Company Name: Tata Metaliks
Company Ticker: TML IN
Date: 2020-01-17
Event Description: Q3 2020 Earnings Call

Market Cap: 18368.99425
Current PX: 654.05
YTD Change($): 41.6
YTD Change(%): 6.792

Bloomberg Estimates - EPS
Current Quarter:
Current Year: 44.6
Bloomberg Estimates - Sales
Current Quarter:
Current Year: 20301

Q3 2020 Earnings Call

Company Participants

- Sandeep Kumar, Managing Director
- Subhra Sengupta, Chief Financial Officer

Other Participants

- Aalok Shah, Analyst
- Sumangal Nevatia, Analyst
- Vimal Gohil, Analyst
- Sreemant Dudhoria, Analyst
- Vikas Singh, Analyst
- Gaurav Agarwal, Analyst
- Abhishek Ghosh, Analyst
- Bhavin Chheda, Analyst
- Sahil Sanghvi, Analyst
- Anurag Patil, Analyst
- Yogansh Jeswani, Analyst
- Siddharth Sivakumar, Analyst

Presentation

Operator

Ladies and gentlemen, good day and welcome to the Tata Metaliks Limited Q3 FY '20 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. (Operator Instructions)

Please note that this conference is being recorded.

I now hand the conference over to Mr. Aalok Shah from Monarch Networth Capital Limited. Thank you, and over to you, Mr. Shah.

Aalok Shah, Analyst

Yeah, thanks, Neerav. Good afternoon to all. On behalf of Monarch Networth Capital, we welcome you for Tata Metaliks Q3 FY '20 earnings call. From the management side, today we have with us their MD, Mr. Sandeep Kumar and CFO, Mr. Subhra Sengupta. Without taking much of your time, I'll hand over the call to Sandeep, sir. Thank you. Over to you, sir.

Sandeep Kumar, Managing Director

Yeah, hi. Good morning and thank you for this call. If I could summarize the performance in quarter three, the EBITDA, the operating profits for the company, stand at about INR81 crores compared to say INR46 crores in quarter two and say about INR75 crores, INR76 crores in quarter three of FY '19. So year-on-year as well as sequentially both ways, the performance has been better in terms of profitability.

Now what has led to this profitability. I would say that primarily, it is the pig iron business and there also despite the poor market, the major effect has come point to the cost controls and more importantly the operational efficiencies which are reflected through a much, much better fuel rate, increased coal injection, stable blast furnace operations and therefore no shutdowns in this quarter. And also I would say -- the sales volume of pig iron have been much better compared to what has been in the recent past, considering the poor market conditions. So the pig iron business has led it and there has been a swing of almost INR37 crores, INR38 crores in the EBITDA of the pig iron business -- the EBITDA of pig iron business from a negative of INR17 crores in quarter two to INR21 crores in this quarter.

As far as the pipe business is concerned, that's a stable business for us as you know and that has continued to play reasonably well, although not as per our expectations, we would have wanted to do much more. And there are some problems there and which I will dwell with at length as we go on. But primarily the issue is on account of liquidity in the system and the government money is not flowing freely into the projects. Even though there are projects which are announced, even though there are projects which are under execution.

So, on the whole, ductile iron pipe business has held on, while the pig iron business has made a huge search. And I think that has what impacted our profitability and improved it significantly. In fact, it's a doubling of profitability. If you look at simply the PAT from INR23 crores last quarter to INR46 crores in this quarter. I think that is what I would summarize as the performance. And I can take on the question-answers thereafter. There is of course Subhra Sengupta my -- our CFO, who is along with me. And both of us are here to fill these questions from our investors. Thanks.

Questions And Answers

Operator

Thank you very much. We will now begin the question-and-answer session. (Operator Instructions) The first question is from the line of Sumangal Nevatia from Kotak Securities. Please go ahead.

Sumangal Nevatia, Analyst

Yeah, good afternoon, sir, and congratulation on the recovery in profitability. First question is, I mean on the spot spreads, I mean, if you could guide how fourth quarter and future quarters are looking given the recent price hikes taken and also some benefits of lower cooking coal cost still incur in the coming quarters. This is my first question. I have more, but we'll take it later. Yeah.

Sandeep Kumar, Managing Director

Yeah. Okay, thanks. So these spreads have improved compared to, say, last quarter, it's almost now up by INR1,200 in quarter three compared to quarter two. That is the spread between pig iron and coke. And already in January, we are seeing further increase of say about INR700 to INR800. So as of now, things look bright. The steel prices have moved up and pig iron prices have moved up in tandem. How long will this sustain is difficult to say. We think quarter four, we should be able to have a reasonably good quarter, primarily from a market point of view. And as far as costs are concerned that of course we will discuss later. But costs are something, which seem to be under control at the moment and looks sustainable as well. So quarter four, the market looks bright and we should be able to sustain this quarter and improve our spreads even further. That's what looks as of now.

Sumangal Nevatia, Analyst

Understood, understood. Sir, second question with respect to our expansion project, if you could just update on the latest schedule there and also with this expansion coming in and what sort of DI volume growth or absolute volume one can expect in FY '21 and then '22?

Sandeep Kumar, Managing Director

Our expansion project is very much on track. The first phase was supposed to come by end of this year and we think we should be able to make it happen by end of this year. So the volume should start flowing in from quarter four. Although initially as you know there will be more of the iron teething issues and there will be so small volume. So not much of an impact, I would say this year but primarily from next year. Now what volumes -- whatever are the current volumes on top of that, we should be able to add, say another 100,000 tons in FY '22 and say 200,000 tons in FY '23. That is something which looks -- is very much on track. In fact FY '22 could be even more than 100,000 tons depending on how fast we stabilize and what sort of market we are in. As of now, the DIP market is looking a little stretched from a government funding perspective. I hope that the government funding resumes rather -- resumes fast enough to ensure that the pickup is faster than what we have seen in quarter three.

Sumangal Nevatia, Analyst

Understood. That's very helpful. I have more questions, I will join the queue again. Thanks, and all the best.

Sandeep Kumar, Managing Director

Thank you.

Operator

Thank you very much. Next question is from the line of Vimal Gohil from Union Mutual Fund. Please go ahead.

Vimal Gohil, Analyst

Yes, sir. Thank you for the opportunity. Sir, if you could just elaborate, in this particular quarter, what -- how have our cost initiatives played out as to how much -- what kind of benefits have we got in terms of our initiatives taken, in terms of our coal injection and other projects that we had taken for saving on costs, please? Thank you.

Sandeep Kumar, Managing Director

Yeah. So while I would not like to divulge the exact fuel rates. But all I can tell you is that there has been an improvement of almost 6% in the fuel rates compared to quarter two. Okay. So that's one fundamental factor and that's a primary driver of cost. In addition to that, since the furnaces have been stable, the availability has improved, the yields have improved, oxygen injection has gone up. As you know, the oxygen plant came up in July - August. So quarter three, we could get the full advantage of oxygen. And another important factor was power generation. The power generation in quarter two was not all that good, we were facing some problems from the plant side. So the power generation was also full up.

So therefore, all these have reduced, have led to reduction in cost, because the more power we produce from our waste heat, the less we draw from the grid. And as you know, there is a huge arbitrage between the grid price of say over INR7 versus over INR1 to INR1.50 from waste heat. So all this makes a huge impact to the cost. And that's why you find a swing of almost INR38 crores in the pig iron business. Have I answered your question?

Vimal Gohil, Analyst

Yes, sir. Thank you. Yeah, my spread questions has already been answered.

Sandeep Kumar, Managing Director

Right.

Vimal Gohil, Analyst

Thank you very much.

Sandeep Kumar, Managing Director

Thanks.

Operator

Thank you. Next question is from the line of Sreemant Dudhoria from Unifi Capital Private Limited. Please go ahead.

Sreemant Dudhoria, Analyst

Good afternoon, and thanks for the opportunity. Firstly, on the ductile iron pipe business, now given that Q3 and Q4 are strong quarters for this business and there has been a year-on-year volume decline in this segment. How is the Q4 run rate looking like? Is it still kind of a year-on-year decline, or should we catch up the volumes that were lost in Q3 and Q4?

Sandeep Kumar, Managing Director

See, it looks difficult to exactly say, we have good bookings, so order books is not a problem. But we have two issues. One is primarily on the fund flow where we have seen a definite slowdown and the EPC contractors are facing the heat because they're not getting the money in time and therefore they have slowed it down. So they have orders, they have projects, but that is one. Number two is that we have had change of government in Maharashtra and Jharkhand. These were two major states from where orders are coming. Of course, the biggest state from where orders today are being sustained is Odisha. But there -- and the number two category are Maharashtra and Jharkhand, Haryana, Madhya Pradesh. So these are the other states.

So, well, the problem is there. Now quarter four to me will look a bit muted. I don't think we would be able to do the same as what we did last year, unless things change, primarily because of the fund flow. And also I think our product mix is going to be a little adverse in quarter four. Because obviously in terms of order bookings, we have to supply all kinds. So moment you supply a certain product mix which is not favorable to the plant, so the production goes down. So it's not an efficiency. It's just that the machine capacity is limited and therefore the quarter four looks to me that it will be muted from a perspective of tonnages. Although if you look at number of pipes, number of pieces, it will be full-on. So what you will see, you don't see all that, what you will see tonnage where it is likely to be lower than last year. This is what I feel at the moment. But we will see as we go.

Sreemant Dudhoria, Analyst

Okay. And how significant were the contribution from Maharashtra and Jharkhand in our overall mix? Can you quantify, was it like 20%, 25% or was it more, what was the contribution?

Sandeep Kumar, Managing Director

Yeah. So in terms of sales volumes, it will be more like 15% to 18% kind of. But what happens, it's not the total order mix. There's always a difference between what orders you book and what is executable in a particular quarter. For any orders to be executable, there are huge number of steps. There must be money, we don't allow any free credit. By free credit, I mean open credit, everything is covered for us in the ductile iron pipe business. So we must get our bank guarantees or the letter of credits or advanced payment or some other arrangements in place that takes time, particularly today. So we would rather not sell, then sell and then run after money. So that puts us in a bit of a spot. So that impacts us. Then, what happens is that then there is inspection carried out, then there is a project engineer at the site, he has to give clearance. So there are huge host of issues which is where the difference comes in in terms of executable orders. But otherwise, the order book is not bad. It's I think reasonably good, although not as good as what it was say, three to four months back. Because the new orders -- the new tenders have also slowed down a bit. But I think it's a matter of time before things just starts recovering. Because water is something, which I don't think any government would like to delay too much.

Sreemant Dudhoria, Analyst

Sure, sir. Secondly, to better appreciate the cost savings contribution and that you were mentioning about, if you could help in terms of, on a per tonnage basis, what's been the savings that has come in the quarter three or maybe help us with the EBITDA per ton for the pig iron, for the ductile iron business and compare it with, say the Q2 and say Q3 of last year, that will help us to better understand the savings contribution, the cost savings contribution.

Sandeep Kumar, Managing Director

So the cost rupees per ton, I don't think we can share. But I think EBITDA, some idea we can give you of the different business. I'll just request Subhra, our CFO to respond to that.

Subhra Sengupta, Chief Financial Officer

So as explained by MD that we have reduced on the fuel cost, increased the PCI rate. And as there was no shutdown. Therefore the repairs/maintenance cost has come down. Also for the higher generation, the cost of electricity has come down, that is reflected in the other expenses. And also on the gross margin, the cost is also has come down if you see. So -- and that is fully reflected in the blended EBITDA which was 15.6% compared to last time it was below 10%. So compared on a quarter-on-quarter, if you see the other expenses, it was INR123 crore versus INR100 crore and that is mainly because of the repairs/maintenance, lower electricity cost and the freight and the fuel cost which is in the raw material cost.

Sreemant Dudhoria, Analyst

Right. So if I look at the, say, the EBITDA margin, if you're going by that number and compare it with say the quarter two or quarter three of say FY '19, we are somewhere in between there. So I was just trying to better understand the contribution from cost saving, and especially at a time when our raw material costs are actually coming down by about 10% to 15%. So that's why the question.

Subhra Sengupta, Chief Financial Officer

So that was -- that has reflected in the spread, that is also explained on quarter two to quarter three, the spread between the pig iron and the coke has gone up and that is expected to be sustained in the Q4 and go up a little better. But that is a cyclical because the low cost of coke and iron ore [ph] will not continue or sustain for long. So the Q4 could be that comparatively low cost of iron ore and will be stable in it on the pig iron. But on the long run, the gap remains the average gas of 4,000 to 4,500 between the coke price and the pig iron ore. So, efficiency on the fuel rate and others is sustainable and our endeavor is to have the sustain it and make it better.

Sreemant Dudhoria, Analyst

So when the cost saving systems were being planned and we're getting commission, we had a certain number of, in terms of rupees crores, in terms of savings that could come from these from both the oxygen plant as well as from the PCI. Where are we on those parameters? Does the Q3 numbers fully reflect those savings?

Subhra Sengupta, Chief Financial Officer

If I say, by percentage, in case of PCI, we have achieved almost 70% of the benefit and we have some more miles to go. In case of oxygen it is fully utilized in the Q3 as all the oxygen plants came in the Q2. So these are the major two, oxygen and the PCI. So PCI we make it something more in the Q4, some more numbers -- some more better numbers in the Q4. But oxygen we have fully utilized.

Sreemant Dudhoria, Analyst

We also had plans to reduce the cost further. Any such systems or any such commissioning that are likely to happen in the near term?

Subhra Sengupta, Chief Financial Officer

So that is a next -- next on the cost side little bit of CPP 4 the power plant, which will come in the Q3 of next -- yeah Q4 of the FY '21.

Sreemant Dudhoria, Analyst

Okay. Okay.

Subhra Sengupta, Chief Financial Officer

On the structural cost reduction, we had the projects of the PCI, oxygen and the further power. Oxygen, we are fully -- we are getting the full benefit. In the PCI 70% to 75% and the next power plant which will come in the Q4 of the FY '21.

Sreemant Dudhoria, Analyst

Okay. Okay. Sure. Thank you. I'll get back in the queue.

Operator

Thank you very much. The next question is from the line of Vikas Singh from Phillip Capital India Private Limited. Please go ahead.

Vikas Singh, Analyst

Hello, sir.

Sandeep Kumar, Managing Director

Hi.

Vikas Singh, Analyst

Sir, I just want to understand on the industry side, you said that the currently order booking has been little bit slow. So, just wanted to understand that, what is your assessment that when the new order booking inflow will start and considering since the pig iron index has been moved up, do you expect that the pricing to be better in terms of DI as well?

Sandeep Kumar, Managing Director

Pricing in DI I don't think will be better. Pricing in DI has already held on, despite the significant drop in the raw material prices and pig iron prices over the last six to nine months. DI pipe prices have only fallen by say INR1,500 [ph] it's not small, for the last six to nine months.

Vikas Singh, Analyst

Okay. And sir, how about this -- your assessment of when the market demand would again start to pick up?

Sandeep Kumar, Managing Director

So the market demand you see is dependent on the projects, the projects are there. Like for example, one of the big projects that is coming up and which is likely to go for tender over the next three to four months is coming from Andhra Pradesh which is the water grid project, which if you remember a year back after the change in government, canceled and it has been re-tendered.

Vikas Singh, Analyst

Yes, sir. So how big is this opportunity -- opportunity size, sir, in terms of tonnage or anything else, if you could share with us?

Sandeep Kumar, Managing Director

Almost if the entire project comes up, as it was envisaged, see like a half a million tons or more. Now we have to see how the government is going to fund. The previous government had agreed and it had done the -- orders were given to

EPC contractors. The new government came and I believe they were canceled and the tendering we understand is going to come up, the next three to four months, it has been internally cleared and they should go for tender. So I think the benefit of that should come in FY '21. I think the most of the benefit would come in the second half of the year. After the tendering, the EPC contractor gets finalized, then he books with the DI pipe guys. So that might take six to nine months time. So that should be a big one.

Other than that, Odisha is holding very strong. In fact, that is what has kind of helped us in this financial year. Then I think there are -- Jharkhand was picking up when the change in government has happened. So this might take -- another one Bihar and UP where we are seeing signs of. And Madhya Pradesh, another big one. At the moment there seems to be some funding constraints. It has to be tied up and then it has to be executed. That's where the issue is in Maharashtra, and Haryana the other one.

Vikas Singh, Analyst

Okay. And sir in your initial remark I have missed out in the sales volume for the quarter. So if you could just repeat for me again.

Sandeep Kumar, Managing Director

Pig iron sales volume was 86,000 tons for the quarter three versus 77,000 tons in quarter two.

Vikas Singh, Analyst

Okay. And DI?

Sandeep Kumar, Managing Director

DI was 1,000 tons, (Technical Difficulty).

Vikas Singh, Analyst

Sorry, sir, your voice was breaking. So I couldn't hear you properly.

Sandeep Kumar, Managing Director

54,000 tons of pipes.

Vikas Singh, Analyst

64, right?

Sandeep Kumar, Managing Director

54.

Vikas Singh, Analyst

54 -- 54,000 tons. Okay.

Sandeep Kumar, Managing Director

Versus 56 in quarter two.

Vikas Singh, Analyst

Okay. And sir, just one last question. In terms of coking coal consumption cost, what kind of cost savings we could see this next quarter or these consumption cost expected next quarter versus this quarter, if you can share.

Sandeep Kumar, Managing Director

Percentage, we have improved by almost 6% for last quarter. I'm just --

Vikas Singh, Analyst

And next quarter expectation because we are already in January and probably would have booked most of our inventories also.

Sandeep Kumar, Managing Director

Consumption perspective, sales [ph] perspective, fuel rate. And I think we have reached a level where any further increase will be difficult. But will be possible is, we will improve the coal injection further. That will help us save some more cost. That's why we are saying, quarter four should be better than quarter three.

Vikas Singh, Analyst

Okay, that's all from my side, sir. And thank you for taking my questions. All the best.

Sandeep Kumar, Managing Director

Thank you.

Operator

Thank you. Next question is from the line of Gaurav Agarwal from Bowhead Investment Advisors. Please go ahead.

Gaurav Agarwal, Analyst

Thank you, sir, for the opportunity. Sir, you mentioned about your capital expenditure program. So you mentioned that the Phase 1 will complete by the end of this year. So this is the financial year we are talking about or the calendar year we are talking about?

Sandeep Kumar, Managing Director

So by end of this year, calendar year, the project should be commissioned. And the supplies should start from quarter one of next calendar, but we should not take much volume because when the plant gets commissioned, there are teething troubles, there are issues. So therefore, I am saying don't consider too much of volumes really coming out from the plant in FY '21.

Gaurav Agarwal, Analyst

And for FY '22 you mentioned around 1 lakh tons for --

Sandeep Kumar, Managing Director

1 lakh tons additional should come out in FY '22, at least 1 lakh tons.

Gaurav Agarwal, Analyst

Okay. Okay.

Sandeep Kumar, Managing Director

Because the second phase will get commissioned in the second half of next financial year, which is FY '22.

Gaurav Agarwal, Analyst

So if my understanding is correct, there are two phases. One is 1 lakh each and one is commissioning in FY '21 benefit of which you will get in FY '22 and one is commissioning in FY '22 benefit of which you will get in FY '23?

Sandeep Kumar, Managing Director

Yeah, yeah, you're right, you're right. So roughly what you have said is right. Although if I strictly speak, the first phase is a little more than 50%, it's 60% and second phase is 40%, but I think on a broad level it's fine.

Gaurav Agarwal, Analyst

Okay. And sir, you know on the industry perspective like the government has come out with this Nal se Jal initiative. So under which many industry reports mentioned that over next five years, INR3.5 trillion will be spent on the water side and 40% of that will be on piping industry. So if you can just give us a broad perspective how has been the expenditure from government on pipes, over the last two, three years? How is it expected to be in the next one, two years? What kind of delta you expect on from the industry? So, any color would be very helpful to understand the long-term prospects of DI pipes.

Sandeep Kumar, Managing Director

If you look at the last five years, the growth in the ductile iron pipe business has been to the extent of about 8% to 9%, okay, this year. Okay? And what we have projected over the next five years is anything between 9% to 12%. In fact, there are some projections which say even more than 12%. But I would like to be conservative and say that if we can do about 9% to 10%, that's a I think very, very good growth rate for any industry and that is what I would stick my neck out on, though, there is an increased I would say allah balu on water. And there would be investments coming in, including the -- that scheme announced by the Prime Minister on Har Ghar Me Nal, Har Ghar Me Jal whatever. So -- but the -- on towards of that and the money flow of that has not yet started. Therefore, when it comes in, it gives up further boost. And this 9% -- 9%, 10% might even improve further. But as of now, I'm quite certain that 9% to 10% growth is a safe assumption to take for the next five years.

Gaurav Agarwal, Analyst

Okay. That you are mentioning for the company or for the industry?

Sandeep Kumar, Managing Director

No, no, for the industry, I am saying.

Gaurav Agarwal, Analyst

Okay. Okay. For you, it will be much, much higher because of the CapEx plan.

Sandeep Kumar, Managing Director

That's correct.

Gaurav Agarwal, Analyst

Okay. And sir, you mentioned some big project which is going to come in AP and you being a player in Jharkhand. So -- and there are some capacities, which are lying vacant in the state of Andhra Pradesh. So, will you be able to get some benefit from that Andhra Pradesh tender? How does this whole economics work?

Sandeep Kumar, Managing Director

Yeah, yeah, it's a huge tender. The whole demand is, as I said to the order of about half a million or more, but that's for the entire project. Now this might come in phases, not everything might come together. Okay. Although last time when they had done, they had tendered for the entire thing. This time, I believe they might be doing it in phases.

Gaurav Agarwal, Analyst

But, sir, for you it will be slightly uncompetitive because transportation is a big cost if my understanding is right.

Sandeep Kumar, Managing Director

No, no. So certainly compared to say Jharkhand or West Bengal it will be less remunerative for us in terms of net realization, freight cost would be higher. But Andhra Pradesh is very much in our scheme of things, Andhra, Telangana, Odisha, all this for suppliers. So we certainly would like to supply, though the net realization as you rightly said, would be less, I would say interesting compared to if we had supplied in West Bengal or -- we are best in West Bengal not in Jharkhand by the way, Kharagpur.

Gaurav Agarwal, Analyst

Sorry, I'm sorry. Okay. Okay. Sir, would you be able to quantify the transportation cost in this industry, may be in terms of some standard, which you guys use in your industry?

Sandeep Kumar, Managing Director

So the freight cost would vary, it could go up as much as INR7,000 per ton, if you go to South of India. And if it is closer home, then it could be as low as INR500 to INR1,000 per ton. So depending on where we supply, it would vary from say INR1,000 to INR7,000 per ton.

Gaurav Agarwal, Analyst

Got it. Got it. Thank you so much, sir, for your help.

Sandeep Kumar, Managing Director

Right. Thanks.

Operator

Thank you. (Operator Instructions) Next question is from the line of Abhishek Ghosh from DSP Mutual Fund. Please go ahead.

Abhishek Ghosh, Analyst

Yes, sir. Thanks for the opportunity. So in terms of the overall industry adding capacity, would you have a sense around who are the other key players who are adding capacity here, and to what proportion?

Sandeep Kumar, Managing Director

Overall capacity of the industry is upwards of 2 million, it is more like 2.2 million or something, while the demand is more like 1.8 million, 1.9 million tons. So obviously the capacity utilization would be more like 80%, 85% something like that.

Abhishek Ghosh, Analyst

Sure. And you are adding capacity by almost about 0.3 million tons, it would be the right number?

Sandeep Kumar, Managing Director

0.2.

Abhishek Ghosh, Analyst

0.2.

Sandeep Kumar, Managing Director

Our current capacity is 200,000, we will add another 200,000. Right now, we are producing beyond the 100% capacity.

Abhishek Ghosh, Analyst

Okay. And any other -- so you're increasing capacity by almost 10% in the system. Any other player you see who is adding capacity aggressively because the funding issues overall demand may really not increase given the state fundings and other thing.

Sandeep Kumar, Managing Director

Yeah. So Srikalahasti I believe is going to also increase by another 2 lakh tons.

Abhishek Ghosh, Analyst

Okay.

Sandeep Kumar, Managing Director

Okay. Other than that, there are some announcements like if you look at it, there is Sesa Goa, which is in Goa, but we haven't seen any progress on that because they are currently having the Vedanta, Bokaro plant.

Abhishek Ghosh, Analyst

Yeah.

Sandeep Kumar, Managing Director

So they need to stabilize that first, I don't think they have a good handle on that. And thanks too, they go in for an expansion, but at some stage I would believe that they might go into that. Then there is KIOCL, Kudremukh Iron, that's a PSU. They have been very interested to get into ductile iron pipe. And I believe they are also working on that. So I think these two, three capacities are kind of known. I think Sesa Goa might not come immediately, but Srikalahasthi is certain, while Kudremukh Iron also would be more or less certain, they are working on the project. Then other than that there could be some small here and there.

Abhishek Ghosh, Analyst

So over the next couple of years, we're almost talking about 25% to 30% of capacity getting added into the system. So probably --

Sandeep Kumar, Managing Director

Almost 25% over the next three years I think should come up.

Abhishek Ghosh, Analyst

So you will have to maintain that growth -- demand growth rate of 8%, 9% to keep similar utilization levels?

Sandeep Kumar, Managing Director

Yeah, that's what I was saying that 9% to 10% growth is looking very much feasible, considering the government's interest in water infrastructure, it could be even more.

Abhishek Ghosh, Analyst

Yeah. Okay. And sir, given the freight cost issue, your volumes in West Bengal, Jharkhand, Odisha will be much more profitable than that in Maharashtra that you must be doing. Is that the way to look at it? And at what proportion -- hello?

Sandeep Kumar, Managing Director

Yeah. So theoretically, yes. It depends on project to project, but yes.

Abhishek Ghosh, Analyst

Okay. Okay. And sir, you mentioned that in the freight cost to southern, you almost spend about INR7,000 per ton. So broadly, if one was to look at it per ton per kilometer, is that the number that you work with on a per ton per kilometer? Is that a better indication of the freight cost?

Sandeep Kumar, Managing Director

No, no, we look at our contributions and that's how we kind of decide.

Abhishek Ghosh, Analyst

Okay. And sir, just lastly, with the steel prices increases, the pig iron cost and costs have also increased while the DI overall realizations not increasing. So that could put some pressure on the overall DI pipes. Is that what you see?

Sandeep Kumar, Managing Director

In fact, DI pipe prices should have come down ideally.

Abhishek Ghosh, Analyst

Yeah, I know. So you have gained some amount of --

Sandeep Kumar, Managing Director

(multiple speakers) which is because it's more stable, it takes time. There is a lag effect. But we would have started seeing the drop in DI pipe prices now. But the market has again turned up. So to what extent the DI pipe prices will come down, certainly it has come down marginally by about INR1,000. For DI pipe INR1,000 is a marginal price reduction. We haven't seen the price reduction, what we have seen in pig iron after nine months -- eight, nine months, almost INR5,000, INR6,000. And now there is a recovery of almost a couple of thousand rupees happening already.

DI pipe, there may be some temporary lag which would be basically because of pressure from the demand side, as I mentioned to you because of lower fund flow. And the lag effect, so there could be some impact of that on the ductile iron pipe prices.

Abhishek Ghosh, Analyst

Sure. But, do you think on a sustainable basis on an EBIT per ton in DI, you can make about INR7,500 to INR8,000. Is that a fair assumption to move foot?

Sandeep Kumar, Managing Director

Put it the other way around. I would say the -- we should be able to do about 18% to 20%, EBITDA margin on DIP. And I think that's very much possible, and sustainable. And we should look at it from a -- not from a transfer price perspective, but from a perspective of raw materials to finished goods. So upwards of 20% is very healthy, and we already done about 24% kind of 23%, 24% this year -- this quarter. And therefore upwards of 19%, 20% is very much doable and I think we should be able to do it. Don't look at transfer prices, because transfer prices linked to pig iron prices which fluctuates, best to look at from cost -- raw material cost.

Abhishek Ghosh, Analyst

Sure. Okay. Okay, sir. Thank you so much for answering my questions, and all the best.

Sandeep Kumar, Managing Director

Thanks.

Operator

Thank you very much. The next question is from the line of Bhavin Chheda from ENAM Holdings. Please go ahead.

Bhavin Chheda, Analyst

Yeah, good afternoon, sir. Good set of numbers. So, there has been -- Orissa has come out with the iron ore mining auctions and many mines are getting auctioned in Orissa and elsewhere. But if I see the list that Tata Metaliks have not participated in any of the mines, do you buy iron ore from the open market. So can you just elaborate what would be the strategy of the Company in the upcoming iron ore and even in future the coal auctions?

Sandeep Kumar, Managing Director

Well, coal, as you know, the quality of coal in India, coking coal is not very good.

Bhavin Chheda, Analyst

Right.

Sandeep Kumar, Managing Director

Tata Steel already has coking coal mines and they are weaker, more inferior coal compared to what you get in the Australia or Canada.

Bhavin Chheda, Analyst

Sure.

Sandeep Kumar, Managing Director

The effort is much more than of running a mine with all the concomitant problems is far more than having it. So coal we are not too keen because there are very few assets, but we will certainly evaluate depending on what is available, what comes up for auction. As far as iron ore is concerned, there, it's not that we have not shown interest, we have been evaluating. It is just that we have not participated till now. In fact we had participated about I think almost two years back. And -- but now the recent auctions so far we have not yet participated, but we will be looking at it, it's not that we will not be. Even if we don't have it, it's not such a big deal, because we do get most of our supplies from Tata Steel almost 60%, 70% of it. And Tata Steel continues to have iron ore, its mines are there till 2030. So over the next 10 years, I don't see a big problem. Yes, of course, Tata Steel is also ramping up. So they might need additional, but they have enough resources. So combination of Tata Steel and open availability is kind of taking care of it. But if there are some attractive mines, we will certainly bid for it.

Bhavin Chheda, Analyst

So iron ore auction mines, we probably will have a open mind and we'll surely look at it, okay. Because one reason I felt that the Tata Metaliks may not have participated is because of the Orissa square kilometer restrictions where Tata has a group probably would exceed if they try to participate in all the mine. So was there a discussion on that front which led to Metaliks, since it being a subsidiary of Tata Steel not able to participate in Orissa mine auctions?

Sandeep Kumar, Managing Director

No. But Tata Steel is participating.

Bhavin Chheda, Analyst

Yeah, Tata Steel is participating, but it has also not participated in all the mine. So I believe that 60 square kilometer area is acting as a hindrance to participate in. Because initial participant you can always participate in all the mines, right. When it comes to final stage, you can always not bid aggressively, but Tata Metaliks name is not seen even in the participation list. So was it because of the restriction on the area part?

Sandeep Kumar, Managing Director

No, no. You see, Tata Steel and its subsidiaries are already participating. And I think now with the recent ruling, you can't have both the parent and the --

Bhavin Chheda, Analyst

Yeah, yeah, participating in the same mine. Yeah.

Sandeep Kumar, Managing Director

So, we have taken a joint call where we will participate depending on our interest, where they will participate. So, you can't have a go against it. So that's why you will not find it. Because in any case, Tata Steel have the mining competencies and mining skills. If you does mining and gives it to us, what is the problem.

Bhavin Chheda, Analyst

Right.

Sandeep Kumar, Managing Director

And this is in any case, stressed. I think let's focus on the DIP business.

Bhavin Chheda, Analyst

Sure, sure. And, sir, other question, you said right now 60% of your iron ore is captive from Tata Steel?

Sandeep Kumar, Managing Director

Yes. And it varies from quarter to quarter, but still 60%, 70% would be from Tata Steel.

Bhavin Chheda, Analyst

So any reason which this number now -- because earlier, it used to be I think I believe 90%, 100%. So, is it expected to go up over a period of time? What's the longer-term perspective on this?

Sandeep Kumar, Managing Director

No, no. So, Tata Steel is willing to supply us more. It is just that we want to keep more options, more flexibility. There are railway rakes availability from one particular location. Then there is particular quality of iron that we need, which may or may not be sufficiently available at one mine. So keeping all that in mind, we have broad based our sourcing, I would say supply base. So nothing like that. Tata Steel is willing to supply.

Bhavin Chheda, Analyst

Okay. Thanks a lot, sir. Thank you, and best of luck.

Sandeep Kumar, Managing Director

Yeah, thanks.

Operator

Thank you. (Operator Instructions) Next question is from the line of Sahil Sanghvi from Centrum Broking Limited. Please go ahead.

Sahil Sanghvi, Analyst

Yeah, hi, sir. Congratulations for the good results. I had two questions, sir. First on the hot metal guidance sir, you had started the year with a guidance of about 530 kilo ton or 525 kilo ton to 530 kilo ton with a good DI volumes this quarter. Are we looking at a higher number, say, 545 kilo ton to 550 kilo ton?

Sandeep Kumar, Managing Director

Yeah. So, I don't recall if ever we gave a guidance of 20, 25. What we said is, we have done last year, which was more like 510, 518 rather. We will certainly do better than that. And I stick to that, I think we are on track. Quarter one and quarter two were not good, but now we are almost producing at the rate of 48,000 tons to 50,000 tons per month.

Sahil Sanghvi, Analyst

Right, right.

Sandeep Kumar, Managing Director

So if nothing goes wrong, then I think we'll get back to achieve a number, which is closer to say 540 or even beyond.

Sahil Sanghvi, Analyst

Okay, sir. And secondly, sir, on your coke and/or coal, so could you give us any kind of number as to what was the market price of the coke or coal used in Q3 has compared -- and its comparison to last quarter or say last year. Because I'm just trying to understand what -- how much more coal cost efficiencies we can expect going forward?

Sandeep Kumar, Managing Director

So what we -- we've mentioned a little while back is, that the fuel rates have improved by almost by 5%, 6%, but --

Sahil Sanghvi, Analyst

Right, sir. I got that.

Sandeep Kumar, Managing Director

Coal injection part is where we can do much better. Within the coke, what is our internal coal blend, that hasn't changed significantly. But what is, I think of importance and what you guys should know, is that the coal injection is where we have now reached and crossed the adjusted number for which we had done, at which we had taken our projects. So, I see --

Sahil Sanghvi, Analyst

Is that 80 kg sir, that we had aimed for the replacement?

Sandeep Kumar, Managing Director

Yeah, so we'll do better than that. We are better than that. So now we already started doing, that's what I'm trying to say and we will -- we are upwards of 70 kgs, 80 kgs for sure. And, in fact, extra how much or whatever we can do, that is the quantity you replace coke on a one-is-to-one basis. So it's a significant advantage.

Sahil Sanghvi, Analyst

Right. So --

Sandeep Kumar, Managing Director

Till the quarter four.

Sahil Sanghvi, Analyst

I understand that completely, sir. But according to how the coke and coal prices have come down, I was just trying to understand, are we looking at further benefits from the sourcing side itself in Q4 and in FY '21?

Sandeep Kumar, Managing Director

I think the sourcing coal is pretty much transparent and there is not much of a difference between what we buy or somebody else buys. The difference comes primarily on slightly -- if you can work with a slightly leaner coal blend for making this coal, that is number one. And number two is, whether you can improve your coal injections and coal. The third one I said is the consumption itself where we have already kind of reached and I think breached our plan numbers. We are much better than planned now. Whatever we had planned for FY '20, we are better than that, but coal injection, I think in quarter four, we should be able to cross our plan.

Sahil Sanghvi, Analyst

Fine, sir. Thank you, sir.

Operator

Thank you. Next question is from the line of Anurag Patil from Roha Asset Managers. Please go ahead.

Anurag Patil, Analyst

Yeah. Thank you for the opportunity. So, sir, the coking coal prices have fallen last quarter significantly. So will there be any time lag for it to be reflected completely in the present margin?

Sandeep Kumar, Managing Director

Yeah, I'll just request Subhra to answer it.

Subhra Sengupta, Chief Financial Officer

There is a lag effect, because the coal we get it from mainly from Australia and Canada. And when the coal is bought, it is finally used after three months. So that -- so the coal of, say, September, October, November index is now being used and the current -- so January index would be used maybe in the March and April. So in the quarter four, as there is a lag effect of three months, there will be the benefit of the coke price, because the coal of the October, November will be used. And if the current pig iron price is sustained, the spread between the coke and pig iron will only improve in the Q4.

Anurag Patil, Analyst

Okay, sir. And so, what is your outlook for this coking coal prices going forward? Is there any further call we can expect?

Subhra Sengupta, Chief Financial Officer

No. If you see from the December to January, that coking coal price has formed up. The December index was, say, on 140, 142 kind of thing, where the January index already is in 151. So I mean, month-on-month, there is $9 that cost has gone up. And if you see the futures of the coal, for the quarter one or quarter four and the quarter one of next year, it looks at the average of $155. So the benefit, what is accrued in that November, December -- on October, November, December, now it is getting formed up.

Anurag Patil, Analyst

Okay, sir. Thank you very much, sir. That's all from my side.

Operator

Thank you. (Operator Instructions) Next question is from the line of Yogansh Jeswani from Mittal Analytics Private Limited. Please go ahead.

Yogansh Jeswani, Analyst

Hi, sir. Thanks for the opportunity. Sir, can you please share the order book number with us?

Sandeep Kumar, Managing Director

Sorry, can you repeat?

Yogansh Jeswani, Analyst

Order book number with us, sir.

Sandeep Kumar, Managing Director

Order book is today at a level of about eight to nine months.

Yogansh Jeswani, Analyst

Eight to nine months.

Sandeep Kumar, Managing Director

Yeah.

Yogansh Jeswani, Analyst

Okay. And sir, in a response to previous participant on the operating margins for DI Pipe segment, you mentioned that 18% to 20% looks doable and sustainable on a longer term. But if you go back for, say, seven, eight quarters, I think the best we have done is around 15% and then this quarter around 17%. So --

Sandeep Kumar, Managing Director

I'll clarify that. You are taking it from a transfer price basis. What I mentioned was from raw material to finished goods. So if you look at the EBITDA margin because that's the correct way to look at it. What happens, part of it, the benefit goes for the supply of molten metal to the pig iron division. And that's why you see a lower EBITDA percentage in ductile iron pipe business. So what I mentioned was that if you calculate from raw materials to finished good stage for the ductile iron pipe business, then the EBITDA margin is almost 24% this quarter and therefore keeping 18% to 20% is very much doable.

Yogansh Jeswani, Analyst

Understood, understood. And sir, similarly on the order book that you mentioned that there is some pressure. So going forward, do you see any further reduction in realizations, because in the order gets booked a bit in advance. So going forward do you see any significant pressure on the realization side?

Sandeep Kumar, Managing Director

Yeah. So, the pressure on realization is already there, INR1,000 reduction in quarter three for the pipe business. We have seen that and quarter four also, there is further pressure for reduction. But what I said is that with the reversal in the prices of raw material and pig iron, to what extent this slide will continue, I don't know. In fact, now the sentiment is changing and therefore, I believe that there may not be a significant fall. Because obviously when your costs have gone down and on the demand side, if there is fund flow has come down, the pressure comes to sell more and everybody comes under pressure. And therefore the first reaction is to reduce the price, especially when your raw materials have come down on your EBITDA margins are showing a hefty, so 24% value. So obviously this is not sustainable, because I think 24% is very good, but more like 18% to 20% is more reasonable.

Yogansh Jeswani, Analyst

Fair enough sir. That's it from my side. Thanks.

Sandeep Kumar, Managing Director

Yeah, thanks.

Operator

Thank you. Next question is from the line of Sreemant Dudhoria from Unifi Capital Private Limited. Please go ahead.

Sreemant Dudhoria, Analyst

Yeah, sir. Thanks for the opportunity, again. Sir, how is the demand for the pig irons that we sell, given that the volumes in the DI pipes, you said, could be muted. We will have to produce more pig iron and sell in the market. So just wanted to understand from the demand perspective of pig iron , especially in the nearby geographies where we sell our product.

Sandeep Kumar, Managing Director

The demand has I would say somewhat improved. Sentiment has certainly improved much more than the actual demand. Restocking could be one of the reasons. But going forward in quarter four, we -- it seems quite positive at the moment that the numbers that we've achieved in quarter three, similar number should be possible in quarter four in terms of volumes. In terms of spreads, we should be better than quarter three. And in terms of costs also, we should be similar if not better, especially because of more coal injection.

Sreemant Dudhoria, Analyst

You say in terms of spread to the previous question, you said about INR800 to spread has increased from quarter three to quarter four?

Sandeep Kumar, Managing Director

Yeah. In the last 15 days or let's say last one month, the spreads have moved up by more like INR700, INR800.

Sreemant Dudhoria, Analyst

Okay. So is this kind of a demand that is from buildup of inventory that is happening because of these auctions and all that? Or is it kind of a genuine demand in the system?

Sandeep Kumar, Managing Director

Little difficult to say whether this demand is sustainable well or is it purely restocking, that's why I kept using the word restocking. I'm always a little vary how these things go. We have to see it for some time to really understand whether this is a sustainable demand or it's only for a few months. I don't know the answer. As of now it's too early because we have started seeing this over the last, say, two to three weeks or maybe four weeks at most. So we are still trying to understand, but there is certainly an effect of restocking that's there.

Sreemant Dudhoria, Analyst

Okay. So, finally, on the debt level, sir, where are we now?

Sandeep Kumar, Managing Director

Okay. Subhra can answer that.

Subhra Sengupta, Chief Financial Officer

So, our total debt including all except in suppliers' credit bill discounting is around INR195 crore on 31st December.

Sreemant Dudhoria, Analyst

Okay, okay. So which is very much similar as to the September ending debt levels.

Subhra Sengupta, Chief Financial Officer

Reduced by INR5 crores to INR7 crores, but not much. As we are funding to that -- from the CapEx of the doubling the capacity. So that's -- that funding also is taking place. So we could reduce only INR5 crore in quarter-on-quarter.

Sreemant Dudhoria, Analyst

And the warrants issued to the Tata Steel, is the conversion happening anytime soon or that is some more time for them to think?

Subhra Sengupta, Chief Financial Officer

Tata Steel has got time till 30th September. And we are also not in a demand of money, so it will be done by 30th September, definitely.

Sreemant Dudhoria, Analyst

Okay, sir. Okay, fine. Thank you.

Operator

Thank you. Next question is from the line of Siddharth Sivakumar [ph] from Vee9 Ventures Private Limited. Please go ahead.

Siddharth Sivakumar, Analyst

Sir, thank you. My question is what is your outlook for the industry in the next three years? And how is the government's Nal se Jal project progressing? Is it facing any delayed related to execution or funding?

Sandeep Kumar, Managing Director

Yeah, hi. I think I just answered this question a little while back, saying that the growth over the next five years, we foresee the growth of anywhere between 9% to 12%. Even if we take fair the lower end 9% to 10%, I think it's a very reasonable growth, very, in fact, I don't know how many industries would have this kind of a growth. The government's investments in water infrastructure is increasing, with temporary blip now because of these funds issue that they're facing, all of us know about it. But with various schemes coming up, particularly Prime Minister's flagship scheme on water, Har Ghar Me Nal, Har Ghar Me Jal, I think that we haven't seen the impact of that.

But there are various projects by the state governments which are already taking us and helping us increase at a rate of about 8%, 9%. So with that coming up, it should further increase. So there is a good prospect to the industry I think over the next five years. That is we have done a lot of studies and which suggests that maybe the growth may be even higher than 12%. But it doesn't matter. I think so long as you get close to about 10%, that's a very healthy growth. And I think it's a stable business, a difficult business with high entry barriers, not easy for anybody to just come in. You must be seeing already Vedanta struggling, now they are almost a year old in this. So it's a difficult business, both from an operations perspective and from a market perspective. That are huge entry barriers, that's why you don't see many players. It's a good business to be in. And I see a very healthy profitable outlook for this over the next five years.

Siddharth Sivakumar, Analyst

Well, is there any threat of imports coming in or any player outside India trying to import DI pipes? So is there any threat like that?

Sandeep Kumar, Managing Director

So the Chinese are the only threat. But we have seen the Southeast Asian markets that we are equally competitive.

Siddharth Sivakumar, Analyst

Okay.

Sandeep Kumar, Managing Director

And China is also going through a phase where there is actually dumping duty on Chinese material. And we'll see how it goes. So we haven't seen Chinese material in the last 10 years. As we go forward, things may change, but on the whole as of now, other than China, we don't see anyone else coming into India.

Siddharth Sivakumar, Analyst

Sir, one last question. What will it take for a new DI pipe plan to be setup with all those facilities? Just an average, how much will it cost?

Sandeep Kumar, Managing Director

How much will it cost to setup a DI Pipe facility?

Siddharth Sivakumar, Analyst

Yes, for a new player if he comes in?

Sandeep Kumar, Managing Director

So for a 2 lakh capacity, if it is infield project, this is likely to be INR800 crores to INR1,000 crores.

Siddharth Sivakumar, Analyst

INR800 crores to?

Sandeep Kumar, Managing Director

INR1,000 crores.

Siddharth Sivakumar, Analyst

That much it will cost. Okay. So what's the payback period like?

Sandeep Kumar, Managing Director

So for a greenfield facility with your blast furnace and other stuff, which will -- sure that you get the hot metal.

Siddharth Sivakumar, Analyst

Okay.

Sandeep Kumar, Managing Director

Okay?

Siddharth Sivakumar, Analyst

Okay. Thank you, sir.

Sandeep Kumar, Managing Director

Right.

Operator

Thank you very much. Ladies and gentlemen, that will be the last question for today. I will now hand the conference over to Mr. Aalok Shah for closing comments.

Aalok Shah, Analyst

Yeah, thank you, sir, for this detailed explanation and you know how things will -- as we move forward. On behalf of Monarch Networth, we thank you all for joining on this call. You may now disconnect the phone call. Thank you Sandeep, sir. Thank you, Sengupta, sir, for your time.

Sandeep Kumar, Managing Director

Thanks. Thank you very much. Bye-bye.

Operator

Thank you very much. On behalf of Monarch Networth Capital Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines.