

Maharashtra Seamless

4QFY11 Earnings Concall Transcript

6 May 2011

Moderator:

Ladies and gentlemen, good day and welcome to the Q4 FY 2011 results conference call of Maharashtra Seamless Limited hosted by Alchemy Shares and Stock Brokers Private Limited. As a reminder, for the duration of this conference all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during this conference 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. Nirmal Shah for Alchemy. Thank you and over to you Sir.

Nirmal Shah:

Good afternoon, ladies and gentlemen, on behalf of Alchemy I welcome you all to the fourth quarter earnings call of Maharashtra Seamless. To discuss the results we have with us Mr. Ravi Gupta, Group CFO of D.P. Jindal Group. Now, I would like to hand over the floor to Mr. Gupta to give the initial remarks and then we can have a Q&A session. Over to you Sir.

Ravi Gupta:

Thank you Nirmal. Good afternoon ladies and gentlemen. I thank all the participants for joining this con call. This has been a good quarter for us. Net sales and income from operations are up from Rs. 406 Crores to 550 Crores up 35.37%. Profits before tax is up 28.43% from 115.48 Crores to Rs. 148.31 Crores. Sale of Seamless Pipes and Tubes are up by 31.66% from 52,285 tonnes to 68,840 tonnes. The demand from both downstream and upstream oil and gas sector has been good and the export market was also quite good. The inquiries from the export market are encouraging. I would like to take this opportunity to thank all the stakeholders who have provided us support without which the above results would not have been achievable. I wish everyone in this concall all the best. Thank you.

Moderator:

Thank you very much Sir. We will now begin the question and answer session. The first question is from Puneet Gulati from HSBC. Please go ahead.

Puneet Gulati:

I have a few questions. One is you reported an extremely good sales volume number in seamless category this quarter, would you like to add more colour to it, how is it better, where is the key demand coming from?

Ravi Gupta:

The demand from two customers was extremely good and there was a sudden spurt in the demand in this quarter, so we were able to achieve this good number.

Puneet Gulati:

Do you foresee this demand in the coming few quarters as well?

Ravi Gupta:

The demand is good, however to say on quarter-on-quarter basis these numbers would be achievable, is difficult, but I would say the demand is good.

Puneet Gulati:

So you are saying demand going forward you foresee would be better than what you saw in the last year?

Ravi Gupta:

The demand is definitely good.

Puneet Gulati:

Secondly you made a very interesting comment in your presentation where you said that you are going in more aggressively for international markets, all I want to understand from that statement is what are you doing differently now versus what you were doing earlier?

Ravi Gupta:

We have mentioned we want to expand in Latin America and Canadian markets.

Puneet Gulati:

For the US market is there any change in strategy setting up aboard offices?

Ravi Gupta:

We do not have any office in US, neither there is any requirement for us to put an office and incur additional expenditure. Our people are in constant touch with the market and participants in US and the inquiries that we are receiving are quite encouraging.

Puneet Gulati:

No that is fine, but what I want to understand is how it is different from the previous quarter because you were always focused on the export market as well?

Ravi Gupta:

The difference is that we want to expand our market in Latin America and Canadian areas.

Puneet Gulati:

Fine thank you, two more questions. What is the status on the Romanian plant?

Ravi Gupta:

It is under execution, it is likely to get completed by September 2011.

Puneet Gulati:

And the solar plant?

Ravi Gupta:

Well it is an interesting area that we have entered in to and we see a lot of potential in this area especially events subsequent to happenings in Japan and the trust that the government is showing on this sector, we feel that this particular sector has lot of potential and this unit that we are planning to put up in Pokhran in Rajasthan is expected to be operational by first week of January 2012.

Puneet Gulati:

Obviously you have lot of cash in and cash equivalents in your book; do you have any plans to deploy them?

Ravi Gupta:

Yes we are actively working on the billet plant that we had proposed and we are vigorously pursuing the same. We are looking at all the options that are available and we are actively working on it.

Puneet Gulati:

Just going back to the quarter results, were there any inventory gains in this quarter? How much will the quantum be?

Ravi Gupta:

We had inventory gains this quarter, to substantiate that in quantity terms would be difficult because it goes under regular consumption and it gets built in to raw material cost.

Puneet Gulati:

So what is the inventory of billets that you are holding at this point of time?

Ravi Gupta:

Close to about 80,000 metric tonnes.

Moderator:

The next question is from Raj Gandhi from Principal Mutual Fund. Please go ahead.

Raj Gandhi:

Which sector does this come from, if not the customer name, at least if you could divulge which sector?

Ravi Gupta:

The downstream and upstream Oil sector and exports also. All the combinations were just right.

Raj Gandhi:

Can we expect this run rate to continue?

Ravi Gupta:

Well quarter-on-quarter it would be difficult but certainly we would like to maintain on yearly basis.

Raj Gandhi:

On an annualized basis let us say whichever quarter it comes whether in Q2, Q3 or front-ended, back-ended whichever manner, but can we annualize Q4 numbers to next year volumes?

Ravi Gupta:

Yes, you can but if you see for the whole year we should be able to do like this year we have done about 221000 tonnes, so next year we should be able to do about 260000 tonnes.

Raj Gandhi:

ERW?

Ravi Gupta:

Anything between 115000 to 120000 tonnes.

Raj Gandhi:

Were there some niche sectors at all? Because typically earlier as you maintained ONGC margins were much higher than the average and the other orders were at poor margin, so this time despite higher orders coming from non-ONGC I would assume still you maintain margins?

Ravi Gupta:

No, ONGC contact was also there during this period. In fact in the month of March we had ONGC sales also.

Raj Gandhi:

For next year what kind of margins will you guide for?

Ravi Gupta:

We should be able to do a margin of Rs 15,000 to Rs 16,000 per tonne.

Raj Gandhi:

When you 260 next year in seamless have you built in volumes from the new Romanian plant?

Ravi Gupta:

This is a second hand plant which of course is completely modernized however; we do expect some kind of teething problems in the initial years. We do not expect much volumes in the first year from the Romanian plant.

Raj Gandhi:

Typically how much time would it take for certifications and all that because I suppose EPI and other certification is also necessary?

Ravi Gupta:

It will not take much time; just two to three months should be sufficient for all that. The full effect would be felt next year from this plant but yes this year we should have partial sales, and it will broaden our product range.

Moderator:

Thank you. The next question is from Nainesh Rajani from Tata Mutual Fund. Please go ahead.

Nainesh Rajani:

First question on the Romanian facility, why is it getting slightly delayed, I think last when we had spoken the guess was that the plant would probably start its commercial operations in March to June quarter as such and you know now it is saying that it will move on till September why it has been so?

Ravi Gupta:

This is a slight delay, Three months is not much delay, Please appreciate it is a second-hand plant and terrain is also difficult there because it is uneven, so there is a bit of delay but nothing substantial.

Nainesh Rajani:

But how confident are you that by September the plant will at least be up and standing whether commercial operations happen or not would be later because as you said there would be some teething issues, so how confident are you about that?

Ravi Gupta:

We are quite confident about that.

Nainesh Rajani:

Usually how much time does it take for the facility to stabilize and for you to start at least ramp up some part of operations so this financial year saying that there would not be any volumes from Romanian facility.

Ravi Gupta:

I am not saying that there will not be any volumes from Romanian facility, I am saying that there will not be any substantial volumes from Romanian facility, it does take six months time for operations to stabilize and the ramp up is also gradual. In the second year we will do higher volumes and the third year we will do much higher, that is how it works.

Nainesh Rajani:

So in terms of your current volume guidance how much is actually from Romania that you are anticipating and how much from the current existing facility?

Ravi Gupta:

I cannot commit anything but on an overall basis I have given a guidance of 260.

Nainesh Rajani:

No, the reason I am asking is because sir our current facility has 350,000 tonnes and we have not been able to do beyond 249,000 tonnes of production in any of the last few years, I just wanted to understand as to how much contribution can happen from Romanian facility and can there be slippages in the volume guidance that you have given?

Ravi Gupta:

You see it depends upon what kind, and range of pipe you are producing. We have been mentioning in the past also that 70-75% capacity utilization in a pipe industry is quiet good.

Nainesh Rajani:

Absolutely I completely agree with that, so that is why I wanted to understand how much contribution from Romania because are we assuming that Romania would at least give us 10,000 to 15,000 tonnes in terms of volume?

Ravi Gupta:

10000 to 15,000 tonnes.

Nainesh Rajani:

Second just wanted to understand in terms of margins it somehow amazes me and obviously due credit to the management and the team as such as to how even in a scenario like we have been able to improve our per tonne margins for ERW specifically, if you can just throw some highlight or explain us in terms of operational efficiencies that we have that we are able to maintain this kind of margins specifically in ERW Sir.

Ravi Gupta:

Margins in the oil and gas sectors are higher, so in a particular quarter when sales of ERW pipe to oil and gas sector are higher the margins are better.

Nainesh Rajani:

So can we assume that the margins would not fall and we have seen the management being quite cautious most of the time when guiding margins for seamless between 15000 to 18000 and ERW between 3000 to 4000 but we usually surprise on the upside.

Ravi Gupta:

We have to be cautious.

Nainesh Rajani:

So can we say that you are conservative again when you said that the margins will be anywhere between 15000 to 16000 tonnes for seamless?

Ravi Gupta:

15000 to 16,000 seems to be a sustainable margin.

Nainesh Rajani:

Absolutely it is sustainable but we have been able to surprise on the upside, so can we say that surprise on the upside as far as margins on concerned?

Ravi Gupta:

I cannot say that, you can make your own interpretation.

Moderator:

Thank you. The next question is from Bhavin Chadda from Enam Holdings. Please go ahead.

Bhavin Chadda:

What will be the sustainable margins on the EIDW business?

Ravi Gupta:

4500 per metric tonne.

Bhavin Chadda:

Romania plant if I heard correctly you mentioned you can get 10 to 15,000 tonnes of volume at max in FY 2012.

Ravi Gupta:

It is very difficult for me to commit any figure. Let this plant be operational and then we will make a comment on this.

Bhavin Chadda:

Just to take this question further to increase the volumes are we facing constraint on the demand side and order book side or are there any constraint on the production side on an annual basis because historically what we thought was that as you can operate the capacity at 70-75, so there was more constraint in the production side, but if I see the March production numbers of Seamless pipe, it is 67,000 as against your historic quarterly run rate of 53-54,000 which means that you can on a quarterly basis produce 67,000 tonnes if I annualize the same it can go to 270,000, 280,000 from the current facilities itself, so to do that are there constraints on the order or do you think that it will be difficult to annualize the current quarterly production run rate?

Ravi Gupta:

It is possible. What you are saying is right, yes at times orders are a constraint. It also depends on the kind of mix of products that you are having. It is a mixture of lot of factors.

Bhavin Chadda:

You mentioned that couple of customers there were good offtake, was it one domestic and one export?

Ravi Gupta:

Basically domestic was large.

Bhavin Chadda:

So both the customers from the domestic market where the offtake was quite good which I think may not be repeated in the coming quarters?

Ravi Gupta:

Well I cannot say that it can so happen that there is a large refinery that is coming up. There is sudden demand for 20,000 metric tonnes, so demand can go up in a particular quarter.

Bhavin Chadda:

Sir, if I see your order book again it stands very strong at 523 after doing very good quarterly numbers, this is the order book I think as mentioned in the press release as on date which means this is a May order book?

Ravi Gupta:

Yes, May order book.

Bhavin Chadda:

Which means you are able to replenish the orders, so these new orders are replenished at very good margins?

Ravi Gupta:

Well I would not like to comment on margins specifically for each and every order.

Moderator:

Thank you. The next question is from Fatema Pacha from ICICI Prudential. Please go ahead.

Fatema Pacha:

Sir, have you given out a reason for the excellent volumes that we had in Q4 and was it anticipated because the 220,000 was the guidance and I thought that also we might not have reached sometime in Q3 but we have more than surpassed in production, so could you just give me an idea on what has happened in Q4?

Ravi Gupta:

As I mentioned that the demand was good, in fact two particular cases two customers they had a substantial requirement so the dispatches were little large.

Fatema Pacha:

Has the order come in Q4 and got executed in Q4 itself or it is an order, which was long pending, and it has accelerated execution?

Ravi Gupta:

It has come in Q4.

Fatema Pacha:

What are we guiding in terms of volumes next year, are we taking about a 10-15% kind of volume growth?

Ravi Gupta:

We would like to have a volume of about 260 or so I would say.

Fatema Pacha:

Sir this 520 Crores order book that we have, could you just tell us what is the split in seamless and ERW and in seamless what volumes would this correspond to?

Ravi Gupta:

This is the total order position; because of commercial reasons we do not give any further information.

Fatema Pacha:

You expect to win an equivalent order inflow in FY 2012?

Ravi Gupta:

The inquiries from export market are good. The oil and gas sector in India is also doing well. The boiler sector is also very good so we generally see a healthy quarter.

Fatema Pacha:

Sir on EBITDA you have kept on surprising the street on the EBITDA per tonne for seamless at 18,000 but I guess to some other participant you were guiding for only 15 to 16,000, any particular reason for this?

Ravi Gupta:

Because there were some inventory gains in the past year you all know, we had very high levels of inventory.

Fatema Pacha:

So you would say that right now you would be at a lower inventory considering steel prices are very high?

Ravi Gupta:

Steel prices are stable now.

Fatema Pacha:

Yes, I know but like since December they have risen significantly.

Ravi Gupta:

At that time we had inventory gains, which got factored in to the result.

Fatema Pacha:

ERW also Sir, the volumes are strong or?

Ravi Gupta:

ERW volumes are better than last year in the current financial year.

Fatema Pacha:

Sir have we made any plans on how we are going to utilize the cash or any update on the steel plant?

Ravi Gupta:

We are actively working on the steel plant and the board deliberates upon the cash in hand that is there and also we evaluate various options for enhancing shareholder's value including share buyback. There is regular review. We would like to go for a steel plant and we are working on all the options.

Moderator:

Thank you. The next question is from Ram Modi from Dolat Capital. Please go ahead.

Ram Modi:

Sir, just two questions first thing is our tax rate for the quarter was pretty high at around 38 to 39%, is there any specific reason to that?

Ravi Gupta:

Actually about 4% of that was on account of accounting adjustment for deferred taxes, which is only one time, so, nothing very significant.

Ram Modi:

Sir in the past we had some lump sum gains on FMP booked during some quarter, so are we sitting on anything and gained this quarter?

Ravi Gupta:

As per accounting standards we can recognize the FMP gain only when they are realized, so as and when these FMP would get matured, the gains would be realized.

Ram Modi:

That means we may be sitting on accrual basis gains that may come in next quarter.

Ravi Gupta:

That will definitely come in subsequent quarters.

Ram Modi:

Sir currently the interest rates are ruling pretty high, so how are we locked, in terms of interest rates, is it on the short term or the long term because we have huge cash on our books.

Ravi Gupta:

Most of this is in the form of FMP, so that does not get affected because it will get a fixed return on due date, it is like a fixed deposit.

Ram Modi:

So we are not seeing any increase in our treasury yield till now at least.

Ravi Gupta:

Had we taken a debt fund with a long time horizon it would have given us a negative return because of interest rate hardening; The management was very judicious and it took appropriate decision to move in to FMP based on different maturities, so it would definitely help us in mitigating interest rate losses on account of interest rate fluctuation. We parked in substantial funds in the month of March when the interest rates very pretty high.

Ram Modi:

I was just trying to check whether with that we can get a lump sum kind of gains in the next two quarters?

Ravi Gupta:

We will be getting good gains, in fact with the interest rates hardening we are fortunate that, we will be getting positively affected only. In fact one of the points that has not come up in this concall which I would like to state is that how the interest rate would effect the operation, I think we are quite fortunate because almost 30% of our volumes come from export market that are not linked to Indian interest rates, we have large exposure in oil and gas sector where also most of the demand is fixed and this is not interest rate sensitive.

Ram Modi:

Any inventory liquidation, I think I presume in last quarter we had an 80, 000 tonnes of

Ravi Gupta:

We had inventory liquidation in this quarter.

Ram Modi:

And that is why the cash is higher?

Ravi Gupta:

Yes.

Moderator:

The next question is from Amol Rao from Antique Stock Broking. Please go ahead.

Amol Rao:

Sir you mentioned about the billet inventory that we had, just a housekeeping question, how much HR coil inventory do we have for the ERW segment Sir?

Ravi Gupta:

25,000.

Amol Rao:

What are we getting billets right now, are billets and coil available at about 35,000.

Ravi Gupta:

Yes.

Amol Rao:

One more thing Sir, having looked at the business model for quite a few years lot of our business is done through the ICB route if I am correct? So with the rupee kind of appreciating to current levels do you see that as a problem for our profitability because if we are relying on indigenous sources of raw material then our profitability gets compromised right?

Ravi Gupta:

ICB sector is almost 10% of our business, with this basically 10 to 15% ONGC, it does not have much effect.

Amol Rao:

But even our exports would be then fetching us a lower price right?

Ravi Gupta:

The rates are good in exports market.

Amol Rao:

What would be debt and cash currently?

Ravi Gupta:

Cash we have already mentioned in the corporate presentation.

Moderator:

Thank you. The next question is from Harmendra Gandhi from Nomura. Please go ahead.

Harmendra Gandhi:

Sir, was there a positive surprise kind of because you were expecting 200-, 205,000 for the year in terms of revised guidance by the management in seamless volumes and we find 220 and we are very happy about it, but did it come all of a sudden in Q4 only, the increased demand?

Ravi Gupta:

See pleasant surprises are always good in life, something to cheer about, yes it was a good quarter for us and management and marketing and production teams have done well in doing a coordinated effort and achieving these results, we are all happy about it.

Harmendra Gandhi:

This kind of demand from a particular customer is not expected to repeat in the near future, is that a fair conclusion?

Ravi Gupta:

We have large order from refinery or a large boiler coming up, so there is a large demand, you have to meet that demand, and we can have these kinds of peaks in certain quarters.

Harmendra Gandhi:

260,000 guidance does not take into account these kinds of things?

Ravi Gupta:

It is very difficult to say. We do expect some good demand, so 260 appears to be reasonable.

Harmendra Gandhi:

Base case; we can assume that is it.

Ravi Gupta:

This is what we would like to do at least.

Harmendra Gandhi:

On the EBITDA per tonne for the seamless side you have been guiding 15 to 16, will that happen over a period of time or because the other way to ask that question is what is the percentage of inventory gains in the current EBITDA per tonne?

Ravi Gupta:

It would be 15,000 to 16,000 but there were some inventory gains due to liquidation of part of the inventory, which has come in this quarter.

Harmendra Gandhi:

Same is true for ERW also?

Ravi Gupta:

ERW not material I would say. There we have been saying that it can fluctuate between 3,500 to 5,000 based on what percentage it is going in what sector.

Harmendra Gandhi:

Demand for some oil and gas remains to good, both in India and outside India.

Ravi Gupta:

Basically ERW pipes are used for line pipes catering to domestic market. Exports are for seamless pipes.

Harmendra Gandhi:

Because one of the quarters in Q2 you said that ERW we sold through distributors and that is why our EBITDA per tonne went down?

Ravi Gupta:

Higher sales through dealers in the domestic market, is the case we are referring to.

Harmendra Gandhi:

In the current quarter it was more to the end customer, is it like that?

Ravi Gupta:

Mixed I would say.

Moderator:

Thank you. The next question is from Chirag Shah from IDFC Securities. Please go ahead.

Chirag Shah:

Your cash as on FY 2011 is 685 Crores, what would be the total debt number as on FY 2011?

Ravi Gupta:

We do not have any borrowing. We are a zero-debt company.

Chirag Shah:

What would be your CapEx guidance for FY 2012?

Ravi Gupta:

Close to about 120 to 130.

Chirag Shah:

Does that include the balance amount to be spent on Romania?

Ravi Gupta:

It also includes the amount to be spent on the solar power project, about 120 to 130 Crores.

Moderator:

The next question is from Parin Kothari from B&K Securities. Please go ahead.

Parin Kothari:

Just one question, there has been talks about the DEPB being withdrawn effective June 1, just wanted to know whether that would have any adverse effect on Maharashtra Seamless?

Ravi Gupta:

Nothing much.

Moderator:

Thank you. The next question is from Ajay Vora from Enam AMC. Please go ahead.

Ajay Vora:

Just wanted to understand what is the MTM gain we are sitting on all our investments?

Ravi Gupta:

NAV will be disclosed at the time of annual accounts.

Ajay Vora:

How much was it booked during the quarter?

Ravi Gupta:

It is included in other income.

Ajay Vora:

So this other income completely includes that particular income.

Ravi Gupta:

Also.

Ajay Vora:

No Sir, this entire number includes only the income.

Ravi Gupta:

It includes the interest and the gains from mutual fund.

Ajay Vora:

So, there was no sale of any investment sort of thing?

Ravi Gupta:

It has shown a sale of investment because it is investment; whenever we book profit it is shown as sale of investment because in the books they are reflected as investments.

Moderator:

Thank you. The next question is from Mayur Parkaria from Wealth Managers, please go ahead.

Mayur Parkaria:

Sir, just one conceptual question I just wanted to understand is last quarter we had an order book of 593 Crores and we have done sales, the jump was also high, in this quarter the order book is slightly lower at 523, so will it be correct to say that some of that lower order book will percolate down to the sales of this quarter?

Ravi Gupta:

It is not the question of order book because we regularly keep on getting orders from the customers and also from the dealers, so I would say that it cannot be attributed to that. Last quarter as mentioned sales were higher because we had large orders from two customers and in one case the customer dispatch was little high, so that was the reason for it.

Mayur Parkaria:

So, the entire order book if one is to understand is basically more on execution but how much would be the cycle time, is it more than three months also for some of the orders?

Ravi Gupta:

Yes, more than three months also.

Mayur Parkaria:

So it is dependent on the customer?

Ravi Gupta:

It will depend on the customer terms & conditions, and time stipulated in the order book.

Mayur Parkaria:

Another question on the Romanian plant, sorry for this, what would be the capacity of this?

Ravi Gupta:

200,000 metric tonnes.

Mayur Parkaria:

Broadly you mentioned that it will scale up gradually, so over a three-year period do you think we will be reaching around-, even in that market we will be assuming around 70-75% utilization to reach, how much time period you believe?

Ravi Gupta:

Three years.

Moderator:

Thank you. The next question is from Fatema Pacha from ICICI Prudential. Please go ahead.

Fatema Pacha:

Just a follow-up, the Romania plant, what is the status, have we done commercial operations of it?

Ravi Gupta:

No the project will get completed by September.

Fatema Pacha:

It was delayed is it?

Ravi Gupta:

Slightly, earlier we had set it for June, so it will be done by September.

Fatema Pacha:

Your current production was entirely your existing facility?

Ravi Gupta:

Yes.

Fatema Pacha:

Does it have room to increase its utilization or this is the maximum utilization?

Ravi Gupta:

I had mentioned that if you achieve about 70-75% in pipe industry is optimum utilization because there are various grades, various sizes in which the production is done, so 75% is a pretty good utilization.

Fatema Pacha:

Secondly on exports what percentage of our sales would be exports for the quarter and for the year?

Ravi Gupta:

Almost 30%.

Fatema Pacha:

Similar is it and is this percentage increasing over there because I remember the last time when I had come to the plant there was this positive buoyancy on a lot of US orders coming with much higher margins but I do not know whether we have actually focused on US as a big market?

Ravi Gupta:

US is the biggest market for us.

Fatema Pacha:

Yes, I know but it has never been like 50% export.

Ravi Gupta:

We never said it was 50%.

Fatema Pacha:

That is what I am saying even though it is a very big market our percentage of exports is always limited to a much smaller number.

Ravi Gupta:

But we are doing 30% of our turnover for seamless it is quite large.

Fatema Pacha:

30% of seamless will be exports right.

Ravi Gupta:

Yes.

Moderator:

Ladies and gentlemen, due to time constraints, that was the last question. I would now like to hand over the floor to Mr. Nirmal Shah for closing comments.

Nirmal Shah:

I would like to thank the management of Maharashtra Seamless for giving us a chance to host the conference call. Thank you Sir.

Moderator:

Thank you. On behalf of Alchemy Shares and Stock Brokers Private Limited, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.