

# **TATA METALIKS**

## “Tata Metaliks Limited Q3 FY2019 Earnings Conference Call”

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**Moderator:** Ladies and gentlemen, good day and welcome to the Tata Metaliks Q3 FY2019 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 the operator by pressing “\*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Abhisar Jain from Centrum Broking limited. Thank you and over to you Sir!

**Abhisar Jain:** Thanks Lizaan. Good afternoon everyone. On behalf of Centrum Broking, I welcome you all to the Tata Metaliks Q2 FY2019 Conference Call. We are pleased to host the senior management of company for this call and we have with us Mr. Sandeep Kumar, MD and Mr. Subhra Sengupta, CFO. We will begin the call with initial comments from the management on the results as well as the future outlook and then we will open the floor for Q&A. So now I will hand over the call to Mr. Sandeep Kumar. Over to you Sir!

**Sandeep Kumar:** Thanks Abhisar. We will begin by I think just giving a very brief opening commentary, which is a summary of the performance of Q3 and as we go into Q4, what are we looking at.

I think the 12% growth in topline at about 546 Crores compared to a year back was accompanied by marginal increase in EBITDA at about 76 Crores, but the negative was almost at 20% drop in hot metal production in Q3 and that was primarily because of both our furnaces not behaving well so they had been actually not behaving well for sometime so we took the shutdowns and kind of got them back into action. That took a way not only in production hot metal production, which could have been used for realizing money, but also fixed cost that actually impacted our margins, but this is a one-half case in this quarter and as we go forward into Q4 things are looking brighter with PPI having been installed, the coal injection unit and right now it is being commissioned and the ramping up is going on. We feel that in the month of January we should be able to stabilize that and we go into February and March some benefits of that we should start getting in Q4.

I think the positive of Q3, the biggest positive was the huge increase in the sales of ductile iron pipes both production and sales have been the highest. In fact this quarter has been has had a record in ductile iron pipe, whether its production, whether its yield, whether it is a lower rejections or the sales. So the pipe business continues to be strong and healthy and grow, so that is the positive for us. The negative was mainly on account of the hot metal production reduction on account of the furnaces and that has impacted our margins, but Q4 should be better. The other positive I would talk about is the oxygen plant is coming up well and as planned in Q1 of next financial year, which should get commissioned.

Also the environment clearance for our expansion, Brownfield expansion has been cleared by the Expert Appraisal Committee of the Ministry of Environment and Forest, but the final EC signing off is awaited, which should come sometime hopefully in January. So we are well poised to grow if we decide to grow. In Kharagpur the statutory clearances are more or less through and after

this we will need a clearance from The State Pollution Control Board, so within a month or two I think we should be already there and so that is on the growth side and on the operations as I said Q4 being the best quarter normally we are looking forward to a good quarter. The negative of Q4 is that the steel prices have started falling over the last two months and the steel raw materials have also slipped, which has impacted the pig iron market to some extent so that is the uncertainty, the positive is the pipe business, the positive is the growth part and the cost reduction initiatives like the PCI.

I think with this I will close my opening comments and give it to you Abhisar for the question-and-answers.

**Moderator:** Thank you. Ladies and gentlemen we will now begin the question and answer session. The first question is from the line of Shrimant Dudodia from Unified Capital. Please go ahead.

**Shrimant Dudodia:** Good afternoon and thanks for the opportunity. Sir first question is for how many days both the furnaces were shut and if you could quantify the impact of that?

**Sandeep Kumar:** I mentioned that the hot metal production was down by almost 20%. If you look at year-on-year what we produced almost 80000 tonnes of pig iron that came down to almost 63000 for almost 20% impact you can say in terms of the pig iron production; however, that was made up to some extent by increased sales in DI pipe, so the DI pipe sales increased year-on-year if you look at it almost 32% growth in the DI pipe sales, if you look at the loss of production if you want specifically that is almost about 12000 tonnes.

**Shrimant Dudodia:** You also highlighted there were certain fixed the onetime cost involved during the shutdown what was that one time cost in this quarter?

**Sandeep Kumar:** Onetime cost, we need to assess it very carefully because part of it goes into the level operations as well but you can just look at it in a way that we may have lost in double-digit in terms of Rupees Crores. In terms of Rupees Crores certainly in double-digits easily we would have lost because of this, but what happens is, it is not only the cost of shutdown this is also a time if the blast furnace takes to ramp up and stabilize. It is often difficult to quantify, but if you simply look at our coke rate what we did in Q2 and what we did in Q3 clearly there is a huge gap, so that itself will give us maybe 10, 15 Crores advantage, if you are able to stabilize at Q2 levels.

**Shrimant Dudodia:** Sir my second question is, once your environmental clearance is through this month you are looking to, your application says you are looking to ramp up across your capacities, would it be in a phase wise manner or you will be doing entire expansion in a single shot?

**Sandeep Kumar:** I will tell you. I am not authorized to speak on this subject till I get my board approval, but what we have told you is that look we have been actively looking at opportunities on the DI pipe growth and one of the alternatives for us options was to grow in Kharagpur itself which is a Brownfield. For that whatever statutory clearances are required that we are in the process of taking over the last one year, one, one and a half years and we are more or less at the end of that,

and I do not know whether you are there in the last conference call and I said that we have time until April to decide which option to go for, but I have said that in the past that typically a DI pipe expansion minimum economic size is almost 200000 tonnes. So if you at all go that is a logical one, which anybody would like to go now your capacity utilization may not be 200, it may be 100, 150, 200 that is a different thing, but normally somebody would not go for less than that, that is the standard in the industry.

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

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

**Vimal Gohil:** Thank you for the opportunity Sir. Sir I had one industry level question what would be the industry level utilization for the DI pipes specifically and if at all there are some capacities that are underutilized will we see some sort of a pricing pressure going forward?

**Sandeep Kumar:** Industry level utilization actually varies depending on how you look at it, but typically you can say it is upwards of 80% today and there are some additional capacities, but we also to understand that capacity was not fully utilized 100% because of various reasons including quality, including cost competitiveness. For example if you were to supply in South of India and if we are based on east it requires you to be competitive or in the west, that cost competitiveness is not necessarily there with every company that is where the major challenge lies. Otherwise the capacity utilization of the industry would be upwards of 80%.

**Vimal Gohil:** Yes so what you mean is excluding these inefficient plants or capacities excluding these, the capacity utilization is upwards of 80%?

**Sandeep Kumar:** No, I am saying including these it should be 80%, which means you know that companies would be operating at between 90% and 100% most companies. For us say for example our nameplate capacity was 185000 we are already above that, so we are not counting it as 100 plus.

**Vimal Gohil:** Sir what is the sense on the gross realizations for DI pipes going forward?

**Sandeep Kumar:** I think the realizations are now quite stable and as we go forward I think Q4 there should not be any major issue, but as we go into Q1 of next financial year the realizations could come under some pressure if the market continues to soften, the steel raw material prices will obviously the customers would demand a lower price if the raw material prices have come down, but I think that is the googly where which way the steel raw material prices move above which I would not like to hazard a guess, I do not think anybody knows, it is more like the crude oil, but at the moment the coking coal seems to have stabilized to some extent, I mean it is not like falling by \$10 and \$20 more or like a few dollars here and there. So after having fallen for the last one month or so to say it was about \$227 or something about a month and a half back, today it is less than \$200, but coke has fallen much more, coke prices domestic coke prices would have fallen by about Rs.2000, Rs.2500 per tonne over the last one, one and a half months.

- Vimal Gohil:** Sir just on your balance sheet what would be the existing debt on the balance sheet currently, gross debt?
- Sandeep Kumar:** 430 Crores.
- Vimal Gohil:** This includes our working capital debt as well?
- Sandeep Kumar:** Yes total.
- Vimal Gohil:** Thank you Sir. If I have anything else I will get back to the queue. Thank you.
- Moderator:** Thank you. The next question is from the line of Anirudh Bhandari an Individual Investor. Please go ahead.
- Anirudh Bhandari:** Thanks for the opportunity. I wanted to know what is the debt reduction plan if you have any?
- Sandeep Kumar:** You see we would like to bring the debt below Rs.400, Rs.400 Crores by next quarter.
- Anirudh Bhandari:** This year?
- Sandeep Kumar:** Yes. We have a healthy cash flow, healthy margin so we would not like to keep debts on our books, but generally the debt to equity has come down to a level where we have enough scope it is less than 1, so I do not think debt is a real issue at the moment.
- Anirudh Bhandari:** The Brownfield expansion, which you were talking about that would be funded by new debt or cash flows generated from business?
- Sandeep Kumar:** Both, I would say if at all we go in for capital investment and that capital investment should be funded by both internal accruals as well as some funding through debt ideally, we have not yet decided but at the moment that is what it looks like, because the balance sheet is quite comfortable and the cash flows are good so there is maybe such case.
- Anirudh Bhandari:** My second question is on order book. What is the current order book for both DI pipes and pig iron?
- Sandeep Kumar:** DI pipe is typically about I would say more than as on date and nine to ten months and there is a good amount of orders, which will come from Andhra. Andhra Pradesh has released almost 650000 to 700000 tonnes of DI pipe tenders. So now the EPC contractors have started discussing with us and that will be a good pipeline for the industry in general as we go into FY2020. So DI pipes I do not see an issue the issue could be on a month-to-month basis, on a quarter-to-quarter basis purely from a perspective of dispatchable orders as such orders is not an issue, why dispatchable orders because what happens is before we dispatch for example Tata Metaliks we ensure that 100% of our sales is covered, it is secured we do not sell on open basis except for the government sector to the private sector. So there if the LCs gets delayed, advance gets delayed,

bank guarantee gets delayed so therefore there is some month-to-month or quarter-to-quarter there could be a problem but otherwise there is no issue on ductile iron. As far as the pig iron is concerned that is more of a spot business so there is no question of order pipeline in that it is rake-by-rake, truck-by-truck, order-by-order this has always been the case you do not book long.

- Anirudh Bhandari:** Any pressure on receivable because of election?
- Sandeep Kumar:** Not really.
- Anirudh Bhandari:** Debtors because of elections?
- Sandeep Kumar:** No, not really.
- Anirudh Bhandari:** What are the current receivable days?
- Sandeep Kumar:** Number of days, Subhra you want to say.
- Subhra Sengupta:** Yes, if you see the both PI and DI together it is 48 days, but DI it is little bit more than the PI so if you can say only PI it is 30 days and on the DI it is 62 days.
- Anirudh Bhandari:** Thank you so much.
- Moderator:** Thank you. The next question is from the line of Basant Joshi from IDFC Securities. Please go ahead.
- Basant Joshi:** Thank you for providing me the opportunity. Sir I just wanted to know what is the coke rate we are looking at after the PCI plant is ramped up to full capacity?
- Sandeep Kumar:** You are talking about coke rate?
- Basant Joshi:** Yes Sir.
- Sandeep Kumar:** Coke rate reduction of almost 60 to 80 kgs is the standard in any blast furnace and therefore we should definitely get at least that much if not more. So anything around 60 to 80 kgs is the standard in blast furnace so once you stabilize it will take one, two, three, four months whatever before you stabilize then you should be able to operate in that range of 60 to 80 kgs.
- Basant Joshi:** What is the coke rate we are having without injecting PCI?
- Sandeep Kumar:** Without injecting PCI currently the coke rate is upwards of 600 kgs and we would want to bring it below 600 kgs.
- Basant Joshi:** You are talking about the Q2 or on an average basis because Q2 it was a bit on higher side?
- Sandeep Kumar:** Q3 would be higher on an average I am saying.

- Basant Joshi:** Thank you.
- Moderator:** Thank you. The next question is from the line of Rajesh Kothari from Alpha Accurate Advisors. Please go ahead.
- Rajesh Kothari:** Just wanted to know that if I look at last year third quarter you had a very strong PBIT margins in DI pipes and of course in this quarter the Y-o-Y margins are a little bit lower although revenue growth is very strong, so what I understand that last two, three quarters and the entire industry suffered because of the significant increase in raw material prices, which probably you may not have able to pass through completely to the clients considering the nature of contracts so do you think now with the higher pricing orders which we would have got last nine months therefore your fourth quarter and one quarter probably we will see very strong margins?
- Sandeep Kumar:** Your logic is right because the DI pipe prices are more stable and therefore if the raw material is the cost input which is primarily driven by the steel raw material moves up so your spreads get compressed and when the raw material prices go down your spreads increase. So to that extent your logic is absolutely right except that in the long run when the prices of raw material come down there is also pressure on the customers to reduce prices. So more or less well that will patch up to some extent.
- Rajesh Kothari:** I understand that, so when the prices comes down you will get the new contracts at the lower price and then and to that extent then you need to have an inventory to make sure that you do not take the hit. So I am saying if I look at the December quarter you had about 12.5% PBIT margins, if I look at second quarter that is September current year then your margins came down to just 8.5% so in the region, which we always use to hear is that because of the cost push and you cannot pass on that cost push to your clients so now with this environment do you think that next two three quarters we will see back to healthy margins improvement in margins what to use to see in the past?
- Sandeep Kumar:** So used to in the past was I would say very, very high so we should not think of those levels but certainly I think your logic is right and we should see improvement in margins.
- Rajesh Kothari:** Because in the openings remarks, you said that in 1Q onwards you may see pressure because as the cost comes down if the customers will ask for the lower price but that is for the new orders it will not be for the existing order am I right?
- Sandeep Kumar:** Absolutely, but what happens the new orders part of it you will start executing in that quarter also. So it will be a mix, so it will be a blended.
- Rajesh Kothari:** I know but in that case margin would never have been reduced because if that is true then it works on both the cycles it does not work only on the downward cycle am I right?
- Sandeep Kumar:** I agree with you, so since we going forward it is a little uncertain we would always want to be a bit conservative. What we know we can always on a postmortem or post facto we can be a smart

and say that worked but when it goes forward I would rather not be a too optimistic that will be a little conservative.

**Rajesh Kothari:** Since the industry is working closer to I would say 80% to 100% and some guys like you have also 100% plus now what it takes now to enjoy the little bit stronger margins a 12%, 13% is it that there is a undercutting despite everybody is working at such a high level of capacity utilization what is the environment?

**Sandeep Kumar:** I think there are seven, eight players and what happens is that there are players who are working at less than 70% or 60% capacity also but though they are not the main players but they took up with prices at times, which puts pressure on us and depending on what happens is if you look the order books are very good, very healthy nine months order book is very, very healthy. As I was telling a little while back is that the problem that comes is on a month-to-month or a quarter-on-quarter dispatches when there is a pressure because either the money has not come in or the inspection has not happened or the project gets delayed so then on a month-to-month sometimes the individual organizations come under pressure and they may kind of reduce prices to get some orders etc., that is where the problem comes in otherwise in general if you look at it, it is quite healthy and at the moment with steel raw material prices going down the spread should only improve rather than with the same as what is in the past.

**Rajesh Kothari:** Fine so hopefully we will see better days ahead.

**Sandeep Kumar:** Yes hopefully.

**Rajesh Kothari:** Typically what kind of inventory you keep off of the raw material how many days inventory you keep?

**Sandeep Kumar:** If you look at our inventory for Q3 end we would be at less than 15 days inventory for pipe business and you are talking about what inventory current inventory?

**Rajesh Kothari:** No, I am talking about raw material inventory, which you keep?

**Sandeep Kumar:** Raw material inventory would be anything between 30 and 45 days depending on if it is imported or domestic and that has gone up because of the rake availability and port congestion etc., so we would be wanting to slightly increase the inventory and be safe.

**Rajesh Kothari:** How much of your raw material you import or you import entirely is it the coking coal?

**Sandeep Kumar:** So coal, coal we import entirely, limestone we import, other than that coke then your iron ore is domestic, coke of course we also make we also have a captive coke plant, it serves almost 40% of our requirement but balance 60% is bought domestically.

**Rajesh Kothari:** Since you say the coal you import your currency probably the appreciation also would a little bit impacted your 3Q is it?

- Sandeep Kumar:** Currency depreciation would have impacted our import cost certainly, it went to 73 and all it is certainly impacted because all the imports that came in correct, you are right.
- Rajesh Kothari:** So probably as it stabilize, even that can little bit benefit in 4Q and 1Q?
- Sandeep Kumar:** Yes if the exchange rate does not go adverse again.
- Rajesh Kothari:** Would you like to quantify the impact of currency on your total CoGS?
- Sandeep Kumar:** I do not have it readily with me at the moment.
- Rajesh Kothari:** No problem. Your capacity expansion you said minimum will be of how many tonnes you said to 22000 correct me if I am wrong?
- Sandeep Kumar:** No, what I said was that the industry typically the minimum economic size is about 200000 tonnes per annum that is the typical size you may put up a capacity of 200000 and you may utilize at 50%, 70% depending on your competitiveness, depending upon your readiness etc., that is a different thing, but typically that is a minimum economic size of any plant DI pipe plant, what we will do how much you will do and all we will let you know in due course, so we have not yet since we have not yet finalized it I mean finalize in the sense that once we have taken a final decision then only I will be in a position to communicate that to you.
- Rajesh Kothari:** Thank you.
- Moderator:** Thank you. The next question is from the line of Ritesh Gandhi from Discovery Capital. Please go ahead.
- Ritesh Gandhi:** Sir my first question is you had indicated that there could be a reduction in your realization because of a reduction in raw material but effectively speaking your EBITDA per tonne then should remain reasonably consistent that is the actual number we should be actually focused on right?
- Sandeep Kumar:** Yes correct.
- Ritesh Gandhi:** Overall if we look at the trends of EBITDA per tonne in going forward because of the combination of the trade, the bid pipeline and that is reasonably high, I take utilizations of at least larger competitors do you see that trend going upwards, being flat downwards how do you see that?
- Sandeep Kumar:** I did not get your question quite but just to answer on the margins the EBITDA per tonne should go up for DI pipe business because the prices are already fixed for the next three to six months and with steel raw material prices going down your spreads will increase that is what I was explaining to the previous guy so therefore the rupees per tonne should go up ideally and the second part of the question I did not get it can you repeat that?

- Ritesh Gandhi:** No I think it is actually have covered there. The other question was in terms of bid pipeline discharges for Andhra even you guys are actually are east focused is there a reasonable amount of actually a new projects expected in the east as well?
- Sandeep Kumar:** Yes, Andhra itself has released tenders, which is close to about 650000 to 700000 tonnes that is a massive one and that will get completed over the next one to two years. So assuming that we get about 10% to 20% of that, we are really comfortable over the next two years assuming that everything comes in order. Orders do not seem to be a problem. We have also mapped what is going to happen for the next five years, there are government projects, allocations of budget etc., there is enough allocation for the water sector therefore this sector looks very, very healthy at the moment. The problem that could come in is between intent and execution that is the only problem that I see otherwise looking theoretically at the numbers what the government sees and what we see is extremely healthy double-digit growth.
- Ritesh Gandhi:** With regards to the increased capacity how long is the lead time you will be just putting it up and the events that you are do decide to go ahead it has given me about the clearances are well in place?
- Sandeep Kumar:** Yes, so it could take say about 18 to 24 months. We would want to do it of course even lower than that and that is why parallely we have taken the statutory clearances, we are also doing some basic work, engineering work etc., that if we get our final board clearance then we can go ahead and of course if the board clearance comes or something else then we do that something else and of course there is a third option that board clearance comes or nothing so then we are sit tight and keep increasing our prices.
- Ritesh Gandhi:** Are there still inorganic opportunities that you guys were looking at because last time you had indicated that effectively you guys have looked at everything and nothing was really ease them well on the inorganic side?
- Sandeep Kumar:** Yes so I think I have just spoken enough in the past that will be only a repetition. I would only say that till the dye cast it is not cast so let us wait and see what works out, how it works and people know what opportunities are so there is nothing much for me to really comment on and I think we will be get some clarity. We were hoping to get the clarity by the time I speak to you in January which is now unfortunately that has not happened maybe hopefully in the next one or two months latest by April at least at personally hope that I can give you the clarity because I have also got a bit board of saying the same thing.
- Ritesh Gandhi:** Thank you that is all from me.
- Moderator:** Thank you. The next question is from the line of Saket Kapoor from Kapoor Company. Please go ahead.

- Saket Kapoor:** Thank you Sir for taking my questions. First Sir as you were telling about the capacity utilization levels for the industry as a whole at 80%, Sir could you quantify what is the size currently geographically for the east, west and the southern part?
- Sandeep Kumar:** Roughly you can say the production of DI pipes in the country would be close to 1.8 million tonnes, out of which bulk of the capacities in east so there are four, five players in east, there is Electro Steel, there is Vedanta, there is Rashmi, there is Jai Balaji and there is Tata Metaliks. And combined capacity of these would be say close to say about 10, 11 lakh tonnes so 1, 1.2 million tonnes capacity would be here in the east.
- Saket Kapoor:** But majority is there with you, 1.2 means 90% over here?
- Sandeep Kumar:** No out of say 1.8 million tonnes, 1.1 to 1.2 million tonnes is the east. That is distributed between five players including Tata Metaliks.
- Saket Kapoor:** And remaining is in the South between Srikalahasthi and west within Jindal Saw?
- Sandeep Kumar:** Srikalahasthi then there is Satavahana Steel in the south then there is Jindal and there is Electrotherm in the West, so two in south, two in west and five in east about nine players today.
- Saket Kapoor:** Sir looking at what the scenario is there with the other players means I am talking about the players those who are debt laden and are not and have already been NPAs what is your understanding how fast will these players will either be taken off or they will be rendered in effective going forward. I am talking about Jai Balaji, Satavahana steel, these are only the nameplate capacities they are not effective I think so?
- Sandeep Kumar:** They are supplying. I will not say that they are not supplying. Yes they may have some problems from quarter-to-quarter. Satavahana is one which is nonoperational but Jai Balaji, Rashmi etc., they continue to be in the market and they are often very aggressive because they may not be able to have the same command in the market in terms of quality etc., so they tend to be more aggressive on the pricing side and that put pressure on us, but other than that I think so these guys do supply from like say other than Satavahana. The others do supply on a regular basis. The volumes will be maybe fluctuating but otherwise they do supply.
- Saket Kapoor:** Sir two questions and for Satavahana assets that we have I think so earlier also try and assess the assets and whether it fits our size so are we still in the evaluating you have already clarified that till the dyes is cast you would not be able to speak on it, but for the Satavahana asset in particular because you are talking about Andhra Pradesh releasing order about 6 lakh and this capacity newly built plant is there and it would be on a perfect fit for people ceasing this opportunity. So for our assessment for Satavahana asset is over or we are still contemplating something on ground?
- Sandeep Kumar:** No, I do not want to answer this question because I think it is a little unfair on my part to.

- Saket Kapoor:** Not at all Sir. I will come in the next quarter for the NSR for the DI pipe we find that the NSR for this quarter has been down from Q2 and even the EBITDA is down is my assessment is correct Sir NSR for Q2 was I think is 49200, which is down to 48100 and the EBITDA was I think so 10900 for Q2 and 9300 for Q3 I am talking about only for the DI pipe Sir?
- Sandeep Kumar:** DI pipe the net realization has moved up by about Rs.300 from Q2 of this year, it was 41460 that has gone up to 41700 so almost Rs.250 to Rs.300 increase and compared to if you compare it to Q3 of last year then that was almost Rs.3000 increase has happened over last year. So that is a 2% increase over last quarter and 8% increase over year-on-year compared to 17% increase in coke prices if you look at year-on-year basis. So just to summarize coke prices have increased 17% year-on-year, pig iron prices have increased 23% and DI pipe has increased 8% that is the summary, year-on-year.
- Saket Kapoor:** Sir what have been the production number for the DI pipe for the nine months sales is 1.65?
- Sandeep Kumar:** Yes and production has been almost 64000 tonnes or you are talking about nine months?
- Saket Kapoor:** Nine months yes?
- Sandeep Kumar:** Nine months production is close to 170000 tonnes roughly. So I think you take it as 167000 to be exact.
- Saket Kapoor:** So Sir for this year for DI pipes we will be above 110% or something around that?
- Sandeep Kumar:** Yes looks like God willing it will be above that.
- Saket Kapoor:** No Sir what are the deliverable schedule for the last quarter from this is my last question?
- Sandeep Kumar:** See last quarter is the fresh for us. We have good orders. Operations doing well there is no reason for us not to do well like in Q3 there was a furnace problem so unless there is something which comes out of the blue, which we cannot anticipate I do not see any reason why we should not do much better than last year.
- Saket Kapoor:** What was the figure last year sir if you could just quantify that for Q4 FY2018?
- Sandeep Kumar:** DI pipe production last year was 208000.
- Saket Kapoor:** No I am talking about the sales number for Q4 last year?
- Sandeep Kumar:** 66000 is what we did in Q3 of this year and Q4 of last year.
- Saket Kapoor:** So we are trying to better that?
- Sandeep Kumar:** So we should be somewhere there or we will obviously try to do better but it is not going to be somewhere there. There is logistics bottleneck also there.

- Saket Kapoor:** Yes Sir. Thank you Sir for answering. Thank you.
- Moderator:** Thank you. The next question is from the line of Parth Garg an Individual Investor. Please go ahead.
- Parth Garg:** Thanks for the opportunity. Sir basically just wanted to get some guidance, your thoughts on cost on cash flow utilization I think if we see the nine month performance so far I think we have almost being stable to what we did in FY2018 so just taking out those numbers we are roughly will be generating around 200 odd Crores of cash for the whole year just an estimate. So can you guide us what is your thought process in terms of utilizing this keeping in mind the capacity expansion plans and the debt reduction plans that you might have?
- Sandeep Kumar:** I think we will be in a better position to talk to you at the end of the year once we have taken a call on our growth because otherwise the cash will sit pretty on our books so there is enough cash. We need to see how to utilize that and what is to be done and till we have made that our formal decision on our growth, I will it will be premature for me to tell you what we will be doing so I think just if you hang on for a month or two I think we should be able to tell you.
- Parth Garg:** Sir secondly as you mentioned so clearly that there has been this 1800000 tonnes of capacity in the industry and then there is 700000 tones of expected fresh order from Andhra government and the overall industry is running at say 75%, 80% utilization still in such a scenario wherein we see no new supply coming in and so much pent up demand around we are still facing a problem of not been able to take realization hike in past two, three, four five quarters now. So what are your thoughts on those lines because this is something a bit of counterintuitive given the number that you have highlighted 23% year-on-year rise in pig iron prices so is there something more into this situation or this is business as usual as per you?
- Sandeep Kumar:** So you are asking some very difficult questions but you are right the business from a high level looks very good and there is enough orders. The problem that comes in is on two counts. As I had mentioning a little while back one is that you need to have deliveries on month-on-month basis, you also need to have customers who are willing to pay you as per your terms, which means for example Tata Metaliks does not sell on unsecured basis and there is lot of customers who are willing to give you orders on unsecured basis so we do not take those orders that will be safe than sorry that is one. The other is that on a month-to-month basis the dispatches get impacted on a quarter-on-quarter basis because of maybe that inspection did not happen, maybe the site was not ready, we had the summer season, maybe it is a rainy season where the site does not work and sometimes the funding does not come in time so while there are grand announcements saying that look we have so much of money and so much of tenders all of that to convert finally into executable orders can take time and also requires effort so that is where the problem is so that is why as I said the if you look at it from a surface if you think is hunky-dory, good orders, limited number of players requires competitive effort, not easy for anybody to just walk in so high entry barriers, very good for certain companies like Tata Metaliks but in reality to execute that month-on-month, quarter-on-quarter is the difficult part and that is where you find the problem is and also the fact that because the steel raw material prices fluctuate the customers

look for lower prices whenever they can that is what I am saying as we go forward as of now the order books are very good but how things will behave three to six months down the line I do not know, I think that would have given you some sense.

**Parth Garg:** Yes absolutely that is a beautiful explanation and Sir secondly on the nine-month order book that you mentioned, we have so the price realization is somewhat similar level to what we are seeing so far or has there be any upward or downward trend in that?

**Sandeep Kumar:** No, as of now we have been looking for increasing prices, we were very nice to customers in fact even though the steel raw material prices went up we did not negotiate, honored our contracts because that is the way Tata Metaliks would like to behave as an ethical company but not everybody behaves the same way so when prices come down we will have to see that our customers honor their contracts and do not start looking here and there that will be one of the concerns for us when we go forward but we have customers like L&T and Tata Projects and all that so I think should not have a big problem, there may be minor hiccups. Always there are people so that is the way forward and I do not think the prices can go up very much from here. There will be pressure because of steel raw material prices having come down what is important for us is to maintain the spreads, prices per se are not so important and as we look in to Q4 and say Q1 of next year the spread should improve because the prices of DI pipe are fixed while the prices of steel raw material will go down, logically the spread should increase.

**Parth Garg:** Sir will it be possible for you to shed some light on the pig iron side of the business? How that is panning out now that prices have fallen in the entire steel segment? How is that thing playing out and just some bit of light on pig iron side of the business?

**Sandeep Kumar:** Pig iron is more Scottish so you have the steel raw materials, coke coal moving up pig iron goes up right now they are under pressure since November so the pig iron prices have also come down so they have come down by say almost about Rs.1500 to Rs.2000 per tonne over the last one, one and a half months while coke prices would have come down by say about 2000, 2500 that is the way and as we go forward I think they are also dictated and influenced by how the steel market behaves because the raw material is the common one and that will have an impact on the pig iron. So just to answer your question specifically in Q4 pig iron prices are under pressure because of the drop in steel raw material also there is a pressure on account of liquidity in the economy liquidity is an issue that is also causing some concerns so there will be some impact on pig iron as we go forward, that is my personal view. We will see how it goes.

**Parth Garg:** So currently it is around 33000, 32000 levels per tonne pig iron price?

**Sandeep Kumar:** Yes so and some markets it is come below 32000 maybe more like 31000 in some market it is at 32000 so depends on the geography it is between 31000 and 33000.

**Parth Garg:** This DI pipe realization that we mentioned I missed noting that one can you give that comment please?

- Sandeep Kumar:** The DI pipe realization?
- Parth Garg:** Realization for the quarter?
- Sandeep Kumar:** The DI pipe realization for Q3 was 41700 compared to 41400 order in previous quarter that is Q2.
- Parth Garg:** That is it from my side. Thank you and best of luck Sir.
- Moderator:** Thank you. The next question is from the line of Manish Jain an Individual Investor. Please go ahead.
- Manish Jain:** Good afternoon Sir. My question was regarding expansion plan. Is this going to be a Brownfield project or Greenfield project and usually after approval how much time it takes to get it operating basically?
- Sandeep Kumar:** Manish good afternoon. I in fact just answered this question little while back saying that it takes about 18 to 24 months. As far as our growth options are concerned we have not taken the final call and as I was saying that maybe we will let you know hopefully in the next couple of months. We are at almost towards the end of deciding that what we are going to do whether we are going to expand or not and so all that decision but parallelly we are working on various options this is basically a repeat of what I have told last quarter.
- Manish Jain:** Thank you.
- Moderator:** Thank you. The next question is from the line of Vikas Singh from B&K Securities. Please go ahead.
- Vikas Singh:** Good afternoon Sir. Sir I just want to understand one thing like you said that the spreads should improve in 4Q but we have an order book of nine month so have we been able to do anything which would so as to take the fix the spread once we get the order because raw material fluctuation is very well in past few quarters so in terms of pipe prices have we able to move into the similar kind of some induct based pricing or is still fixed and we continue to expose for whichever side the raw material size has moves on?
- Sandeep Kumar:** Long-term contracts typically have a linkage to WPI so not long-contracts but some contracts are linked to WPI the government contracts so if the WPI goes up we will get a higher price, but the steel raw material fluctuates much more than the WPI and therefore we are exposed. One of the ways to handle that was to hedge on coal but today the hedge would be perhaps on the wrong side because as the raw material prices come down it might make more sense to keep it open and increase your spreads but this was something which we have discussed past and we had been looking actively at hedging a part of our coal buy so that the spreads are protected.

- Vikas Singh:** So currently if I may ask that what percentage of our coal buying is hedged or we are taking quarter-on-quarter decision on that?
- Sandeep Kumar:** Nothing has been hedged because we think that the prices are going to go down and are going down and therefore our spreads will only improve so there is no need to take a hedge right now. See we started this and we took permission from RBI etc., last year but we were doubling with the small quantity but we did not really do any hedging but going forward as things stabilize we will be looking into this.
- Vikas Singh:** So currently what percentage of our long-term contract has WPI linkage if you can share?
- Sandeep Kumar:** I do not have the number in front of me right now. I do not really know how much but there are certain contracts, government contracts where it is WPI linked and certain which are open. Sorry I do not have that number but I can maybe sometime Subhra can give you.
- Vikas Singh:** Sir just one last question, if I assume that we are going for an expansion in DI pipes so is it safe to assume that this would only be the DI pipe plants because since we already have spare capacity in hot metal so that would?
- Sandeep Kumar:** I cannot comment on it as I said on the expansion growth without a formal approval from my board, which I do not have it at the moment but what I hinted to you guys enough in the past and today is that we are going full stream on couple of options and we will shortly be taking a call but I have also said in the past and I am again repeating that none of this will delay our growth plans if at all we decide so it is a question of decision but parallelly we are taking steps and there is no issue as such in terms of any delay so you should not be concerned so I am basically telling the investor community that there would not be any delay should we take that call, if we delay beyond taking the decision beyond the Q1 of next year then yes there maybe some delay.
- Vikas Singh:** That is all from my side Sir. Thank you for taking up my questions.
- Moderator:** Thank you. The next question is from the line of Shrimant Dudodia from Unified Capital. Please go ahead.
- Shrimant Dudodia:** Thanks again. On the 650000 to 700000 tonnes of tender that you mentioned from the Andhra government, is that part of some specific scheme like in the past Telangana government had come up with the scheme Bhagiratha so is it part of some schemes so that will be easy for us to track?
- Sandeep Kumar:** Yes so it is a part of some scheme and the Andhra government is coming out with that so it is a big, big project it is like a water grid so we can share with you more details subsequently.
- Shrimant Dudodia:** Given that you are based out of east and if you have to supply down to south your logistics cost would be higher would you prefer catering to markets in the eastern and central belts or would

you prefer coming down to south and cater to this demand do you still see demand from the existing belt say eastern region or the central region or you have to come down to south?

**Sandeep Kumar:** No we need to come down to south as well. We supply in Tamil Nadu, we supply in Kerala also but bulk of our sales almost 50% is in east and Andhra is not that far so Andhra is actually comes within our geographical region of what we call as close to east and therefore I think we are positioned well to serve Andhra so Andhra is not an issue.

**Shrimant Dudodia:** Thank you so much.

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

**Vimal Gohil:** Thank you for the opportunity once again Sir. Sir I just wanted to know what would be your capex number for FY2019 and 2020?

**Sandeep Kumar:** Capex number for FY2020 we have not yet decided as we go into the annual business plan maybe next month with our board once it is approved then only I can tell you.

**Vimal Gohil:** And for FY2019 how much will it be Sir?

**Sandeep Kumar:** FY2019 I think we had taken an approval of I think close to about 90 Crores. We may spend a little lower than that.

**Vimal Gohil:** Thank you Sir.

**Moderator:** Thank you. Ladies and gentlemen that was the last question. I now hand the conference over to Mr. Abhisar Jain for his closing comments.

**Abhisar Jain:** Sandeep Sir you can please make any closing remarks and then we will close the call.

**Sandeep Kumar:** I think there are no further comments to add except for saying that Q4 is looking good for us for the pipe business and the pig iron business will remain a bit of uncertainty and therefore that is the one to look out for. The other point I would want to mention is that as we step into FY2020 there will be some uncertainty and concerns regarding how the elections will pan out and how much time would it take for new projects to kind of receive funding because if there a new government or the same government I mean it is always called a new government after the elections whether the same party or a different party, it may take a bit of time so Q1 could be a little slow that is what is one of the concerns that we have but Q4 looks good and as far as growth is concerned, I hope I am able to communicate to you in the next couple of months finally as to what steps what is the decision taken by our board. With this I think I am through. Subhra you have any comments. Okay right Abhisar. Thank you very much.

**Abhisar Jain:** Thank you so much Sir. Thanks a lot for your time. We can close the call Lizaan please.

**Moderator:** Thank you. Ladies and gentlemen, on behalf of Centrum Broking Limited that concludes today's conference. Thank you for joining us. You may now disconnect your lines.