Tata Metaliks Limited
Q4FY19 Conference Call
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Hosted by Monarch Networth Capital Limited

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Mr. Subhra Sengupta – Chief Financial Officer – Tata Metaliks

Moderator: Good Morning Ladies and Gentlemen, and Welcome to the Tata Metaliks Limited 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 '*' and '0' on your phone. Please note that this conference is being recorded. I would now like to hand over the conference call to Mr. Awanish Chandra. Thank you and over to you, Sir.

Awanish Chandra: Thank you. Good Morning everyone, on behalf of Monarch Networth Capital, I Welcome you all to Quarter-4 FY '19 conference call of Tata Metaliks. We are pleased to host the senior management of the company today and we have with us Mr. Sandeep Kumar, MD of the company and Mr. Subhra Sengupta, the CFO. We will start with the initial comments about the results and the future outlook of the company and then we will open the floor for Q&A, so without any much delay now I will hand over this call to Mr. Sandeep Kumar. Over to you, Sir.

Sandeep Kumar: Thanks, Awanish and thank you all for joining for this call. Subhra is also there with me. The performance of Quarter-4 and for Financial Year '19 has been on the whole I would say quite satisfactory for us because it has been led by a very strong performance by the ductile iron pipe business, which recorded the highest ever sales at about 2, 36,000 tons which is on the back of last year's 2,09,000 tons which was again more than our normative capacity of two lakh tons. Even if we look at quarter-on-quarter, Quarter-3 and Quarter-4, Quarter-3 was the highest ever and Quarter-4 has surpassed that, so we are very pleased with the all-round performance of the pipe business; however, the let downwas from the pig iron business where the markets as well as some of our operational performance of one of our blast furnace let us down I would say, but I think the major factor was the market because the raw material prices started coming down in Quarter-4 and that put pressure 02:29 **(Inaudible)** in Quarter-4, so on the whole the spread between the pig iron and the coke that was compressed and that has resulted in a reduction in EBITDA of pig iron business, so while overall there has been an reduction in EBITDA from 97 crores to 83 crores in Quarter-4, but if we look at the entire financial year, the EBITDA has moved up from 296 to 313. We must also keep in mind that these 296 crores of FY '18 total EBITDA had some one-time gains, so actually the operational performance is much better than what appears. However, there is much more to do on the pig iron side and we see a lot of cost take-out coming up in FY '20. Particularly, I would like to mention two main levers.

One is the PCI which is the coal injection unit that was commissioned in the month of January and which is now ramping up and we should start seeing results coming in from this quarter itself and then of course there is the new oxygen plant which is likely to be commissioned by end of May, and therefore, some results from there as well would start coming in I would say from Quarter-2, that is on the operational side. As far as markets are concerned, there is a cause for worry mainly because of the elections because it slows down the decision-making and therefore the fund flow. I think on the whole Quarter-1 because of seasonal factor as well as because of slowdown of funds due to elections may be muted for pipe business. As far as pig iron business is concerned, I think the market is pretty much in a range bound manner both for raw materials and pig iron, so if I look at the price of the pig iron, they are in the range of Rs. 33,000 to Rs. 34,000, if I look at coke in the range of $ 10 movement is there, $ 200 to $ 210, iron ore pretty much stable a little bit up and down after the fall of last month, so on the whole, the pig iron business is range bound while the ductile iron pipe business for the year looks I would say optimistic except maybe for the first quarter and maybe second quarter as well because of therainswhich is traditionally the way it runs in the industry, so I think that is all from my side.

Subhra Sengupta: we may find that PAT is higher than the PBT because this has gone for the recognition of the MAT rate inter-agreement, which we have done in the Q4.

Moderator: Thank you. Ladies and Gentlemen, we will now begin the question and answer session. We have our first question from the line of Vimal Gohil from Union Mutual Fund.Please go ahead.

Vimal Gohil: Sir, if you could just give us some more details on the decline in the pig iron margins, the call was not very clear at that moment, so if you could just I think you were talking about some spread between pig iron and coke, so if you could just give us some clarity on what has happened over there, on the consolidated basis there is a sharp decline in your gross margins on YOY basis of about 600 basis points so if you could just explain what has caused that?

Sandeep Kumar: The decline has been mainly because of the market spreads coming down drastically from a spread of close to Rs. 5000 per ton it has come down to more like Rs. 3600 to Rs. 3700, this is the spread between the pig iron prices and the coke prices, and most of the impact is coming in also for us is because the Quarter-3, the raw material prices were higher than Quarter-4, but because there is a lag effect so the higher cost of raw material was visible in Quarter-4 and now as we go into Quarter-1, the drop in prices of coke, coal, and iron ore of Quarter-4 would be visible in Quarter-1, so I hope you understand what I am trying to say but there is a lag effect of raw material while the pig iron prices they are more of on a fortnightly or a monthly basis they change, therefore that impact, that compressed our spreads from close to Rs. 4800 to Rs. 5000 per ton to close to about 3600 to 3700. Other than that, the performance of the blast furnace also has been a cause of concern for us and although it is now improving, but we could have produced much more than what we did actually in Quarter-4, so with the results you will find that the sales of pig iron, if you look at simply the sales of pig iron that we did about 69,500 in Quarter-4 as against 71,000 in Quarter-4 of last year, so actually there was a decline in the sales volumes, while in reality it should have gone up because overall the hot metal production for us over the year has gone up from five lakhs in FY ‘18 to 5,18,000 tons.

Vimal Gohil: Sir, going forward do you see both the factors, one is the coke prices coming down that is point Number One plus your PCI, PCI will also be able to help you in that, so do you see these factors not only normalizing, but helping you in FY ‘20 onwards, and going forward how would the realizationsin your pig iron business look like and also if you could comment on the realization growth in the ductile iron business?

Sandeep Kumar: We must understand and appreciate that the pig iron business is more spottish, is more dependent on steel raw material, and therefore, there is a certain amount of I would say lack of control that the market participants have because it is dependent again on the global prices of raw material. They tend to impact iron ore, coal, coke, and everything and steel also impacts us, although we do not produce steel grade of pig iron, it is mostly the foundry grade but it does have a substitution effect if thedifference in price becomes too much, so that is one factor and if I look at Quarter-4 FY ‘18, the spread was almost Rs. 6000 for us, that came down to 3600 to 3700, so that is a massive drop as you can see of more than Rs. 2200 to Rs. 2300 per ton and also there was a drop of almost 2000 tons in pig iron sales, so both these factors have resulted in huge reduction in EBITDA, but as we go forward the markets have stabilized to some extent. They are now range bound, of course they are moving, but more like in a range of Rs. 500 for pig iron and more like $ 10 to $ 15 for coal, so therefore things look better now. Also from our operational perspective, the blast furnaces have stabilized but of course we would be taking a shutdown in the month of May that is aannual shutdown, so there would be some impact of that in terms of volumes, but overall things look to be much better for us and we have taken some very ambitious targets in FY ‘20 for our sales volumes of pig iron. As far as PCI is concerned, from a cost take-out point of view as I was mentioning, the PCI will get stabilized in this quarter and we should start seeing the benefits of that definitely from this quarter.

Vimal Gohil: Do you think your gross margins will be able to come back to at least your FY '18 levels which was more of a normalizedgross margin in a normalized raw material environment, that is 42% because this clearly seems to be abnormally low gross margin that you have reported in FY '19 because of various challenges that you had?

Sandeep Kumar: The gross margins have come down as I said on account of both those factors, one is the high cost because you take a shutdown, you also spend on cost and your volumes get impacted. The other is the market, the market I would not like to hazard a guess as to how it would behave, at the moment the market seems to be range bound. I think nobody can hazard a guess, but if you look at the pipe business that is far more stable and if you look at the margins there, on a standalone basis from iron ore or raw material to ductile iron pipe, our margins continue to be at a level of 20% to 21%, so if you deduct the transfer price for hot metal from one business to another then you will look at a net margin of ductile iron pipe of almost 20% to 21%, that is more or less constant. Last year was 21, this year it is 20, so that is the region in which we would like to play and that is why we are focusing to increase our capacity of pipes, so that becomes the main business for us, and I am sure you are aware of our capacity expansion plan.

Vimal Gohil: Sir, I would like to come to the balance sheet now, just wanted to know what explains a very sharp jump in your trade payables this particular quarter which has helped your working capital, so is this a very sustainable number, what has caused this if you can just tell me and what would be your normalized level of working capital that we could look at going forward?

Subhra Sengupta: The trade payables also includes the suppliers credit and the LC discounting, and if you see the other part of the balance sheet you will find that the loan is zero almost got zero and therefore as the accounting standard wise, the supplier's credit and LC discounting we need to group it sundry creditors it is grouped accordingly. This number of 400 crores will be normalized at the level of say 280 to 300 numbers.

Vimal Gohil: So 300 crores will be your normalized level of credit payables?

Subhra Sengupta: Yes.

Moderator: Thank you. We have the next question from the line of Saket Kapoor from Kapoor & Co. Please go ahead.

Saket Kapoor: Firstly Sir, if you could give what kind of sales are we looking out for in terms of DI pipes for FY '20?

Sandeep Kumar: Our capacity expansion will take about one-and-a-half to two years, so we do not really have any additional capacity. Even last year when we had the call and every quarter, we were not sure whether we could achieve this number of 2,36,000; last year we did 2,09,000, which was in excess of 2 lakh tons that is the normative capacity, but we have been able to squeeze out additional volumes by way of increased availability and also by I would say choosing smart product mix. Depending on the product mix, you could increase your volumes so it is also a function of to some extent the market, the ability of our marketing and sales team to select customers, products as per what the plant wants. It has been a good teamwork, but ultimately it depends on how the market is able to absorb, so to a certain extent it is uncontrollable and to certain extent it is controllable, so I would not like to hazard too much of a guess on that, but I would say that the volumes that we have achieved, near around that volume is we have reached the limit I would say so I do not think there would be much of an increase. We would obviously try to increase further, but it is very, very difficult now.

Saket Kapoor: Sir, on the base of 236 minimum we should be doing 2,36,000 for the DI pipe, that should be our optimum target?

Sandeep Kumar: You can take a range between 230 to 240 is what we should be operating in that region, why should we operate at anything less.

Saket Kapoor: For the pig iron, Sir?

Sandeep Kumar: Pig iron I think we can increase volumes and that is what we are planning to do.

Saket Kapoor: What is the last year number, Sir?

Sandeep Kumar: Last year, we produced 5,18,000 hot metal and out of which we sold pig iron about 2,82,000 and 2,90,000 was previous year, so we actually reduced because we transferred more of hot metal onto the pipe side, so if pipe can take more we would prefer to give more for pipe; whatever pipe cannot take we make pig iron, but next year both these numbers should increase, DI pipe marginally or maybe somewhere around that as I said between 230 to 240 while the pig iron should definitely cross three lakhs, how much more I cannot tell you let us see how much the market can take, but we are very ambitious and we are trying to squeeze out more and more.

Saket Kapoor: Sir, this all we are factoring in the annual shutdown also since it is a planned shutdown?

Sandeep Kumar: Yeah. Annual shutdown we are taking some major initiatives on cost take-outs and automation etc., so there would be some shutdowns on account of that, but certainly this year has been a bad performance. If you really ask me from a hot metal perspective, it is much lower than our plan. You may not know our exact plan, but we know internally so we are not happy with the pig iron performance at all while we are very pleased with the pipe performance. Now, we want to make sure that the pig iron performance is in consonance with the DI pipe business on a similar level.

Saket Kapoor: Sir, but the pig iron part, it is more market dependent, the spot market part as you have already explained, so as the market behaves the more the conducive the market will be for the pig iron part then only we could be able to take advantage of the same if the market deteriorates or remains sluggish, only we can see the volume ramp up?

Sandeep Kumar: There are three factors, one is the market price which is when I say the spread that gives you the idea of that is uncontrollable that is not controlled by us, we can only control to a limit extent that. Second is the volumes, we could have done much more than what we did this year. Third is the cost take-out, we did badly on cost because of frequent shutdowns, the cost was up, so two or three factors have no control we have reached level in terms of volume and cost then you can say, okay, .

Saket Kapoor: Sir, could you repeat the last two lines?

Sandeep Kumar: I said that there are three factors that impact our business primarily, cost, volumes, and price. Market price is not controlled by us, but volumes to a large extent what we can produce and cost again to a large extent is controlled by us, I would say large extent because some of the inputs are market dependent, but the consumption is not market dependent. Consumption depends on our own operational efficiency. Now, in the pipe business we have reached a level where both cost take-out and volume further squeezing out, we have reached almost close to the limit, may be some marginal improvement maybe possible which we will try next year. Market is not within our control, but if you look at the pig iron business cost take-out possibility exists, volume squeezing out definitely possible, market not within our control. In FY '20, we did badly in all three especially in Quarter-4, but in DI pipe business we did well on both cost and volumes, market was not within our control, market was more or less similar.

Saket Kapoor: Sir, if you would throw some light on the order book part also, you were sounding low on account of election and then the first quarter being muted the second half, first half being muted firstly on account of elections and then the onset of the monsoon, so just wanted to understand the nature of the DI pipe segment, are the deliverables affected due to the moral code of conduct being there or how are you planning your deliverable numbers for the DI for the first quarter?

Sandeep Kumar: The state election, for example, if you look at Andhra, Andhra Pradesh has announced orders of DI pipe business of more than 6 lakhs to 7 lakhs tons. If you take the market size of India of 2 million, can you imagine we are talking about 30% of the market coming from Andhra. Of course, this will not get executed in one year, it may get executed in about two years. Even if you take at 15%, 10% to 15% of the market is alone Andhra, but they have not been able to release the orders because there are state elections, so that is what I meant that the order release is slow now. We have an order book of more than 10 to 11 months, so we are quite comfortable that way, but what happens is order booking and order execution are two different entities. Order execution will happen when the fund starts flowing in and funds will start flowing in the State Government gets partial funding from either Centre or ADB or ZICAor whichever funding agency exists, so that is what we may becomfortable in the fact that there were very rosy order book, but executing those orders will depend upon funding and which is what I am hinting that is slow at the moment because of elections and in any case in the month of monsoon, the material does not move because sites get flooded, therefore, the Quarter-1 and Quarter-2 in general are in any case weak.

Saket Kapoor: On top of that the election part will be playing spoilsport for this year?

Sandeep Kumar: Yes, you are absolutely right.

Saket Kapoor: It will have additional impact than what the seasonality and the lean factor used to be there?

Sandeep Kumar: Absolutely.

Saket Kapoor: Sir, my question to Subhra Sir on the balance sheet front, as of now we are not having any long-term borrowing, we have not drawn anything?

Subhra Sengupta: Long-term borrowing is zero.

Saket Kapoor: Sir, the CAPEX which we have envisaged of doubling our DI pipe capacity, how much money we will be preparing to draw from bank and how much will be used from the proceeds which we have got?

Subhra Sengupta: Our total issue size was 404 crores, we have already got 236 crores, so we will be getting another 168 crores from promoter and the balancewill be funding from internal accruals.

Saket Kapoor: What will be the total CAPEX for this DI pipe?

Subhra Sengupta: CAPEX of the DI pipe expansion plus power plant put together would be 550 crores, to theperiod of 24 to 28 months, so one would be equity of 168 and balance would be done from internal accruals. We try not to take any further long-term loan.

Saket Kapoor: 168 minus 550 that is around 380 to 385 crores we will be borrowing from the bank.

Subhra Sengupta: No, balance would be done through internal accruals.

Saket Kapoor: To the extreme, the cash flow for this year, Sir?

Subhra Sengupta: If you see our PBT is 213 crores and if the depreciation and tax is netting of each other, normal cash from operation would be 200 crores and some blockage in working capital, so with the steady state basis we can have 150 plus STF each year.

Saket Kapoor: Sir, just I wanted to have the understanding for this year how have been the cash utilized as on March 31st, you explained that it is around 213 crores?

Subhra Sengupta: We have repaid the loan to the extent of 70 crores, we have blocked approximate 40 crores in the working capital, and balance we have spent on the sustenance CAPEX, the CAPEX for the infrastructure and plant availability and other things and also on environment related equipments and things.

Saket Kapoor: Sir, for the next year for the finance cost part, what should we work our numbers with, for FY ’18, March ‘18 it was 47 crores that got reduced to 43.26 for ’19 and since now with repayment of loans and cash flows that will be generated, what should be the ballpark number we should work for the next year?

Subhra Sengupta: That you can calculate because we have got the balance sheet numbers and our interest rate you can take 8.5% to 9%, so it will be approximately 20 crores.

Saket Kapoor: This 23 crore reduction we can expect just on the interest front only going forward for the next year, on this topline?

Subhra Sengupta: Approximately.

Saket Kapoor: Lastly, Sir, we did not find the press release for the volume data and all for this quarter?

Subhra Sengupta: It is unfortunate, but we have released the press release yesterday evening only. What I will do I will forward to Awanish.

Saket Kapoor: Update on the stock exchange is also, Sir, would have?

Subhra Sengupta: This is done, I will just check up with the Secretary.

Saket Kapoor: Thank you. We have the next question from the line of Dhimant Kothari from Invesco Mutual Fund. Please go ahead.

Dhimant Kothari: Sir, I wanted to understand the rationale of the capital infusion or the equity dilution, we would have easily done it through our internal accruals and still our debt position would not have been very stretched, so why the equity dilution, what is the rationale on that?

Sandeep Kumar: There are couple of reasons. One is that the total investment is over 600 crores of the new project to be executed over next two years or so. Now, the internal generation would not have been sufficient, of course, loan it is possible to do but the fact that Tata Steel saw this is an opportunity to strengthen the balance sheet of Tata Metaliksconsidering its long-term growth plans, it is good for us because from a company's perspective, this was I would say we got a better price that what we would have got from the market because at that point of time, the price was fixed, this was at a premium, Number One. Number Two, it shows the confidence of the promoter and of the Tata Group and you know today how the Tata Group is thinking and believing, so it gives us the confidence, and thirdly, it strengthens the balance sheet which will helps us to grow further and also to do structural cost reduction initiatives, so we have the PCI unit and we have the new oxygen plant. Now, what we can do is we can grow further, we may not be restricted. As far as the market is concerned, the next five years and I have had a discussion, I had gone to Bombay, I and Subhra we met lot of people, a lot of investors and we explained to the market for the next five years as per our survey and our own studies and we have had independent consultants do the study, looks very optimistic level of 12%, 15%, somebody even talks about optimistically 15% to 18%, but what we have done is we have taken our 9% to 12% growth for the next five years and basis that, we think for Tata Metaliksto grow further is not a big deal provided we have the finances and I think the promoters in choosing that funding helps us in thatif we need to go to the market or take loans from here, we can always do that and it is the most efficient way of doing it. Within two days, we got the money, if we had taken our rights or anything else it would have been more tedious. Now, the Management can focus on just operational, otherwise, we would have been busy with number of other things on the finance front.

Dhimant Kothari: Sir, you are suggesting that there would be something beyond what is already announced, so something else in terms of CAPEX would also belined up and their sets of five-year holistic plan what you have drawn out?

Sandeep Kumar: Yeah, so for the next five years, we have a very ambitious plan of growing further I would say, but it depends upon the opportunity and we would take it one at a time and not stress the balance sheet that is been repeatedly our stance. At the moment, things look rosy and optimistic, that is why we are growing through the Brownfield route but we would want to grow further where, when, what I think in due course we will let you know.

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

SreemantDudhoria: Firstly Sir, you mentioned the spread between the pig iron and coke was about 3700 to 3800 as against a larger number in the early quarter, what is the normalized spread on longer-term basis and what is the spread that is currently prevailing?

Sandeep Kumar: If you look at the spread in the previous three quarters, there were more like close to 5000, 4800 to 5000. If you look at Quarter-4 of FY '18, the spread was more like 6000, so unfortunately in Quarter-4 of this year it was the lowest spread we saw over the last five quarters, that is one of the major reasons for the depressed EBITDA of pig iron. Normally, we can assume a spread of 4000 to 4500, that level of spread is on a long-term basis seems to be reasonable basis historical trends.

SreemantDudhoria: If I understood right, was it more because of the short-term volatility in the iron prices that happened in say from Q3 to Q4 and has it normalized currently?

Sandeep Kumar: The prices have more or less stabilized, it also impacted the steel prices as you might know in Quarter-4, but the raw material prices they moved, so for example in the month of March the coke prices went down significantly almost $ 30 to $ 40 in the international market, so that would improve our spread in this quarter if the pig iron prices do not fall too much, there is slight softening of prices but again as I said more range bound say within Rs. 500 up and down.

SreemantDudhoria: Secondly, we know since the PCI got commissioned in January, was there any impact of PCI in the Quarter-4?

Sandeep Kumar: Yes, had impact but I would say marginal because we were also struggling with, when your blast furnace is not stable what happens your PCI injection is also limited, so the benefit we are also experimenting, it takes two to three months to stabilize, now things look better but I think in May we have another shutdown which is a scheduled shutdown. After that, we should start seeing the benefits. Of course, we will see some benefits in April also, I am not ruling that out, but what I am saying is it is not as per plan, our plan is much more so hopefully we should start seeing that from second half of May or June.

SreemantDudhoria: In earlier conference call, you had highlighted that we are expecting a quarterly savings of about 7 to 8 crores from PCI, so that will not be completely reflecting in the first quarter that would more be coming from the second quarter onwards, is theunderstanding right?

Sandeep Kumar: Yes, you are absolutely right on the ball.

SreemantDudhoria: How many days was the blast furnace got impacted in Quarter-4?

Sandeep Kumar: Actually, there was no shutdown of blast furnace, it was more of an unstability so what happens is when the furnace is not stable, you need to reduce the wind volume and reduce the production because there are heat fluxes in the furnace which are not stable, so more of technical operational issues and there are various reasons for that. We have identified, we have also taken help from Tata Steel blast furnace team, which is pretty strong based in Jamshedpur. Their team had come and they have also helped us, so we are now understanding is much better because when you introduce PCI, it is a very different animal while the benefits as you said 7 to 8 crores is fine, but to stabilize and operationalizedit is not easy especially when the furnace is not stable, so those things seem to be much better now although not at the optimum level yet, so we are not pushing too hard because we do not want anything major to happen before the scheduled shutdown. After the scheduled shutdown, we will push the PCI much more, and therefore, the benefits would start coming in after that in a much bigger way.

SreemantDudhoria: The cost or the one-time impact in dealing with the issues with the blast furnace in the Quarter-4, was it a significant number?

Sandeep Kumar: Yes, absolutely. In fact the cost increase on account of blast furnace has been pretty significant I would say in almost all quarters, but more so in Quarter-4 and because of the reasons that I mentioned to you, so we could have done much better, let me put it this way and we would want to do much better and we think we can do much better in this year, how much cost etc. I do not think we need to get intothose kind of details, but generally speaking your point is absolutely right, the cost has been a factor, the volume has been a factor, and mainly because of the furnace not behaving properly.

SreemantDudhoria: The plant shutdown that is due in may now, what is the number of days that is planned for this shutdown?

Sandeep Kumar: Normally a few days, normally about three, four, five days at most because it takes time to ramp up also, so three to five days we will plan exactly closer to the date. What happens is also when you open the furnace, it depends on what is the situation, the number of days may change, but broadly that is the range at which we work.

SreemantDudhoria: Now, couple of bookkeeping questions, I think the line was not clear when Mr. Subhra Sengupta was explaining about the difference between the PBT and the PAT numbers, could you please repeat the explanation why the PAT was higher than the PBT?

Subhra Sengupta: What I was telling that is this quarter, we have recognized that MAT credit entitlement, the whole year we have recognized 43 crores. Out of the 43 crores, 25 crores recognition took place in the Q4, and therefore, the net taxcurrenttax plus deferred tax is negative, and the PAT is more than the PBT. If you recollect that we had carry forward loss earlier and we had to pay MAT for those years 2011 till '13-14, which we are supposed to get the credit entitlement, that credit we have recognized in the Q4 of FY '19.

SreemantDudhoria: Anymore credit that is left?

Subhra Sengupta: As of now, no.

SreemantDudhoria: We will be paying full tax in FY '20, 30%?

Subhra Sengupta: No, it is a MAT rate recognition in the books, so on a cash out basis it will be MAT in the subsequent years also, but book commission basis it will be higher side.

SreemantDudhoria: What should be the blended tax rate for FY '20?

Subhra Sengupta: 27% to 28% approximate.

SreemantDudhoria: Another clarification, you explained about the increased payables and some portion of that being supplier's credit. I understand from the conference call that happened in March that debt on our books was roughly around 400 crores, please correct me if I am missing something and the current debt on the balance sheet is about say 37 or 40 odd crores and about 200 crores of more supplier's credit in the payables, is there any other line item where the debt is accounted for, what is the debt standing on books right now?

Subhra Sengupta: Let me clarify it bit more, the loan standing in the balance sheet of 37 to 38 crores, it is actually lease obligation not any bank loan, as per the accounting standard that if we have got any long-term contracts we have to capitalize in your book and show as a lease obligation, so this 37 to 38 crores is not a bank loan, it is a lease obligation and what you have said on the creditor side approximate 170 crores is included as supplier credit and the supplier credit and LC discounting so there is no other line items any sort of borrowing anywhere. To be precise, interest we are borrowing in the region of 170 crores.

SreemantDudhoria: Finally, what will be the CAPEX spend in FY '20?

Subhra Sengupta: That depends how far we can execute that project and how early you can execute that project, so logically it should be 80 to 100 crores, it can grow up, we can make execution little faster.

Moderator: Thank you. We have the next question from the line of Riddhesh Gandhi from Discovery Capital. Please go ahead.

Riddhesh Gandhi: Given you already have the extra pig iron capacity, how much is your incremental ROC, the expectation from the incremental CAPEX that you are all doing?

Sandeep Kumar: I did not get your question, you said incremental?

Riddhesh Gandhi: Return on capital employed from the new CAPEX that you guys are undergoing?

Sandeep Kumar: You are talking about the return on capital employed is it on the new project?

Riddhesh Gandhi: Yeah.

Sandeep Kumar: If I look at IRR, then IRR wise I can tell you we would be looking at anything above 20% as a safe bet for us to go.

Riddhesh Gandhi: It would be reasonably above 20 right I would expect about 25% given you already have the pig iron capacity and this is incremental plug and play?

Sandeep Kumar: This is incremental, I agree with you, but there is an increasing in hot metal capacity also which is envisaged of about 70,000 tons, so all combined, the DI pipe doubling, pig iron by 70,000 tons, and power plant of 15 MW altogether we are looking at IRR of may be 18 to 20 at least if not more.

Riddhesh Gandhi: With regard to get competitive intensity on new projects, is it high, is it low what you see medium, it is just to get an understanding on how spreads are in new upcoming bids which you all are bidding for?

Sandeep Kumar: I think there are two parts to the question, one is with the new project where do we stand. I think we are going to be much better placed because our product size range is going to increase. Currently, we produce pipes up to 800 MM and there are many orders which we are not able to take because they go beyond 800, so this is going to be up to 1200 MM and also on the smaller sizes, we do not have enough capacity so that will also help us there, but obviously there are more volumes doubling the capacity means more volume, so therefore, your pressure will be more, and therefore, yourNet Realizations could be impacted as you would want to sell more away from your home markets, so there is both positive and negative connotation there and as far as I think the pig iron is concerned as we deploymore of hot metal into PI, there would be less volume of pig iron, so we could sell closer home and the realizationthere could improve.

Riddhesh Gandhi: I think the question is even on your existing new orders even for this year, I am not talking only about incremental capacity utilization, how the competitive intensity from your competition with regard to the bidding or is everyone like running closer to capacity, therefore, pricing continues to be attractive given a lot of plants are closed down?

Sandeep Kumar: That was the second part I missed out answering, the competitive intensity today I would say is quite balanced, I would not say very high and at the same time I would not say it is very low, there are seven to eight players, the new plant of Electro steel in Bokaro was taken over by Vedanta, and therefore, there is a new competitor, but we also have a couple of plants which are in bad shape who have not done well, in fact one I believe is referred to NCLT and another one down south has not operated now for over a year, so there are both these kinds of I would say organizations and capacity, but if you look at our capacity utilization we are more than 100%. There are others who would be at 70 also and there are people who are at close to 90 and 90 plus. On the whole if I compare to steel industry, we are much better off as an industry because the competitive intensity is relatively lower capacity utilizations are relatively higher except for a couple of plants.

Riddhesh Gandhi: Along East India effectively which is the location of your plant, are you all seeing an interesting pipeline of actually projects that are coming up?

Sandeep Kumar: The ductile iron pipe business is a bit difficult business unlike parts of steel business where which can be set up, so you want to set up a rebar business and I come from Tata Steel, so I am giving you that perspective, easier to set up smaller steel businesses then to set up and run a ductile iron pipe business. The steel pipe business making is much easier than making a ductile iron pipe business. It is far more complex as a process, and therefore, you do not find too many players entering the ductile iron pipe business because it is a complex one, it is not easy to make and it requires a backend of hot metal in India to be competitive, you do not have scrap based ductile iron pipe business in India although you will find it in Japan and maybe some of the other mature economies, you do not find it in India, while the steel you will find both, so that is the difference. Otherwise, with the kind of growth that we are talking about you would have seen a flurry of players entering the sector, so entry barriers are higher I would presume.

Riddhesh Gandhi: I was asking with regard to new project bids which are coming up are a lot of them in the Eastern region because obviously the spreads would be higher if projects are with the region well you guys are locally given the high cost of moving ductile iron pipes?

Sandeep Kumar: The projects in the states of West Bengal, Jharkhand, Orissa, they are pretty I think the growth has been pretty reasonable and I think the new project, the big one is coming in from Andhra where I mentioned a little while back almost 6 to 7 lakh tons of new orders are expected to come in. They have been released to the EPC contractor, but who in turn have not passed it on to this pipe suppliers, I think after elections that would also happen, so this should keep the industry running at a good speed over the next two years.

Riddhesh Gandhi: Last question is on lines of you appear reasonably optimistic about the growth prospects of ductile iron, your company was trading at 8 to 9 times ex to trailing earnings, you have incremental CAPEX which is at IRR which are over 18% to 20% and yet you choose to opportunistically do a preferential allotment to the promoter as opposed to a rights issue where even effectively speaking you do not need the equity immediately and even if it took two to three months there would not be an issue, just wanted to understand as to the reason why actually Tata Group of companies would do something which is opportunistic as opposed to being little more equitable towards your minority shareholders?

Sandeep Kumar: Yeah, I appreciate your concern we have dealt with this sentiment in the AGM also. Well, it is the way you look at it with time at which we the trust issue was issued. At that point of time, the market was at a discount and the date was fixed, the market price was I think it was 582 or something like that and the Tata Steel fixed a price of 642, of course that depends on the last six months average and that is as per SEBI rules, but even then nobody expected at that point of time that the market would go at 642 especially when we are saying elections are coming in, especially when people like Ruchir Sharma are saying there is a recession in the next one-year, so you do not know what will happen, but Tata Steel decided that they have confidence in Tata Metaliksand they would want to invest and support us. It was a neater option, it was a better option at that point of time when the market was at 582, so you could have taken a call and said no, in the future the prices would have gone up, but that is speculative and I think there are both points of view, but I can only tell you that it was not to make, this equity issue is not from a perspective of making money for the Tata Group or Tata Steel as such, it was more to make it easier, less tedious for Tata Metaliksand at a price which appear to be more attractive for Tata Metaliksat that point of time then it would have been for the market, so on hindsight now after two months we can say that maybe things are better, but at that point of time we did not know and nobody knew.

Moderator: Thank you. We have the next question from the line of GirirajDaga from KM Visaria Family Trust. Please go ahead.

GirirajDaga: My first question is related to the, if I look at EBITDA per ton of DI like this year we have almost done Rs. 1000 compared to last year, so if you can highlight what was the particular reason for that, and the second part was that how the EBITDA per ton looking on the existing order book, is it similar to FY '19 number or similar to FY '18 number?

Subhra Sengupta: Your first question was that DIP EBITDA per tonis approximately 10,000 tons?

GirirajDaga: Sorry, down Rs. 1000 compared to last year, so somewhere about 6400 this year compared to 7300 to 7350 last year?

Subhra Sengupta: If you see that internally also calculate the EBITDA from the iron ore to DI and I have to take it remainsalmost same because when we report we have got good defense business with arm's-length pricing, the transfer of hot metal based on the market price, so if we eliminate that then if you see both the years of FY '19 and FY '20, FY '19 is almost 10 kg per ton**,** which is 20% and the earlier years also it is almost 20%, if we consider from the iron ore to DIP because the transfer price is eliminated ultimately.

GirirajDaga: But what they report in the numbers that 130 crores of EBIT and if I add back depreciation which was somewhere about like 21 crores last year, so I assume it is near about in a similar range since overall depreciation amount has not moved up?

Subhra Sengupta: I agree with your point, what I am trying to say with these number of the DIP what we report is also dependent on what was the pig iron price, market price, and the hot metal price.

GirirajDaga: But that you have assumed the market price, right?

Subhra Sengupta: Yeah.

GirirajDaga: That is a fair number, let us assume that the market price and still the numbers have gone down?

Subhra Sengupta: But if you compare from the iron ore to the DIP then both the years is same.

GirirajDaga: Second question is that like you mentioned the CAPEX number of 550 crores that is inclusive of this hot metal and powerplant?

Subhra Sengupta: Yeah, it is three portion, one is doubling the DIP capacity, 15 MW power plant, and increasing the hot metal capacity to the extent of 70,000.

GirirajDaga: My question is that if suppose there is a Brownfield expansion, suppose if we have to go for the Greenfield one, how much this would have costed you?

Subhra Sengupta: 1000 to 1200 crores. We have to have full-fledged of hot metal capacity plus we have a blast furnace.

Moderator: Thank you. The next question is from the line of Kiran Naik from Mody Fincap. Please go ahead.

Kiran Naik: Sir, I have one question, how much will be the revenue growth for Financial Year '20 you see?

Sandeep Kumar: Well, we do not give any guidance, but generally as I was saying that look if I can give you an indirect way of understanding, the ductile iron pipe business we hope we can continue in the range of 2,30,000 to 2,40,000 while the hot metal with the pig iron which we did about 2,82,000, we would want to exceed three lakhs, so there should be growth in the pig iron side while on the ductile iron side it would be more or less similar and very narrow range. I said the market price we have to leave aside the market, but purely from a sales volume point of view, the ductile iron pipe business would be more or less similar to what we did this year, there could be a bit up and down, but on the pig iron side as against 2.82 lakh tons this year, we expect to do more than three lakh tons next year.

Kiran Naik: What will be the EBITDA margin?

Sandeep Kumar: EBITDA margins, the ductile iron pipe business is continuing at about 20% to 21%, so that is the kind of EBITDA margin for pipe business we think we should be able to sustain on that level, percentage here and there is always possible. As far as pig iron business is concerned, this year the EBITDA margins have come out, but in general it is between 8% and 10%.

Kiran Naik: So overall can I expect or consolidate 12% margin?

Sandeep Kumar: 14% to 15% is what we have been achieving, so if you look at even this year it is about 14% to 14.5%.

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

Sahil Sanghvi: Sir, most of my questions are answered, just I wanted to know that the expansion project is it on schedule?

Sandeep Kumar: Yeah, absolutely, in fact we want to do it faster than the schedule and we are I think it is only a month since we announced it, so I do not think there is anything which has changed, but I think we will be able to tell you at the end of Quarter-1 where we stand.

Sahil Sanghvi: As Subhra Sir guided that we are expecting about 80 to 100 crores of CAPEX in FY '20 and we expect that more than half of the DI pipe capacity will be available for the second half FY '21, you expect a major chunk of CAPEX in FY '21 for the expansion, any kind of guidance on that?

Sandeep Kumar: If we are talking about 555 crores of CAPEX overall, the bulk of it would happen in next year, so there would be this sustenance CAPEX and CAPEX on automation and digitization and infrastructure etc., which would be in the range of say 60 to 80 crores and another 80 to 100 crores CAPEX on the budget is what you can expect this year, the balance CAPEX between next year and next to next year because we must be clear on one thing that the pipe capacity will come in two phases, what we are saying the first phase will come.

Sahil Sanghvi: Just to get it cleared Sir this 80 to 100 crores is just the CAPEX for the expansion in FY '20 and the digitization and the similar projects will have an incremental CAPEX in FY '20?

Sandeep Kumar: Yeah, it is not only digitization, automation, safety, infrastructure, sustenance all that we would spend another 60 to 80 crores.

Sahil Sanghvi: That will continue in FY '21 also, a similar number?

Sandeep Kumar: Yes, as I had been telling in the past, we are focusing heavily on automation and digitization, so all these projects will start needing CAPEX as they fructify, so every year we will have that for the existing plant, and the new plant that we are going to set up is going to be absolutely top of the line in terms of automation, and so therefore, that should be within the budget.

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

Sanjay Jain: I had just one question what is our iron ore sourcing, how much of iron ore we are right now sourcing from Tata Steel captive mines and how much we are buying from market in percentage terms?

Sandeep Kumar: About 70% to 75% is from Tata Steel and balance is from the market.

Sanjay Jain: Is this going to be like this next year also or?

Sandeep Kumar: As such, we have no problem in getting iron ore from Tata Steel, but we want to diversify the sources because it helps us in logistics primarily, so logistics primarily, so if we diversify our sources and it helps us, that is one of the reason why. Earlier this number used to be less than 10%, now it is almost 25% to 30% from the market and interestingly we would like to keep about 50:50, 50 from Tata Steel and 50 from market as we go forward.

Moderator: Thank you. I now hand over the floor to Mr. Awanish Chandrafor closing comments, please go ahead, Sir.

Awanish Chandra: Thank you very much Sandeep Sir and Subhra Sir for sparing your valuable time.

Sandeep Kumar: Thank you very much, Awanish. I could see there were lot more questions, but unfortunately we ran out of time, we can plan this a little better next time in terms of timing and we have media interviews before and now also, since it is live on the TV, so I cannot tell them to defer it. If there are any questions people can send it to you and you can send it to us or they can send it to us directly, either way it is fine or we can have a teleconference later. We are happy to answer all questions of investors and from our side I think everybody has listened to us. If there are any specific questions, as I said, you can send it to us. Thank you very much for hosting it and thanks to all the investors.

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