"Tata Metaliks Q4 FY2017 Results Conference Call"

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Moderator: Good morning ladies and gentlemen, welcome to the Tata Metaliks Q4 FY2017 Earnings Conference Call hosted by Centrum Broking Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal the operator by pressing "*" then "0" on your touchtone phone. I would now like to hand the conference over to Mr. Abhisar Jain from Centrum Broking. Thank you and over to you Sir!

Abhisar Jain: Thank you Lizann. Good afternoon everyone. On behalf of Centrum, I welcome you all to the Tata Metaliks Q4 FY2017 and FY2017 Conference Call. We are delighted to host the senior management of Tata Metaliks today. We have with us Mr. Sanjiv Paul - MD of the Company, Mr. Subhra Sengupta - CFO, and Mr. Sandeep Kumar - ED. We will start with initial comments from the management on the results and the future outlook, and then we will open the floor for Q&A. So now, I will hand over the floor to Mr. Sanjiv Paul. Over to you Sir!

Sanjiv Paul: Good morning gentlemen. Thank you for being here with us on this occasion where we have declared our annual results for the year 2016-2017 as well as for the Q4. Just to give you an overall picture the last year has been landmark for Tata Metaliks in more ways than one. We have successfully commissioned three projects and also merged the Tata Metaliks DI Pipe Company into the Tata Metaliks sometime in late December last year. The three projects that we have commissioned are enhancing the ductile iron pipe capacity. We set up a new line and literally doubled the capacity from 120000 odd tonnes of ductile iron per annum to around 200000 tonnes ductile iron pipe per annum. This happened sometime in August-September and we almost got vertical ramp up from there and we have finished around 182,000 tonnes of ductile iron pipe sales this year. We also commissioned two batteries of coke oven o a BOT basis that gave us a capacity of 10,000 tonnes per month, which is around 40% of our coke requirement. We got a very good ramp up from that facility also. This happened sometime between October to December last year. We are already producing around 12,000 tonnes from 10,000 tonnes capacity, so that has also been a remarkable achievement in a way. Finally, the biggest project that we did last year was we scrapped one of the old inefficient blast furnaces. We have two mini blast furnaces; one of them was 22 years old. We scrapped that blast furnace and in its place put up a new blast furnace and commissioned it in 90 days flat. So this blast furnace also came on screen in March of this year and we are going to get the full benefit of these three facilities as well as the advantage of merger going forward in the next year. In spite of these Brownfield projects that we did we have been able to post best ever profit numbers that we have not achieved before and that has been the performance last year. Apart from that, we can say that there have been pressures on cost as far as coal and coke is concerned. These prices have been oscillating a lot and I do not think the world has really seen these kinds of oscillations in such a short period of time that we are all witnessing nowadays. So that has been giving pressure on cost and this might continue for this quarter as well for a few while, but we are hopeful that going forward with the structural changes, some of which I just mentioned, that we have done last year we should have sustainable future going forward. I would be happy to take your questions and before I do that let me just introduce to you my team which is sitting with me. My Executive Director, Mr. Sandeep Kumar, and my Chief Financial Officer, Mr. Subhra Sengupta, are sitting here with me. Open to questions now.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question and answer session. Anyone wishing to ask a question may press "*" and "1" on the touchtone telephone. If you wish to remove yourself from the question queue, you may press "*" and "2". Participants are requested to use only handsets while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles. We will take the first question from the line of Ayush Mittal from Mittal & Company. Please go ahead.

Ayush Mittal: Good morning Sir. First of all, congratulations on an excellent performance. My question is, the plant is already running at optimum utilization, sort of full utilization, ay further plans of expanding of the ductile iron capacity?

Sanjiv Paul: Typically, we do not make any forward-looking statements when we make our comments there, but you can see that over a period of time, our ductile iron pipe business is more sustainable making better profits. As of now we cannot make any comments as what we will do going forward in terms of expansion, but logically this seems to be the direction to go in.

Ayush Mittal: Do you have sufficient area at the same place where we can do a Brownfield expansion or it will be a Greenfield expansion if you come up?

Sanjiv Paul: Again forward looking and I would like to avoid such questions, please.

Ayush Mittal: Okay. Can you price about the current demand scenario, like we have seen a big change in industry over the last two to three years where the industry in itself is growing very strongly, can you tell us more about the demand drivers may be region wise or something and the order book currency you might be having?

Sanjiv Paul: I can say that the ductile iron pipe business has been growing 12% to 14% CAGR in the last four to five years and looking at the key levers which actually drive this growth which is urbanization, I do not see this demand coming down. On top of it, we have also entered the irrigation which is the rural market with ductile iron pipe, so this is an add-on to the pie that existed earlier, which is only making the demand pie a little bit bigger. So, I do not see the demand coming down in anyway and the growth CAGR should continue to take the same trajectory. The pig iron business from the other hand has been doing at 5% per annum and we are in a niche market which is the foundry grade pig iron, not the basic grade pig iron which is used for steel making, so foundries consumes our pig iron and we foresee a robust demand in the foundry sector as well. So demand should be reasonable if not too exiting on the pig iron side as well.

Ayush Mittal: And we see that the margins are very volatile for the pig iron segment, any expectation or anything that you can share on that front how this is shaping up, as you also have I think retail distribution network by which you get better pricing as compared to competitors?

Sanjiv Paul: About pig iron business let me just say that in the last two quarters, two things have happened. One is the volatility that has hit the metallurgical coal and therefore the coke market, which is the key raw material for blast furnaces which convert the iron ore into hot metal and therefore pig iron that has moved abnormally twice in fact. It has taken a peak, crest, and a peak again in the last two quarters and the peak has been three times what the crest was. So this kind of a volatility is unprecedented, has not been seen in the metallurgical coal business for a very, very long time and the domestic markets have not been robust enough to be able to take through these costs. So that was one reason why you saw dip in the profitability of the pig iron area. The other was that we put down one of our blast furnaces in the last two quarters. I n the coal area, I am thinking going forward with the efficient state-of-art blast furnace that we have now which will reduce the specific consumption of coal per ton of hot metal, we should be better off compared to our competition and any rise or fall in the coal prices going forward we should be able to pass that to the consumer, the demand in the foundry business being more robust now and picking up.

Ayush Mittal: Coming back to the DI pipe segment, coming on the supply side, we see that it is a market with just a handful of players may be four, five big manufacturers, do you see this happy situation to continue given that the demand is very robust and it takes quite a long time for somebody to add a new capacity, especially a Greenfield capacity to come up, your thoughts on this?

Sanjiv Paul: I have not quite understood your question, but are you saying that there will be more players coming in?

Ayush Mittal: Yes. Do you see the competition coming in or any major expansion being done which can affect the margins of the existing players, because in the past we have seen the margins have been volatile but it is now that perhaps the demand is very good and the supply is not catching up that fast?

Sanjiv Paul: If you do you research a little bit, we are operating at 100% capacity, you will find that some of the competition that exist is not at 100% capacity, there is some latent capacity still in the domestic industry. So first that capacity will probably need to be utilized before a new capacity gets added in. So far, I do not know any new capacity or any player looking to enter the market and even if that happens as you rightly pointed out it will take two years before the capacity can come on screen.

Ayush Mittal: Okay Sir, thank you, that is from my side. I will come back in the queue for more.

Moderator: Thank you. The next question is from the line of Sunil Jain from Nirmal Bang Securities. Please go ahead.

Sunil Jain: Good morning Sir and congratulations on a very good set of numbers. Sir, first of all on the data point, the net debt will be how much at the end of 31st March?

Sanjiv Paul: The net debt is Rs.383 Crores and there is Rs.100 Crores of preferential shares, so Rs.483 Crores.

Sunil Jain: Can you share order book position; how much will be the order book for DI pipe?

Sanjiv Paul: Again this is information that we normally do not share in the open forum, but it is robust that is all that I can tell you.

Sunil Jain: That is great. Apart from this pig iron, our hot metal production in Q4 was how much; I am not talking about sales, about production?

Sanjiv Paul: Production would be as much as sales, so pig iron sales in Q4 was 30,800 odd tonnes and production would be very much near around.

Sunil Jain: But you must be consuming for the DI hot metal I am talking about.

Sanjiv Paul: Add around 60,000 tonnes of hot metal to this that is what we consumed in the current year.

Sunil Jain: Sir this impact of higher coke prices which was there in Q4, is that completely in or there could be even further increase in the cost or are we at a peak of the cost of higher coke?

Sanjiv Paul: To the last question, how much hot metal did we produce last quarter, in the last quarter we produced 70,000 tonnes of hot metal because one of the blast furnaces was down and there was 20,000 tonnes of pig iron stock carried forward from the previous quarter which we had by design kept to cater to the requirements of our key customers when one of the blast furnaces goes down. So 70,000 hot metal of which 60,000 went for ductile iron pipe and 10,000 went for pig iron and with the carried forward 20,000, so 30,000 is pig iron that we sold last quarter and 65,000 was carried forward stock from the last quarter 65,000 ductile iron pipe.

Sunil Jain: Okay, great. Sir another question was related to this coke prices. We had seen impact of higher coke prices in this quarter, whether that higher coke prices fully came in this quarter or still there is a possibility that there could be even higher coke prices which may come in the coming quarters?

Sanjiv Paul: There was overhang of the higher coke prices in this quarter as well and if you are following up metallurgical coal prices you would have seen because of this cyclone Debbie that happened in Australia, coal prices again took an abnormal peak and that impact will remain in this quarter as well for at least May. Going forward, it is already coming down, so let us see how it goes forward.

Sunil Jain: Okay Sir and Sir any targets for the production whether you can share about the pig iron or hot metal for the current year FY'18?

Sanjiv Paul: We will be running 100% capacity. This fiscal we have capacity of 2000 of DIP and 500,000 tonnes of hot metal so you can do the math.

Sunil Jain: Yes, correct Sir, in fact DI pipe we had seen you are always operating at over 100% capacity, so I think that can be achieved. Sir my last question relates to since we had one a blast furnace realigning and all or new conception, so was there any one-off item in this particular quarter or anything?

Sanjiv Paul: Yes, there is interest capitalization of around Rs10 Crores that has happened and that is what you might be seeing in the accounts, the rest of it is the balance sheet issues.

Sunil Jain: You mean to say Rs.10 Crores for this quarter or for the year?

Sanjiv Paul: For the year.

Sunil Jain: We had capitalized.

Sanjiv Paul: That's right.

Sunil Jain: Okay Sir. Great, thank you very much.

Moderator: Thank you. Ladies and gentleman in order to ensure that the management is able to address questions from all participants in this conference, please limit your questions to two per participants. We will take the next question is from the line of Srimant Dudodia from Unifi Capital. Please go ahead.

Srimant Dudodia: Sir congratulations and good set of numbers and thanks for the opportunity. My first question is from the DI business. While it is very pleasing to see when the good numbers in DI segment I just wanted to get into deep into the demand drivers of DI business. We understand that the DI segment is usually driven by some state specific schemes so just wanted to understand which states are driving the demand for the DI pipes in India currently?

Sanjiv Paul: Well DI demand is evenly distributed all over the country because the urban infrastructure that has been developed all over the country was at a reasonable pace. Two years ago it was primarily Rajasthan, then last year it was Telangana, this year it has been pretty evenly spread, but there is a new demand as I said in my opening comments, the irrigation sector that is also now picking up and states like Orissa, Madhya Pradesh have started consuming DI pipes for lift irrigation sector as well. So these two states - Orissa and Madhya Pradesh, are key states now in terms of driving the demand for the ductile iron pipe as of now, but then there are other schemes like smart city schemes and there are many other schemes which are state as well as center funded which are increasing the requirement of ductile iron pipe in states like Maharashtra, Haryana, I think now you UP will also pick up.

Srimant Dudodia: Sure Sir. Thanks for the information. On the pricing front on DI pipes what is the typical duration for the DI pipes, the contract duration for DI pipes, and is there any clause where you can pass on a certain portion of the increasing raw material cost to the end consumers or the EPC players?

Sanjiv Paul: Typically, these contractors are fixed price contracts and they pan out over a period of 6 to 12 months. So these are risks that the manufacturer has to take, the price risk.

Srimant Dudodia: Sure Sir. On the pig iron business while my understanding is that usually the raw material cost increase or fluctuations in the raw material cost gets passed to in the pig iron business, I want to understand how is going to realization trend in the pig iron business for the quarter gone by?

Sanjiv Paul: The quarter gone by realizations were not as robust because in the last quarter the demand had been a bit muted post demonetization, there was not enough hope to pass through the high coke cost to the consumer, but I said earlier this quarter demand seems to be picking up and the economy is getting back to its normal robust pace and we are expecting we should be able to pass through the cost high or low whatever happens to the consumer as has been the case in the business all through.

Srimant Dudodia: Thanks Sir. I will get back in the queue.

Moderator: Thank you. The next question is from the line of Dikshit Mittal from Subhkam Ventures. Please go ahead.

Dikshit Mittal: Good morning Sir. Just to understand the market a little bit, for example if a new player wants to entire into DI business, do they have to necessarily put up this blast furnace and coke oven or they directly can by pig iron from the market and use it by way of melting it, so is it possible according to your view?

Sanjiv Paul: Technically yes, commercially it might not be viable with that route.

Dikshit Mittal: Okay, when you say commercially Sir can you explain a little bit?

Sanjiv Paul: Yes. If you have to purchase pig iron from the market and melt it to make ductile iron pipe, the cost would be not tolerable. The cost will be too high. There is power then there will be commercial cost of the pig iron, so my sense is that it will not be viable for any business to do that.

Dikshit Mittal: Okay Sir. Secondly, you mentioned today in the TV interview that the margins may not be sustainable, is it due to the fact that you have fixed price contract or may be the industry scenario as a whole?

Sanjiv Paul: I am sorry if I came across such thing, margin would not be sustainable. I said margins would be under pressure in the coming quarter because of the coke price that has gone up and us having fixed price contracts going forward, so this quarter margins will be slightly under pressure but there is demand that is picking up and going forward I do see this business staying robust. As far as the Tata Metaliks is concerned, we have done plenty of work in terms of reducing our cost, so price has been what there are which are market driven, our key lever to remain sustainable is going to be the action that we are taking on cost and there we are pretty confident that that should bail us through.

Dikshit Mittal: Okay, thank you Sir.

Moderator: Thank you. The next question is from the line of Girik Capital. Please go ahead. 2528

Ritesh Poladia: Thank you Sir for giving the opportunity. In your new blast furnace has the capacity for hot metal increased and is there any reduction in the coke consumption for that?

Sanjiv Paul: Absolutely, the new blast furnace will be at least 20% to 25% more capacity than what previous blast furnace was and since this will be a more efficient blast furnace the key raw material that is used in that blast furnace which is coke from the metallurgical coal which is around 55% to 60% of the cost of hot metal that we should be able to reduce its consumption by 10%.

Ritesh Poladia: Okay, thank you Sir, that is all my side.

Moderator: Thank you. The next question is from the line of Giriraj Daga from KM Visaria Family Trust. Please go ahead.

Giriraj Daga: Good morning Sir. My question is related our met coke and met coal contractors, how we are placed on met coal contractor and met coke contractors? Is it monthly or quarterly we are importing coke, we are actually getting it converted at a local side, so how we are placed there?

Sanjiv Paul: We have 40% coke capacity, so we purchase metallurgical coal for that and for the balance 60% coke requirement, we buy coke either from the domestic industry or import from China, Japan or some country. We do not keep too much stock of this material, for example coking coal we do not keep stock of more than one to one-and–a-half months of stock over that. This is all imported so we import the stuff. As far as our coke has concerned, there are manufactures close to our factory and we have contracts with them, which are typically for a month or a month or one-and-a-half going forward. In the plant, we do not keep more than 10 days or 15 days' stock.

Giriraj Daga: Okay, so coke contract we have monthly from mostly local and for coking coal do we have any quarterly contracts?

Sanjiv Paul: We do not have any quarterly contracts?

Giriraj Daga: It is all monthly

Sanjiv Paul: Yes.

Giriraj Daga: Okay and what was the last quarter, like fourth quarter prices of coke numbers?

Sanjiv Paul: Individual cost burner, I am a bit hesitant to discuss in the open forum, but yes these costs were high in the last quarter.

Giriraj Daga: I just wanted to understand how much higher it can be Q1?

Sanjiv Paul: Yes, in Q1 in fact if you will notice the metallurgical coal prices and there was another peak that happened in the early part of April. They were less than what happened in April, in Q4 the cost was slightly less. In April again, there is peak that has happened, but we have continued with our stock from Q4 going forward, so the peak that has happened recently should not hit us too much because we were not too much dependent on the market at that point in time, but yes some procurement still needed to happen and now prices are coming back to normal again and we are in the market to purchase coal coke again.

Giriraj Daga: Okay what was the increase in pig iron prices in Q1 compared to Q4?

Sanjiv Paul: The increase in pig iron prices compared to Q4 would be around Rs.3000-4000 a ton.

Giriraj Daga: Okay and the last thing is clarification you said we are 40% coking coal, I assume we had 1,20,000 tonnes of coking coal.

Sanjiv Paul: That is right.

Giriraj Daga: Our requirement is about 5 lakh tonnes right?

Sanjiv Paul: Our requirement is 25000 tonnes a month which is 3 lakh tonnes.

Giriraj Daga: For producing hot metal, your requirement is 3 lakh tonnes.

Sanjiv Paul: That is right.

Giriraj Daga: Thanks a lot.

Moderator: Thank you. The next question is from the line of Sanjay Jain from Motilal Oswal Securities. Please go ahead.

Sanjay Jain: Sir with all these expansions, what is our total hot metal capacity? What is our total DI pipe capacity? Secondly what kind of production we are targeting in fiscal 2018?

Sanjiv Paul: In fact, I answered this question earlier, our hot metal capacity is around 5 lakh tonnes, ductile iron pipe is 2 lakh tones, and we always attempt to produce to 100% capacity.

Sanjay Jain: This 500 KT is after the expansion you said right?

Sanjiv Paul: That is right.

Moderator: Thank you. We will take the next question from the line of Sumangal Nevatia from Macquarie. Please go ahead.

Sumangal Nevatia: Good afternoon Sir. One question now since we have kind of ramped up the capacity to full, what is the next expansion plan, are we looking in the next two years to make the company…

Sanjiv Paul: I heard you, this is the question that was asked a little while earlier also and I replied that forward looking questions on expansion and such stuff I might not be able to answer in this forum because of SEBI regulations, so if you could refrain from asking forward looking questions.

Sumangal Nevatia: But overall Sir, what is the strategy of the company to make it in the long-term, not any specific one or two-year outlook, but to make it fully forward integrated or to reduce debt from current levels and consolidate on the existing capacities, if you can just share your broad strategy that will be helpful?

Sanjiv Paul: The broad strategy would surely be to reduce debt that is primary and whilst doing that if we can improve are value added we would love to do that and that should be the strategy going forward logically, but what it is going to be is something that I cannot be talking about.

Sumangal Nevatia: Understood and Sir as a thumb rule to expand DI capacity, for example, to take it from 200 to 300 or 350, what is the Capex intensity which is required?

Sanjiv Paul: Let me say around Rs.300 Crores for a 2 lakh tonnes capacity.

Sumangal Nevatia: Incremental, this is Brownfield?

Sanjiv Paul: Brownfield.

Sumangal Nevatia: Okay. Do our existing plant has enough land in case in future we wish to do any expansion, do we have the land in place?

Sanjiv Paul: I have not explored that option, so let me do not answer that.

Sumangal Nevatia: Understood. Thank you Sir. This is very helpful.

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

Srimant Dudodia: Sir thanks for the opportunity again. My question is on the other expenses part in this quarter gone by and you have seen a remarkable drop in the other expenses, so if you can help us in detail understand what led to this drop, was it just because of the synergistic benefits due to merger or due to the cost savings measures that you have been taking? It is around 86 Crores.

Sanjiv Paul: Let me now see what are the other expenses that we are talking about. This is primarily because of the reduction in conversion cost that has happened okay and these are the efficiencies that have been brought in. There is a lot of IPR involved here and we have been able to bring down our ductile iron pipe conversion cost to better than world class level, so that is one of the reasons why our other expenses are lower. Secondly, our 10 megawatt power plant came in stream in December, so our power cost in Q4 has also been much low.

Srimant Dudodia: Could you quantify by what number the power cost has come down on a Q-On-Q basis?

Sanjiv Paul: On Q-On-Q basis it should be around Rs.7 Crores, but on an annual basis the advantage will be more than four times that in the next year because there is an element of ramp up also that has happened.

Srimant Dudodia: Okay and on the other operating income as well there was an increase on Q-On-Q basis from around Rs.1.5 Crores to around Rs.7.5 Crores. Again if you can help us understand what led to this increase in other operating income in this quarter went by?

Sanjiv Paul: Would you please repeat the question?

Srimant Dudodia: I was asking about the other operating income.

Sanjiv Paul: Okay, there is a sales tax incentive that has kicked in Q4 of around 3.2 odd Crores, so that is one of the items that has helped the other income.

Srimant Dudodia: What was the incentive number Sir?

Sanjiv Paul: 3.2 Crores.

Srimant Dudodia: Thanks. That is, it from my side.

Moderator: Thank you. The next question is from the line of Urvija Shah from Isha Securities. Please go ahead.

Urvija Shah: Congrats Sir on a good set of number. Sir most of my questions have been answered, but one book keeping kind of question on the DI sales for the full year and for this quarter?

Sanjiv Paul: The DI sales for the full year were 182,480 and for the quarter it was 55,640 tonnes.

Urvija Shah: Okay and Sir I think it will be a repetition, what would be the increase in the coke prices that were seen in this quarter, in Q1 FY2018, probably if you can just give a little idea?

Sanjiv Paul: Our effort is to ensure that the weighted average coke price that we have in Q1 is less, if not equal, further less than what we had in Q4 of last year and we are hopeful that we should be able to do that, but individual prices, numbers we normally do not disclose.

Urvija Shah: Okay. Thank you so much Sir.

Moderator: Thank you. The next question is from the line of Ayush Mittal from Mittal & Company. Please go ahead.

Ayush Mittal: Thanks for providing a chance for followup question. Sir when I compare one of the peers like if we compare Tata Metaliks to Srikalahasthi Pipes there is quite a gap in profitability levels, the peer is operating at 24%, 25% operating margins and we are at much lower level, what could be the key reasons for this difference in profitability?

Sanjiv Paul: I have not said it is Srikalahasthi too much, but I can say that our hot metal making capacity is much larger than ductile iron pipes capacity, so we have a mix of two products, one of the products is surely less profitable - the pig iron business that is one. (2) We have had three main major Brownfield capacity additions last year - the ductile iron pipe, the new blast furnace, one of the blast furnaces was down for 90 days, and a new coke plant that we added and a new power plant that we added, so there was a lot of Brownfield activity that was happening last month, which actually subdued our potential to exercise more in terms of volumes. That to me would be reasons for our slightly less profitability, although this is the best ever for Tata Metaliks and this is better than last year even, so in spite of all of these we did better than last year. Next year logically you should see much, much better results than what you had just now. Srikalahasthi on the other hand there is nothing else ductile iron pipe. They do not have a mix of two different products. So if you look only at the ductile iron pipe for Tata Metaliks then is when you will be able to compare apple to apple.

Ayush Mittal: So basically this is the only first quarter where we reached 22%, 23% margin in the ductile, DI pipe segment, otherwise we were at 13% to 15% margins, so that is the reason for the question?

Sanjiv Paul: You will see that going even better going forward.

Ayush Mittal: Is there a thought that we will **(inaudible) 41:22** and keep integrating it forward to the DI and that will improve our margins, will that be the move forward?

Sanjiv Paul: Yes, surely and the numbers that you see are not still apple to apple, this 22% vis-à-vis 28%.

Ayush Mittal: Is there any benefit that company gives for the lower transportation cost, as Telangana was doing very well or we even on that front?

Sanjiv Paul: Let me just finish the first part of the answer, the segment profitability that you see is that transfer price of hot metal because there are two products that we make, so there is a transfer price of hot metal that you see in the segment cost of ductile iron pipe, which you would not see with Srikalahasthi.

Ayush Mittal: Sir I could not get this part.

Sanjiv Paul: In the results that we published and what you are seeing and where you are calculating this 22%, the raw material for ductile iron pipe unlike for Srikalahasthi it is iron ore and coke, for our segment which is the way the results have been shown it is hot metal which comes to the ductile iron pipe at a transfer price, which is market related, so there will be a market-related benefit which the hot metal division is getting, so you have to combine the two to see the profitability to make it apple to apple.

Ayush Mittal: So in a way the PI iron business has been a drag on the overall numbers and as we do better on that the things should improve is that right?

Sanjiv Paul: That is very right.

Ayush Mittal: And in the PI segment we talk about the Tata EV which gives us better marketing or maybe better qualities…

Sanjiv Paul: Premium in the market.

Ayush Mittal: Yes, premium in the market, so does this division has the capacity to produce profitability like 18%, 20%, 22% kind of margins which we were seeing over the last few quarters, is that the range we can see or that is not a possibility for this segment?

Sanjiv Paul: If you notice the results for the past few years you will see that the pig iron business itself, ductile iron pipe has taken over the business that is only this year, before that we were a pig iron business and we have seen profitability which was close to 15%, 18% earlier and as well. Whilst the ductile iron pipe is a step ahead in the value chain and is a more sustainable business going forward, I say sustainable because it does not go through the cyclicity which a pig iron business goes. The cyclicity would be slightly muted in the ductile iron. That is why one wants to go forward in the value chain. To answer your question, in pig iron business the possibility does exist to get 15, 18 plus profitability, but there is cyclicity, which is much lesser in the ductile iron pipe business. On your second part of the question where your are saying Telangana and transportation cost, yes that does make a difference to profitability, but geographically we have a market closer to our plant as well where Srikalahasthi would have a difficulty or lower profitability in trying to sell, so our kind of business is generally ductile iron pipes carries a lot of weight and does not travel very well, you try and sell more and more in the region that you exist, that is what Srikalahasthi did and last year there were a lot of business coming from Telangana, it did benefit from it, but going forward those businesses will be Odisha and Madhya Pradesh and other regions, and you will see our profitability getting better on that.

Moderator: Thank you. We will take the next question is from the line of Shekhar Singh from Excelsior. Please go ahead.

Shekhar Singh: Sir, just wanted to know our plant, what is the capacity of the power plant which we just commissioned?

Sanjiv Paul: 10 megawatts.

Shekhar Singh: These two blast furnaces put together the capacity is 500,000 or is it to one blast furnace is 500,000?

Sanjiv Paul: Put together.

Shekhar Singh: DI pipe capacity is 200,000 and you produced around 182,000 just a year?

Sanjiv Paul: Yes, because we put in this capacity, the additional capacity is only in August-September of this year.

Shekhar Singh: As far as the hot metal is concerned what is the total production this year?

Sanjiv Paul: The total hot metal production was around slightly less than 4 lakh tonnes, it is 3, 83,000.

Shekhar Singh: The coke plant that you have that has a capacity of 120,000?

Sanjiv Paul: Yes, per annum.

Shekhar Singh: Are there any other projects, which are due for commissioning in FY18?

Sanjiv Paul: We have not announced any as yet.

Shekhar Singh: What is the Capex plan for FY18?

Sanjiv Paul: Again a forward-looking question I would refrain from answering.

Shekhar Singh: What was the total Capex for FY17?

Sanjiv Paul: Around 125 Crores.

Shekhar Singh: What is the cost of debt right now?

Sanjiv Paul: Cost of debt is less than 9%.

Shekhar Singh: Thanks a lot.

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

Dhruv Bhatia: Sir, I just what to know what is the production of DI pipes this quarter?

Sanjiv Paul: The production of DI pipe last quarter was around 61,000, I think.

Dhruv Bhatia: That does not mean that you are having more than 100% utilization?

Sanjiv Paul: Yes, utilization is the function of the order sizes that we get and in the last quarter we were fortunate enough to get higher segment orders, so the higher segment of productivity is much better, but yes you can say that we have produced much more than capacity and we are hopeful that we will be able to continue in this way going forward as well.

Dhruv Bhatia: Sir, with the capacity of 200,000 you can probably do production of more than 200 or around 240 going with the run rate that you did this quarter?

Sanjiv Paul: Typically, the quarter four cannot be multiplied by four to look at the entire year's production because the ductile iron production is also a function of the pull in the market and Q4 typically when the pull is the maximum. I would not multiply that number by four to say what my capacity is or what I will be doing this year, but surely it is an indication of what the capacity is.

Dhruv Bhatia: Any plans for expansion in the coke oven plants or the blast furnace segment?

Sanjiv Paul: Again a forward looking question, let me not answer that.

Dhruv Bhatia: Sure, thank you.

Moderator: Thank you. The next question is from the line of Ayush Mittal from Mittal & Company. Please go ahead.

Ayush Mittal: Sir, I wanted to ask about the rejection rate, can you tell us about the rejection rate?

Sanjiv Paul: Rejection rate? Again, it is an operational parameter, let me just say that it is one of the best in the world.

Ayush Mittal: Sir, there is another product, double-corrugated pipe or something, which is like new product versus BPI pipe, it is that right or any threat due to that in coming years?

Sanjiv Paul: That is the pipe that is entering the wastewater or the seabird segment I believe and depending on how it fairs in the market is how it should go forward. I have not seen any reports of it becoming a serious threat as yet.

Ayush Mittal: Sir, I wanted the volume numbers for past quarter. I had sent an e-mail to the company, but did not get any reply, how can I take that up?

Sanjiv Paul: If you have written on our website, we will surely get a response.

Ayush Mittal: I will send it again, but I would love to have a response on that.

Sanjiv Paul: You will get your response, have you written on the website?

Ayush Mittal: Yes, I think on the e-mail ID mentioned couple of months back.

Sanjiv Paul: Couple of months back, okay, let me see and I will come back to you.

Ayush Mittal: Sure, thank you Sir.

Moderator: Thank you. We will take the next question from the line of Abhisar Jain from Centrum Broking. Please go ahead.

Abhisar Jain: Sir, my question is on the working capital side, as of now from the reported numbers it looks that there was some amount of working capital investment that have gone in almost to the tune of more than 100 Crore, if I just add on the inventory and receivables and deduct the payable, so is there is understanding correct or is there some adjustment in other lines because obviously the balance sheet formats and all have changed with the new Ind-AS and all?

Sanjiv Paul: No, your understanding is correct, our debtors have gone up last quarter primarily because we sold 55,000 plus tonnes of ductile iron pipes, in fact in March we sold 28,000 plus, so that has increased our debtors a bit and that is why you see the increase in the working capital requirement.

Abhisar Jain: Okay. Sir also there is a quite a bit of reduction in trade payables, which used to be between 250 and 300 Crores for the last three years and that is coming around 170 Crores, so we have 80 Crore fluctuation from there itself. Is there something, which is momentary, or is it going to be like this now?

Sanjiv Paul: Yes, Subhra will like to answer this.

Subhra Sengupta: Ind-AS accounting and institute accounting acceptance, which has to be the subject credited, now that has become almost zero. If you find that we have taken a long-term loan of 125 Crores this year and also that our bad credit for the quarter has currently gone up, so the creditors which have interest bearing has moved to the loan sanction.

Abhisar Jain: Okay Sir, understood. Can you just also kind of indicate the gross block number because it looks like overall the capitalization on the Capex is more than 200?

Subhra Sengupta: We have capitalized 93 Crores of BS-1, around 64 Crores for the power plant, and in the note we have given that for the coke oven per the Ind-AS we have taken it as leased assets.

Abhisar Jain: Right, so Sir 93 Crores of blast furnace and power plant of around 64, what about the DI capacity increase Sir, how much was that?

Subhra Sengupta: DI capacity which was the gross block in Q2 that was around 65 Crores.

Abhisar Jain: Okay, but for FY2017 that also came in right?

Subhra Sengupta: Yes. That is why you see a substantial increase in the gross block.

Abhisar Jain: Okay and Sir, just for these operations on a sustaining basis what would be maintenance Capex annually for this 500 and 200 now which we have along with coke oven and power plant, the full facility?

Sanjiv Paul: Yes, we do have a sustained Capex of around 12% to 15% of our gross block.

Abhisar Jain: Okay, understood Sir, thank you so much Sir and congratulations for good performance particularly in the DI segment. Best of luck for the coming years wherein we hope to do much more in the DI segment as such. I think Sir there are no more questions in the queue, so we can end the call with final comments from your side.

Sanjiv Paul: Thank you so much Abhisar. Thank you to Centrum and everybody else who has been listening and following our results. We are grateful to you for your support. Thank you so much.

Abhisar Jain: Thanks a lot Sir.

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