



“Ratnamani Metals  
Q2 FY2021 Earnings Conference Call”

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**Moderator:** Ladies and gentlemen good day and welcome to the Q2 FY2021 Earnings Conference Call of Ratnamani Metals and Tubes Limited hosted by Monarch Network Capital Limited. 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 the 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. Sahil Sanghvi from Monarch Network Capital. Thank you and over to you Sir!

**Sahil Sanghvi:** Good evening to all. Thank you Rutuja. On behalf of Monarch Network Capital, we welcome you all for the Ratnamani Q2 FY2021 earnings call. We are glad to host the management of Ratnamani today and from their side we have their MD, Mr. Prakash Sanghvi and their CFO, Mr. Vimal Katta. I will hand over the call to Prakash Sir for the opening remarks. Thank you and over to you Sir!

**Prakash Sanghvi:** Good evening to all. Q2 of 2021, result you might have got from the mail by Mr. Katta but at the same time I can just reveal the numbers. Q2 total turnover is 577 Crores and net profit is 56.69 Crores. Turnover wise also little bit late from year-on-year and profitability wise also little bit less from 76.46 to 56.69 Crores.

Order in hands about 78 Crores on October 1, 2020 with 439 Crores stainless steel and 739 Crores carbon steel pipes. So, all together it is 1178 Crores order on hand and recently what we got this about 400 Crores order for Oil and Gas cross country pipeline and City Gas Distribution and that includes the 1178 Crores.

Steel some more order visibility is there, we are L1 in some more big sized order but decisions are yet to taken, so, it will come any moment in November-December, we have extended the validity for required tenders, so some more orders will come and in stainless steel also small, small all orders are keep coming and there are number of enquiries what we are bidding on day to day basis, so, all put together good enquiry what we are quoting but the order material is taking a longer time due to this corona steam as well as little slow in oil and gas, so order decision taking little more longer time.

Otherwise there is a huge direct enquiry, tender all these things we are quoted a big amount. Out of that, we will definitely get our share that is sure and expansion side we already got audited by API for the LASW line pipe cross country pipeline business, the new capacity of about 150,000 tonne and we are through for the API license, so in a month we are going to get the license and we will start the production in Q3 itself over there in LASW carbon steel division and in stainless steel, it is still little bit late from our international supplier side because they again corona they have not so far visited over here and unfortunately in their country in Europe, lockdowns started because of second wave, so it is still difficult to that they will come, so what we may try to take local help and execute this

expansion of stainless steel coat extruded completed by this Q3 mostly by December we will take production in today's condition but we need international Italy supplier help, so we may take on videoconference or something but their presence is more valued over here to start the production.

So it is still little bit more time taking but internally we may start sometime trial route by December. This is long pending expansion of hot extrusion stainless steel and most probably by Q4, we do some trial production good quantity and other thing everything is there, raw material and everything is there, so this is what the things. Of course still Corona in the country is there, of course cases are coming little down, so we are hopeful things will improve further in Q3 and Q4 but if you can see the Europe again in all this country are putting two-week, four-week or one month lockdown, so we are worried whether it is not here in the country in this winter, so we are in dilemma what will happen but we keep continue booking the order, production everything is streamlined over here, so I did not see major impact of corona now.

This is what and this Barmer refinery steel, they are taking longer time to release the order otherwise we have a very good hope and we are L1 over there in big order say about 100 Crores -150 Crores in carbon steel LSAW pipe. At the same time other all small, small requirement for export we are booking order and that is how the stainless steel division has 439 Crores order as regularly it was 300-350 orders, so in order booking increase in stainless steel division at the same time this last two order we got so 739 in carbon steel, so all put together it 1178 Crores order is in hand. This what we are and long-term visibility is there but because of this slowdown in the country as well as little low price in crude that takes longer time to take decision for the all India's expansion or new Greenfield refinery or something like that somewhere people hold the expansion if situation is like that. Thank you.

**Moderator:** Shall we start with the question and answer Sir?

**Prakash Sanghvi:** Yes.

**Moderator:** Thank you very much. We will now begin the question and answer session. The first question is from the line of Ashutosh Tiwari from Equirus. Please go ahead.

**Ashutosh Tiwari:** Good evening Sir, Firstly, like you were mentioning about Barmer refinery some delay happening despite you are L1 you said other projects from where we are taking some order three months to five months?

**Prakash Sanghvi:** Barmer refinery is a bigger one where we have already become L1 also over there, so we have already extended validity to release the order but they are taking little longer time we did not know because of COVID or because of some other reason but most probably in this particular month November only we make that order what we are checking down the layout. That is the small third

order what we are getting in stainless steel and carbon steel all the small, small orders but big ticker size is this and something in a cross country pipeline for our spiral.

**Ashutosh Tiwari:** Okay and for resource segment any project from where probably we can get to the orders if there is no visibility?

**Prakash Sanghvi:** No LSAW now one good thing that we have already audited by CI and they have recommended the license, now by month we are going to get the license, of course we have already started searching the enquiries and being after them and telling about our new client presentation and all those things, we have already started in local as well as international market, so something or other get materialized by month or two because it is a new plant, we used to get the customer over here and get them so then the new facility and things will start in a LSAW like that.

**Ashutosh Tiwari:** Okay, any other projects, big projects probably we are currently bidding, or you are probably getting some orders?

**Prakash Sanghvi:** Already bid from this for cross country pipeline so this might materialize in January or February something like that, already bid.

**Ashutosh Tiwari:** On SS side any big projects?

**Prakash Sanghvi:** SS side this small, small orders are keep coming from export as well as local in total order booking in SS is 439 Crores, so it keep coming not much big, big will come from this refinery only but right now they are doing underground pipelines first and then the second MTO will come for on the ground. So, it will take time.

**Ashutosh Tiwari:** It is a project in Mozambique of LNG, any happening over there?

**Prakash Sanghvi:** Nothing has come so far actually.

**Ashutosh Tiwari:** This SS stainless plant is commissioned may be this quarter in the end or may be Q4 and we are targeting those distributors basically in Europe?

**Prakash Sanghvi:** Mostly starting with this issue and of course you are right if the domestic market as well as international market and that also we are because we are always delay in last three to four quarter, so we are not telling much about right now, first we will produce a good trial products in this January-February and then we will start because people need commitment also and price also based on the nickel, so we are still not, of course we will internally we are ready so we can sell from January-February onwards.

- Ashutosh Tiwari:** Next year what kind of volume we can expect from that plan?
- Prakash Sanghvi:** Initially start you say 30% to 40% from that new hot extrusion pipes. Both the domestic as well as export that capacity utilized between 30% and 40%. I said new things so many grades, size, diameter develop first internally and one by one we put into the market.
- Ashutosh Tiwari:** 30%-40% would be kind of a 6,000 tonnes?
- Prakash Sanghvi:** Yes that our target is there. Once it seen by everything will definitely do that 5,000 to 6,000 tonne, no doubt about it.
- Ashutosh Tiwari:** Lastly on the domestic front because all these clauses by government in terms of neighboring countries suppliers and all are you saying the pressure from that side also that probably localization happening or it will take more time?
- Vimal Katta:** Once the products start then it will be there to the local manufacturers because up to 200 Crores to be from the Indian buyer but simultaneously some adverse impact overseas market also been there because all the majority of the countries are promoting same quality, buying from the local, so once the capex cycle starts in the country and PSU starts the project then that will be a big positive for the Indian manufacturer.
- Prakash Sanghvi:** But Middle East there is no manufacturers for this stainless-steel coated pipe or to grow manufacturer so Middle East market is always there, African market is always there. Only things will suppose Europe, Europe is still open for us. It is the only anti-dumping on Chinese rather Europe regularly, we got good order from Europe only and we have one good distributor and we keep our stock also over there.
- Ashutosh Tiwari:** Okay. On a capex side we get almost 92 Crores in the first half, so how much you are doing and next year any guidance is involved?
- Prakash Sanghvi:** If the entire capex so it should be nearer to the 200 Crores figure roughly for the entire year.
- Ashutosh Tiwari:** Okay and next year?
- Vimal Katta:** Next year not planned. It is too early to plan because first we like to consolidate whatever we have done.

- Prakash Sanghvi:** We have to put in the market from both LSAW as well as extrusion, more importance priority will be this only because whatever input in last two years 6,000 tonne, you can start selling in the market the material, so clearly this will be next year. Our next future is also?
- Vimal Katta:** Of course, if some opportunity will come like NCLT, like direct deal something in pipe only and there is cheap buying then of course because we may think for other location, not that current present location, other location only.
- Ashutosh Tiwari:** And now BMW side also we are spending small?
- Prakash Sanghvi:** Yes, that will be also available capacity from January onwards. It is just finishing line, we are pushing. So almost construction is by this month end we will complete, and machine also keep coming, so by December they will erect everything, so we hopefully start in January for second week.
- Ashutosh Tiwari:** Okay, EW will go to 1.2 lakh, was that?
- Prakash Sanghvi:** Yes it will go from 72.2 lakh tonne and their visibility is there, it is purely for city gas distribution and even today also we had booked till May-June for city gas, our present capacity already booked up to May-June, so that visibly order book will be very strong.
- Ashutosh Tiwari:** That is all from my side. Thank you.
- Moderator:** Thank you. The next question is from the line of Kaushal Shah from Dhanki Securities. Please go ahead.
- Kaushal Shah:** Thank you very much for the opportunity. You said about likely utilization 40 SS plant in the next year, how do you see the on the carbon steel side because there again we are putting up a large facilities, so what is the utilization likely and how do you see the utilization from the new plant in the next year?
- Prakash Sanghvi:** For first immediate next year might be 25% to 30% going to utilize LASW and it depend more on the kilometers of the line side, if it is some international we are bidding some international [project also following some over here but that is a product mix of spiral or LASW because today spiral is also to the capacity available, so first we will it depends thickness and diameter worth we can replace but our internal target is about 25% to 30%, this new capacity utilize from 1,20,000 tonne.
- Kaushal Shah:** Sure, on the EBITDA margin there has been some disappointment in this quarter, so if you can just kind of give your thoughts or guidance?

**Prakash Sanghvi:** Basically, it is because of the change in product mix, so mainly process pipe in carbon steel that is LASW, dispatches have been on the lower side and dispatches in helical SAW have been on the higher side, so mainly it is because of that but as we have been telling that product range of 16% to 18% for the entire year, is what one should be looking at. Quarter-on-quarter we may see EBITDA moving up significantly may be 18%-20% range also if dispatches of only process sides are there, project sits are there in the particular quarter, so those sort of situation may be there, it may come down to even less than 13%-14% if major part of dispatches is from the line pipes. So, lot depends on the product mix and the leverage schedule as per the requirement of the customers.

**Kaushal Shah:** And Sir one final thing on the working capital side, any particular thoughts where we see the overall days, there has been some rise in inventory?

**Prakash Sanghvi:** Inventories have rather come down because inventories move in tandem with the outstanding order book position but on average in our case roughly 4 months of inventories will always be there because we cover our raw material on back to back basis and we need to carry lot of inventories then inventories are also linked to the nature of order, so if carbon steel pipes are been inside and outside both the coating then inventories of bare pipes in fact coated pipes are then waiting for is fully coated pipes, those sort of inventories will be there, similarly in case of exports particularly of carbon steel pipes, one need to wait for the shipload to be available, so then your inventories levels move up, so lot of things are there but on average roughly four month of inventories will be there.

**Kaushal Shah:** Okay, that is all. I will join back in the queue. Thank you.

**Moderator:** Thank you. The next question from the line of Saket Kapoor from Kapoor and Company. Please go ahead.

**Saket Kapoor:** Sir, firstly for the capex from the PSU side as you have liberated about Barmer refineries orders been delayed and we also read today that 1/3<sup>rd</sup> of the capex have only happened and lot is left to be spend, what is your filler on the ground regarding the capex on the PSU front because there are also running short of cash, so how are things going to shape up going forward, how id the environment shaping up?

**Prakash Sanghvi:** This current financial year things will be little slow because of the one thing is COVID impact, ongoing factor projects, those are also delayed, so nobody is in hurry to place the orders for the next phase of the projects, next leg of the project, so those sorts of things are there. Hopefully next financial year should be more promising because lot things are now settling down and we are been shoot up visibly in the economy also, so from Q4 onwards we should be seeing some good improvement in the demand side also and project implementation side also, so this is our expectation. Let us wait for some time, how the things move in Q3 particularly on the demand side

October collections of GST have been good, so if this momentum is maintained then PSUs will also start expediting their capex long, so sometime will be taken.

**Saket Kapoor:** Right and if we split the order book as you have given between carbon steel and the stainless part, if this put it industry wise, the majority would be skewed towards the refinery segment order?

**Prakash Sanghvi:** Majority we will see in case of carbon steel, it is almost you can say 90% will be for cross country pipelines or city gas distribution, almost 80% to 85% one can say and remaining will be refineries spectrum then in case of stainless steel it is again more than 50% will be refinery spectrum, remaining 50% will have power and in other things.

**Saket Kapoor:** Right Sir and we are also seeing this raw material prices moving up although you have already explained that we do back to back closure of raw material, what factors are actually are playing up for this firming up of raw material package and what indications are we getting of these firmness in the raw material?

**Prakash Sanghvi:** Raw material trend in steel, it is going up month by month or say Rs. 1,000 to Rs. 2,000 per tonne because of Atmanirbhar Bharat and lot many districts all import, so it is definitely local are increasing the price with JSW, this Laxmi Mittal, Essar and Tata Steel of course because it depend on international this iron ore price also getting firmer, so they increase this main reason they say the iron ore increase took place. In stainless steel also it depend on nickel moly, these are the two main element and these are the commodity top trade in everyday in LME, so it little bit fluctuates over there, say it has moved from 13,500 to 15,000 LME nickel, so based on that about Rs. 10,000 to Rs. 12,000 in last three months, it took increase, so you can say 4%-5% anyone can absorb and our policy is almost even we keep some stocks content side and otherwise we book on back to back basis, so not much even our old carbon steel order what we got recently that we have booked the moment we become L1 and we started negotiated with the parties vendor supplier and we have booked at our budget price, so not much impact and anything now we are coating with the current market size.

**Saket Kapoor:** Right Sir, out of this capital works in progress of Rs. 452 Crores how much would be capitalized by March-2021?

**Prakash Sanghvi:** Almost everything because LSAW we have already completed only remaining 50 Crores for seem bigger diameters that also we will complete by this December-January then this extrusion also we will be completing by this week in the January. By March-2021 everything all the capacity nothing will be more working progress everything in the books installed and start production.

**Saket Kapoor:** Thanks.



- Prakash Sanghvi:** Something in third quarter and the maximum in fourth quarter
- Saket Kapoor:** And for that LSAW new capacity what is the total cost of project which will get commissioned?
- Prakash Sanghvi:** Put together this LSAW and such thing 150,000 ton capacity it is about Rs.240 Crores you can say including land and everything.
- Saket Kapoor:** Thank you. Thank you for the opportunity and season's greetings for everybody.
- Moderator:** Thank you. The next question is from the line of Ashutosh Tiwari from Equirus. Please go ahead.
- Ashutosh Tiwari:** On this water side there anything happening or there also delays are there?
- Prakash Sanghvi:** Water also it is delayed but one thing for next year what we were having in last the meeting internally that how we have to utilize the capacity something in water also because now the capacity more available with the LSAW. So, how we can utilize something for parallels in water and some tenders are there but that is for the next year it will be materialized by February-March only.
- Ashutosh Tiwari:** You mean to say the orders will come by March or you will bid by March?
- Prakash Sanghvi:** No, tender will be something December-January then they will take because it goes to EPC and then EPC will take decision so; it will be February-March.
- Ashutosh Tiwari:** Okay. So, next year something will come from the water as well.
- Prakash Sanghvi:** Yes, water will be there.
- Ashutosh Tiwari:** Water will mainly be helical SAW only and circumferential sequence in the period?
- Prakash Sanghvi:** Sometimes but in helical SAW water we have price range of 214 dia so everything goes to helical SAW.
- Ashutosh Tiwari:** We are also thinking of shifting the plant to Eastern side may be happening over there or?
- Prakash Sanghvi:** Yes, it is still in the our decision but because of this COVID it has been delayed because we have some good machinery available with us that plant we put in Nagore entire plant is available and we have two spiral make it very well with offline welding so, a good capacity is here. So, anything we would like to put in somewhere in South or East. So, that once it the COVID is under control we will

start again looking beside and something in that area what new is coming linked with the project complete and something you can get to start the production also something like that.

**Ashutosh Tiwari:** Okay, and there is pipeline from I think Kandla to Navalpur in the distant side any orders come from that side, the pipeline?

**Prakash Sanghvi:** Yes, there is Eastern grid the tenders already started reverse auction Eastern grid. The IGGM first phase they are already over in that only we have got in next month that Rs.400 Crores was turned up. Now, second phase will come after six months in the Dhanush Gas Grid Limited or something like that. There is a tender from Numaligarh Refinery but the other cross country pipeline.

**Ashutosh Tiwari:** Okay, I got it and on this chemical and fertilizer side in that industry probably because that is doing well. From that side the orders are coming for SS pipes?

**Prakash Sanghvi:** Yes, for SS pipes small orders coming Rs.3 Crores-Rs.5 Crores- Rs. 10 Crores something like that for fertilizer even for power also keep turning BHEL then Pharma industries, API industries like Devi something new company in Vizag we are putting big investment and we are quite regularly supplying them the stainless steel seamless and welded pipes regularly. Because now there is one big thing it starts in country the API drugs we were depending on China because of this border issue and this and that central government have to put three API drugs hub (industrial park) in the country, one is in Gujarat Jhagadia other one is in Telangana and another one is in North. So, central government is pumping Rs.1000 Crores for acquiring the land and then local GIDC or MIDC they take care of that industrial park with the discharge facility. The most important over here in this chemical industry is you have a good discharge for pollution terms and go a common discharge. So, nobody has the problem and things will move we feel in next two year to three years number of companies will come from Indian entrepreneur or some of them may come from outside also in this segment.

**Ashutosh Tiwari:** So, like we way that in refinery almost 7% to 8% of capex is finds. Any colour on how for chemical plants or could be the pipe orders and all?

**Prakash Sanghvi:** Pardon, Ashutosh.

**Ashutosh Tiwari:** Sir, like we said in case of a refinery around 7% to 8% of the capex is what that pipes and all. Do we have something like that for chemical or fertilizer plant as well, if not that big?

**Prakash Sanghvi:** No, in case of chemical plant it will not be that significant around 4% capes but API drugs there the entirely only stainless steel is used. So, their quantum might be much big for the API Drugs. Like, Devi we are regularly every month they are putting something in Vizag. So, where the quantum will

be more and other thing is LNG, LNG is also entirely stainless steel because of this grid is with 190 degrees temperature minor cryogenic in application

**Ashutosh Tiwari:** Okay, one of thing meted is that in case of these nuclear power plant, we had got earlier big orders is there any delays happening over there also in the nuclear power plant or that still is not doing that project?

**Prakash Sanghvi:** No, so far we got some orders through fabricator for nuclear industries only but in near future definitely something will more come for piping, primary piping, insulation tubes that they take little later with all equipment, so with exchange the orders we got it and the piping and insulation tube will come later. The site is already started running in Haryana for one side like that eight projects will come in next seven year to eight years.

**Ashutosh Tiwari:** Okay, so there maybe we can get some orders?

**Prakash Sanghvi:** Yes.

**Ashutosh Tiwari:** So, going ahead probably API is one new opportunity which can become decently for us?

**Prakash Sanghvi:** Yes, that is what we look and there the entire quantum will be stainless steel pipes and other thing their equipment.

**Ashutosh Tiwari:** That probably could become a decent price for the institution.

**Prakash Sanghvi:** So, this is a new segment you can say earlier Pharma was there but not much, but in API there is a huge pipeline series required of stainless steel nature right from ½ inch to 10 inch-12 inch.

**Ashutosh Tiwari:** Okay, and one more futuristic but this hydrogen energy generation and all that being gives being achievable there some plant coming up Middle East as well. So, what on from that hydrogen-carbon which is about hydrogen energies generated in some guesses is it also from the sea water that they generate hydrogen energy?

**Prakash Sanghvi:** No, too costly that energy actually still long way to go before all this battery operated some car may come in the country rather in our country it is very difficult for charging again, it might be coming in small country like European country or Middle East or somewhere. But why Middle East there is huge petrol, diesel available I do not think anything comes like that and this water hydrogen is very long way and the cost is too high for them.

**Ashutosh Tiwari:** But they are putting some plant there they have already had some plants over there.

- Prakash Sanghvi:** We have not heard much about it.
- Ashutosh Tiwari:** Yes, I got that. Okay, Sir that is all from my side. Thank you.
- Moderator:** Thank you. The next question is from the line of Sahil Sanghvi from Monarch Network Capital. Please go ahead.
- Sahil Sanghvi:** Yes, Sir my first question is what is our current outstanding LSAW order book?
- Prakash Sanghvi:** I have given the figures, it is a total Carbon Steel division we Rs.739 Crores order on hand and in Stainless Steel we have Rs.439 Crores orders in hand. So, totally Rs.1178 Crores orders are with company for Stainless Steel as well as Carbon Steel all put together.
- Sahil Sanghvi:** Right Sir, I was specifically asking on the project pipe being orders which are the higher margin LSAW pipes?
- Prakash Sanghvi:** It might be Rs. 100 Crores plus something because here we are expecting some more orders to come in this month only let us say about Rs.150 Crores to Rs.200 Crores.
- Sahil Sanghvi:** Which will be processed in FY2022, right?
- Prakash Sanghvi:** Yes, something in Q4 and then FY2020-FY2022.
- Sahil Sanghvi:** And this Rs.100 Crores will be processed I FY2021?
- Prakash Sanghvi:** Yes, this is entirely in Q3 and Q4.
- Sahil Sanghvi:** Okay, can we see some expansion of margins in the second half because of these orders?
- Prakash Sanghvi:** While margin profile overall will remain at 16% to 18% range it is difficult for us to take in a particular period what is our margin profile because these dispatches are total dependent on the requirement of the customers. So, that propels that product mix may undergo change not based on our expectations but based on the actual requirement of the customer but for the entire year based on the product mix which we are targeting that maintaining 16% to 18% at EBITDA seems to possible.
- Sahil Sanghvi:** Right Sir, my second question is on the current investment side. We have added about Rs.400 Crores as compared to March levels, so what kind of other income can we derive from your interest income PAT?

**Prakash Sanghvi:** Sahil really speaking because of the reduction in outstanding order book position lot of working capital has been free which has resulted into investment moving up. But returns on in case of investments have been coming down, so now average will nearer to may be around 5%. So, that is something which we are never very crazy about our focus will be keep order booking happen so then returns are particularly good in manufacturing. Our target will be wherever opportunities are there we should be there because lot of help will be there from the newer capacities also once these become commercially available. But on average is that the current momentum will continue in between figures may move up or move down in case of investment. But right now one can say is whatever has been average for six months that should be carried forward in coming six months also because if order booking starts to immediately out go will happen it will happen over a period of time in level can be considered.

**Sahil Sanghvi:** My third question is on the API pharma projects that Prakash Sir mentioned, so what quantum of orders in terms of percentage, we have 6% to 8% of the capex for say line pipes, so in that case can you give a quantum over here?

**Prakash Sanghvi:** See, here particularly intact stainless steel different grade will go and definitely it might be of their capex, it might be 5% or 8% will be there, the way we are delivering right now giving to some two to three companies regularly so the project is going and every month we are getting order, this way took place. So, like that number of unit will come but it will take time, now the government has announced and then people will take the plot and first the discharge facility built by the GIDs or MIDCs state on company something for common discharge, then things will move faster so this is an renouncement based on that people are getting land over there in Jhagadia, in Gujarat they have taken place called Jhagadia near this Surat. Like that in Telangana somewhere in east or north, three big industrial park they want to put for API drugs, what we were dependent on Chinese because of this border issue and more about the Atmanirbhar we need to put this big investment in this particular area because in formulation we have a big capacity in the country for this pharmaceuticals and this all medicals. So, they need backup for the raw material and so far we were importing from China and because of this all issue, there is a new development and central government committed Rs. 1000 Crores and the rest state government put the money in the local GIDC or MIDC or the local bodies and they can develop the industrial park with discharge facility so the unit will come faster otherwise everybody have their own discharge facility and there is a very tight norm from the pollution control board, this will be more faster, the investment will come in the country more faster way.

**Sahil Sanghvi:** Sir, can we expect some orders from this in later of FY 2022 or the follow up starts in FY 2023.

**Prakash Sanghvi:** It will be from 2021 and 2022 only because they have announced that they will take the plots, this and that so it takes time six months to twelve months but it is good the things are coming in the country so definitely all the local manufacturers will get a good chance.

**Sahil Sanghvi:** Right Sir. My last question is on the imports that are coming in SS steel and that we want to substitute going forward so what grade and what NPS are these imports and do we manufacture all of them?

**Prakash Sanghvi:** Yes, we manufacture all of them and once the capacity will start in stainless steel we also will go to government as a association of single pipe manufacturer and ask them to put anti-dumping duty on Chinese products, they have already taken one step, they put a quality control order so any material comes from the China it has to be DI approved material so that one restriction is already started but now we need some more restrictions because they are purely dumping over here in the country because their process is something different, all process is different, worldwide the process is different and the Chinese process is different so quality is not up to the mark and lot many of the people are putting in the tenders no Chinese horizon materials to be used for our finished tube something like that so and practically they are dumping that data is available with us, once we have the capacity in the country then only we can go otherwise they depend and we say we do not have a delivery right now so we are wating for just three months to four months and then we will definitely apply for the anti-dumping and government is also in favour, first the local industry has to survive, like that they have already put anti-dumping this CVD duty on this Indonesian production, they are the world largest flat roll coil producers and they put about 22% duty on that so you can see the Jindal Stainless they make our raw materials for welded pipes, otherwise they have a huge competition with them and you cannot compete them because they have a right from the iron ore, nickel ore, coal everything, they are on port, they are on ship, and they put the invest in Mundra for coal finishing only. So, right now they are very much in the line, for their own raw material they have to pay 22% duty. So, we are hopeful we will definitely go for seamless pipes and tubes, anti-dumping duty once we start the new capacity commercially fully.

**Sahil Sanghvi:** So, costing wise the pipes coming from China are cheaper as to what we manufacture over here.

**Prakash Sanghvi:** Quality wise also not that good because coastal fees is what they are using the process is what people are using in this ISMT, then Maharashtra seamless, then Jindal so at Nasik, it is hot piercing and what we use it a worldwide people are using hot extrusion, there is a big difference.

**Sahil Sanghvi:** So, that would be a strategy Sir, if at all the anti-dumping duty does not come in, what would be a strategy to replace the imports from China, majority be the quality?

- Prakash Sanghvi:** There are also we are selling a good quantity and exporting a good quantity against them because there is a two type of wire then, one go for cheaper material and one go for genuine material and have a long life. So, it is a two type wherever ordinary applications where they can use Chinese materials also but we educate them because all these 365 days running plant whether they are refinery, petrochemicals, fertilizers, power plant, nuclear power plant, chemical plant all these running 365 days. So, for their 2% to 4% investment they will not take that risk, they will go for a reliable product only and so many tenders got in writing that no Chinese origin material you have to use for finished goods, so the quality has always been.
- Sahil Sanghvi:** Okay. Thank you.
- Moderator:** Thank you. The next question is from the line of Mehernosh Panthaki from Dhanki Securities. Please go ahead.
- Mehernosh Panthaki:** I had couple of questions. One is on the order book side as you stated that the current order book is Rs. 1180 Crores so just wanted to know how much proportion of this order book will be executed by this end of financial year?
- Vimal Katta:** Almost 20% will be executed in the current financial year itself.
- Mehernosh Panthaki:** How much?
- Vimal Katta:** More than 70%.
- Mehernosh Panthaki:** Sir, can you approximately give the proportion of orders of helical saw pipes within this CS order book, how much it is?
- Vimal Katta:** See, right now it is not available because this will include helical saw, ERW and LSAW, all three put together, out of this 739, you can say almost Rs. 600 Crores for helical saw and ERW alone.
- Mehernosh Panthaki:** So, as we have seen that over the last two quarters our margins have contracted and that has been largely because of higher execution of helical saw pipes and within this order book also there is some Rs. 600 Crores of helical saw pipes order, so still you feel that in the second half we will be able to do margin on a higher side like around 18% to 19%?
- Vimal Katta:** 18% or 19% may not be possible but splendid for the entire this range 16% to 18% holds good.
- Mehernosh Panthaki:** Because in the first half your EBITDA margins have been 13.5% only.

- Vimal Katta:** We include other income also because that is also coming from the operations only.
- Mehernosh Panthaki:** Sir, just one more clarification on the L1 orders which you specified around, so you were stating that around Rs. 150 Crores to Rs. 200 Crores of orders you are L1 and you expect the order inflow in around two months to three months, so this is only for the Barmer Refinery you are talking about or is this total orders?
- Prakash Sanghvi:** Barmer Refinery.
- Mehernosh Panthaki:** Okay. Thank you very much.
- Moderator:** Thank you. The next question is from the line of Dhiral Shah from PhillipCapital. Please go ahead.
- Dhiral Shah:** Good afternoon Sir and thank you for the opportunity. Sir, when you talk about this API I may be giving as a new opportunity, so what kind of market size you are sizing for that or opportunity for us?
- Prakash Sanghvi:** See, right now only three to four people are there in the country, one is Hyderabad based company Dr Reddy, another is Aurbindo and new companies are coming like. So now because of government is supporting and it is the need of the day because we were totally depend on China and because of this was border issue and we know to be Atmanirbhar so government is helping to put a all-new API unit in three big industrial park they are going to build in Gujarat, Telangana and one more state and with the discharge facility, common discharge for the entire industrial park so with that there is a number of industries we come up for bulk jobs that is what we feel and for that entire tubes and pipes whatever they use say 4% to 5% it is all standard steel different grade depending on their corrosion.
- Dhiral Shah:** Okay, so 4% to 5% of their total capex requirement will be for stainless steel right. Okay and secondly when you talked about project related pipes which contributes higher margins so in which segment you are particularly you are talking about?
- Prakash Sanghvi:** It is a project piping or LSAW.
- Dhiral Shah:** Okay Sir and when my March FY 2021 our capex is CWIP which is almost around Rs. 400 Crores so what kind of fixed asset turnover you are expecting on that and by when you are expecting a full capacity utilization?
- Prakash Sanghvi:** See, this Rs. 400 Crore with stainless steel as well as carbon steel not only for carbon steel because 200 Crores we did in past and so total Rs. 600 Crores investment in last two year it will happen by this March 2021. In Rs. 600 Crores we expanded the capacity ERW content, LSAW move Greenfield plant, then hot extrusion with stainless steel plant and with this all in next three years to four years we



will get about Rs. 1500 Crores to Rs. 2000 Crores because it will ramp year-on-year so starting it will be utilized the space 25% to 35% for both and then 40% to 60% then 60% to 80% so like that we may get the turnover like Rs. 1500 Crore to Rs. 2000 Crore from this new capex.

**Dhiral Shah:** Okay, so you require any capex post that at least for the next two years to four years?

**Prakash Sanghvi:** Not immediate right now, we will definitely put all the emphasis on this how we have to market this both the product in a faster way and the capacity utilization in faster way and at the same time we have some balance machineries of carbon steel helical SAW we may think something in south or eastern part because of Corona it could be delayed so that we will see some opportunity will come from the NCLT or from auctions then we will give for other related products either downwards, upward only. This is backward integration only that is all.

**Dhiral Shah:** Okay, got it. Thank you.

**Moderator:** Thank you. The next question is from the line of Adesh Mehta from Motilal Oswal Asset Management. Please go ahead.

**Adesh Mehta:** Sir, my questions have been answered. Wish you all the best.

**Moderator:** Thank you. The next question is from the line of Ashish Das from Sharekhan. Please go ahead.

**Ashish Das:** Hi Sir. Thanks for the opportunity. Sir, earlier in the last con call we mentioned that our revenue target would be around Rs. 2000 Crore to Rs. 2300 Crore for FY 2021, now it holds, or do you think that H2 would be better than H1?

**Prakash Sanghvi:** It holds too good, we tried to increase by Rs. Rs. 50 Crore to Rs. 100 Crore but that all depend on first quarter but our internal it is Rs. 2200 Crores plus-minus Rs. 100 Crore it is there, and we will achieve.

**Ashish Das:** Okay. Sir, another question is raw material procurements, so do we any procurement from outside India and as the second wave of lockdown starts so would it impact our procurement?

**Prakash Sanghvi:** Not much, mostly our raw material is available in carbon steel however some special grade only we have to need to import but right now what order we got all the booking is there, there is no problem, no shortage of raw material, stainless steel is plenty available in the country both for stainless as well as welded. Some special grade only we need to import and that also keeps coming, the lockdown is for the whole megacities, and I think the factory level still in Europe everybody is working.

- Ashish Das:** Last thing like you mentioned that we also need international approval for our new capacity expansion but you also mentioned that some videoconferencing you will do and then we will get required approval and start commercial production?
- Prakash Sanghvi:** That is what our growth experience in stainless steel plant because of the COVID they were here for commissioning the equipment, all equipment arrived from them, they were here for installation and commissioning and on March 24, they left and they were supposed to come, we had arrange visa and other things but then again lockdown happened over there in Italy, in Germany so they could not and we were trying with videoconferencing with their help and start over here, our internal confidence is there, we may start the trial production by December over here.
- Ashish Das:** Thank you so much.
- Moderator:** Thank you so much. The next question is from the line of Shailesh Raja from B&K Securities. Please go ahead.
- Shailesh Raja:** Thanks for the opportunity Sir. In April 2019 across the product vertical in both CS and SS Division we operated 80% utilization level, so the contribution per ton was around 19,000 and fixed cost were around 8000 in FY 2019. So, with the expanded capacity again at 80% plus utilization level, what kind of contribution per ton and fixed cost per ton you are looking Sir and what kind of delta you are looking in contribution?
- Prakash Sanghvi:** See, it is very difficult to say on per ton basis because it all depends on diameter, thickness, grade all such so it is all a product mix and average you can get if it is the year level it might be in the range of 16% to 18%, you can see in last ten years history it is always there because some products carbon steel and quarter-to-quarter also if you compare it is not possible, year-to-year if you can compare all the product mix the company have a range of 16% to 18%, sometime it might be plus 1% sometime it may be -1% that depends again on product mix.
- Shailesh Raja:** Thank you.
- Moderator:** Thank you. The next question is from the line Shanti Patel SP Investments. Please go ahead.
- Shanti Patel:** Sir, I just wanted to ask you after this expansion are over what will be the market share of our product falling under the various segment and where we spend in the industry?
- Prakash Sanghvi:** I could not get your question.
- Shanti Patel:** After the expansion is over?

- Prakash Sanghvi:** Expanded capacity, see right now in particular segment we have about 40% to 45% market share in extended tube, machine sync tube but now we did new capacity which are more of the piping so definitely we have to because there is a largest capacity in the country you can say what you are putting say about 20,000 tons single stage. So, this definitely we will try domestic market as good as 35% to 40% to start with and size range we produce some sizes nobody else is producing the country so but you keep the slow process it may take maximum two years to three years to ramp up the 60% to 80% capacity utilization not the first year, second year.
- Shanti Patel:** It is a year wise; it will go up and up every year?
- Prakash Sanghvi:** So, we are definite in seamless pipe, same things as 40% to 45% share will be there of ours because we are the largest single company for seamless as well as welded capacity even for today also.
- Shanti Patel:** Who is our main competitor?
- Prakash Sanghvi:** Over here in carbon steel, number of people this Welspun, Jindal SAW these are the competitor. In Stainless Steel this Suraj, then Tubacex Prakash, Bhandari, I think now they have started Jindal's also some division, they have started something, newcomer you can say.
- Shanti Patel:** Sir but then competition will not go up?
- Prakash Sanghvi:** See, competition will go definitely but here in our stainless-steel segment the quality is always been worth because the cost of the pipe is right from Rs. 300 to Rs. 3000 per kg depend on size and thickness so for that matter because it is highly corrosion area and highly temperature area they use so they will not compromise anywhere for the quality, for the newcomer even though he will give cheaper.
- Shanti Patel:** Because of the establishment?
- Prakash Sanghvi:** Yes, that is how we were 35 years and you can see last 10 years to 12 years, it impact our share and rather we are increasing our share year-on-year and I think this new capacity, putting this new capacity will definitely increase our share in the market.
- Shanti Patel:** That is correct. Thank you very much.
- Moderator:** Thank you. The next question is from the line of Saket Kapoor from Kapoor and Co. Please go ahead.

- Saket Kapoor:** Thank you again for the opportunity Sir. In the water segment we are mainly catering to the connecting of large water bodies.
- Prakash Sanghvi:** Right because small diameter goes to this DI pipe.
- Saket Kapoor:** Right and currently has things started moving on this interlinking of river project?
- Prakash Sanghvi:** See, I think the company problem is that because of this COVID everything has been postponed, delayed this and that because you might have seen from March onwards everything was COVID, now something we are getting delayed and the cases are coming down and down and of course everything is well. In Ahmedabad of course the COVID is there, everyday there is a 150 to 178 cases they declare and there are 2 to 3 deaths only from COVID but real history of course now the fear has gone and everybody are working and now we are in festival season so everybody is in marketing.
- Saket Kapoor:** Correct, if we take this water segment part who is our key competitors, where we are installing?
- Prakash Sanghvi:** See, all this state government directly we are not giving to state government we are giving to all this EPC like Larsen & Toubro, Megha and Nagarjuna then here in Gujrat Jay Somnath, Kalpataru lot are there, all EPC by comers.
- Saket Kapoor:** Correct, one point we have also seen that one of the competitors' Welspun also has entered into this DIP segment?
- Prakash Sanghvi:** It is a DI but we are not at all in DI segment. Again in particular place, their two people are there in Mundra, Jindal as well as this electro steel and then he is also putting a big capacity so there is no way now to go in a very competitive market again water is more competitive market.
- Saket Kapoor:** Last point is about on this stainless steel partners some provisional duty has been set up some imports from Indonesia and on the pipes parts also some CWD counter willing duty and something was put up I think few months ago, so how this is going to affect?
- Prakash Sanghvi:** That will help us rather you can say in pipe what they have put, it will help us. In our raw material that is coil, HR Coil and CR Coil, there they have put on Indonesia, little bit you can say single source available in the country but in other countries are available, all other counties are available other than Indonesia you can import from Europe, you can import from Japan, Korea all available.
- Saket Kapoor:** But we are doing it from the domestic sources only?

**Prakash Sanghvi:** Yes, 60% to 70% we are utilizing domestic material but some special grade, something on the delivery, on quantity and we are taking better price, so we are importing also.

**Saket Kapoor:** For the tube part Sir, what was the duty structured change, how has that impacted the market I think that is a six month?

**Prakash Sanghvi:** That they have put on Vietnam, two to three country only some different party to party based on their local benefit available, so it varies from 10% to 24% but one or two partitions they have not put any duties so that in welded segment so that material is coming under the duty free, under the scaled agreement of the country to country so that also we have took up again better after that first phase, now it is in second phase that they are two party also our association, we build an association and in that association taking care with the government if that two parties also really dumping it is just coil plus \$100 to \$150 it is not possible at all so practically they are dumping so the government will definitely see because welded pipe manufactures are number of peoples are there even for an ornamental one segment is the big segment, ornamental too so, that all coming from Vietnam just two manufactures.

**Saket Kapoor:** Thank you and please take due care.

**Moderator:** Thank you. The next question is from the line of Vikas Singh from PhillipCapital. Please go ahead.

**Vikas Singh:** Sir, I just wanted to understand one thing, you commented that in some of the orders you were L1, you had given some extra time in terms of the materialization, so in terms of back to back booking since every month steel prices are on a rise so even if we get because our contract size would have been as expected, so how does it change our marginal profile then because steel itself might not be agree after couple of months to give you Rs.2000 Rs. 1000 cheaper?

**Prakash Sanghvi:** We, knew in tender business the steel issues and all those it will definitely take three months to four months and we take horizon of three months to four months of this water side and we keep that margin also and when we extend the validity of the tender we see internal again together it is okay with us, then only we extend otherwise we have to say no and they have to do retender.

**Vikas Singh:** Okay. So, we can assume that the margins are more or less same?

**Prakash Sanghvi:** So, some percentage we have took for that price variation, within that we accept and we extend the validity because if it is longer period they took and then definitely it becomes beyond that then we say no, we cannot extend the validity and then it becomes the retender.

- Vikas Singh:** Sir, my second question pertains basically to our increase in the investment at the same time we have a lumpsum loans also of Rs. 170 Crores plus, so why we have not chosen to pay long-term loans because since it is not a working capital loan so it could have been paid, considering the 5% kind of yield on the investment?
- Vimal Katta:** See Vikas, these loans were tied up in respect of their ongoing capex and these capex were expected to be operational last year itself. So, this increase in investment so if the liquidity with the company is because of the cash generated over this extended period which has been available to the company otherwise the working capital of requirements of the new capex would have served all the liquidity and these loans have come with certain locking period so we are exploring what can be done and we are not on also fully one of the loan which is there so we will take a call based on our overall assessment what that can be done.
- Vikas Singh:** Okay and just one last question pertaining to our SS SAW new mill considering that getting delayed in terms of supports and all that, in case if we are able to start a portion of the mill from the local support, so can there be a market of commodity gate or some other gate which would not require stringent certification and can be utilized some portion of the mill, is there any market available that the entire market is basically order based.
- Vimal Katta:** See, here in case of new hot extrusion our capacity initially itself was planned to be sold in as is condition to actually use without any cold finishing being done by us and to the other cold finishers also because this capacity will be used, one think is that, second thing is anywhere mandatory certifications will be required whatever may be the situation and say we should be in a position to start the commercial run based on our own resources even if Danielle is not in a position to come down to India because of this COVID situation then also the certifications will be required and we are confident that we will be in position to get all the certifications and that has nothing to do with the machinery supplier, machine suppliers assistance is required for the programming and other things only which our team is trying to take care using the local resources.
- Vikas Singh:** Understood. Thank you for answering my question and all the best.
- Moderator:** Thank you. As there are further questions, I would now like to hand the conference over to Mr. Sahil Sanghvi for closing comments.
- Sahil Sanghvi:** Thank you Vimal Sir and Prakash Sir for patiently answering all the questions. On behalf of Monarch Network, we also thank all the participants for joining the call. Prakash Sir, do you want to give you any closing comments or should we end the call.



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**Prakash Sanghvi:** I think I have said everything to all the analyst but still vision will be there, and things will improve after this COVID and things will go better and very Happy Diwali and New Year to everyone.

**Moderator:** On behalf of Monarch Network Capital that concludes this conference. Thank you for joining us and you may now disconnect your lines.