Man Industries (India) Ltd Q1FY2019
Post Result Earnings Conference Call

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MANAGEMENT: Mr. Nikhil R Mansukhani, Executive Director
Mr. Ashok Gupta, Chief Financial Officer
Mr. K.G Mantri, Senior Vice President
Ms. Pushpa Mani, Manager Investor Relations

Moderator: Ladies and gentlemen, good day and welcome to the Man Industries (India) Ltd Q1 FY19 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 "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Pushpa Mani. Over to you Ma'am, please go ahead.

Pushpa Mani: I Pushpa Mani, Manager Investor Relations, welcome you all to the Q1 FY19 earnings call. Management on call will be represented by Mr. Nikhil R Mansukhani – Executive Director, Mr. Ashok Gupta – CFO and Mr. K. G. Mantri – Senior Vice President. Please note that this call may contain some Forward-Looking statements involving risk and uncertainties, listeners are requested not to put any undue reliance on facts presented during the call. With this, I hand over the call to Mr. K. G. Mantri for an update of industry and business. Thank you and over to you, sir.

K. G. Mantri: Good Afternoon everyone, I will start with a brief update on Large Diameter Pipe Industry. We have seen, over the years, our industry has seen a rapid growth phase till 2010 with huge investment which resulted in addition of significant capacities in the sector and few emerging new players. While from the year 2010 to 2018, the industry went through a consolidation phase with only handful matured and efficient players survived who are holding significant market positions. Due to significant entry barriers we do not see new competition coming in the Industry.

At the same time, no major capex is planned by large players in near term hence capacity utilization of existing players is bound to increase. Moreover, globally economies are shifting from oil to gas, natural gas distribution companies have revived their investment plans which includes construction of new pipelines as well as replacement of aging pipelines. Gas Pipelines are comparatively long. This will give incremental opportunity for significant growth in pipeline sector, as new pipeline infrastructure for gas has to be laid down.

Moving to company highlights, During the quarter under review, company commissioned a new production line for 3 LPE coating plant having capacity of 2.4 Million sq. meters per annum. This is in addition to the Concrete Wet Coating (CWC) Plant which was commissioned in the previous year.

The company continues to have a robust book of outstanding bids for more than Rs. 1,20,000 Million at various stages of evaluation for several Oil, Gas and Water projects in India and abroad. The company therefore expects good order inflow in near future. The unexecuted order book as on date is approximately Rs. 15,000 Million, to be executed by March 2019.

Coming to financial performance, Q1FY19 has seen the highest quarterly revenue reported by the company, the company performed very well during this quarter on the back of robust order book. Total revenue including other income increased by 94.3% on YoY basis from Rs. 3,276 Million in Q1FY18 to Rs. 6,366 Million in Q1FY19. EBITDA increased by 99.2% on YoY basis. EBITDA Margin increased by 26bps from 10.2% in Q1FY18 to 10.5% in Q1FY19. Finance Cost increased by 83.2% mainly on account of high working capital requirements due to inventory built up for strong order pipeline, use of Non-Fund based facilities for strong bid book and delay in GST refunds. Depreciation increased by 11.9% due to Installation of CWC in the second half of previous year and also installation of new production line for 3 LPE during the quarter. PAT increased by 149.1% from Rs.101 Million in Q1FY18 to Rs.251 Million in Q1FY19. PAT Margin increased by 86bps from 3.1% in Q1FY18 to 3.9 in Q1FY19. Sales volume for the Quarter stands at about 95,000 Metric tons.

With this brief overview of our performance we now open the floor for questions and answers session. Thank you very much.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Ganesh Kumar, as an individual investor. Please go ahead.

Ganesh Kumar: Heartily Congratulations on posting a robust set of Numbers for the first quarter, Phenomenal topline, however, a bit of a drag on the bottom line due to high interest cost. Would this high interest cost be a consistent feature for the remaining quarters as well?

Ashok Gupta: Yes, till the time we have order book position of Rs.1,500 crores the interest phenomena is going to continue for the remaining quarters.

Ganesh Kumar: Any guidance in terms of topline and bottom line for FY19?

Ashok Gupta: As looking to our first quarter performance as well as our outstanding order book position, which is going to be executed by Q4 of FY18-2019. We are targeting turnover of Rs. 2,000 crores or more and as far as the bottom line is concerned it is very difficult to predict at this moment.

Ganesh Kumar: And the final question regarding the demerger, this matter is with a tribunal and taking a long time. So, how soon can we expect a record date announcement for the allotment of man infra projects shares?

Nikhil R Mansukhani: The company has announced its intension to come out with a record date and have also moved the NCLT for an administrator to be appointed for Man Infra Projects and so on from there we will go ahead with allotting and listing of the shares of MIPL. But the matter is subjudice for the current moment and we are hoping that it will be resolved very soon.

Ganesh Kumar: And one final question. Would this demerger reduce the profitability of Man Industries anyway going forward?

Ashok Gupta: Not at all. Demerger has nothing to do with the profitability and business operations of Man Industries.

Moderator: Thank you. The next question is from the line of Keyur Shah from Emkay Global. Please go ahead.

Keyur Shah: Sir, can you help me with, you mentioned the volume was about 95 KT in this quarter. Can you help me with the same number in fourth quarter last year and first quarter last year?

K.G Mantri: Fourth quarter last year, we did a volume of approx. 64,000 tonnes for both HSAW as well as LSAW.

Keyur Shah: And quarter 1 last year?

K.G Mantri: Quarter 1 last year was approx. 50,000 tonnes as against that this quarter we did a sales volume of approx. 95,000 tonnes.

Keyur Shah: Sir, if I look at our EBITDA per ton that is about Rs. 6,500 which in 4th Quarter was Rs. 9,500 though on Y-o-Y basis that number was lower at about Rs. 4,100. Now, on this incremental or let us say this outstanding order book of Rs. 1,500 crores what is the total tonnage and any indicative EBITDA per tonnes that we would have bid for?

K.G Mantri: For the remaining order book the EBITDA will remain within Rs. 6,500 to Rs. 7,500 per tonne. As regards fourth quarter EBITDA, in that particular quarter the value addition was very high because, we executed a Concrete Wet Coating (CWC), order. Moreover, in our kind of business, EBITDA margins fluctuates from order-to-order and the results always show significant variance from quarter-to-quarter. However, our normalized EBITDA margins will always remain between 10.5% to 12.5%.

Keyur Shah: And for the order book of Rs. 1,500 crores what is the tonnage?

Ashok Gupta: Tonnage is approximately 180,000 tonnes.

Moderator: Thank you. We have the next question from the line of **Jwalit Vyas from ETIG**. Please go ahead.

Jwalit Vyas: Sir, my question was what is the current capacity that we have in terms of revenues for the entire year for example may be 2,500 crores-3,500 crores if you could quantify that in terms of revenue that we can clock current capacities?

Ashok Gupta: With current capacity, we can reach a turnover of approximately Rs. 3,000 to 3,500 Crores**.** If given the order books and the product mix of the single size, which can run through the year then we can reach 3,000 plus crores of turnover.

Jwalit Vyas: Then we will need CAPEX for any new capacity?

Ashok Gupta: After that we may require to add some capacities.

Jwalit Vyas: And when do we think that we will be able to reach about that kind of turnover maybe in 2020?

K.G Mantri: Hopefully, if all goes well we should be doing additional capex next year.

Jwalit Vyas: And sir, currently you told that we have the as such the order book we have wanted an 1,80,000 tonnes of orders for 1,500 crores order book. So, will that be split equally between the next 3 quarters or will it be lumpy, will it be 100,000 tonnes for the next quarter and then 45,000-50,000 tonnes for the next 2 quarters. How will it be?

K.G Mantri: It will be lumpy.

Moderator: Thank you. We have the next question from the line of Alpesh Patel, as an individual investor. Please go ahead.

Alpesh Patel: Sir, regarding our long-term debt is around 89 crores, so can you confirm that and it is going to increase with further CAPEX.

Ashok Gupta: At this moment we does not have any CAPEX plan. So, whatever debt book is there, it is going to be reduced on every repayment. We do not have any plan to increase our debt currently.

Alpesh Patel: So, by what time you will be able to finish these 89 crores of long term debt? By end of this year or maybe next year?

Ashok Gupta: The detailed repayment plan is given in the balance sheet. We have 2 kinds of loans i.e ECB which is going to be concluded in May 2019 and other Rupee loan that is going to be repaid in next 4 years.

Alpesh Patel: And sir, are we getting any revenue from water pipe segment?

Ashok Gupta: Yes, at this moment we have the mix of orders both from oil and gas as well as from water segment. Currently, outstanding order book position from water segment is close to Rs.250 to Rs.300 crores.

Alpesh Patel: So, it is included in the Rs.1,500 crores order? It is part of 1,500 crores order book?

Ashok Gupta: Yes.

Alpesh Patel: And sir margins are same in this segment or it is slightly better than our oil and gas segment?

Ashok Gupta: Almost Same.

Moderator: Thank you. The next question is from the line of Nitin Agarwal from Shreya Investments. Please go ahead.

Nitin Agarwal: My question is for Mr. Nikhil Mansukhani. Sir, this Merino Shelters you were to appoint some prominent investment banker for fair valuation. So, what is the status of that?

Nikhil R. Mansukhani: We will be initiating the process in our fourth coming AGM and we will be appointing a firm like IPC to hive it off or disinvest from the Merino Shelters

Private Limited so that we can completely focus on pure business of Man Industries of pipes, which we are good at.

Nitin Agarwal: So, have you appointed any investment banker or still you have not appointed?

Nikhil R. Mansukhani: No, we have just short listed. We will be appointing, around our AGM. We have taken a decision and we are going to move forward on that.

Nitin Agarwal: And when do you expect this transaction to close?

Nikhil R. Mansukhani: Once the appointment is done it will take between 6 months to a year.

Moderator: Thank you. We have the follow up question from the line of **Jwalit Vyas from ETIG** . Please go ahead.

Jwalit Vyas: Any quarterly order booking number we have for example in the quarter we booked orders were Rs.200 crores-300 crores-500 crores, any kind of that number?

K.G Mantri: Approximately Rs.350 crores.

Jwalit Vyas: So, that has been for the last 2 quarters it has been the same number, roughly?

K.G Mantri: Yes.

Jwalit Vyas: And the value addition things that for example cement wet coating plant and the 3 LPE that we have taken in the last quarter. So, will that play out in the margins improving going forward? Or the margins would remain the 10.5 and 12?

Ashok Gupta: If we are going to have value added orders, like orders towards CWC coating and specialized coating definitely the margins would improve. Like in Quarter four of last year we had done some coating business of some export order and due to which our EBITDA margins for Q4 of last year was close to 14%.

Moderator: Thank you. We have the next question from the line of Snehal Shah, as an individual investor. Please go ahead.

Snehal Shah: Sir, we are dealing about this imposition of duty by US and stuff like that. Now, which are the markets where we export and how can we be impacted by this duty war?

K.G Mantri: We have not done any business with US in the last one year and of course, we are keeping close watch in the US market but at this moment in time US is not our focus market. Our export market largely comprises of Middle East and North Africa region and some counties in East Asia and South America. At this moment of time we do not have any exposure to US market.

Snehal Shah: And in these markets there are no issues on this?

K.G Mantri: There are no issues about dumping duties. These are actually consumer markets where large reserves of oil and gas are there and they do not have their own pipe lines. So, these markets do not have any duty related issues.

Snehal Shah: And other thing is, you said that we have got 12,000 crores worth of bid book. Is there a thumb rule which one can apply us to how much of that can possibly get converted into orders based on the past experience.

K.G Mantri: It is extremely difficult to answer this question Mr. Shah because bids are at various stages of evolution. In our business, it is just not possible to predict in which bid we are going to be L1 or L2. So, it is not possible for us to estimate how much order we are going to get. But on a fair estimation basis it is a continuous flow of orders from time-to-time and that results into healthy order book.

Moderator: Thank you. We have the next question from the line of Dhruv Bhatt from NBS Brokerage. Please go ahead.

Dhruv Bhatt: Sir, I just wanted to get some understanding regarding our EBITDA margins, are we expecting the same to remains strong in robust for the year ahead?

K.G Mantri: It is the capacity utilization of the large diameter pipeline manufacturers which should improve, which will obviously add on to margin expansion from hereon. But most likely margins are as I mentioned earlier will be 10.5 to 12.5%. In between if we get value added order then there will be improvement in the margins, which is very much possible in our business.

Dhruv Bhatt: And sir, can I get the breakup of our order book for 1,500 crores in terms of our product?

K.G Mantri: Out of Rs. 1,500 crore order book, Rs. 300 crores is from water sector and the remaining Rs. 1,200 crores is from oil and gas sector.

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

Riddhesh Gandhi: How is the competitive intensity that you are seeing in the bidding from your competitor, are people being extremely aggressive in the prices they are bidding for or is there a high level of good discipline in the industry as there is quite a bit of capacity available. So, just wanted to know how they translate thing into the competitive intensity in the tenders?

K.G Mantri: The aggressiveness in bidding has tapered off significantly and we believe that going forward the margins will be protected.

Riddhesh Gandhi: But any reason that the competitive intensity has reduced because there is adequate capacity in the industry. Is it just that because around your handful of players everyone knows if they will break price they will impact themselves and everyone is discipline about it.

K.G Mantri: So, the reason is that there is adequate business for everyone. There is no desperation for business hence the rationality in bidding is returning. You must have seen that Man Industries has never compromised its margins in last 30 years of its existence. In each and every year we have posted profit. So, we have never been extraordinarily aggressive in bidding.

Riddhesh Gandhi: And the other question is with regards to effectively with the raw material prices are increasing and how do you look at that given the old order book would be based on orders potentially taken in at low RM prices?

Ashok Gupta: Whatever orders we take, we make back to back arrangement for procurement of steel which is our raw material. So, the increase in raw material prices is already been accounted for while bidding for any business.

Riddhesh Gandhi: Do you actually hold it or you like to be immediately hold the inventory is it of that particular of the RM that you need and you put in purchase order for the inventory.

K.G Mantri: Partly it is part of inventory partly and partly it is part of shipments. What Mr. Gupta wanted to communicate to you is that at the time of taking orders itself we have back-to-back arrangement from steel supplier. So, that any price fluctuation does not affect our margins.

Riddhesh Gandhi: And just as we are going into an election year. Do you tend to see the amount of bids reducing as you go into an election Year?

K.G Mantri: No, on the contrary we see huge traction in water sector as well as oil and gas sector. GAIL is implementing Urja Ganga project for North East connectivity and the present order is one of them. At the same time GAIL is going to announce one more tender. Similarly, Indian Oil Corporation Limited is also planning for large tenders, water sector projects are being implemented across the country in different states, river linking projects are also having fair amount of traction. Governments are now contemplating to have irrigations through large diameter pipes in place of open canals. Because in open canals water evaporation, water seepage, water theft and all other kinds of issues happen. Moreover, land acquisition is also a problem. We see significant amount of investment taking place in water sector not only in the current year but this momentum will continue and will gain further pace.

Riddhesh Gandhi: But is not a lot of the irrigation and the water based going to be growing took DI pipes versus large diameter?

K.G Mantri: DI pipe is not a segment in competition with us. Where large diameter ends DI Pipe Journey starts. Large Diameter pipes is from 60 inch onwards to 130 inch diameter, whereas DI pipe diameter is less than 60 inches.

Riddhesh Gandhi: So the end use difference would be or I mean what cases would you use the DI pipes and which case you would use your pipes?

K.G Mantri: Our pipes are for trunk pipeline from reservoir to the distribution point and thereafter spur pipeline and distribution pipelines are largely DI pipes and further smaller diameter pipes.

Moderator: Thank you. Ladies and gentlemen, as no further questions from the participants, I now hand the conference over to Ms. Pushpa Mani for closing comments. Thank you and over to you, Ma'am.

Pushpa Mani: Thank you all once again for joining us for this call. Please feel free to contact us anytime in regards to any investor relations queries. Thank you.

Moderator: Thank you. Ladies and gentlemen, on behalf of Man Industries India Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.

Moderator: Thank you very much. Ladies and gentlemen, on behalf of Man Industries (India) Ltd. that concludes this conference.