"Kirloskar Ferrous Industries Limited Q2 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 Kirloskar Ferrous Industries Limited Q2 FY24 Earnings Conference Call hosted by Antique Stock Broking.

As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0", on your touchtone phone. Please note that this conference is being recorded.

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

Pallav Agarwal: Thank you Sagar. And good afternoon, everyone. On behalf of Antique Stock Broking, I welcome you all to the 2nd Quarter Earnings Conference Call of Kirloskar Ferrous. We are pleased to have with us the Senior Management Team represented by Mr. Gumaste, and Mr. Srivatsan – Executive Director of Finance and CFO.

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

R.V. Gumaste: Thank you Pallav and let me welcome all the analysts and investors onto Quarter 2 call of Kirloskar Ferrous Industries Limited. I would like to start with a quick small update on industry scenario and specific to Kirloskar Ferrous Industries Limited. During the last quarter, Quarter 2, we had one of furnaces upgrade shutdown i.e. Blast Furnace-1, we changed the bell to bell less top. And in addition to that, we also did the upgrade of the technology for the furnace. We have completed all the shutdowns and we have started the furnaces and currently we are running all the three furnaces. Due to this, you have seen Quarter 2, the pig iron available for sales was less and it was 1,01,644 metric tonne total quantity for sale. And now with all the three blast furnaces running the quantity should go up.

With respect to demand for pig iron, during the quarters we did have headwinds and especially because of increase in price of coking coal and also increase in price of iron ore due to which the pig iron margins were under pressure. And even till date also the pig iron margins are under pressure because there is no reduction in the coking coal and iron ore prices, whereas commodities, whether it is pig iron or steel scrap the prices continue to come down. So, there is a continued pressure on the pig iron margin.

With respect to our other product casting, demand for casting continues especially in two segments – the auto sector which is mainly we are dependent on commercial auto. The demand forecasting is strong and also demand for casting for infrastructure earthmoving equipment is good. However, demand forecasting from the tractor industry is sluggish and it continues to be soft due to various reasons one of them being poor monsoon over the last four months.

As a result of this, the casting volumes which we had last year second quarter, we had gone to a level of 34,700 tonnes of sales in the quarter, for this quarter we are at 31,491 tonneswhich is a drop of about 5%, whereas the pig iron drop overall compared to the earlier quarter is 1.5%. As commodity prices had come down, pig iron prices during this quarter compared to the last year second quarter, the pig iron prices have come down almost by 16.4% from Rs.50,000 per tonne to Rs.45,000 per tonne. This has also affected the top line of the company.

Overall, if you look at we are flattish on volumes of pig iron and casting. And going forward we have opportunity to cover but it all depends on the market conditions. But casting, we are still hopeful that we should be able to achieve a growth of 4% to 5% in volumes going up to the year end. Whereas pig iron entirely depends on the market conditions, we have been awaiting the improved commodity prices in pig iron, however, it has not been encouraging so far. Whereas in Quarter 2 we could manage well but in spite of the many headwinds and we could achieve a total sales of 880 crore and a PBT of 75.94 crore. EBITDA margin overall at the company level remains at 15%, and rather than because of the price reduction and managing the margins it shows small improvement in the EBITDA margin compared to the earlier quarters.

With respect to, progress on ISMT, ISMT being a limited company has announced its results. The turnaround and improvement in the business at ISMT continuous good. And it is already contributing to the improved contribution into the consolidated results of the company and there is good demand for the seamless tubes. And though we have the mixture of pressure and fuel cost being very high in spite of that, we have been able to manage the volume increase as well as the product price increase and thereby improving the margins and ISMT has also moved to EBITDA level of almost 16%. Overall consolidated we have moved to around 16% of EBITDA. And with respect to various projects, we have completed Coke Oven phase II and Power Plant phase II completely. It's up, operational and running. The Blast Furnace-1, which was taken for technology upgrade and bell less top is up and running. We have continued the project for the pulverized coal injection and which should be ready with pulverized coal injection by the end of this financial year. In addition to that, we have also taken a large turnkey merit solar power plant project under ISMT. And it's progressing with delay and we expect it to get commissioned before the year end. It should give a good cost reduction in terms of power cost in ISMT books.

In addition to this, preparation for the steel plant in terms of progressing for environmental clearance, also oxygen plant for pulverized coal injection have been ordered and they have been put into project progress. Oxygen plant has a long delivery period and we expect that to get commissioned one year after commissioning of the pulverized coal injection. In addition to this we have completed phase I of Line Two in Solapur and it is up and running. We are in the process of capacity utilization improvement efforts, and we have come to a level of 600 metric tonnes per month and we expect that we will cross more than 1000 tonne by, by end of this financial year.

As all of you know, we have completed acquisition of Oliver Engineering and we have taken the charge. And currently we are in the process of cleaning, clearing and upgrading the facility and we should be shortly ready with the plan of startup. We are yet to finalize the date of start, but we are in the process to complete the restoration work and startup the foundry. Should be able to come back with more information in the next quarterly call. But we have finished the process of acquisition and we are currently building our team to start the foundry. These are few of the highlights and with this, I would like to close my opening remarks and request the moderator to start the question-and-answer. Thank you very much once again, look forward to answering some of your calls. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Digant Haria from GreenEdge Wealth. Please go ahead.

Digant Haria: Sir my question is first question is on ISMT. When we had acquired ISMT, we were used to guide that 3000 crores of revenue and maybe 15%, 16% margins is what we are targeting in the first phase. So looking at this quarter, we have already reached that revenue run rate and that margins as well. So, I just wanted to check if there are any one offs in the margins for this quarter or was it that there is good realization in the tube business that helped us reach there. And I'm assuming these margins are without any efficiency of the solar power plant because that's not yet started. So where can these margins really settle once the solar plant is off place. So that's my first question sir.

Moderator: Please wait while we connect the line for the management. Thank you, ladies and gentlemen, we have connected the management line once again. And Mr. Haria, could you please start with your question once again.

Digant Haria: Yes, sir. Sir, first question is on ISMT, sir we are already reaching a revenue run rate of 3000 crores annualized if we look at the current quarter, and also margins of 16%. And this 16% margins is without impact of solar plant which will result in some power saving. So can you just guide us a little bit on what to expect in terms of revenue and margins going forward once your solar plant is also commissioned?

R.V. Gumaste: Yes, first of all what numbers you mentioned is right, we are currently at 3000 crore run rate. Actually, as soon as we have taken over the charge, we have already put in debottlenecking projects, we are overall investing about 100 crores for the debottlenecking project, which should get completed by June 24 if not by March 24. And we expect some debottlenecking should start giving us increased production and sales which would improve the revenue of ISMT books. Second thing we are also putting our efforts to increase the sales of steel which also should give us the increased revenue. These are difficult, challenging marketing breakthroughs and we are planning for that and we expect that we will have the benefits of this investment and also debottlenecking and we will have the increased volumes coming there. And with respect to power, we expect by end of March 24, we should complete and commission 70 megawatt solar power plant. And with that we will get the benefit of about 70 crores per annum,. And we are also working on ordering more solar power plant to mitigate power cost.

Digant Haria: Alright, sir. Sir just a follow up on this last quarter, we were at a production run rate of 12,000 tonnes per month for the tubes business. Where have we reached now and in terms of marketing breakthroughs, you can just give some color on have we become impaneled with a lot of these global EPC players or local EPC players, like Engineers India and all of that?

R.V. Gumaste: Yes, empaneling and approvals from customers, they are quite in place. And currently, we are at a run rate of 10,500 from Baramati and 3,500 from Nagar, put together it will come to 14,000 metric tonne per month. And our effort is to debottleneck and go higher than these numbers. But there is a market requirement higher than this and we have to increase our outputs.

Digant Haria: Right sir. Sir thank you for this. And my second question is on the castings business. We've seen that, this tractor slowdown has been impacting us for the last quarters. I just wanted to know if there are any new programs, which will be commissioned in the next 12 months from our 26 existing customers, which can help our increased volumes despite this tractor slowdown, or it's not possible to expect that without a revival in the tractor industry?

R.V. Gumaste: Two parts of answers to this question. A balance of tractor gives us tractor castings relatively simple and hence productivity is higher level are achievable fastest. Second, that's why it's always good to have some tractor load up for a good percentage to drive the volumes. On the other side, overall there is more demand from the customers from other sectors and we are developing the parts, new parts for Solapur Line two as well as there is interest from the customers for buying the castings from all over Punjab foundry as well. And we definitely need revival in the tractor, but we have other castings and other customers joining us to take the volumes up.

Moderator: Thank you so much. The next question is from the line of Mr. Sahil Sanghvi from Monarch Networth Capital. Please go ahead.

Sahil Sanghvi: My first question is, sir I would want to understand the reason for the rise in the depreciation number for ISMT and also the higher tax rate which has been shown for the last two quarters at ISMT?

R.V. Gumaste: The first part of the question is, increase in depreciation?

Sahil Sanghvi: Yes. We have moved to roughly 22 crores from a run rate of about 13, 14 crores. So anything which has been commissioned over there or any kind of, any reason?

R.V. Gumaste: I don't have very specific answer to this. I can check and come back, but we have started our CAPEX cycle, the commissioning have no major concerns, so I need to get back to you I don't have exact number, if at all if Mr. Srivatsan wants to add to this.

R.S. Srivatsan: Srivatsan here. The depreciation was computed propetly; therefore we are not able to get your question properly.

R.V. Gumaste: Yes, we'll come back to you that on the depreciation part of it. What is the second part of the question Sahil?

Sahil Sanghvi: The tax rate is also looking pretty high more than 30% easily, 39% actually?

R.V. Gumaste: We are following the new method and our tax rates would be 25%. But if there are any adjustments, anything, effect take over and all that, but you take it that going forward it would be 25% new tax rate for all of our units.

Sahil Sanghvi: Got it sir. And these debottlenecking projects that you are undertaking at ISMT.

R.V. Gumaste: Can you be a bit closer to mic, so that I can hear clearly?

Sahil Sanghvi: The follow up question on the ISMT part was that, these debottlenecking projects that you are undertaking, what is the timeline sir for this?

R.V. Gumaste: Yes, I did mention that first phase of debottlenecking project about 100 crores what we have taken up, mainly into Baramati and we expect it to complete all these projects by June 24. And the effort here is to increase the output from 10,500 to 12,500 per month.

Sahil Sanghvi: Got it sir. And my next question is regarding the pig iron spread. So, for at least two months we have seen two, three months we have seen coking coal prices come down to $250 per tonne. So, we should have some inventory of that pricing of coking coal which benefits we have not seen yet in the financial. So, when would we see that coming in the numbers?

R.V. Gumaste: I can only say that if anyone buys today's coal, the blend could be $300, it is impossible to make pig iron sell and make any margins. We are doing something and we are able to manage something because we still have the coking coal with average blend cost of about $250. And with that also it's extremely challenging to have decent margins, in spite of having very efficient coke ovens. Right now, I would say that the commodity pricing, one is coking coal and iron ore, iron ore prices have also gone up, but the pig iron prices have substantially gone down which is really taking away the margins.

Sahil Sanghvi: Sir just to understand this better sir, why are the pig iron prices not going up, what could be the reason and what kind of traction you see over there direction wise?

R.V. Gumaste: Two major reasons, like the Ukraine war there was a disruption of supplies to Europe and there was artificial increase in the prices. But after that, now the Europe demand for pig iron or any part of the world it is very low and no export of pig iron have been from India. Everyone is just selling it in the domestic market. But more than one, one and a half million tonnes per year was getting exported that has almost come to halt as of this point of time. And we had couple of starting, restarting was plans. And now we have another two plants which have got added including NMDC 80,000 tonnes of pig iron per month, this has affected the balance in the industry and some subdued demand for pig iron especially tractor consumes lot of heavy casting. Though it has not come down very big way, but there would have been 5% growth it would have resulted into 10% to 15% additional requirement of pig iron. But that is missing, basically it is the demand supply skewed at this point of time.

Sahil Sanghvi: Right sir. And my last question would be regarding the PCI and oxygen. Now, like you've said that the oxygen plant will come one year after the PCI gets commissioned. would this affect the reduction in the coke rate that we were targeting say about 100, 110 kg's?

R.V. Gumaste: No, it won't affect that because we will be able to buy oxygen, but it will increase the cost of oxygen, not affect the rate of PCI. So, we are working on alternative plans of sourcing of oxygen like different process with shorter period. We will start the PCI with low oxygen enrichment because foundry grade takes low enrichment, we move towards basic grade and steel grade, then we need more oxygen enrichment and more PCI. And it also takes a little bit time to go to full pulverized coal injection, we will be able to manage and mitigate with some impact of cost of oxygen.

Sahil Sanghvi: And the casting sales volume trajectory from FY25, would you still stick to that 15% kind of growth next year for casting or would that also be slightly lower?

R.V. Gumaste: My looking is, as I said this year seems to be more flattish. We could achieve a 3% to 5% coke and casting still we have opportunity to do that. But going forward next year, we have big opportunity to productionnize most of the customer castings which are under development and we can expect better growth next year. We will be able to forecast better as we complete at least one more quarter.

Moderator: Thank you. The next question is from the line of Aashav Patel from Molecule Ventures PMS. Please go ahead.

Aashav Patel: Sir my first question is, what will be the expected volumes for H2 in both pig iron segment and casting segments?

R.V. Gumaste: For which year?

Aashav Patel: For the second half of FY24, current year.

R.V. Gumaste: See second half of this year. We are ready with all the three blast furnaces, and which can produce 1,65,000 tonnes of hot metal, pig iron would be 96%, 97% of that and some internal consumption and saleable pig iron like that. We are ready with full volume production, whether the margins will allow us to sell full or that's the question mark we have to watch and see how the market goes, there are question marks. Coming to the casting, as it said we will expect some pickup in the market after Diwali and we are expecting that currently we are lagging behind by about 3% on volume compared to last year but we expect to catch up maybe about 10% in the second half. So that overall we may achieve a growth of 3%, 4%, that is our expectation on the casting business in the remaining six months of this year.

Aashav Patel: Sure, okay got it sir. And so in second half going forward in short and medium term, are we expecting say for next one year, are we expecting any stoppages, plant stoppages for pig iron segment?

R.V. Gumaste: We do not have any planned stoppages for at least to my best understanding for couple of years, but there will be small stoppages which is routine, but not major plant shutdowns, reflect realigning, or technology upgrade, nothing is planned for next two, three years.

Aashav Patel: Got it. And sir regarding and as you mentioned for the 70 megawatts solar plant, we have a bit delayed the, in next quarter it would start in Q4 of FY24 around March 24. Similarly, what would be the timeline for phase II of ISMT solar?

R.V. Gumaste: We are examining, we need totally 210 megawatts of solar between ISMT and KFIL put together. And that amounts to 73, 70,. And most important thing is the, whether we do it or somebody else managing the land. That would be highest, longest time taking wherever we go. Land parcel and grid connectivity and that's where the delays happen, we are trying to work out, if we are able to, I think we will complete phase I 70 megawatt by March. And whether we can do something quickly another 70 megawatt, if we start immediately and whether we can commission them in the second quarter of next year is what we are examine. Idea is, within next one year we will try to finish all to 10.

Aashav Patel: And sir regarding the ISMT margin, this quarter we saw almost 16.4% of operating margin, and we were targeting this margin range post solar savings. So even as a sustainable annual guidance, can we assume now 15% of EBITDA margin at ISMT could be a new way?

R.V. Gumaste: No, it's very important is we have to observe very carefully overall, one is the demand for the tubes, other side is the commodity prices. See the lower prices of pig iron will hits ISMT hard in my KFIL advantage. So you have to study end-to-end and there are pluses and minuses.

Moderator: Thank you so much. The next question is from the line of Pratik Kothari from Unique PMS. Please go ahead.

Pratik Kothari: Sir my first question on ISMT. Now we've spoken in the past that our net worth has now changed to positive and we can participate in tender orders, be it oil and gas or others. So some further clarity or color on that?

R.V. Gumaste: Can you repeat the question, I couldn't get fully properly.

Pratik Kothari: Sir my question is, now that the net worth of ISMT is positive, we can participate in tender orders in oil and gas and across segments. So some color on that?

R.V. Gumaste: Yes, thank you very much for clarifying the question. We have started participating in tenders, we are winning the orders, we are winning all types of tubes. We are also going into the premium coupling. So with the help of some partners, and that is very, very positive for us. But we need more tubes and hence we need to increase productivity coming from the plant. And that's why we are working on the debottlenecking, coming years we will add to the oil and gas related tube sales which currently are good pricing and should help us to continue to improve the top line and the margins.

Pratik Kothari: Correct. And sir we are at about 14,000 run rate currently and we have an installed base of 30 so to go from 14 to 30 what kind of incremental debottlenecking or investments that will require, you mentioned about 100 crores for some 2000 monthly, but to go up to 25, 30,000 what incrementally it could require?

R.V. Gumaste: Currently we have done to go to 1.5 lakhs from Baramati and maybe 50,000 instead of 40,000 from Nagar so which should take us to about two lakh tonnes and those debottlenecking projects have been identified and we have started the work. it should happen in about within next one year kind of thing. We should be able to realize this much. But our understanding goes that these nameplate capacity like three lakh tonne and three and half lakh tonne require much more deeper debottlenecking and some more projects and we will towards end of this year. We will work out more detailing because that becomes our next phase of capacity utilization project. I'll be able to answer better, once we work out but currently we have worked out only up to how to go up to two lakh tonne and not really going up to three lakh tonne or three and a half lakh tonne. So there are projects possible and we will work on those in phase II.

Pratik Kothari: Correct. And sir we have started on this cost reduction journey in ISMT, in terms of procurement or in terms of operational efficiency. So, I understand it's a continuous journey, but where are we in that journey, I'm talking x of solar, just other operational efficiencies, automation, etc that we intended to do?

R.V. Gumaste: As you mentioned, it's all about power and fuel, one big chunk of power and fuel as well, because fuel is also a big component in this industry, that's one thing that's a cost, and how to mitigate that cost reduce because then you have to do bottom line is two separate projects power and fuel. In addition to that as we improve the capacity utilization of the plants, both two plants we also improve the yield, cut down the conversion cost, waste elimination, and basic things we are already doing that. We expect that very shortly, we have done with that and but of course it's always a continuous process. But, as we increase the capacity utilization and productivity, we also improve the cost and improve the margins. So that comes because of the unit consumption reduction, whether it is power, fuel as well as the yield improvement. And those are the projects which will also get identified and we are already working. But, important thing would be our cost reduction on the manufacturing of steel. Again, it comes back to the top power and fuel, yield, number of units, output, drilling more quantity. All these are the activities in – steel

Pratik Kothari: Correct. And my last question on pig iron, on a steady state given the capacity that we have in casting in steel, in tubes, what kind of captive consumption would we realize from the pig iron that we have maybe two, three years?

R.V. Gumaste: No, two, three different ways to look, currently we are contributing maybe 30,000 tonnes per annum in casting and we are consuming with ISMT acquisition maybe 70, 80,000 in steel in Jejuri. About a lakh tonne but our production capability is about seven lakh tonne, within one lakh we have a surplus of six lakh tonne of pig iron per se. So, this is one, and secondly when we move to steel making in prospect, one of the blast furnaces will completely go for steelmaking. So, that much volume will come down, we will come down from 55,000 to maybe 35,000 per month. And then it's our choice whether to increase the pig iron capacity and maintain 60,000 tonnes of pig iron phase per month or go for more value added and allow pig iron to drop to 35,000. I think that decision needs to be taken at later stage not right now.

Moderator: Thank you very much. The next question is from the line of Manish Goyal from Thinqwise Wealth Managers. Please go ahead.

Manish Goyal: Sir, just to clarify on the 70 megawatt phase one which will start by year end. Did you mention that the annual power cost saving would be 70 crores?

R.V. Gumaste: Yes.

Manish Goyal: And when you mentioned we required 210 megawatts for entire KFIL consolidated, so at ISMT itself out of that 210 would be how much sir?

R.V. Gumaste: Minus 35, so 175.

Manish Goyal: Okay, 70, 70, 70, so 1/3, 1/3, 1/3.

R.V. Gumaste: Out of 210 minus 35 four KFIL, so 175 megawatt is for ISMT.

Manish Goyal: Okay. So ideally maybe two years down the line, at least should we expect that around 170, 180 crores of power cost saving…..

R.V. Gumaste: Yes, absolutely.

Manish Goyal: Okay, so probably that we got we will probably achieve 18%, 20% EBITDA margin over a period of two years sir, what you guided at the time of acquisition?

R.V. Gumaste: Yes, absolutely without any doubt, the situation are dynamic, but our plans are in that direction.

Manish Goyal: Wonderful sir. And sir, we have taken a shutdown in Q1 and Q2 at MBF one and other plant as well. Because we see that other expenses have gone up one is definitely the power cost has gone up at a standalone level also. But if we negate that then still the other cost seems to be higher, so is there expenses related to shutdowns which we have accounted in quarter 1 and Quarter 2, can you share those numbers how much would be towards that, which may not repeat in Q3, Q4?

R.V. Gumaste: I don't have exactly, but I need to work out.

Manish Goyal: Sure, sir.

R.V. Gumaste: I am sure that there are the manufacturing overheads, there is that extra cost coming out of the shutdown. But it is not in the expenses, it is the manufacturing cost.

Manish Goyal: Okay. Question related to Oliver. So, you did mention that we have taken the refurbishment and upgradation plan. But if you can share some insights as to how much of your existing volumes which you would be servicing from your plant maybe Solapur and Hospet which can be shifted to Oliver, because you would probably have certain customers already been serviced from long distance plant. So how much do you think and when do you think the best case the Oliver plant can start?

R.V. Gumaste: See our plan is that, Oliver plant should start within five, six months. And that's one, because there are a number of items which are missing which needs to be replaced and some of them could be high delivery items and that's why I think that five to six months are required to start the plant. And the second part of it is, the environmental clearance there is for 28,000 metric tonne we can say that 25, 30,000 tonne we can gradually increase in about two to three years' time and maybe we can take it to half of that capacity very quickly. And we are trying to see that it adds to the volume and does not play within the volume and it's part of North-based large customers saying we look for more volumes. We would like to supply what we are supplying from the existing foundries but additionally supply them from Oliver to supply more casting as many customers want more supplies from KFIL.

Manish Goyal: Okay sir. And last question sir on our large casting foundry, basically which we had announced a couple of quarters back where we were looking at 1000 tonnes per month capacity, maybe if you can provide insights as to what is the status, when do you expect that because we see a lot of other players mentioning about very high demand for large size casting especially from the off highway vehicle market. So if you can share this?

R.V. Gumaste: Yes, first of all we have finalized the technology, technology partners and we are in the phase of finalizing layout, process flow, and we should be able to start the building construction in a couple of months. And then we need one year to start the foundry. So, I'm still looking 14, 15 months for start of casting production from new two part foundry in Solapur. But, in that time in a small way we continue to produce two-part casting, large castings for our customers from the existing foundry. So we have one more year to go before we realize the reasonably well mechanized two part foundry to come.

Manish Goyal: The CAPEX for that sir?

R.V. Gumaste: 140 crores CAPEX, that foundry for completion.

Moderator: Thank you. The next question is from the line of Bharat Sheth from Quest Investment Advisors. Please go ahead.

Bharat Sheth: Sir, my first question is for KFIL, one is my large part of the question has been answered. Our other income has gone down because, I believe that last year we had some incentive income in first half and are we expect that we were expected to get some kind of incentive from Karnataka government on the new capacity that we did. So if you can give some color how that will really play out in second half?

R.V. Gumaste: Yes, you are right some incentive income is expected to come, but there is still a lot of work going on, but we will get something for sure. Whether get a bigger chunk is still not very clear. Right now, I am able to say that some incentive benefits will come in the second half, but I'm not sure if any big substantial amount will come or not we are trying for it. To fit into the schemes. As and when it comes, I will update.

Bharat Sheth: And second thing on with this commissioning of the 30 megawatt power plant with this coke oven, how much benefit do we expect in H2?

R.V. Gumaste: No, we have already started getting some benefit, something is there even in Quarter 2 results, but towards the, as we have come to October, November of the power generation from coke oven has increased, in spite of the increased power requirements from foundry and pig iron and all the plants we have no power surplus and we have started selling the power to Karnataka grid, to Karnataka government and we are getting Rs. 4.80 per unit for the power. So it's a, good realization as the grid is short of power and they are taking the entire surplus from us to the grid. So, we will get and realize some additional benefit now.

Bharat Sheth: And as you said, so ISMT still no softer pig iron price will continue to get the benefit in the ISMT which we feel that even H2 also there will be with our commissioning of all the lines, we will have more surplus pig iron to sell. So, ISMT can we expect this kind of a EBITDA margin to sustain and what will be the saving once we start, the 70 megawatt power plant?

R.V. Gumaste: 70 megawatt power plant I just mentioned to you that it gives us, it cuts down our power cost by 70 crores but there will be some addition to the interest on depreciation but it has the payback period of three and a half years.

Bharat Sheth: Okay. And this kind of ISMT Q2 margin is we expect to sustain because in view of this softer pig iron price correct?

R.V. Gumaste: Absolutely, input commodity price not only pig iron but steel scrap as well. And also, good demand for tubes is definitely helping us in having decent margins, Yes.

Moderator: Thank you so much sir. The next question is from the line of Nikhil, who's an Individual Investor. Please go ahead.

Nikhil: I wanted to ask your outlook on the pig iron and casting industry?

R.V. Gumaste: Over the last an hour or so I have explained reasonably well. I'll be repeating basically, I've mentioned on casting, pig iron, commodity, coal, coke everything I've covered, thank you.

Nikhil: Okay, and sir our further CAPEX plan?

R.V. Gumaste: CAPEX plan, one is whatever we have already declared, but we have also told that we will be going in for more solar power. So, that's one area we will be investing. And you have already seen our investment, there will be some investment in Oliver foundry and our continued project like PCI and oxygen plant. These are the main CAPEX drivers and we had earlier said that last year and this year put together we were looking for the CAPEX of 1000 crores plus Oliver acquisition on top of it. So it can be more than 1000, 1100 crores in these two years.

Moderator: Thank you so much. The next question is from the line of Kritika Tiwari, who's an Individual Investor. Please go ahead.

Kritika Tiwari: So my question is that, as you mentioned earlier that the margins of pig iron had been under pressure. However, still we saw that quarter-on-quarter the margins have increased from 14% to 15%. So definitely in that case we have done some great work on the castings front, so what would be the tentative split between the two, if you can throw some light on that?

R.V. Gumaste: Very good question. One is margin per tonne, another is margin as a percentage. I agree margin per tonne has come down, but the pig iron prices have come down almost 16%. So, that helps us in maintaining the percentage EBITA. So, another thing is, more CAPEX and increased depreciations. So, that has a pressure on the PBT and these projects we were supposed to also achieve growth on the top line and growth on the bottom line, both have become flattish because of the two major shutdowns and subdued tractors casting demand and on the plus side is the ISMT side doing better than our expectation because of the softer commodity prices. Thank you.

Kritika Tiwari: Okay, thank you sir. Just one more add on question on this. So if we see Y-o-Y as well as quarter-on-quarter. So, the performance in terms of NSR per tonne of casting has largely either remains same or better, but pig iron has drastically fallen. Sir what is your outlook on this, why are the pig iron producers not able to fetch that benefit?

R.V. Gumaste: Pig iron basically I just mentioned that currently, demand supply is a little bit skewed. There are no exports happening otherwise 100,000 per month, or even more than that was going out of

India. Then the domestic sales were balanced, but currently no exports happening, everyone is trying to send in the domestic market is affecting the pig iron prices. And as it is the demand overall, the foundry demand is subdued. And with respect to pig iron realization versus casting realization, I would say that tractor castings are typically simple casting, rupees per kg's are lower than the auto 07 complicated casting and hence the product mix is favorable in terms of rupees per kg now, with the reduced quantity from tractor, that's why you see drop in the average realization and casting is lower than the drop in the prices and pig iron. So it's because of the product mix change which happens with tractor going down.

Kritika Tiwari: And, just to confirm one thing, you said that the coal blend cost for this quarter was $300 am I right in this understanding?

R.V. Gumaste: No, that was the market price, whereas our own price of coal was like 250, 230, 240, which has become now 250. So that wasmarket blend was 300, whereas our source lower inpsite of that we had the head wind.

Kritika Tiwari: And sir the same would continue for this quarter as well for the three?

R.V. Gumaste: Don't know, see unless the market continues it depends on market, whether it goes down, or it goes up depends all on the market. But right now market is done, as it is everybody is busy to get into the festival mood and let's see what happens after Diwali.

Moderator: Thank you so much. We would take that as our last question for today. I would now like to hand the conference over to Mr. Gumaste for closing comments.

R.V. Gumaste: I would like to thank all the callers today, very pointed questions, very interesting questions, and four or five could answer and clarify most of the points. Thank you very much for joining the call and look forward to meet all of you after one quarter. Thank you. That's all from my side. Thank you very much.

Moderator: Thank you. On behalf of Antique Stock Broking, that concludes this conference. Thank you for having us. And you may now disconnect your lines.