“Tata Metaliks Limited’s Q3 FY’22 Earnings Conference Call”

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Moderator: Ladies and gentlemen, Good day and welcome to the Tata Metaliks Limited Q3 FY22 Earnings Conference Call hosted by Monarch Networth Capital Limited. As a reminder, all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Sahil Sanghvi from Monarch Networth Capital Limited. Thank you and over to you, sir.

Sahil Sanghvi: Yeah, thank you Faizan. Good evening to all on behalf of Monarch Networth Capital we welcome you all to the Tata Metaliks Limited Q3 FY22 Earnings Call. From the management side today, we have their MD – Mr. Sandeep Kumar, sir, their CFO, Mr. Sengupta, sir and also joining us will be Pavan sir from the Tata Steel Investor Relations team. So, without taking much time, I will hand over the call to Sandeep Sir for the opening remarks. Thank you and over to you Sandeep Sir.

Sandeep Kumar: Hi. Thanks Sahil. Good afternoon everybody. This is Sandeep Kumar from Tata Metaliks Limited. Well, we will take a lot of questions from you guys. But just to give a little bit of a summary. The performance of quarter 3 has been a bit mixed, in fact, lower than what we would have wanted. There have been some positives, there have been some negatives, and I'm going to summarize that.

Number one has been the higher cost of raw materials. Iron ore prices peaked during June and July, and thereafter, they have come down, but the impact of those prices normally takes a few months to come in. So, that's played out this quarter and of course, coking coal peaked in September, having crossed $400, maybe I think about $410 FOB Australia, so that also you see some impact although not fully in quarter 3, so iron ore impact, coal and of course, coke, whatever we buy from the market, we buy about 20% from the market. So, all these three factors have played an important role in eroding our margins.

However, we were able to get increase in the finished goods prices in quarter 3, though November onwards, the prices started dipping on the pig iron side and therefore, the full increase of the cost push could not be translated into the price increase of finished goods. So, therefore, net-net you had a negative margin on account of these two factors.

But what we did better was on the ductile iron pipe deliveries, which were significantly higher. If you look at the numbers, say the pig iron volumes, they came down compared to the previous quarter. So, they were at 76,000 tons versus 91,000 tons in the previous quarter that's about 16% drop, but the ductile iron pipe sales were up by 30% compared to 52,000 tons in the previous quarter, we did about 67,000 tons.

Also, for the purpose of record, this quarter, the ductile iron pipe quarterly sales of quarter 3 have been the highest ever. So, 67,000 tons as far as our memory goes. So, 67,000 tons were tremendous performance in terms of deliveries of the ductile iron pipe, but the pig iron to that extent was lower. And mind you that for us, the main I would say profitability has been coming in from pig iron this year because the ductile iron pipes continue to be delivered at old prices. We are one of the few players in the industry, which are still honoring all contracts and we continue to supply at old price. Also, we have been making new bookings at high prices, but the proportion of these contracts executed is currently low**.** So, as I was mentioning, the ductile iron prices continue to be at the old numbers, which we have booked in quarter 4 last year. So, that's been the problem. So, the raw material prices were up, pig iron prices were up, but not to the same extent, and DI pipe prices have been more or less, has seen only a marginal increase. So, on top of that, we had taken a shutdown of one of our blast furnaces, the larger one about 10 days, this was a planned maintenance shut, but when it came back, there have been problems in trying to stabilize, that's kind of really hit us on the fuel rates, and therefore on the cost structure.

So the summary is that we've had a hit on materials and on performance of blast furnace. The positives have been the increased deliveries of ductile iron pipes and, and an increase in the prices as well of both pig iron and the ductile iron pipe, but on the whole I think the operational performance is good and as we start newer prices of the ductile iron prices, we will see improvement in the margins. Okay, so I'm through with the summary.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Mithun Aswath from Kivah Advisors. Please go ahead.

Mithun Aswath: I just wanted one question on how is your expansion of the pig iron pipe facility happening, is that on schedule? Number two was also on the impending merger with Tata Steel long products. Where are we on that? Any timelines for both of these?

Sandeep Kumar: So, the first one was on expansion. Expansion is on in fact, we expect to complete the first phase by let's say March, okay at least in phases, we will be able to do. There are some issues especially because of the COVID third wave, but I think we should be able to surmount that. So, by March end we should have it on the first phase. The second question on the merger, the merger process has been on, but there have been delays because of the usual process, the regulatory clearances, the clarifications asked by the regulator. So, that has been taking time, and I really don't know how long it will take, but it depends on the regulator and the kind of queries and responses we have. So, we'll have to wait and see how it kind of matures into, how long it takes.

Moderator: The next question is from the line of Rohan, individual investor, please go ahead.

Rohan: Sir two questions I had, first was on the coke part. So, sir, you said that 30% of the coke is procured from the market, so, is it only for this particular quarter or every time like, throughout we purchase 30% from the market only? Roughly 30 to 35%.

Sandeep Kumar: Yeah, so, Rohan, I think I said 20%, not 30%. So, roughly 80% of the coke is captive, and balanced 20% is from the market and that is on an ongoing basis, not only for this quarter, but that is the general requirement so 20% source from the market.

Rohan: Okay, sir and second question was on DIP side sir. Sir Tata Metaliks honoring his older contracts, and you said that we are facing some pretty less margin or loss and so what percent of our sales go into these older contracts and what impact they have on our EBITDA pattern?

Sandeep Kumar: So, you can look at it, the EBITDA margins, typically for us for ductile iron pipe have been upwards of 20%. If I look at it from raw material in fact, 22%, 23% and 25%, while this quarter, it has been much lower, it has been close to 10%. So, the impact on EBITDA margin is huge. That is because as I mentioned, there has been a cost squeeze. Also, at the same time, the prices of DI pipes have not gone up because we are honoring the old contracts. What percentage, percentage will change from month to month and quarter to quarter, but you can say roughly let us say 70% would still be the old contracts.

Rohan: 70% of our volume and contracts are older than one year, one year six months.

Sandeep Kumar: Yeah, typically, if you remember, we had made bookings of almost 15 months plus in I think Quarter three or quarter four, I had mentioned that. So, those old contracts are continuing and we are continuing to honor them and that is why you do not find the bump up in the prices of the ductile iron pipes and therefore the margins of ductile iron pipes is subdued, but these will get sorted out in the next one or two quarters.

Rohan: Sir my last follow up question on this point then have we changed any policy that. Are we now going for them shorter contracts, instead of going for a 12-month 15 month contract, given the recent price on raw materials or are we still continuing with getting long term 15 month contracts only.

Sandeep Kumar: No, no you see the EPC contractor typically has a project which has to be executed over a period of 12 to 18 months, even 24 months. So, our customers expect that we have back to back contract with them and typically, we have that it's just that this was a massive movement and it has kind of impacted us to some extent, on the price side, we had an advantage on the pig iron side, but on the ductile iron side, we have had a disadvantage, I would say we have lost in some sense, you can see we have lost in other way, it's part of the game. In an up cycle, you lose in a down cycle you gain, that's why we say that ductile iron pipe market is much more stable, because it doesn't change every month. It's more over a period of time. So, it gives you stability. What we've also done is because of the ductile iron pipe prices being more long term, and over a period of time, we have also hedged on the raw materials to some extent, and that is why you will find even though there is a cost push on raw materials this quarter, it would have been much worse, had we not done that. So, to that extent, it's always you can always hedge to some extent, on the raw materials.

Rohan: Sir we had for iron ore and coking coal.

Sandeep Kumar: So, mainly coking coal.

Rohan: Mainly coking coal.

Sandeep Kumar: By hedging I mean that you kind of put a lock at prices, let's say, fixed to your long-term sales contract, rather than keep it open, and then wait for month to month. So, we do a combination and that has helped us. So, in fact, Subhra Sengupta is here, he can explain better, he also looks up to the raw materials, Subhra, you want to come in and explain this a little better.

Subhra Sengupta: Yeah, what MD sir is saying that when we took that contract, that time, the coal price was too less, maybe $120 kind of thing and we have bought for a period of six to nine and in some cases, seven to eight months and that helped us even in the Q3 when the coal has gone up to $400, we could use some of the old coal and we can make some margin over there. What you are asserting is that there are some cases, we have also done the paper projections about the hedge, but that is very miniscule, but purely based on the physical delivery basics, we have bought some additional coal based on the contract.

Moderator: The next question is from the line of Bharat Sheth from Quest Investment Advisors. Please go ahead.

Bharat Sheth: Sir to understand a little more on this pig iron, one, the volume was decline is purely because of our supply side constraint or there was a some dip in demand also, if you can give some color?

Sandeep Kumar: No, it's mainly because of the hot metal availability. If you look at it, we have increased the ductile. See, whatever hot metal we produced, we tried to maximize the ductile iron pipe because we want to finish off with the old contracts and that's why you see a bump up in the DI pipe sales from 52,000 last quarter to 67,000 tons in quarter 3. The pig iron sales were lower because the overall production of hot metal was lower. As I said, one of the blast furnaces, went for shut down and didn't stabilize when it came back. It hasn't performed well. There have been problems in stabilization and that has continued for the entire month of December and that is what has created the problem. Otherwise, we would have done much better, both in terms of cost and in terms of higher volumes, and therefore more sales, and that has eaten up quite a bit of margin and so it is the performance which has hit us more, which is controllable and I think in quarter 4 we will get back. The market side, we have not been hit that badly. Although, if we had also, let's say gone on and close the old contracts on DI pipes, then we would have done much better, but we stick to our customers we like to be long term, we do not play the short term game and therefore, you find the margins of the ductile iron pipes at a still lower level and as I was mentioning maybe 10% EBITDA margins or whatever, while typically it is more than 20%. So, this also will get sorted out over the next one or two quarters, because now the new bookings that we have made or we have started making, those will become more as the proportion will start increasing, but that will take one or two quarters before it plays out.

Bharat Sheth: To understand a little more what is I mean, trend of this one is a finished product you say that in October we were able to raise since in December there was some deep dip, so on the finished products, and coking coal and iron ore trend if you can give what is current prevailing price and average price of Q3.

Sandeep Kumar: So, let me start let's say iron ore, iron ore prices peaked in the month of June or July, internationally as well as in India.

Bharat Sheth: Correct.

Sandeep Kumar: Because as international prices go up. Indian iron ore players, they start exporting. When the prices come down, we do not export then there will be more availability in the domestic and prices come down. So, after June, July, what has happened is prices have started coming down, but typically the iron ore that we purchase we keep an inventory of let's say two or three months.

Bharat Sheth: Okay.

Sandeep Kumar: It gets consumed over a period of time, so the inventory that we did, let's say procured in quarter two, the cost impact of that is playing into now in quarter 3 which now for quarter four we will not have that impact of iron ore, it will come down. So, that is number one. Number two is coal. Coal peaked in the month of September $400 plus, and then after that it started coming down but it didn't come down drastically it came down to let's say 320-330 and then again now it has started moving up again it has crossed $400 as of yesterday, but in between, let's say November and December it came down. There has been some drop in the coal prices, which you will see a reflection of that in quarter four. So, iron core coming down, coal coming down, but coal will be a mixed bag because October the prices were higher in July, you know during September October when it peaked those coals also would have come. Fortunately for us, we do not have too much of high-cost coal. We did not buy $400 and all because as I was saying we had done some hedging. By hedging I don't mean the paper hedging, what I mean is against the long-term DI pipes contract we had picked up coal because we knew the prices are going up so we just tried to procure more at prices linked to the our DI pipe prices. So, that what Shubra was trying to explain. So, overall, though, quarter four, we will see some hit of raw material and it will also depend on how the prices play out during the quarter. We think it will be reasonable. There will be a reasonable increase and we now need to see how much of that really gets converted into finished goods. As of now, if you ask me, the finished goods prices have started increasing. In fact, in the last 15 days, we ourselves have increased the prices three times in the last 15 days in the eastern markets. So, we are seeing a bump up in pig iron prices. We are seeing a better proportion of newer orders of DI pipes now, which will start playing into the overall margins of DI pipes and we will see but we will see a cost push on iron ore, less on iron ore, more on coal and Coke, because coke has also gone up. Coke which was let's say 39,000 rupees is now up to about 44,000-45,000 or even more. So, coke, but our proportion of coke from the market is only 20%. So, to that extent, we will not be very badly affected, but some impact will be there. I don't know whether I could explain to you but please feel free to ask.

Bharat Sheth: And sir on this. What exactly is affecting this whole coal price business? Now, still Australia is not supplying or any color on that.

Sandeep Kumar: Yeah, so couple of reasons. One is that if you look at it, China announced a curtailment in steel production, second half of this year, because of Beijing Olympics, Winter Olympics in February. Also, China is wanting to move to scrap-based production and lower emissions. So, there on the China story is a big one and I am sure you guys would have read and understood it much better. So, what has happened when China's production came down in H2, the demand for raw materials came down, and China being almost half of the world's steel production, therefore, the impact on raw material we started seeing that, and that's why you see iron ore peaking in June and July and coming down, coal peaking in September and then coming down, while iron ore continues to be at a steady level now, at almost half the peak level. So, in June, it reached a level of 215 or $220. Today, it is at a level of let's say 113 and it was at a level of 110-115 let us say 15 days back or 20 days back. So, there is some movement up on iron ore, but not significant, but on coal we have already again crossed $400 which we had reached in September and the reason for coal going up is primarily to one is in Australia typically these months are bad months. They have monsoons, they have cyclones, they have bad weather, the mining operations are disrupted, transportation is disrupted, and that is what is causing the problems of supply side and now after February Olympics, Chinese may have started restocking or there is some indication, we are still not sure, but there is some indication of restocking. So, there is a renewed demand while the supply side has been affected badly. Indonesia has banned exports of coal, although Indonesia is not a major player of coking coal, but still so, you will find that overall, the supply side is constrained and the demand side looks to be more positive and therefore there is a movement up, but overall, what it does is the market sentiment whether it's raw material or finished goods, prices going up is always good for everybody. So, it is a positive sentiment in the market and we are seeing that demand reflected in the prices. So, overall, we are more optimistic than what we were let's say one month or one and a half months.

Bharat Sheth: Apart from Sir, Australia is there any alternate source of coking coal or it will be they are the largest source, it will work like this only.

Sandeep Kumar: So, seaborne - Australia, Canada and US these three are the major players worldwide and seaborne coking coal and there are a little bit Mozambique, Indonesia, Mongolia of course is landlocked, okay, but otherwise, primarily these three other countries.

Bharat Sheth: And sir, ductile iron you rightly said that, within one or two quarter again with the renewal of I mean expiry of old contract, so if one has to and enter a renewal of new contracts, so one has to look what is the delta between the current market price vis-à-vis old price so how the prices move?

Sandeep Kumar: So, prices have moved up by almost 40% to 45% compared to last year and ductile iron pipe, so, let's say the prices were about Rs, 50,000 per ton last year today they are at Rs, 70,000 to Rs. 75,000.

Moderator: The next question is from the line of Vineet Maloo from Birla Sunlife Asset Management. Please go ahead.

Vineet Maloo: Sir, I just wanted to know how is our iron ore cost change compared to Q2 and Q3.

Sandeep Kumar: I will request Shubra to answer he looks after raw materials. So, he will be in a better position to answer.

Subhra Sengupta: So, Q2 versus Q3 was almost stable, maybe quarter on quarter we have spent six-seven crore extra but quarter on quarter coal and coke has gone up substantially.

Vineet Maloo: So, I mean unit cost of iron ore has remained similar as Q2 more or less.

Subhra Sengupta: More or less similar maybe 1000 rupees here and there, mainly on the lumps.

Vineet Maloo: Okay and so compared to Q3 now the current cost let's say the incoming material that we are getting is it at favorable prices.

Subhra Sengupta: Yeah, it will come down but as we are carrying the inventory for may be two three months, it will come down gradually. So, in Q4 it will be lower than the Q3 and most likely Q1 next year will be lower than the Q4.

Vineet Maloo: Okay and so the effect of higher royalty was contained in Q2, right, which I understand, in Q3 there was no such effect.

Subhra Sengupta: No, Q2 impact was almost 47-48 crore. Q3 is almost similar number, because again, the same logic of the carry forward of inventory, but going forward, we are reducing the exposure on the high royalty kind of iron ore such as lumps, such as iron ore from the Khondbond mine, and compared to Q3 to Q4 royalty impact will come down further.

Vineet Maloo: Okay, so in Q4 then we get two benefits, one is obviously on the price a little bit, because as high costs inventory runs out and the source of the iron ore is also changing a little bit towards lower royalty ore so we get dual benefits, is that correct understanding.

Subhra Sengupta: Yeah correct understanding.

Sandeep Kumar: Yeah Vineet, you are absolutely right now, if I can just come in, not only the prices come down, your royalty as a percentage also comes down as an absolute value, because it is a percentage. So, that comes down, plus, we have consciously moved away from the high royalty iron ore. So, we have changed our basket. So, overall, the impact would be reduced and we will be in a much better position to manage.

Vineet Maloo: Okay, understood and sir my last question is on the DI pipe again, the mix of let's say, the low-price contract versus the normal price contract, right? So, when do we cross that 50/50 mark, when the normal price contracts are more than the low-price contracts because of legacy.

Sandeep Kumar: So, we will be able to tell you by end of quarter four where we stand and how much but I think in a quarter or two, we should start seeing significant shift. We still carrying let's say our order books today is about nine to ten months and as a proportion I think we still will be having 60-70% would be the older contracts. So, but what happens is even if you are carrying the older contract, what gets executed in which quarter is often difficult to say because it depends a lot on clearances and now with the COVID etc, which project side will be clear I don't know. UP was a major one but UP is having elections, MP is another one. Also, there is a rush to complete projects before March because the budget runs out. So, you will suddenly find new orders which come in and they will give us a month, okay, but what we have done is we have honestly tried to fulfill all the orders of our customers and maybe stagger a bit but there is a limit to that but I think all this will get sorted out in a quarter or two. So, you will have to have patience with us for a quarter and after which I think we will have a good run, I think sprint after that. It is just a question of one quarter or two quarters at most.

Vineet Maloo: There is no re-think on the way we contract or we enter into contract with these players, right. This is what we explained in response to another question. So, we should not get carried away.

Sandeep Kumar: Yeah. We should not get carried away. See, I also had, I think mentioned to you Vineet in a separate conversation that if you are sticking to your customer in long term, you also get a preference and we also seek premiums over competition saying that look, if I am giving you the reliability, then I must get something. Otherwise, why am I getting the reliability? So, it's a long-term game, it's not something which is clearly reflected in the quarterly results, but we would like to play the long term game both from an ethical point of view and also from a perspective of, I think, long term sustainability for results.

Moderator: The next question is from the line of Kunal Kothari from Centrum Broking Limited. Please go ahead,

Kunal Kothari: Sir I would like to know how much coking coal inventory we will be having and the quarter-on-quarter impact in coal cost per turn that we can expect in 4QFY22.

Subhra Sengupta: Sir, part turn of hot metal we expect that cost due to coal and coke will go up by almost 3000-3500 or 3000 to 4000 per ton of hot metal but as we expect that our furnace will do better and we will be able to use more PCI which is a much lower cost and we will try our best to contain the increase.

Kunal Kothari: Sir inventory which we still carry.

Subhra Sengupta: We carry an inventory of say all put together maybe two and two and a half months. But that is a different types of coals we carry. We are carrying more of PCI coal and prime hard coking coal, sort of combination on a weighted average maybe it is two and a half months

Moderator: The next question is from the line of Falguni Dutta from Jet Age Securities. Please go ahead.

Falguni Dutta: This 47 crore that you mentioned, this was the impact of royalty premium, right?

Subhra Sengupta:: Yes, premium extra additional royalty.

Falguni Dutta: Additional royalty and the other thing I wanted to know is the sales for pig iron that you mentioned for the quarter. So, will it be inclusive of the interdivision transfer to the DI segment?

Subhra Sengupta: No. So, 75,000 in the sense to customer for its sales.

Falguni Dutta: And inclusive of interdivision.

Subhra Sengupta: So, we have produced 65,000 of DI pipe a similar quantity approximate.

Falguni Dutta: Okay and sir what do you, can you just give some outlook on the DI pipe business as to, let's say for the next six months to a year in terms of pricing and demand supply.

Sandeep Kumar: So, today, the order load for the industry would be roughly 1.3 million tons and inquiries in the market is another 1.3 million tons, let's say. So, total firm demand.visible is let's say about 2.6 and there are projects for which enquiries have not yet been floated, but projects have been announced or sanctioned is another 2.6. So, that takes your number 2.2 Sorry. So, that takes your number to 4.8 million tons. So, there is a visibility of demand either firm or to be firmed up of about 4.8 million tons of DI pipes over the next two years. The supply side the installed capacity of the industry is roughly 2.6 million tons. The industry operates at a level of 80% capacity utilization, 80-85 whatever. So, what we are saying is 2.2 plus 2.2 is 4.4. So, in two years, you have a supply of 4.4 and you have a demand of 4.8 which is visible. Now, this is not including some more projects which are going to come up, which are being announced now. So, overall, the demand is pretty robust. We see a demand growth of double digits over the next five to seven years. In fact, optimistically it is even more but I am still looking at a 10-12% minimum demand growth CAGR over the next five to seven years. If we will briefly look at prices, the prices are today at anywhere between 70 to 75,000 rupees per ton depending on the product mix, which was about 50,000 rupees let's say a year back. The prices may stabilize a little bit if the raw material prices cool, but generally the sentiment is now again positive and therefore, the prices may remain or may remain range bound, let's say. So, overall, the DI pipe business seems to be absolutely in a gung-ho mode with limited supply and demand actually exceeding supplies by a large margin and this is not for one or two years, we are seeing this over the next five to seven years unless the government changes its policy or has no funds to invest then it's a different matter. Okay, so that is where the overall story is on the DIP pipe demand and supply. Does if give you

Falguni Dutta: Sir just one last question on that, how much do we expect to do in FY23 In terms of DI pipe and pig iron guidance.

Sandeep Kumar: Capacity of hot metal roughly is between let's say five and a half to six lakh tons and that's the production we envisage depending on shutdown, this that you know that is why I am not giving you the exact number. So, I am m not giving the exact number because there are some shutdowns which happened and which may be planned next year also. So, we will need to work that out in annual business plan based on that exact. Now out of that, we were having a nominal capacity of let's say 2 lakh tons of DI pipes. This will increase by 1 lakh ton in FY23 So, that becomes let's say 3 lakh tons because we are doing the expansion in two phases, the first phase will get commissioned by say March. So, when we say commissioned by March not everything will start in March, some of it will start in March. There are some approvals, so, it may go into April to May so exact number is difficult to say but let's say on a rough commercial basis, say 50% will come in next year and the balance 50% will come in FY24. So, 2 lakh DI pipe becomes 3 lakhs. Let's say we have 5.5 lakh tons of hot metal, then you can subtract you know 3 lakhs from there that makes it 2.5 lakh tons of hot metal, but you also have to do a few other things. I am not trying to confuse you, but there are yields and there are other things. So, the number will be not exactly the same, but just for a very broad understanding you can take this as a material balance. So, 5.5 lakh tons of hot metal, 3 lakh tons of DI pipe and 2.5 lakh tons of pig iron very, very broad.

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

Yogansh Jeswani: You mentioned the order book for eight to nine months, right?

Sandeep Kumar: Nine to ten months. Yeah, no problem.

Yogansh Jeswani: Sir I think if I recall correctly from our past con call interactions, I think last year, somewhere around the same time, the order book was again something like eight to nine months and before that as well also, I think nine to ten months of order book visibility. By throughout these years we have been very positive about the industry prospects. So, is it fair to assume given the kind of situation we are in the demand that we are seeing is still not as per our expectation and you expect things to improve.

Sandeep Kumar: So, last year, around this time, I think the order books was more, I think we went up to between 15 to 16 months, if my memory serves me, right and I think in January, we had something like 15 to 16 months, but as the prices have started to rise, we have been very choosy in picking up orders over the last nine to twelve months, nine months in particular and that's why you see it has come down back to nine to ten months. In general, anywhere between nine to twelve months is a reasonable order load to have. If you have more than that you should be happy. If you have less than that, then that is a cause for worry, but so that is a general statement. As far as industry is concerned, I think there is a bit of a resistance right now from the customers to, let's say, contract, they were waiting for prices to fall, but as the market prices have started increasing again, over the last two to three weeks, I think we will now see a rush to close the contracts and that might improve the order books of the industry as a whole and for us also, that is what is my anticipation because November and December, the prices started falling. So, many of them were waiting for the prices to fall in the sentiment to come down to negotiate better and also the fact that they have contracted projects at let's say older prices. So, it is not also viable for many of them to really pick up the ductile iron pipe at a price which is 40 to 50% higher. So, that has also been a concern for them. But now I do not think many of them will have an option they will have to do because when you take a project, you do some you gain some.

Yogansh Jeswani: I think that has been the case in our case as well that our whole order books, which were supplying a lot higher RMs, that is squeezing out the market margin. So, I think EPC contractors are now in the same place. So, sir based on that the way we have supported our EPC customers, we have not increased the prices do you think that now RM prices strengthening and the DI pipe prices strengthening in couple of quarters, when the RM prices are down we will be able to hold on to this delta margin that we might get or do you think in this case the contractors might come back and say because given the overall industry, I think the competition is still very intensive, couple of players are still under pressure in terms of balance sheet. So, they might be pretty aggressive in letting go of some delta margins just to stay afloat so hence asking for the long term.

Sandeep Kumar: Correct, correct. So, that risk is always there. I think that's there in any industry, and also in our industry, but typically, what happens is that the customers also know whom to contract with and especially when the markets are not very sure, people would like to contract with people with suppliers who are more reliable, more long term. So, I think we have an edge there. But there will be a few here and there who will try and cut corners and try to negotiate, re-negotiate like the many of the suppliers have done. So, I think it is a fair game with all kinds of people and I think we should stick to our principles and do what is right and that is what we have been trying to do. In the process we will get hit sometimes, but in the long run, we will gain. That is the policy and the philosophy that we have and I think we are doing well and as you can see very clearly from the levers, I think it is a very optimistic scenario going forward over the next five to seven years. I do not think the market has really captured this, but it is really a fantastic opportunity in the water infrastructure sector and not many players can come in, it is not like making rebars or the small players who come in suddenly and start you cannot do that. It is a tough one. It is a complex one and not everybody can come in, It has got high entry barriers, both in the marketplace as well as in the operations. So, therefore, the incumbent players like us have a very serious advantage and I am sure that will show up in the results over the coming years.

Yogansh Jeswani: Absolutely. I think I have been invested in tracking this firm for a very long time now and I really appreciate the way he have worked on our cost efficiency has been I think, a lot of efforts which you have been very helpful. Just on an answer to previous question, you had mentioned that in DI pipes we are expecting that, you know 20% kind of margins can be done and things are good, but just by looking at last four to five years of quarterly numbers. In terms of EBITDA hardly twice or thrice, we have surpassed that touch that 20% kind of EBITDA margins, while the broader ring has been between 9% to 13% to 14%. So, what gives you confidence for the 20% plus kind of margins in last four-to-five-year history has been in terms of.

Sandeep Kumar: So, actually, you are looking at the wrong number , that is why. What you are looking at is the margin on the basis of transfer price. Actually, all other players our competition, they calculate the EBITDA margins from raw material, while we do on a transfer price basis, so part of the benefit goes into pig iron. If you look at purely ductile iron pipe, then the margins have been consistently above 20%, in fact, higher than 20, small like 22% to 25%. Okay, this quarter has been different, as I explained to you because of the various reasons. So, it is not a question of confidence, we have always performed direct, you look at the quarterly margin, EBITDA margin of ductile iron pipe after removing the transfer price, you will see the numbers very positively between 22 to 25 on a very consistent basis. Shubra, you want to explain this better.

Subhra Sengupta: So in our system, we treat both PI both pig iron and duct iron pipe by two independent profit center and PI division sales, PI hot metal to DIP. So, based on market Price is some numbers. Therefore, while you see the independent DI margin, it will look less, but if you do, iron ore to DIP all along I think last three years to the extent DIP is concerned, we have done 20-20 plus maybe sometimes 26-27 also. This quarter also, if you see that is internal number not published that iron ore to DIP is almost 15.6 or almost 16%, maybe after a long quarter we are below 20. So, what we plan and maybe down the line, when majority of our hot metal will go for the DIP. This anomaly in any case will get nullified, but nevertheless, anytime if you want a more detail or specific iron to DIP margin, we can for the earlier quarter, we can have some detailed discussion on that separately.

Moderator: Thank you. The next question is from the line of Saket Kapoor from Kapoor & Company please go ahead.

Saket Kapoor: Sir firstly on this part of the pig iron prices, which you have told that we have taken three hikes so what was the exit for the December quarter and how are the prices moved up currently, so if you could give some more color.

Sandeep Kumar: So the prices of pig iron have fluctuated, but in a range, in general, you can take the prices have moved between, let's say Rs. 44,000 to Rs. 47,000 per ton, depending on mark-to-market and month to month rather week to week. In the last 15 days, the prices have moved up by more than 2000. Shubra what will be the number, two and a half thousand rupees increase?

Sandeep Kumar: So it has been in a range bound, play between 44 to let's say 47-48 and now again, like let's say in eastern markets, it is more than 48 today. In North it will be closer to 46. West will be again between 46 plus. So, today the market prices are between 46 to 48, let's say which was let's say 44 to around that in say middle of December or third week of December. So, prices have just started moving up again

Saket Kapoor: And if we take the averages for the last quarter, what was the average? For the average for pig iron prices.

Sandeep Kumar: Average for December quarter for us would be let's say, for the foundry grid. I am talking about the main grid the primary that we sell would be let us say 44.5 to 45 and 44.5 you can take. Shubra, can you give the exact number.

Subhra Sengupta: Foundry grid similar numbers, but, if we took weighted average and net realization, it will be tagged below 43-42.

Sandeep Kumar: So, do not confuse them with net realization, just stick to one number which is a landed market price then otherwise they will get different numbers.

Subhra Sengupta: So, that number is correct.

Sandeep Kumar: Because DI pipes also I am talking about the landed price.

Subhra Sengupta: Yeah, the number is true.

Sandeep Kumar: Shubhra if take this one-off item about this royalty part of 48 crore, 47 crore.

Subhra Sengupta: Sir it is 50. Approximately 50 for Q3.

Saket Kapoor: So, what is going to change now going forward and sir out of this 50 crore what was the pass on set or was it totally borne by us in the finished part and one question to what Sir has told earlier Kumarji, the key reasons for this increasing figure and prices for dull market and the stimulation in the market that has happened or any raw material input push that has…..

Subhra Sengupta: Cost push, today if you see the market price of coke is 45,000, ex-plant this means landed price would be 47,000 kind of thing. If the pig iron prices does not go up some of the shops will get close because if you see that on the total cost things the highest cost is the cost of fuel. So, pig iron price has to go up or the coal price has to come down otherwise.

Saket Kapoor: This will not be margin equity, this is not going to be margin equity, this is only our past performance, whatever the rise has come, it is not going to improve the margins.

Subhra Sengupta: Yeah pushup back to large extent, but depends, the based on the efficiency and all.

Sandeep Kumar: Also depends on Saket on what percentage of your coke is captive, let's say for us 80% is captive. So, the hit on us is not we are not going to be our coke cost is not going to be 45 to 47 what Subhra is saying is about the market, there are players who buy 100% of the market, they are badly impacted, but for people who have kept the coke, they are not so badly impacted. So, it's that way.

Saket Kapoor: And about this one-off items or if you could answer one more follow up I have and then I will conclude. Yeah, about the one-off item that you were explaining.

Sandeep Kumar: What is the one-off items.

Subhra Sengupta: So, one-off item royalty is not a one off, it will continue but the impact will come down going forward because one is the prices are coming down. Secondly is that our basket is also changing. We are reducing exposure to lump. We have reduced exposure to fines which are high quality. So, next quarter the impact of royalty going forward it will come down substantially.

Saket Kapoor: Okay, can you quantify for a ballpark numbers? How should it shape up?

Sandeep Kumar: I think let me just explain this. Saket If I were to explain to you more as a percentage, then if we were saying if you know high royalty source of iron ore, if last quarter was, let's say 67%, then today's, let's say 70% then today, it will reduce to let's say 40% or so. So, the low cost, I don't know, from a royalty perspective has gone up from or will go up, let's say from 25 to 30% to let's say 50 to 60%. Shubra just ballpark tell me is that right?

Subhra Sengupta: Yeah it's correct.

Saket Kapoor: And Sandeep sir said if you look at what the commentary has been over the quarters, wherein Tata Metaliks is very bullish on DI pipes going forward and also the expansion now kicking up in phases and also the realizations going up. So, what is the currently the aspiration for us to be there in this DIP segments, earlier this merger was when we used to discuss it. The Tata steels had not come up with this plan of merging into long product and in creating one single entity, so, how does our plan going ahead in terms of our market shares in DIP going forward sir because I think so, there have been two-three M&A activities also if I may term that has gone through and somehow we have not found attraction in them and maybe the asset or maybe the prices whether it is Satavahana or whether it is VLS or whether it is even if quote ISMT, how much it would have gelled to us. So, we are taking the Greenfield route completely if our actions are to be seen. So, going forward, what is going to be the aspiration in VIP segment, what kind of player are we going to emerge now also when M&A activity has happened with Electrosteel and steel pipes getting merged, and they being the largest player today? So, where are we heading sir and when we are seeing such a blue screen, blue sky opportunity going forward in terms of demand. So, what is the thought process now sir?

Sandeep Kumar: Sir, I think one of the let's say numbers which have been floated around and I think has been mentioned even by our parent Tata Steel also that you would like to be a million-ton DI pipe player and we have this vision in our mind that we need to achieve this 1 million ton as soon as possible. We would be a 0.5 million tons production by FY24 4 lakh ton capacity, but the production ability to produce up to 5 lakhs, let's say 4.5 lakhs to 5 lakhs. So, we need to either acquire or grow at some place or the other for another 5 lakhs, which is not such an insurmountable task. Our cash flows are very good. In fact, the real picture has not yet emerged the last two years have been COVID years and the government the way it is going for water infrastructure. It's an amazing, I think run that we are all foreseen. I make this a point to explain to our investors and shareholders whenever I meet them on an individual basis or wherever is that look, you need to understand this is a very different business, people cannot get in so easily and if people who come in, they struggle for years before they established themselves. It is not like making somebody putting up a steel pipe or a polymer pipe you buy a charcoal and put it up, it is easy to do that there it is very highly complicated and you can see that that's why you find players struggling, even established players. There are only a few players, let's say three, four of us who consistently make money, because it is a high entry barrier on the technical side as well as on the market side. So, the DIP business is I think in for a major boom, it is a huge positive because the government is investing the way it is investing and therefore there is really no problem from our for an established player In fact, it is an opportunity and a great opportunity for us. If we cannot capitalize on this, then it is our I think incompetence that we could not do it. On the market side, it is a great on the positioning side, it is a great one. I don't know whether I could answer your question Saket. Did I miss out something?

Saket Kapoor: The point that 1 million is the target going ahead on the top of this, and the growth we are expecting in sales is about in double digits. So, two years or three years down the line sir what is the capacity addition that that we are emphasizing and lastly also on the pig iron part that earlier last quarter I think some in probably September quarter we have exported also and the relations were better so what portion of current quarter pig iron sales has attributed to the export segment.

Sandeep Kumar: So, the volume of a million ton is an ambition, is an aspiration right now. Once we have our board approvals and everything is in place then we will inform you it is not fair for me to tell you by when-when, etc. Those details have to be first gone through the board and cleared and then only I can tell you. As far as exports are concerned, Shubra on pig iron do you recall the number what percentage was in exports?

Subhra Sengupta: This quarter pig iron exports is hardly maybe not more than 5%. Last quarter it was higher because we did want to bulk shipment of around 20,000. This quarter is hardly.

Moderator: Thank you Mr. Kapoor may we request you return to the question queue for follow up questions. The next question is from the line of Mukesh Gupta, individual investor. Please go ahead.

Mukesh Gupta: I wanted to talk to Pavanji who is Tata Steel, relationship manager.

Sandeep Kumar: Hello Pavan on a listening mode because he has joined late so if you have got any question related to Pavan you can flag here we will get it answered.

Mukesh Gupta: I wanted to ask Pavan sir on merger that merger was announced in 2020 and till now there is nothing shared from that side in investor relation. You always write a small sentence stock exchange. From last three quarters stock exchange only. You are taking a lot of time in merger. Nothing is shared on merger to investors. Audio was cut for 20 minutes in between. I have not heard the con call of 20 minutes; I have joined in again. Now also investor was on merger you are not even able to give timeline. why is it taking so much of time. It is almost 15 months if company like Tata is taking so much of time then what is reason.

Sandeep Kumar: Mukeshji we will forward you question to Tata Steel IR and we will request them to answer you.

Mukesh Gupta: Sir there is no communication with investor on merger. I have second question also our company will merge with Tata there also it is the same question; Sankar Bhattacharyya has also been Company Secretary with us now he is in Long. Many a times I tried to have conversation with him. Tata Steel Long neither do investor conversation not it do con call. I am mailing them from November. Two to three months after they pick up the call and then they say I answer within 15 days but those 15 days never come. This is not the Tata's culture means you do not reply to investor for so many days, there is no clarifications on merger. Secondly we are traders as well as investor, screen showed is it not that merger is not going to happen or merger is not there.

Sandeep Kumar: This question is for Pavanji, we will forward to him.

Mukesh Gupta: You can also answer to it as Tata Steel is your parent company.

Sandeep Kumar: We have given answer to it in media in the morning. We said that we agree this process of merger took a long time. We had some clarification and questions with regulators, we answered that. Then COVID second wave came and then third wave. So, it got delayed I agree with you. I cannot say how much time it will take. We wanted to get it done at the earlier, but not able to do. I will try to give you if I get a better clarity because it is not fair to say anything without clarity.

Mukesh Gupta: This is the last one request, please update sir in which stage we are standing.

Sandeep Kumar: We will try to answer you after discussion in the next quarter.

Mukesh Gupta: Definitely please discuss with Pavanji I have mailed. I am also mailing to Bhattacharya. They do not provide any data to investor in Long. After all, in future Tata Metaliks has to merge into Long only. We track also that. We need to see consolidation. We are a longtime investor after two, three, five years it is to be one company.

Sandeep Kumar: We will surely forward you question to them and we will try and get the answers to that.

Mukesh Gupta: There is delay with communications in investor.

Sandeep Kumar: If you have any suggestion for Tata Metaliks please give. For long products or Tata Steel I will pass on to them.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today. I would now like to hand the conference over to Mr. Sahil Sanghvi for closing comments.

Sahil Sanghvi: Yeah, thank you Faizan. We want to thank the management for patiently answering all the questions. On behalf of Monarch Networth, we would like to thank all the participants also for joining the call. Sandeep sir, would you like to give any closing comments.

Sandeep Kumar: Not really, I think we have answered a variety of questions. So, they have got a hang of what but despite this, my only point to the investor is and I heard Mukesh sir saying not getting responses at least from you know if there any questions, anything if people want to meet us separately also we are more than open. If there is enough in what you want to know, we are absolutely open to answer all your questions. We try to do it honestly and transparently to the extent that is practical. So, that is the only point I will say and we will continue to do so. Sorry if we have missed out on any particular answer, like for example, I know on the merger, there is a lack of we do not have full clarity on this because it is not fully with us. It's the regulatory part. So, we will hopefully we will get some more clarity over the next couple of months. Thank you. Sahil.

Sahil Sanghvi: Thank you so much.

Moderator: Ladies and gentlemen on behalf of Monarch Network Capital Limited. That concludes the conference. Thank you for joining us and you may now disconnect your lines.