"Ratnamani Metals
Q1 FY2020 Earnings Conference Call"

August 09, 2019

ANALYST: **MR. AWANISH CHANDRA – MONARCH NETWORTH CAPITAL LIMITED**

MANAGEMENT: **MR. PRAKASH SANGHVI – CHAIRMAN & MANAGING DIRECTOR – RATNAMANI METALS & TUBES**
MR. VIMAL KATTA – SENIOR VICE PRESIDENT & CHIEF FINANCIAL OFFICER – RATNAMANI METALS & TUBES

Moderator: Ladies and gentlemen good day and welcome to Ratnamani Metals Q1 FY2020 Earnings Conference Call hosted by Monarch Networth Capital Limited. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal the 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. Awanish Chandra from Monarch Networth Capital Limited. Thank you and over to you!

Awanish Chandra: Thank you Mosinee. Good afternoon everyone. On behalf of Monarch Networth Capital, I welcome you all to Q1 FY2020 conference call of Ratnamani Metals & Tubes. We are pleased to host the Senior Management of the company. Today, we have with us, Mr. Prakash Sanghvi, Chairman & Managing Director of the company and Mr. Vimal Katta, Senior Vice President and Chief Financial Officer. We will start the call with the initial comments about the results and future outlook and then we will open the floor for the question and answers, so without any delay, now I hand over this call to Mr. Prakash Sanghvi, CMD of the company. Over to you Sanghvi Sir.

Prakash Sanghvi: Good afternoon to everyone. For the Q1 of 2019-2020, the net revenue is Rs.599 Crores and net profit after tax Rs.62.73 Crores and EPS is 13.42%. Order in hand total is Rs.1916 Crores in that asset is Rs.502 Crores and carbon steel is Rs.1414 Crores. In this Rs.285 Crores is the physical export. So, this is about the figure and overall company has reasonable order booking and further something more in pipeline both in stainless steel as well as in carbon steel, so according to last year we are in the same path from the turnover point of view in spite of little slow down in the industry. Our industry because of cross country pipeline and city gas distribution and something in power, so we still feel the reasonable order booking further for the next year also because right now we have reasonably good booking in carbon steel spiral and carbon steel ERW with some more order to come, otherwise you are fully booked till March. So, we will book for the next year in certain segments we will book in the next quarter also for March delivery. Overall, we see same robust turnover as per last year because there is a little bit downfall in raw material prices, so turnover might be less, but the tonnage will be more. This is what overall, we see and of course this under Make in India these two expansion projects might become placed by this December and January and then the approval takes a little bit of time. Next year onwards 2021, we will start to get the revenue of both the stainless-steel hot extrusion as well as carbon steel, LSAW plant. This is the total new capacity, one is coming in Indrad plant, the second one coming in Kutch plant. So, from next year onwards, we will get reasonable revenue from both the expansion area. Then year-on-year we expect 10% to 15% growth definitely the way going forward for infrastructure, for gas network, for coal certified plant, for further refineries, steel mega refinery has to come. Now they are thinking to put in somewhere in Raigad, but still final decision has to come, but right now there is a HPCL Barmer, then HMEL Bhatinda, then IOCL Paradip and certain IOCL refineries are in expansion more so this is what is there and in power also there is a reasonable requirement. Tenders are there in the next two to three months, so we hopefully will be booking further orders in stainless steel as well as carbon steel. Thank you.

Moderator: Would you like to take questions now Sir.

Prakash Sanghvi: Yes.

Moderator: Thank you very much. We will now begin the question and answer session. We will wait for a moment while the question queue assembles. We have our first question from the line of Ashutosh Tiwari from Equirus Securities Private Limited. Please go ahead.

Ashutosh Tiwari: Sir congratulations on a decent performance. Firstly, in the quantitative data that you have shared there is Rs.72 Crores amount as part of others apart from stainless steel and carbon steel is that related to some coating income something?

Vimal Katta: No these are related to either scrap sales or some other income related to business activity will be there.

Ashutosh Tiwari: But this is a large amount generally we have not seen that kind of large amount out of that?

Vimal Katta: No. Quarter-on-quarter these sorts of figures have been coming.

Ashutosh Tiwari: We are talking about flattish sales in the current year because I think the order book in hand is quite significant?

Vimal Katta: Basically, anything between Rs.2800 Crores to Rs.3000 Crores sort of thing is what we can look forward to.

Ashutosh Tiwari: Sorry how much you said?

Vimal Katta: Between Rs.2800 Crores to Rs.3000 Crores.

Ashutosh Tiwari: It should be really 5% to 10% growth versus the last year and other income of Rs.11 Crores, does that include some amount of forex gains also?

Vimal Katta: No. Hardly some amount will be there, but these are accounting entities because in our case 100% hedging is there.

Ashutosh Tiwari: I just wanted to understand whether this is because of the higher cash level that we have or this is because of some ….

Vimal Katta: Other income includes dividend also on mutual fund units and interest on FDs also, so that is also there because of the investments, which the company has made.

Ashutosh Tiwari: So more or less it is normal other income only?

Vimal Katta: Normal other income yes.

Ashutosh Tiwari: Our SS seamless in LSAW plant will come up by the year end can you throw some light what kind of volume growth you can expect next year because of these two verticals?

Vimal Katta: Next year we should see at least according to me around 20% growth is what we will be doing current financial year at least so if we end up closure to Rs.3000 Crores and closer to Rs.3600 Crores and Rs.3700 Crores sort of topline should be visible in FY2021.

Ashutosh Tiwari: Mainly driven by these capacity additions?

Vimal Katta: Yes. Right now, other than stainless steel welded all the other capacities are more or less fully booked, so incremental capacities in LSAW will be faster to be utilized because the turnaround time is lower. Ramp up will take some time so major growth should be coming initially from LSAW and some from hot extruder and then going forward then hot extruder share will also start increasing.

Ashutosh Tiwari: In the annual report you also talked about converting some part of SS welding into titanium tubes, so can you highlight what kind of revenue we did last year from titanium?

Vimal Katta: Already that thing we are doing. Earlier we were having a dedicated facility for manufacturing pattern and tubes. Now certain tube wheels have been converted to manufacture titanium tubes because order inflow has been good.

Ashutosh Tiwari: So, what kind of capacity do we have by titanium tubes or after conversion?

Vimal Katta: When we started it was 350 tonnes only per year dedicated facility. Now I think we should be in a position to do closer to 1500 sort of thing you can say.

Ashutosh Tiwari: How are the relation different in titanium tubes versus SS?

Vimal Katta: Costly material much more costlier than normal stainless steel at least five times.

Ashutosh Tiwari: At least five to seven times versus stainless steel you are saying?

Vimal Katta: Yes, normal stainless steel.

Ashutosh Tiwari: That is the reason why your realizations are going up?

Vimal Katta: Yes. At least also one of the reasons.

Ashutosh Tiwari: Can we also highlight what kind of project that we see especially from SS perspective, which are coming up or where orders will start like fertilizer sectors something other sectors?

Vimal Katta: It has been a mix so far, like say power related business has been there even thermal has been there. Of course, in power sector we are seeing slow down is there, but projects are there. Work is there and even we got you can say initial orders from international nuclear power applications products also, so going forward it may open up more opportunity for the company and of course normal oil and gas sector requirements in refineries side that has been there. Fertilizer industries, space application, defense so that mix has been there. We are looking at again 10% to 15% growth compared to what we did last year and hopefully that should be coming.

Ashutosh Tiwari: Sir you mentioned that you got a power related order from exports market, that was quite commendable? From which country can you share it?

Vimal Katta: We will share it at the appropriate time. It is first order you can say and once we execute it successfully, then it may open more opportunities.

Ashutosh Tiwari: On the CGD side and water side what kind of orders do you expect and we talked about even last quarter and also before that we can expand our ERW capacity for CGD?

Vimal Katta: We will be doing that thing also. Work will be starting, so that investment will not be very large, but it should have at least 50% to 60% to the existing capacity.

Ashutosh Tiwari: Our current capacity in ERW is how much?

Vimal Katta: 70000 so we should be near to 100000 plus.

Ashutosh Tiwari: And this should come up by when?

Vimal Katta: Once the work starts next year. You can say again either end of second quarter next year or beginning of third quarter next year.

Ashutosh Tiwari: Sir the government is focusing a lot on this water for all, so which kind of pipes will really get more orders from there? How do we see that progress?

Prakash Sanghvi: LSAW spiral, but right now this year we have all capacity booked of helical saw for oil and gas only.

Ashutosh Tiwari: So, we will not be participating in that?

Prakash Sanghvi: We are thinking because we have a spare mill, but we put somewhere in the country on the other side of the country.

Vimal Katta: Right now our challenge is the majority of the state governments do not have money, so one has to be very cautious before committing any major capex because you execute and you do not get the money then also issues are there because EPC we will not be getting, so EPC is not getting then you are also not getting, so certain challenges are there in water application particularly, so it is a watch and watch situation right now for us.

Ashutosh Tiwari: Lastly, we talked about that realizations are coming down because obviously steel prices are also coming down, but I think you probably maintain the same EBITDA per tonne? In that case percentage margin can go like what we saw in the current quarter as well?

Vimal Katta: More or less, 16% to 18% range, but what I have been telling now we have been sharing so that range is something, which should be maintainable over a longer period also.

Ashutosh Tiwari: Thanks a lot.

Moderator: Thank you. We have our next question from the line of Mihir Manohar from CapGrow Capital Advisors LLP. Please go ahead.

Mihir Manohar: Thanks for taking my question. Sir one clarification you said 1500 tonnes so that is after conversion of the new capacity?

Vimal Katta: No that is the capacity to produce titanium welded tubes.

Mihir Manohar: Correct that is your current capacity?

Vimal Katta: Yes.

Mihir Manohar: Right and let us say when you are coming up with the new capacity and you are also slightly converting right?

Vimal Katta: No, it is after conversion, conversion of the existing tube mills.

Mihir Manohar: Understood and one more thing. I just wanted to understand how are the EBITDA margins different for this titanium pipes versus other normal stainless-steel pipes? It is possible to indentify margins differently?

Vimal Katta: Blended in stainless steel continues to be closer to 25%. What happens is there are a number of combinations so order for the same item at different times for different requirements from different customers and different geographies may fetch you different margins. It is not very simple because nothing is stock and sell. Everything is made to order.

Mihir Manohar: Understood. Thanks. That is, it from my side.

Moderator: Thank you. We have the next question from the line of Ashutosh Tiwari from Equirus Securities Private. Limited. Please go ahead.

Ashutosh Tiwari: Sir also can you throw light on what is happening in the oil and gas industry refineries and all especially Middle East side are we getting more enquires there because of crude prices at these levels, are the enquiry levels coming down or what is exactly happening over there?

Prakash Sanghvi: The company has got two orders in carbon steel as well as in stainless steel from Thailand. Earlier we talked about that Thailand is putting a new Greenfield refinery and Petrofac is the EPC contractor and we got two orders from them so like that it is just initial first order. Like that it will continue and something more in Middle East also may come. The things are going there also. The investment is going there also in Kuwait, in Qatar and everywhere our representatives are there and we are approved will all this Oman, Saudi, Kuwait, Qatar and all these things, so it is continuously we are getting something or other. The ticket size is small. It is not that big.

Ashutosh Tiwari: Thailand franchise you talked about how big is the project basically?

Prakash Sanghvi: I think it is some 3 million tonnes refinery or something like that only not big refinery you can say.

Ashutosh Tiwari: But we have got some startup?

Prakash Sanghvi: We have got in carbon steel a good quantity. It is this LSAW of project piping and in stainless steel also.

Ashutosh Tiwari: That will continue, but generally activity wise how do you see the involvement like so over the last one year?

Prakash Sanghvi: In the country itself there is a full demand for this CGD pipe ARW pipe coating and everything. If it continuous you can get an order because a number of licenses they have given, it will take a little time and it is good for us. At a time, you cannot do all the companies order, so it is good because people are doing engineering. Then the pipe will come a little later. So, one is CGD. Then there is the cross-country pipeline from GAIL and from IOCL. That is still going on and we are executing right now that order. Then there is water we are little bit more cautious about the payment because ultimately if the EPC will not get the payment then we will not get, so we are very cautious in booking the order and right now frankly we did our capacity in water because already the entire spiral capacity is booked for the oil and gas.

Ashutosh Tiwari: So that is good for us basically in a way?

Prakash Sanghvi: That is good rather and it all again coated pipe.

Ashutosh Tiwari: In the fertilizer segment if you see for SS pipes, I think we have basically got some approval for urea gate pipes globally also?

Prakash Sanghvi: We have got an order also for that. The ticket size is not more than Rs.10 Crores to Rs.15 Crores.

Ashutosh Tiwari: But anywhere the order size is generally in SS segments are always lower only so?

Prakash Sanghvi: Always lower maximum sometimes it is Rs.90 Crores to Rs.80 Crores what we got last year from BRC.

Ashutosh Tiwari: Incrementally I think if you look at the last three to four years, we probably are going up the value chain in terms of getting more complex pipe orders, right?

Prakash Sanghvi: More critical pipes you can say more of high-end application pipe and tubes.

Ashutosh Tiwari: With the SS new plant the seamless plant we also are going for the higher diameter pipes so we must be in contact with the customers for the same, so what kind of progress do you foresee?

Prakash Sanghvi: We already started contacting customers and briefing customer for what project we are coming up and while inauguration we may call our customers also, show them the facility, but we have already started marketing for that.

Ashutosh Tiwari: So initially we earlier talked about that we will initially target the distributors?

Prakash Sanghvi: Because it takes a little more time for getting approvals from all the oil and gas majors and others so we start with this stockiest not in the country, but outside the country in Europe and US and Middle East.

Ashutosh Tiwari: Both these plants will come in the Q3 is that timeline correct?

Prakash Sanghvi: Trial production, but practically it will come in Q1 of the new financial year the production you can say. So, this year we are not talking any much turnover from these two expansions.

Ashutosh Tiwari: The trials will start in Q3 and Q4 and the production in final will be Q1?

Prakash Sanghvi: Yes, and here in both the plants again you have to take approval with people like EIL first because if you want to do for oil and gas industry you need EIL first.

Ashutosh Tiwari: Sir that approval process or customer visit would start around Q1?

Prakash Sanghvi: January onwards.

Ashutosh Tiwari: January onwards basically and obviously the global customers might take more time?

Prakash Sanghvi: We are taking six to nine months, next year we are taking in stainless steel only 20% to 25% capacity utilization.

Ashutosh Tiwari: Of the new capacity?

Prakash Sanghvi: Yes.

Ashutosh Tiwari: And it will be higher?

Prakash Sanghvi: Yes.

Ashutosh Tiwari: Because the time to take approval is lesser than LSAW or we do not require approval for that?

Prakash Sanghvi: We require it. If one does, then the number will automatically will come into it and we start again there is also project.

Ashutosh Tiwari: Just to reconfirm how much capex were we doing in this current year?

Vimal Katta: This current year should be closer to around 400 roughly.

Ashutosh Tiwari: And next year?

Vimal Katta: Next year should be closer to 100.

Ashutosh Tiwari: And what is our current cash position?

Vimal Katta: The cash equivalent as on June 30, 2019 was closer to Rs.350 Crores almost same what was the position as on last quarter.

Ashutosh Tiwari: The working capital wise we remain quite lean as of now?

Vimal Katta: Yes. Going forward also on net, net basis we will continue to remain debt free.

Ashutosh Tiwari: Debt free there is no issue at all? You have been debt free for a very long time?

Vimal Katta: Cash position should also continue to remain good the reason being by the time this project starts nine months cash accruals will be there with the company, so that incremental addition will continue to remain there and next year once this production picks up, so the entire one year's cash accruals will be there with the company.

Ashutosh Tiwari: We still have the same policy that once you get the order entire raw material will be booked back-to-back?

Vimal Katta: Yes. That is the company policy because the raw material to cover the currency risk continues so we are fully held whether it is commodities or whether it is currency.

Ashutosh Tiwari: Thanks a lot.

Moderator: Thank you. We have the next question from the line of Meet Jain from Prithvi Finmart Private Limited. Please go ahead.

Meet Jain: Thanks for the opportunity. Sir what is the closing order book as on June 19, 2019?

Vimal Katta: We have shared with you the position as of August 1, 2019. August 1, 2019 was Rs.1916 Crores of outstanding order book. Out of which Rs.502 Crores was stainless steel and Rs.1414 Crores was carbon steel.

Meet Jain: Carbon steel and can you provide us with quantity produced and sale for carbon steel and stainless steel for this quarter?

Vimal Katta: That has already been shared. In stainless steel we sold 3943 tonnes. In carbon steel we sold 45076 tonnes.

Meet Jain: 45076 tonnes and what is the guidance for the whole year means how much are we expecting to produce and sell?

Vimal Katta: Wise we should end up near to Rs.3000 Crores.

Meet Jain: Rs.3000 Crores and the margins what we earned in this quarter is sustainable or like….

Vimal Katta: This quarter, EBITDA is closer to 19%, but blended we should end up nearer to 16% to 18% range.

Meet Jain: 16% to 18% by the end of the year?

Vimal Katta: Yes, because this 16% to 18% is the range, which has been maintainable over a longer period in spite of the changes in product mix. Here what happens in this quarter if stainless steel division has performed very well, going forward carbon steel and helical and ERW will be contributing higher, so margin will get adjusted to some extent, but blended should be nearer to 16% to 18%.

Meet Jain: My question was means like if we are moving to titanium we are getting some projects for titanium welded tubes and there is a higher realization and higher margins so if I see for this quarter across margins has increased from 27% in the last quarter to 34%, it is a big jump in the gross margin side so it will be at 34% our gross margin will be or it will be like around it will get back to that around 30%?

Vimal Katta: Blended for average for the year will be closer to that 30% only. What happened is in this quarter stainless-steel division and carbon steel LSAW division, both are higher margin businesses. They have contributed higher to the topline and helical division, which is typically a lower margin business that has not contributed significantly to the topline, but orders are there. Capacities are also there, so if we talk about the entire year's performance, we should be nearer to that EBITDA 16% to 18%.

Meet Jain: So, means like hex pipes will be more in the product mix going forward for the next three quarters?

Vimal Katta: Yes.

Meet Jain: Regarding the water segment, we are not looking for the orders right now as you mentioned that our order book is booked with oil and gas segment itself, so can you provide what is the government's path on this? Have they started these projects for the river linking or any water project?

Vimal Katta: Basically, right now major capex is resting in states like MP. In Gujarat also some work is going on, but in Gujarat because capacities are not available. In other states based on our comfort we can shift one of the manufacturing facilities over there and execute, so everything will be dependent on how strong the financial position of the concerned state is and because ultimately it is a very low margin business. If your money gets stuck, running you do not get anything, so we are cautious for water application.

Meet Jain: And what will the estimate timeline for completion of this expansion plan?

Vimal Katta: By December or January we should be through.

Meet Jain: We should be through so we can expect some revenue generation in the last quarter of this FY2020?

Vimal Katta: Something may come, but it will not be significant reason being here approvals are required. Any new facility will require new approvals, so major approvals should be in place for carbon steel by Q1 of next financial year and for stainless steel it will continue because a number of product segments we are targeting so major revenue contribution will start from FY2021 onwards.

Meet Jain: That is from my side thank you.

Moderator: Thank you. We have the next question from the line of Ketan Shah from Comgest. Please go ahead.

Ketan Shah: Sir over the past many years we have gained a lot of market share from competitors so I am a bit new to this industry, so can you share a bit like what steps did you took in the past, which lead to such a tremendous growth for our company and another question on this titanium welded tubes, is it a bit complex to make these products or competitors are not able to do these kind of products that will be my main questions?

Vimal Katta: I just like to say one thing. This growth has come because we have invested in the right sort of product capacities and we have always concentrated on import substitution one thing is that, so capacity addition has been on gradual phases, not in single shot we have gone overboard adding capacities. One thing in stainless steel and LSAW, so gradually we have tried to get all the approvals and have the products which have demand and which help us in keeping ahead of the competition. All these are high value-added products import substitute products so that results into better margins. As far as topline is concerned because we had the capacities, which were not fully utilized in helical and ERW, with the opportunities being available to the company. Now we are trying to get the best out of these opportunities and that has resulted into topline growth. Bottom line comes along with the capacity utilization in these volume segment products so that is the situation and going forward also our focus has been to have a balance between topline and bottom line and that is the reason to major capex is happening in stainless steel and in carbon steel we are doing only the debottlenecking and balancing capex resulting into capacity addition at minimum of the cost.

Ketan Shah: Sir on this titanium welded tubes is it a bit difficult to manufacture?

Vimal Katta: In the welded tube segment, we were the first one in the country. Now one more French company is also there, so one thing is this product is difficult to handle at the manufacturing level itself. It is very costly material so if you end up making a wrong product, value loss is significant, so one thing is that because raw material itself will be costing closer to Rs.1500 a kg.

Ketan Shah: Thank you.

Moderator: Thank you. We have the next question from the line of Kashyap Jhaveri from Emkay Global Financial Services Limited. Please go ahead.

Kashyap Jhaveri: Good afternoon Sir. Just one question so when this new plant both the expansions come up in Q4 of this year and we do a low 25% utilization next year does the fixed cost impact our EBITDA margins in FY2021 would it have any negative impact there?

Vimal Katta: Kashyap this lower capacity utilization will be there in case of stainless-steel hot extrusion only, but in LSAW no such thing is there because LSA product is not complex. In hot extrusion we will be handling the material, which needs to be heated to closer to 1200 degree Celsius. Very wide size range is there and different alloys are there, which is not the situation in the case of LSAW, so LSAW capacity utilization once approvals are there can be optimized in first year itself if orders are there, but stainless steel will take time. The reason being all the sizes and all the alloys need to be hot extruded over a different period over a longer period because process installation takes time, but there is no major impact on fixed cost steel estimated because there will not be any significant addition to the manpower and a portion of capex is funded from internal accruals only. That way we do not foresee any major impact happening on the bottom line. I am of the opinion that we should continue to have this 16% to 18% range in spite of lower utilization of capacity in case of new hot extrusion facility.

Kashyap Jhaveri: That is, it from my side.

Moderator: Thank you. We have the next question from the line of Devang Sanghvi from ICICI Securities Limited. Please go ahead.

Devang Sanghvi: Good evening Sir and congratulations on a good set of numbers. Most of my questions have been answered. Just wanted to know what is our capex we have done in Q1? We had a Rs.400 Crores capex guidance for FY2020, so how much we have incurred in Q1?

Vimal Katta: Q1 will be closer to around Rs.100 odd Crores only over what we did till March 31, 2019. The major capex will be happening now, we have started, so now major outflow will be starting. So, by December the entire Rs.600 Crores should be over, so we have incurred almost Rs.300 Crores sort of thing.

Devang Sanghvi: Sir secondly what type of volume guidance we can have for carbon steel? It was slightly lower this particular quarter?

Vimal Katta: But blended should be closer to what we did last year.

Devang Sanghvi: Similar to last year we can target?

Vimal Katta: May be a little bit higher also. Orders are there, yes.

Devang Sanghvi: That is, it from my side. Thanks a lot Sir and all the best.

Moderator: Thank you. We have the next question from the line of Aabha Kant from Peerless Securities Limited. Please go ahead.

Aabha Kant: Thank you so much for taking my question. I have only one question, which is regarding what are the orders from ninth and tenth bidding round have started to pick up a lot because earlier con-calls you said that the earlier bidding rounds infrastructure is still getting late so what is the situation of ninth and tenth bidding rounds?

Vimal Katta: Pardon can you repeat the question because I could not get you clearly.

Aabha Kant: My question is whether the orders from ninth and tenth bidding round have started to pick up or not because in earlier concalls you have mentioned that the earlier bidding rounds the infrastructure for them is still getting late so what would be the scenario for ninth and tenth bidding rounds of CBGs, are you getting orders from them or not?

Vimal Katta: From CGBL getting the orders, but not related to ninth and tenth round right now, but earlier rounds we have already started getting orders and ERW is the product, which goes for CGD and that facility is fully booked.

Aabha Kant: In the future may be we can expect growth?

Vimal Katta: Anywhere in ERW we are planning to do certain balancing and debottlenecking capex, which should result into capacity buildup to 50% to 60% and from next year onwards, the capacities will be available to take care of the increased demand.

Aabha Kant: So, from next year what will be the capacity utilization if you can tell?

Vimal Katta: Once the new capacity becomes available again, we should be in a position to have the full capacity utilization. Right now, ERW is operating at 100%.

Aabha Kant: Thank you so much Sir.

Moderator: Thank you. We have the next question from the line of Rishabh Bothra from Sharekhan. Please go ahead.

Rishabh Bothra: Sir just wanted to understand since you mentioned that we are fully booked for the next seven to eight months, how many of the business opportunities are being lost on account of capacity constraints to other competitors?

Vimal Katta: Basically, good order booking from oil and gas sector has resulted into the water segments not getting any attention from our end, that is the situation. It is not like that we have lost any opportunities. Basically, now we are targeting the order booking for deliveries for the next financial year mainly in some of the product segments.

Rishabh Bothra: I can understand water segment you are not interested on account of state government project, but let us say in oil and gas itself because of capacity constraints are we missing out on orders to competitors?

Vimal Katta: You can say indirectly. Had the capacities been there this order book position would have been much better.

Rishabh Bothra: Having said that also one thing since we witnessed a revenue decline since we had orders in hand so what factors led to lower revenues in the quarter? Was it being execution delay?

Vimal Katta: Unless financial arrangement is there we do not supply. So, if some of the parties have not been in a position to establish LCs and other things certain dispatches would have got deferred to the next quarter. The second thing is in case of exports, unless the ship load is ready, we cannot dispatch and in helical there were certain inspection and other issues leading into lower dispatches. So this is the situation, but quarter-on-quarter figures will never give any help in making a guidance, the entire year figures are something, which should be taken into consideration because quarter-on-quarter lot of fluctuations may be there because our product requires third party inspections, then complete internal policies of ensuring the financial arrangement and all those things are there.

Rishabh Bothra: If I can understand are any of our capacities on leased premises?

Vimal Katta: Everything is in house.

Rishabh Bothra: So, no impact of Ind-AS 116?

Vimal Katta: A small impact is there means the total will be Rs.1 lakh in that difference between assets and liability because certain offices are on lease plus wind mill assets means wind mill land is on lease, so that minor figure is there, very insignificant.

Rishabh Bothra: Lastly Sir how has been the working capital situation like for us?

Prakash Sanghvi: Working capital situation has been smooth. We have not faced any issues. On distribution side also no issues. On inventory side also no issues.

Rishabh Bothra: Thank you Sir.

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

Saket Kapoor: Good evening Sir and thank you for the opportunity. Sir I joined late in the call so I just wanted an update for the order book part Sir, what is our order book?

Vimal Katta: Saket as on August 1, 2019 it was Rs.1916 Crores out of which Rs.502 Crores was stainless steel, Rs.1414 Crores of carbon steel.

Saket Kapoor: And the executable period is Sir?

Vimal Katta: In the case of carbon steel certain orders will be going in the next year also until July and August, but majority of the orders in stainless steel will be within the current financial year and like that, it is a mix.

Saket Kapoor: So, sir as I missed the earlier commentary Sir, on our topline of Rs.2755 Crores for last year what are the growth we should expecting for this year on to your revenues from operations?

Vimal Katta: It will be 10%.

Saket Kapoor: 10% is what should be working out there, and Sir if you take this Greenfield refinery is coming up, any green shoots which we have got from CPCL or any other, I think the DPR is now being given to Engineer's India has been informed?

Vimal Katta: It should be taking sometime.

Saket Kapoor: But we have not factor in anything on that front, if something can come sir, it will be a bonus for us going forward?

Vimal Katta: No, in current financial year, if the ordering starts it should get reflected in FY2021.

Saket Kapoor: Sir if we take your raw material consumption Sir for this quarter any advantage Sir, anything about the product mix that if the raw material consumption is lower for this quarter?

Vimal Katta: The SS and LSAW have contributed higher to the topline, both these products are higher margin businesses, okay. So that results into raw material consumption coming down a little bit, but quarter-on-quarter do not look at this figure, blended the 16% to 18% is the range which one should be looking at.

Saket Kapoor: For the employee benefit cost also, employee cost also we should be zeroing its annualized figure of around 140 Crores Sir?

Vimal Katta: Roughly yes.

Saket Kapoor: Roughly it should be, and Sir for this quarter also Sir, the other expenses part has also remained flat if we take Q-on-Q numbers, but if you take your last year June number to a 72.23 Crores vis-à-vis it is now down to 62 Crores that will be the saving of around 10 Crores, what would have resulted in this?

Vimal Katta: What happened in the carbon steel, nature of orders will determine your other expenses. See in case of exports, on CIF terms you get the higher realization and freight cost gets reflected in other cost, so those sort of orders has not been there in current quarter, last year lot of exports in carbon steel were there, one component is that mainly, then sometimes if any orders we are executing on geographies so labour cost also increases which has not been the case in current quarter.

Saket Kapoor: How much was the export mix Sir for this quarter revenue?

Vimal Katta: See we did closer to 100 Crores plus has been the figure in case of export.

Saket Kapoor: For the last fiscal Sir, what was the export, how much have we exported in value terms?

Vimal Katta: Last year we did closer to 560 Crores entire year.

Saket Kapoor: This year first quarter we have done 100 Crores?

Vimal Katta: 100 Crores plus, yes.

Saket Kapoor: Depending upon this Sir, our order booking, we will be matching the last year number only and we should be getting some benefit out of this rupee depreciation also Sir going forward?

Vimal Katta: Exports we may be a little bit on the lower side in current financial year, because all the export orders may not get repeated. In last two years we executed 400 Crores of water pipelines projects in carbon steel in Africa. So same type of orders will not get repeated, so but still 7 months are there so we will try the exports also we match.

Saket Kapoor: Sir I will come in the queue sir. Thank you for all the answers. Thanks.

Moderator: Thank you. We have the next question from the line of Vinay Menon from VM Capital Advisors. Please go ahead.

Vinay Menon: Sir I have a few questions. One Sir, you mentioned in the start that your raw material price has come down, so Sir can you just quantify that like how much percentage wise raw materials has come down?

Vimal Katta: See basically I cannot quantity, see in case of carbon steel last year was a rising price scenario thereafter prices has started coming down. So, one thing is that right now we have seen the stainless-steel prices have started moving up because of the nickel prices. So, these things keep on fluctuating quarter-on-quarter basis. Again, when Prakash Bhai was talking about the impact of raw material prices, he was talking about the newer orders come at based on the ruling raw material prices so in spite of clocking higher turnover in carbon steel, quantity wise one may end up with a lower figure in rupee terms, if the raw material prices continue to remain subdued. So that thing he was trying to explain. Here we make loss higher tonnage, but if the price remains constant.

Vinay Menon: Are you looking at any companies who are in NCLT any pipe players who you are looking for?

Vimal Katta: Right now, our hands are full with ongoing Capex, once we stabilize these new facilities thereafter, we may start looking at further growth opportunities which may include inorganic growth opportunities also, but right now we are not looking at anything.

Vinay Menon: That is all from my side, thank you Sir.

Moderator: Thank you. We have the next question from the line of Devang Sanghvi from ICICI Securities. Please go ahead.

Devang Sanghvi: My question is on titanium welded tubes; the application is only in the nuclear side or there is other factor also we can see the application for the titanium welded tubes?

Vimal Katta: See Devang basically titanium is lighter in weight, has better corrosion resistant property. So, the power plants which are coming in the coastal area they go up for titanium tubes, in case of water desalination application, aerospace application, subsea cabling work, nuclear so the titanium is the base metallic it is not an alloy. So that different is there.

Devang Sanghvi: So, we have a 1200 tonne capacities in the additional 20000 tonnes you are having…

Vimal Katta: Roughly 1500 tonne sort of capacity.

Devang Sanghvi: Upcoming 20000 tonnes is there any capacities linked to titanium?

Vimal Katta: See that can be done, see it is hot extrusion.

Devang Sanghvi: So basically, whatever demand is accordingly we can fungible take the capacity is that the understanding correct?

Vimal Katta: See give me an opportunity to correct myself Prakash Bhai says titanium cannot be hot extruded it is welded only; we have a capacity on welded only.

Devang Sanghvi: Thank you sir.

Moderator: Thank you. As there are no further questions, I hand the call to Mr. Awanish Chandra. Over to you.

Awanish Chandra: Sir one more thing before closing, Sir you have talked about our raw material, employee cost, other expenses and everything, Sir keeping everything together, what is your visibility on the profitability on the operating level in the coming quarters.

Vimal Katta: That is in the range of 16% to 18%.

Awanish Chandra: So, Sir as compared to current quarter, given the visibility of everything, so it should grow or would remain same?

Vimal Katta: It has been on the same side.

Awanish Chandra: Sir, before closing any final comment to the investors.

Vimal Katta: Basically the focus has always been on having a balance between topline and our bottom line, that will continue and company will continue to derive the benefit, which has been of not being leverage so that benefit will also continue and we have never been very aggressive in expanding our capacities or going overboard in looking at inorganic growth opportunities also, because unless it makes sense we have never gone for capex. So that situation will continue. So it is that approach of expanding consolidating and then again looking at expansion opportunities that process will continue, this is something which management continues to follow.

Awanish Chandra: Thank you very much Sanghvi Sir and Vimal Sir for sparing your valuable time. Mosinee we can close the call.

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