"AIA Engineering Limited Post Results Conference Call"

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Moderator: Good day ladies and gentlemen. Thank you for standing. This is Darryl, 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. Later we will conduct a question and answer session. At that time, if you have a question please press "*" and "1". I would now like to hand the conference over to the AIA Engineering management team.

Kunal Shah: Thank you, Darryl. Very warm welcome to all of you for joining the call. This is Kunal and I have Sanjay Bhai and rest of the team also on the other line. As always we will start with a brief update on the quarter, we will finish with the housekeeping on the numbers and progress on to Q&A thereafter.

We did 587 crores of revenue on our tonnage of about 50,000 tons for the quarter. Closing the full year at 21007 crores, top-line total EBITDA for the quarter is 170 crores and for the full year is 668 crores and profit after-tax for the quarter is 113 crores and for the full year it is 430 crores. As far as production is concerned for the full year we have done 2,000 tons production for the year. Full year sales tonnage now stands at 188,000 tons. We have done about 5,000-7,000 tons less than what we had excepted on account of un-stocking that we done.

Apart for this quarter for the fourth quarter we did about 20,000-21,000 tons in cement, about 26,000 tons in mines and balance in core region the utility side of the business. Thereby taking the full year cement to about 68, mines to about 107 and the rest being core even utilities taking the full year volume 188,000 tons rounding off decimals figures there.

As far as other income is concerned, we got export benefit income about 17.5 crores which is an operational income and the other income which is other non-operating income is the dividend and interest. So overall a good quarter our EBITDA margins including other income upwards of 29%-30%, we have done a good mix of mining customers except for fall in short of 5,000-7,000 tons for the full year I think this year has been pretty reasonable currency has helped us a combination of factors including falling raw material rates have helped us.

Going forward a couple of key points on the business and we will open it up to question and answer. Sorry, I just finish balance sheet highlights. Our total gross cash as on 31st March is 820 crores and the total debts is about 95 crores so the net cash is about 715 crores. Raw material days are at 36, finished good around 55-60 and all inventory good to 55-60 that includes work-in-progress and finished goods, debtors days are around 70. So by in large there is a little of optimization on the working capital side as well. We have done total CAPEX of about 230 crores - 235 crores which includes about 25 crores in a piece of land to support processing activities and the Brown field that we did at our existing facility which was from 200,000 to 260,000 tons and the money that is being spend on the Greenfield that is being done.

So some key pointers for this quarter and the next year, we keep getting asked all the time on what is going on with the mining segment there is a lot of stress in the commodity sector a lot of metal prices have reduced and what is the consequence of that on our business. The first point is that we are not seeing any mines shut. You have seen those slide utilization levels change here and there. But we are not seeing mines getting into a stress that's why they were shutting operation. So that is a good indicator as we speak. One impact we are seeing is that on account of their profitability and other issues they are trying to optimize working capital so we are seeing maybe a quarter of two of destocking. So we may see lower volumes off take in a quarter or two on account of destocking at the customers end they are using their stocks first before wanting to spend money on the next set of consumables. But other than that we believe that mining product continues without any major hick-ups. So having said that we continue with our guidance of 125,000 tons of addition to mines in the next three years in what form, what shape, what would the exact tonnage next year or next quarter is difficult to guess given a whole combination of work that we doing. But we believe the fundamental value benefit of our product remains there is no change in that story.

As far as margins are concerned, we will just repeat to save questions on that. As far as guidance is concerned we are still abstaining from giving a guidance we believe that the range of risks which would have an impact on margins are quite a few right from raw material pricing, currency, shipping rates, customers wanting to negotiate better rates in view of issues at their end, lower pricing onto new customers that will be looking to get into the next cycle of conversion. A combination of all these factors lead us not give out guidance on where will these margins. We believe long-term sustainable margins to be in the range of 20%-22% what it will be at the end of this year is a little difficult for us to hazard a guess. So we will leave at that as far as margins are concerned.

The last points on my side would be on CAPEX. We are at 260,000 tons as we speak in the second quarter of this year which is between June and July and September we should be commissioning 15000 of Brown field and 65,000 of Greenfield for total of about 80,000 tons which will take our capacity to 340,000 tons. So there is about two quarter about six months delay in getting our first phase of the 180 up and about that also has a corresponding bearing on the second phase of 100,000 coming. So as we speak as the way our project schedule stands from December it will also shift by six more months. So sometime in second-half of ’16-’17 is when remaining 100,000 should come in. So the 340,000 ton coming in next few months and having done 190,000 tons this year and that gives us we are adding 125,000 tons in next three years which is well covered within the capacity that will be there in the next few months.

So I do not think that will impact our plans but we will keep updating as our time tables get updated on the project for the time being 100,000 stands for second-half of ’2017.

I think with that Sanjay is there anything you want to add or we can open it for Q&A.

Sanjay Majmudar: I think Kunal you have covered it quite well. You have covered the volumes, CAPEX, everything. Let us put the house on the Q&A mode.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. We take our first question from the line of Balchandra Shinde from B&K Securities. Please go ahead.

Balchandra Shinde: Sir regarding the realizations as per our volumes given for the sales. Realizations have shown improvement any specific reason for improvement in the realization?

Kunal Shah: Not really, I mean current the current season it is weaker than previous period, there is a little bit of an impact on that account but otherwise no material even for that.

Sanjay Majmudar: And on product mix as well keep going.

Balchandra Shinde: Okay. Based on product mix but will our realizations stay at these level because as per about 50,000 tons translates to it is around 117.5 per ton kind of realization. So will it sustain or comparatively it will be lower?

Sanjay Majmudar: I think it should be around 110 and 112, I think 110.

Kunal Shah: But that depends on where the currency, where the raw material price, if the raw material prices are going down our selling price would also go down, right. So it is a function of currency, product mix, the pricing as a product in terms of input cost so anywhere between 100-110 is when it can be but that depends on it is not fixed price product, right you know that so between 100-110 depending on where all these factors are.

Balchandra Shinde: And sir for hedging what is our benchmark rate right now?

Kunal Shah: Spot is between 62.5 and 63.5 and we are hedging 6months for that. I do not have the exact figure but a Rs. 1 and Rs. 1.5 above that.

Balchandra Shinde: And sir actually I missed slightly missed on the tonnage addition what you said 60,000 tons will be added…

Kunal Shah: 60,000 tons is coming up, 80,000 tons is coming up in the second quarter of this year which will take it to 340,000 and another 100,000 tons would be between July and September of this in a few months from now. Their completion is going on were expecting commissioning in June which now pushed back by two months so, that is why I am saying it is a highly automated plant and there is enough capacity that we already have so we do not want to maybe a month here or there basically is when the commissioning will be done.

Balchandra Shinde: Okay. And sir actually one more thing I missed out you said export benefit was there in other income, how much it was?

Kunal Shah: 17 crores for this quarter.

Sanjay Majmudar: Kunal, the total export benefit is actually around 75 crores.

Kunal Shah: 75 crores.

Moderator: Thank you. Our next question is from the line of Ashutosh Tiwari from Equirus Capital Private Limited. Please go ahead.

Ashutosh Tiwari: So you are saying that minus or optimizing their inventory levels and there is some specific this is already going on or you think that over next two quarters this could be the case?

Kunal Shah: It is already going on it started no, we are seeing a contract on end and we are seeing reduced quantities next few months because we have stock so that we will pick it up in the second quarter. We are seeing that going on now.

Ashutosh Tiwari: So considering what would be your guidance for this year for FY-16 the volume guidance?

Kunal Shah: Volume guidance between 210,000 and 220,000 tons.

Ashutosh Tiwari: Okay. And sir what are the USD INR hedge rate for the current quarter Q4 FY-15?

Kunal Shah: It does not help in the analysis because the Dollar rates get's adjusted if it is weaker it become more competitive but nevertheless it is around 63.5.

Ashutosh Tiwari: Okay. But going ahead your spot rate has gone up further will that actually improve in the coming quarters?

Kunal Shah: No, the spot rate in our hedge rate may improve but our dollar pricing may reduce to that extent which I keep saying they are agnostic to dollar movements.

Ashutosh Tiwari: Okay. And as one more, we have cash reserve around 700 crore plus net cash of that position but still our other income is not that high adjusted for the ex Forex gain that we make, what is the reason behind that?

Kunal Shah: About 400 crores of that from October onwards when the tax treatment change we have park them in the growth scheme, actually we will be realizing that after three years. So there is a slight delta on that account.

Moderator: Thank you. Our next question is from the line of Ravi Saminathan from Parth Capital. Please go ahead.

Ravi Saminathan: I just wanted to know, at a global level if you look Magotteaux and Molycorp they are also adding capacities foray into the gold and copper mine market is currently going on and do you see mines opening up new or new shafts, etc., and how are you differentiating yourself vis-à-vis Magotteaux and Molycorp? This is the first question that I have.

Sanjay Majmudar: See firstly according to me Magotteaux and Molycorp are not comparable because Magotteaux is of course high chrome Molycorp is not into high chrome

Ravi Saminathan: Yes, that I understand but.

Sanjay Majmudar: So that categorization to our mind is not correct. We view both of them differently.

Ravi Saminathan: But both of them addressing the same market.

Sanjay Majmudar: Molycorp is also into forged and we are replacing. You see the whole crust is that when our benefit equation or the premise on which we convert the customer from forge to high chrome if I look at Molycorp I am looking at a very simple proposition that my gain of utilizing my product has to be significantly better in terms of significantly lower ware rates and obvious benefit in terms of its reduced consumption, correct. Now beyond a point our forged will have limitation in operating. They for example the Molycorp operates with limited margin there is not enough headroom for anybody to play beyond a point. Of course we faced stiff competition but when we convert and we factor a conversion from a forge into high chrome a) there is a benefit metric, b) there is a cost metrics and we work always with that metric to ensure that the customer gets benefited. So obviously as an entry level strategy there could be some stress and we are entering a new customer but once our customer using start using our product in place of a forge product be it x, y, or z we are not talking about of Molycorp or only specific company as a competition. Once they start using our products there would be distinct advantage to the customer and then his price sensitivity reduces over a period of time this is a very standard cycle when we break into a forge competition, correct. Let us talk Magotteaux. Yes, Magotteaux has been increasing capacities in Thailand but we are very clear that we are okay. We have our advantages and we have our strategies so we are reasonably, okay we are not overdue unduly worried. Beyond this I will not be able to answer your question.

Ravi Saminathan: Okay, sir and the thing is that we would be addressing markets incrementally in the Latin American and the North America market, right.

Sanjay Majmudar: Okay. See as much as the metal are concerned we are not worried about any one particular metal we are very excited about gold, copper plus iron we have been steadily taking shares in the newer market but all the metals we are quite okay, we see a lot of scope in copper we are quite bullish about gold not listing the fact that it is not in the industrial consumption, It is a Confucius consumption but I do not think gold is going to be reduced. So from a demand long-term demand prospective from our strategic positioning prospective we are not worried at all we are quite okay.

Ravi Saminathan: Okay. No, my question is from freight cost angle in a sense that freight cost is considerably high from here to say Latin American countries would not it be a…

Sanjay Majmudar: See when we give a costing and we price a product freight is always factored and taken into consideration. Secondly, as you are aware the cost of transporting material by say from India to say Latin American is not that high that it can become the decisive factor. In fact, there are many other factors that their local conditions, their own mindset perceptions all this conditions have to be taken into consideration. I do not think we are worried about freight at all. In fact the cost of ground transportation from West Coast to East Coast of U.S. is more than the ocean freight from here to maybe West Coast of U.S. you get my point? Nevertheless, we are not undermining the fact that there is stiff competition it has from the high chrome players as well as from forge players.

Ravi Saminathan: Okay. And what could be the price different between say forge and high chrome player adjusted for the ware rates that you would be…

Sanjay Majmudar: See one is as a thumb rule because we in high chrome utilize ferrochrome which has been expensive then iron pure, correct. say our product has to be higher by 10%-15%-20% however because of significant advantages in the from of ware rates this gets easily compensated and ends up still in money because unless he saves money he will into come to me, correct, so this is the equation. Now that savings could 10%-15% depends on case-to-case.

Ravi Saminathan: Okay, understood. And sir, regarding the cement segment increasingly vertical mills are actually being taking increasing precedence they are gaining share in the market vis-à-vis grinding media balls?

Sanjay Majmudar: No, but we have excellent solutions for vertical mills as well.

Ravi Saminathan: Yes, I understand that but how much I mean replacement nature of those change and what would be the pricing vis-à-vis vertical base vis-à-vis-à-vis?

Kunal Shah: That is to material because it is flat market wherever that got tube mills we will continue to be using we are not switching existing mills scrapping and then convert into vertical. It is only about new mills our new cement plans and using vertical mills and that anyway is a very slow market so materiality is not there to that extent.

Ravi Saminathan: So you mean to say that as an old cement plant they continue to stick with their?

Kunal Shah: Correct, the life of the recoupment is 30-40 so it is very expensive to replace I know so many plants are doing CAPEX to just replace for operational benefits the payback are quite long.

Ravi Saminathan: Okay, sir, understood. I mean we will be addressing incrementally more the export markets and I will stacking up inventory in near to the customer. Would we be going forward in the future contemplating of setting up a facility over there is there is a critical mass size or something of that sort

Kunal Shah: We are always looking at certain opportunity. But as of now all our expansions are today centered around Gujarat Ahmedabad are in India rather. So no active proposal on the table but we are open as in when such an opportunity exist.

Moderator: Thank you. Next question is from the line of Ravi Naradi from AIA Engineering. Please go ahead.

Ravi Naradi: Sir, we are having 823 crore in the cash , 637 in current investment and 186 in bank account so have you any plan for CAPEX in current year you are doing only 400 crore so what about the balance 423 crore?

Kunal Shah: I think can I take your question as what are planning to do with surplus cash?

Ravi Naradi: Yes.

Sanjay Majmudar: See Ravi the whole point is even in this board meeting we have been debating on this we have consciously decided to increase a step-up the dividend as you would have seen.

Ravi Naradi: However dividends in percentage term you have not increased even you have reduced it. Last year you had given 24% and this time you have reduced to 21%.

Sanjay Majmudar: No, please understand sir that in terms of the actual outgo it is about 21% last year it was about 20% we look at it as a consolidated level. In absolute term, there is an outgo increasing by 30 crore from 60 crore to 90 crores. Now please understand that out CAPEX plans and our organization growth in terms of opportunity does not stop at the current CAPEX level. As you aware as we have been talking there is a lot of work going on primary segment we believe a lot of breakthroughs to happen over next three to six months. If that happens our CAPEX plan can undergo a very aggressive change. Secondly, once we are already now aggressively pushing in several new markets with lot of new market share our working capital investment is also growing. We believe that in next three to six months unless and until the whole picture of primary, secondary the total strategy does not undergo a change there is no reason for us okay take any aggressive stand on redistributing the cash or not conserving the cash. We feel there is a good strong justification for conserving the cash for at least some more time and we will appropriately take a call thereafter.

Ravi Naradi: Okay. And this year the employee cost is too much high 27.57 crore versus 15.67 crore year-to-year and other expenses are also increase in percentage of turnover so, any reason for both the figure? Employed cost is 27.57 crore versus…

Kunal Shah: Look at the full year figure employee from 88 crore to 98 crores.

Ravi Naradi: No, I am talking quarter to quarter.

Sanjay Majmudar: There are bonus provisions that were made this quarter which was not maybe there were done the quarter before that. Look at it full year level I do not think there is a quarterly comparison.

Sanjay Majmudar: Sir we conscious about our expense and what we can assure you is that whatever have been shown is quite reasonable and legitimate if you look at the whole year basis it was 88 crores in the previous year it has gone up to 98 crores. And we are constantly expanding our production activities our marketing reach this is very normal sir.

Ravi Naradi: Yes, definitely it is normal. Second thing, this year our…

Sanjay Majmudar: Complement is that we have done 30% EBITDA.

Ravi Naradi: Standalone this year fantastic but consolidated it was some bit subdue so any reason to look…

Sanjay Majmudar: Sir please do not look at our standalone result because see only we have welcast in some companies where they are doing only contract manufacturing for us. Our standalone results will be actually misleading, honestly.

Ravi Naradi: Okay so consolidated will more appropriate.

Kunal Shah: Only, not more. You should look at only consolidated because that will only give you the correct picture.

Moderator: Thank you. Our next question is from the line of Sonali Salgaonkar from Axis Capital. Please go ahead.

Sonali Salgaonkar: Sorry, I joined the call late so wanted to confirm some numbers in terms of tonnage. So Q4 tonnage was about 50,000 metric tons, right?

Kunal Shah: Correct.

Sanjay Majmudar: Correct.

Sonali Salgaonkar: And FY-15 was 200,000 metric tons?

Kunal Shah: That is production, it is 187,000 tons.

Sonali Salgaonkar: Okay. 187,000 so out of it cement was 68, mines was 107, and the rest was quarries and utility.

Kunal Shah: Correct.

Sonali Salgaonkar: Right. And in terms of volume guidance you have said that 100,000 to 125,000 tons addition over the next three years. So basically approximately ballpark 25,000 metric tons every year we can assume…

Sanjay Majmudar: That is more but not exactly divided by three it could year-to-year a little variation and this is based on the current business mix.

Sonali Salgaonkar: Sure. Sir any specific number for volumes in FY-15?

Sanjay Majmudar: Around the Kunal gave you about 205,000 to 210,000 we should reach about 25,000 to 30,000 tons more. See a lot of things are happening so as we go we will probably revisit this.

Sonali Salgaonkar: Sure. Sir on the CAPEX front while you have told about the CAPEX progress just wanted to confirm we would be spending about Rs.3 billion in FY-16 is that correct?

Sanjay Majmudar: See total CAPEX is about 600 crores out of which we have already incurred 190 net of the capital work in progress adjustment so about 400 crores in two years. More like it so as about 2 billion per year roughly.

Sonali Salgaonkar: Okay. So 2 billion in ’16 and ’17, fair enough. Sir on the EBITDA margin front we have clocked up core EBITDA margin that excluding other income on a consolidated level at about 26% so it is led by…

Sanjay Majmudar: That does not exclude by export incentive benefit it is other operating income, okay. If you include that it is about 28 plus.

Sonali Salgaonkar: Sure, so it would be because of favorable product mix currency gains and you also mentioned reduction in raw material prices. Sir could we have the quantum how much was the reduction this quarter?

Sanjay Majmudar: No, you see you go as a percentage of sales average raw material cost as a percentage of sales on a whole year basis is this quarter was about 36% but overall if you see it is about 40%. 40% is a percentage of sales.

Sonali Salgaonkar: Okay, got it. Sir your working capital cycle is it fair to assume that it would sustain to about 95 days to 100 days over the near-term?

Sanjay Majmudar: No, Sonali if you look at my debtors plus creditors I mean stock plus debtor minus creditor is about 4.5 month about 4.5 months it is not 100 days. And I think it has to be at that this is kind of business I have single location plants in one country and I am servicing 110 countries with several warehouses, stocking requirement everywhere. I do not think we should reduce the working capital from this level in terms of number of days it is unfair.

Sonali Salgaonkar: Okay, fair enough. Sir and my question, you mentioned earlier that your focus segments would be gold, copper what you…..

Sanjay Majmudar: All the four, platinum, gold, copper and iron but platinum and iron have a particular limitation and a lot of work is going on in all the four segments but a lot of work is yet to be done in this two segment gold and copper.

Sonali Salgaonkar: Sure. Sir what would be your focus markets in terms of geographies?

Sanjay Majmudar: Wherever there mines are being produced.

Sonali Salgaonkar: Any specific reason.

Sanjay Majmudar: Wherever gold and copper is being used we are going everywhere.

Kunal Shah: Okay, Sonali just to interrupt, we also talked about destocking going on and we are seeing restocking being pushed by minors on account of their working capital issues they are trying to conserve cash et cetera the profits have gone away to that extend our guidance is 125 for about three years for this depending on what that cycle means over the next quarter or two we say the margins may not the tonnage is may not be in line so over the next 12 months adjusted for destocking we should do between 20,000 but in destocking may take a toll for this particular cycle of 12 months.

Moderator: Thank you. Next question is from the line of Tanuj Mukhija from Ambit Capital. Please go ahead.

Tanuj Mukhija: The first question pertains to I think in the last six months the prices of forge steel grinding media or the raw material for forge grinding media have declined sharper then ferrochrome. So is there also a pricing pressure from your clients to reduce the price of high chrome grinding media?

Sanjay Majmudar: You see pricing pressure will always be there that is the part of the game but see what happens once the clients start using the product is generally okay. The pricing pressure will be more discernible at the time of the entry point. So this cycle continues Tanuj, we have a lot new mines that we are entering some of the mines we are going to enter aggressively some of the mines we are already steady so I think this is going to be a constant factor let us accept that the pricing pressure will always be there it is the part of the game.

Sanjay Majmudar1: It is also relevant to the mine side the benefit chrome bring so there may be a generic answer also. So yes, it does affect us but that extend you know our work in terms of improving ware rates it needs to be further sharper basically.

Tanuj Mukhija: Okay. Because if I look at your realization actually has increased marginally by 1% on Y-on-Y basis despite sharp fall in commodity prices. So is it because of…

Kunal Shah: You cannot correlate that you cannot because it is a combination of various things right the currency has moved so it is what realized in rupee terms are giving in more in INR terms product mix is function so I do not raw material falling and realization are related parse.

Tanuj Mukhija: Okay. And secondly if I look at I think AIA has always mentioned that they look for development of new alloys high chrome grinding media as part of the R&D but in the annual report the company does not disclose the expenditure R&D in terms of what is the R&D expenditure?

Kunal Shah: That is the case R&D is not like a pharma company a dedicated set of staff and facility is required. All work that we work is at the client side all the trial and error all the operating conditions are things we learned and we go to mines and we just have the good trial at the client side. We do work at our own end but it is difficult to spread through the whole system so it is difficult for hive off and create a system and R&D.

Tanuj Mukhija: I think as you have mentioned I guess multiple times earlier as well that each mine requires a different solution. So would it right to say that you develop products say form Vega to Vega Plus and also better products through learning at different mines is that the right?

Kunal Shah: Correct, absolutely correct. Because we are doing this solution for a particular mine side corrosion maybe much more at one side because they are using sliding process versus impact at some other conditions or because of aberration on input so the solution will depend on what are factors leading to that way and our solution will change in line with that.

Tanuj Mukhija: Okay. And my final question I think you have mentioned a couple of times earlier that AIA are trying to foray into primary crusher can you provide an update have you successfully provided high chrome grinding media primary crusher applications?

Kunal Shah: We have trying and we are getting successful results but one trial does not mean it will work at everywhere else because that is the cycle of time it work us in the secondary crusher as well. So as go to your side as we do more work is when the proof of concept is there you need to apply it and end the process of doing that answer may not be there in near term actually. But it is a solution it establish where it will work, how far it will work, how deep it will work, that is a process if it also does not have a general answer.

Sanjay Majmudar: Yes, but just to add here. We are into it we have been reasonably successful but we will take some more time to say that we have finally arrived.

Moderator: Thank you. Next question is from the line of Mitul Mehta from Lucky Investments. Please go ahead.

Mitul Mehta: Just before I ask the question one small clarification. The export incentive of 75 crores you have putted in the other operating income or in the other income?

Kunal Shah: Other operating income.

Mitul Mehta: Okay, thank you on that. Sir just one or two differences you have mentioned that you know the consolidated numbers needs to be kind of totally focused on. Just one or two small questions there, as I understand the manufacturing is in the standalone entity and you have some small contract manufacturing and basically marketing arms in the subsidiaries. So my question is if the standalone subsidiary the turnover bit can go up and down depending upon how it gets netted-off or whatever happens on the turnover side but on the EBITDA side the standalone EBITDA this quarter was about

195 crores and the consolidated was 157 crores so there is a gap of about 37 crores – 38 crores.

Kunal Shah: The full year transfer pricing adjustments happen in this quarter. We believe margin in all those subsidiaries if it is more than a certain value all of that can satiated back to the Indian company there are transfer price between each of these entity from an income tax standpoint at each of this jurisdictions.

Mitul Mehta: It is in annual spill sir or...

Kunal Shah: It is a zero sum introduces where it increasing that is the accounting adjustment.

Mitul Mehta: My but my question was is it an annual phenomena does it happen every year in the fourth quarter?

Kunal Shah: It depends because we have to estimate what margins will be there the actual maybe more or less at times you may see the standalone being lower and the net result has to leave certain distributor margin the rest comes back to India that happens at the end of the year which is why you see the whole effect only in the last quarter.

Mitul Mehta: Okay. And next question sir that your standalone again shows other income of 137 crores while consolidated at 83 crores the gap of…

Kunal Shah: That is the dividend that the subsidiary paid out but again that gets knock off in the consolidation.

Mitul Mehta: So on that dividend you do not need to pay extra tax so basically and the subsidiary...

Kunal Shah: We receive from subsidiary and when we pay out to AIA shareholders the cascade tax is only taxed once so there is no additional tax there.

Mitul Mehta: Are most of the subsidiaries based out of India or based in India?

Sanjay Majmudar: All subsidiaries out of India.

Kunal Shah: AIA does the sales for Indian and outside India it was a subsidiary.

Mitul Mehta: Okay. So there is no taxation angle to getting money from companies based out of India at all basically whatever dividend comes from there is basically tax free only.

Kunal Shah: It is a normally distribution operation, right, we sell to them transfer price and this then in turn to the customer and it gets consolidated in terms of the final customer sale and profit remain.

Moderator: Thank you. Next question is from the line of Amber Singhania from Asian Markets. Please go ahead.

Amber Singhania: Just two questions, one is how much was the FOREX gain this quarter and for the full year?

Kunal Shah: FOREX gain that is again as we explain is not to be treated as not an IT company where weaker the rupee more the income but nevertheless from an accounting standard it is about 8 crores in this quarter.

Amber Singhania: And for the full year sir?

Sanjay Majmudar: 48.

Amber Singhania: 48 crore?

Kunal Shah: 48 crores.

Amber Singhania: Versus a loss of 95 crore last year, right?

Kunal Shah: Loss of 68 last year.

Amber Singhania: Okay. And also Sanjay Bhai was mentioning about something is happening on the primary segment and it can change the future plans drastically after let's say two-three quarters if you can just throw some more light on that what exactly could be the scenario or just talk idea on that part?

Sanjay Majmudar: See we do not want to talk much about it what we are saying is that work is going on in this segment we have been quite successful. We have started doing some dispatches but a lot of trails are still going on at various very important locations. Obviously see today when we are talking of replacement demand of say about 1 million tons we are talking of the secondary and tertiary. Once we are saying now we have arrived finally in primary it would definitely change the demand dynamics the demand suddenly can go to maybe to 2 million tons. So suddenly all the current capacities and everything that we are talking of that can all undergo a change but it would be unfair to give very loud and very bombastic statement that this point in time when we are at the experimentation stage. Yes, from long-term prospective this is the segment that we are working very acidulously and that is why this was in context of what will you do with extra cash. I may want to incur more CAPEX when I finally draw my plans and then things can undergo a dramatic change in one year time for example. But today if you talk about it is I would say not correct or it is a bit premature.

Amber Singhania: Okay. And sir as you mentioned about the three year guidance in terms of growth of in tonnage so roughly we can assume like 3 lakh tons or 3,10,000 tons is what we are eyeing in FY-18?

Sanjay Majmudar: Yes, I mean you add about 125,000 to 200,000 and that is what you are talking about, correct.

Amber Singhania: And that would be primarily from and that would be completely from mining or are we seeing any uptick happening on the power utilities as well as…

Sanjay Majmudar: Mainly the growth is coming from mining. Most of it.

Moderator: Thank you. Next question is from the line of Viraj Mehta from Value Quest. Please go ahead.

Viraj Mehta: Sir one question if we look at the statements made by the Coal Ministry they are thinking of doing of 1.2 lakh crore of CAPEX to increase coal production in this country over next five years what scope if that happens we are now assuming that really happen for in that case what is the kind of growth we can see both in terms of CAPEX coming to us and OPEX coming to us?

Kunal Shah: Viraj, I think let that happen I think we are not factoring any CAPEX in on any of the three industries and there is no point tracking it to that level. So it will be natural beneficiary as and when that happens and we can give you a few numbers around it next quarter but if we have not done any explanation on what that opportunity could be.

Moderator: Thank you. Next question is from the line of Chirag Shah from ICICI Securities. Please go ahead.

Chirag Shah: In your opening remarks you mentioned some of the mines are optimizing their working capital days so which are the segments which are facing this kind of pressure is this across the board or it is related to particular segment like gold or copper or platinum or iron ore?

Kunal Shah: All commodities are under pressure right now.

Chirag Shah: It is across the board you mean to say?

Kunal Shah: Yes, everyone is tightening their belts essentially.

Chirag Shah: Okay. And sir you mentioned that you have down about 235 crores of CAPEX in FY-15. So can you please give me the figure as in how much is spend on the Greenfield CAPEX in FY-15?

Kunal Shah: About 100 crores.

Chirag Shah: About 100 crores. And what about FY-16?

Kunal Shah: The total CAPEX is 400 crores over the next two years.

Sanjay Majmudar: Kunal, I want to make a small accounting clarification, 235 is the addition to the block during the year however it includes the capitalization of opening capital WIP which was about 95 crores and then there is a closing capital WIP. So I think actual net CAPEX done during the year is about 190 crores adjusted of this CWIP.

Chirag Shah: Okay. And out of this 100 crores is towards the Greenfield CAPEX?

Sanjay Majmudar: That is right.

Chirag Shah: Okay. And sir one more thing, can you give the realization in the dollar terms during the quarter in the full year FY-15?

Kunal Shah: We do not have it right now.

Chirag Shah: Okay. And sir my last question pertaining to your employee cost your employee cost has seen a significant jump on the Y-o-Y basis so what is the exact reason for the same?

Kunal Shah: I think yes, we are gearing up for significant increase as we go 225,000 tons I think by in large things are in place which is reflecting some adjustments we have done to incentivize and make sure that things are in place.

Moderator: Thank you. Next question is from the line of Nainesh Rajani from TATA Mutual Fund. Please go ahead.

Nainesh Rajani: A couple of questions from my end. First of all, as far as the export market is concerned, can you give us what specific regions do you export in terms of percentage?

Kunal Shah: That is difficult to say because we are doing to all mining countries. In fact, a lot of mines are concentrated in countries like in South America, North America, and Australia.

Nainesh Rajani: Stating in Australia region and South America, South Africa that is another region the approximate breakup is it possible for us to get just a broad idea?

Kunal Shah: I think it is difficult to hazard a guess. But what is your question what are you getting at maybe it would be simple to answer.

Nainesh Rajani: I just wanted to get a breakup to that part second, also I wanted to understand sir in this particular quarter you know the realizations have actually increased on a quarter-on-quarter basis I just wanted to understand how does the trading happen especially with you interacting with various currencies where you sell in dollar terms or whether it is in local currencies and how do the realizations actually in an environment where the currencies are fluctuating, your realizations actually increase in INR basis. Please can you just explain that because I am unable to understand that part, sir?

Kunal Shah: The increase is not so large I mean they are just product mix related rupee has gone weaken over this period. So I do not think much to read beyond it.

Nainesh Rajani: No, it is not to read anything it is just for my understanding sir it is not to read anything into and analysis.

Kunal Shah: That we can do it offline I think there is we will have to understand your question better. It is a complex I mean it is whole sum of everything that we are doing you know exactly how does it...

Sanjay Majmudar: Just to add which make sense, we have been always saying it is also a function of product mix in given quarter. This quarter the product mix was a little more favorable the tonnage was slightly more favorable in terms of I would say those types of casting you know it is a function of product mix therefore you could see a quarterly slight increase in realization but a correct yardstick could to be to look at annual realizations that will be much better. You should not get mislead.

Nainesh Rajani: Fair enough sir what I will do is I will probably give Sanjay Bhai call post this call and probably get some details that I wanted to.

Moderator: Thank you. Next question is from the line of Shradha Seth from Edelweiss. Please go ahead.

Shradha Seth: Sir just two-three questions wanted to understand the mining trend you know how it has been in the last three years. As you said, in interim there has been some pressure but I was on call of some global 5A Tire company and you they are also strong in the construction and mining space so what they cited is that in the last in fact this quarter onwards from last two-three year downturn it has now been a flattish kind of scenario so it is trend that we seeing where things are getting a little better except the interim working capital issues of for the miners.

Kunal Shah: Difficult to say really because copper has a very different dynamic compare to say gold which is more investment driven we are already operating close to cost. Iron ore went down to 40 it is back at 55. So I mean it is also relative to where these prices are today and the factors that are affecting the price are not so straight forward. So I think we are okay right now which is why we are not seeing utilization go down or plants being shut but whether that can happen that is difficult to hazard we do not have a view on that as on today.

Shradha Seth: Okay. In the interim have things gotten worse is what my question?

Kunal Shah: No, not really that is what I am saying consumption is going on that is what we have done stress as far as mining the commodity cycles having turned, etc., but we are still a certain amount of ore and we are not seeing plant shutting down.

Shradha Seth: You know geographically are we seeing some geographies which have just gotten worst like we were frightening that you know North America is where there was a big slow in this quarter so are we seeing some trend where some geographies?

Kunal Shah: Not really, nothing that we are seeing as yet specifically like that.

Shradha Seth: And India as of now we are not really having any major contribution in our mining, right?

Kunal Shah: No, we are doing 7,000-8,000 tons.

Shradha Seth: Okay. So as of now we are not building in anything in volume estimate going forward?

Kunal Shah: No.

Shradha Seth: And lastly for the full year we have just 6% volume growth so with this kind of destocking issue you think you know 9%-10% kind of a volume growth is the reasonable or you will take it as it comes?

Kunal Shah: We will have to take it as it comes but we are looking at story is much different, right it is not just being into a destocking quarter. We are saying the market is there. We are doing over one mining site that are trying and I think we are reasonably optimistic about doing tons a 100,000-125,000 tons in next two years. The question of shifting a quarter or two of the miner. This year we will let you know as we see how the next quarter pan out. So we will have maybe more information in July when we are doing the first quarter.

Moderator: Thank you. Next question is from the line of Pranav Tendulkar from FourFront Capital. Please go ahead.

Pranav Tendulkar: Thanks a lot of for the opportunity. So my question is that we mentioned in Annual Report also that the mining segment potential is 1.2 million tons globally and second thing which is counteracting to demand produce from that factor is that the commodity burst is happening somewhere in China and globally and all the commodities are getting affected. So in that scenario I would visualize that to convert a new guy to use a new media will be quite difficult, right? So what will drive that is? If there is some other CAPEX required to convert his plant or mills to our HCMI than the forged. So is there any significant CAPEX required for converting the existing mills to HCMI media?

Kunal Shah: No. Not, really, no.

Sanjay Majmudar: Mr. Tendulkar, in fact I would not agree with the statement made by you then when the mining commodity cycle is in burst and mines are not really doing well it becomes very difficult for them to convert. On the contrary our primary presumption is that we are a better product and we will help save your cost and therefore we will help you make money given everything else as same so why should a person who is not really commercially rational person why he will not look at the proposition which is of his benefit when we are not asking him to change anything incur any new CAPEX nothing everything I do my people work. People flaws, people do trials and then we give a benefit and a better solution. So in fact on the contrary the point is since the headroom between what high chrome industries is today servicing this sector vis-à-vis the total requirement is significant. So even if there is a little bit of commodity downturn as we have mentioned we have not seen a single mine stuffing production so far. B) As Shradha mentioned the previous participant that some ups and downs are bound to happen. When the mining was on a downturn significantly at that time also we have not seen the demand compressing assuming that mines are now slightly better we are quite agnostic to that situation our process goes on of conversion on the cost benefiting and then operating benefit basis.

Pranav Tendulkar: Right. So only risk is that say nickel and chrome prices are going down and then client asking a discount to that. That is the only risk in the business wise if there is a not significant CAPEX required to convert from forged media to HCMI then only risk is that commodity price there is no other risk.

Sanjay Majmudar: See it is theoretical risk the steel prices goes down but ferrochrome does not go down and therefore, the price gap between the steel and high chrome it becomes so wide that it is difficult to bridge that chasm. No that is theoretical risk which we believe in reality when a particular metal cycle goes down all the associated metal prices will also go down. Ferrochrome has a major consumption in steel making so it does not happen like steel goes down and ferrochrome goes up.

Pranav Tendulkar: Correct they will grow with a lag.

Sanjay Majmudar: It happens like this generally so, it is not yes, theoretically that risk exists we have to live with it but practically it is not having that much impact. So dynamics remain the same under different circumstances.

Moderator: Thank you. Next question is from the line of Balchandra Shinde from B&K Securities. Please go ahead.

Balchandra Shinde: Sir would like to know some figures of the last year as you said cement was 21,000 tons versus last year how much it was in fourth quarter FY-14?

Sanjay Majmudar: I do not have those quarter-over-quarter figure. Balchandra we have to take this offline you can send me a mail I will give you numbers.

Moderator: Thank you. Next question is from the line of Siji A. Philip from HDFC Securities. Please go ahead.

Siji A.Philip: Yes, sir do you see the domestic demand in the cement segment going?

Sanjay Majmudar: Domestic demand in mining is very flat as of now. We are just doing 7,000-8,000 tons and none of our growth plans are really based on domestic but yes one of the participants asked if whatever Mr. Piyush Goyal has said that becomes a reality if whatever the Steel Ministry is saying becomes a reality pelletization goes up by 2%-3%-500% then may be in next two-three years mining our demand can go up but as of now it is a very small fraction of the total market that we are really looking at so we are not really worried about it. If it happens good, we will see.

Siji A.Philip: Okay. And what were the cement segment?

Sanjay Majmudar: Cement also internally we are treating it as flattish we have been seeing our supplies to that segment in the range of 70,000-odd tons over the last couple of years and two-three years and it is remaining the same. Next year if suddenly India wakes up and suddenly there is a lot of activity maybe it can increase the demand by a few thousand tons but as of now we are not factoring that also in our budgeting.

Siji A.Philip: Okay. So what were the global demand in the cement please, how do you look at that?

Kunal Shah: Global demand in mining is of course very good because that is replacement that we are looking at that is the biggest thing that is diving us today. Global demand in cement we are not factoring and we are considering it to be the same.

Moderator: Thank you. Next question is from the line of Lakshmi Narayanan from Catamaran. Please go ahead.

Lakshmi Narayanan: I have three questions. First, you have mentioned that the export market for mining is close to around 100 tons for FY-15? Am I right sir?

Sanjay Majmudar: Export is about 198,000 tons to be precise in India.

Lakshmi Narayanan: In this, how much of that was built from the last year and how much was actually which we got from the competition? I am just trying to see how much was the repeat customers and how much was new customer acquisition in that particular tonnage?

Sanjay Majmudar: Sir I would say that almost 60%-70% you can take it as repeat and 30% would be incremental.

Lakshmi Narayanan: Got it and broadly how many distinct mines you would supplying?

Sanjay Majmudar: Around 20.

Lakshmi Narayanan: 20, right. And in these 20 what would be our market share is it always been that they use only one vendor and that will be you and hence your market share there would 100%?

Sanjay Majmudar: It depends from location to location but generally you will as of now we are seeing maybe in some cases we have taken over completely rest I would say in 70% cases it is two supply scenario.

Lakshmi Narayanan: Okay. And so maybe 14 mines you will have two suppliers whereas rest six mines you will be like 100% suppliers.

Sanjay Majmudar: I have to check on this precise numbers.

Lakshmi Narayanan: Got it. And how many mines you have added last year?

Sanjay Majmudar: Currently another 10% to 15% mines are actively under trail. I would added maybe five-seven mines last year.

Lakshmi Narayanan: Okay. So it would have been 15 mines last year and now you would be at 20 mines.

Sanjay Majmudar: Sir please believe these numbers can be very illusive I will tell you, I will give you classic example. If there is large mine and my supply to them is 10,000 tons compare it with a small mine and then do only 2,000 tons so I think this is little I think it would be better to view it segment till segment and for example in South Africa we are talking of situation where we are doing steadily 20,000-25,000 tons in platinum and we are servicing six-seven mines and there is headroom of at least that much quantity to be double over the next two years that’s the potential, okay. In iron for example, in Brazil we are doing 12,000-15,000 tones now we have started in North America we have started in a few other countries we have started in copper in U.S. the entry point is low but the scope if very high. I think mine-to-mine the dynamics can change so the standardization arithmetic I am afraid will not work actually.

Lakshmi Narayanan: So at any point in time it is right to say we are actively working or providing samples to around 10 mines to 15 mines.

Sanjay Majmudar: Minimum. See these are not only samples our people working on ground a lot of activity happening minimum I would say minimum 10 to 15.

Lakshmi Narayanan: Got it. Sir and just one point from an environment point of view what I understand is there is something hexavalent chromium which is kind of polluting to the environment, right and correct me if I am wrong now in the processes of manufacturing our high chrome balls. Is that the process of manufacturing leads to some kind of material pollution in central?

Sanjay Majmudar: Let me explain sir, I would say at AIA we are one of the model companies which are being quoted by the local pollution authorities they are monitoring air. See the only pollution is in emission. We have the highest the emission in air. There is no discharge absolutely. So ground pollution is zero. What we are doing is we have the highest quality of all those air pollution control equipment, scrubbers and stuff which is too technical for me. We have 24x7 monitoring by the State Pollution Authorities and we are always better than their standard. So I do not think we have any difficulty at all from that angle.

Lakshmi Narayanan: And sir in terms of cement industry you had actually mentioned in the earlier to the earlier question that you are seeing some kind of flattish growth in the global cement majors to whom you were supplying as well as also in domestic but is it something which you are kind of deprioritizing because the mining is much more lucrative.

Kunal Shah: No, on the contrary, sir for us every business is lucrative. However, today we are having reasonably I would say quite aggressively high market share in cement worldwide. So if you look at India I am already at 90-95% plus, okay. Now how much more you can take, you get my point? Globally we are already at (+30%) we believe we should be maybe around 40%-45% over the next two-three years so your game is on getting more and more market share.

Lakshmi Narayanan: And the volume growth in Indian cement would be at the range of at least GDP plus something right so?

Sanjay Majmudar: Let us look at the market. Cement worldwide is still about 300,000 tons annual requirement out of that exclude China because China is completely different ballgame China is maybe 120,000 tons China is serviced by only local Chinese player. We do not believe that China can come as a global competition given the customization and very high quality that between AIA and Magotteaux we have created, okay. China is very inferior they are okay locally China cannot work on a solution giving abilities which is more standardized so the ballgame in China is different. 180 odd thousand tons if AIA is 70,000-75,000 tons there is not enough headroom. If I work with a focus way in one mine I can get 10,000 ton value sustained forever in that mine over a three year – four year period, you get my point. Obviously, when I see a huge market I will go for that market.

Lakshmi Narayanan: Okay. Sir and one of the literature of your competitors I have seen they classify it to high chrome and low chrome and we call at high chrome in general, right. Can you help me understand or we can take it later on so that…

Sanjay Majmudar: We think any composition of metal at a below 5% chrome is low chrome.

Lakshmi Narayanan: And we are not in that?

Sanjay Majmudar: We don't have products below 5% so we do not enter into that segment.

Lakshmi Narayanan: Okay. And our chrome is above 5% and it goes up to what percent sir?

Sanjay Majmudar: 30-32 technically.

Moderator: Thank you. Next question is from the line of Sonali Salgaonkar from Axis Capital. Please go ahead.

Sonali Salgaonkar: Just one question about the tax would it be fair to assume that we continue with the current tax rate of about 28% sustainable?

Sanjay Majmudar: Yes, I think so 28-29.

Sonali Salgaonkar: Sure. And our working capital cycle also at similar levels what you said earlier.

Sanjay Majmudar: I think moderator if this is last question maybe you can take one more question and we can close the call.

Moderator: Okay, sir. We have a question from the line of Sandeep Tulsyan from JM Financial. Please go ahead.

Sandeep Tulsyan: On clarification in the previous call we had mentioned that that in addition to that 60,000 ton Brownfield expansion there was an expansion of 15,000 due to some process improvement. So the capacity is 260 currently or 275?

Sanjay Majmudar: No, currently we are saying it is 260 the phase we are adding about 80,000 tons as Kunal explained by Q2 of the current fiscal that takes into configuration that 15,000-odd ton capacity built up at Trichy and about 65,000 tons here.

Sandeep Tulsyan: Okay. So that 15 is part of that 80.

Sanjay Majmudar: Yes.

Sandeep Tulsyan: All right. Secondly, sir within our overall mining sales in volumes how much would gold plus cooper cumulatively be?

Sanjay Majmudar: I think cumulatively gold plus cooper should be around roughly about 40%-45%.

Sandeep Tulsyan: Okay. And this would be a relatively higher growth space versus platinum plus iron ore?

Sanjay Majmudar: Yes, because see platinum has a limitation it is only consigned to South Africa. I would say internally cooper, gold, iron these three can take the growth much higher but even within that I would say cooper and gold.

Sandeep Tulsyan: And so this 40%-45% how was this number three years back like how is it grown?

Sanjay Majmudar: 10% or maybe 5%.

Sandeep Tulsyan: 5% to 10% it was three years back so it is rapidly growing, okay. And broadly what would be your exports number out of this 2,100 crore sales for full year.

Sanjay Majmudar: 75%.

Sandeep Tulsyan: Okay. And sir one last question, broadly what would be the mix between casting and grinding balls currently for full year?

Sanjay Majmudar: Sir that we do not share, I am share.

Sandeep Tulsyan: Okay. I mean not exactly but broadly 80-20 ratio.

Sanjay Majmudar: No, I am sorry. Please do not embarrass us because we are very sensitive about this and we have been clear that we will not share this number.

Moderator: Thank you. Ladies and gentlemen due to time constraints that was the last question. I would now like to hand over the conference call to the AIA Engineering management team. Please go ahead, sir.

Sanjay Majmudar: Thank you very much, ladies and gentlemen we have always endeavor to satisfy your information quest but as you will appreciate we are working in with lot of limitations in terms of the scenario in which we are working. Please feel free to contact us and have a very good evening. Thank you very much.

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