



“AIA Engineering Limited Post Results Conference Call”

February 6, 2015



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Moderator: Ladies and Gentlemen, Good Day. This is Melissa, the moderator for your call today. Welcome to the Post Results Conference Call of AIA Engineering Limited. We have with us today the management team of AIA Engineering Limited. At this moment all participants are in the listen-only mode. We will conduct a question and answer session after the presentation concludes. At that time if you have a question please enter '*' and '1'. I would now like to hand the conference over to the AIA Engineering management team. Please go ahead.

Kunal D. Shah: Thank you so much. A Very Warm Welcome and Good Evening to everyone on the call. We are happy to discuss and share a few highlights of this quarter and we can get into Q&A thereafter. We have done slightly lower tonnage this quarter which is at 44,200 tons with a top line of Rs.492 crores, we have got EBITDA at Rs.175 crores, and profit after tax at Rs.115 crores. From our other income portion we have got about Rs.21 crores of export benefit, income about Rs.5 crores of dividend and interest, and very significantly we had about Rs.18 crores exchange gain in this quarter. So all put together about Rs.45 crores of other income, of which the exchange rate and DEPB income would constitute as operational per se. We have taken forward, as you all know, we are doing a 6-month forward cycle and while the spot has continued between 60 and 61 and sometimes going above that, our average for the quarter was around 63, and progressively we are trying to ensure that it stays at that level or higher, even assuming the spot continues, taking advantage of the premium levels that are there in the market for the US-Rupee cross-currency.

So with that said from our volume standpoint, there is an increase in stock about Rs.70 crores, majority of that being stock in transit. We have done about 3000 tons of stocking for a special customer in Africa, so that will probably get sold over next quarter, but we may be required to keep stocking periodically for that customer, so that is continuing stock. From a timing standpoint, we have got about another 3000 tons sitting as transit just awaiting customer destination. So overall from a production standpoint, we continue to maintain 50,000 plus levels. So this quarter as well we have done production of about 50,000 plus tons, but some part of the production as finished goods inventory as part of our transit stock has not converted into sale. So, I think we are fairly happy with the performance in this quarter.

As far as Mining sales is concerned, it was about 24,300 tons, the full year volume is approximately 81,000 tons, and about 137,000-138,000 tons is the full volume for ending nine months. We expect to do about 50,000-52,000 tons in the last quarter, so we should be closing the full year around 185,000 and 190,000 tons, obviously considering the stock, there will be some part that will carry over, that stock will continue on a going basis, because something else will be sitting in transit.

Just to share a few balance sheet highlights: Total

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is at about Rs.845 crores, and our total debt is at Rs.116 crores, so our net cash is about Rs.725 crores. Our raw material days continues at par, around 35 to 40 days, finished goods inventory is a little higher on account of about Rs.60 to 70 crores of finished goods on transit or stocking for a Mining customer. Debtor days have reduced; we had 66 days gross which is at 65 days. Creditor is in line with previous quarters. So overall a little increase in working capital of our order stock, but our cap continues.

To throw a little bit of update on CAPEX plans, our Greenfield project in Kerala Estate in the industrial suburb of Ahmedabad is on track. We expect to commission full 180,000 tons before December 2016, and parts of that we will start getting commissioned in phases starting this year. We hope that we will be able to announce commissioning of the first phase sometime in the second quarter between July and September of this year, but notwithstanding that capacity is at 260,000 tons, partial Brownfield that we are doing in our plants would yield another 12,000 to 15,000 tons by April. So we should be at about 275,000 tons by April, and then phases of Greenfield will start getting commissioned. So we will have sufficient capacity to meet the customer requirement that we are targeting. So we are happy to note that our CAPEX plans are on track and the facilities are going to be state-of-the art, significant automation and following the best global practices for these types of products.

As far as our margins are concerned, we have got several calls asking a few common questions, so I will try and attempt those upfront and then we will take on the Q&A portion. First is, we are seeing a lot of headwinds, people are talking about a lot of commodity-related pressures building up into the system, drastic reduction in commodity prices, crude oil, copper, gas prices, etc., other metal prices or gold. We believe that we have not seen Mines reducing or shrinking their output, we are seeing Mines continue their production, we are not seeing demand go down, the demand may not grow, is a current world view, we are seeing that customers are still consuming at near optimal levels of whatever we were doing say in last 12 months, of course there is a lot of pessimism as far as prices of the metal is concerned, but as long as the demand continues, the Mines will continue to produce at least at current levels, which possibly is far more than what we can handle in any case, because we are targeting the replacement side of the equation. So answer to that question on whether we are seeing pressure from the Mining guys, the answer is no. At times on the contrary when their margins are under pressure it helps us, in a sense where our cost savings matter a little more than when Mines were booming. So, to that extent there is a little more comfort we have in doing a discussion at a time when our value addition or cost saving proposition is well accepted by the customer.

I will preempt a second question which is the margins for this quarter. I think we are seeing sort of a sweet spot as far as margins are concerned, wherein currencies helped us, there is a reduction in raw material prices and some of that being in a lag effect. So there will be a clear pass-through for customers for some of those price levels. As a combination of these two

things and the product mix has seen margins at a level that we have not seen before, but we continue to explain and rationalize that we are an industrial consumables company, 20% to 22% EBITDA is a fair margin for our type of business and while there will be periods where we will do more than that or maybe a little less than that, considering all the variables or the uncertainties that are there in the market, which is cost of raw materials, end user demand, oil prices which translates into higher shipping cost, raw material pricing, cross currencies, the rupee volatility, considering a cross section of the these uncertainties that we deal with, we still believe 20% to 22% is a margin that our business will continue to defend. If we do more than that, that is something that we will very-very well accept and welcome, but that is not something that we will have a view beyond that.

From a tonnage standpoint, besides the fact that some of our production this quarter translated into stock, we have also had some orders, which we are expecting this quarter to close, will possibly move into the next quarter simply on a timeline standpoint, as we grow and as we have been explaining on several occasions that the stickiness in the business is high, at the same time the threshold to entry is high. It takes a lot of time just to get into the client mine sites, understand their own Grinding requirements, propose alloys, actually do trials at their end, do refinement or iterative loop to improve wear rates beyond that, and then there will be a period where we are discussing commercials, their stock requirements, their concerns on transit times, our concerns on risks on currencies, because underlying currency would still be their home currency where they are importing. So the combination of all of these sometimes we expect orders, if they are expecting two months, it may easily go into four or five months. So there is a bit of that also that we are seeing this quarter. Overall next year we should do about 20,000 to 25,000 tons more than what we have done this quarter, and continue to add at that pace. We will have more clarity on that front as we continue to develop more mines, we are seeing traction in certain spaces where the value addition is there. So when that translates into a large volume, it is something that we will keep sharing with you. We continue to remain optimistic about the prospects for high Chromium in the overall mining consumable space, and hopefully all the efforts that our teams are doing in investing in trying to develop new solutions will fruition into a sustained growth for the business.

Moderator: Ladies and Gentlemen, we will now begin the question-and-answer session. We have the first question from the line of Balchandra Shinde from Batlivala and Karani Securities, please go ahead.

Balchandra Shinde: Regarding the guidance you have given Rs.20,000-25,000 additional volumes, you also commented that on the Mining front, you do not see production activities changing, like if we consider the same constant production activities are going to happen and if our volumes are going to incrementally change, so that means will most likely add these clients. How much

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kind of mining volumes you expect to get added, if you are adding any one client or two clients, how much volumes you expect to cater in one year?

Sanjay S. Majmudar: Mr. Shinde, this is Sanjay here. Actually it is very difficult to give any simple yardstick, but as we have been telling you, our typical Mining client would not buy in a few hundred tons, but it could be from one or two thousand tons to maybe even up to 5,000 tons, it depends how big is the mine. Again, they will not buy the requirement on day one, they will start, and we are talking of a new mine which is getting added. Existing clients who are matured, they can go up to typically say 4 to 5,000 tons per mine, but there is no simple yardstick. What only I want to tell you that there are many mines being added as we are talking in several locations, and we do not really go by any specific mine wise volume target, but we know that if so many mines are getting added, and what is their basic requirement, easily 20,000 to 25,000 tons figure as an incremental volume is not difficult. Naturally, it will comprise of both new clients as well as old clients.

Balchandra Shinde: So when you are saying that that much is in incremental growth can be achieved, means there might be some Mines in pipeline?

Sanjay S. Majmudar: Might be not, there are many mines in pipeline.

Balchandra Shinde: So how much targeted mines you expect to get added in next one year or two years?

Sanjay S. Majmudar: Specifically I do not think we will go into that, because you are going into arithmetic and statistics which to my mind are not really going to help you. When we say many mines are being added, it may be 5, it may be 7, it may be 10, and it is very difficult to say.

Balchandra Shinde: On an average in last two years how many mines have been added?

Sanjay S. Majmudar: Currently, we are servicing more than 20 Mines and another 10 to 15 Mines are in pipeline, it could be much more than what I am talking about.

Kunal D. Shah: There are many more mine sites, Balchandra, that is the important thing, it is not just one group, but we are doing several Mine sites for the Mining client, and then Mining clients may have operations in several countries, so our trials are going on in several sites. So I think it may not be easy to say how many as a figurative answer, but that 20,000 to 25,000 tons is what we are looking at.

Balchandra Shinde: Historically, how we have added Mining sites or Mining lines in last two years?

- Kunal D. Shah:** I fail to understand the question, we will do about 110,000 tons this year approximately, now that spread was the same point, we have different Mine sites, different ores, different Mining companies.
- Sanjay S. Majmudar:** Mr. Shinde, at least 20 Mines over the last two years.
- Moderator:** We have the next question from the line of Sonali Salgaonkar from Axis Capital, please go ahead.
- Sonali Salgaonkar:** My first question is you are saying 6,000 MT are in transit, right, so 3,000 MT stocking for the customer in Africa plus 3,000 MT another transit with. So total 6,000 MT will add on to Q4? Also, the reduction in raw material cost of about Rs.70 crores. Is solely because of this material and transit, right?
- Kunal D. Shah:** This is Kunal. I just wanted to tell you that production we have done at 60,000, some part of that went into stock, going forward as we do more Mining sales which is across the world, as we increase volumes, some part of our production will also go towards stock, that is from an accounting standpoint, understand, the invoicing will happen when it reaches the customer site, now that is a timing issue. 3,000 of the stock that we are doing may continue for a quarter or two, that is again a timing thing, we may stock maybe 500 tons at a time, maybe 5,000 at a time. In a quarter 3000 tons belongs to a certain client, which will get consumed next month, next quarter, that is one, but again we may be getting a further order, we may have to stock some more. Transit will get sold, but something else may become part of transit again, that depends on an FOB sale, delivered sale, etc.. So just to explain that, it is not that we have produced 44,000 tons, we have produced 50,000 tons, for this quarter from a timing standpoint 6,000 tons went into stock. So that does not really mean next quarter we will convert into sales, some part of it, and some part may not. It is not a linear answer, that is all.
- Sonali Salgaonkar:** Sir, about my raw material cost question, this Rs.70 crores of reduction in inventory is because of this material and transit?
- Kunal D. Shah:** There is an increase in inventory, majority of that is material.
- Sonali Salgaonkar:** So we should be able to end FY15 at around 200,000 to 210,000 MT?
- Kunal D. Shah:** We have done 137,000 tons till now nine months, approximate 50,000 tons for the fourth quarter would be 187,000 tons, and around 190 give or take a few thousand tons.
- Sonali Salgaonkar:** And next year more of 20,000 to 25,000 tonnes?
- Sanjay S. Majmudar:** Exactly.

- Sonali Salgaonkar:** Of the Mining volumes you have given of this quarter is about 24,300 MT. What was the comparable volume in Q3FY14?
- Kunal D. Shah:** I do not have that handy on top of my head.
- Sonali Salgaonkar:** My question on CAPEX, so we expect CAPEX of 2 billion in FY15 and maintain FY16 3 billion and above?
- Kunal D. Shah:** We will do about Rs.200 crores this year and about Rs.300 crores next year, correct.
- Sonali Salgaonkar:** You mentioned that one of the reasons for better EBITDA margins for the reduction in raw material prices which came with a lag effect. So could you throw some light as to how much sustainable if at all it is over the next 2-3 quarters?
- Kunal D. Shah:** It is not sustainable because generally there will be a pass-through, it is a positive lag effect to that extent, it gets passed through in the next two or three quarters, over a period it will start normalizing.
- Sonali Salgaonkar:** And average for you for this quarter in currency is Rs.63, right?
- Kunal D. Shah:** That is right.
- Moderator:** Thank you. We have the next question from the line of Madan Gopal from Sundaram Mutual Fund. Please go ahead.
- Madan Gopal:** My question again is on volume front only just to get clarity. You did 50,000 tons in the quarter of September. Now, I agree in this quarter you produced 50,000 tons, you have transit of 6,000. Next quarter again assuming that you will be able to produce 50,000 tons, is it not possible to push your volume to 56,000 tons, why it is not becoming...?
- Kunal D. Shah:** It is possible, but what we are trying to say is that as an estimate it should be give or take a few thousand tons, we not trying to pinpoint to the last decimal on what we will do next quarter, we will do in that vicinity.
- Madan Gopal:** Initially, we were looking at a number of close to 2 lakh tons and on top of it 30,000 tons for next year, 2,30,000 tons, now from way it is moving on, it looks like we will be at best be doing something like 2,15,000 tons by end of FY16, can we read it kind of expectations?
- Kunal D. Shah:** Not really, we are just seeing that a few orders are taking a little longer to close, nothing in the environment has changed for us, I mean, the point is that here is an opportunity for us to take on a majority share as far the conventional market is there, convert them into high chromium,

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now all of that stories will play out over the next three to four years, this large CAPEX that we are doing, the new capacity that we are adding. I think looking at it, for us internally it is a five-year strategy that we have put in place. Really looking at it from one quarter, and looking at the 10,000 tons is something that is impossible for us to look at, because these are customers we are dealing with are large customers, as an Indian company to deal with end consumers in 90 countries in an environment we are dealing with, it is very easy for a quarter for a requirement which will spill over to the next quarter or the quarter thereafter, which is why we are giving indicative guidance and here is where our broad direction is.

Madan Gopal: But you still think if things go in your direction, you can still make somewhere close to 2,30,000 tons possible or that is completely going to be a stiff target?

Kunal D. Shah: I can tell you three years, I do not think it is difficult, it is easy for us to just to pinpoint to a number like that.

Madan Gopal: Three years what do you think, what sort of Mining growth we should be looking at?

Kunal D. Shah: Because we are doing all sorts of things, the conversion can be very different, but how do we have handle on the 50 things that we are doing, how many of those will exactly translate in the next 12 months, right, a lot of trials which are put in place will get results, for example, by May or June, hopefully getting an order in September or October, translating into an invoice next February or March. Now the volume shifts by three months, to that extent we are just saying that here is a five-year story, here is an opportunity for an Indian company to become a global leader in its space, clearly showing a little bit of margin that demonstrates that there are not many people that can do what we are doing, and that story will play out over that period. We are not just comfortable sharing a figure to the last decimal point, all we can share is the broad direction that we are going, and 20,000 to 25,000 tons is something that we expect to keep doing over the next few years and maybe more depending on how some of the strategies that we have laid pan out.

Moderator: Thank you. The next question is from the line of Ravi Naredi from Arihant Capital Market. Please go ahead.

Ravi Naredi: In December quarter, material cost down by 11.39% and other expenses rise by 7%. Any reason for same?

Kunal D. Shah: Have you adjusted the increase in stock? I do not think it is 11%. This is dividing it by sales, but there is an increase in stock, my friend.

Ravi Naredi: Other expenses rise by 7%?

- Kunal D. Shah:** Here the major difference was our power trading benefits we had in the second quarter did not translate that, so to that extent our power cost is higher this quarter. The index rate was much higher in the third quarter, so we virtually did very little power trading, that saves us a few crores every month. So all of that was not there in the third quarter and now we will see some of that in this fourth quarter.
- Ravi Naredi:** We are having Rs.800 crores cash. Can you give any plan for this because CAPEX is too low?
- Kunal D. Shah:** Our total CAPEX plan that we laid out, we will be doing Rs.200 crores this year, another Rs.300 crores next year, but as you know we are hoping that a large part of the market will convert into this product, and as you will appreciate we have got a longer working capital cycle, every rupee of sale that we do, 0.4 of that gets engaged in working capital right from raw material because we cannot hedge, we need to physically buy, the process time, which is WIP, the long transit time, because we are selling across the world, and there are a credit period of 30 to 60 days, sometimes 90 days. As we grow, we will have an acute requirement of working capital as well, but we are also generating cash. So notwithstanding all that I said, the board has been doing very active discussions on the utilization and the plan for the cash. We will be happy to share some of the thoughts that the board has left with us and there will be some more concluding remarks on that in the next quarter's board meeting. So we will share some more ideas on that hopefully in the next conference call.
- Ravi Naredi:** Because you are a very blue chip company and so many blue chip companies are giving interim dividend. So we were hoping that you are supposed to give interim dividend this quarter also?
- Kunal D. Shah:** I am sorry to disappoint on that account, but that is discretion that the board has, and unfortunately that discussion has been parked for the next quarter.
- Ravi Naredi:** You have said in last concall we will have CAPEX preponed by one quarter. So it is going on, on that rate?
- Kunal D. Shah:** CAPEX I just gave you the guidelines, we are adding 15,000 tons Brownfield by April, and then the balance will come up in phases, starting some time in second quarter of next year, in different phases you will see capacities coming up in alignment, that will be far ahead than the demand. So in that case we are just making sure that there is enough capacity for all the work that we are doing.
- Moderator:** Thank you. The next question is from the line of Ashutosh Tiwari from Equirus. Please go ahead.

- Ashutosh Tiwari:** Sir, you mentioned that the raw material cost has come down and that benefited your gross margin but essentially over next few quarters that it should be passed on to consumers. So you mean to say that realizations per Kg would go down going ahead in the coming quarters?
- Kunal D. Shah:** May go down a bit, yes, that depends on how the raw material situation evolves.
- Ashutosh Tiwari:** So what is your guidance on that essentially going ahead for next year?
- Kunal D. Shah:** If you can help me on guidance on the view on scrap, how will it reduce, I probably can help you there.
- Ashutosh Tiwari:** With our current prices basically, what you are buying right now.
- Kunal D. Shah:** I cannot hazard a guess on where raw material prices will move, I am sorry. As on date, it is difficult to say, because we are doing a lot of product mix, alloy changes as well. So I do not think very different from the current levels, but we will share probably next quarter we will give a little more guidance on that for the next year.
- Ashutosh Tiwari:** Your hedge rate was Rs.63, right, in the current quarter?
- Kunal D. Shah:** Correct.
- Ashutosh Tiwari:** You basically I think booked **(Inaudible) 29.25** of 62 in this quarter?
- Kunal D. Shah:** Correct, there is a gain of about Rs.17 crores on that account, yes.
- Ashutosh Tiwari:** On the volume front, when you started the year the guidance was around 210,000 tons now, probably we will close around 190,000 tons. So what is the main reason behind this lag in terms of performance and has the market been tough or you are finding some challenges over there?
- Sanjay S. Majmudar:** No, I will just give you a little different perspective, you must understand we have been talking to all the analysts friends and investors that when we are developing a mine, it is a process which takes minimum maybe 6 months to 15 months for us to arrive at a correct solution which is workable for that mine. First, "Is there a big market which we are looking at?" Yes. Even at the current product mix that is the secondary and tertiary segment we are talking of at least million tons of addressable market vis-à-vis current supply of maybe 100,000 tons by us and another 200,000 tons by the competitor in Hi-Chrome space, correct. So there is a huge headroom available for us for conversion which we are working on very aggressively. The only problem is that till you arrive at the correct solution, it will not translate into a permanent regular supply kind of a situation. Now this factor is not within our control, it may take a little

longer, at times it can happen much faster, we are trying our best, and based on certain estimates we made and estimate that about 200,000 to 210,000 tons, we should be able to push. Now as it appears some of these is not happening this year, it definitely will happen next year, it is only that process which is taking a little more time in fructification into an actual order. Now, therefore the answer to your question, “Are we impacted by the downturn in the commodity prices?” No. “Do you see any problem in medium to long term prospects or the market scenario, or the potential, or the opportunities” No. It is just a matter of little more time from order state, this is not a simple open and close kind of a situation, it is a customization and development of a solution for a particular customer, which would mean a different mine location warrants a different solution, it takes a little more time, many times it can happen faster. So, exact predictability is not possible. What I can clearly say, there is absolutely no change in the fundamental story, there is absolutely no change in any of the parameters based on which we are doing the CAPEX, we are very hopeful and very aggressive that whatever additional capacities we are creating, we have enough demand for that, maybe one or two quarters plus/minus does not matter, that is not our business model, unfortunately, we are constrained to track on a quarterly basis because we are reporting on a quarterly basis, but I believe that from a medium to long-term perspective prospects, we are very bullish, we continue to remain bullish, we have demonstrated that we are able to give much better margins and we believe that we should be able to do our business the way we are envisaging without much of a problem.

Ashutosh Tiwari: A year back or so there was some pain which happened with the LATAM customers and in Africa, is there a similar kind of pain you are seeing in some other commodity right now this is almost similar across....

Sanjay S. Majmudar: No pain at all. We are today operating in more than 100 countries, sitting in India, some countries, somewhere, some problems are bound to come, and otherwise everybody would find things so easy. We are not worried, there is no such pain or no such problem which we believe is not surmountable.

Moderator: Thank you. The next question is from the line of Tanuj Makhija from Ambit Capital. Please go ahead.

Tanuj Makhija: If I am not mistaken, your earlier EBITDA margin guidance used to be 22-24%. So if you can throw some light why have you reduced your EBITDA margin guidance to 20-22%?

Sanjay S. Majmudar: Hold on, it was a casual statement that we are making when we were explaining that why our 36% EBITDA cannot be sustained on a continuous basis, please understand that we have booked our foreign currency in advance and we are getting a benefit of 5% or so thereabout because of getting good rate vis-à-vis current rate. Now that situation cannot be perennial, that

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is point #1. Point #2, we have got a very good raw material costing this quarter, which will be passed on. We are very clear that our 22% and thereabout guidance that we had given earlier it remains, there is no dilution, no change in the guidance, we can do better, we can throw more surprises; however if you knock off all those effects, and if you consider the current situation under which many things are under development, I think we prefer to remain conservative on that 22% to 24% range and we maintain that. I am not saying that 24% will happen, we are saying 22% and thereabout, but 20 to 22% was more of a casual remark.

Kunal D. Shah: And I will just clarify; it is not a guidance on margins, we are saying that our business, that was what we explained and I will repeat, that our business has a lot of uncertainty that we deal with, our business will deliver 20% to 22%, it could be more in many cases, it could be less, in fact not sharing our guidance, I am clarifying, not sharing the guidance, we are just saying that we keep aspiring, and work towards doing more margins, but as our product is an industrial product the industry that we belong, 20% to 22% is a safe margin that we believe our business can deliver.

Tanuj Makhija: One of the largest players in the industry Magotteaux they mentioned in the presentation that they are seeing some sort of pressure in volumes in Australia and Indonesia, whereas North and South America continue to do well. Are you also observing a similar trend?

Kunal D. Shah: Not really, no.

Tanuj Makhija: You mentioned that you would increase your capacity in a phased wise manner. Can you give us some outlook as to how do you plan to ramp up the capacity?

Kunal D. Shah: We will share as the project commissioning dates start getting closer, but between second quarter of this year and by December 16th, all should get commissioned.

Tanuj Makhija: So by FY17, we can assume that you would be at 440,000 tons capacity?

Sanjay S. Majmudar: Correct, at least 440,000 tons, yes.

Tanuj Makhija: And you plan to add about 25,000 tons volumes annually for the next three years, that could take to about 300,000 tons approximately or slightly less than that by FY17, so is it not there an aggressive capacity expansion that could hurt your operating?

Sanjay S. Majmudar: When I am talking of 20,000 or 25,000 tons annual, it is a baseline number which we believe given the current product mix and the current market that we are operating in. As we have been repeating, we are enhancing the product mix by doing a lot of working on a new range of products for primary and the other segments, secondly, we are working on new markets, we know that market is huge, we know that if not today, tomorrow these markets will culminate

into actual demand, and that is why we have to be ready with the capacity, today, when I am talking about 20,000 to 25,000 tons number, it is today, it is very much possible that after 6 months that number can definitely change as new developments fructify into actual business. The statement I am making, we are a conservative company, and we believe that this much capacity is the bare minimum we will need in order to emerge as #1 player and to really seriously cater to service a part of the huge market that is available. Now, “Will it happen in three years or four years or two years?” Today I cannot say. All I can say is, at least 25,000 tons volume growth per year looks like very doable. That does not mean I am giving you a final figure. It will change, it can change, as we move ahead, we are in shifting sands in terms of lot of things happening which are not under our control, they are all on the positive side. So I then leave it to your judgment to do your own calculations.

Tanuj Makhija: f I look at your realizations, they are marginally increased on a QoQ basis. So what is the quantum of raw material price through that you pass on to your customers?

Sanjay S. Majmudar: It is like this, today it is about 110,000 tons as Kunal explained it could be 108,000 tons it could be even 112,000 tons after pass-through. So it is also a function of product mix. So our product mix is not standard, we have several other value-added components that also go in. So it is a mix. So I think you can still take about 110,000 tons but as I explained, may be next quarter we will give you a little better guidance, but I do not think there is anything drastic going away from 110,000 tons.

Tanuj Makhija: I wanted to understand more about your pricing formula?

Sanjay S. Majmudar: We do price as per formula.

Moderator: Thank you. The next question is from the line of Bhavesh Premji from Whitestone Financial, please go ahead.

Bhavesh Premji: Recently, we have entered into agreement with M/s. Steelcast, Bhavnagar for supply of Castings and all. I just want to understand the rationale behind doing this agreement when we are setting up our own capacities as we are growing ahead?

Kunal D. Shah: That arrangement is for a certain set of Castings for which they are manufacturing equipment and a facility available. So what we are setting up is exclusive to that.

Bhavesh Premji: Ultimately, we will outsource from them...?

Kunal D. Shah: Correct, for that we are not setting up our own facility, we will be having it outsourced from their existing available facility.

- Bhavesh Premji:** So till that time we have a policy that we will be manufacturing from our own premises and then...?
- Kunal D. Shah:** Different products, this is a new line that we are developing for Castings, this is Castings right, this is not Grinding Media and the other products that we do, so for that...
- Bhavesh Premji:** I just wanted to understand the rationale. So these are all different products, right?
- Kunal D. Shah:** This is a specific facility that they have, which have gone up to use for a set of Castings that they can make.
- Bhavesh Premji:** When you provide solutions to your mining plants, probably this new line will be developed over a period of time?
- Kunal D. Shah:** Correct, there is an opportunity to do those parts. So if at all that comes our way, then that is the facility that is available.
- Bhavesh Premji:** So as these brands expand over a period of time, this agreement will continue and you will keep on outsourcing from them and adding some value to them and then selling to your mining plans?
- Kunal D. Shah:** Exactly, correct.
- Moderator:** Thank you. The next question is from the line of Chinmay Gandre from Dalal & Broacha. Please go ahead.
- Chinmay Gandre:** Just wanted to understand the impact of depreciating euro and also Russian ruble, because we will be having exposure to that side of the globe. So in terms of your competitiveness and also say basically pricing front, how has that impacted because the currency has...?
- Kunal D. Shah:** Euro contracts are less than 10% of our total exposure outside India. So the majority of our contracts are in US dollars, that is point #1, and we have no exposure to ruble per se, we are doing our contracts in that part of the world are in US dollars.
- Chinmay Gandre:** What about South America because there also the currency has moved?
- Sanjay S. Majmudar:** South America is in US dollars.
- Moderator:** Thank you. The next question is from the line of Amal Singhania from Amsec. Please go ahead.

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- Amal Singhania:** Just a couple of questions: One is on the employee cost. If I say as a percentage to sales it has come down from Q3 last year despite we had strike. So what was that reason? And secondly, why the strike was there, what was the reason and how it got resolved, if you can throw some light on that?
- Kunal D. Shah:** First point is, the strike was at our subsidiary company which is Welcast Steels in Bangalore, the foundry was shut, but there is no reduction in the strike and the cost has got very little correlation because the cost is not material per se, that was there for a month. This is just timing difference, there is no particular reason for a quarter-to-quarter comparison there. Bonus season things like that are linked on a calendar cycle, so that is all.
- Amal Singhania:** The strike resolution is not on...?
- Kunal D. Shah:** That is not linked to this.
- Amal Singhania:** We spoke a lot about mining. What is your outlook on the Cement side because I believe 50% of our Cement volume comes from India and India we are seeing growth coming in the Cement side. So are we seeing Cement...?
- Kunal D. Shah:** India is less than 30% of our total Cement business, and it is still flat as we see it, we are not seeing any active CAPEX coming up or utilization having changed dramatically. So even if it changes 10%, the materiality to us now is not so much for the Indian Cement business for us.
- Amal Singhania:** Kunal, one thought process I wanted your view on that, like we have reduced a bit on the volume front guidance, realization we can pass through which might come down in the future and also the margins which we are guiding currently is around 20-22% which is very lower than what we are seeing now and also we are seeing that CAPEX is getting slightly delayed by a quarter or so which we were earlier anticipating by April 2016...?
- Kunal D. Shah:** Not really, I will repeat again that I and Sanjay have said three to four times already. We are saying that we are not an FMCG product, where we are selling toothpaste quarter-after-quarter, we are here to take on the significant global position in our business which is Hi-Chrome wear parts, #1. We are doing that on back of sustainable competitive advantages that AIA has. Only two companies that have majority of the market share in our business worldwide. So that means we have competencies that have taken us thus far. There are solutions that we have which we believe will allow us to take more market share in the Mining Consumable space. Now, we are doing business over 90 countries. We are doing with a large variety of Ores in different countries with a very different local conditions. My sales guys are not just going out and selling one more toothpaste or one more commodity which is commonly available. Here the solution that we are pitching, there is a very strong engagement that one requires. So it is very easy for some part of that volume to shift from one quarter to the next. What we are

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saying is that it is a 2 million ton market, of which us and Magotteaux have less than 400,000 tons of market. There is significant headroom available to us. As we go and convert, the conversion process is not just be setting up a facility getting a sales guy and going out to sell. It requires us to test the wall, to try out a solution, to convince them or letting us do a trial within his existing operation to manufacture a right time after studying his condition, doing supplying the product, ensuring that he uses my material, ensuring that we collect the right test results, doing one more round of trials to say do improvements on the alloy that we supply, then engaging with the commercial side, there are issues around supply chain, we are based in India exporting everywhere, they need comfort on local stock, there is pricing in the certain currency that he may need, there are risk that we may need to take, that he may need to take. So there is a certain commercial period. So considering all of that we cannot be answering on a finite basis from one quarter to another quarter.

Amal Singhania:

As far as the long-term story is concerned, there is no doubt about it, that yes, it is a very large market and all. What I am trying to understand is just compared to last quarter and now in terms of our outlook in terms of pace is picking up the business?

Kunal D. Shah:

We have not changed at all, that is what I am trying to tell you, this is what we said last quarter and that is all that we are saying now. A few thousand tons are converted into stock, which is in transit of stocking for the customer and some orders are shifted to the next quarter, that is all we are seeing, nothing has changed, we have got 20, 30 calls, yesterday and today or over last 2 months asking us on how is the commodity downturn affecting us, and we are saying we are welcoming it because that increases the value of the conversation we are having with the customer because he is interested in us or any other vendors trying to help him save cost. So fundamentally nothing has changed for us except maybe a few thousand tons have shifted from this year to possibly the next year. If the raw material price goes down by Rs.5 a kilo, that is because raw material price has gone down. Now the commentary changed around that. We are not saying margins are going to go down because of that. All we are saying is that the raw materials reduced to an extent, we are seeing a sweet spot, over next 2-3 quarters fairly margin will have to be pass-through. Just to correct, where do you feel has our commentary changed over the last quarter and this quarter.

Amal Singhania:

The last question is more towards when we know that overall market is there, how the competition is reacting on that might be Magotteaux because they are also seeing the similar opportunity. Is there any change in their stance and how they are fairing in...?

Kunal D. Shah:

200,000 tons that we will do this year. Over last 10 years has come from someone, right. So our placement or our landscape does not change if we do more business, if we do 10,000, we do 10,000 tons because our sustainable competitive advantage that we have and the value we bring is unique to us. The forging guy has a limited bandwidth in terms of what he can do with

the material. There is no possibility for them to change the metallurgy or change into a different material, while we can adopt our ore or alloy to suit to a particular mine site.

- Amal Singhania:** Not the forging habit, how the Magotteaux is reacting to the overall demand opportunity?
- Kunal D. Shah:** We are both competing with that piece of the market, but the market is large. So we do compete at times, we do our own niches that we keep supplying. So we are looking at a much larger picture than what Magotteaux is really. Magotteaux did 270,000 280,000 tons last year or 300, 400 tons they did including their affiliates, but the overall market is looking at 2 million tons, that is where a large part of our business is going to come from. And even on realization standpoint, we do not know where that will stabilize, that we will share that. But it is not something that raw material is not falling, scrap rate is already at a low point, it is not that, it can fall 50%, it is unlikely that is going to happen. The scrap rate has not shot up the way all these other metal prices have shot up. So, we are seeing some gradual easing which is good for the industry, it is good for us that the raw material price is going down.
- Amal Singhania:** On CAPEX side, the first that will be coming in, we will be seeing the Grinding capacity coming first or the mill internals coming first on the initial phase?
- Kunal Shah** Grinding Media capacity.
- Amal Singhania:** So the mill internal will come on the later part?
- Kunal Shah** All of it is mill internal really, no...
- Amal Singhania:** The other products of those will come later on?
- Kunal Shah** Correct, we already have enough capacity to ramp up the other mill internal part, major Casting.
- Moderator** Thank you. The next question is from the line of Anupam Gupta from IIFL. Please go ahead.
- Anupam Gupta:** Basically, most of the transaction currency is US dollar, but a lot of other currencies have depreciated versus the USD but the INR has largely remained stable. So do you see a risk of pressure on US dollar pricing for you if the clients based in those countries ask for such thing because of the depreciation?
- Kunal D. Shah** That does happen, you are right, yes.
- Anupam Gupta:** So there could be some risk on realization because of that?

- Kunal D. Shah** Continuous risks that we keep talking about every quarter that currency is something that we have to very actively manage, absolutely true.
- Moderator** Thank you. The next question is from the line of Anuj Sehgal from Manas Capital. Please go ahead.
- Anuj Sehgal:** I just wanted to clarify first of all, you said the mining volume for nine months was 81,000 and then the last year corresponding period the number was 80,000?
- Sanjay S. Majmudar:** It is only 9 months current year.
- Anuj Sehgal:** The other question, there has been a lot of discussion on margins. So maybe if I can ask you in a different way, 22-24% EBITDA margin number that you share which is a number that is sustainable, under what assumption do you arrive at that number because of course there are a lot of moving parts including FX, product mix, raw material prices, etc., but what is that number based on if you can help us understand that then we can have a better understanding of that margin structure? And then the second question is over the last four years your capacity utilization has been around 70-85%, but given the capacity increases over the next 2-3 years, is it not fair to say that the capacity utilization level, no matter what kind of volumes you do, will be sort of between say 60-75%. So how would that impact your margins notwithstanding all the FX and other variables?
- Sanjay S. Majmudar** First is on the 22% to 24% wala issue, how do I arrive it and how am I confident that this will be sustained? See, simply do the math based on the firm long-term sustainable repeat business that we have on hand and the pricing trend that we have seen over a period of time. If you remember, maybe one year before, my margins were dropped down to 17%. At that time, there was a big hue and cry people were worried, people were saying that what am I going to do. There was clear strategy. The strategy was to enter aggressively the new market which again Magotteaux against any forge player give a very good price and go in and step in and enter that market. We had made statements that over a period of time this we will be able to increase our prices and we have better margins, we have proved that. Today, we have been delivering better margins over last 2, 3 quarters than this 22 number, people are asking me questions that on what basis you are saying still 22. So, we are doing very simple. We assume flat, standard same level of exchange rate. So, we do not factor one rupee benefit of currencies. We factor that all the export benefits that I am getting today may or may not sustain over a long period of time. So, we take a very-very base rate on that, and we take all the orders and the current product mix that which we have a firm business on hand and work out the margin. This is a very simple exercise we do as part of our MIS department and that is how we are saying that at today's product mix and at today's firm business on hand, this is the margin we can deliver under even extremely tough conditions. So, that is talk of that margin today. As we are on

shifting sand, there are many new things that are happening as we go ahead or maybe after 6 months, we will talk of a different level of margins when we change our orbit. Today, we have not changed our orbit. So, till that happens we will talk of the same margin.

Kunal D. Shah

I think I will add my two sense on it is that given that it is difficult to hazard a guess on what sort of things can work against us, but we are saying is that AIA is in business because it adds value to the customer, it is not offering a product that is commoditized that everybody can supply. To that extent, we believe it is a fair compensation for the work that we do. This is something that we will define it, something that seeing that all things go against us, this is something that we believe is doable and sustainable. But considering the growth plans that we have in front of us, considering uncertain nature in terms of the new uncharted territory that are entering into the mining space, I do not think it is fair for us look at the past and then project and say, here what we can do. So, this is where we are saying that here what we believe is a cost plus a fair base for what we are doing. Of course, there will be a lot of things that we do, there are cost efficiencies that can play up, there are leverages that we have in place. But, it is difficult to hazard a guess and say it will be this figure. We are just saying what is something that the business will be able to defend considering some of these factors or assumptions even going against us.

Anuj Sehgal:

What about the capacity expansion and the utilization question, would it not be fair to say that your utilization level should be much lower what they were in the last four years and therefore that should have a headwind on the margins that you assume?

Kunal D. Shah

First of all capacity is coming up in series, correct. All of our new capacity expansion is highly automated. So, we are not setting up plans then we will have to take on significant manpowers, they will be sitting idle and adding up to cost if we are doing low utilization. There will be a modular approach to the way we are growing, setting up new capacity. And the other part being that all capacity that we have added up now has been in phases on Brownfield basis. So, we believe that was what was required then, when we are making inroads consciously into the mining space. We believe now is the opportunity for us to make sure that the opportunity is there, we are not short on capacity and that is the basis that there is fair optimism that the market is there as far as the product is concerned, and we want to make sure that we are ready with the capacity to take that off. So, it will be lower for a period for a few years till we take on full output from the facilities but that is at a different scale that we are looking at. In the past, we have taken a 30 years or 35 years to reach from 0 to 175. We would imagine the next 175 to be at a much shorter period, and to that extent this business requires us to set up capacity before we go out and take the order.

Sanjay S. Majmudar

Another point we can just very quickly add is that extremely modern and highly automated plants. Now you cannot do small capacities in bits and pieces in a modular way. So, we have to

take at economical level of output and then plan your capacity. Secondly, as I repeated earlier also, we see a huge opportunity and therefore, if we do this capacity, we are hopeful that within a reasonable period, we should reach 70%. And now if I make a statement on that it is counted as guidance. So, we do not want to make any statement on that.

- Moderator** Thank you. The next question is from the line of Bhoomika Nair of IDFC. Please go ahead.
- Bhoomika Nair:** My first question is that you mentioned that raw material prices have gone down. How much would they have gone down by over the last three to six months?
- Sanjay S. Majmudar** At least 10%.
- Bhoomika Nair:** This may or may not be passed on to customers depending on various customer agreements?
- Sanjay S. Majmudar** Could be.
- Bhoomika Nair:** The other thing is there is DEPB income of about Rs.21 crores in the current quarter. Now, I understand that FOREX gain of Rs.18 crores may or may not recur depending on how currencies move, but will the DEPB continue to come through every year as exports are fairly high for us?
- Sanjay S. Majmudar** I think so definitely.
- Bhoomika Nair:** Sir, the other thing is in terms of volumes which we obviously discussed fairly quite a bit on the call. Now, we are guiding towards or unitely saying that a minimum increase in volumes would be about 20-25,000 on an annualized basis, but we are obviously adding capacity which is far ahead. So, are we just saying that that is a minimum that we will do and depending on how things really pan out it could be higher but timing is uncertain, it could take two years, it could take three years, is my understanding correct on that?
- Sanjay S. Majmudar** You are right.
- Bhoomika Nair:** The third thing is in terms of we have always said that a better product mix has sometimes led to better margins as we have again seen in this current quarter. Could we get some indication if not in terms of volumes or in terms of percentage of revenues, how much has been the proportion of higher margin products versus traditional fold, maybe just the Grinding Balls or something like that?
- Sanjay S. Majmudar** I am afraid this we will not be able to tell you.

Moderator	Thank you. The next question is from the line of Sonali Salgoankar from Axis Capital. Please go ahead.
Sonali Salgoankar:	With respect to the working capital cycle barring the one-off higher inventory this quarter, would it be fair to assume that the working capital is expected to sustain at FY14 levels of around 100 days?
Sanjay S. Majmudar	Yeah, I think so, net working capital could rotate around 3x a year at least.
Sonali Salgoankar:	Just a number, what is the working capital in terms of days for this quarter?
Sanjay S. Majmudar	I told you know, it is roughly about 120 days.
Moderator	Thank you. The next question is from the line of Saurabh Shah from AUM Advisors. Please go ahead.
Saurabh Shah:	Just wanted to check with you, what is the EBITDA margins from Cement business versus the Mining business?
Sanjay S. Majmudar	No, we do not share segmental EBITDAs, I am sorry.
Moderator	Thank you. The next question is from the line of Tanuj Makhija from Ambit Capital. Please go ahead.
Tanuj Makhija:	What percentage of your contracts are fixed price contracts?
Sanjay S. Majmudar	I do not think we have any fixed price contract generally. If there is an order and there is a price cut remain fixed for that particular order duration, typically, it can go up to 2 to 3-months. So, every 3 months for a fresh order under a long-term contract, the pricing could be different.
Tanuj Makhija:	Your tax rate was about 26.3%. Any reason for the slow tax rate in this quarter?
Kunal D. Shah	It was adjustment for the first 9-months and that is the rate over 9 months if you look at it, it is almost 20%, 29%.
Tanuj Makhija:	Do you get any tax incentive at any one of your facility?
Kunal D. Shah	No tax incentive.

Moderator Thank you. The next question is from the line of Vinay Rokadia from Whitestone Financial Advisors. Please go ahead.

Vinay Rokadia: This is regarding the agreement with the Steelcast. Have they been operationalized?

Kunal D. Shah It is in the process of being operationalized.

Vinay Rokadia: In the next financial year it will be operationalized?

Kunal D. Shah It will not be material, so, I do not think we will be able to share more than that.

Moderator Thank you. The next question is from the line of Shraddha Sheth from Edelweiss. Please go ahead.

Shraddha Sheth: Just wanted to clarify on the CAPEX timeline. We were originally contemplating April 15 for the first phase of Greenfield, that means that it is getting delayed by two quarters, right, and even the second phase we were originally talking...?

Kunal D. Shah It is shifting by 3 to 4 months actually. It is more than what we are budgeting for next year in any case.

Shraddha Sheth: Again on the raw material cost, you said the scrap prices are kind of stable, there is no major fluctuation in the same. Just wanted to clarify on the raw material cost?

Kunal D. Shah What I said is the raw material prices have reduced but the Ferro Chrome and Scrap which are our major raw materials had not shot up, are not as volatile as some of these other raw materials. From the levels where they are, it is unlikely that they will fall 50% from here. There will be further little bit more correction, but as we have seen in scrap which is a very local commodity, sometimes the prices go down and then they shoot right back up. Traders create or the intermediaries create artificial demand, etc. The scrap is local to an extent unlike copper which is a global. So, it is difficult to hazard where it will be, but we do not expect significant volatility from these levels now.

Thank you so much everybody for joining. Always Sanjay and I will remain available for any follow-up queries that you may have. Hopefully, we will have a better view on the next year and year after on our call for the March quarter.

Moderator: Thank you. On behalf of AIA Engineering that concludes this conference call. Thank you for joining us and you may now disconnect your lines.