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* Kunal D. Shah

JM Financial Institutional Securities Limited, Research Division - Senior Research Analyst

Good evening, ladies and gentlemen. Thank you for standing by. This is Karuna, 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. (Operator Instructions)

I would now like to turn the conference over to the AIA Engineering Management Team. Thank you and over to you.

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

Thank you, Karuna. Very warm welcome to everyone on the call today for the second quarter numbers. This is Kunal and I also have Sanjay over here and along with some key senior staff of the company.

I hope you all got a chance to look at the presentation with snapshot that we have uploaded but I'll start with a few highlights of the quarter and we can go into a Q&A session thereafter.

For this quarter, I'll talk about figures for this quarter and half year. We've done sales of about 61,695 metric tonnes, which is a total of 125,000 tonnes for the full year. We've done production of about 72,000 tonnes. So there's about 10,000 tonnes of stock that we've accumulated for this quarter and which we've not invoiced. As you know, we produce it in there but we supply on a delivered basis to majority of our customers and a lot of times it's international transit stock. And invoicing is linked to deliveries, et cetera. So there's some timing that also plays a factor in terms of actual tonnages that we invoice.

So for the half year, we've done a production of 142,000 tonnes and if I just annualize it, we know that production should be about 70,000 to 80,000 tonnes, and which reflects about 80% plus utilization of our current capacity of 340,000 tonnes. And so that's the highest ever production for the company.

From a sales standpoint, like I said, 62,000 for this quarter, total of 125,000 tonnes. Of that 125,000 tonnes, about 80,000 tonnes has come from mining. This was tonnages over 111,000 tonnes for the half year last year. So there's about a 15,000 tonne increase in this first half. And of the 110,000, mining was about 66,000, 67,000 tonnes. So mining has improved -- so largely the growth has come out of them from the mining side.

From a revenue numbers standpoint, total sales is at INR 715 crores and for the half year it's at INR 1,500 crores. That's up from about INR 1,100 crores first half last year. So that reflects increase in realization per tonne. What was about 107, 108 in the first quarter is now about 115. That's on account of currency and product mix both playing a factor in that realization. So recent growth (inaudible) in terms of INR 1,100 to 1,400 crores.

Just key other highlights. Our operating other income is about INR 25 crores, which is export benefits. What we've classified as another non-operating in our published results includes about INR 25 crores of exchange gain and the rest is our treasury income. So really, that exchange gain is our operating income, our profit because it will translate into a billing value this quarter onwards.

So that being on the sales side, on the revenue side, on the expenditure side, our EBITDA is at INR 196 crores, up from INR 175 crores in the first quarter, about 26.47% and profit (inaudible) INR 121 crores.

Moving on, I just discussed the other income. So now, other income other than export benefits was INR 20 crores in the first quarter and of that, about just under INR 2 crores. So that has grown from INR 2 crores to INR 25 crores. And of the rest, treasury and export benefits are largely flat or in line with sales.

Working capital standpoint, as sales have grown, the first time jump that comes in accrues to a higher number of days for data for a quarter or two. And which reflects in our receivable days have increased from 84 to 92. A work in progress and

[SG] is by and large flat from 58 to about 62. That's in line with what the trend has been. There's a slight increase in raw materials and that's gone up from 27 to 32. But that will normalize as we speak.

Some other highlights would include our visibility for the future. We believe that the second half we should see at least 130,000 to 140,000 tonnes of sales and that will bring us to 260,000, 270,000 metric tonne sales for the full year up from about 228,000 tonnes in March '17-'18. So we are on track with the guidance that we shared earlier last year. And likewise, we continue to expect adding tonnages for the year thereafter in March '20.

One important development that we would like to share is around the first breakthrough that we made in terms of our arrangement of a joint venture with CEMS where (inaudible) a gold mine. We converted the full supply into our design. So that reflects -- and this is just for information and just for perspective. We don't want to get into tonnages, and price, and all of that. But we are very happy and excited that that arrangement, which was just a few months old and the effort that we've done around mines.

And this is -- we believe this is pioneering work because this breakthrough in linings that we've done for this gold mine, in addition to being more efficient, more importantly, it's going to improve production of gold. They have the additional downstream capacity to handle more throughput of gold being ground -- more gold ore being ground on a counterpart design of (inaudible). That's a benefit of a different magnitude.

In addition to that, we're giving more optimized grinding. So it's a complete circuit solution is what we're offering to this customer. So that's something that we believe is pioneering work, especially coming from a vendor or (inaudible), we are offering this whole bundle of services alongside the improved design product. And that circuit organization, which will include throughput improvement, power consumption improvement, et cetera, will be a win-win situation for us and the customer.

So with that having said, I think I'll hand over to Sanjay to share his thoughts on the quarter and then we'll go on to Q&A.

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

Yes, very good afternoon to everyone. Just a couple of things to add. I think first, on the CapEx side, we have done about INR 68 crores in the first half. Our original estimate for the whole year was about INR 500 crores but going by the run rate with the CapEx is going on, we are finalizing so many parameters simultaneously all the projects are on.

But I think by the current year, current fiscal 18-'19, the CapEx effect is now planned to be incurred will be about INR 326 crores, which includes the first half CapEx of INR 68 crores. And the balance will be in FY '19-'20. Otherwise, we are absolutely on track in terms of all the projects, namely the [Carilla] Phase 2, (inaudible) Carilla Phase 2, which implementation is going on. And also concrete effective steps (inaudible) for the EEMS dedicated mining liner CapEx that we were planning and which we've already made a declaration about. So that everything is on track from a macroeconomic (inaudible).

From a business standpoint, I think we are very much on track on all the key parameters on which we operate, namely one, of course, the fundamental story about mining that is reduction in the [where] rates and where costs, where (inaudible) brings in more benefit with every (inaudible).

Now, very strongly (inaudible) with our initiatives that we have taken on the down process side, which we have discussed in the past. That also progresses quite satisfactory. And now, the third [plank] is on the mining circuit, on the EEMS side. So I think we are quite internally a bit about everything that is going on. And we should be able to share more information as we move forward.

With this, I'll request the moderator to throw the session open for Q&A please.

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Questions and Answers

Operator [1]

(Operator Instructions) The first question is from the line of Ashutosh Tiwari from Equirus.

Ashutosh Tiwari, Equirus Securities Private Limited, Research Division - Research Analyst [2]

When it comes to my question for EMS solutions is (inaudible). And so on the EEMS, I think, I mean having (inaudible) the land and all for the new plant?

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

We only have the land and the pollution board approval for that land.

Ashutosh Tiwari, Equirus Securities Private Limited, Research Division - Research Analyst [4]

(inaudible).

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

Yes, so we are more -- we are in the phase of engineering the plant. As you know, we design and engineer our own plant. So that's the phase that we are in right now. We'll make sure that -- we want to create an automated plan. We want to make a plan for the future and that's where all the effort is geared currently.

Ashutosh Tiwari, Equirus Securities Private Limited, Research Division - Research Analyst [6]

And for this goldmine you talked about, you're supplying only liners or will the (inaudible) solution from EEMS?

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

We are doing grinding media to them as well.

Ashutosh Tiwari, Equirus Securities Private Limited, Research Division - Research Analyst [8]

Okay. And on the (inaudible) gain part, what is realized rate in the quarter?

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

Realized rate was around between INR 69 and 70 crores because when the rupee was weakening, like many companies, we're hedged. We were very happy with the 70-rupee rate that gave us clarity as well as sales and the dollar pricing was concerned. So for this quarter and next, this quarter is around 70 and it will be a little higher in the next quarter.

Ashutosh Tiwari, Equirus Securities Private Limited, Research Division - Research Analyst [10]

So this INR 25 crores was already part of additional income and this is (inaudible) likely in the next quarter, right?

Kunal D. Shah, AIA Engineering Limited - Executive Director of Corporate Affairs [11]

Right. It may not reflect in accounting gain because I believe it will happen at a different rate. But broadly, our realized rupee rate will be higher next quarter.

Ashutosh Tiwari, Equirus Securities Private Limited, Research Division - Research Analyst [12]

Okay. But should I (inaudible) go to the sales number, right, (inaudible) sales number?

Kunal D. Shah, AIA Engineering Limited - Executive Director of Corporate Affairs [13]

This can be added to the sales number, yes. Some of it could be translation. So but it's not a very large number. I think yes, you can do that but best is to just stick with the numbers reported.

Ashutosh Tiwari, Equirus Securities Private Limited, Research Division - Research Analyst [14]

And just to mention that the (inaudible) is quite high on quarterly basis.

Kunal D. Shah, AIA Engineering Limited - Executive Director of Corporate Affairs [15]

Correct.

Sanjay Shailesh Majmudar, AIA Engineering Limited - Independent Director [16]

And it's a function of -- it's a product exchange as well, right.

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

This quarter mining share this quarter increased to (inaudible) on a quarter basis.

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

I don't think it's the (inaudible) versus mining, right, because we're doing lots of product actual and the realization depends on what the actual product is more than the segment. But currency has played a role in the increasing realization.

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

Okay. And on this (inaudible) quarter, how has the (inaudible) there? I mean, are (inaudible) now, or are they stable?

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

Like we discussed, this is a contract where the company is not comfortable talking now. The idea was to only share that we are now engaged with the world's largest coal company. We will respect that our customer's need around keeping things (inaudible) as far as disclosure is concerned. So I think it's going well and it will be part of our sales that we report in the second half.

Ashutosh Tiwari, Equirus Securities Private Limited, Research Division - Research Analyst [21]

Sure. And on the receiver (inaudible) second half?

Kunal D. Shah, AIA Engineering Limited - Executive Director of Corporate Affairs [22]

Yes, we expect it to normalize, yes.

Sanjay Shailesh Majmudar, AIA Engineering Limited - Independent Director [23]

Generally, it's also from (inaudible) monthly sales. So there's a fairly strong sales happening in the month of September. So on an end of the month basis, it looks slightly high but there is nothing abnormal about it.

Operator [24]

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

Bhalchandra Shinde, Anand Rathi Financial Services Limited, Research Division - Research Analyst [25]

Regarding if (inaudible) realizations have improved but the overall margin front, we have stayed flat. Is that largely because gross margins have declined. We have not yet passed through the commodity pressure or it's because of new products, which we have introduced, where we are taking a risk.

Sanjay Shailesh Majmudar, AIA Engineering Limited - Independent Director [26]

(inaudible) just clarify one and let Kunal explain. You see, a quarter is too short a period to really reflect what is actually going to happen. So significant amount of production has happened for orders, which are clearly in our hand. But dispatches will happen in the coming quarter. So we'll see those margins will not be captured but will be at cost, correct.

So there's a 10,000 additional inventory, which we have produced at (inaudible) cost but that inventory that's valued at cost. That's point number 1.

Point number 2, the margin is also a function of product mix and when you say gross margin is declared, I don't know how you can collect gross margin. But I would --

Just the raw material cost reduction.

Sanjay Shailesh Majmudar, AIA Engineering Limited - Independent Director [27]

(inaudible) so what happens is also a function of how you do consolidation in the (inaudible). And going by the way you know you have to translate that average monthly rate, et cetera. My point is a longer duration would be (inaudible) to put the (inaudible) the margins are strictly likely to improve for that point number 1.

The effect of the FX has also not -- currently is not captured this quarter as we said. Because a great part of the sales (inaudible) so that you don't get that benefit of rupee depreciating too soon and too quickly. That is point number 2. And (inaudible) as I explained to you, the other income, as Kunal explained that FX is not end-to-end but it is actually the realized - the translation gain, which has been reported as other income as per the requirement of reporting. But for us, it is an operational income. Correct.

If you add that with your sales, then your margins will certainly look better and the (inaudible) will also. You get my point.

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

What is now bid spark rate for us, dollar rate?

Sanjay Shailesh Majmudar, AIA Engineering Limited - Independent Director [29]

What is now for this quarter (inaudible) the books have been closed?

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

Yes.

Sanjay Shailesh Majmudar, AIA Engineering Limited - Independent Director [31]

It's around 70. The average rate is around 70. Yes, around 70.

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

And roughly, what can effect to tax rate we can assume for full year?

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

It should be around 30%, 32%.

Sanjay Shailesh Majmudar, AIA Engineering Limited - Independent Director [34]

Around 31%.

Operator [35]

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

Sandeep Tulsiyan, JM Financial Institutional Securities Limited, Research Division - Senior Research Analyst [36]

So my first question is pertaining to the export heading (inaudible) about 75% of turnover should be in form of exports right now. So how much percentage of these contracts are denominated in USD and how much is in other currencies?

Kunal D. Shah, AIA Engineering Limited - Executive Director of Corporate Affairs [37]

60% to 70% is in U.S. dollars and balance would be in Euros and South African.

Sandeep Tulsian, JM Financial Institutional Securities Limited, Research Division - Senior Research Analyst [38]

So sir, could you just explain a little bit on how this (inaudible) contract were because typically when currencies are depreciating, I think if you will just sell dollar denominated contracts in future markets, probably there would be a higher topline, but an offsetting (inaudible). But having the [for ex] gain here so I'm not sure how this --

Kunal D. Shah, AIA Engineering Limited - Executive Director of Corporate Affairs [39]

The [for ex] again is because our forward contracts were also at a higher rate. It was a rate higher than what it was billed in that period. In the next quarter, you see some amount of the for ex gain will be lower because it will translate into higher. Please understand, we are reporting a consolidated figure. So AIA is selling in U.S. dollars to its own subsidiary, which then invoices to the client.

Do you understand? So at the level, at the consolidated level, the rupee gain, and loss is a standalone level because that's the reporting currency for the standalone -- the main company reporting currencies in (inaudible). Which is why the bill rate and the final realized rate, the realized rate is because the rupee has (inaudible) has a higher forward rate. You understand?

So both of that gets reported as other income. Next quarter, the billing rate may go higher, and in which case, if the (inaudible) is lower there could be other income loss, the other for ex loss very easily.

Sandeep Tulsian, JM Financial Institutional Securities Limited, Research Division - Senior Research Analyst [40]

So basically you would have contracted more than 70 -- so it's moved up to 70 so the differential becomes your gain in that case?

Sanjay Shailesh Majmudar, AIA Engineering Limited - Independent Director [41]

Today, our billing would have been 67, 68, 69 and we realized 70 and upwards, right. We had, this quarter, it's open -- we had unhedged position as well. So all of that went into our gain.

Sandeep Tulsian, JM Financial Institutional Securities Limited, Research Division - Senior Research Analyst [42]

Secondly, it was a little unclear on this gross margin. I mean I can see that because of higher utilization of 80% we are getting a lot of benefits of operating (inaudible). But other gross margin side, we are not seeing any kind of a benefit flowing through.

Kunal D. Shah, AIA Engineering Limited - Executive Director of Corporate Affairs [43]

The benefit will accrue in quarters going forward. Also, what we were saying is when you look at the gross margin, there's a little anomaly built in because when you produce and it's sitting as stock unbranded in our subsidiary companies, it is at cost,

right. All that revalued gain will accrue in the next quarter.

Sandeep Tulsian, JM Financial Institutional Securities Limited, Research Division - Senior Research Analyst [44]

When you have it built in the stock to typically (inaudible) from cost of goods sold to (inaudible) with material costs, right?

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

Right. But when you're talking about branded stock, we are consolidating anyway. The point being that you should add the gain in the income in the gross margin to arrive at -- the income should be added or expenses should be reduced to the extent to arrive at the gross margin. Real comparable gross margin.

In any case, what we're trying to say is that currency gain is not something that we are -- we are not a U.S. -- we're not an IT company where we're selling in the U.S. -- the country, the United States, right. It's a transaction currency and over a period, we are going to make a -- to adjust our dollar pricing as well. So we will look at cross currency as a pass through as a business model, correct. There will be quarters when there will be a little bit of a gain. There will be a quarter when there'll be an adjustment to that account.

And lastly, the gain that we're talking about in the revalued stock consolidation goes into (inaudible) reflect in the next quarter. You will see a more adjusted reporting profit and loss next quarter, we believe. There's a lot of cross currency increases coming in this quarter when the currency has especially been so volatile. And all we're saying is when you look at gross margin just include the foreign exchange gain as well. Just a simple point there.

Sandeep Tulsian, JM Financial Institutional Securities Limited, Research Division - Senior Research Analyst [46]

The last part is on you guided for volumes in the (inaudible) 70,000. How do you look at volumes going forward next year and by when do you expect the new facility to get commissioned and then the capacity to move up from --

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

Capacity, we will be adding 50,000 tonnes by March '19 and another 50,000 of grinding media -- another 50,000 tonnes by March '20. And we have announced a mill lining plant where currently the accelerated date for that is around March 2020. But if there's any change in terms of our actual ordering, et cetera, we'll keep everyone updated on that. But current plan is 50,000 tons of addition in March '19 and 100,000 tons in March '20.

Sandeep Tulsian, JM Financial Institutional Securities Limited, Research Division - Senior Research Analyst [48]

So what is the guidance on volume size that you want to give for next year?

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

We guided for 40,000 to 50,000 tonnes in March '20 as well incremental.

Operator [50]

The next question is from the line of Ravi Swaminathan from Spark Capital.

Ravi Swaminathan, Spark Capital Advisors (India) Private Limited, Research Division - Assistant VP [51]

So just wanted to know basically are we currently in the process of getting larger clients, just like how we got [Barrett Group]. Are there two more orders like that in the pipeline over the next one to two years?

Kunal D. Shah, AIA Engineering Limited - Executive Director of Corporate Affairs [52]

Yes, yes. Of course. There are quite a few.

Ravi Swaminathan, Spark Capital Advisors (India) Private Limited, Research Division - Assistant VP [53]

And has the market been, like in American space, et cetera, is it opening up to such large opportunity? And have you made inroads into countries like Chile and Peru? And are there any risks in terms of them putting (inaudible) like Brazil, et cetera? If you can throw some light, it would be really helpful.

Sanjay Shailesh Majmudar, AIA Engineering Limited - Independent Director [54]

I think the Brazil matter is still (inaudible), so I think we should not conclude on what that outcome finally would be. Nevertheless, we don't believe -- we believe in fair pricing. You know the margins that we earn also, I mean something generally applies to commodity products where you are undercutting the developed world players. And that clearly is not in our case.

So I don't think something is something that in any case is a fair practice we would want to engage in, number 1. Number 2, from a market standpoint, it's not just Latin America but it's wherever there is a mining potential is where our teams are spread and we are doing work across customer segments, across all types.

And I mean we are fairly optimistic about adding more tonnages as we go forward.

Ravi Swaminathan, Spark Capital Advisors (India) Private Limited, Research Division - Assistant VP [55]

In terms of this lining capacity that we have added. So basically, is there a hope for us increasing the liner supply to our existing customers? What percentage of our customers would be already -- would be customers of liners, also currently customers, already customers of liners? Is there hope to increase within existing customers?

Kunal D. Shah, AIA Engineering Limited - Executive Director of Corporate Affairs [56]

Absolutely there's a scope to increase but it's today constrained by the total capacity that may be available, right, which is why we're setting up a new plan for that.

Ravi Swaminathan, Spark Capital Advisors (India) Private Limited, Research Division - Assistant VP [57]

Okay, but currently we have our own (inaudible). So with (inaudible) can we -- how quickly can we ramp up (inaudible) too? I mean, basically --

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

That will be taken care of by the existing facilities only, Ravi. We can -- it's fungible. It's not a problem. But going by the huge volumes that we are anticipating eventually, we need a dedicated plan for this.

Ravi Swaminathan, Spark Capital Advisors (India) Private Limited, Research Division - Assistant VP [59]

Okay. So in terms of other costs, I mean past two quarters, I mean obviously, volumes have also grown but still there are other costs. The (inaudible) business has gone up by 30%. So is it to do with freight cost going up, and fuel and power costs going up significantly?

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

I think by and large, it's in line with just general corporate but also some legal, as you know. There's legal exchanges that we're incurring in our ongoing litigation in London. Apart from that, it's all standard and customary. Nothing abnormal or off the bat, off the trend. But you said it's gone up by 30%.

Ravi Swaminathan, Spark Capital Advisors (India) Private Limited, Research Division - Assistant VP [61]

I mean year-on-year, if you see (inaudible) growth this year.

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

But if you look at Q1 and Q2, so if you look at that on a quarterly basis, including Q4, you would find that there are more or less, okay. So in Q3 is 210, 235, 242, and 254. I mean it's in line with the sales.

Sanjay Shailesh Majmudar, AIA Engineering Limited - Independent Director [63]

This 30% is something which -- anyway, so as we explained, if you look at quarterly, you will find that they are okay, more or less in line. No problem.

Ravi Swaminathan, Spark Capital Advisors (India) Private Limited, Research Division - Assistant VP [64]

Okay. I understand the topline also has grown but --

Kunal D. Shah, AIA Engineering Limited - Executive Director of Corporate Affairs [65]

There is nothing. The sales have -- if you look at our newest comparison, our sales have grown correspondingly as our expenses also have grown. So there is no abnormal element.

Ravi Swaminathan, Spark Capital Advisors (India) Private Limited, Research Division - Assistant VP [66]

Okay. Fuel costs, et cetera, would it have increased?

Kunal D. Shah, AIA Engineering Limited - Executive Director of Corporate Affairs [67]

Yes, they're all in other expenses exactly.

Ravi Swaminathan, Spark Capital Advisors (India) Private Limited, Research Division - Assistant VP [68]

Yes, but would it have increased as a percentage of topline sales?

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

Not much.

Kunal D. Shah, AIA Engineering Limited - Executive Director of Corporate Affairs [70]

No, not material.

Sanjay Shailesh Majmudar, AIA Engineering Limited - Independent Director [71]

In line with increased production, yes, of course, as a variable. But not as an absolute number, no.

Operator [72]

The next question is from the line of Bhoomika Nair from IDFC.

Bhoomika Nair, IDFC Securities Limited, Research Division - Security Analyst [73]

So just wanted to get some more sense on this. When does the supply start? How easy was it to kind of have the customer kind of accepting and how are the margins on this whole thing? I mean is it better qualitatively? Is it better, similar, or (inaudible) some sense.

Kunal D. Shah, AIA Engineering Limited - Executive Director of Corporate Affairs [74]

So Bhoomika, the first point is that AIA as a company is getting to a different sphere from what it has done in the past. Because in the mining segment, our whole strategy is built around [rail cost], right. So now, here is a middle liner product that we have introduced. We have gone in with a differentiated product. So clearly, margins will be better. In any case, castings have better margins and this should be a little better than that as well, number 1.

But more importantly, please understand this is a very strategic engagement point with the customer, correct. We are talking about improving gold production for them or reducing power consumption for them. So this gives us a lot of tailwinds in terms of engaging with the customer, engaging with senior management at the customer's end, and not just telling them we are a great part supplier but we are a great partner as well because of all the benefits that we bring to the table.

And I think this is just a reflection of that ability. Of course, once these orders starts than the first (inaudible) that we talked about, we'll have to manufacture, we'll have to supply. So there will be a period where we'll actually be looking at what the performance is. So it's a little early to now still convert that into objective data points.

But I think that this gives us visible confidence that our strategy to get into the mill lining space looks well justified and we are focusing on reaching out to our customers, developing more mines. And by the time our plant comes up, we should have enough traction off the back, basically.

Sanjay Shailesh Majmudar, AIA Engineering Limited - Independent Director [75]

Just to add, generally it is not in our culture, but if I may do sound a little immodest. The fact of the matter is that this is a very unique proposition (inaudible) is not into this, does not have this capability of optimizing the mill business. And that is clearly giving us an edge, which you must appreciate. And you see, when we look at the end user competition, I think we have given far better results and this really is a very proud moment. Let's put it like that.

Bhoomika Nair, IDFC Securities Limited, Research Division - Security Analyst [76]

Completely agree. What I'm trying to understand is there is in the past, and we've talked about mining segment, given its very large scope, et cetera, of we've also spoken that we'll have to take into account in the initial phase some entry pricing strategy. So at least in this case, there doesn't seem to be that and the client seems to be convinced on that offering as a complete solution. And there's no margin dilution to that extent.

Kunal D. Shah, AIA Engineering Limited - Executive Director of Corporate Affairs [77]

Correct.

Bhoomika Nair, IDFC Securities Limited, Research Division - Security Analyst [78]

And when do the supplies to this mine start for roughly?

Kunal D. Shah, AIA Engineering Limited - Executive Director of Corporate Affairs [79]

It will be a few months. We've just gotten this thing (inaudible) supply. We'll get into production, supply, transit, installation. It may be at least two quarters from now.

Bhoomika Nair, IDFC Securities Limited, Research Division - Security Analyst [80]

The other thing is we've obviously seen rupee depreciation quite a bit and you also briefly mentioned about this sometime back. We're definitely seeing some benefits in the current quarter and we'll likely continue to see that in the next quarter as well.

But will this have to be passed on to the customer and eventually hand some lower margins to that extent going forward? And on normalized margin (inaudible)?

Kunal D. Shah, AIA Engineering Limited - Executive Director of Corporate Affairs [81]

We don't give guidance on margins. That will be the modeling. We'll leave that to your good judgment because our margin guidance is still 20%, 22%. Currently, something -- at the end of the day, our (inaudible) it goes up, it goes down. We need to engage in fair pricing and making sure that we keep adding value to the customer.

I think beyond that, we don't (inaudible).

Bhoomika Nair, IDFC Securities Limited, Research Division - Security Analyst [82]

What I'm trying to get at is, the customer knows that the rupee is depreciating in Asia. Are they negotiating for a better rate or getting better volumes?

Kunal D. Shah, AIA Engineering Limited - Executive Director of Corporate Affairs [83]

If I say it will negotiate the orders, they do not. I mean it's still a margin related question. I think we'll defer the answer to that, right. We already said what we have to on that.

Bhoomika Nair, IDFC Securities Limited, Research Division - Security Analyst [84]

And just lastly on this whole accounting and from whatever I understood is if you see that realizations are improved partly on the rupee depreciation, apart from the mix. But it's not getting reflected in the margins because production is higher than the sales. And on the --

Kunal D. Shah, AIA Engineering Limited - Executive Director of Corporate Affairs [85]

Hello?

Operator [86]

Bhoomika Nair has just gotten disconnected. We'll move to the next question in the meanwhile from the line of [Priyanka Matur] (inaudible) investor. Please go ahead.

Unidentified Analyst, [87]

In Q1 FY '19, (inaudible) has decreased from 61.65 to 58.47. Could you shed some light on this to why is that decreased?

Sanjay Shailesh Majmudar, AIA Engineering Limited - Independent Director [88]

So there was a small stake sale that our promoter, [Mr. Badreshi] had done early part of this calendar year. And it's on account of that.

Unidentified Analyst, [89]

When will the first two windmills expected to be operational?

Sanjay Shailesh Majmudar, AIA Engineering Limited - Independent Director [90]

So the first two are already operational. The first two windmills are already operational and we've ordered six more.

Unidentified Analyst, [91]

All right. So when do we see them to be operational?

Sanjay Shailesh Majmudar, AIA Engineering Limited - Independent Director [92]

Sorry? The other six will be operational in next quarter.

Operator [93]

The next question is from the line of [Nikla Vishna] from [JD] Investments.

Unidentified Analyst, [94]

My questions were already answered. Thank you.

Operator [95]

The next question is from the line of [Riskesh Puket] from [Alliance] Mutual Fund.

Unidentified Analyst, [96]

I'm not sure whether you made a comment on this but this CapEx plan, I think in Q1 we guided for INR 500 crores FY19 and now, we are saying INR 300 crores. So just -- INR 336 crores, yes. So just throw some light on that. So nothing to read on the impact on volume, right of this --

Sanjay Shailesh Majmudar, AIA Engineering Limited - Independent Director [97]

The last part of that is related to the mill-lining plan. Of course, the deliveries quarter -- for the main equipment is longer than what were estimated. And so (inaudible).

Unidentified Analyst, [98]

Okay. But our guidance stays, right. We do not have any implication on volumes.

Sanjay Shailesh Majmudar, AIA Engineering Limited - Independent Director [99]

No.

Operator [100]

The next question is from Bhalchandra Shinde from Anand Rathi Research. Please go ahead.

Bhalchandra Shinde, Anand Rathi Financial Services Limited, Research Division - Research Analyst [101]

Regarding this mill lining that (inaudible) solutions, as you communicated last time, we'll be able to do around 10,000 to 15,000 tonnes on existing capacity, right? Is that only if we will get any orders?

Kunal D. Shah, AIA Engineering Limited - Executive Director of Corporate Affairs [102]

We already did 12,000 tonnes last year. We should be able to do more than that this year.

Bhalchandra Shinde, Anand Rathi Financial Services Limited, Research Division - Research Analyst [103]

But for mining liners, will it be fungible enough for lining miners?

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

Yes, I'm talking about mining liners. We are already doing that. We're already doing that. We should be able to do some more from existing capacity.

Bhalchandra Shinde, Anand Rathi Financial Services Limited, Research Division - Research Analyst [105]

This application, which we are talking, which we are going to have a technical collaboration. Can it be introduced across all mines or it is specifically to only few commodities like gold, copper, platinum or --

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

It's a (inaudible) improvement process applicable to all.

Operator [107]

The next question is from (inaudible) from [AMSIG]. Please go ahead.

Unidentified Analyst, [108]

Just a question from my side, just one clarification. We are talking about 50,000 tonnes this year and approximately 1 lakh tonne next year so total capacity will go up to 4 lakh 90,000 tonnes. Am I correct on that?

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

Correct, by March '20, subject to the mill lining plant.

Unidentified Analyst, [110]

So there are three segments of 50/50/50 each, right?

Kunal D. Shah, AIA Engineering Limited - Executive Director of Corporate Affairs [111]

And one of them is that mill mining liners. That is the conditional one, which we declared.

Unidentified Analyst, [112]

Surely. And now, coming to the liners, if you can give some more color about how this industry is in mill liners and vertical mills apart from the grinding media? Is it also purely chrome versus forged kind of scenario? Who are the other competitors apart from [Magato] in this industry.

Kunal D. Shah, AIA Engineering Limited - Executive Director of Corporate Affairs [113]

We can come back in more detail offline, but there are incumbents doing conventional designs and offer similar metallurgy as well. Nobody is doing process work. The provisions that we have won with this project is a differentiator, you understand. The design of the product and the foundations that we are building with that is what's bringing about all these benefits for the customer.

Unidentified Analyst, [114]

So just if I'm understanding correctly, the UST here is the services along with it rather than chrome contained in that mill liner (inaudible)?

Kunal D. Shah, AIA Engineering Limited - Executive Director of Corporate Affairs [115]

Home containing may not be a differentiator but the design is -- the design of the linings is a differentiator. That has a very material difference impact on all these (inaudible) we're talking about.

Sanjay Shailesh Majmudar, AIA Engineering Limited - Independent Director [116]

So just to add to what Kunal said, what we are saying is it will improve your throughput so if you're talking about a commodity like gold or copper, it makes a very big difference. You get my point. And the cost of the liner, it becomes insignificant.

And second, we are also talking about improving the efficiencies in the sense, the reduction of power cost, improvement of throughput. So it's the entire grinding circuit improvement that is what we are talking about. So it's a combination of product and the service.

Unidentified Analyst, [117]

Okay. And how big this market could be?

Sanjay Shailesh Majmudar, AIA Engineering Limited - Independent Director [118]

At least 50,000 tonnes. Maybe more.

Kunal D. Shah, AIA Engineering Limited - Executive Director of Corporate Affairs [119]

The mill lining business should be about 300,000 to 400,000 tonnes of annual consumption.

Sanjay Shailesh Majmudar, AIA Engineering Limited - Independent Director [120]

Okay, I was talking about our target.

Unidentified Analyst, [121]

Okay, 3,000 to 4,000 tonnes.

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

300,000 to 400,000 tonnes.

Unidentified Analyst, [123]

Got it. Just last question if I can ask what we are reading a lot about the forging players that they have improved the product significantly and the risk-reward of chrome vis-a-vis forge has come down from what it used to be earlier. Still chrome is better but still the differentiation has come down to considerate levels.

Kunal D. Shah, AIA Engineering Limited - Executive Director of Corporate Affairs [124]

Which forging company has said this?

Unidentified Analyst, [125]

So what we are hearing is that [Malikov] and [ALAC Metal], all these guys have --

Kunal D. Shah, AIA Engineering Limited - Executive Director of Corporate Affairs [126]

You spoke with [Malikov] about this?

Unidentified Analyst, [127]

Hello?

Kunal D. Shah, AIA Engineering Limited - Executive Director of Corporate Affairs [128]

Did [Malikov] tell you this?

Unidentified Analyst, [129]

No, no. I did it on the Google site and a couple of articles I got on that. The forge product has also improved significantly on that.

Kunal D. Shah, AIA Engineering Limited - Executive Director of Corporate Affairs [130]

We have not seen any work around forge products do any different better product. We'll be happy to read your article and we can reflect on that.

Unidentified Analyst, [131]

I'll share with you offline.

Kunal D. Shah, AIA Engineering Limited - Executive Director of Corporate Affairs [132]

Exactly. We don't believe -- see the forge product is a steel product, okay. When you forge, there are limitations on the forging process, on the type of material you can use. You understand that limitation itself puts a constraint on the amount of work you can do on the basic product. There's no metallurgic change. They are casting -- they're a foundry where every batch can be a different product and we are customizing the product for each application.

So (inaudible) is that the forge product is one product, even if they're one more product, let's say there are two products, there are three products but there are still three products here. We are customizing it for each [where] conditions.

But one, importantly, we're talking about other benefits around chrome, right. We're talking about improvement through (inaudible) for gold and copper. We're talking about reduction in toxic reagent consumption. We're talking about improvement in throughputs of oil production. We're talking about reduction in power cost.

It's a whole combination that we bring about to the customer, not just a finite benefit of their cost. And even there, we do not believe that the forging guys have anything that's been a material improvement over what the product has been issued previously. But we'll be happy to -- there has been people calling us about inputs that they'll share with a common (inaudible) we may have. And it will not be fair to respond to hearsay around there being a fictional improved forged product. I cannot respond to imaginary improvements on our competing product. We'll be very happy to respond to that but even if there is, believe that the chrome benefit far outweighs everything else.

I think fundamentally, it's a different approach to the way grinding is done.

Operator [133]

(Operator Instructions) The next question is from the line of Gopal Nawandhar from SBI Life Insurance.

Gopal Nawandhar, [134]

Can you help us understand how this chrome industry, chrome product industry has grown in the last three, four years, and what is the proportion of this currently in the overall industry?

Sanjay Shailesh Majmudar, AIA Engineering Limited - Independent Director [135]

Of course, we can take this at length offline but just to summarize, we believe that the opportunity of replacement of these well parts in grinding and crushing that is extensively used in mining, terminal power plants as well as (inaudible) are the three industries that we are talking about. Our current focus is on mining. Because worldwide, if you look at the level of penetration as compared to mining itself, which affords an opportunity of at least 2.5 million tonnes or thereabouts based on our internal estimates, maybe around 3 million tonnes. Hardly 10% or 15% is migrated to high growth. The rest is being serviced currently through forged media.

As Kunal was addressing the previous question, there is a lot of benefit that we can associate with the use of high chrome. And high chrome branding is the main product that goes into grinding and crushing, as compared to forged. The benefits can be summarized briefly. One, there is a significant reduction of (inaudible), which of course helps in reducing the well cost per se.

Secondly, from a qualitative standpoint, because of the use of high chrome in several applications where, for example, there is the use of seawater or highly corrosive working conditions or where the recovery and what we call it as the downdraft has been very critical. AIA has done extensive work and a lot of development and activity around it to now establish clearly that there are significant benefits that we can offer thanks to the use of high chrome as compared to forged.

This could be in terms of reduction in the cost of order, the costly reagents, et cetera, like cyanide, and improvement in throughputs, which is very, very important. And of course, the third leg is the grinding circuits, per se, where now we can add value.

So we believe that as a high chrome player, AIA has the complete wherewithal to address the huge opportunity of conversion of a lot of customers from their forged to high chrome use. So there is a long and short of the story in terms of an opportunity, and the penetration, which is very low, which has presented opportunity. Challenges are of course there. Competition will always be there either from the forge players or from the major high chrome players that is [Magato].

But we believe that we have with the wherewithal and the right ammunition to effectively convert in a consistent and a long-term sustainable manner.

Gopal Nawandhar, [136]

I agree to that. I just wanted to understand, so what has been the growth or how has been the convergence in the last 3 to 5 years, whether this 20% was like 5% or that I know the growth is similar to industry growth.

Kunal D. Shah, AIA Engineering Limited - Executive Director of Corporate Affairs [137]

We will this year do about 180,000 tonnes in mining, 170,000 to 180,000 tonnes in the mining space. And it was zero 7, 8 years back. And our competition would have added some chrome as well in the mining space. So that's the capacity addition. Whatever has been converted to growth overall has come from the net capacity that we have added in this space essentially.

Gopal Nawandhar, [138]

Has the industry also grown in a similar fashion or you only --

Kunal D. Shah, AIA Engineering Limited - Executive Director of Corporate Affairs [139]

The industry has two major players, ourselves and [Magato] in the high chrome space.

Gopal Nawandhar, [140]

I'm talking about high chrome.

Kunal D. Shah, AIA Engineering Limited - Executive Director of Corporate Affairs [141]

And also really talking of grinding media. Of course, if you look at liners than there could be a few other players who do high chrome liners because that is a principle. And so actually, our competitor would have grown his volumes. We have grown significantly. We believe therefore that given the opportunity landscape, we should be able to add at least a minimum volume incremental growth of 40,000, 50,000 tonnes every year, which is given based on tremendous work that we are doing for developing.

Please understand it takes a very long time for us to develop the correct solution, go through the whole process, and then start commercial supplies. It's not just like that, you walk in, and you start supplying from the next day. So this is a significant process that goes on. And given all those parameters that I discussed, given the fact that are now getting a lot of further inputs, we believe we are one of the most prominent companies in this space, if not the only company.

Gopal Nawandhar, [142]

The second question was are there any instances where people shift to chrome and then going back to forge?

Kunal D. Shah, AIA Engineering Limited - Executive Director of Corporate Affairs [143]

Not that we remember. Not that we know of.

Operator [144]

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

Sandeep Tulsian, JM Financial Institutional Securities Limited, Research Division - Senior Research Analyst [145]

I wanted to understand one thing. This EEMS contract that we have got, we've actually converted it in a very short timeframe. So could you just explain if you were to approach a customer with already, you are in discussions earlier? Is it because of that or is there approaching customer where you --

Sanjay Shailesh Majmudar, AIA Engineering Limited - Independent Director [146]

I think it is a different cycle (inaudible). If it's a pure grinding media play, it takes a lot of time for various reasons. If it's a (inaudible) experiment or development to a job that we had started to do based on the EEMS technology and the know-how that we got on the design and it's very effective. And we could demonstrate in a relatively shorter -- comparatively shorter period that what could be the tremendous advantages that we can bring on the table if there is a competition thanks to this unique EEMS technology.

And that is the main reason why it's a completely different application. It is not grinding media. But the same customer, we are also doing lining media. That's a separate situation. Please understand. One of the previous questions, Kunal clarified that (inaudible) co-branding the same gold mine. But that's on a separate platform. You get my point.

Kunal D. Shah, AIA Engineering Limited - Executive Director of Corporate Affairs [147]

So yes, you are right. It's on a shorter cycle. That may not be representative of the average time but it's just a constructive effort to see where this goes.

Sandeep Tulsian, JM Financial Institutional Securities Limited, Research Division - Senior Research Analyst [148]

My only attempt is to understand if you are going to, say, a new customer who you haven't interacted in the past, how much time it should take and --

Sanjay Shailesh Majmudar, AIA Engineering Limited - Independent Director [149]

This is hard to say. We will share it on the -- if it comes (inaudible). Right now, it's not something 1 month or 10 months. We'll see. This is something that we've raised a very large goldmine. We've found success. We just wanted to share all that. I think we'll share over the coming quarter on how far we progress with that. Okay. Too early to generalize and answer that.

Operator [150]

(Operator Instructions) As there are no further questions from the participants, I would now --

Sanjay Shailesh Majmudar, AIA Engineering Limited - Independent Director [151]

Let's conclude the call.

Kunal D. Shah, AIA Engineering Limited - Executive Director of Corporate Affairs [152]

Thank you so much. Thank you everyone for joining the call. Wish you a very happy Diwali in advance and Sanjay, (inaudible) and I will be there to answer any other queries you may have. And looking forward to engage with you through the quarter and connecting at the end of the third quarter. Thank you. Have a good evening.

Operator [153]

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 disconnect your lines. Thank you and have a great evening.