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Good evening, ladies and gentlemen. Thank you for standing by. This is Amand, the moderator for your conference 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. (Operator Instructions)

I now hand the conference over to AI Engineering management team. Thank you, and over to you.

Kunal D. Shah, AIA Engineering Limited - Executive Director of Corporate Affairs [2]

Yes. Thanks, Amand. A very warm welcome to everyone. Good evening. We have Sanjay bhai also here with me, this is Kunal, on the call. It's been a very, very turbid results season for all of you. We hope to quickly wrap up our presentation for the quarter.

Before I get into numbers, there are 2 announcements that we've made -- 3 announcements, rather, over last 1 week. We are very happy to update everyone about the ongoing legal matter, which was in the International Chamber of Commerce in a matter of arbitration suit that was filed by Magotteaux against the company for alleged breach of the settlement agreement and infringement of one of their patents. The ICC has dismissed that petition on grounds of jurisdiction. At that point -- at this point, the other side, so the course potential, the course would be to go to the British courts for appeal. So pending that, that's an outcome that we wanted to share with everyone.

The other is that we've commissioned 50,000 tonnes in capacity this month. So now our rated capacity stands at 390,000 tonnes, up from 340,000 tonnes. And the third and the most important announcement is that the mill lining, the SAG mill lining initiative that we have started last year has -- is on a great track. The first trial that we did with a very large mine has seen good results. We passed that through minimum operating parameters, conditions. With the redesign, the strong solution is redesigned from what conventional mill lining designs were. This was in collaboration with the EEMS of U.S.A. So we've presented a solution. We manufactured those linings with the new design, supplied them, installed them. And we got the mill in stable operating condition. And that milestone now increases our confidence on their coal opportunity that the SAG mill lining presents. As discussed before, that's about a 30,000 tonne annual consumption pocket. And we are setting up a plant of 50,000 tonnes at our facility in GIDC Kerala. And we hope to commission that by December 2020. Hopefully, before than that, but latest by December 2020, we should have the -- we should have that facility up and about.

So these are the 3 developments. This has been an eventful period for us with the arbitration matter in London, with the commissioning of a 50,000 tonne plant and the successful trial of our grinding media of our mill lining solution.

With that said, we'll move on to highlights for the quarter and some other key updates for -- from the quarter standpoint and the year coming ahead. We've done 63,600 tonnes of sales with an EBITDA of INR 207 crores and a profit after tax of INR 140 crores. Our tax for the quarter is at INR 42.65 crores, which is about 24% as a percent of tax. Our full year guidance for tax is about 28%, 28% to 29%, and this will normalize for the rest of the year. This is linked to treasury and income in our subsidiaries. That debt's a portion over the full year. So all these figures, while committees are flat from the fourth quarter last year to about 64,000 tonnes, our profit after tax has improved from INR 105 crores to INR 140 crores. On a sequential basis, our Q4 tonnage was at 80,000 tonnes, while Q1 tonnage is at 63,600 and profit after tax is INR 155 crores or, say, INR 140 crores for the quarter.

From a tonnage standpoint, as mentioned before, Q4 had higher sales, which was pent up from Q2, Q3 invoicing, this delayed offtake by the customers for products awaiting the stacks from the warehouses where they were consigned to. And so there's some effect of that in the fourth quarter last year. One important announcement is from one of our major iron ore mine client in Brazil. They had an event a few months back, which all of us know about, since it pertains to -- the information pertains to them, we are not at liberty to speak and discuss more about the situation. But it looks like that, that event has now caused certain disruptions that they're in, which means we may see a much lower offtake for the rest of the year. As it looks now, situation can change in a quarter or 2. But for the rest of the year, you may see lower tonnages on account of the same.

So while we had guided for -- we did 265,000 tonnes in FY '18, '19, and the guidance of this year was approximately 290,000, 300,000 tonnes. That guidance remains reduced by approximately 15,000 tonnes on account of this additional GAAP deficit that we'll have to make good with. We are making -- we are working on the business plan to see how we can make good on that tonnage and still meet their guidance, but it's a material quantity. And so we will be sharing more update by September quarter on where that situation stands.

Moving on with few other highlights and important figures. From an other income standpoint, there's a gain on foreign exchange as the rupee moved towards the INR 70 mark. So there's a 13 -- there's almost a INR 14 crore foreign exchange gain that was compared to approximately INR 2 crores of loss in the fourth quarter but we saw improvements in the bottom line on that account. The rest of the numbers are in line with the top line. Export benefits at about INR 20 crores, and our treasury included -- income at about INR 25 crores.

Working capital. So we are happy to inform that raw material prices have corrected in this quarter. When I say this means from July onwards and then they are lower than what they have been in the first quarter and the fourth quarter of last year. On account of that, we've added some raw material toward the end of June with falling prices. And so raw material base has gone up to about 33 days. It is up from 21 days in March of last year, March of FY '19.

So the rest of it, data was reduced in line with sales in the fourth quarter. So they stand at 84 number of days, but actually, the model is about [6 58]. Our work in progress and finished goods stand at 78; and raw materials, 33. Broadly, we are still at that 120, 130 mark as far as working capital is concerned, comparing any strong initiative internally to not only keep at that but reduce that. We should hope to be around 110, 120 mark by September, December time frame.

We've shared information on our tonnages. The mining stands at 40 -- 40,600 for the first quarter. That compares to approximately that first volume in first quarter last year. It was 50,000 in the fourth quarter last year. From a CapEx standpoint, we've done INR 35 crores this year. Between the mill lining project, the second 50,000 -- the first 50,000 tonnes that's expected to come in December 2020 will have some CapEx from that plant, some CapEx on the mill lining project. And the maintenance CapEx, we expect about INR 250 crores of CapEx for the full year. We've done INR 35 crores in the first quarter.

Lastly, from an order book standpoint, we stand at about INR 600 crores. From a hedging standpoint, we're covered up to September and using progressively from that point on going up to 6 months from now. I think these are the broad updates.

Net cash is at about INR 1,300 crores and got INR 110 crores, INR 120 crores of debt. So INR 1,420 crores of gross cash and about INR 1,310 of net cash. I think that comes up highlights on key figures. I'll open the conversation to Sanjay bhai to just fill in his view on the business. And we'll move on to Q&A setup.

Sanjay Shaileshbhai Majmudar, AIA Engineering Limited - Independent Director [3]

Good afternoon. As Kunal has explained, 2 very important points. The success of the trial of EEMS is a very fundamentally important milestone. Apart from the direct opportunities in the form of liners, we expect a lot of traction to come overall with a particular customer, which will see a big impact as for the grinding media as well. So that's one very key development. And the -- we will start to find, to put it nicely, simply phenomenal. So I think that's a very, very important milestone from the point of view of the long-term conversion, which is the focus of the company, point number one.

Of course, he has talked about the ICC arbitrations. I am not going to repeat. But again, it's a very important landmark in terms of what we believe was very important significance of that particular case.

And third important point is that just to put the matter in a little better perspective, this particular Brazilian customer was about 15,000 tonnes annual sales. Last year, 15,000 to 18,000 tonnes. This quarter, there is nothing that has come from them. We are not sure. There is no indication that was going to happen. And since this is our long-term customer, we have to deal with them. But we are not sure whether at what point in time the sales can resume to (inaudible) normalize that. We are still talking of about a 285,000-odd instead of 300-odd thousand tonnes on an annual basis, which means that 30,000, 35,000 tonnes additional incremental volumes coming on an adjusted basis in the current year, which establishes that as the overall direction, structural strength and the fundamental underlying focus of the company, and the opportunity remains the same. So this is more of a one-off event, which should we just rate as it stands today without worrying too much about it. I think this is (inaudible) request ...

Kunal D. Shah, AIA Engineering Limited - Executive Director of Corporate Affairs [4]

And we may not be able to help with more information on the Brazil business. It relates to the customers. So these, we hope you can respect (inaudible) of the information that relates to that customer. Amand, you can open the floor for question and answers.

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Questions and Answers

Operator [1]

(Operator Instructions) The first question is from the line of Renjith Sivaram from ICICI Securities.

Renjith Sivaram, ICICI Securities Limited, Research Division - Assistant VP [2]

Sir, you have seen this mine -- this cut is largely in the mining segment, as we understand, given the nonmining volumes were lower this quarter. So what's the outlook of the nonmining segment?

Kunal D. Shah, AIA Engineering Limited - Executive Director of Corporate Affairs [3]

The outlook, nonmining, is an annual thing. So I don't think there is anything. Fourth quarter, there's a little more uptake for certain European destinations for some of the cement companies, but that just gets normalized over the whole year. So better to look at it from a whole year standpoint, yes?

Renjith Sivaram, ICICI Securities Limited, Research Division - Assistant VP [4]

Okay. And overall, what's the kind of -- because we are seeing there is an overall slowdown, both globally and also in the domestic market. So what are the signals that you are reading from your end? Are you worried about it or you don't see much of issues regarding the global...

Kunal D. Shah, AIA Engineering Limited - Executive Director of Corporate Affairs [5]

I think the way we look at it, you all have much broader data points to reflect on that. As long as our mines continue to produce, we are not seeing really mining the mine sites to reduce production. So that's one.

Second is that we are not looking at growth. When you don't look at the market growing per se the market contracts, as long as a lot is being produced, (inaudible) parts are still getting consumed, and that's the resilience of being in that industrial consumable space. Having said that, I think a lot of -- there's a lot of anxiety about what's going on with various trade issues between U.S., China and all of that. Very difficult to imagine or anticipate the outcomes of that. But as we speak, the group's okay. I mean you're not seeing any signals or cautionary notices for many from any of our customers. So we're okay as we speak. As things develop, we'll keep sharing and updating you on it.

Renjith Sivaram, ICICI Securities Limited, Research Division - Assistant VP [6]

Okay. And these raw material prices, you told have corrected from July onwards. So what's the trend you are seeing? And is that helping us to improve our margins?

Kunal D. Shah, AIA Engineering Limited - Executive Director of Corporate Affairs [7]

So as you know, raw material is a pass-through per se we are agnostic to it. But there's a lag effect, right? There will be contracts at pricing -- with the prices of a quarter before, et cetera. So over the next 2 quarters, we should see prices normalizing. The good thing is that prices have stabilized versus the volatility that was prevalent over a good 2-year period. Yes, we imagine that raw material price stability should be there for next sometime. That's our sense today, and that's what makes us comfortable about that. Otherwise, we'll have to keep passing through each time and that's not an easy conversation with the customer.

Renjith Sivaram, ICICI Securities Limited, Research Division - Assistant VP [8]

Okay. And sir, lastly, a bookkeeping one. The annual report, generally, you shared the value breakup of the different segments in terms of mining cement. So this time in the annual report, we haven't shared the value. So will it be possible to at least give that?

Kunal D. Shah, AIA Engineering Limited - Executive Director of Corporate Affairs [9]

I think the issue has been the risk with sharing mining and nonmining. I mean beyond that, I mean we would try to keep it at that level only, if it's okay. We're sharing the tonnages to give a sense on where business is growing, right? I guess only to demonstrate the growth of the mining, the penetration on the mining side, right? Otherwise, for us, all products are -- will in turn get replaced. So as a practice, we're not sharing that revenue hereon.

Operator [10]

The next question is from the line of Ashutosh Tiwari from Equirus.

Ashutosh Tiwari, Equirus Securities Private Limited, Research Division - Research Analyst [11]

Firstly, on this mining liner business, I think they have successfully completed one trial. But generally, at the current juncture, how many miles you are currently doing trials with for the same product? And also, like compared to grinding media consumption per mine, how would liners be different?

Kunal D. Shah, AIA Engineering Limited - Executive Director of Corporate Affairs [12]

I don't think there is a grinding media versus mining liner conversation, Ashutosh. It's still 50,000 tonnes over a 3-year period, 4-year period. We hope to go to 90% utilization, right? So we'll be adding 10,000, 15,000 tonnes of additional production or sale from that plant over 3, 4 years. So that's from a contribution standpoint where we're comparing it to net addition.

Second point is that we're doing -- we are engaging -- see the point is that our whole strategy is to move away as far as possible from doing a cost conversation with the client, right? Idea is to have a conversation where we're adding value to the customer, where we're helping them improve their existing data operated, right? There are also differentiated products that none of our grinding media or mill lining competitors have, right? This is a unique position where we have strengthened all these efforts in creating that solution. And that solution allows us to have a conversation about the full circuit. It is not going to be just about mill lining, right? It's going to be about how we can improve the particle size distribution in that mill. How can we have a better recovery on account of a better particle size distribution? So that conversation we'll be doing at many places, most places where there is an application. But on a graded basis, the plant is not going to be ready tomorrow, right? So we have (inaudible) cautiously in one trial, but still doesn't mean we are going full out on it, right? We'll be doing a few more trials, but this trial establishing the solution. This opens up the entry for this for us to grow this product line and also engage in a better -- in a more meaningful way with the client. It is not strategic as it is value accretive.

This would be at least 5 to 10 more clients, but that will not help you model anything out of that, right? The conversations take 6 to 8 months, 12 months to [solidify], and parallelly our plant will be up and about, right? So by the time our plant's ready, we should be able to go start off, hit the road running rather than struggle with it once the plant is ready.

Ashutosh Tiwari, Equirus Securities Private Limited, Research Division - Research Analyst [13]

And generally, what is the throughput visibility the customer gets out of this mill liners and projectors?

Kunal D. Shah, AIA Engineering Limited - Executive Director of Corporate Affairs [14]

10% to 20% improvement in throughput and equivalent reduction in power consumption. On a specific power -- yes, so most throughput. And if the same power is consumed, reduces your cost of power per unit, right? It is very significant.

Ashutosh Tiwari, Equirus Securities Private Limited, Research Division - Research Analyst [15]

Okay. And secondly, currently, how mill liners are doing?

Kunal D. Shah, AIA Engineering Limited - Executive Director of Corporate Affairs [16]

About 15,000 tonnes to the mining space.

Ashutosh Tiwari, Equirus Securities Private Limited, Research Division - Research Analyst [17]

Only mining. Okay. And sir, last year, our production was much higher than sales. During the first quarter, we have produced more. So will this go down going ahead, the gap within the production space?

Kunal D. Shah, AIA Engineering Limited - Executive Director of Corporate Affairs [18]

I see the thing is that as we grow, where we are adding net customers, there is a onetime increase in production because it converts into transit stock, right? If we're doing 20,000 tonnes, tomorrow if I do 30,000, for that 3-month, 4-month period, we're adding that onetime stock, right, and that becomes on a rotational basis.

So as we continue to grow, a part of that will become -- will continue on for the rest of the period. So if we are growing 20,000 tonnes this year, 10,000 tonnes will be met on a 3-month rotating cycle. It becomes next (inaudible).

Ashutosh Tiwari, Equirus Securities Private Limited, Research Division - Research Analyst [19]

Okay. Lastly, on Brazil, I noticed we are talking about a question on the specific -- I mean, the volume (inaudible) customer per se. We generally supplied on a per-mine basis, not on a customer basis. So whatever mines are supplying, all of them stopped taking supplies?

Kunal D. Shah, AIA Engineering Limited - Executive Director of Corporate Affairs [20]

I can't really -- please bear with us on not being able to -- I mean they were very, very clear about not -- that we should not be talking about their information on a public forum. So I'll be asked to constrained to expand on it beyond that.

The other tax, there are other considerations that come into place, what has happened over there. And so this means, I mean we will have to move on considering that this year, we may have lower uptake from that client. We hope that it's in their interest as much as asked for this situation to be addressed and corrected, right? So that will happen as soon as possible. We hope it's sometime this year. But as far as communication is concerned, we are making sure that this is informing that for the rest of the 9 months, even if it doesn't come along, what does it mean? That's what Sanjay was explaining.

Operator [21]

The next question is from the line of Bhalchandra Shinde from Anand Rathi.

Bhalchandra Shinde, Anand Rathi Financial Services Limited, Research Division - Research Analyst [22]

After this trial, as you mentioned, [block B] may have the certain customer additions. Are you factoring in our volume growth? Any customer additions in the mill liner or (inaudible) is not?

Kunal D. Shah, AIA Engineering Limited - Executive Director of Corporate Affairs [23]

This year, we'll not have any significant addition in FY '19, '20. We will have tonnage that will come in from that till next year, 2021, material tonnage.

Bhalchandra Shinde, Anand Rathi Financial Services Limited, Research Division - Research Analyst [24]

Okay. Okay. Material tonnage. Now what is the difference between styrofoam prices and (inaudible) prices?

Kunal D. Shah, AIA Engineering Limited - Executive Director of Corporate Affairs [25]

I don't -- I didn't understand the question.

Bhalchandra Shinde, Anand Rathi Financial Services Limited, Research Division - Research Analyst [26]

What is the difference between the styrofoam prices and (inaudible) for our grinding media and post grinding media? What will be the difference between the 2?

Kunal D. Shah, AIA Engineering Limited - Executive Director of Corporate Affairs [27]

Yes, the business has reduced than what it was 6 months back. I don't have the figure on the top of my head, but I can send that to you tomorrow.

Bhalchandra Shinde, Anand Rathi Financial Services Limited, Research Division - Research Analyst [28]

Sure, sure, sure. Sir, regarding our metric -- further volume additions, much like after addition of this 50,000 tonnes, do we expect to add more customers or too early on that line over -- in (inaudible) '21?

Kunal D. Shah, AIA Engineering Limited - Executive Director of Corporate Affairs [29]

Yes, yes, absolutely.

Bhalchandra Shinde, Anand Rathi Financial Services Limited, Research Division - Research Analyst [30]

So how are we seeing '21 volume growth to take place?

Kunal D. Shah, AIA Engineering Limited - Executive Director of Corporate Affairs [31]

I think we'll give a better guidance on that. We've given guidance until March '20. I think later in the year, we'll have a better visibility on what to guide for FY '21.

Bhalchandra Shinde, Anand Rathi Financial Services Limited, Research Division - Research Analyst [32]

Okay. Okay. Sure. I hope that it happens. What is the rate now for you?

Kunal D. Shah, AIA Engineering Limited - Executive Director of Corporate Affairs [33]

The average rates are -- what was it, 69.70.

Operator [34]

The next question is from the line of [Ajinkya Bhat] from Macquarie.

Unidentified Analyst, [35]

Sir, I have 2 questions. One is regarding the gap between production and sales that you mentioned earlier. So my question is that if I look at your presentation and if I take your last 5 quarters, in 4 of the last 5 quarters, production has been consistently greater than sales. So my question is, is there any technical constraints in ramping down the manufacturing of these mill internals in order to respond to these market dynamics? Or is there something else going on that you are purposefully building up inventory of finished goods?

Kunal D. Shah, AIA Engineering Limited - Executive Director of Corporate Affairs [36]

No. You will see that in the previous year also fourth quarter production is more than [3]. That's what I was explaining, that when you're growing, our model or structure is such that we're producing and then we are shipping it across the world, right? So I'm doing 100 units today; tomorrow, I do 120 units. And if 3 months is my branded cycle, then I add that additional 5, (inaudible) stock till I deal it to the customer, right? (inaudible) and that's one. Two, some customers, as we get them, require us to stock 2 months or 3 months of material at their warehouse, which is against their order. But they -- as a security, because they are shipping it from a long distance across oceans, sometimes they want us to keep that critical stock. So this is not stock that we're just producing and keeping at our end. This is stock that's either in transit or it's against the order against the condition from the customer to keep ground stock for 2 or 3 months.

There's no material increase in stock that's sitting in our factory that's just produced. Please understand, all our production is custom made for a customer, right? We're very less of a -- very small portion of our production is overlapped with another customer.

Of course, 95% of our production is against the customer's order, yes, but it requires stocking, which is where you're seeing some of that spike in finished good inventory.

Unidentified Analyst, [37]

Okay, okay. Understood. Is there any sustainable value you have in mind, whether it should be 90 days of sales, whether it should be higher, lower than...

Kunal D. Shah, AIA Engineering Limited - Executive Director of Corporate Affairs [38]

No. Please appreciate, this -- our structure allows us to ship across the world without this -- the only other choice was to set up a plant in that, correct? In that, our total stock is at INR 700 crores. Let's say INR 100 crores of extra stock. The cost of setting up a plant in Australia would be INR 300 crores. A plant in North America would be another INR 300 crores, right? Three plants across the world would be INR 1,000 crores plus working capital. The point is that with additional INR 100 crores of stock, we are able to service the growth of 120 countries. So I think it's a small figure in the scheme of things with the option that we have, right? Our customers are used to having the product delivered at their gates at their end. They do not import from India in that sense, right? So that's the basic structure. The only choice is to produce and ship from that local country. So this is a very, very economical and efficient structure where just by adding a small amount of inventory, we are able to service the global client.

Unidentified Analyst, [39]

Understood, understood. And I have a second question about the effective tax rate. So you again mentioned that -- and I see some consolidated and stand-alone operations, that the stand-alone effective tax rate is closer to 32%, 33% this quarter, but control is still 23%, 24%. So what is happening in the subsidiaries? Even if I were to calculate the entire facility numbers, which essentially they are contributing about INR 50 crores or INR 60 crores of PBT...

Kunal D. Shah, AIA Engineering Limited - Executive Director of Corporate Affairs [40]

Yes. But what happens is that these are -- we sell at an arm's length. Our subsidiary in Middle East doesn't have any of that. Do you understand? And on a tranche of sizing, you'll get adjusted over the whole year. So for a quarter, that could be a plus and minus and which is why control for the whole year would be 28%, 29%. It will adjust itself in the following quarters.

No, it's not possible to do one-on-one. No, it's not possible invoice-to-invoice to maintain that margin. So for the whole year, there is a clear transfer pricing arrangement that is in place. Quarter-to-quarter, sometimes, there is a variation.

The next question is from the line of Renjith Sivaram from ICICI Securities.

Renjith Sivaram, ICICI Securities Limited, Research Division - Assistant VP [41]

Sir, if you can just elaborate on this working capital. You mentioned that this 120 days you are planning or targeting that this might go down to around 110 days. So this will be largely because of better collections or because of inventory management? How should we read into...

Kunal D. Shah, AIA Engineering Limited - Executive Director of Corporate Affairs [42]

No. It is largely inventories, my friend. So raw material also we are at INR 122 crores, say up from INR 82 crores in March of last year. And that has also gone from 110, 130, 180 (inaudible) days. See this is -- I mean inventory -- our only choice is to physically buy when prices -- there was so much volatility that we had to buy in stock. So now that the pricing has reduced, we've stocked a little more. Likewise, I think receivable is -- by and large, it's been historically around 78 plus. We're at 84. So I mean I think it should be about 75, 80 between that -- in that region. So all 3 combinations, about 130. I think about 110 to 120 is where we...

Sanjay Shaileshbhai Majmudar, AIA Engineering Limited - Independent Director [43]

No, it is the gross cycle. Then you have to reduce the creditor. Then the next cycle is around 110 days.

Renjith Sivaram, ICICI Securities Limited, Research Division - Assistant VP [44]

Okay. Okay. So largely, it should be management of our inventory that the major portion -- major uptick should come that too largely in the raw mat inventory portion where the overall net working capital can reduce? That's a broad understanding, which we should have?

Kunal D. Shah, AIA Engineering Limited - Executive Director of Corporate Affairs [45]

Sorry. Please repeat.

Renjith Sivaram, ICICI Securities Limited, Research Division - Assistant VP [46]

The raw mat inventory days will be the major reason for the reduction in net working capital.

Kunal D. Shah, AIA Engineering Limited - Executive Director of Corporate Affairs [47]

No. There is no reduction. In fact working capital -- yes, debtor has gone down, but raw material has gone up. Net working capital is flat between March and June. But between the line items, raw material has gone up. Debtor has gone down. Debtors was 710. It's 658 now. That's because March sales were higher than June sales.

Renjith Sivaram, ICICI Securities Limited, Research Division - Assistant VP [48]

Yes. So in terms of number of days, what we should read is that your raw mat number of days are larger because you were stocking more inventory? So that should come down.

Kunal D. Shah, AIA Engineering Limited - Executive Director of Corporate Affairs [49]

That should over a period, but it's a question of INR 40 crores, INR 50 crores, which, again, the materiality is not so much. Broadly, we are at -- the working capital from the level that we are, we expect that to reduce by about 10 days in next 2 quarters.

Sanjay Shaileshbhai Majmudar, AIA Engineering Limited - Independent Director [50]

The major component of working capital, inventories in the form of finished goods inventory. Finished goods we keep about 20 warehouses -- 20-plus warehouses across the world where we stock material of standard nature for our regular customers, and that's the significant component of inventory, which will actually not go down. It may go up a little bit as more and more customers come...

Kunal D. Shah, AIA Engineering Limited - Executive Director of Corporate Affairs [51]

And depends on the contract, the expectation on the customer end.

Sanjay Shaileshbhai Majmudar, AIA Engineering Limited - Independent Director [52]

What Kunal is trying to explain that this particular quarter we have stocked a little more of raw materials because of the favorable working capital -- favorable pricing scenario. Net-net (foreign language) net working capital cycle (foreign language), so it would hover between 110 to 120 days on an average in a normalized long-run situation. Net working capital means sum of all the current assets minus creditors.

Renjith Sivaram, ICICI Securities Limited, Research Division - Assistant VP [53]

Okay. Okay. Got it. Yes. And this -- the margins also -- because there will be a lag lead in terms of these lower material costs coming into the prices. So we can expect this -- the margin also should be in the stable manner, at least for the next 2 quarters?

Kunal D. Shah, AIA Engineering Limited - Executive Director of Corporate Affairs [54]

I think that's the math you can work upon. But as a policy, we don't give a guidance on margin. So if you ask me about margin, I'll say 20%, 22% EBITDA margin. But I mean it's a lag effect that should come in. Where will that number stay at? I mean that's something that...

Sanjay Shaileshbhai Majmudar, AIA Engineering Limited - Independent Director [55]

The Q1 margins have improved, as you would have seen, and that happens. So when in one particular quarter the margin is slightly lower than your expectation in one quarter, but, overall, you can say that margins are reasonably stable. Let's put it like that.

Operator [56]

The next question is from the line of Anupam Gupta from IIFL.

Anupam Gupta, IIFL Research - VP [57]

Just wanted some more color on the savings, which you talked about from the mill liner aspect where you said (inaudible) goes up pretty significantly and your power cost also come down. So how exactly that happens? Does that -- what exactly happens there?

Kunal D. Shah, AIA Engineering Limited - Executive Director of Corporate Affairs [58]

I'll explain. So mill linings are today -- those designs are determined at the time of supply, whenever that we would have supplied. That is -- so what happens is this is what we do for the cement side of things, irrespectively, which is when the balls fall over each other, they create a hammer-type impact. You know that's how site induction happens. What happens is every time a ball falls, it has to fall in what's called -- known as the grinding zone. As soon as the ball falls in the grinding zone, your grinding efficiency improves. So you're getting the right-sized particle in the least effort required for that grinding. So what happens is with EEMS, our collaborating partners for this initiative, they have technology tools and patented design. And we've got network and presence all across the place, all over our mining footprint. We collect information. We study the same. And based on that, we propose a design solution through which your grinding improves. When your grinding improves, you'll get better throughput for the same amount of energy or the mill rotation that has been done before.

So when you get higher [throughput] rating, for 10 units -- if you're getting 10 units of production, now for that same 10 units of power, you'll get (inaudible) units of production of ground material. So you're getting 20% more throughput. And it will be 10 divided by 12 number of units of power. So that is the most important benefit as far as throughput is concerned, which is increasing available material for downstream processing and at a lower per-unit cost. In addition, what happens is with this design, we expect the particle size distribution from other parameters also to be improved, which in turn can determine the efficiency of grinding in the downstream as well as for gold and copper can ultimately lead to fractional improvement in recovery also because a finer ground or a more optimal ground material was available. But currently, we are focusing on throughputs as the most -- and the power consumption as the most important benefit.

Anupam Gupta, IIFL Research - VP [59]

So just to clarify. The throughput in the sense for the same effort more amount of...

Kunal D. Shah, AIA Engineering Limited - Executive Director of Corporate Affairs [60]

Exactly. Exactly. 10 units of power is the effort power in this case. So same number of units of power -- instead of 10 units of production, you can get 12 units of production. You actually got 2 units of more -- and not just power consumed will reduce per unit, but you will also have a better throughput which means you can actually produce 2 units of more gold or copper or iron ore. You can actually have a higher downstream if your equipment can handle it. Then without adding capital equipment for grinding, you can actually produce more of the downstream product.

Anupam Gupta, IIFL Research - VP [61]

Right. I understand. And secondly, what I want to understand is does this mill liner work only with a high chrome media? They will obviously work with slow media also, right?

Kunal D. Shah, AIA Engineering Limited - Executive Director of Corporate Affairs [62]

Yes. So for SAG mill, the use of hole grinding media. This is independent of that because we can have a better chrome solution for downstream grinding. But that's a different conversation.

Anupam Gupta, IIFL Research - VP [63]

When you said it's a 3 lakh tonne market, it is 3 lakh tonne including folds? Or it is 3 lakh tonne where high chrome media is the primary grinding media?

Kunal D. Shah, AIA Engineering Limited - Executive Director of Corporate Affairs [64]

Yes. I think the high chrome -- both should be the primary grinding material.

Sanjay Shaileshbhai Majmudar, AIA Engineering Limited - Independent Director [65]

No. No, 3 lakh tonne is the...

Kunal D. Shah, AIA Engineering Limited - Executive Director of Corporate Affairs [66]

3 lakh tonne is the mill lining...

Sanjay Shaileshbhai Majmudar, AIA Engineering Limited - Independent Director [67]

Mill liner market. See, there are 2 aspects, which are a little more qualitative and which will not have a straight match. One is AIA becomes the only company in the world to have the solution. Nobody today, not even our immediate...

Kunal D. Shah, AIA Engineering Limited - Executive Director of Corporate Affairs [68]

Grinding media.

Sanjay Shaileshbhai Majmudar, AIA Engineering Limited - Independent Director [69]

No grinding media producer or no mining liner producer has this solution to offer. The results are very significant in the sense that the payback period could be so low. It can be in terms of a few weeks. You get a point. What happens, it changes your profile in front of a customer. So apart from the direct benefit of getting into this mining liners, you become a very indispensably important supplier, which will help you push your grinding media sales as well into that customer. So you get a traction from the point of view of pushing your grinding media on a parallel basis, and you become a very important supplier for that customer. So from a profiling point of view, this is a very important milestone, and it creates a very unique positioning for AIA as the only company in the world to offer this. See, that's my point, the importance of that. So there are other collateral benefits, which are bound to follow.

Anupam Gupta, IIFL Research - VP [70]

Okay. So just to follow up on that. So if -- given that it is so attractive both for you and for customer, will you be ready to expand this capacity at a faster rate? So let's say, given the traction will you want to put another...

Kunal D. Shah, AIA Engineering Limited - Executive Director of Corporate Affairs [71]

No. One thing at a time, if I say. I mean, today, we are at the trial phase, setting up the plant. I think our interest would be to do more. But I mean it's not an automatic conclusion that if we can do 50 today, we can do -- why not another 50? Maybe there's a potential for us to do more, but I think let's first get the plant commissioned, start selling from that plant, see how that goes before we can comment on that.

Anupam Gupta, IIFL Research - VP [72]

Okay. And just lastly, is there a grinding ball capacity fungible with the mill liner capacity? Or is it separate...

Kunal D. Shah, AIA Engineering Limited - Executive Director of Corporate Affairs [73]

No. The new capacity that we are setting up will be for nongrinding media production.

Operator [74]

The next question is from the line of Priyankar Biswas from Nomura Securities.

Priyankar Biswas, Nomura Securities Co. Ltd., Research Division - Associate [75]

2 questions from my side. So one of the things that I observed is that work in progress and finished goods levels have also gone up. So is it due to deferral of some volumes at some customer ends? Or is it due to some other reasons?

Kunal D. Shah, AIA Engineering Limited - Executive Director of Corporate Affairs [76]

No. no. We have produced 68,000 tonnes. We have sold 63,600. The 3,000, 4,000 tonne mismatch will always be there. It's not possible because we have lots of casting that take 3 months, 2 months as work in progress.

Sanjay Shaileshbhai Majmudar, AIA Engineering Limited - Independent Director [77]

I think it's difficult to comment on that 3,000 tonne difference between sales and production. There will always be more or less in every quarter.

Kunal D. Shah, AIA Engineering Limited - Executive Director of Corporate Affairs [78]

We've explained the addition of tonnage, which is -- last year, which is in line with the contract with the customer plus transit quantity that gets deployed as we grow. The sum total of these 2 is the increase in stock essentially.

Priyankar Biswas, Nomura Securities Co. Ltd., Research Division - Associate [79]

No. My question essentially was that work in progress as finished goods is 78 days. So if I look at the levels, so from like June 2016 onwards, so this is probably the highest level. So that's why I was asking this question. So more on the -- from the finished goods.

Kunal D. Shah, AIA Engineering Limited - Executive Director of Corporate Affairs [80]

Yes, yes. You are right. But from 2016 onwards when the mining volume was half where we are now, right? So that's what I'm saying is -- so a number of days, but we're also doing critical stocking for some of these customers. When volumes have come in mining over the last 3 years, that is what it would represent in those number of days.

Priyankar Biswas, Nomura Securities Co. Ltd., Research Division - Associate [81]

So if I get it right, so it's mostly like for the new customers, you are like stocking up to their inventory requirements first. And then it will...

Kunal D. Shah, AIA Engineering Limited - Executive Director of Corporate Affairs [82]

When the custom -- exactly. So if I'm getting the 10,000 tonne order, 2,000 remains in transit, anything 2 months in my location for all times. I'm always carrying 4,000 tonnes of stock. That's not for all customers, but many customers appreciate that it's a long-distance transit. So that's an easy -- if there is concern on the supply chain, the easiest thing for us is to commit to that 2,000 tonne of inventory on the ground, right?

Priyankar Biswas, Nomura Securities Co. Ltd., Research Division - Associate [83]

Okay. Got the concept. So gradually, let's say, as long as our volume grows, so this should be the case. But once we reach a relatively steady state, then it can maybe moderate out. So that is the right thing to understand here.

Kunal D. Shah, AIA Engineering Limited - Executive Director of Corporate Affairs [84]

Absolutely. And for those customers also, we try and make effort to reduce their stock. When a new customer comes in, we have to give him that comfort to think don't worry. If India goes to war with Pakistan, what happens? You know that they get worried about that.

Priyankar Biswas, Nomura Securities Co. Ltd., Research Division - Associate [85]

So essentially a supply chain comfort, essentially.

Kunal D. Shah, AIA Engineering Limited - Executive Director of Corporate Affairs [86]

Exactly, exactly, exactly. Correct.

Priyankar Biswas, Nomura Securities Co. Ltd., Research Division - Associate [87]

And last question from my side. Can you give me an idea of the amount of grinding media that is right now in trial and testing mode? So why am I asking is so I can get some bit of a sense of future growth.

Kunal D. Shah, AIA Engineering Limited - Executive Director of Corporate Affairs [88]

No. That will be difficult to share that figure. No, difficult to share. Too early.

Operator [89]

The next question is from the line of Sandeep Tulsian from JM Financial.

Sandeep Tulsian, JM Financial Institutional Securities Limited, Research Division - Senior Research Analyst [90]

Sir, just wanted to check on the annual volume guidance that you had given. So you were targeting additional volumes of say 30,000, 35,000 tonnes in FY '20, of which 15,000 may, may not get stuck because of the situation in Brazil. And the additional 15,000 is for the EEMS liners in FY '20?

Kunal D. Shah, AIA Engineering Limited - Executive Director of Corporate Affairs [91]

No, no, no. Let's revisit. 265,000, we were saying we'll grow. We'll still grow. That additional 30,000, 35,000 should -- is expected to come. But last year, when we did 265,000, we'll have to take off volume from last year that's not coming in this year. So 30,000 will still come, but that's from grinding media that will continue. EEMS will come in from FY '21 because the plants need to be commissioned.

Sandeep Tulsian, JM Financial Institutional Securities Limited, Research Division - Senior Research Analyst [92]

Understood. Got it. So this additional 30,000 is entirely grinding media?

Kunal D. Shah, AIA Engineering Limited - Executive Director of Corporate Affairs [93]

Entirely grinding media, and we expect that to be on track. It's just that 265,000 gets restated to 250,000 from a customer comparative standpoint for us to gauge growth because that just chunk may not be there this year. That's all.

Sandeep Tulsian, JM Financial Institutional Securities Limited, Research Division - Senior Research Analyst [94]

Got it. Got it. Second thing was on the CapEx number. I think if we look at the CapEx guidance over the last, say, 3 or 4 quarters, the mill liner capacity was expected to get commissioned within FY '20. And there has been a slight delay, and this data has been pushed to, say, December '20 now. Highlight the key reasons for that postponement.

Kunal D. Shah, AIA Engineering Limited - Executive Director of Corporate Affairs [95]

Yes, yes. The December '20, which is -- see, the plants get engineered and designed by us. So we just -- we took time in getting that design. It's a fully automated plant. I mean it may be very few of such engineering installation across the world. So we just spent more time in the predesign stage, but that's all through. All our orders are placed now. We expect to commission it before December '20. But from a safety, there are a lot of things that international -- a lot of our equipment is coming from outside of India. And what we faced while installing the second 50,000 tonnes that was commissioned this week, sometimes there are contingencies that's unforeseen that come along, and which is why we've just buffer and put a target of December '20. We hope that it's before that.

Sandeep Tulsian, JM Financial Institutional Securities Limited, Research Division - Senior Research Analyst [96]

But the Phase 3 of Kerala GIDC is also a function of, say, demand not growing to the expectations where you had anticipated, which is why the management is not in a hurry to anyways complete the plant?

Kunal D. Shah, AIA Engineering Limited - Executive Director of Corporate Affairs [97]

Not really. Phase 1 -- so we're buying this equipment from Italian through the -- since you read the transcript of last 4 quarters, we also explained where the delays happen. The equipment -- the molding machines that we are buying, that company went bankrupt. So we -- then we have to install it ourselves. We don't have visibility on spares for those equipment. So now -- and the plant was designed for us exactly line to come along. Now we don't know -- so that company is still out of business. If we have to buy another line that means we'll have to redesign the complete setup. So that's where it's not an easy decision for us to shift from one to another. There was -- there's talk of that company getting revised with another engineering company. And if that happens, that's the best case for us. So since we have the capacities, we don't have a time line pressure as far as our sales projections are concerned for us to rush into any rapid decision, which can hurt longer -- from a longer-term standpoint.

Sandeep Tulsian, JM Financial Institutional Securities Limited, Research Division - Senior Research Analyst [98]

Got it. All right. Lastly, I just wanted to understand one more thing on the EEMS mill liners. You mentioned current market size is 50,000 tonnes. But...

Kunal D. Shah, AIA Engineering Limited - Executive Director of Corporate Affairs [99]

No. Market size is 300,000 tonnes for mill lining. 300,000 tonnes -- our capacity is 50,000.

Sandeep Tulsian, JM Financial Institutional Securities Limited, Research Division - Senior Research Analyst [100]

50,000. And currently so there is no alternate supplier. So potentially, the entire 300,000 tonnes can...

Kunal D. Shah, AIA Engineering Limited - Executive Director of Corporate Affairs [101]

There are 4 existing suppliers in that market. We are the only ones with this differentiated solution where we're saying we can improve operating parameters of the client.

Operator [102]

The next question is from the line of [Abhinav Malhotra] from [India Vision Investors].

Unidentified Analyst, [103]

I have one question. Sir, on an aggregate basis, what is the effect on nickel recovery after your grinding circuit is installed in a copper ore mine?

Kunal D. Shah, AIA Engineering Limited - Executive Director of Corporate Affairs [104]

Can you repeat your question?

Unidentified Analyst, [105]

Sir, what is the quantum difference in nickel recovery in downstream prospects when your grinding circuit is installed in a copper ore mine?

Kunal D. Shah, AIA Engineering Limited - Executive Director of Corporate Affairs [106]

Wow, we don't measure the difference in nickel recovery. If you want I can get that information. But that's not something that we closely track.

Unidentified Analyst, [107]

Because of the electric vehicle adoption, the nickel demand is going up.

Sanjay Shaileshbhai Majmudar, AIA Engineering Limited - Independent Director [108]

No. No. We have nothing...

Kunal D. Shah, AIA Engineering Limited - Executive Director of Corporate Affairs [109]

We are not so much active in the nickel side of things. The consumption -- the grinding of that nickel ore is not material to the scheme of things.

Operator [110]

The next question is from the line of Bhalchandra Shinde from Anand Rathi.

Bhalchandra Shinde, Anand Rathi Financial Services Limited, Research Division - Research Analyst [111]

Sir, first, regarding U.S.-China trade war. Do we see any benefit for us for our high chrome griding media (inaudible)?

Kunal D. Shah, AIA Engineering Limited - Executive Director of Corporate Affairs [112]

Benefit (foreign language).

Sanjay Shaileshbhai Majmudar, AIA Engineering Limited - Independent Director [113]

No, no, no benefits...

Kunal D. Shah, AIA Engineering Limited - Executive Director of Corporate Affairs [114]

China -- we are agnostic to China, right? There is no competitor from China that we face. So we are indifferent to it. But of course, globally, it affects global factors. And whatever happens to the global economy has affect everyone in that sense. So nothing specific, only general.

Bhalchandra Shinde, Anand Rathi Financial Services Limited, Research Division - Research Analyst [115]

I meant more towards cement grinding area. That are we -- do we see any volume growth there or not?

Kunal D. Shah, AIA Engineering Limited - Executive Director of Corporate Affairs [116]

No. Nothing -- there's no -- we're -- nothing, no impact.

Bhalchandra Shinde, Anand Rathi Financial Services Limited, Research Division - Research Analyst [117]

And sir, second regarding the capacity addition, as you mentioned, the 50,000 tonnes for mill liners. And you say 3 lakh tonnes. Is that the total market? Aren't we aggressive to add a capacity because yes, we will be targeting for around 20% of the market. And what gives us this confidence to add up so much capacity?

Kunal D. Shah, AIA Engineering Limited - Executive Director of Corporate Affairs [118]

What is the confidence? I mean, there is a large market. Today, as you know, 2.5 million, 3 million tonnes of the forging market there -- or the grinding media market there, less than 15% is converted. So if 15% market exists for high chrome, even if it is 25% and 30%, there's an opportunity to double from where the penetration is. So we are only 150,000, 70,000 tonnes today from that 2.5 million, 3 million tonnes. So we are not a material capacity. And we have been offering all these -- sorry?

Bhalchandra Shinde, Anand Rathi Financial Services Limited, Research Division - Research Analyst [119]

No. I meant more towards the mill liners, meant mill liners.

Kunal D. Shah, AIA Engineering Limited - Executive Director of Corporate Affairs [120]

Yes. sorry. I'm sorry I thought it was grinding media. So mill liners -- see for a customer to be able to talk for increasing his throughput and reducing his power consumption is of very, very material consequence. So customers have received us the additional -- so the recovery for them is less than a few weeks. The payback is very small for the extra amount that they may spend. It is anyways a product that they would have to consume. It's not that they'll have to install a new equipment. If there is no other equipment change required to buy from us, instead of the incumbent, they buy from us. And there's a benefit in terms of throughputs and power consumption. So I mean it's been very well received. This is a similar concept in work in the cement. It's not a new concept for us. This is -- for cement, we've been doing it for more than 25 years. And so, overall, considering our presence in that market, our experience dealing with process, and generally, the reception we've got from the customers, we remain optimistic that we should not -- we should be able to scale up in this segment.

Operator [121]

Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to AIA Engineering management team for closing comments. Thank you, and over to you, sir.

Kunal D. Shah, AIA Engineering Limited - Executive Director of Corporate Affairs [122]

Thank you so much, Amand. Thank you, everyone, for joining us on the call. Sanjay bhai and I remain available as always for any other specific queries. And we hope to shed some more insight into the full year guidance as committees are concerned in the call on the September quarter. Thank you so much, and have a good evening. Thank you.

Sanjay Shaileshbhai Majmudar, AIA Engineering Limited - Independent Director [123]

Bye.

Operator [124]

Thank you very much. Ladies and gentlemen, this concludes the conference for today. We thank you for participation and for using Chorus Call Conferencing Services. You may please disconnect your lines now. Thank you, and have a great evening.