"Kirloskar Ferrous Industries Limited
Q4 FY '24 Earnings Conference Call"
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MODERATOR: **MR. PALLAV AGARWAL – ANTIQUE STOCK BROKING**

Moderator: Ladies and gentlemen, good day, and welcome to the Kirloskar Ferrous Industries Limited 4Q FY 2024 Earnings Conference Call, hosted by Antique Stockbroking Broking. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing star and then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Pallav Agarwal from Antique Stockbroking Limited. Thank you, and over to you, sir.

Pallav Agarwal: Yes. Thank you, Dorwin and good afternoon, everyone, a very warm welcome to the fourth quarter results call of Kirloskar Ferrous Industries Limited. We have the senior management team represented by Mr. R.V. Gumaste, the Managing Director; and Mr. R. Srivatsan, the Executive Director of Finance and CFO, that's on the call today.

So I would like to now hand over the call to Mr. Gumaste for his opening remarks. Over to you, sir.

R.V. Gumaste: Yes. Thank you very much, Pallav. And let me, first of all, welcome all the participants for the earnings call, quarter 4, FY '23-'24 and it's my pleasure to update you on the results. Let me start with the production capacities during the quarter, i.e, the quarter 4. We produced 1,41,835 metric ton pig iron against last year's 1,38,000, up 2.4%. And overall, if we look at the full year, we produced 5,34,728 metric ton against 5,27,170 metric ton, about 1.5% more.

We could have produced a little bit more because of the drop in margins.we had to close down Hiriyur plant for a few days. Otherwise, it could have been slightly better. In the year we had planned shutdowns, upgrade of blast furnace 1. We had closed for 90 days. And we also had 45 days stoppage of Hiriyur blast furnace for refractory line.

So we could improve the tonnage by 1.5% in spite of all these changes. The productivity levels were good, but we had the planned and unplanned shutdown of the blast furnace. In case of castings, during the quarter, we produced 30,000 tons against 34,000 last year, a drop of 11%. But if you look at overall the year, we produced 1,31,434 tons against 1,37,000, about 4.7% lower because of the drop in the demand for castings for tractor industry.

Otherwise, we could have gone up in volumes at least by 10% to 12%. Coming to the sales quantity. Pig iron, we sold 4,81,824 during the year against 4,80,000 last year, up 0.3%. And for the quarter also, it's 1,33,148 tons against 1,25,056 tons, increase of 6.5%.

In case of casting, for the quarter, we sold 28,000 tons against 31,000 last year same quarter. Whereas, the annual volume dropped from 1,30,000 tons to 1,20,000, drop of 7.9%. As all of you know, during the quarter or during the whole of last year, there was substantial drop in the commodity prices.

If you look at the pig iron prices, last year's average was INR49,400 per ton and --, '22-'23 was INR49,400 ton, and last year was INR43,444 per ton, a drop of 10.1% in the commodity price.

So whatever was small increase overall sales of pig iron dropped from INR2,374 crores to INR2,093 crores, drop of 11.8%. In case of castings, overall for the year, the sale is at INR1,508 crores against INR1,673 crores, drop of 9.9%.

In case of castings, drop is because of the cost of volumes going down in case of pig iron and commodity price correction. The average sales realization for castings was for the year '23-'24 was INR125.67 paisa against last year's INR128.37, so a drop of about 2.1%. We continue to reduce the power and fuel cost. This year, the power and fuel cost came down from INR131 crores to INR124 crores. ERE under control at 4%. There is a substantial drop in the EBITDA from last year INR618 crores to INR484 crores, 21%, or INR134 crores loss, mainly because of the margin pressures in pig iron, almost the entire year and also drop in casting volumes because of the tractor industry.

So we couldn't achieve the growth on casting. PBT came to INR261 crores against INR472 crores and PAT from INR351 crores to INR196 crores. Other receivables, inventory, GCA are under control. This year, we moderated the capex. So we invested INR263 crores against INR548 crores last year.

All low payback important capexes continuing and only nonessential and long capexes have been kept either on hold or going slow. Overall, borrowings controlled from INR900 crores last year to about INR1,000 crores this year, including the working capital.

The increase in the total borrowings was also, because of our investment, are close to INR120 crores in Oliver foundry, which is acquisition cost plus the restoration expenses we are incurring today.

Looking at the market scenarios, I'm happy to note that in the tractor industry, we are able to see the initial signs of revival. The schedules for the month of May have improved, and I expect sustained volume to continue at least for coming 3 to 4 months.

I hope after that, after the election and the new government at the center, there should be revival of demand. At the same time, the commodity prices, especially steel scrap and also pig iron prices have started looking up. And we have been able to increase the pig iron prices anywhere from INR2,000 per metric ton to INR4,000 per metric ton, which should help us in recovering the margins and thereby improved profitability in the pig iron business.

With respect to iron ore, there is a pressure on iron ore prices, both fines and lumps have been going up. And in case of coking coal, there has been some downward correction, as we stand in the first quarter versus earlier quarters. This should help us in cutting down our coal prices by $30 to $40 per ton of coals procured.

This should help us to mitigate cost pressures in pig iron. Other than this, I would like to mention here that other essential projects, both in KFIL and ISMT continues. And during the last quarter, we have commissioned the pulverized coal injection and stabilized use of pulverized coal injection, both for basic grade or steel grade as well as the foundry grade.

We are working towards commissioning of solar power plant in ISMT as well as oxygen enrichment project in KFIL, Koppal, and also working on restoration of Oliver foundry, hope to start the foundry in the month of July.

With this closing remarks, I will close here and open the conference for question-and-answer. Thank you very much.

Moderator: The first question is from the line of Aashav Patel from Molecule Ventures PMS.

Aashav Patel: Sir, my first question is that, as you mentioned in the opening remarks, there are key RM, which is coking coal, has been on a decline and at the same time pig iron realization has been a very fast uptake from 42,000 per metric ton to around 47,000 per metric ton, so at current RM and realization, can we have our margins in the pig iron segment already reached the level of around 15%?

R.V. Gumaste: No. I think it's very important when you are talking about the numbers of 41 going to 46, you are talking of the sales in North. And sales in South, I think the increase is moderated. And also, it's very important that the impact of reduced coking coal would get adjusted with the inventories. And definitely, there will be an improvement in the margins, and it can take some time to get the full benefit.

Aashav Patel: What would be our Q4 exit inventory cost for coking coal, sir?

R.V. Gumaste: Typically we can maintain about 3 months inventory of coal.

Aashav Patel: And what was the exit inventory cost on our books for quarter 4?

R.V. Gumaste: What is meant by exit inventory?

Aashav Patel: What is the cost of coking coal on our books at the end of the financial year?

R.V. Gumaste: No, I'm just telling you last quarter, our average blended cost was in the range of $260. And currently, whatever the new purchases are in the range of, $220.

Aashav Patel: Got it, sir. Sir, my next question is since last 3 years due to ongoing debottlenecking related shutdowns, our pig iron volumes have been stagnant at around less than 5 lakh metric ton per annum. Now that we don't foresee any planned stoppages over next 2 years, what are your estimates for FY '25 pig iron sales volume?

R.V. Gumaste: See, there are 2 aspects. Currently, we are at a level of production capacity of about 54,000 metric ton per month. This is our production capacity after the adjusting for the sculland the production can go up at least by 12% to 15%, once we start oxygen enrichment, which we expect to start from October.

And until that time, it will continue at this level, which amounts to, you can say 55,000, you can say, our hot metal production approximately to -- our production capacity today is 6.5 lakhs.

And you have to remove the 3% scull generation and the hot metal consumed in our own foundry. And after the merger of ISMT, again, there will be a sale of pig iron to ISMT will become stock transfer. But otherwise, we can say that today, we are in a position to sell 1.5 lakh per quarter or per 6 lakh per annum.

Aashav Patel: And the remaining 50,000 would be used internally.

R.V. Gumaste: Some portion, 3% becomes scull, remaining, I think, 20,000 to 30,000 we consume internally in our foundries.

Aashav Patel: Got it, sir. Sir, my next question is regarding the Bharath Mines. Last month, on the forest clearance EC website, we saw that Bharath Mines has already got Stage 1 clearance. So when do you expect the Stage 2 clearance to come by so that we can commence the mining operation

R.V. Gumaste: We have got clearance for Stage 1 and Stage 2, both for the mines. And approach road, we got the clearance for Phase 1 and Phase 2, we will get any time. As you know, elections going on, many officers on deputation, number of reasons. And we are in the process to close everything. And I'm hopeful that now light at the end of the tunnel mine should start.

Aashav Patel: Got it, sir. So once we get the road clearance, we don't need any other incremental clearances? We can straight away start the mining operations. Is that correct understanding?

R.V. Gumaste: Yes. See, there are so many small, small things, weigh bridge, connectivity to RFID. So there are some things, but the major hurdle of environmental or forest clearance aspect is over, and the routine mines operation issues could be there, but we are ready to start immediately.

Aashav Patel: Got it, sir. Sir, last question on the casting segment. Usually, quarter 4 in the casting segment is the best quarter, but we have posted the lowest volume in Q4 throughout FY '24. and this was despite having the incremental foundry capacity from the new Phase 1 of Solapur. So what is your volume outlook for FY '25 when it comes to casting segment?

R.V. Gumaste: See, currently, I just mentioned that immediately to start with the year, there is an improved interest for casting from all the sectors. I'm talking about after April -- May. And we are finding that we should be able to ramp up the volumes. Solapur Line 2 customers castings are also under development. We should be able to start some substantial volume from foundry 2 in Solapur.

And as I mentioned, Oliver also, we are starting the foundry in July and submission of samples. We expect some volume addition to come from Oliver also. Overall, this year, we look forward to have some substantial sales volume action to our current level of 1,20,000 - 1,25,000. So we would like to recover some lost ground of last year as well and push ahead with the better volumes in castings.

Aashav Patel: Sir, any rough quantification, if you can give it?

R.V. Gumaste: See, first step is to go back to 36,000, which we have done already 1 quarter and then to go to 40,000 and 44,000. So that's the kind of numbers I'm looking for the coming quarters. Whether I can do 36,000 this quarter, still fingers crossed. We could be slightly lower. But we would like to quickly go to that level, which is 12,000 per month and then a ramp up going up to 15,000 metric tons per month before we end the year.

Aashav Patel: Got it, sir. Just a follow-up on this. Given that we were significantly improving our casting segment capacity altogether from close to 1.45 lakh to 2 lakh and eventually 2.5 lakh, why we have not added any customers since last 3 years? There's a number of clients still remain at around 26 clients. So what is our strategy to increase this volume uptake?

R.V. Gumaste: No. Actually, what I was mentioned this earlier call, I think I have answered to one of the queries. See, many customers in our portfolio, except the top 5, are at less than 2%, 3% of our volume. And many of those customers are interested to develop more components and to add more volumes to that.

As we already have 23, 24 customers, our aim is to add volumes in all the customers below that 5 top customers. I think huge potential. We are working with them. They are interested. We are interested. We will see volumes grow and share our business go up with many more customers than the top 5 customers.

Moderator: The next question is from the line of Achal, an Individual Investor.

Anchal Yes. Sir, I would like to ask firstly about the insights about the current market demand, and the near future, like what we are having an outlook because of the demand revival that has happened in the pig iron market. So what are we eyeing in the new future?

R.V. Gumaste: Yes, for the pig iron itself?

Unknown Attendee Yes, yes.

R.V. Gumaste: No, I just mentioned to you that we are at a level of production capacity of 55,000 metric tons, which will go to 60,000 metric ton per month once we have the oxygen enrichment. So that maybe 55,000 will go to 57,000 -58,000 metric tons per month. So 30,000 -40,000 increase with oxygen enrichment.

So till that time, of course, our focus is to produce full without oxygen enrichment. And basically, the revival part is not only just in demand in terms of margins. So we have the set of cost numbers and other is the margin. So some signs of improvement in the pig iron margins. That's what I mentioned. Otherwise, we have been producing whatever except the stoppage of Hiriyur foundry. Otherwise, we have been producing and selling full quantity.

Anchal Okay. Sir, what is the margin improvement that we can expect in the pig iron segment?

R.V. Gumaste: No, I just mentioned across the industry about INR1,500 to INR2,000 is the increase has happened on an average. But also, there is 1 more thing, recent indications show that the steel scrap prices have picked up in the last few days. I expect that to push the pig iron prices up. I'm looking forward for further improvement in the pig iron prices and further improvement in the pig iron margins.

Anchal Okay. And sir, are there any shutdowns planned in quarter 2 or any other quarter as of now?

R.V. Gumaste: No, no plans of any immediate plans of any shutdowns in blast furnace 1, 2, 3.

Anchal Okay. Sir, 1 last question. What is the benefit derived from the PCI commissioning that has happened and in terms of cost savings and such benefits?

R.V. Gumaste: No, I think we have achieved the objectives of the plan of PCI. Phase 1 is without oxygen enrichment. We have been able to use around 50 kg of PCI per ton of foundry grade pig iron, Upto 280 to 290 kg per ton of basic grade or low silicon pig iron. And this has given us on an average replacement of about 60 kg, 30 kg through the consumption benefit it has given, equivalent of 30 kg, and you can say that, that amounts to about INR1,000 per ton of hot metal.

It was very essential as we had the margin pressures. So it has a bit objective. Now we are focused on going for the oxygen enrichment and double the use of pulverized coal injection in the furnace.

Moderator: The next question is from the line of Shyam Garg, an individual investor.

Shyam Garg: My first question was with respect to the demands we foresee from the exports and deemed exports in casting sector, how it has been for this quarter and the coming quarters?

R.V. Gumaste: Yes. Thank you very much. I think most of these exports and deemed exports are from the auto sector, commercial vehicles, and demand for that is well sustained. And I expect the further improvement to come into that. And I would say that there is no drop in the demand for castings from the deemed exports front.

Shyam Garg: Any specific reasons for that?

R.V. Gumaste: No, one is in general when tractor went down in this last 8-9 months, the auto sector performed reasonably well. Especially our customers, you know our customers, they did well and we were reasonably well supported on the auto.

But rather, we added about our sales volume addition into auto sales, was about 5% to 6%. And in the infra or earth-moving equipment sector, our volume addition was about 15%. And it got muted because of the tractor sales.

Shyam Garg: Okay, sir. Sir, any specific time line by when you will start the Oliver foundry and production at Oliver?

R.V. Gumaste: I just mentioned that we plan to start sample production in July. And thereafter, within 2, 3 months, we will start commercial production, rather sometimes it happens, we submit the samples in July and if demand is good, we start the regular supplies. So July, we are starting the foundry.

Shyam Garg: Okay, sir. And there any updates regarding the ISMT? By what time we can expect the merger to complete?

R.V. Gumaste: Merger is subject to NCLT approval and it is with the NCLT. And it could take, I don't know, maybe a couple of months more.

Moderator: The next question is from the line of Pradeep Rawat from Yogya Capital.

Pradeep Rawat: So my first question is regarding the seamless pipe division. So during the last decade, the seamless tube industry witnessed heavy dumping from China and now the industry is faring quite well particularly -- partially due to antidumping duty. So my question is to how much extend the antidumping duty is helping domestic producers like Kirloskar and ISMT? And what kind of pressure could we face if ever these duties were lifted?

R.V. Gumaste: Yes. First of all, thank you very much, a very interesting question. Thank you very much for that. And with the support, as we mentioned with the reduced dumping, we could sustain volumes and basically well supported from oil and gas. But general engineering and bearing tubes, we still see dumping happening, because of bringing and reporting the materials in different forms. And the impact is still very, very substantial. So we have sustained and improved the quantities because of the oil and gas support.

And also because of automotive industry doing well and hence, supported by the auto-related sales, but still some amount of dumping is happening. In those specific areas, we are approaching the government to support us, to give us the playing field and not to fight with the dumping scenarios.

But otherwise, if you look at the seamless steel industry, we have been seeing good run, and we expect after we have taken over we have substantially increase the production and sales, but we have some job to do with respect to debottlenecking and also to enhance our the portfolio of offerings, including the premium couplings and other sizes of tubing.

We are working on that, and we look forward to enhancing our offerings as well as our volumes in coming quarters and coming years in ISMT, including the increased sale of steel from ISMT, Jejuri plant.

Pradeep Rawat: Great, great. And so with regard to premium coupling, so are we looking for any kind of JV with some international players?

R.V. Gumaste: Absolutely. We have to go in for that. And currently, we are working with 1 of our partners, who have been with us. And with that, we have been able to offer and supply. But in the long term, we will definitely look for it.

Pradeep Rawat: Great. So my next question is regarding our recent expansion at Solapur plant, both Phase 1 and Phase 2, is a little more expensive than the inorganic expansion we made in the North, is there additional benefit that we should expect from this higher investment?

R.V. Gumaste: No. First of all, let me assure you that the kind of investment we made, INR170-odd crores, I think for creating automotive foundry with robotic core making and advanced technologies. I would still say that it is far less investment compared to a totally greenfield foundry.

At least the investment is 30%, 40% lower than an absolutely greenfield foundry. And Phase 2, yes, we will be required to invest some more, but the production capacity of the foundry goes to

40,000 metric tons per annum. And we are talking about high-end castings with the cores being produced in the core centers.

And we are looking at EURO6, EURO7 and high-end customer demands, close tolerance castings. They need special equipment, and we will be investing for that, and we expect to produce and export good quality castings and also supply to the Indian customers. Their price levels are different, and they are not ordinary foundries.

Pradeep Rawat: Yes. Okay. So just to follow up on that. Along the same line, we bought wind power capacity in ISMT, quite cheap so when compared to the solar capacity. So can you shed some light on that, too?

R.V. Gumaste: No. See, there's a very important aspect we can get second-hand wind, but we can't fill the total megawatt capacity with that because they have low technology, invested 15, 20 years back, and their efficiency of generation is low. So there is a lot of calculation behind that. we have to compare solar power generation with respect to new wind capacity.

We can't compare it to old because if you fill up with old, utilization level comes down. So if you compare today also solar with wind, wind efficiencies have gone up with the capacity improvement per fan. Now you can think of 2.5 megawatt - 2.8 megawatts, even 3.5 and 5 megawatts. So the efficiency levels have gone beyond 40%. They can generate double up the solar.

If you look from all these aspects, I have mentioned earlier also, our long-term plan is to invest and cover 74% of the power with solar and 15% with the wind, and that is the best and beyond that, whatever 10%, 12%, 15% will be from the grid. And we have to see how to cover that.

But our initial focus is for 85% coverage with renewable energy. Substantial steel production will go to green steel production and that is the focus. At the same type, of course, it brings down our power cost very substantially.

Moderator: The next question is from the line of Keshav Pareek from Pisquare Investment.

Keshav Pareek: My question is regarding ISMT bottlenecking, which was taken over by last quarter, about INR100 crore project. And to Baramati, we were expecting to complete by June '24, may I know the progress about that?

R.V. Gumaste: Yes. I think we have progressed quite well on debottlenecking. And our teams have confidence today at Baramati that July onwards, they should be a position, subject to orders, production and sale of up to 12,500 metric ton in a month.

Keshav Pareek: That's from increase from 10,500, right, per month?

R.V. Gumaste: 10,500, you are right, sir. Let me add, though, some of the debottlenecking projects are in progress, and I expect it to complete by the end of June end quarters.

Keshav Pareek: And what about the outcome estimates for ISMT and average volumes?

R.V. Gumaste: No. See, there are 2 aspects. One is the order booking, the product mix and then, of course, production and sales. We are very keen that this year, we increased the volume sales between Baramati and Jejuri because we went last year, you can say, almost flat, 1,57,000 tube sales. And we are very keen that this year, we at least achieve a 10% to 15% growth on the top line in terms of the volume.

We have booked some good oil and gas orders. We have some more orders to be booked before the end of the year. And we are looking at the tubes sales growth this year along with steel sales growth in ISMT.

Keshav Pareek: And what's the position of our order book currently right now?

R.V. Gumaste: No. I think still -- a lot of gap filling still going on. Oil and gas, we have done some announcements, and we have booked some good orders. Further, the tenders are coming, and we are confident to book some more to cover it. But if you look at today, the bearing market has improved.

The power plants also -- projects are yet to come up. General engineering yet to come up. These 2 sectors, general engineering and power sectors, which are project in nature, are yet to take off. And we expect that after the elections we must see some revival in that also, which should support us overall to really look for volume growth in ISMT.

Keshav Pareek: And again, on Kirloskar orders, we have seen that most of the orders are about to complete. And any outlook for new orders coming in?

R.V. Gumaste: No, Kirloskar Ferrous, I said that we work with our customers auto, tractors, earth-moving equipment. These are not project in nature. They are ongoing businesses. We have a number of castings under development, and we have a number of components which are ordered for development and CDL productionization in quarter 3 of this year, quarter 4 of this year and next year is lined up.

I would say that the order book position is quite robust to continue loading the foundry because as you know, from 1,50,000 capacity or 1,60,000 capacity, we are moving towards more than 2 lakh capacity.

Today, we can say that our capacity to produce and sell is definitely 2 lakh ton and which we plan to take it to 2,50,000 tons. And of course, it won't happen in 1 year. We expect that within next 3 years, we should double the sales and we go towards 2,50,000.

And order book positions and the development of casting with our customers and also possibly adding few more customers is in progress to support this program.

Keshav Pareek: Right. The last 1 from my side is, what about implementing PSI, which was about to reduce our cost and save about 60 ton of coking coal we had in last quarter?

R.V. Gumaste: I did mention in the earlier question that Phase 1 or pulverized coal injection without oxygen enrichment has been implemented, and we are getting the expected benefit. On an average, we have been able to use about 60 to 70 kg.

And we are working on commissioning the oxygen plant, and we expect from October onwards, we will increase the average pulverized coal injection to about, you can say, 100 kg per ton of hot metal, up to 150 for steel grade and maybe 80 kg for foundry grade.

On an average, we should get up to 200 -- about 110, 120 kg per ton of hot metal, which would be a very optimum level to get the best possible benefit of pulverized coal injection.

Keshav Pareek: And any specific reason why we see a delay in oxygen enrichment? Like we were about to start by June, July and now you're saying 1st of October?

R.V. Gumaste: I think -- no, we went into ordering, but the delivery periods are longer for oxygen plant that is where we got stuck. The large compressor deliveries are like 16 to 18 months and then it goes I think I can today say we had -- we didn't plan well in advance to bring oxygen plant project ahead of the PCI project.

Other alternative is to buy oxygen. Many people do that, but I am finding buying the oxygen overall cost economics is very marginal benefit. So we are going ahead with our own oxygen plant which powered by our power plant. So another 4 months, we have to wait before we get that one.

Moderator: The next question is from the line of Sahil Rohit Sanghvi from Monarch Networth Capital.

Sahil Sanghvi: Congratulations for giving a good result even in this difficult times. Sir, very quickly, 2 questions. Sir, we were trying to set up a 2-part foundry, sir. If you can just tell us what is the time line, when do we commission that and the capex kind of spend on that right now or this year?

R.V. Gumaste: Two things we have done. we had a little bit setback on casting volumes. As you know, it typically demotivates our enthusiasm on investing more and moving fast on investments in foundry. So it's a but natural, and we then slow on 2-part foundry.

So trying to first utilize the capacity. And we could work out how to cut down the investment cost. We have come with a good proposal where in Phase 1, we will invest less. Not INR140 crores, but invest just about INR75 crores.

And we are now going ahead with that investment, and we expect that in 15 months, we should be ready with the new foundry. Till that time, we will continue to manufacture 2-part castings in the earlier foundry. And there, we are trying to take it to about 100 to 150 metric tons per month, which is also a good capacity, just to support the customers till that time.

Sahil Sanghvi: Right, sir. And this INR75 crores will essentially mean 12,000 tons per annum capacity or would it be less?

R.V. Gumaste: It would be slightly less. I don't have exact number, but it will take care of the ramping of volume required. Instead of Phase 1, Phase 2, we have just made it Phase 1, Phase 2, Phase 3 and cut down the initial investment, but subsequently, we add it and ensure that, that capacity and that investment doesn't come in the way for capacity utilization. So we have time for ramp-up, and we just target the investment. So that we are going ahead, that is more compatible from earlier plan.

Sahil Sanghvi: Got it, sir. And my second question would be the capex that you will be spending, if you can give me that number for FY '25, both for KFIL and ISMT, roughly any kind of targets you have?

R.V. Gumaste: . As you have seen, we had done about INR500 crores to INR600 crores of capex for 2 years. But last year, overall environment being a little bit less motivating. We cut down to INR263 crores. And we want to go back and see that we invest maybe about around INR500 crores to INR600 crores between ISMT and KFIL once again before we really start our major investment on steel.

Sahil Sanghvi: Right, sir. And this will be broadly spent for the power plant at ISMT, the 2-part foundry and what else would this be, INR500 crores, INR600 crores?

R.V. Gumaste: Yes, yes. You are right. One is, of course, the solar power plant. Solar and wind green power is one and this 2-part foundry in Solapur, Ahmednagar. And also, we are talking about the upgrade in Hiriyur. We have done some reworking, and we think now that we can do that upgrade in about INR100 crores. That's another major investment.

And there will be some investments on the machine shop. And also, please note, we will continue to expand capacity in Oliver. We are yet to start, but once we start in July, we are looking at the opportunity how to add and what to add in the core shop so that Oliver foundry also delivers 60,000 tons per annum. So we are working on that also. Those are going to be the major capex numbers coming years.

We also made some solar investment for Solapur foundry as well. It's in Maharashtra. Cost is very high for power.

Sahil Sanghvi: Right, sir. Right, sir. Because you said you will be upgrading at Hiriyur, would that mean the mine shutdown the furnace for say 25, 30 days?

R.V. Gumaste: No, actually, we will take maybe about 9 months to stop the foundry. We won't stop it immediately. I think stoppage will be in the next year. And whenever we do, it will be a long shutdown because we will upgrade the furnace to 300, and also get the cost efficiencies in terms of core consumption, pulverized coal injection in line with Koppal.

Moderator: The next question is from the line of Bharat Sheth from Quest Investment.

Bharat Sheth: Sir, when we are talking of doubling the casting volume, say in the next 3 years, so can you give some color, it's going to largely from which -- and how is it going to change the mix of our casting business from current level? And how much would be that we are expecting from the deemed export?

R.V. Gumaste: Yes, thank you very much. I think there is also now opportunities for direct export, as well as the deemed export. The two, three segments which are more promising now is, of course continued support on the auto commercial, but also from the off high-end earth moving equipment sector, our presence there is very low. Many of the customers are still importing castings and we want to replace the imported castings by made in India. We hope that we will achieve that. For example, one of the auto players is importing 200,000 lots per year, and they are keen on developing in India.

We want to develop it. And also, we have another customer in the South, who is importing - 30,000 to 40,000 lots every year, which we want to replace. And these have definitely life for at least next 7 to 10 years. In addition to that, there is also a large number of castings that is developed not only for replacing the imports, but also developing and exporting the castings.

Many of the OEM customers in India joining hands with the international to not only start manufacturing in India for India, also manufacturing in India for the world. We have seen a couple of JVs happening in the last 2, 3 years, but I expect another 3, 4 JVs coming up with our OEMs, who need more castings to take care of India requirement as well as abroad requirement.

Bharat Sheth: And profitability in export vis-a-vis replacement? And how do we -- from current level of profitability do we expect?

R.V. Gumaste: No, I think all our recently developed the castings -- our auto castings. They are reasonably profitable. And I think even in export maybe we can get slightly better because they are replacing European cost or American cost, and we are very competitive compared to them. And I expect the exports can give us higher than today's business, maybe 10%, 15% better margins than what we are doing today in the Indian market.

Bharat Sheth: And sir, on machining side, can you give some color? We have stated in our presentation that to ramp up machining. So what is current level? And how do we see over the next 2, 3 years, every year, if you can give kind of color on the machining?

R.V. Gumaste: We are increasing the machining values, but they have been very small improvement, and we are looking towards the breakthrough in that. Most of our machines happen to be in the tractor sector, whether it is clutch housings or transmission housings or even the blocks where tractor blocks, and we were not in too much of machining in auto blocks.

We started now with 1 of the customers giving semi-finish machine 70,000 blocks and heads. I think that was kind of about INR1 crore per month machining value. And we are looking towards expanding with all the new auto, earth-moving equipment castings, we are offering with machines. And though it is taking time, we are quite confident that we'll keep adding to the machining value in Kirloskar.

Bharat Sheth: Sir, and last question on this green power, what we are talking of, meeting around ISMT tube, steel manufacturing as well as some parts in tube looking around 85% to 90% of power -- the total power consumption, so how do we see every year addition and what will be the capex in overall for our company.

R.V. Gumaste: . See we are looking towards doing it very quickly. But 2, 3 things are taking more time. One is we managing the land acquisition and typically on the time line. Other one is the towers and slinging, whether it is 5 kilometres, 6 kilometres, the big challenges. And if we are looking for 210 megawatts of solar, I would say I will space them 1, 1 year because we wanted to see if we can overlap, but it's not happening.

I think, yes, it is going to be at the rate of 70 megawatts per year or if we commission this year 70 megawatts in the month of May and July, we can expect the next 1 in next May, July and next 1 thereafter. I think today for 70 megawatts, I would take the number at around INR200 crores.

Moderator: The next question comes from the line of Pratik Kothari from Unique PMS.

Pratik Kothari: Sir, your comment on the drop in profitability that we saw in the tube segment this quarter?

R.V. Gumaste: Can you ask -- can you repeat the question? I couldn't get to your question, sir.

Pratik Kothari: regarding the tube segment, the seamless tube, we saw a drop in profitability there at ISMT, your comment on that.

R.V. Gumaste: One is, general engineering sector and to some extent even the tube sector, one was commodity price correction and also, there was some impact of dumping. And in some sectors of tube business, we could find the pressures on the margins, but also pressure on achieving the volumes.

So also, I think, I don't have the exact numbers, but there have been some write-offs related to Structo, our subsidiary, but how much has gone in exception item, for example, receivables from Structo, we had to write off very substantial write-offs. In this last year closure, we had to account to clean up the accounts, what was not possible to recover, everything has been accounted for.

Pratik Kothari: Right. Sir, can you quantify this number?

R.V. Gumaste: . One was to Structo, Sweden, closure and another was the land-related receivable. I think both put together about INR60 crores to INR70 crores is the total value of write-offs.

Pratik Kothari: And this was taken in quarter 4?

R.V. Gumaste: In the quarter 4, sir, yes.

Pratik Kothari: Right. Okay. And sir, we acquired ISMT, I believe, 2 years back. We have done a lot of work in terms of stabilizing it operationally, and there were a lot of low-hanging problems, which you're targeting to kind of overcome when it comes to cost.

But when we look at the presentation, which you have shared on ISMT annual numbers, I mean the margin improvement from 8%, 9% to 14% seems to have come largely from raw material benefits, from gross margin expansion. But -- and I believe power costs will come from next year given solar will come in there.

But even when it comes to employee costs, other expenses, it still seems to be similar to what it was a year back. If you can throw some light what are we doing there? What are the scope of improvement when it comes to this other fixed cost or employee costs or other expenses?

R.V. Gumaste: I think it's very important that we put ISMT in the growth path. I think the growth is the instrument for bringing down the cost, not that we want to cut either the expenses or the employee-related expenses, rather they will keep growing little bit. But with the same human resources, if we can be able to produce and sell more steel and more tube, I think that is the plan.

We are going ahead with the green power and green energy and cut down our power and fuel costs. We are also looking at further improvement in the efficiency, debottlenecking the processes and make the flow of material better. With all this, we are very keen that within a couple of years, if not better and early, take the tube production and sales to 2 lakh metric ton.

And also within next couple of years, take the steel sales to 2 lakh ton and subsequently to be taken to 2,30,000, 2,40,000 and maybe 2,50,000, tube. I think that would enable us to mitigate the cost.

For example, what was the employee cost at the level of 11%, 12% or 10%, we have been able to now bring it down to a level of 6%. I still see opportunity and we can take that cost to be maybe 4% to 5% in line with KFIL. I think we will be working towards that.

And in addition to that, I think beyond the power and fuel cost reduction, there are hidden costs in terms of improvement of [EAV], reduction of nonconforming products. I think we have a few points possibilities in other areas and we see a great opportunity.

We have not finished our work in the ISMT in both steel and tubes. It's still work in progress. I think a lot of opportunities for us to make these plants world-class, make these plants efficient in every respect. I think it will take to 2-3 years, that is the progress period for us. It won't stop.

Pratik Kothari: Fair enough. And sir, my last question is on steel. I mean, we're thinking of putting up a large capacity going forward. And across industry, if we listen to various companies, all of them are very, very bullish on putting up large steel capacities, I mean, there are players who have not put up a capacity for the last 10 years are coming out and putting up some new capacity.

So just your thoughts, anything which has changed? I mean what are we seeing or how are we confident that even we are going ahead and putting up some large capex?

R.V. Gumaste: No. We would like to keep in mind, we have not been a great big steel people. So maybe earlier promoters were, but at Kirloskar, we have not been steel people. We are conservative. What we are just saying that ISMT has been in the steel business. They have produced and sold more than 1 lakh ton in the past. And we are saying that they lost the share of business, they lost the market, and we are trying to just restore that.

Whatever we produce and roll in Jejuri, we want to supply to Ahmednagar to tube making and remaining 2,30,000- 2,40,000 sell in the market, go from 80,000 to 2,40,000 in the next 3, 4 years. At the same time, we expand the tube production capacity to about 2,50,000 in Baramati so that they consume 3 lakh ton of unrolled material, unrolled steel, its blooms.

And that bloom, we make it in -- cost effectively in Koppal. It makes sense. And we don't have to sell too much. We have to expand and consume more steel in tube making, of which we feel that it's doable. we have not yet started doing premium coupling in a big way. We are not still prepared to produce and sell big quantities in OCTG segments.

And those are the opportunities we will pursue it. I think we are not really going very big way into the steel market. We are moderately expanding in the tube market, in the alloy steel market. We already have 26 customers, all of them consume steel, and we would like to work with them.

I'm sure if they like our castings, our customers will like our steel as well. And that is the opportunity. And we are not doing anything overboard, just within the boundaries.

Moderator: Ladies and gentlemen, we will take that as a last question for today. I would now like to hand the conference over to the management for closing comments. Over to you, sir.

R.V. Gumaste: Thank you very much all the participants for joining today. I thought that today, being the election day in Mumbai, whether we will have participants, whether there will be questions or not, I thought, but overwhelming response towards KFIL and ISMT.

I thank you for your interest and look forward to meet you again after 1 quarter. It's always a pleasure talking to you, and I hope that we will meet next quarter with some better results and better colors. Thank you very much..

Moderator: On behalf of Antique Stockbroking Limited, that concludes this conference. Thank you all for joining us. You may now disconnect your lines.