to hit that, we are quite comfortable and I think for DIP we have consistently hit that close to that. See there is also transfer pricing which I was explaining a little bit earlier so if you look at it from raw material to DIP 19%-20% has been consistently achieved.

Vimal Gohil: Fine so you gave me the number for EBITDA margin, do you have the same number for the gross margins as well, how much gross margins will pig iron be having, how much will it be for DI?

Sandeep Kumar: I think what we talk about is the EBITDA margin and other sense that we can give you through the spread. The spread between the pig iron and coke price because coke constitutes almost 60% of the cost and that is volatile commodity which impacts our cost the biggest. So, if you look at compare to Rs.3600 or Rs.3700 per tonne in last quarter, this quarter it has come down to Rs.2500 and that is what has greatly impacted our profitability of pig iron.

Vimal Gohil: What would be the normalized spread for pig iron?

Sandeep Kumar: So, if you look at 8 years, 9 years average, it is more like Rs.4500.

Vimal Gohil: Rs.4500 you think this is sustainable on a per tonne?

Sandeep Kumar: I am giving you 9 years average, it will vary, it will go up and go down.

Vimal Gohil: Okay but this has been the average which has been there?

Sandeep Kumar: Rs.4500 is average so last year I think average for us was Rs.4700 or something like that last year. This year it has been as I was saying 3600, 3700 in Q1 and Q2 is more like Rs.2500 so this year it has been very bad, but we know why, the entire economy, but I must also admit here that our own operational performance in pig iron has not been good and that has also impacted because the costs have crept up so while the market has had role to play and we have also to be blamed in some sense but not having done enough. So, we could make some amends and I am very hopeful that in H2 we should be able to do a lot of amends on that front. See we have a number of enablers like as I say we were just discussing the oxygen plant, there is PCI, there are a number of other enablers, a lot of improvement, automation initiatives were going on so we can improve significantly on the cost front in pig iron and despite the market being market I think once we reach that level we should be able to handle the market to a large extent or to some extent and not get badgered like this time.

Vimal Gohil: So, one basically your injection and coke plant are up and running, probably pig iron should see a meaningful improvement?

Sandeep Kumar: We will have the new power plant, see in power our marginal cost is very, very high. So, if power plant… we have an old power plant which is 25 years old and we will have a new power plant which we are building and which will come up next year… in a year's time so what we buy from the grid at about Rs.7, Rs.8 will come down to say Rs.1 or Rs.2, so there is a significant benefit.

Vimal Gohil: Power plant costs are reflected in the other miscellaneous cost?

Sandeep Kumar: Power plant through the capex route.

Vimal Gohil: Okay and Sir just last question on other miscellaneous cost, you said that about Rs.4 to Rs.4.5 Crores was one-time because of the plant shut down even if I exclude that the other opex comes to around Rs.118 Crores, which is almost 19%, 20% higher than the last year, what would that have contributed to?

Sandeep Kumar: There is I think freight angle. The freights have gone up because of two reasons, one is volumes have gone up, second is that we may have sold a bit more in distant areas than in areas in proximity. Then what has happened is that because of shutdown also the fuel charges and HSD, you run diesel generator sets so that cost have moved up. Then our power plant did not do well. When I was saying operational performance, there were some issues with spares and, not spares really, some kind of issue in terms of for which we have to get spares, which took time and these are not readily available spares so the power plant did not perform as per plan. So that also has impacted our profitability. So, all these has… so the electricity charges, power and fuel charges, then freight all this added up and all this.

Vimal Gohil: How much would that be in totality if we can quantify this possible?

Sandeep Kumar: I just give it to Subhra, our CFO to answer that.

Subhra Sengupta: If you go by year-on-year we have spent more on the repairs and stores which is mainly for the shutdown expenses, which is at present Rs.5 Crore numbers and also the power and fuel on year-on-year or quarter-on-quarter, we have spent more because during the shutdown, we have to have the generator set. Already as MD explained the freight and handling charges, we have spent approximately Rs. 6 Crores more furthermore compared to Q-on-Q, so these three if we exclude then it will be almost similar number.

Vimal Gohil: So how much was power and fuel Sir?

Subhra Sengupta: Rs.4 Crores, on freight Rs.6 Crores, approximately Rs 15 Crores is the fuel actually, yes.

Vimal Gohil: Okay approximately Rs.15 Crores was probably one time?

Subhra Sengupta: No, I would say Rs.9 Crores would be one time in case of freight that depends, freight if it continues to go the distant market, the freight will continue to be higher.

Vimal Gohil: Okay fair enough Sir. Thank you and all the very best Sir.

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

Sahil Sanghvi: My question is regarding the DI realizations so they have gone to almost 49500 per tonne so what led to this high realization and how sustainable are this pricing?

Sandeep Kumar: If you look at the ductile iron pipe prices, they have remained more or less stable at this level over the last six months and that is the whole beauty with this business that does not **(Audio Cut) 32:23** raw material that gives you **(Audio Cut) 32:23** your margins are much more stable rather your prices are much more stable and if you can manage your costs well then your benefits are significant. Here in this case what has happened this that your NRs have remained similar, but your costs are coming down so your margins are increasing.

That is the wonderful situation to be in; however, as we move **(Audio Cut) 32:52,** the cost may change and as far as NRs are concerned, the NRs may also come under some pressure, but because these contracts are long-term and etc., they cannot come under too much of pressure at least in the next half maybe some marginal changes here and there. In any case our order books are full so we do not have much to worry, but there could be some amount of pressure that we might feel in terms of new bookings or something like that.

Sahil Sanghvi: Okay my second question is with regards to other income and may be Subhra Sir can answer that. Sir, we have already done a Rs.10 Crore sort of further income so is there anything else driving this except the interest income on cash, is there anything else driving it, can this be run rate Rs.5 Crores, can this be considered as a run rate quarterly?

Subhra Sengupta: Yes. This could be 4 to 5.

Sahil Sanghvi: Secondly, I see is there is any increase in the buyers' credit also this time?

Subhra Sengupta: If you see **(Audio Cut) 34:10** capacities have increased but at the same time your credit from other liabilities have come down substantially if you see the balance sheet, which has been published, there is increased in loan from six monthly from Rs.0 to 88 Crores but your creditors have come down from 479 to 423 and other liabilities also have come down from Rs.64 to 29 Crores so overall gross liabilities almost remain same, just gone up by Rs.35 Crores because the operational cash was less compared to expectations.

Sahil Sanghvi: Some working capital borrowings that we have done, some proceeds from working capital so that is the short-term loan that is visible right?

Subhra Sengupta: Yes, short-term loans because as you see that as earlier also we have said that capex will be funded through internal accruals and also from the contribution from the Tata steel on the preferential allotment from this quarter and the earlier quarter, as there is less cash from the operation that we are continuing to spend on the capex, the borrowing has gone up by Rs.36 Crores Q-on-Q.

Sahil Sanghvi: Can I assume that this Rs.200 Crores that we had announced on the call before is that all the interest borrowings, is it safe to assume that?

Subhra Sengupta: Yes, the borrowing that is the intensity **(Audio Cut) 35:54** is lying in the creditors.

Sahil Sanghvi: And my last question is regarding the lease liability so I think we had about 378 million worth of lease liability before majorly due to the coke oven present and I understand there is a change in the classification now but has this number gone up I mean I can see two numbers 883 million and 51.4 million in the balance sheet?

Subhra Sengupta: In this quarter our oxygen plant is put to use. So, oxygen plant is also on the BOO basis for the long-term deals. So that case also as per the Ind-AS 116 we have to capitalize and the balance got lease liabilities. The increase in the least liabilities is due to oxygen plant.

Moderator: Thank you. The next question is from the line of Vinod C from Dolat Capital. Please go ahead.

Vinod C: I just had a question on your DI pipe business, there is a lot of talk about water as the next big area, so is there any data or any insight that you have in terms of what could be the possible market size be for pipes?

Sandeep Kumar: So we have done our own study and the growth that we foresee is double-digit growth and in fact got it done through external agencies, we have a couple of reports especially done for us because we wanted to be sure when we put in our additional capacity and that shows a very robust growth and that is backed up subsequently by the formation of the Jal Shakti Ministry announcement by the government so certainly double-digit growth looks very much on the cards. Whether it will be 10% or 18% is the question which we have to wait and see. How much money does the government put in, we will have to actually see that depends on also its own revenues and etc., but in general water being a sociopolitical commodity, it is very difficult for the government not to invest, quantum should vary.

Vinod C: But Sir out of the Rs.3.5 lakh Crores which the prime minister announced which is likely to be spent over the next five years, what would be the wallet share of pipes?

Sandeep Kumar: Our number is more like Rs.4.5 lakh Crores to Rs.7 lakh Crores depending on who has done the study….

Vinod C: Doing all the state projects as well I guess?

Sandeep Kumar: Yes, but in general you can assume about 35%, 40% to come from pipes.

Vinod C: Out of the 40% what would be the split between DI pipes and plastic pipes, HDPE or PVC pipes?

Sandeep Kumar: That is a little difficult to say because that depends on the design and it is actually little difficult to say how much of that will come from to DI pipe, but obviously DI is a preferred material especially in the medium sizes and therefore it will get its due share.

Vinod C: And Sir between on a like-to-like basis what would be the life cycle costing between the DI pipe and plastic pipe?

Sandeep Kumar: So the DI pipe life is about 90, 100 years and HDPE also has a good life, question actually with HDPE is not the life, if the HDP is more on the questionnaire whether you are using virgin material or recycling material because in our concerns on health and it being carcinogenic etc. so that is where the problem is and with metal price that is not the issue, so sooner or later I think this environmental considerations may start impacting them, but…..

Vinod C: Sir On a per kilometer basis would have virgin plastic pipe be more expensive than the DI pipe?

Sandeep Kumar: So that is what I was saying in the middle segment, it is DI pipe, which is more competitive but on the smaller sizes HDPE could be more competitive but then the environmental factors will come in and there are other factors of how you lay it. Your DI pipe easy to lay and on life, metallics, so there are environmental factors are also in its favor. It is for the designer and for the government to decide, project to project they decide what has to be done.

Vinod C: Okay and Sir would it be like urban would use more of HDPE because it is more ductile and bendability is higher end as compared to cross-country pipelines which would typically be DI, would that be a better way to look at it?

Sandeep Kumar: No, I think the way to look at it is more transmission, it is more DIP, more bigger sizes, more of last mile distribution, is more of smaller dia, where the plastic pipes would play a bigger role.

Vinod C: Okay. Thank you, Sir. That was very helpful.

Moderator: Thank you. The next question is from the line of Shriman Dudodia from Unifi Capital. Please go ahead.

Shriman Dudodia: Thanks for the opportunity again. Of the existing order book in DI segment what proportion would be fixed price and what would be variable just to understand what portion of order book would benefit from the lower raw material prices that are prevailing now?

Sandeep Kumar: No, no so for us 100% of our orders are booked, 100% means that as I was seeing the next 10 to 11 months, the orders are booked, it is on fixed price. The only thing is… only about 15% to 20% of that what goes to the government is linked to WPI. Okay so other than that 80%, 85% is fixed price.

Shriman Dudodia: Okay, so most of this order book should… in fact the entire order book should benefit from the lower RM cost?

Sandeep Kumar: Yes absolutely.

Shriman Dudodia: Okay, understood. Sir secondly given that your freight cost is going up, I just wanted to get a little granular sense on what proportion of your DI sales now goes to the States neighboring… in the vicinity of your plant and in what proportion goes to far distance, has this changed drastically in the last say 12 to 18 months?

Sandeep Kumar: No so Odisha is one of the biggest markets, today. Odisha, Madhya Pradesh so East and North, Jharkhand, Bengal these markets are our preferred markets, Andhra Pradesh and Telangana also have been good markets, Andhra Pradesh is coming up with the big one. So, these are freight friendly for us, so we have chosen these markets carefully considering our freight advantageous zones and they will continue to be in the same, we would like to continue in the same way, but it also depends on where the orders come from and if the orders are…say for example Maharashtra. Maharashtra is also something which is in our preferred zone. Okay although not necessarily only from a freight perspective but also there are other reasons. So, Maharashtra, Madhya Pradesh then Jharkhand and Odisha, Andhra, Telangana. These are the preferred and now UP is coming up so these are the preferred market source.

Shriman Dudodia: Sir given the distance from your plan to Maharashtra and UP is the pricing good enough to transport to these states.

Sandeep Kumar: Yes, we supply even to Tamil Nadu and Kerala, but percentage maybe lower, Maharashtra is much better than that, UP is still better than that.

Shriman Dudodia: Okay and what proportion of your sales volume goes to neighboring States, Odisha, Jharkhand and even Bengal, East would be about 50%, over 50% would be the eastern region and the rest 50 would be concentrated in a specific geography or is it…?

Sandeep Kumar: No, all distributors in North, Central, South and then West in that I would say priority North, Central, South and then West.

Shriman Dudodia: Okay, fine. Thank you so much.

Moderator: Thank you. The next question is from the line of Saloni from India SME Investment. Please go ahead.

Saloni: I just had a question regarding your DI pipe expansion plant so basically, we know the existing capacity is Rs.2 lakh tonnes per annum but in your environmental clearance reports and your most news reports are whatsoever become across it showed that from Rs.3 Lakhs to Rs.5 Lakhs so the existing is basically Rs.3 Lakhs tonnes on your EC report, could you please clarify on that?

Sandeep Kumar: Yes, we are already produced I think last year we produced 230000, 235000 tonnes so our capacity was Rs.2 lakhs, but technically the name plate capacity was Rs.1.85 lakhs only, but say Rs.2 lakhs, but we are able to squeeze out more volumes from the same plant by a variety of means and that is why we are producing more than the capacity but there is a limit to which you can squeeze that out and Rs.3 lakh tonnes environment clearance, we have taken considering that factor in mind, whatever extra we can squeeze out that should be below Rs.3 lakhs but obviously we cannot go up to Rs.3 lakhs. We do not have so much of capacity.

Saloni: Currently the squeeze out of Rs.3 lakhs would be?

Sandeep Kumar: No, the capacity is Rs.2 lakhs so you are running over 100% capacity so that is why you find we have done Rs. 2 lakh 30 or something last year. Rs. 2 lakh 36 or whatever, but we cannot squeeze out much more than this, it would be marginally better at best. We cannot go to Rs.3 lakhs, although our permission is up to Rs.3 lakhs.

Saloni: Yes, so I should take Rs.2 Lakh capacity as the face value of existing capacity? So, I should take Rs. 2 lakh capacity as exiting?

Sandeep Kumar: Yes, that is right, name plate capacity you can say roughly Rs.2 lakhs.

Saloni: Okay. Thank you so much and that is from my side.

Moderator: Thank you. The next question is from the line of Yogansh from Mittal Analytics. Please go ahead.

Yogansh: Thanks for the opportunity. Sir first question is regarding the DI pipe segment, like you have been maintaining on the call that you see a lot of positives and even in one of your reply, you said that even though this was a monsoon quarter, we did very well on the DI pipe segment but Sir sometime back there were news articles regarding some order cancellation and one of the…I was saying like you were saying that Q2 was also good despite being a monsoon season for DI pipe segment but of late we have heard about South Indian State cancelling few orders so do not you guys see any impact of those order cancellations?

Sandeep Kumar: Well Andhra Pradesh had cancelled and they are going to retender now. So, the new orders should come in that to big one in Andhra Pradesh and that should come in say the tendering should happen now in Q3 and Q4 but the benefits of that would be visible next year I would imagine. As far as other states are concerned, order books as I said are full, so we do not have an issue and so I do not see any major cancellations from any other state. In fact, as Maharashtra, Haryana elections are over, I would see an increase in pace of investment from them. Jharkhand will follow suit.

Yogansh: So safe to assume that there would not be any negative impact on the industry due to these order cancellations, it will get compensated in the upcoming tender season?

Sandeep Kumar: Yes, so there will not be any order cancellation as I see it, in fact, the orders would only increase but what could happen and what is happening is that there is a bit of a slowdown in fund flow by the government and that would impact marginally to some extent, the supplies of DI pipe, so depending on which government, which area you could see some impact of them, I think EPC contractors are beginning to get impacted because of that. So, there could be that negative factor that industry might **(Audio Cut) 49:27** on that, but we have to see to what extent do we face that.

Yogansh: I understood and Sir secondly like you mentioned about the EC approval that you have for 300000 tonnes so for this upcoming capex what is the status of our EC approval?

Sandeep Kumar: You we see we have taken approval I think almost six to nine months back and we have taken a 500000 tonnes for ductile iron pipe so we are comfortable and we do not have any issues. The capex plan as soon as the plant can be put up, you can go in and take the consent to operate from the pollution control board.

Yogansh: I understood. That is from side. Best of luck. Thank you.

Moderator: Thank you. The next question is from the line of Lalit Kumar from ICICI Mutual Funds. Please go ahead.

Lalit Kumar: Thank you for taking my question. Sir if you can share some light on how competitive landscape in eastern region is going to change over next two years and when our incremental DI pipe capacity comes then how we should look at freight cost and EBITDA per tonne for DI pipe business?

Subhra Sengupta: So that in Eastern India there are four, five manufacturers say for Tata Metaliks where we have got double the capacity. There are other players like Vedanta where they are still able to utilize their full capacity and electrosteel castings, they do not have much options to increase the capacity. In addition to that, Rashmi Metaliks they can increase the capacity marginally and Jai Balaji they are under NCLT, so they do not think they will increase the capacity. So, the major capacity increase will come from TML and some more capacity utilization from Vedanta. As far as the EBITDA is concerned, we are confident that the existing EBITDA rate of 20% we will also get from the additional capacity. Is it okay that clarity is there in answer?

Lalit Kumar: Yes, thanks a lot Sir. It is clear.

Moderator: Thank you. The next question is from the line of Dhiral Shah from PhillipCapital. Please go ahead.

Dhiral Shah: Yes, Good after noon Sir. Sir my question is regarding the DI pipe realization when I see your pig iron realization you said it has come down from 29000 to 27000 but what we have seen Sir DI pipe realization has in fact gone up from 46 to 49 so what has led to the rise in realization in DI pipe?

Sandeep Kumar: Yes, so the factors of realization will depend upon which market, where are you selling, what sizes, so it is an average realization, if you sell more of smaller sizes, your realizations will go up. Okay, so it depends on the product mix so do not get too worried about the exact numbers. Largely the trend is that the price realizations have remained similar as Q1 for ductile iron pipe or they may be marginally under pressure. As far as pig iron is concerned, it has come down in line with the market and in line with the raw materials prices having come down. So, it came down from say 31, 32 to say 29 and then 27 that is the way the prices for pig iron have moved. While for ductile iron pipe you have rightly said it may have moved up and it may be showing more because of product mix and more because of market mix.

Dhiral Shah: Okay but Sir traditionally DI pipe have followed the price pattern of pig iron pipe or it has been dependent?

Sandeep Kumar: So, some dependency will always be there but it is far more stable than say pig iron which is what you are witnessing today also but obviously when the prices come down you cannot make supernormal profit. So obviously the prices would come down as the raw material prices come down. There would be more pressure to reduce, but it is again a question of also demand side. The demand side is very robust and if it moves up further you could see margins improving further, but if the demand does not come in then the margins would be similar or they might get compressed to some extent.

Dhiral Shah: Okay and Sir you talked about product mix in DI pipe, if you can explain it further?

Sandeep Kumar: It depends on whether these are thicker pipers, large dia pipes or thinner and smaller. If it is thinner pipes, smaller dia pipes, so the smaller dia pipes typically would have a higher price realization so that is what I was meaning that depends on what supplies we have made in that quarter. Therefore, per se the number itself can mislead you and that is why I was explaining that the price realization for ductile iron pipes have largely remained similar to Q1.

Dhiral Shah: Okay Q1 would be how much Sir?

Sandeep Kumar: The net realization because earlier we are talking about that freight has gone up because we have sold in the distant market. The net here has remained same, it is almost 42500.

Dhiral Shah: Okay 42500.

Subhra Sengupta: It is a net of trade and all.

Dhiral Shah: Okay and Sir when you are supplying to the other markets like South and West do not you consider, the freight cost in it or it has to be taken it separately.

Subhra Sengupta: So, in the accounting the sales are inclusive of freight but when you do that net realization that is excluding of freight, as I was explaining earlier that Q-on-Q the freight cost has gone up because we have sold more to the distant market.

Dhiral Shah: Okay so, but sir in that the freight would be the right, we recover the freight cost, right?

Subhra Sengupta: So, we always go by the net realization, net of freight and that was MD was explaining that Q-on-Q, net realization remains almost same but gross realization may be different because of the location and product mix but net realization on Q-on-Q remains almost same.

Dhiral Shah: And Sir lastly, new DI pipe capacity expansion when it would be coming online Sir?

Subhra Sengupta: The first phase will come say that in the Q3 of the next year and second phase will be say Q2 of FY2022.

Dhiral Shah: So, you mean to say the phase I could be around how much Sir one lakh tonne?

Subhra Sengupta: Yes, 1 lakh plus, 1 lakh 20, 30, 40 like that.

Dhiral Shah: And Sir lastly, what could be your guidance for DI pipe in this FY2020 in terms of volume?

Subhra Sengupta: Difficult to say, if we do almost similar to what we have done last year that would be good because I think it is becoming difficult to squeeze out anything significantly more.

Dhiral Shah: And Sir the average realization last year was how much in DI pipes, average realization?

Subhra Sengupta: Average realization for last year. Last year our realization was 41500.

Dhiral Shah: And in H1 it was 42500?

Subhra Sengupta: Yes.

Dhiral Shah: Okay and this is continued even in October or it has further improved.

Sandeep Kumar: No, prices as I said again do not get too swayed by numbers. As I was saying broadly the number is similar to Q1, continues to be similar in Q3. There could be marginal drop or increase depending on the exact order which will depend in turn on the market mix and the product mix.

Dhiral Shah: Okay and Sir lastly, we talked about the proportion of smaller diameter of pipe was higher so if you can quantify how much it was and which led to the higher realization?

Sandeep Kumar: No, I was just generally giving you the reasoning for why the prices vary, okay? It is not there for us it has varied more. The impact has been more because of the market mix which means distant markets as Subhra was explaining than because of the product mix but so it is not very relevant in comparing the prices at this point of time, not too relevant, there is a relevance of course because product mix as what depends on various which grade, which size, you will get a little complicated on telecon but may be when you are here sometime we can explain to you.

Dhiral Shah: Okay no problem Sir. Thank you so much.

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

Sandeep Kumar: Yes, I have said what I had to, there is nothing much more to add except to say that the outlook for H2 is much more positive than what we have done in H1 and I think H1 has been a big letdown for us also primarily in the pig iron business but having said the market factors in H2 would be, we will have to wait and watch for the pig iron scene as far as the ductile or in pipe business is concerned I think both the market and the operations seem to be positive for us. On the pig iron side, the market will remain always a little uncertain although things look little better than what they were in the first half. On the operations front which is within our control I think we should be able to put up a much better performance in H2 compared to H1. So, on the whole we expect and we would like to do a much better performance and I hope we can satisfy the expectations of our investors. Thank you very much. Thank you, all the investors, as well as to Monarch for hosting this call.

Aalok Shah: Thank you for those comments, your guidance on how things would move through. On behalf of Monarch Networth we thank you all for joining on this call. You may now disconnect. Thank you and have a great day. Thank you, Sir.

Sandeep Kumar: Thanks. Bye bye.

Moderator: Thank you very much with that we conclude the conference. Thank you for joining us. You now disconnect your lines.