"HEG Limited Q2 FY17 Earnings Conference Call"

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Moderator: Good Day, Ladies and Gentlemen, and Welcome to HEG Limited Q2 FY17 Earnings Conference Call. As a reminder, all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Ravi Jhunjhunwala– Chairman and Managing Director, HEG Limited. Thank you and over to you, sir.

Ravi Jhunjhunwala: Good afternoon, friends, and thank you for joining us for HEGs Quarter Two 2017 Conference Call. Firstly, I would like to share with you the latest developments in the steel industry worldwide and its resultant impact on our industry. World Steel Association has just come out with the first nine months' data for steel with a decline of 0.5% in the world crude steel production to about 1.2 billion tons for the January-September 2016 period. Most of the major steel producing regions have registered a negative growth with EU being (-4.8%), North American (-1.4%), South America as much as (-11.5%) and even Asia and Middle East base which had been growing till very recently have also registered small declines.

For the full calendar year 2016, the World Steel Association forecasts global steel demand to increase by a mere 0.2% to about 1500 million tons in 2016 versus (-3%) in 2015, and a forecast of modest 0.5% growth in 2017. After probably many years, steel demand in China has also declined by about 1% this year and they expect this to decline by about 2% in 2017. Huge blast furnace capacities built in China over the past two decades have had an adverse impact on the Electric Arc Furnace industries whose share of steel production has fallen from about 30% to about 24.5% in the last 5-6 years, leading to a subsequent drop in demand for electrodes. Despite a reduction in demand by about 1%, the steel exports went up by about 2.5% by China in the first nine months.

Now coming to the Indian steel data:

India registered a growth of 7.5% in crude steel production during first half of 2017 compared to the similar period last year. Total steel production for first half was about 48 million tons. Minimum Import Prices imposed on certain grades of steel by the Government of India did help the domestic industry to improve their realizations and extend their reach to segments which were mainly captured by the low-priced imports from China. Imports during January-June 2016 fell to about 3.6 million tons in India compared to 5.5 million tons in the similar period last year, which is about 37% lower. As per the WSA, Indian steel demand is expected to report a solid growth in 2016 - 2017 also, backed up by consumption, reforms and infrastructure investments, but its sustainability is under question as key areas of investments are being provided by the government while the private investment still remains weak. And the steel industry, as we all know, continues to be stressed due to fairly heavy debt burden.

In this backdrop, there are a couple of positives. The Electrodes business of SGL Carbon, one of the largest groups in the world graphite scenario in Germany, they were probably the second largest producer of electrodes till now, is in the process of being acquired by Showa Denko, Japan, which was the third largest producer of electrodes in the world. This is a major consolidation in our industry and is a positive for us. With this acquisition, SD becomes the industry leader with a capacity of about 290,000 tons worldwide, followed by Brookfield which is about 160,000 tons and then straight away followed by us and Graphite India in India with about 80,000 tons each capacity. And then there are three or four small Japanese players.

This consolidation is expected to help in price recovery. In the backdrop of this, there are also some positive signs going forward which I would like to place before you. Electrode prices in this quarter and going forward at least seem to have bottomed out. Needle Coke prices have dropped substantially over the last year and the full impact of this reduced priced inventories will now start to show up in our consumption and results.

Fairly good and well dispersed monsoon, at least in Madhya Pradesh has enabled us to generate the highest amount of power in the first half of this year. And we expect to have one of the highest generation from our hydro plant in the full year.

Now coming to our operations. Our order book for second half is much healthier compared to the actuals of first half. This would help us to run our plant in the next six months at about 75% utilization as compared to about 55% which was the actual for the first half. Between the first quarter and second quarter, we have seen a significant increase in our utilization as well as sales. The plant operating parameters have continuously registered a marked improvement, given our very strong focus on cost control and operating costs and our quality standards have also risen pretty substantially over the last year or so. In the first half we have liquidated the high cost inventory of coke and some other raw materials that we had from last year. And our inventory levels of finished products as well as raw materials has come down substantially, leading to a lower working capital requirements.

The outlook for the whole year, as I mentioned earlier, the global steel demand is going to remain subdued in 2016 and also in 2017. Global Electric Arc Furnace steel production still is under pressure and is expected to recover partially from 2017 onwards, due to pressure on Chinese steel exports by various countries resorting to different kinds of trade measures against China. The health of the domestic steel industry in the second half of 2016 - 2017 is critically dependent upon government's decision on MIP, Minimum Import Prices, which have been extended till 4th December, 2016, and for which major steel producing companies have been pursuing with the government for an extension. Similarly, safeguard duty of 20% on certain flat steel products which were levied in September 2015 were extended in March 2016, and they are still valid till March 2018.

So the consolidation of the electrode steel industry which we just spoke about should help in price recovery and margin improvements going forward. Acquisition of SGL's graphite electrode business by Showa Denko, Japan, is a major development in the recent times. This consolidation is in our view is a big positive for the industry. We may expect some restructuring in the merged entity in the near to medium-term which should balance the currently prevailing demand and supply imbalance in the electrode industry.

With these comments, I would now turn over to our CFO, Mr. Rustogi, who will take you through the accounts and the financial details. Thank you.

Raju Rustogi: Thank you, sir. Good afternoon, friends. I would share with you a quick overview of quarter two financial year 2017 numbers and then we will be happy to take questions. For the quarter ended September 2016, HEG recorded net operating income of Rs. 200 crores as against Rs. 170 crores in the previous quarter, an increase of about 20%. EBITDA including other income stood at Rs. 4 crores in the previous quarter, increased to Rs. 22 crores. In spite of higher turnover, the Company's net loss stood at Rs. 13 crores in this quarter which was lower than Rs. 29 crores which was reported in the previous quarter. Loss during the quarter under review could largely be attributed to lower sales prices and its consequent effect on contributions. By now, we have fully liquidated the high cost inventory of previous year, and hence the impact of lower raw material prices would be visible in the results that we will follow in subsequent quarters.

Net sales in power segment, as you see, is higher than the previous quarter with the start of hydroelectric generating facility in Tawanagar during the quarter. The profitability of the segment, though, is adversely affected because of expiry of the electricity duty exemption which one of our thermal generating unit enjoyed for past seven years. This has adversely affected our cost of generation and this would adversely affect the cost of generation in the period to follow as well.

Total debt as on date tends at Rs. 666 crores against Rs. 736 crores as on 31st March, 2016. This comprises of Rs. 259 crores of term debt and the rest of working capital loans. The managing tight controls over controllable cost is key to sustaining in today's time when competition is vying to capture additional buyers market and in terms slashing prices.

With that, I would like to open this forum for questions. Thank you.

Moderator: Thank you very much, sir. Ladies and Gentlemen, we will now begin the question-and-answer session. Our first question is from the line of Ashutosh Tiwari from Equirus Securities. Please go ahead.

Ashutosh Tiwari: Sir, what is the current cash balance and CAPEX for this year and next year?"

Raju Rustogi: The CAPEX requirement for the current year is only about Rs. 12 crores and the cash balance as we see is we have about Rs. 10 crores - Rs. 11 crores of cash available with us. We do a working capital borrowing, we are a working capital borrowing company, so we are a net borrower and our cash balance today stands at about Rs. 12 crores.

Ashutosh Tiwari: Now coming to the business part, after almost like 2 - 2.5 year we are saying that delta between scrap prices and coking coal and iron ore is again turning favorable, so I think over last 2.5 years because of fall in iron ore prices and coking coal prices, scrap was still not a profitable method but I think they are turning now. So do you see more EA Furnaces opening now than what was the case over last two years? Are you seeing initial of that change?

Manish Gulati: You see the raw materials for blast furnace is iron ore and coal, mainly it is coking coal which has gone up, you must have all these data. So, iron ore is yet to come up, but yes definitely that you said is absolutely correct that if this trend continues and iron ore also starts to catch up, then definitely it will be a boost for Electric Arc Furnace industry. Like for example, if we say today very roughly there is still costing gap of around $25 to $30, the blast furnace is more competitive compared to Electric Arc Furnace but the gap is fast closing which was earlier $60 to $70 it has now bridged to $25. So, let's see, essentially between Rio Tinto and Vale, and CVRD how they behave in the market and how soon the prices go up for iron ore. But definitely it is going to be better for Electric Arc Furnace.

Ashutosh Tiwari: And in terms of this SGL Carbon you are saying that is getting acquired by Showa Denko, earlier Brookfield acquired Graftech, but did you see any change basically after Brookfield acquired Graftech, any change happened because nothing in terms of pricing has happened? I think definitely recently Grafteh again announced price increase, there were some news over there but they had done this thing regularly two, three years back and never used to happen. But this time you think that price increase can come through now?

Manish Gulat: When Brookfield had acquired Graftech, in that period the prices have fallen a lot because there was such a huge gap in demand and supply that prices still continues to fall. But yes it is a good sign that they are announcing price increase, at least that signals that definitely we should see an upturn, how much of that will happen actually on the ground that remains to be seen. But definitely they should going up now, that is our hope.

Ashutosh Tiwari: But sir generally, if I remember two three years back and before that when things were kind of okay for industry, October - September was a time when all these negotiations for next year pricing used to start. I understand that it has now been delayed because of the problems the industry is facing but have that negotiations started now or there is still some time into that?

Manish Gulati: It is about to start, it is delayed compared to past years where the business used to start happening in September, October, discussions used to start for contracts for next year. But it is now going to start very soon. And once we have some big customers come to the market, like ArcelorMittal, there we will be able to see the price trend. And we are certainly hoping for price increase for next year.

Ashutosh Tiwari: So definitely now industry is more towards spot pricing irrespective of the country that it has, so from which month did you saw that the drop in the prices started getting over essentially, from which month?

Manish Gulati: Let's say about since last two months I have noticed that downward pressure has reduced a bit and we are able to conclude deals, conclude spot prices which are at a similar level that we were doing. So the downtrend has been arrested for sure, that much I can safely say.

Ashutosh Tiwari: I think you are saying that the low cost entry of Needle Coke will start coming through from this third quarter, but how much fall you have seen in electrode prices over say last year levels and how much fall we have seen in the Needle Coke prices?

Manish Gulati: I can talk in terms of percentage, if we look at electrode pricing then electrode pricing if we take the whole of 2015 - 2016 compared to whole of 2016 - 2017, there was 25% decline.

Ashutosh Tiwari: And how much drop in Needle Coke?

Raju Rustogi: In terms of Needle Coke it was in excess of 40% over last year.

Ashutosh Tiwari: So then in the absolute amount the drop would still be higher in the electrode, right?

Raju Rustogi: Yes, absolutely.

Ashutosh Tiwari: Showa Denko I think opened one factory in North America earlier, right?

Ravi Jhunjhunwala: They already have two plants, one of their larger plants is in Japan and they had a plant in America for a long time which they had planned to expand from about 40,000 tons to 70,000 tons and this decision was probably taken more than five, six years ago.

Ashutosh Tiwari: But that got completed only 1.5 year - 2 years back, right?

Ravi Jhunjhunwala: No, the decision of this expansion was taken long ago, but then we went into this down cycle about five - fix years ago, so that expansion was done at a very slow pace. So that has been now been completed. So they have a plant which is a large plant in America with about 70,000 tons and they have a plant in Japan, their original plant was about 60,000 tons. So their capacity was 130,000 tons and what they have acquired from SGL is about 160,000 tons.

Ashutosh Tiwari: This US plant was high cost, right, the CAPEX was very high for this plant?

Ravi Jhunjhunwala: I mean, nobody has any numbers, but yes. Probably what you are saying is right.

Ashutosh Tiwari: So in terms of capacity of the total industry, how much it is at right now, electrode capacity and how much is utilization level right now?

Ravi Jhunjhunwala: Overall it should be in the region of 60% - 65% or more.

Ashutosh Tiwari: Despite all the closures which happened, I think Graftech used to be 250 earlier that fell to 160, I think 230 was SGL earlier and fell to 160. So despite that utilization levels still remain 60% - 65% only?

Ravi Jhunjhunwala: Yes, as I said about five years ago Electric Arc Furnace steel used to be about 30% of total steel which is currently down to 24.5%, which is a fairly high number in terms of drop. So of course there still an over capacity, but this consolidation probably we believe that there will be one more round of certain plant closing down or partly closing down. And once that happens then we will be more or less at equilibrium. And then some of these Japanese plants that we spoke about, there are three or four small plants in Japan which are highly uneconomical at the current prices and given that the size of the plants in Japan is very small and given the cost that one can assume to be very high in Japan, your labor cost and the power cost specially is very, very high in Japan.

Ashutosh Tiwari: And these plants are owned by Showa Denko and Tokai Carbon only or somebody else is owning?

Ravi Jhunjhunwala: No, Showa Denko, as I said has one large plant of 60,000 tons. Then there are three other groups and between these three there are four - five plants which are more or less in the region of 25,000 tons - 28,000 tons each.

Ashutosh Tiwari: And sir lastly, over last 5-6 years have you seen Chinese getting more share of the market in UHP also, has that happened?

Ravi Jhunjhunwala: Not outside of China, we mostly see China in small sizes, low quality. And they are, of course, doing their best in terms of UHP quality but still we do not see them as a major threat.

Ashutosh Tiwari: And our export used to be Rs. 920 crores odd in FY15 which fell to roughly Rs. 500 crores in FY16, some bit of this would relate to pricing as well but how much volume fall you would have seen in FY16 and are we recouping some part of it?

Manish Gulati: Yes, definitely we are getting back in exports. In the Indian market what we sold in 2015 - 2016 there will be some increase in 2016 - 2017, but the majority of the increase is coming from export markets.

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

Saket Kapoor: Sir firstly, the anti-dumping that was introduced last year, have that also lost its important due to the poor demand and lower utilization levels or has it benefitted due to implementation of that? It has been around one year that UTI has come into.

Ravi Jhunjhunwala: Yes, we have benefitted, the Indian industry has benefitted because the way the pricing at which Chinese electrodes were being dumped India or affecting our business, so mainly the Chinese imports into India have slowed down from a level of say 13,000 which happened in 2014 - 2015 to let's say about 3500 now. So yes, definitely there has been some relief for the Indian electrode industry.

Saket Kapoor: So sir, that demand has been met by you and Graphite only, how much have you garnered the share out of that?

Ravi Jhunjhunwala: We have a quite decent portion of it, almost let's say 50% of it.

Saket Kapoor: And sir, currently looking at the scenario, what should investors look forward for this industry as a whole, because raw material constituent for us has been dropping sharply and the price fall in the graphite segment has also continued. And since you are telling that consolidation is now the buzz word, what are you looking forward for that remaining second half, what message can be delivered to us?

Ravi Jhunjhunwala: See, the main message is this consolidation as you correctly said. And now let's say after this consolidation there is one large group which is as much as 290,000 tons which is probably a little more than 50% of the total electrode capacity in the world, followed by Brookfield and then there are the two Indian companies. And gradually, as I said, these small plants in Japan, at current prices I do not know, they probably are very uneconomical. And we surely believe that this consolidation will also lead to a couple of more plants getting out of the system because some of these plants are still very uneconomical in terms of size and location. And from the second half, the projections that we are making for our own sales and our own prices, it looks like we have already reached the bottom, we are not going any further down on that. So, let us go through this second half numbers in six months and then we will have a much better picture of what happens next year. Because as you rightly said, the next three, four months will give us a very clear indication about what happens to the next 12 months pricing. Although there is not much happening these days in terms of 12-month contract, but still there are lots of larger companies who still at least talk about a six months contract or a quarterly contract. So those numbers will give us a good indication about where we are in terms of pricing. And in terms of volumes, as I said, between first half and second half we see a marked change, we have our order books in place for the next six months based on which I can say that in terms of volumes, if not in terms of pricing, the volume seems to be much better than the first half.

Saket Kapoor: And sir, how much did we roll for the first half and could you give the idea of what is the order book executable for the coming six months?

Raju Rustogi: It is 55% versus 75%, 55% for H1 versus 75% for H2.

Saket Kapoor: That means out of total capacity, I could not get that, in numbers terms sir…?

Ravi Jhunjhunwala: In terms of capacity utilization, you are right.

Raju Rustogi: Saket, let me add here, in terms of number the quarter one number was Rs. 170 crores and quarter two number is Rs. 200 crores. Now we are saying we will be 20% higher in terms of the capacity utilization, so you can linearly work out the numbers.

Saket Kapoor: And in terms of the mix also, UHP and other, what type of order are we having in hand?

Ravi Jhunjhunwala: That space it does not change much.

Saket Kapoor: Sir mix is going to remain same what the first half was?

Ravi Jhunjhunwala: Yes, more or less.

Saket Kapoor: But now you must be having the pricing sense also going forward for the next six months, so the bleed on the balance sheet is likely to continue for the second half or can we get some relief going forward?

Raju Rustogi: Saket, if you talk about bleeding, we are cash positive company so there is no bleeding as such.

Saket Kapoor: Sir, after paying interest we are…

Raju Rustogi: No, I am saying cash positive means it is after interest only. So, are not hoping of a cash negative situation in 2016 - 2017.

Saket Kapoor: Sir you were talking about that benefit for the power part getting mitigated, so the experience is exactly from hydro or thermal power plant?

Raju Rustogi: Yes, see in thermal facilities we were given a state incentive for five years and seven years for two of our thermal power generating units. The first one expired about 1.5 years ago and this exemption was for waver of electricity duty which is 12% of the tariff rate. Now this electricity duty for the second unit was exempted up to June 2016 which also has now expired. So our cost of generating power has gone up by 12% of the energy tariff that we generate here in our graphite facility.

Saket Kapoor: In monetary terms what could be the impact, if you could give, how much will be CAPEX on this?

Raju Rustogi: Since we have multiple power facilities, two thermal, one hydro, it all depends on which facility we run for catering to our graphite requirement. So, if we run this unit where the exemption has expired in June fully during one month, the cost is about Rs. 50 lakhs additional.

Saket Kapoor: And sir, any adverse finding from income tax department of survey done by them last quarter? Have they concluded anything on that front?

Raju Rustogi: We have no adverse finding from any of the income tax department which visited us in the past. We are awaiting for their questionnaire, we have not received any. So as on date we stand completely clear of anything called requirement from them.

Moderator: Thank you. Our next question is from the line of Ashutosh Tiwari from Equirus Securities. Please go ahead.

Ashutosh Tiwari: On Needle Coke side have you seen any further new plants coming up so that when Needle Coke prices go up say maybe one or two years down the line, similar increase may not happen over there, supply could be more?

Ravi Jhunjhunwala: No, the Needle Coke in terms of capacity, I mean we have not seen any change in the last 30 years, 40 years since we came into this business. Like electrodes it is a fairly technology oriented product and the technology is in the hands of only a couple of companies. But given the existing capacities which exist today between the American and the Japanese producers of coke, we do not see at least in the near short-term future any concern on the capacity imbalance side. Because it is something which is purely related to oil, oil is their major raw material. So if there is a sharp increase for whatever reason in the oil price, then of course we will see an impact on the Needle Coke price.

Ashutosh Tiwari: But I remember you talking about earlier that some pitch based Needle Coke plant coming up I think in China or Japan, maybe some one or two years back they…

Ravi Jhunjhunwala: Yes, they have come, there have been two new capacities created in the last 12 months alone, one in China and one in Korea. And that is also adding to the pressure on the coke sales and the coke requirement.

Ashutosh Tiwari: So are we sourcing from these new suppliers or Conoko and other players, you mentioned Japanese players are the main sources there.

Ravi Jhunjhunwala: We are sourcing for trials, we are in the middle of doing some trials with these new quality. But since there is no pressure on us to source from any new sources, we are not going very aggressively, we are just getting ourselves ready to see that their qualities are okay and it works so that if there is a pressure, if there is a pricing issue on the oil based coke then we can easily switch over.

Ashutosh Tiwari: And in electrode sales what would be the mix in terms of geography, which geography contribute the higher sales in export markets?

Manish Gulati: Let's say in order of tons we can say Middle East, then Americas, then Europe and then Southeast Asia, if I can just place it like that continent wise. And India being almost 33% this year and 65% exports and then in order of tons it is Middle East, Americas, Europe and Southeast Asia.

Ashutosh Tiwari: And in India how are things basically, are you seeing any improvement over last year, over last year I think you benefitted from this ban on anti-dumping duty on Chinese imports. So this year I have seen pickup?

Ravi Jhunjhunwala: Which is still continuing.

Ashutosh Tiwari: Yes, that continues but incrementally are you seeing more demand, the normal growth is higher this year or how it should be looked at?

Ravi Jhunjhunwala: Of course, and that is the reason Manish said that we are selling about one-third of our production of sales in India. In the recent past that percent would have been in the region of 24% - 25%.

Moderator: Thank you. Our next question is from the line of Abhisar Jain from Centrum Broking. Please go ahead.

Abhisar Jain: Sir, can you just make some comment on the conversion cost in this business since the realizations are obviously taking their own time to adjust and raw material, as you mentioned, Needle Coke might move up slightly. So in terms of the conversion cost is there any saving that could be driven from here or it will remain in that I think $1100 to $1200 per ton range which may be we have currently?

Ravi Jhunjhunwala: See, the major cost is coke and power and basically all sorts of fuel you can say, whether it is electrical power or fuel oil or LPG, and of course the labor cost. So, in terms of savings on that, except saying that better plant management, better scrap levels, better utilization, lower losses in terms rejections and things like that. And there has been a very marked improvement in the last two, three years. I mean, of course there is lot of pressure on the plant, of course there is lot of pressure on the entire management to see that we are more or less on the international level in terms of scrap and every consumption of fuel and power and everything. So that is of course a big help, and in terms of our quality, in terms of our cost structure, in terms of our cost, if one compares the operating margins and operating levels we are surely, I can easily say we are surely better than most of them.

Ashutosh Tiwari: So in fact sir I was just focusing on these three line items such as power and fuel, staff cost and other operational expenses, leaving the raw material aside which I would believe that will include inputs other than Needle Coke as well as Scrap, right?

Ravi Jhunjhunwala: Yes.

Ashutosh Tiwari: So in three lines, the power, staff and operations expenses combined, there if I see the number it was in FY16 say somewhere around $1100 or so and this quarter it is close to $1000, you see this going down a little bit more, in terms of approximate numbers I am saying per ton.

Ravi Jhunjhunwala: See, there is a catch in your calculation because when you are comparing it in dollars in last three, four, five years then the conversion rate that you are taking today of 67 versus maybe 61 - 62. That itself will change the whole number dynamic. So it is better that we look at it in a rupee component rather than in dollar which is more constant than the dollar. In our case in terms of electrical power there is a very small part of that power consumption which happens in the auxiliary area. A very large part, a very, very large major part of that power is technology driven where you cannot play with it. The moment you start playing with number of units or number of power that you have to feed into our rapidization process, then you are playing with the quality of the product. So there is a very small number where you can say something, where you can play around because of the auxiliary and operating more efficiently, non-rapidzing equipments that you have. And of course, if you compare with our international competition, it is obvious we have a substantial advantage on the labor and the staff cost.

Ashutosh Tiwari: And sir in terms of the gross margin from where we were in Q2, you see the improvement there in because you are saying the raw material going forward would be the lowest cost what it has been in the previous quarters, even the realization does not go up?

Ravi Jhunjhunwala: Yes. And then this capacity utilization going up from 55% to 75% also helps.

Ashutosh Tiwari: And sir, first half we have sold quite a bit of inventory also, so we have 55% utilization on production and we have sold more than that, right?

Manish Gulati: No, 55% is inclusive of inventory because we had some carry over inventory which we wanted to liquidate, so accordingly 55% is sales utilization that way.

Ashutosh Tiwari: And sir on the industry, since some consolidation has already taken place and you mentioned some more plant closure might follow in Japan, but sir what the industry used to see some years back, say four, five years back, some sort of pricing discipline and there was one level of graphite electrode realizations, we are now nowhere close to those realizations, maybe half, less than half of them. So though it is at a low capacity utilization of 65% - 70% but still why that slight oligopolistic nature into pricing is not showing up at all which used to be there earlier?

Ravi Jhunjhunwala: See, we are getting into a very dangerous area of discussion.

Ashutosh Tiwari: But sir any comment on that, so basically it is like those big guys do not want the Indian players to incrementally take any market share which we were taking at one point of time through most of this…

Ravi Jhunjhunwala: No, I do not think that can be any reason, because given the fact that, as you rightly asked this question about conversation cost, the raw material cost being more or less similar to everybody, everybody buys Needle Coke from the same two, three sources and the price differential is hardly anything. And given that our conversion is surely much better than them, so we are on a much stronger wicket from that point of view. So they will never want not to increase the price to hurt us, they are getting hurt more than us.

Ashutosh Tiwari: And sir, just one last comment on the working capital side. Is there some relief which can be there or it remains under stressed? And if you can just mention in terms of the number of days that you are expect to see on both inventory and debtor side by the end of the year?

Raju Rustogi: On the working capital side, as we have said, I think our journey continues and we are working with tight controls on the working capital side. So in terms of debtors we are seeing number of days, 100 days of debtors as on date. And that is what we believe would continue. In terms of inventory, we always win, we have the bigger chunk of inventory in the shape of in-process inventory because our manufacturing cycle is long. All in all, inventory is also visibility of 90 days and that trend continues. So inventory we do not want to further bring it down because we are utilizing our facilities much higher than first half of 2016.

Moderator: Thank you. Sir, there are no more question.

Ravi Jhunjhunwala: So in that case if there are no more questions, no more queries from anybody, I would like to just thank you once again for bearing with us. And on that positive note that we just spoke about, I hope to speak to you in about three months' time with some better news. Thank you very much.

Moderator: Thank you very much, members of the management. Ladies and Gentlemen, on behalf of HEG Limited, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.