



“Tata Metaliks Limited Q4 FY '20 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day. And welcome to Tata Metaliks Limited Q4 FY '20 Earnings Conference Call, hosted by Monarch Network Capital. 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 Network Capital. Thank you and over to you, sir.

Sahil Sanghvi: Thank you, Lizann. Good afternoon to all. On behalf of Monarch Network Capital, we welcome you for the Tata Metaliks Q4 FY '20 Earnings Call. From the management side today, we have their MD – Mr. Sandeep Kumar sir, and CFO – Mr. Subhra Sengupta sir. 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. Thank you. Thank you very much for hosting the call. Good afternoon, everybody. Well, the quarter four results have been delayed, mainly because of the COVID pandemic. We could not hold the Board meeting last month because of this COVID and other is in Calcutta we had this Cyclone Amphan, and we simply could not connect. Any which way, you must have seen the results. But just to summarize, I will just give a bit of a summary briefly, and then we can get on to question answers.

Well, we had a sort of good results in the sense that the profitability has been significantly up. If you look at the profit before tax, it is at about Rs. 97 crores, which is almost a 70% to 75% increase over quarter four of last year, while even the sequential quarter it's about 75%. This increase, if you look at the EBITDA percentage, we have gone up to almost 23%, 24% compared to say 16% on a like-to-like basis, 16% to 14%.

So, what has triggered this performance? Well, broadly if you look at it, there are three factors. One is, of course, the sales volume, where in pig iron and we have moved up by almost 13% compared to a year back. However, the ductile iron pipe sales went down by almost a quarter, so almost 25% down. And that's primarily not because of the market, but that's primarily because we had to shut down owing to the lockdown, the supply chain got disrupted and there were no trucks available. So even though we had orders, we could not execute them. So the sales volume was a mixed bag, it increased in pig iron by 13%, but it dropped by almost one-fourth in quarter four of FY'20, compared to quarter four of FY '19.

However, the silver lining of the market prices were, the market prices moved up, if you look at on a sequential basis, I think it makes more sense to look at the market. So the market prices of pig iron moved up by almost 7%, while for the ductile iron pipe it went up marginally by 3%. But that's because the ductile iron prices are more stable, they aren't booked on a spot, they are long-term contracts, so they are much more stable than the pig iron prices.

At the same time, we could all control our coke cost. And therefore, which reduced by almost 8% on a sequential basis compared to quarter three. Therefore, the spreads between the NR and the cost went up significantly, in fact, it almost doubled compared to quarter three. And that was one of the key reasons for the increase in profitability. And of course, the other reason was, we have had a solid operational performance in quarter four, both in pig iron division as well as in the DI pipe division. I think pig iron was a stellar performance in the sense that we haven't had this kind of fuel rates ever. It was absolutely fantastic to reach those fuel rates. And more importantly, replacing coke with coal injections.

So as most of you would know, we had commissioned our coal injection plant a year back and decommissioned the oxygen plant about six to eight months back, so in July-August last year. So, with increased oxygen availability we could induct more coal. But more importantly, we ran a performance improvement program with one of the leading consultants, a global consultant. And that helped us in stabilizing our blast furnace performance and helped it improve, therefore, in terms of fuel, in terms of cost, and in terms of productivity. So overall, I think the pig iron division had a fantastic performance in quarter four, the best ever.

As far as the pipe division is concerned, well, it is always done well. But I think quarter four was absolutely fantastic. It had one of the lowest rejections, the highest yields, and it really did exceedingly well on operations, much better than what we would have done in the first three quarters. So all in all, we had a wonderful quarter four, lead both on the cost front, on the operations front, as well as on the market front. Where we got hit and where we could have done better was in the sales dispatches and the deliveries, which got hit as of now because of the lockdown. Otherwise, we would have certainly exceeded the profitability of FY '19.

So that gives you a summary of the performance of quarter four. And I will just request my colleague Subhra, if you have something.

Subhra Sengupta:

Yes. Just one point I just want to add. One is the delivery, there was a halt due to lockdown, but the collection is also got halted, affected badly in the last eight days. And therefore, if you see that we could have collected another Rs. 50 crores, Rs. 60 crores in the last eight days which would have made our cash situations much better compared to what is reported. That is another point I just wanted to add to what MD sir has said.

Moderator:

Thank you. Ladies and gentlemen, we will now begin with a question and answer session. The first question is from the line of Vikas Singh from PhillipCapital. Please go ahead.

Vikas Singh:

Sir, just wanted to understand that we have given the press release as per May onwards we have been ramping up the production. So if you could share some details about what kind of the ramp up has been happened till date? And in terms of dispatchers, how we are doing right now vis-à-vis, I mean, have we gone back to the pre-COVID levels of dispatchers or how is the situation right now in terms of production and dispatches?

Sandeep Kumar: Okay. So you are talking about the current month of June and the current quarter, okay?

Vikas Singh: Yes.

Sandeep Kumar: I will give you a brief picture there. See, April was mostly a washout. Towards the end of April, we started the dispatches, because as you know there was a lockdown and we did not have permission from the government to operate beyond a select level of workforce. So the moment the central government allowed the interstate dispatches, if you remember, towards the third week of April or fourth week of April, we started our dispatches because our customers were there and we had the orders. So that's how we started in end April, let's say, third, fourth week of April. Thereafter, in the month of May, if you would remember, gradually, both the central governments and the state governments have started relaxing as they moved from lockdown one to two to three, we started gradually relaxing.

And therefore, the month of May, I would say, somewhere around 10th of May or something we started production, seventh or eighth or 10th of May. We started first with the ductile iron pipe production, and then we went on to start the blast furnace, one of the two blast furnaces. And then as the manpower from 1st of June was allowed up to a level of 10%, we ramped up the production to 100% in ductile iron pipe. And in blast one furnace, we have started the second blast furnace as well. But we have just started the second blast furnace because we wanted to do some repairs before we start. So, that is what is happened, both the furnaces are on now. So therefore we are at 100% production level now. Although, you will get a reflection of that primarily in ductile iron pipe in the month of June and in the pig iron because I think the second furnace has just been started yesterday, so you will not get the full benefit.

As far as the market is concerned, the ductile iron pipe market is doing, I would say, reasonably well considering the situation, and we would have a regular month as you would have had in a pre-COVID time as far as the month of June is concerned. But pig iron, the foundries are still to get started, I mean, they have started, still to ramp up to the pre-COVID level primarily because of two reasons, one is their end consumer demand from auto and other engineering is still to work; and secondly, they have shortage of labour. Most of the foundries run with migrant labour, so there is a shortage of labour. So I would say that the pig iron demand is almost at about 50%, 60% level, while the DI pipe is now almost back to 80% 90%. Does that help you?

Vikas Singh: Understood. Yes, that's a very elaborate answer. Sir, in terms of your pig iron spread, so considering that coking coal prices have been trending lower and with iron ore prices are also lower in 1Q, so how do you see that the cost moving up in gradual quarters? Question was that as the coking coal price is coming down, whether it will have any impact in pig iron in near future.

Sandeep Kumar: Okay. Yes, so that's obvious, the pig iron prices are directly impacted by the raw material prices, and the sentiment gets immediately impacted. However, the pig iron prices have not dropped significantly, mainly because there is a shortage of raw materials, okay? And there is a shortage

of not raw material really, there is a shortage of supply. So, if you look at steel also, ingot, billet, scrap, all this has marginally moved up and has actually kept steady over the last, if you look at last 10, 15 days or maybe a little bit more. So, from a supply perspective, because the supplies have also been subdued because of the same reasons the demand is not. And therefore, the prices instead of going down have actually been steady. So, while there is a fall, but the fall is not massive, number one. And number two, off-late we find over the last 10, 15 days that the prices have actually inched up. So, even though the coking coal prices may have come down, although they are also a little bit fluctuating from 150 level they came down to 110 and 107, moving up a little bit, the finished goods prices haven't fallen.

Vikas Singh:

Sir, what kind of spread improvement we are actually looking at? Because we are already down two months in the first quarter, what is your assessment of kind of this spread improvement which we are looking at?

Sandeep Kumar:

Spread improvement, I don't think compared to quarter four you will have a better spread, quarter four was fantastic. But after that, as I said, the prices of pig iron fell, but they have not fallen massively, and they have now started inching up a little bit. That's what I said. Number one. Number two is that the production, if you look at it from a performance point of view, April was washout, May we had marginal, June is where we have come back. So you can assess for yourself what the performance would be.

Vikas Singh:

Understood. Sir in terms of expansion, because of this COVID, do our expansion timeline also gets pushed back? Or we are still maintaining our normal timeline of completing the DI expansion plan? If you could elaborate a little bit.

Sandeep Kumar:

So, DI pipe expansion project has been delayed, and see, our imported equipment was mainly coming from China. And if you remember, China was the first country to get stuck with COVID, and they had a lockdown. So and subsequently the lockdown started in India. So we have already had a delay of almost six months. And how much of the delay would be, would depend a lot on the supply situation, because you have to get 100% supplies, you have to get your labour back to be able to give you a clear cut view as to how late we are. As of now, we are certainly running at about five, six months late.

Vikas Singh:

Understood. And sir just lastly, just one more question in terms of, so how we are faring in terms of order book? And what kind of tenders you see coming in in next two, three months? Because I believe that tenders might also was not coming in last one month during lockdown.

Sandeep Kumar:

So, well, as far as the demand of DI pipe is concerned, I think last year itself we saw problems, because, one is, of course, towards the last 10 days of the month we lost volumes. And therefore, the market actually of DI pipe has remained stagnant or in fact has degrown somewhat, mainly because of last 10 days. And also, last year if you remember, most of the pull in DI pipes was coming in from Orissa, there were a few states, Orissa, Haryana, then some little bit in

Maharashtra, and a big one coming in from Andhra could not materialize because of change in government, so change in government of Andhra

Moderator: Sir, we lost the audio from your line.

Sandeep Kumar: So I was talking about the order. So the order books as of now, for us, let's say about eight months. Typically if you have, it's come down a bit because of the last two months issues, but we are comfortably placed as far as this year is concerned. Yes, we will need to be book more orders and we have to estimate the order pipeline as always at a level of about 9, 10 months. So, as the lockdown has ended and people have started getting back, we have found that there is a lot of optimism. The states which are most optimistic are Uttar Pradesh, Madhya Pradesh, then you can look at Andhra Pradesh, then Orissa, okay, these three, four states are doing quite well, and then of course there are other states like Jharkhand, West Bengal, Bihar, but there are states like Maharashtra which have declared that they have no money. So we will have some problems in a few states. But we are seeing much more optimism in terms of new inquiries and tenders coming in then what we had seen last year. Now, we have to wait and watch how much of these actually convert on the ground. Because ultimately everything will depend upon the money. What we are hoping for is that the government will invest in infrastructure, because that's the only way to revive the economy. So, we are banking on that.

Vikas Singh: Understood sir. a lot of less collection. As we see, since things have been opened up in last 15, 20 days, so have we managed to recover a part of it or still all the collection payment pending is still on the same?

Sandeep Kumar: So the collections were obviously hardly any collections in April, very limited I would say, but enough to see us through, pay our salaries and wages, etc. So we took a call that we will spend only as much as we collect. Even though we have good cash, we had an opening cash of I think Rs. 100 crores plus with us, we didn't want to spend that. So whatever we collected, that was your spending's, that was in April. May, of course, the collections have surged. And June is going to be significantly better. So we are actually very well pleased to tell you that the collections have actually not been a problem. There are no bad debt. Yes, there will be a problem of delayed payments. We would have collected, say a month or two before is something which we are collecting now. That is the only difference; otherwise we don't see a problem.

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

Sreemant Dudhoria: So, the question was on hiring external consultants on the cost saving, you highlighted that there were some savings in the quarter four. If you could brief about the kind of plan, what kind of services these consultants would provide? And are there more savings to come?

Sandeep Kumar: Yes, certainly. So we have been at improvement, on our improvement journey we run a very strong program. And on the blast furnace, if you had been a regular kind of a listener to our calls,

you would have known we have had problems with our blast furnaces the last two, three years, it has been unstable. In one quarter it does very good it goes down. So, we have been having this problem. So one is, we have been consulting Tata Steel, which has obviously done so much. So, the performance improvement program is something which we have been doing and for quite some time, but on the blast furnace specifically we started that program in the middle of last year, and it continued for almost about six months, early maybe June, July of last year. If you look at it, we have also got our oxygen plant last year, so that has also helped. So, we find that we now kind of exceeded our levels of coal injection. So, we had planned for a coal injection level of say 80 kgs when we started our project, we are much over 80 now. And we think we can go still further. So all this has helped in the cost savings in quarter four. And that benefit will continue to get in fact more in this year. Only thing is, it may not get reflected in quarter one because of the stoppages and because of the late start.

Sreemant Dudhoria: Okay, sure. So the 10%, 15% of lower RM that savings that happened in the quarter four, is that sustainable going forward?

Sandeep Kumar: No, that's not sustainable. Yes, part of it is sustainable, but most of it is not. Because you will find that benefit coming in because of movement in prices. So, right now we will have some of the benefits, but it will not sustain throughout the year, it depends on how the market moves in future. So, we had taken some calls in terms of booking some coal and iron ore. So, we knew that in March there will be an issue because of the iron ore mines auction. So we had picked up enough iron ore, that will also reflect in our inventory, also coal. And you would have seen that the coal prices have moved up subsequent, and then now of course they have come down. So actually in the pricing game it ultimately evens out, because in any case our pricing on coal is more of a monthly average index.

Sreemant Dudhoria: Okay, but I thought this was saving were less lead by the cost saving initiatives, like higher coal injection. And so on a blended basis you will save the cost, this 10%, 15%. Is this understanding different, sir?

Sandeep Kumar: No, I didn't get your question.

Moderator: Ladies and gentlemen, this is the operator. Please note that we are redialing the speaker. Please stay connected.

Sandeep Kumar: Sorry, I have got in from another line now. Hopefully this is better. Can you repeat your question?

Sreemant Dudhoria: Yes. So the question was, you had highlighted in the press release that from the raw material cost optimization, the cost was 10%, 15% lower sequentially. Now, the question was, is this sustainable? Because as you are using more coal as a replacement to coke, do you think this is sustainable?

- Sandeep Kumar:** So, we will do more of coal injection as we go forward. That's the plan and I think it is very much workable. But the price benefit of any raw material that we would have purchased, to what extent it is sustainable, is very difficult to say. In fact, I would not say the rate is sustainable, some of it is opportunistic buy, and the raw material procurement part is handled by our CFO, Mr. Subhra Sengupta, he can add some more. But the just to answer straight, the raw material price benefit will not be sustainable, there will be some of it but not completely. Subhra, you want to add?
- Subhra Sengupta:** Yes, sir, what you have a stent already that the Q4 spread was fantastic and definitely that will not be sustainable over the period. But the benefit on the coal injection and the cost reduction, that will definitely be sustainable.
- Sreemant Dudhoria:** Okay. Sure. So, in the coming year, in what areas would the consultant would be working on? Which areas are you further looking for reduction in cost, other than further injection of coal?
- Sandeep Kumar:** No, so the consultant is gone. So he was there for a defined period, for about five to six months, we had taken some help and they had some very, I would say, the technique. It is basically on the system and process, it is not a technical input that was coming in. So, that is gone and that is how we find the benefit in terms of stabilization of the furnace. As far as the other part is concerned, with technical input and the improvement because of technical reasons, that journey is still on and we think that we can still go up further, and there is a lot more cost to squeeze in than what we have seen till now, as far as the blast furnace and the pig iron division is concerned. As far as the duct iron pipe is concerned, we believe that we are one of the lowest cost producers, we have one of the lowest conversion cost definitely in the country, if not globally. We have done some benchmarking, but I don't have published data to confirm to you that. But certainly some of the process parameters that we have, and we do that informally, we find that we are definitely better than most, if not all. So there is not much which you can do on the ductile iron pipe side, but on the blast furnace side, certainly there is scope.
- Moderator:** Thank you. The next question is from the line of Abhishek Poddar from HDFC Mutual Fund. Please go ahead.
- Abhishek Poddar:** Congrats on good set of numbers. Sir, just trying to understand more on the expansion part, you had mentioned earlier, in the previous calls, that it will be by end of 2020. And you also highlighted in this call that it would be a five or six month delay. So, in terms of labour availability, which is the issue right now and your sense of when they can return? What is your sense on the commissioning timeline for this and the ramp up phase?
- Sandeep Kumar:** So, I will not be in a position to give you any timeline at the moment because there is a bit of uncertainty. And as I explained to you, we are already delayed by about five to six months. And there could be some further delays depending on a few things. That depends on how do we cope with this virus, because there are issues with regards to getting labour, and this is not the regular

operations and maintenance labour, this is project labour which doesn't stay there, it has to be brought. There are some equipment and there are some imported equipments where we got delay, the part which was in China were delayed majorly, because China was under lockdown and then we were. Now that those guys are back, we can get that, but then there is some another set which we are not able to get. So, there are issues on this front. So I am saying, definitely it is looking like five to six months plus delay. How much more? We will keep you updated, I think, on our quarterly calls where we stand. As of now, I will only say, let's say, about five to six months delay definitely, maybe a bit more.

Abhishek Poddar: Understood. Sir, on the question of labour returning, could you talk us how it affect your DI pipe demand?

Sandeep Kumar: So, the regular work, as far as the production is concerned, that is done by labour which lives in villages around the plant in Kharagpur, so there is no impact on supply. As far as demand is concerned, these are in various parts and, again, the kind of work that they do is not that specialized, project work is a little specialized. So while some of them may be migrant, but it is not so dependent. Because otherwise, for example, in the month of June, we are seeing a full-fledged demand, pre-COVID days for the DI pipe, there is no letup in demand, now it's only a question of how much we can supply. Okay? So I think the impact should have been felt in the month of June. But the lockdown got opened in 1st of June and I am seeing that there is a complete, 100% demand back. So I am assuming that maybe we will be able to be at about 80% level or so, because, obviously, even though everything is back and everybody wants it, you may not be able to get 100% everything because the payments have to come and we are now doubly careful on payments etc., even though we have not been hit. So there are some of those issues. So I think the labour doesn't seem to be a problem in DI pipe operations and maintenance, or on the demand side as of now. But I will keep my fingers crossed and we will see as we go. I think we are still in early days, and the virus is only going to get worse over the next two months. So we will have to wait and see.

Abhishek Poddar: Right. And you did mention its early days, but in terms of inquiries, are you again started seeming enquiries coming back or you would wait for that to happen at some point of time?

Sandeep Kumar: Yes, so I would say, the first quarter enquiry generation and order booking is not great. But we can understand everybody was at home for virtually two months, and June we are close to booking some orders, although it is only first 10 days. But more importantly what we are seeing from various state governments, as I said about UP, MP, Orissa, AP, there are some big inquiries totaling to over 2 million tonnes which we are seeing getting generated. Now 2 million tonnes of inquiry, 2 million tonnes to 2.2 million tonnes what we have calculated, and there is almost a million tonnes which is already booked. So we are seeing that over the next two years, over 3 million tonnes of material could get executed, subject to funds being available, this is the visibility. Now, if you want to know the market size, market size is typically domestic market is roughly about 1.7 million tonnes to 1.8 million tonnes. So over two years we need a demand of

3.6 million tonnes, out of which we are seeing a visibility of over 3 million tonnes. That is not bad at all considering where the economy is today. But this is all visibility; this all has to get converted into actual orders.

Abhishek Poddar: Understood. Sir, the 1 million tonnes which is already booked, that includes our eight, nine months of order visibility that we are talking about?

Sandeep Kumar: Yes, absolutely. And this is all, and if you look at the monthly dispatches, almost all the suppliers are doing well. If you look at the May month dispatch that we have seen, and we have compared with the competition, we find that I think the industry is actually quite well positioned at the moment, considering the setback that they have had over the last two months. So I am quite optimistic. And I was telling Abhisar, who was telling me, well, don't be overly optimistic, but considering where I find everybody being so pessimistic, we are not so badly off, at least in the DI pipe.

Abhishek Poddar: Understood. And sir, you did mention about the state finances where you said Maharashtra looks weak, but the other states you think that things will move there. So that confidence remains that even the payments will be released on time and all, or you think that there also the finances could be to an extent stressed?

Sandeep Kumar: Yes. In fact, I have been surprised, three states; Maharashtra, Haryana and West Bengal have given us almost Rs. 20 crores, Rs. 25 crores in the last 15, 20 days. I mean, you don't get this kind of payment under normal conditions. That is why I am saying, and we are hoping for some more. So, we had outstanding's of almost close to Rs. 300 crores at the end of the year, last year, and which has steadily come down actually. So actually the situation for us is not so bad as you would imagine. And collections are good, in fact, collections June will be record, we are expecting, May has been quite good, April was bad, of course. And the dispatches are good in June. So overall, the picture June onwards seems to be, at least in the month of June seems to be actually pretty good. We will have to see but, I will not like to comment on the basis of one month as to how things will pan out. But let's see how things go. But as of now, the situation is not that bad.

Abhishek Poddar: Understood. Sir, just the last question, if you could give us a guidance for the CAPEX for the year. Earlier you had mentioned about Rs. 350 crores. And also, what is the debt position now, net debt position?

Sandeep Kumar: Subhra, you want to answer that?

Subhra Sengupta: Yes. So, net debt position is around Rs. 200 crores, precisely Rs. 196 crores. As far as the CAPEX is concerned, the guidelines is that it has mainly just come from their internal accruals. So, what MD was suggesting that we need to be cautious and see that based on the one month number we cannot decide. So as one or two months goes up, then we will be able to give more clearer picture about the internal accruals and CAPEX plan.

- Moderator:** Thank you. The next question is from the line of Bharat Sheth from Quest Investment. Please go ahead.
- Bharat Sheth:** Sir, you have done a lot of cost initiative, like instead of using coke, coal injection and oxygen. So even we forget, I mean, volatility of the coke price. But if we take current price of the coke vis-à-vis using these coals injection and oxygen root, so really how much benefit we are deriving in the cost?
- Subhra Sengupta:** See, if you see last 10 years data, average difference between the coke and the PCI coal is 8,000 to 10,000. So, if you do 1 kg of coal instead of coke, you will be saving almost Rs. 8 kind of a thing. So if you do 100 kg, Rs. 800 per tonne of the hot metal. And if you do 5 lakh tonne, it is Rs. 40 crores. And you have for operating cost around Rs. 6 crores, Rs. 7 crores. So the coal injection benefit is huge. And even the coal today at \$120, still the difference, the gap remains to minimum 7,000 to 8,000.
- Bharat Sheth:** And apart from that, it gives more stable performance?
- Sandeep Kumar:** Yes, that is for the coal and coal injection. On oxygen, there is two benefits, one is that higher oxygen makes your furnace to accept more coal, that is one side of the story. Second side, the higher oxygen, it would also get total deduction in the fuel rate and increase in your volume consequently.
- Bharat Sheth:** So, sir, how much CAPEX we spent, I mean, in putting up this coal injection and oxygen plant and all? And what is the payback period that we expect?
- Subhra Sengupta:** Oxygen we have done on the BOO basis, build-own-operate, which was started in the July of calendar year 2019. Whereas PCI we did last year, it had commissioned in last year FY '19. So PCI CAPEX was around Rs. 50 kind of thing. And oxygen fuel in the OPEX model.
- Bharat Sheth:** But sir, I mean, based on whatever our working and usage of this, so what is the payback period we should approximately take into account?
- Subhra Sengupta:** In case of coal injection, even in a distributed basis the payback should be two and a half years. In case of oxygen, four to five years.
- Bharat Sheth:** Okay. Sir, now with this 'Nal se Jal', can it give impetus to our demand in this DI pipe? And which are, again, states where still there is a substantial room, I mean, to take it forward?
- Sandeep Kumar:** So I could not get your question properly. Can you just repeat?
- Bharat Sheth:** The central government in last election they announced this 'Nal se Jal'. So in the whole scenario, how much can generator DI pipe demand on sustainable basis?

- Sandeep Kumar:** Okay. So I don't think that 'Nal se Jal' scheme is still kind of operational to a very large extent, I think it's still in early stages, we haven't yet started seeing the benefits. I think once the benefits come in, we will be in a better position to tell you. As of now, without that itself, I think we are running reasonably well I think. As I was just explaining to you that over 3 million tonnes of potential that we see over the next one to two years from a demand perspective, and these are like announced projects. So therefore, without that itself we are seeing a good kind of an outlook. Let's see when it comes, we will be in a better position. We have also been waiting since last year how much of it comes. We haven't seen much of it in terms of action as of now, as far as DI pipe is concerned.
- Bharat Sheth:** Okay. Sorry for my ignorance, but what is our current capacity of pig iron and ductile pipe?
- Sandeep Kumar:** So if you look at our hot metal, we are at about, say, 5.5, we did 5.44, let's say, approximately 5.50. If the lockdown hadn't happened we would have perhaps touched 5.60 or something, but whatever. Out of that, we will produce over 2.2 lakh or 2.30 ductile iron pipe, and balance you can say is pig iron. Of course, there scrap also and there is yield also, so roughly you can say 320, 325 of the pig iron, 220, 230 of your ductile iron pipe. That's the current, let's say, in terms of production breakdown.
- Bharat Sheth:** So, if we don't take last 15 days of March, so pig iron we were operating almost at full capacity, correct?
- Sandeep Kumar:** We have run both at full capacity actually. In pig iron what has happened is, over the last two years we actually had a capacity of 5 lakhs and we had an approval from the environment for about 5 lakhs. So, in FY '18 or was it FY '19, I think 2018 or 2019 we reached that limit and we could not produce more, we had to stop the furnace because we had not got the environment clearance. Subsequent to that, we have increased that environment clearance to beyond 6 lakhs. So we can easily go up to 6 lakhs. And the way to increase the production is only by debottlenecking, we are not adding any new furnace. And that's how you are seeing that from 5 lakhs we have already reached to 5.5. And had it not been for this lockdown, I think we have potential to reach 6 lakhs in a year or two. We have a potential to reach. Now we have to see whether what do we do with that. If we can convert that into DI pipes, then obviously it's much more beneficial. If you just do pig iron, then the benefits are not so significant.
- Moderator:** Thank you. The next question is from the line of Anurag Patil from Roha Asset Managers. Please go ahead.
- Anurag Patil:** Thank you. But my questions have been answered.
- Moderator:** Thank you. We will move on to the next question, that is from the line of Shikha Mehta from EquiTree capital. Please go ahead.

- Shikha Mehta:** Sir, I missed your opening remarks. Could you please give the volume details and the cost reduction details again?
- Sandeep Kumar:** Yes. Subhra, you want to answer that?
- Subhra Sengupta:** Yes. So if you see, the quarter four result was fabulous in our point of view, even if it was a truncated quarter. And the three main areas which would make this result, one is very good performance of the blast furnace, we have got lowest ever fuel rate, highest ever the PCI injection, and also both DI pipe and pig iron prices were stable. And this gap between the coke cost was one of the highest. So, what MD sir was saying in the beginning that this blast furnace would result or the better result, one of the intervention we did is the hiring of an international consultant who has streamlined a lot of processes of the blast furnace operation. And we could see the benefit in maybe Q3 and Q4. And if you see that compared to H1 Q3 was better, and compared to Q3 the Q4 was substantially better. That was that list of the initial remarks.
- Shikha Mehta:** And could you also get the volume data again for DI and PI for the quarter and for the year?
- Subhra Sengupta:** So the pig iron we did sales of almost 79.5 kt, 79,500 tonnes, and for the PI it is 3.14 lakh tonnes. And if you say compared to last year, it was 2.83 lakh tonnes, and last quarter it was 86,000 tonnes. And DI pipe, we did 54,000 tonnes, in total it is 218,000 tonnes. Compared to last year to 2.36 lakh tonnes, and last quarter 54,000 tonnes. One thing, in the whole quantity data, one thing you have to keep in mind, that there was no dispatch since 23rd March to 31 March, which was the peak price for the dispatch.
- Shikha Mehta:** And we have been planning an improvement substantially. So, can you give a break up of how much that has been due to raw material pricing and how much has been due to our cost cutting measures?
- Subhra Sengupta:** Exact numbers if would be difficult to judge, but I will give the details.
- Shikha Mehta:** Even ballpark.
- Subhra Sengupta:** You can say that 30% to 40% on the cost, and 60% to 70% on the volume side.
- Moderator:** Thank you. The next question is from the line of Siddhesh Gandhi from Discovery Capital. Please go ahead.
- Siddhesh Gandhi:** Congratulations on your numbers. I joined slightly late, apologies if I am repeating any of the questions. The question was, given effectively the stress on the finances of the states, do you see any potential slowdown in execution of DI pipes orders or in your overall projections for aggregate demand going ahead over the next two to three years?

Sandeep Kumar:

So, you are absolutely thinking logically and that's what we were thinking and concerned about when it happened. But we are just seeing the reverse. I don't know why, if you ask me, I don't have an answer to that. In fact, at this point in time, the state has been seeking funds. And if I look at, let's say, West Bengal, because it has been hit by cyclone, it is bearing the brunt of COVID, and it is seeking funds from everybody. But they are not delaying payments, in fact, my delayed payments, part of them have been released and they are still getting released. Similarly Haryana, similarly Maharashtra. Maharashtra has said no new schemes this year. So, certainly there will be states like Maharashtra, which will clamp down. Okay? But there are a number of states which are funded by, let's say, ADB, World Bank, ZICA, other international funding agencies, which fund almost completely. So there is no burden on the state. So that's one.

Secondly, for the economy to revive, the one primary way for the government is to drive it through the infrastructure sector. And with so much of focus now on hygiene, I think water and sanitation sector will perhaps get some priority, if not being the number one, but at least some priority it should get. So possibly, that's why I am saying things may not be as bad as we were perhaps fearing in at least in April. And in fact, this is the time when state, it's the beginning of the year and funds just start coming in and we don't see so much of movement. But in June, the kind of moment I am seeing is really making us feel optimistic.

So to answer your question, I don't know which way things will go, to what extent the funding agencies or the state governments will fund these projects. As of now, they look quite positive. But we will have to wait and watch.

Siddhesh Gandhi:

Got it, that's helpful. And the other question is in line with, is there any indication you can give us with regards to which specific states are being a lot more active with new projects and new RFPs and anything? I know that location proximity is important given the cost of transportation of DI pipe. So, just wanted to understand how we are placed in that context? I know AP and all I think are continuing, Telangana, AP, etc.

Sandeep Kumar:

Yes, so I mentioned that, let's say, for example, Uttar Pradesh. Uttar Pradesh has talked about, rather they are kind of tendering about almost 600,000 tonnes to 700,000 tonnes of pipes,. Madhya Pradesh, almost 0.5 million tonnes, Orissa almost 4 lakh tonnes. Orissa has done exceedingly well last year, it has money from the mining, Mineral Development Fund. And Andhra Pradesh, the big one, the project which did not happen last year because of change in government, that's another big one, 300,000 tonnes to 400,000 tonnes. So, these three, four states, if you look at it, they are the big, I would say, having maximum potential. But other than that, there are also the eastern states of West Bengal, Jharkhand, and Bihar, of course in addition to Orissa, which also have regular projects and where also the projects are coming up. But as I said, these are all looking good on paper, we have to actually see how much of it gets converted into real orders, and then only we will be in a better position to tell you.

Siddhesh Gandhi: And sir, last question is with regards to effectively are our clients and the receivables from the governments directly or is it from the EPC players, and then it flows through them?

Sandeep Kumar: Both. So we do almost 15% to 20% directly with the government. And that is how I you that we got almost Rs. 15 crores, Rs. 20 crores in the last couple of weeks. Typically almost about one-fourth of our outstanding work coming in from the government. And out of that, typically they get delayed in payment. So the payments do come but they get delayed.

Siddhesh Gandhi: And how about the EPC players, because a lot of the EPC players also have stretched payments right now, given their own balance sheet. Do you see any issue or slowdown with regards to payments from them?

Sandeep Kumar: Yes, there could be. But fortunately for us, what we have done is that almost 10% percent of our sales to the private companies, all the EPCs is on secured basis, so either it is an advance or there is a bank guarantee or there is an LC or there is a channel financing or there is an RPA or there is a credit insurance. We don't sell anything unsecured, almost I would say 95% plus is, except when we are selling, let's say, to a group company.

Moderator: Thank you. The next question is from the line of Shriniket Narayan from B&K Securities. Please go ahead.

Shriniket Narayan: Hope all of you are doing fine. Sir, could you just give the application of this DI pipes, is it used in the last mile or like can you just briefly over that? Where is this particular DI pipe used?

Sandeep Kumar: So the ductile iron pipes are typically used for transmission, and also for distribution. So transmission of water, and they are typically big sizes. So anything between 100 mm to let's say 1,000 mm or 1,200 mm, up to that is the DI pipes. Below that mostly you will find HDPE plastic pipes, above that you will mostly find steel pipes. That's a broad, very, very generic way of defining it. So when the water comes out from the river, or from a canal or from any other source, and it goes to a water treatment plant, those are transmissions. There ductile iron pipes are used in plenty, for example, for irrigation purposes. Then after from the water treatment plant where it goes for distribution, then again partly to the, let's say, your ductile iron pipes and partly it could be plastic pipes, depending on the thickness and thickness determines the competitiveness. But there are many agencies who insist on ductile iron pipe because of its eco-friendly nature. The plastic pipes are not preferred by them, because with HDPE you always have that issue of recyclable material, which is supposed to be carcinogenic. So there are some concerns that some people have. And as we go forward with more concerned on the environment on the ESG side, I feel that ductile iron pipes will become more and more prominent.

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

Saket Kapoor: Sir, hope everybody is safe and fine, and we pray for well-being of all of us.

- Sandeep Kumar:** Thank you, we are all fine.
- Saket Kapoor:** Sir, firstly, about this Maharashtra part, what is our market share? I mean, last year what was the tonnage we have done for Maharashtra?
- Sandeep Kumar:** So, Maharashtra tonnage is not so important. Maharashtra is not such an important state for us, for us Orissa, West Bengal, Haryana. But Maharashtra is a contributor. Now if you look at our share of wallet, Maharashtra, I don't have the figure offhand, but I would imagine it would be, let's say, 10%, 12% or something like that. Usually that is what you are looking at. Is that your question?
- Saket Kapoor:** Yes. And the current order book constitute proportionate to 10% of Maharashtra or?
- Sandeep Kumar:** It will be lower because we have executed orders and we have not kind of. So there are Maharashtra, Bombay based EPC contractors, but who are kind of having contracts in Orissa or Madhya Pradesh or in, let's say, Bengal, that is different. Here I am talking about actually going into Maharashtra. Right? So when I am saying 10%, 12% or so, I am saying it's actually going into Maharashtra. Our neighboring state of Orissa, West Bengal, Bihar, Jharkhand, we would have sold more than 60% last year.
- Saket Kapoor:** And off late, Orissa did came out with tenders, which was one of your competitors was also mentioning in their call, that they got around 40,000 tonnes in last month. So what was our wallet share? There was a big tender in the last month itself from Orissa government.
- Sandeep Kumar:** So we may not have taken that order. I don't know which specific order you are referring to in Orissa, but there are various orders and we have a good share of the Orissa market. But this particular one specifically last month, I have not able to connect to what you are referring to, possibly there is some order which we have not taken. We also pick and choose orders and we are also very conscious of the pricing aspect. Because what happens is that we prefer normally the larger size orders. If it is a smaller size then we don't prefer it because of productive reasons, our machines are more on the larger size, we have less on the smaller size. So possibly we may not have chosen that.
- Saket Kapoor:** Optimum size is what, 40,000 is not the optimum size?
- Sandeep Kumar:** No, 40,000 tonnes order size is okay, I am diameter size. In diameter if the product mix is not in our favor, then we don't really like to pick up that order.
- Saket Kapoor:** Right. Sir, if we see the inventory that has been built up due to the sudden lockdown, this must have been cleared in the month of May and June. So, that means that the DI volume which we lost was not permanent, since the delivery was ready and it could not be dispatched. So that will percolate to this financial year?

Sandeep Kumar: Yes, correct. You are absolutely right. So we had orders of both pig iron and ductile iron pipes. We had accumulated stocks, which we could not execute. Normally in the last 10 days, typically maximum dispatches take place, maximum collections take place, we lost on both counts. So last 10 days hit is a big hit. And obviously, all of that has come into this financially. And the question that was there, that look, people were willing to take it at the end of March, are they willing to take it in April or May or their financial condition is so bad that they can't take it? That is where I am seeing optimism that that has what happened, plus new order bookings. So although new order bookings in ductile iron pipes haven't been great, but I think they have started off. And as you were also mentioning that last month one of our competitors got a 40,000 tonne order, which is not bad at all, 40,000 tonne is a decent size.

Moderator: Thank you. The next question is from the line of Ketan Kumbhar, an investor. Please go ahead

Ketan Kumbhar: Congratulations for your numbers. Sir, as you mentioned that you are looking at a visibility of 3 million tonne in the next three years, and your capacity is only 2 lakh tonnes. And in addition to that, as sir mentioned that this 'Nal se Jal' is not yet materialized, and they may get material in next year. So looking at that there may be some kind of very much high demand for this DI pipe. So, how you are planning to acquire that opportunity or what is your planned CAPEX or how you are going to compete with your competitors?

Subhra Sengupta: No. So, we are, let's say, about 2.5 lakh tonnes or something in between, 2.20 lakh tonnes to 2.30 lakh tonnes kind of level. We have gone in for our growth plan. Our growth project is under implementation, and that's what we were discussing a little while back. So that has been delayed, let's say, by about five to six months. Now, what would have come like towards the end of quarter four of this financial year may now come, say two quarters later or something like that, whatever. So, we are gearing up for that, and as soon as the expansion comes through, we would be in a position to start supplying. But things are not so easy or not so hunky dory as it may sound. While I said that about 3 million tonnes of potential exists, I also mentioned that we have to see how much of this actually gets converted on the ground, because it has to be backed up by money from the government. And under the present circumstances, we have to see from where the money comes in. Although, we feel that the government will definitely spend money because spending on infrastructure is a sure short way of ensuring the money transmission takes place, and GDP revival takes place. But because the other three modes of private investment, which is kind of virtually stopped, private consumption greatly reduced and exports are not happening. So therefore the only way for the government is to invest in infrastructure. And therefore, we are feeling optimistic. But we will have to wait and see, this is at the macro level. At the micro level, each state, each tender, what money it has, how long it takes to execute, we will have to see all that. But to broadly answer your question, yes, we have a constraint of capacity, which we are addressing through our ongoing expansion project, which is currently ongoing, and which should come and get commissioned by next year sometime.

- Ketan Kumbhar:** Sir, expansion means going from 2 lakh tonnes to 4 lakh tonnes that is what you are addressing, right?
- Sandeep Kumar:** That's right.
- Ketan Kumbhar:** Sir, only one second question is that, Sandeep sir had mentioned in the last call that there was a hold on the 6 lakh tonnes order from the Andhra government due to the change in the government. So what is the update on that?
- Sandeep Kumar:** Yes, so that is what I was just mentioning, that those inquiries are now beginning to happen. So, in fact, last quarter itself, in quarter four, some orders had been released on the EPC contractors. But not everything, part of it. And I think now for next quarter, I think we will begin to see some more of those getting ordered. So that's why amongst the four states, top four states in terms of orders, we have UP, Madhya Pradesh, Orissa, and Andhra Pradesh, these four states will have the maximum tonnage coming in, from a potential point of view.
- Moderator:** Thank you. The next question is from the line or Urvija Shah from Isha Securities. Please go ahead.
- Urvija Shah:** Hope all is well and all of you are safe.
- Sandeep Kumar:** Fine, thanks.
- Urvija Shah:** Sir, I wanted to know, what are the big iron prices right now versus, so ballpark realization?
- Sandeep Kumar:** So the market prices of pig iron today would vary from market to market. But let's say you can say about Rs. 28,000 to Rs. 29,000 would be for our grade. For let's say, the steel grade, which most filmmakers make, it would be more like, say Rs. 24,000, Rs. 25,000 at most. So it would vary from that range, let's say, Rs. 23,000, Rs. 24,000 to say Rs. 28,000, Rs. 29,000, depending on the grade of pig iron. We sell mostly the upper end. So for us, the prices would be more on the higher side.
- Urvija Shah:** Right, understood. And what would be the production capacity we are working at? So, you said the market was at less than 50%, but what how much are we producing?
- Sandeep Kumar:** So, we have two blast furnaces. We started with one blast furnace in the beginning of last month, our capacity, let's say, nameplate capacity you can say, on a rough basis, is 48,000 tonnes to 50,000 tonnes per month. Okay? Now, this month we have started both the furnaces, in fact only yesterday the second furnace was on. But from a demand side it's still at about 50%, 60% level. So, we will see whether the demand picks up or not and then take a decision whether to continue with both the furnaces or run only one furnace. That's a call we will take over the next two to three weeks. As of now, we are running 100% capacity, both the pipe plant and the pig iron plant.

- Moderator:** Thank you. The next question is from the line of Sreemant Dudhoria from Unifi Capital. Please go ahead.
- Sreemant Dudhoria:** Just two questions. Firstly, on the timeline of the warrant conversion, when is that due? And in the context of the CAPEX getting delayed, will the warrant conversion happen?
- Sandeep Kumar:** Well, the warrant conversion, I think last date would be September sometime, end of September. Subhra, am I right?
- Subhra Sengupta:** Yes. 30th September is the last date.
- Sandeep Kumar:** And what is your other question?
- Sreemant Dudhoria:** So, in the same question I was asking in the context of the CAPEX getting delayed? If we look for this warrant conversion, our internal accruals we will be happy to go with that.
- Sandeep Kumar:** So, our internal accruals will begin to rise up from this month onwards. And that over a period of time we can handle that. But we will certainly, any money coming in from the promoter is always good. So, now whether that will get delayed or not get delayed, I cannot answer that, you have to ask Tata Steel.
- Sreemant Dudhoria:** Sure. Thanks. And the second question was, to a previous participant I think you had highlighted that 40% of the gross margin expansion that has happened is sustainable. Did I get that number right? Just to recheck on that. 360 was the split given, 60% was from lower raw material in quarter four.
- Sandeep Kumar:** Okay. So what we said was that there was an improvement over quarter three or, let's say, the previous quarter. In fact, quarter three was a significant improvement over H1. And if you remember, we did almost about Rs. 50 crores profits in quarter three. And quarter four, we have done close to Rs. 100 crores, so it's almost doubled. Now, how has that come about? So we said, almost about 30% would have come in through cost measures over quarter three, then a big chunk of it came through the market, both in terms of raw material cost being under control, there was a fall of about almost 8% in coke prices. And there was an upward pressure on the pig iron prices between quarter three and quarter four of almost 7%, while ductile iron prices moved up by almost 3%. Now, what you see the figures that I am telling you may not be exactly the same for other suppliers, because it depends on who has booked what, who has bought what. But it just gives you a sense that market prices went up, coke prices went down, and these two together on the market side would have contributed, let's say, 60% to 70%. And then there was, of course, the sales volume as well between quarter three and quarter four, that also would have come into 60%, 70%. And balance, let's say, 30% or so or 35% would have come in through the cost measures. That means better fuel rates and higher coal injections. This part is sustainable, although you may not get the full picture of that in quarter one, because the furnaces haven't run

their full course, they need to stabilize and then need to have a full run. But part of it definitely we should get in quarter one.

Sreemant Dudhoria: Sure, this is very helpful. So, if I can squeeze one more question, usually you take a kind of a maintenance shutdown every year. So this year would have been made or like we were done during the lockdown period?

Sandeep Kumar: So one furnace shutdown we have taken, but the other one we haven't. So we may need to take during the course of the year. And even for the first one, sometimes you have to take twice a year also, if the refractory starts eroding. So, there are some fundamental issues with the furnace, it needs to be cooled, if your cooling capacity is sufficient then the refractory wear and tear happens less of it. So, in our kind of furnaces, which are more designed by Macron in India, the cooling capacities are normally a little lower when you have some of the Chinese designs or other designs. So, we typically tend to go for a repair at least once a year if not twice, depending on which, if you have taken it in earlier part of the year, then you may need to take in second part. So, like we have not taken it in the month of June, they can last for let's say about eight, nine months, or we may have to go into quarter four. So depends on how the furnace behaves, how the furnace operating parameters are. But as of now, at least one shutdown taken, another one definitely required, maybe one to two.

Moderator: Thank you. The next question is from the line of Parth Garg from Mittal Analytics. Please go ahead.

Parth Garg: Sir broadly, I wanted to understand one thing that the expansion that we are undertaking, once it will be completed, what kind of a turnover do we expect to have? I am asking this because do we plan to use the excess capacity or pig iron that we have?

Sandeep Kumar: Yes, you are right. So, of course, we will increase our hot metal capacity also, so about 70,000 tonnes of hot metal capacity was supposed to be increased as planned. But ductile iron pipe will move up from 2 lakhs tonnes to 4 lakhs tonnes, and I am saying named capacity, actual production will be higher. So, if you can go up to say 6 lakh or 6 lakhs plus in hot metal, and if you can do about 4 lakhs tonnes or 4 lakh tonnes plus in DI pipes, your pig iron reduces to, let's say, about 2 lakhs tonnes. So 4 lakhs tonnes of DI pipes, 2 lakhs tonnes of pig iron, that makes it 6 lakhs tonnes. Currently, last year we sold 3.14 lakh tonnes or 3.15 lakh tonnes of pig iron, and we did about 2 lakh tonnes plus of DI pipes. So, that gives you a sense.

Parth Garg: So, going forward, the pig iron production in the external market, DI and pig iron will reduce once this whole CAPEX is completed?

Sandeep Kumar: Correct, we divert the hot metal, instead of taking it to pig iron and we take it for DI pipes.

Parth Garg: Yes, so overall the turnover won't increase by that quantum?

Sandeep Kumar: Absolutely.

Parth Garg: But the margins will become more robust?

Sandeep Kumar: Turnover will not increase to the same proportion, but profitability will.

Parth Garg: Yes. And as we are increasing the usage of hot metal for the DI, does this improve our IRR going forward?

Sandeep Kumar: Yes, absolutely. When you go in for capital investments today, that have been assumed is at a certain IRR, but these projects, there are multiple projects, there is a power plant, there is a DI pipe plant, there is also a blast furnace augmentation. So there is a common IRR taken when we went in for that. But if you are talking about as the DI pipe, as we move from the pig iron to DI pipe, the operating margins will go up. I think that's what you are trying to hint.

Parth Garg: That's what I wanted to confirm. And if you can share a broad number that we expect to reach in terms of turnover post this expansion.

Sandeep Kumar: So, turnover is not so important. But let's say, if you do just a ballpark calculation, you can say we can maybe move up to Rs. 2,000 crores is the turnover this year. Let's say, there will be an increase of almost 50% or 60% two years from now. Because you must note that the DI pipe is in two phases. We have been talking about the first phase completion being delayed by six months. And we haven't talked about the second phase. So when we are saying full turnover, we are talking about two years from now.

Parth Garg: Yes. So after two years we expect around Rs. 3,000 crores turnover?

Sandeep Kumar: Yes. So whatever, depending on how delay it is, I am just giving you a ballpark figure.

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

Sahil Sanghvi: Yeah. Thank you Sandeep sir and Subhra sir, for the detailed explanation. And on behalf of Monarch Network, I want to thank you all the participants for joining the call. That's it from my side. Thank you, sir.

Sandeep Kumar: Thank you very much, Sahil. And thank you, Abhisar. Bye-bye.

Moderator: Thank you. Ladies and gentlemen, on behalf of Monarch Network Capital, that concludes this conference call. Thank you for joining us. And you may now disconnect your line. Thank you.