



Ratnamani Metals & Tubes Ltd
Q4FY19 Conference Call
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Hosted by Monarch Network Capital Limited



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Ratnamani Metals & Tubes Limited
Q4-FY19 Earnings Conference call
(May 31st, 2019)

Moderator: Ladies and gentlemen, good afternoon and welcome to Ratnamani Metals and Tubes Q4FY19 Earnings Conference Call hosted by Monarch Network Capital Limited. This conference call may contain forward-looking statements about the company which are based on beliefs, opinions and expectations of the company as on date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict. 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 0 on your phone. Please note that this conference is being recorded. I would now like to hand over the conference call to Mr. Awanish Chandra. Thank you and over to you sir.

Awanish Chandra: Thank you, Yashashree. Good afternoon everyone. On behalf of Monarch Network Capital, I welcome you all to quarter 4 FY19 conference call of Ratnamani Metals and 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; Mr. Vimal Katta – Senior VP and Chief Financial Officer and Mr. Manoj Sanghvi – Business Unit Head. We will start the call with the initial comments about the result and the future outlook and then we will open the floor for question and answer. So without any much delay, now I will hand over this call to Mr. Prakash Sanghvi, CMD of the company. Over to you, Sanghvi sir.

Prakash Sanghvi: Good evening to all. Everybody might have got the results, but this year you can say 18-19, it is a history of high revenue as well as profit. So, this is all because of there was good opportunity in carbon steel division as well as stainless steel, so you can say company had utilized maximum capacity in carbon steel as well as stainless steel and that the result team Ratnamani believed highest sales of 2796 crores. It is almost 50% higher than the last year. At the same time, the same way the profitability bottomline also increased by 50%. So, this is all happened because of there is good business environment in especially carbon steel line pipe, City Gas Distribution pipeline as well as stainless steel, the new refinery in international market as well as local petrochemical plant and other. So things are moving in a very much good and with this new government robust government, things will move further aggressively in all directions especially infrastructure and oil and gas industry because there is a dream of Modi government to give gas connection to every village in next 5 years and you might have seen the round 10, round 9 had taken place, number of locations have distributed to everyone. So, like that cross-country pipeline, like that stainless steel is also moving up, the petrochemical refinery and fertilizer plant, Greenfield project plans are coming as well as there is a good demand in Middle East also. Even there is a new refinery coming up in Thailand. So, all everywhere, there is a good signing of the demand and company is completing their expansion program in next 4 to 5 months in both the divisions. In stainless steel, we are putting about 20,000 tonne new capacity. At the same time in carbon steel LSAW, there is replacing the old capacity and adding some new capacity, so it become 1,20,000 tonnes LSAW capacity and that also become operational in November-December. So, things will continue in turnover as well as in profitability because this newer additional capacity will definitely utilize from last quarter of the current year and from next year onwards full-fledged. So we feel on topline we may definitely grow on by 10% to 12% and same way in bottomline, this is what the things with the Ratnamani. The credit goes to team Ratnamani as well as all the stakeholders because of the robust performance. Thank you.

Moderator: We will now begin the question and answer session. We have a question from Mr. Ashutosh Tiwari, an individual investor. Please go-ahead sir.

Ashutosh Tiwari: The first question is obviously we had a very strong year in FY19 and congrats for the same. First question is from the CGD gas discussion basically, all the tenders and all, what kind of opportunity you think really emerged by industry in terms of piping cause might.

Prakash Sanghvi: You might have seen the allocation of the area by this government, 9th round, 10th round. So, it will take little time for them to engineering.

Ashutosh Tiwari: But when will the order start coming through?

Management: The question was the City Gas Distribution right and what kind of opportunity it has for the industry...

Ashutosh Tiwari: Yes.

Management: In city gas distribution, mostly if you see for Ratnamani opportunity is for the ERW pipes what we manufacture. So, when the pipeline comes within city, mostly it is the ERW network which is there. If you see recently the 10th round was concluded by Government of India, PNGRB and the total opportunity put together is close to 1 million tonnes in next 5 years. So, our capacity right now for ERW is 75,000 tonnes. We feel that City Gas Distribution will be a huge opportunity for ERW pipelines.

Ashutosh Tiwari: But what was our utilization level of ERW capacity in FY19?

Management: Utilization was 80% in FY19 which include City Gas Distribution orders and also the product pipeline from IOCL, HPCL, BPCL. So, in ERW, there is one is product pipeline, another is City Gas Distribution where majority of orders we have from.

Ashutosh Tiwari: So, with this kind of opportunity emerging over next 5 years and you already operating a plant at 80% utilization level will be able to capitalize the opportunity?

Management: No. On ERW, we have some plants wherein we can increase our capacity with some investment because right now our mill is running only for 12 hours. So, some balancing equipment when we put will be able to increase the capacity maybe to 1.5 times of what we currently do.

Ashutosh Tiwari: That can be done quickly, over the few months or it will take longer?

Management: We have plans to do it in next 6 to 8 months. So, in this financial year we will be planning that expansion and in next year, we will be able to utilize the capacity.

Ashutosh Tiwari: And what kind of CAPEX this will involve, this increase in ERW capacity?

Management: This will be anywhere between 25 to 35 crores.

Ashutosh Tiwari: This is not much basically.

Management: Yes.

Ashutosh Tiwari: Secondly, in the LSAW segment, we had traditionally, we are more strong in the plant of government basically, customized work, but now that we probably are going to have large capacity of 120,000 tonnes, will the approach be similar only or we will also look at some line pipe requirement ordering and all?

Prakash Sanghvi: Small portion of the line pipe we can take, otherwise our focus is same project piping.

Ashutosh Tiwari: So that would be in that the margins will remain higher in this segment for us going ahead as well?

Prakash Sanghvi: Yes.

Ashutosh Tiwari: And Prakash bhai, lastly on the industry scenario, obviously we have been getting decent orders recently also, but which segments and projects you are looking in from where the order can come through in both carbon steel and stainless-steel price over next one year?

Prakash Sanghvi: Our industry, definitely oil and gas is the major contribution to our revenue, whether it is the refinery, petrochemical, cross country pipeline, CGD or LNG, oil and gas for us and more than 50% business what we are getting from these sectors. Then there is the power. Now, the thing is going for nuclear power also because the LPCL is putting in Haryana. Then there is a Rosatom, Russia they are putting in Kudankulam, 5 and 6. There is 70% localization, so there we may get good chance over there because you are already approved by Nuclear Power Corporation and steel there would be some requirement in this thermal power also, so almost you can say 10 to 12% there is a power thermal, nuclear, all put together. Then there is this fertilizer plant is going on you can say, they already started the procurement and all those things, this new Greenfield fertilizer, so these are the again, some 3 to 4% they will give us more on stainless steel side fertilizer. Then there is a water segment also nearby states you can say, Gujarat, Rajasthan, MP and Maharashtra because location wise we can cater this, but company have extra capacity on helical saw and we are seeing some opportunity in --- also, so we may think something in --- also because you have extra mill what we have about second hand mill and then there is an international, also a good scenario in Saudi, in Qatar, in Abu Dhabi, at the same time new refinery coming in Thailand, a Greenfield refinery, so we are approaching them also.

Ashutosh Tiwari: But in India which projects you are looking at in terms of in oil and gas where order can come from?

Prakash Sanghvi: In oil and gas, mostly the line pipe, CGD, there is a big line coming of HPCL that Rajasthan refinery, HPCL Barmer, it is a totally Greenfield refinery, then HMEL Bathinda, it is a petrochemical plant, then IOCL Paradeep is a petrochemical plant, so these are the main source of new requirement, you can take this all Greenfield, you can say. Then there is a Numaligarh refinery, there might be a 1600 kilometer of the pipeline to be laid, so these are the new tenders will come in time.

Ashutosh Tiwari: And in the SS segment, we are also seeing very good traction in this titanium tubes, so that was earlier like imported into India, now we have capability, so that is getting substituted, is that right way to look at it?

Prakash Sanghvi: Fortunately, this year, current year, we are going to utilize full capacity of our titanium mill and we are converting some more mills on the titanium side because there are still good requirement what we are seeing.

Ashutosh Tiwari: So, we are converting our SS related to titanium, is that correct?

Prakash Sanghvi: Yes, we need to do some modification and all.

Ashutosh Tiwari: So, recently your low margin capacity is being converted into high margin?

Prakash Sanghvi: Yes, more value-added product what we are taking nowadays for import substitute and all this thing and with this new expansion, we will definitely do something more better in next year.

Moderator: Thank you, Mr. Tiwari. We have our next question from Mr. Rishabh Bodhra from Sharekhan. Please go-ahead sir.

Rishabh Bodhra: First on, you mentioned there is some CAPEX on replacement of old LSAW pipes in carbon steel, so what is the capacity which is being replaced and new capacity you mentioned will be 1,20,000?

Prakash Sanghvi: See, we were having 40,000 tonnes capacity earlier. Now it is being replaced by putting additional 80,000 tonnes, it became total 1,20,000 tonnes capacity and the CAPEX is about 180 crores.

Rishabh Bodhra: 180 crores is for this replacing old and?

Prakash Sanghvi: 1,20,000 tonnes new state-of-art facility.

Rishabh Bodhra: And what will be the CAPEX for this 20,000 metric tonnes stainless steel?

Prakash Sanghvi: Roughly, it is about 325 crores, so all CAPEX from last year to this year by December we will complete and that become 550 to 600 crores because we are putting something in bottlenecking in helical saw also to get some 20 to 25% extra productivity.

Rishabh Bodhra: So how much of this has been spent till March or it will be completely spending during the current financial year?

Management: March, we have already spent closer to 180 crores till March and by today in current financial year, by June we will be spending another 150 and by December entire amount.

Rishabh Bodhra: And sir, in respect of this City Gas distribution opportunity, you mentioned about 9th and 10th bidding, during 7th and 8th bidding, what was the quantum and how much business did we take approximately of the contract basis?

Management: If you see, right now even the 4th and 5th round which were bid, the projects are still going on because it is in phased manner. The second year or third year, number of connections to be increased, so it is a slow process. By 8th year or 10th year, all the connections, whatever they have committed to the government, they have to lay the whole network, so every year, maybe the requirement is 60 to 80 kilometers from a particular vendor for a particular district. So, 186 geographical areas totally awarded, so every area say 80 to 100 kilometers which translates to 8600 kilometers of requirement annually and this includes right from 4 inch up to 12 inches.

Rishabh Bodhra: Sir, when you say annually, once these lines are cleared up, there will be recurring demand only, so this line.

Management: No, this demand up to a particular year, beyond that then this infrastructure is laid for 25 to 50 years.

Rishabh Bodhra: And in terms of the results, we have seen this time around, the results were mostly driven by improved realization across segments, so volume offtake has not been that encouraging, is it correct to assume?

Management: No, volumes have gone up significantly compared to last year. I think I have shared the volume info also, I will just quickly share with you.

Rishabh Bodhra: I was asking only for Q4, not the full year?

Management: Yes, I am talking about the full year, in the stainless steel from 190,000 tonnes to 282,000 tonnes.

Rishabh Bodhra: Sir, got it. My confusion was I was only mentioning of Q4 and you are referring to full year.

Management: I am talking about entire year. See actually, realizations are dependent on the nature of product, so there may be certain products where realizations will be very high, quantities may be lower based on the complexities involved, particularly in case of the stainless steel and carbon steel also, so there is no standard thumb rule that there is no direct correlation between quantity and realization.

Rishabh Bodhra: Lastly one more thing realization increment does not mean that there would be a increment in contribution also it could be because of higher input, you would have taken the price hike.

Moderator: We have a next question from Mr. Ankit Gupta from Bamboo Capital. Please go ahead.

Ankit Gupta: Just wanted if you can elaborate a bit on the oil and gas CAPEX which is coming up in the country over the next two, three years in India as well as abroad and what kind of opportunities can come out of that for us?

Management: If we look at India per se recently two days back also we will had its quarterly results and they have also announced that just two or three years they are going to invest 54,000 crore in the gas transmission network so this is what it is GAIL in the oil and gas segment and IOCL is of course increasing its capacity in Panipat then thereafter and they have lot of plans for all the bottling plants. So, there is another line which is from Kandla to Gorakhpur which will be connected to 20-22 bottling plant line so which is roughly 2,000 kilometer then HPCL is with their Rajasthan refinery so huge expansion of the Rajasthan refinery and plus the pipeline laying pipe project then Numaligarh has plans for refinery expansion which is again 1600 kilometers of pipeline. So in the country if you see definitely the market is we see for two, three years the market is going to be robust and the demand and year on year may be 10% to 15% increase we see and of course the City Gas we have already covered so that is another part of oil and gas which will also see a robust demand for next maybe 5 to 10.

Ankit Gupta: And abroad in oil and gas particularly we have in Middle East?

Management: See Middle East is there where KNBC has huge expansion plans, Qatar has huge expansion plans and since there are one or two refineries where Thailand has big plans a new refinery is coming, Dangote some finishing MTOs are there so those are in Africa for water oil and gas these are things then there is for water there are opportunities.

Ankit Gupta: And on petrochemicals and fertilizer side what kind of opportunities we are seeing in domestic market?

Management: See river linking may come. Petrochemical once this expansion of the refineries and everything happens then they come safe so that is next maybe and second was fertilizer. So fertilizer because most of the expansion what GAIL is also planning is to supply the gas to the fertilizer plants and three units we awarded recently for which order placement is still going to happen.

Ankit Gupta: So overall on oil and gas petrochemicals and fertilizer front both in domestic and export market you are seeing very good opportunities

Management: Yes, whatever the percentage like revenue we have about 40% to 50% for oil and gas that will remain continued.

Ankit Gupta: What kind of growth do you see in the statement for us like are you expecting that the growth rates in the segment will be much higher than the overall growth rates for the company?

Management: Percentage little bit here and there it might change, but overall it will remain between 40% to 60% for oil and gas.

Ankit Gupta: In the growth in the segment will also be let us say 15%, 20% or less than that?

Management: Yeah 10% to 15%

Moderator: We have a question from Mr. Vikas Singh from Credit Capital. Please go ahead.

Vikas Singh: Sir I just want to understand from the capacity point of view, so this new capacity is of SS which we are bringing in, so looking at since the product segment which we are targeting is an extension to our existing product segment, so have we already attain most of the required approvals from our customers or it would come later stage and it much time it may take for you?

Management: See expansion of stainless steel is 20,000-ton newer capacity will complete by November, December then there is a question of approval and affected by the oil and gas majors and others customers. So, it will take next 6 to 8 month to take an approval for the plant because in this segment each customer or each consultant and PMC where they come and audit the facility and then they approve. So, it takes little longer time, but in the meantime, we take from the distributors and stockiest we can take large production and something like we establish in next 6 months and then things will move so it will take a year to come in a reasonable capacity utilization.

Vikas Singh: What kind of utilization we are expecting in the initial one year looking at the distributor demand or whatever the replacement demand you are targeting?

Management: Might be 30% to 35% capacity utilization in first year you can say after start the production.

Vikas Singh: And we have seen that lot of water segment demand expectation in India, but our capacities are largely on the Western side, so like couple of our competitor are we looking to shift a smaller capacity to Central India or something?

Management: We are thinking on it, but we have still not decided, but majority of the water project you see is in few states right now which is Gujarat, Rajasthan, Maharashtra and Madhya Pradesh so these four states we are still able to cater from Gujarat. MP definitely has much more quarter projects coming so we are thinking still.

Vikas Singh: Jindal sir has also entered into the similar asset segment, so how do you see competition shaping up in the next couple of years and its probable impact on your margins going forward?

Management: In this particular segment stainless steel you can say the application is very critical so it will take little longer time to build the references and come into it. It is not just to put plant and to come to it because the reliability of the product is most important in this particular field stainless steel especially this being a huge and very critical application like refinery, petrochemical, nuclear power, fertilizer and all such things. So, customer will see and test and then can move and nothing wrong because the country need and with this robust government things will move much faster in whole way then there is a need of capacity also. See with this newer capacity utilization 30,000 tons these things are getting imported, lot of stainless-steel pipe in the country so I do not think there is any problem.

Vikas Singh: Sir just one more thing on your stainless steel segment only I believe that our mother hollow pipe facility would come at a later stage right, so if you can explain that how the capacity is would come in terms of finished assess pipe and the mother hollow what is the timeline?.

Management: We are working in mother hollow, but we too ourselves finishing the entire quantity what vector we are producing today and this capacity will available by December this year only and then we may give some quantity as a mother hollow and we have already put a cold finishing capacity also and something goes as a hot finish. So, it is a mix of all cold finishing, hot finishing and mother hollow.

Vikas Singh: So, mother hollow would also come along with by December, right?

Management: Yes.

Vikas Singh: And sir lastly looking at our cash positions and the CAPEX what we designated, so is it safer to assume that probably this year and we would be ending up with almost a neutral cash or debt and then next year probably we would again by having some inflows?

Management: Net-net position wise we will continue to have access to reasonable cash. See last year we did closure 250 crores of net cash generation even after considering the dividend payout okay. Same thing is going to be repeated in current year also. So more or less you can say major part of funding which is required for the ongoing CAPEX that will also leave us with some surplus cash plus the cash which is already there on hand that should result into a net cash surplus position only even after considering the long terms borrowing which we have plan. So, no issues in current financial year also.

Vikas Singh: Sir just lastly this Euro 6 project where we were thinking that the demand would come and the opportunity would be there it is moving a little bit slowly so if you just could explain where do we see with the new government in place this things are moving and what kind of opportunity we can see there for us as a segment?

Management: See it a commitment of government by 2020 all the PSU refineries has to complete the norms and they are on line there is a one year and I think they are going to complete and things are moving all the refinery whether the IOCL, HPCL, BBCL they are procuring the things and they might be completing by 2020 March.

Vikas Singh: So, this year can we see that the influx of assess orders should be also higher than the usual run rate?

Management: Yes, very true.

Vikas Singh: So, have we seen anything in last two months since the result and everything is still March end?

Management: Today particular on this 31st May we will be might having order in hand on stainless steel say about 500 crores. This shows the incremental generally we were having 350 crores order in hand for stainless steel and because of the things are coming faster from the oil and gas power and all the order booking as on date is about 500 including stainless steel.

Moderator: The next in queue is Mr. Bhavesh Shah from Elite Capital. Please go ahead with your question.

Bhavesh Shah: My main question is last year you had declared that you had received one single order of 97 crores in stainless steel so you expect that in current year the stainless steel will have much bigger order than 97 crores?

Management: See recently only we have announced one single order of 73 crore and another order of 26 crores in Titanium welded tubes this Monday only, so this sort of thing will keep on happening.

Bhavesh Shah: It will be of frequent nature.

Management: Yeah it should be.

Bhavesh Shah: One more question is that last year or last to last year we participated in this defense sector in Goa you expect any breakthrough in that you will be supplying to the defense in current year or in coming years any progress on that specifically?

Management: Yeah with new capacity of stainless steel we definitely get some chance of giving something in defense because something we cannot able do, some we have already executed for BrahMos and Akash missile from the current capacity, but with this newer capacity we might be getting much more.

Bhavesh Shah: And any plans of acquisition because the way you expect the country to progress and the stable government is there so naturally the demand will be much higher than what the installed capacity is so you plan to acquire some company in the other location because all your plants are located in the West.

Management: We are in that line to acquire someone but better to go for your own new Greenfield investment and that is what we are thinking in different part of the country that we are thinking that and of course you are right because with the robust government, strong government things will very fast plus we will also feel. Last term they have established themselves and they come with the thumping majority. So, in this particular time they will definitely give the results in all fronts especially infrastructure, across countries power plant definitely and especially in defense also more in-house we feel the country you have to make under Make in India. So everywhere we get a chance whether there is a nuclear, if you have seen today the announcement Modi Saheb kept with him this what you call this special BRC in their hand because they want according to me he want to do something more above that in this what you call atomic energy and in atomic energy there is a whole of stainless steel going to be used for any R&D purpose, any nuclear fuel storage, used fuel storage everywhere they need stainless steel pipes and tubes.

Bhavesh Shah: Any plans of acquisition in near future?

Management: I have told now we are not much interested.

Bhavesh Shah: Much inclined on that you want to build up your own capacity.

Management: Yes, that might be better as we have, we have acquired some of the mail in a fast and that we are going to put somewhere in country.

Moderator: We have a question from Mr. Dewang Sanghavi from ICICI Securities. Please go ahead.

Dewang Sanghavi: Just wanted to know new L-SAW capacity what kind of utilization we are targeting for the first year this new capacity of 1,20,000 tons?

Management: See this will be available for the production in last quarter of this financial year only by that time we will complete the state of art facility of 1,20,000 tons and from next year onwards you will get a good capacity utilization because 40,000 we are replacing that capacity that will be new order in the project as well as the some of the small order we will cater in a line pipe also. First year will be around 40% sort of thing for the three months thereafter it will increase as we move forward and all the approvals are in place.

Dewang Sanghavi: Secondly just want to know is there some working capital release in the quarter because we see improvement in inventory and that is there and what can we expect going forward?

Management: See basically working capital will keep on fluctuating based on the order inflow because with each inflow of larger size order inventory levels may move up plus nature of order will also impact the quantum of WIP and finished goods because in case of exports we have to wait for the ship load to be ready. So exactly very difficult to say how it should be moving on average we have safely say around 4 months sort of inventory will be there and roughly one and half month sort of receivables will be there on average.

Dewang Sanghavi: What type of export volumes you are targeting going forward?

Management: See our target is roughly 20% of turnover should be coming from exports let us see.

Moderator: We have a question from Pritesh Chheda from Lucky Investment. Please go ahead.

Pritesh Chheda: Sir on the stainless-steel capacity expansion side when you said that you will utilize 30% of the capacity that was in FY21 or you are indicating?

Management: FY20.

Pritesh Chheda: Where you operate at 30% capacity do you breakeven in the operations on fixed cost?

Management: First year it will not be possible because it will be operational for only three months of the year last quarter of the year. Next year onwards that utilization will move up and we will be operating closer to the breakeven point for hot excursion at around 40% sort of thing.

Pritesh Chheda: My second question is you are answering on the city gas pipeline and the ordering on the city gas pipeline at 1 million tons for 10 rounds and then you mentioned that there are 86 geographical area into 100 kilometer, so this 8600 kilometer of pipeline that is a total pipeline needed for those 86 GA or do you wish to mention that 8600 kilometer annually will happen over the next 5, 7 years.

Management: Can you repeat.

Pritesh Chheda: In the city gas pipeline for 10 rounds you mentioned that the total opportunity is about 10 tons and you mentioned that 4th and 5th round is what is currently ordering for 4th and 5th round for pipes is going on that is what you mentioned?

Management: Like some customers or some players they are already started liking so it was awarded in the 9th round only so Torrent has started for 9th round. I am saying those of 4th and 5th round they are under completion right now so they must have started ordering maybe 4 or 5 years back.

Pritesh Chheda: And this 8600 kilometer annually and one million ton is there a correlation so it is that total 8600 kilometer of pipeline will be laid in this 86 geographical area which translates into a million ton of opportunity in the total city gas pipeline and we already 4th, 5th round we have already started delving those and finishing those pipelines?

Management: Yes.

Pritesh Chheda: Lastly what was the stainless-steel volume sold in FY19 and I wanted to know the volume order backlog for carbon steel and stainless steel?

Management: In terms of value I think the order backlog right now is 1500 crore. \

Pritesh Chheda: So, it is basically 500 crores for stainless and 1000 crore for carbon steel?

Management: Yes.

Pritesh Chheda: And what would be the tonnage?

Management: Tonnage difficult to say.

Pritesh Chheda: Okay stainless steel what is the volume sold in FY19?

Management: See we sold around 17,580 tons.

Pritesh Chheda: And lastly by whatever backlog that you have in hand and whatever order inflow visibility that you have what kind of tonnage growth rate that you see in FY20?

Management: 15% to 20%.

Pritesh Chheda: Tonnage growth rate for both the carbon steel and stainless steel both?

Management: In a stainless steel especially because in carbon steel we are witnessing the install full capacity last year.

Pritesh Chheda: So, 280 to 1000 you are utilizing full capacity?

Management: In helical saw and ERW circumstantial where we have 60,000 million capacity, we might have used 40% only. Segment wise helical saw. ERW and LLSW these three we have utilized full capacity.

Pritesh Chheda: And what you are adding is in LSAW which is about 1, 20.000 tons.

Management: We are replacing 40,000 become 120,000 tons.

Pritesh Chheda: And that is the only capacity that you are adding right?

Management: Right.

Pritesh Chheda: And this capacity also needs to go through approvals and hence the ordering for this capacity?

Management: Yes, it is being a new state of art facility because our 40,000-ton capacity was very old. It had built in '94, 95 and totally indigenous machinery. Now it is a state of art some mix of import and local so it is a total new facility and it being audited by all this customers and consultants.

Pritesh Chheda: When will this capacity come?

Management: This by November, December. It will be ready by this November, December.

Pritesh Chheda: So, for this year we might not have volume growth opportunity?

Management: Something we will give.

Pritesh Chheda: And lastly sir is there any changes in the stainless-steel market tubes market in terms of competition or in terms of players or capacity or profitability or it is the same what we were enjoying all these years?

Management: It is same rather some new players are coming and it is good for the country because country need capacity and today, we are importing a lot. So, I think ultimately, we have to produce locally for our demand.

Pritesh Chheda: And this 17,5000 tons stainless ton that we sell what will be the market size in totality for all products and what will be import?

Management: Steel there is a huge import coming in stainless steel segment more than about 50,000 to 60,000 tons stainless steel pipes and tubes are coming from depot and thereby some more people will come it is good.

Pritesh Chheda: And that is where we are putting our capacity of 20,000 tons.

Management: That is why we are really putting a capacity a full range of the grade you will able to manufacture and deliver.

Moderator: We have a question from Mr. Ashutosh Tiwari from Equirus Securities. Please go ahead.

Ashutosh Tiwari: So, we saw employee cost decline in a current quarter versus last year third quarter what is the reason behind that?

Management: See mainly earlier we were providing for the commission to directors as per the past practice, past ratios, but looking to the very high jump in profitability the board of directors decided to have a lower commission figure so that is the main reason against 9% total remuneration to directors last year this year should be closer to 7.5% sort of thing.

Ashutosh Tiwari: Going ahead also the ratios remains the same?

Management: See everything is depended on profitability so profitability continuous to be high then board will take a call.

Ashutosh Tiwari: And lastly what is a current cash balance?

Management: See cash as on date will be closer to 350 crores.

Ashutosh Tiwari: So, in that case we really need to take the debt for the expansion?

Management: See basically to fund the balance amount of CAPEX funds are going to be required plus to meet the incremental working capital requirements also once the both the plants become operational because stainless steel plant is also going to be working capital intensive because we need to store all the required raw material for all the varieties all the sizes. So, working capital requirement will require cash will get deployed there.

Moderator: We have a next question from Mr. Dewang Sanghavi from ICICI Securities. Please go ahead.

Dewang Sanghavi: Just wanted to know what is the optimum capacity utilization for stainless steel we can go to we operate at 73% for FY19, so can we operate the plant around 85% you mean demand in the order book there?

Management: It can operate at 85% also.

Dewang Sanghavi: And secondly our CH capacity was 3, 75,000 tons but by December that will increase to around 455 lakh ton is that the understanding correct?

Management: Roughly 470 right now it is 350, 120 we will be added 470.

Dewang Sanghavi: But we are replacing also 40,000 tons that is why?

Management: No, that 40,000 will get replaced over a period.

Management: This 120 minus 40 then it becomes 80,000 become added to 350 so it become 430.

Moderator: We have a follow up question from Mr. Rishabh Bothra from Sharekhan. Please go ahead.

Rishabh Bothra: Just wanted to understand what kind of cost saving we will be having on account of these two new accounts I mean will the margin expand on account of these two incremental?

Management: Not exactly because we will be not doing anything which will impact our existing product range. See one alpha is going to be purely incremental capacity only thing manufacturing cost may come down over a longer period because this plant will be much more mechanized, much more automatic. So over a longer period manufacturing cost may come down in case of assess whatever right now higher size is mother hollow we are importing their value addition will continue to remain with the company so some positive impact will there for the cold finished capacities which we will be utilizing, but again that will happen over a longer period.

Moderator: We have a question from Mr. Mehul Mehta from SBI Securities. Please go ahead.

Mehul Mehta: Sorry to hop upon working capital again and you did explain that like it depends on various factors like in revenue mix and the kinds of orders you get but I was looking at little longer term like from FY15 if I look at that time the way working capital was we have come back to the same cycles, so is it sustainable or it will again depend on what kind of revenue mix we have?

Management: One thing is we are safeguarding our margins by procuring the raw material on back to back basis first thing. So each inflow of larger order results into raw material inventory moving up then that gets converted into WIP in case of exports particularly for carbon steel one need to wait for the ship load to be ready so WIP levels move up till the dispatch happens, in case of coated pipes, bare pipes need to be kept which then go for inside coating and then wait for the outside coating so again your WIP levels moving up. So, on any reporting period end there may be situations first sort of anomaly may be there where there may be a significant jump in the inventory levels and based on the billing there may be significant jump in receivables also. So majority of the receivable which are backed by LCs we are not going for LC bill discounting because of the comfortable cash position otherwise these can easily become a balance sheet items, but on a particular reporting period these sort of things may happen but on average what I had told you roughly four months of inventory all types and roughly around 45 days of receivable that can be the norm one can consider.

Moderator: We have a question from Mr. Ashish Kumar from AK Investments. Please go ahead.

Ashish Kumar: So, I have a few questions sir so how much of the imports that are coming in stainless steel which we can cater to when a capacity comes on stream?

Management: See putting all put together size range might be a 50,000 to 60,000 tons stainless steel seamless pipe coming in country.

Ashish Kumar: And sir how are the competitors reacting in the stainless-steel segment have you seen any increased activity?

Management: See there are two listed company available right now I think one is Suraj Stainless and other one is Suraj Stainless Steel I think they are much lower in size compared to our size and I heard some this RMG some new companies also coming with stainless seamless pipe, but it will take some longer time into our market.

Ashish Kumar: So overall what would be your outlook be on the stainless-steel pipe industry?

Management: Because these is a very critical product and using all critical applications. So, there you need good reference, good quality control so it is for any new comer or any existing it take time for manufacturing as well as inspection of each and every tube you have to inspect by ultrasonic, - ----- and hydro dimension all such thing. So, there are value addition there, so there are labor involved, they are manual operations so there is a good value addition and as high application where you require exhaustive material it is an import substitute so if we can develop there is a good margin on all.

Ashish Kumar: And sir last question going forward so what would be your strategy and what would be your growth drivers be?

Management: See of course same company is doing since last 33 years. Our focus is on stainless steel that will continue, we are adding the capacity, we are largest in the country for stainless tubes and pipes. So same way we are going further and developing new higher exhaustive grade that being an import substitute for nuclear application, for atomic energy even some grade for refinery and petrochemical even for fertilizer, some patented grade also we are trying to bring. So that opportunities are there and good export also out of stainless steel. So almost from stainless steel 40% our export are there and same way in carbon steel we are not much a reasonable capacity, we have build in all four segments of carbon steel, whether is a ERW whether it is a LSW, whether it is helical saw or circumferential saw and a very wide range number of thickness and diameter we are covering so we are happy with that and we can put something more in a country in location because in carbon steel we have to location wise then you get much more value addition.

Moderator: We have a question from Mr. Samarth Ashok from Forth Capital. Please go ahead.

Samarth Ashok: Sir how much was a stainless-steel volume and sales for Quarter 4?

Management: Access volume in Q4 was 3440 tons. Fourth quarter quantity was 4,502 metric tons and value was Rs. 202 crores.

Moderator: I now hand over the floor to Mr. Awanish Chandra for closing comments. Please go ahead.

Awanish Chandra: Thank you very much Sanghvi sir, Vimal Sir, Manoj Sir for sparing your valuable time. Sir any final comments from any of you.

Management: So that is what we have answered everybody question and we are hopeful for better with the robust government, strong government and I feel defiantly in this term they will work very hard in each, every department. So, it is good for country, good for the industries we are hope good things to come.

Moderator: Thank you very much ladies and gentlemen. On behalf of Monarch Network Capital Limited this concludes your conference. Thank you for joining us. You may now disconnect your lines and have a great evening ahead. Thank you.