



“Srikalahasthi Pipes Limited Q4-FY18 Earnings Conference Call Highlights”

May 16, 2018



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MR. V M SRIDHARAN – GM (FINANCE),
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MODERATOR: **MR. DEEPAK AGARWAL – PHILLIP CAPITAL (INDIA)**
PRIVATE LIMITED



*Srikalahasthi Pipes Limited
May 16, 2018*

Moderator:

Ladies and Gentlemen good day and welcome to the Srikalahasthi Pipes Limited Q4 -FY18 Earnings Conference Call hosted by Phillip Capital (India) Private Limited. Some of the statements made in today's conference call maybe forward-looking in nature. Such forward-looking statements are subject to risk and uncertainties which could cause actual results to differ from those anticipated. Such statements are based on management's belief as well as assumptions made by an information currently available to the management. Audiences are caution not to place undue reliance on these forward-looking statements in making any investment decision. The purpose of today's Earnings Conference Call is purely to educate and bring awareness about the company's Fundamental Business and Financial Quarter under review.

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 the operator by pressing "*" then "0" on your touchtone telephone.

I would now like to hand the conference over to Mr. Deepak Agarwal from Phillip Capital (India) Private Limited. Thank you and over to you Mr. Agarwal.

Deepak Agarwal:

Good afternoon all. On behalf of Philip Capital I will welcome you all to Q4-FY18 Earning Call of Srikalahasthi Pipes Limited. The management is represented by Mr. N. Sivalai Senthilnathan – CFO, Mr. V M Sridharan – GM (Finance) and Mr. Gaurav Somani – DGM (Finance).

I now hand over the call to the management for their opening remarks post which we will take Q&A. Over to you sir.

Sivalai Senthilnathan:

Good afternoon everyone. My name is Sivalai Senthilnathan – CFO of Srikalahasthi Pipes Limited. I have with me Mr. V M Sridharan – GM (Finance) and Mr. Gaurav Somani – DGM (Finance).

I thank you all for participating in the Company's Q4- FY2018 Earning Conference Call.

Firstly, I would like to give you some background about the company and some brief highlights about the performance of Q4- FY18 and then proceed with the Q&A session.

We are one of the leading players in the Ductile Iron pipe industry in India. The company was established in 1991. SPL's plant is located at Rachagunneri, Srikalahasthi, Chittoor District, Andhra Pradesh near Tirupati and its key products include Ductile Iron pipes, pig iron, coke and cement. The Srikalahasthi Pipes has a backward integrated manufacturing facility which includes a sinter plant, coke oven plant, power plant and a sewage treatment

facility in the same complex spread over 330 acres, giving the company a significant competitive advantage. More than 80% of revenues come from Ductile Line pipes and remaining from other products. Now I would like to summarize the key financial highlights of the Q4 financial year 2018. Our top line for the quarter was around INR 351 Crores and the EBITDA for the quarter was INR 66 Crores and the EBITDA margin was around 18.68% and reported a net profit of INR 34 crore and a net profit margin of around 10%.

In the financial year 2018 our top line was around INR 1,541 crore and EBITDA for the year was INR 279 crore and EBITDA margin was around 18% and we have reported a net profit of INR 147 Crores and net profit margin of around 9.56%.

Proceeding for key operation highlights of Q4- FY18 and Financial Year 18:

The process of installation of four coke oven battery along with additional boiler in the captive power plant is in the advanced stage of completion and is expected to be in place during the Q1-FY19. The company's financial position continues to be comfortable and the company is optimistic of maintaining its growth. We have proposed to invest about INR 70 crore as CAPEX towards installation additional annealing furnace, establishing 1,200 DI production facilities and the other balancing infrastructure in the Ductile Line Pipe plant which facilities cost reduction besides flexibility in the pipe mix in turn lead to better sales realization and improved capacity utilization. This project would be funded out of internal accrual and the proceeds of the QIP issue. It is plan to commission this by Q2-FY20 also as a matter or cost production initiatives and as part of backward integration for achieve to achieve self-reliance enforcing major and physical raw material and the company contemplating to take up Ferro alloy project INR 55 crore to produce Ferro Silicon and Silicon Manganese production of 50% of the Ferro Silicon will be consumed internally and the balance quantum ferrosilicon and the entire quantity of Silicon Manganese shall be sold in the domestic and export market. This additional facility would help the company in achieving higher revenue in addition to maintaining lower cost of production. This project would be funded out of internal accrual and the proceeds of the QIP issue. This facility will be commissioned by Q2-FY20 considering government continuous focus on infrastructure project in the country huge investments in water infrastructure development use of Ductile Iron pipe and sewage and irrigation projects with demand for ductile and price in the domestic market is expected to be growing. So with this I thank you and now we can proceed to question and answer session.

Moderator:

Ladies and Gentlemen we will now begin with a question and answer session. The first question is from the line of Dhruv Agarwal from Crescita Investment. Please go ahead.

Dhruv Agarwal:

I wanted to know the reason behind the drop in the top line for Q4-FY18, last year Q4-FY17 top line was around INR 439 Crores of top line this year we have reported around INR 350 Crores as you said. So what was the reason behind that?

- Sivalai Senthilnathan:** In last year sales, there were more trading sales of coal, which is not our main line of business and central excise duty was included in turnover last year but GST was not included in the turnover for current year as per the regulatory requirements.
- Dhruv Agarwal:** Also the line item of interest last year same quarter was interest around INR 7.7 crore which has jumped to around INR 11.2 Crores this year so what has been the reason for that?
- Sivalai Senthilnathan:** In the current year, our DI Pipe turnover has increased and imported more coal with the support of buyers credit and other working capital facilities. However, if you net other income, which is income from mutual fund investment and fixed deposit, the net amount is positive for this quarter.
- Dhruv Agarwal:** Sir right now we have the Ductile Iron pipe capacity at 3 lakhs tonnes per annum?
- Sivalai Senthilnathan:** Yes.
- Dhruv Agarwal:** After this increase in CAPEX what would be the incremental capacity we are adding to the DI pipes?
- Sivalai Senthilnathan:** The Ferro silicon plant we are talking about is for backward integration to have better availability of raw material at a cheaper price and a diversification of our portfolio of products as surplus produced will be sold in the market.
- Dhruv Agarwal:** Basically, this the capacity for this Ferro alloys will help you in your raw material cost improvisation.
- Sivalai Senthilnathan:** Absolutely.
- Dhruv Agarwal:** So you are not increasing your capacity for Ductile Iron pipe as of now?
- Sivalai Senthilnathan:** Now we are focusing on utilizing our 100 % capacity. And we are looking for expanding the ductile iron pipe capacity both organic and inorganic way. It will take some time to finalise.
- Dhruv Agarwal:** Sir the coking coal what is the cost of per tonne for the coking coal as of now in the market present price is?
- Sivalai Senthilnathan:** Coking coal cost as of now is around INR 13,200 per tonne approximately.
- Dhruv Agarwal:** What is the inventory of coal that you have till how many months will the inventory that you are currently holding?
- Sivalai Senthilnathan:** We have coal for next 2 months.

- Dhruv Agarwal:** And what is the average cost of that?
- Sivalai Senthilnathan:** That is almost same as I said earlier, INR 13,000.
- Dhruv Agarwal:** Almost approximately that is the same cost. Sir one of the concall I have heard that you have around 150 acres of land with you that is lying idle so any plans on that?
- Sivalai Senthilnathan:** We have about 300 acres of land space and only 50% of which is being used so we have surplus land and if we want, we have potential to expand organically.
- Dhruv Agarwal:** So that will be for Brownfield expansion?
- Sivalai Senthilnathan:** Yes.
- Dhruv Agarwal:** Final question what is the top line growth do you see for the next two year and the sustainable EBITDA margin, EBITDA margin I am asking excluding other income?
- Sivalai Senthilnathan:** We expect to maintain the EBITDA margin at the same level and can be improved if raw material prices ease and there will be growth when we improve our utilization of capacity.
- Moderator:** We take the next question from the line of Dikshit Mittal from Subhkam Ventures. Please go ahead.
- Dikshit Mittal:** Can you tell the volume of DI Pipe in Q4 as well as full year?
- Sivalai Senthilnathan:** Volume of DI sales for Q4 was 72,193 metric tonnes and for full year it is 275,484 metric tonnes.
- Dikshit Mittal:** So we have seen in terms of per tonne EBITDA margins dipping from above 10,000 in last two, three years to now below 9,000 so you mentioned that your endeavor is to go back to 10,000 kind of level so what will be the driver for that do you see the cost input cost coming down or do you see like higher realization kicking in.
- Sivalai Senthilnathan:** Our efforts to improve the EBITDA margins will be mainly from better efficiency resulting in cost reduction and expecting reduction in essential raw material prices apart from improving the NSR.
- Dikshit Mittal:** In this new project announcement of Ferro Silicon so can you give what is the kind of CAPEX and what are the volumes that you are setting up in terms of capacity of that plant?

- Sivalai Senthilnathan:** See as far as Ferro Alloy project is concerned as you may know that the cost of Ferro Silicon has gone up significantly. So, we felt that it is viable to set up a Ferro alloy plants. And what we are proposing is that to set up a Ferro Silicon plant of about 8,000 metric tonne per annum capacity and Silicon Manganese of about 16,000 metric tonne per annum capacity.
- Dikshit Mittal:** What is CAPEX?
- Sivalai Senthilnathan:** CAPEX is roughly INR 55 Crores?
- Moderator:** We take the next question from the line of Saket Kapoor from Kapoor and Company. Please go ahead.
- Saket Kapoor:** On the current liability sections some book keeping questions. if you could quantify what are the other financial liability and other current liabilities?
- Sivalai Senthilnathan:** The other financial liabilities are - term loan and ECB for long term and other current liabilities are advance from customers and other tax related payables.
- Saket Kapoor:** So the deferred tax liability also please explain this figure and how is this going to getting even out
- Sivalai Senthilnathan:** Mainly because of timing difference due to depreciation and it will even out over a period of time.
- Moderator:** We take the next question from the line of Rajesh Kothari from Alfa Accurate Advisors. Please go ahead.
- Rajesh Kothari:** In the opening remark you mentioned that last year revenue includes onetime trading revenue of INR 74 Crores so if you reduce, INR 74 Crores from INR 439 Crores of last year and if you compare that number with current year still your revenue is de-growth from INR 366 Crores to INR 339 Crores. I have two questions one what is the total trading revenue of last year number two is there any trading revenue likely in the current year and number three please explain the de-growth of fourth quarter net of one-time revenue?
- Gaurav Somani:** In Q4-FY18 though we sold higher quantity of pipes compared to Q4-FY17, the revenue was lower. So one reason was trading sales the second point is that we had lower sales of by products and the third reason is lower NSR i.e., net sales realization per tonnes of DI pipes. When compared to the previous quarter, this quarter was little lower. So that resulted in lower revenue.
- Rajesh Kothari:** So how much was the realization de-growth?

- Gavrav Somani:** Realization was down by around INR 1,000 per tonne in Q4, which was of temporary nature.
- Rajesh Kothari:** So that primarily impacted your realization?
- Sivalai Senthilnathan:** Even though we managed to do higher sales volumes, but because of that the revenue was little lower.
- Rajesh Kothari:** If I look at your third quarter you had called again purchase of traded goods of INR 52 Crores and first quarter also you had INR 72 Crores so whether you target to continue this activity, or this kind of activity may come down or how it works?
- Sivalai Senthilnathan:** It all depends on how like minded parties who want this item. We are trying to use the economies of scale when we are able to import full ship load to get a better price and also we are able to reduce our logistics cost by doing a high sales to other like-minded parties. So it depends on at the time of import how it shapes out. As I said earlier, this is not our main line of business, hence we don't need to attach much significance to it.
- Rajesh Kothari:** This is fine anyway it is not going to contribute much to your EBITDA, so it is fine. My second question is what is your current order book?
- Sivalai Senthilnathan:** Current order book is about 2.70 lakh metric tonnes.
- Rajesh Kothari:** What are the prices of this in terms of value?
- Sivalai Senthilnathan:** I mean average I would say around INR 42,500- per tonne.
- Rajesh Kothari:** What is your last year sales realization per tonne fourth quarter and full year?
- Sivalai Senthilnathan:** Full year it was around INR 43,500.
- Participant:** I am talking about the margins what you are losing because of the higher raw material price inventory which got locked in, maybe you are not able to pass through in terms of the overall inflation raw material caused. So do you think from April onwards you are able to pass through the price increase or it continues to be at the lower prices?
- Sivalai Senthilnathan:** Most of the contracts are firm contracts. Generally, we can't pass through the prices on the short-term contracts, but long-term contracts, for example if it is 9 months and above horizon, there is a scope to negotiate with the customers that we have done in the past. So considering these factors, we would like to maintain the current EBITDA levels and in case if raw material prices come down significantly, we will be able to achieve a better EBITDA margin in the coming quarters.

- Moderator:** The next question is from the line of Naresh Kataria from Money Curve. Please go ahead.
- Naresh Kataria:** My question is on receivables. So we have a substantial jump in receivables YoY from INR 140 Crores to INR 253 Crores. I understand you have also GST related things where you get some delays, will that explain such a big receivable because I saw Tata Metaliks and other DI companies, they did not have such a big jump in receivables.
- V. M. Sridharan:** There are two main reasons. One is straight 18% GST increase on the debtor assuming that the number of days remain same, 18% impact on GST will increase the debtors, number one. Number two, last year we had discounted lot of sundry debtors to have more cash. This year, we do not require cash, so we have not discounted. So the debtors when you take net of discount, this year it is more.
- Sivalai Senthilnathan:** One more thing also to add to what Mr. Sridharan said, the volume also increased right, so that also contributed to some extent.
- Naresh Kataria:** Anyway, I get it. So I think the industry in transition with GST, so is this GST thing sorted sir because earlier it was without excise and now we have 18% GST, who bears it? Are we bearing it or is it divided between the buyer and us?
- Sivalai Senthilnathan:** It is passed on to customers.
- Naresh Kataria:** See other thing is on the realization. Last year we had an average of INR 43,000 per tonne, but now the prices of raw material is quite high in terms of coking coal or iron ore or even Ferro silicon, but still we seem to have around INR 43,000 per tonne. So is that kind of okay, is there competitive pressure, should that not have been a commensurate increase in our realization with increase in raw material prices
- Sivalai Senthilnathan:** In the future orders, it may be factored. Yes, there is competition, however we hope in the future orders we may get better realization.
- Naresh Kataria:** And the last point was on the coke oven plant. So we were earlier planning March-April, so this should go live soon sir, it is already May, maybe next month?
- Sivalai Senthilnathan:** In June, we are expecting to commence it.
- Naresh Kataria:** And one more point was on the volume. So the 72,000 plus whatever we have done, is that restricted by the DIP capacity or by the blast furnace pig iron capacity. What is stopping us from going to 75,000 right away. I am not doubting the capability. I am just wanting to understand where does the bottleneck stand in ramping up, will it be on DI or on pig iron?

- V. M. Sridharan:** No, there is no problem on either side because we have sufficient capacity of metal as well as we can melt pig iron and scrap. So achieving 3 lakh tonnes is not a problem.
- Naresh Kataria:** Not an issue, we will ramp it up to. Are there any possibility to maybe do some debottlenecking, maybe later next year to because we have demonstrated earlier that we have gone above our rated capacities. Could that happen maybe next year where the 3 lakh tonnes we can actually produce little more of iron and DI?
- Sivalai Senthilnathan:** Yes, it is possible.
- V. M. Sridharan:** 1200 dia coming, it is possible.
- Naresh Kataria:** So 1200 dia allows us to have a better throughput on DI because DI pig iron is not that much of a challenge?
- Sivalai Senthilnathan:** Having 1200 dia will help us to improve the product mix and improve the market share.
- Naresh Kataria:** Sir my last point was on how the cycle plays for raw material versus booking? So I see that you had high prices of coking coal and that inventory should have hopefully moved out in Jan, Feb, March and now the March, April, May softened raw material prices should flow through into what we are delivering now. Is that how maybe because I think we have a 2-3 month booking of raw material. So the high cost raw material should have flown out and we have a normalized raw material which is flowing through in this quarter, is that a fair assessment?
- Sivalai Senthilnathan:** The very high cost of coal i.e., more than USD 330/MT where consumed during the last year, i.e 2017-18. But the coal price not yet returned to the earlier price of say around USD 150 / MT. If price of coking coal normalizes to that level, we can definitely improve our EBITDA margins.
- Moderator:** Thank you. We take the next question from the line of Rajnath Yadav from Choice Equity. Please go ahead.
- Rajnath Yadav:** Sir, I have couple of questions. Can you just once again repeat the sales volume for this quarter?
- Sivalai Senthilnathan:** Sales volume for this quarter is 72,193 metric tonnes.
- Rajnath Yadav:** And what about the same quarter last year?
- Sivalai Senthilnathan:** 69,465 metric tonnes.
- Rajnath Yadav:** And sir can you repeat the realization part?

- Sivalai Senthilnathan:** Realization is roughly we can say that it is around INR 43,500 per tonne for whole year.
- Rajnath Yadav:** And sir if I go down the line, finance cost has increased drastically in this quarter and for FY18 also, it has increased by 9% and this was despite the fact that we are generating positive cash flows, have sufficient cash and cash equivalent and declining debt levels. So can you provide what was the reason for the rise in finance cost on quarterly and annual basis?
- Sivalai Senthilnathan:** You have to consider that we have increased the volume and also we are buying lot of coal, including trading coal. So to buy that, we have to open LCs and utilize buyers credit facilities. So there is finance cost involvement there and as you said that we have surplus cash so that has generated about INR 11.53 Crores of income if you see in the topline, which was INR 5 Crore in the corresponding period last year.
- Rajnath Yadav:** Sir, why I was asking is that you have said that with business, your working capital has increased, but if I see, your short-term debt has declined on an annual basis.
- V. M. Sridharan:** Maybe on the close of the year, it maybe, but during the year, we should see utilization.
- Rajnath Yadav:** And sir for this QIP funds, just wanted to know have you participated in any mining auctions or is there any lined-up Brownfield or Greenfield expansion apart from stated in the press release?
- V. M. Sridharan:** Yes, we are observing closely the auction at Karnataka. We will bid when our kind of mines come which is suitable to us.
- Rajnath Yadav:** And sir we have a CWIP of around INR 30 Crores, so is it possible to get the project wise details means for Ferro Alloys, how much?
- V. M. Sridharan:** Ferro Alloys project not yet started. It is mainly on account of additional battery and boiler along with other items in the coke oven plant.
- Rajnath Yadav:** And sir last question. Recently, Vedanta has successfully acquired group company Electro Steel Limited. So what will be the indirect positive or negative impact on Srikalahasthi's operations that is in terms of raw material cost or any other benefits?
- Sivalai Senthilnathan:** We do not see any impact.
- Rajnath Yadav:** We might gain from their raw material sourcing strategy.
- V. M. Sridharan:** There is no impact on the takeover or non-takeover. There is no impact for the SPL. We are an independent company. We do not have any impact on that.

- Moderator:** Thank you. We take the next question from the line of Saurabh Kapadia from India Nivesh. Please go ahead.
- Saurabh Kapadia:** Just wanted to know what will be the cost savings from the Ferro Silicon plant and how will be the margin for the overall plant?
- Sivalai Senthilnathan:** We are going to invest about INR 55 Crores and we expect a good contribution.
- Saurabh Kapadia:** And sir in terms of this trading business, so how do we see going ahead. Will the overall trading business revenue decline in this year as compared to last year?
- Sivalai Senthilnathan:** That is not our main line of business, It helps us to get the benefit of economies of scale to negotiate a better price and to share logistics cost. So we don't need to consider that. There is no significant pattern that is what I am trying to say.
- Moderator:** Thank you. We take the next question from the line of Giriraj Daga from KM Visaria. Please go ahead.
- Giriraj Daga:** Bit of questions. So personally, what is the kind of industry growth you are witnessing for this year FY19 let us say for the DI?
- Sivalai Senthilnathan:** Industry is expected to grow at around 12%.
- Giriraj Daga:** So one broad question like do not you see the scenario where at the top efficient players you and Tata Metaliks both are running out of capacity. Are we going to see something like a margin expansion, are you witnessing in the current ordering? I know you have booked for this year, but the current ordering what you are making, are we expecting some kind of a margin expansion coming in place EBITDA per tonne.
- Sivalai Senthilnathan:** Though there may be few entities running short of capacity, at overall India level, we consider capacity is still available.
- Giriraj Daga:** My last question is on the Ferro side sir. What is the sourcing from the mines like manganese ore mines, do we have any captive mines out there?
- Sivalai Senthilnathan:** Manganese Ore of required quality will be met partly from domestic and partly by imports. We don't have captive mines for manganese ore.
- Giriraj Daga:** Do we have excess power out there?
- V. M. Sridharan:** Excess power, in the sense grid power is available.

- Moderator:** Thank you. We take the next question from the line of Ayush Mittal from Mittal & Company. Please go ahead.
- Ayush Mittal:** Sir in continuation to the discussion about the industry scenario wherein we have been seeing good growth in the industry obtaining 12% over the last few years and we are confident that the same will be there and as we see that there are only two-three key players like you, Tata Metaliks and couple of, then why have not we seen a price increase when there was such a big raw material increase because if we see the pig iron, the prices had increased. If we see the value chain, the prices had increased, but we have not seen the same increase on DI pipe and what is the expectation going forward?
- Sivalai Senthilnathan:** We still have competition when we see the overall demand and supply capacity.
- Ayush Mittal:** But then it is only 4-5 players, you are seeing cost pressures. Are you all not trying to increase your prices in the upcoming contracts and further increase because the kind of margins that we are targeting is again variables like the coal price may go up tomorrow?
- V. M. Sridharan:** So the realization is dependent on the supply and demand position. So there is a competition also. It is not that we are not in a noncompetition area. So depending on the competition, the realization will go up and go down. So accordingly, what we do is we try to do lot of cost reduction methods by which we try to improve the margin.
- Ayush Mittal:** Is it that being a tender business, you have long-term contracts and you cannot change it?
- Sivalai Senthilnathan:** Our contracts are with EPC contractors. We can pass on some of the cost increase if the contracts are long term. We have done it in the past.
- Ayush Mittal:** But if we see all the leading players, all of them are operating at 80%-90% utilization?
- Sivalai Senthilnathan:** As far as we are concerned, we enhanced our capacity last year and we are moving towards achieving full capacity.
- Ayush Mittal:** And sir what is the status of the acquisition that we wanted to do of the other player, it has been some time and we had probably raised funds for the same also the QIP?
- Sivalai Senthilnathan:** Actually, I cannot comment on that. We are keenly observing the developments and inorganic growth opportunities.
- Ayush Mittal:** It may take one or two quarters to get more visibility on that?
- Sivalai Senthilnathan:** Yes. Accordingly we can decide organic or inorganic way of expansion.

Moderator: Thank you. We take the next question from the line of Rajeev Agarwal from DoorDarshi Value Advisors. Please go ahead.

Rajeev Agarwal: My question is first on the Ferro alloy plants that we are putting up. If I recollect correctly, in the past we had talked about this plant, but decided not to put it up because we were not getting the electricity subsidy from the state government. So can you talk a little bit about the financials what you expect and why you decided to now set up this plant?

Sivalai Senthilnathan: Earlier, we thought that it is viable with subsidy, but by seeing the huge demand, constraint on supplies and the prices have also gone up sky rocketing and with our own requirement, we thought it is still viable. And there is also a good potential for exports.

Rajeev Agarwal: And so when we are going to spend INR 55 Crores approximately for this plant, what sort of returns do we expect with this investment?

Sivalai Senthilnathan: Our payback is over 4 years.

Rajeev Agarwal: And just on the industry scenario, I thought Srikalahasthi is very well positioned in the South India because there are very few players. So I would have expected that as the demand comes from South India, you would have an inherent advantage right because of the cost of supplying pipes from other players. So I would have therefore expected you to benefit and the ability to pass on the cost increase in your raw materials to your customers. So can you just explain to us why you find that hard vis-à-vis the other players because you already have such an advantage. So maybe just explain to us why that is difficult for you?

Sivalai Senthilnathan: The advantages you said, are all correct. So that is why our order book position is very comfortable. As far as pricing is concerned, still there is a good competition and this sudden volatility of coal prices, we cannot pass on immediately, But as it is a continuous process, over a period of time it will be covered in future tenders/contracts.

Rajeev Agarwal: Right and sir that does not see very different than last year right based on what you just mentioned that your average realization is around INR 43,000.

Sivalai Senthilnathan: Our endeavor is to increase the NSR from future orders after duly considering the competition and other relevant factors.

Moderator: Thank you. We will take the next question from the line of Saket Kapoor from Kapoor & Company. Please go ahead.

Saket Kapoor: Sir just coming to the point of the finance cost only if I may hear you correctly, it is on account of the increased volume that has happened. Proportionate to that, the finance cost is on the higher side.

- Sivalai Senthilnathan:** There is an increase in working capital due to increase in volume, import of raw materials, increased debtors due to volume and introduction of GST.
- V. M. Sridharan:** There is also some exchange loss during the year which was not there earlier year. All these put together, increased the finance cost.
- Saket Kapoor:** Sir, just a very small suggestion. When we come up with the press release, the quarterly production and the sales number should also be mentioned there, so the repeated query about the production and the sales and the net realizations are being answered before the concall only, it is just a small suggestion.
- V. M. Sridharan:** We will consider your suggestion appropriately, sir. Thank you.
- Saket Kapoor:** And for the investment column, we have around INR. 213 Crores as investment under the current asset. So would you elaborate what is this investment all about?
- Sivalai Senthilnathan:** That is investment in mutual funds.
- Saket Kapoor:** This INR 200 Crores in the mutual fund, sir?
- V. M. Sridharan:** Yes.
- Saket Kapoor:** So that means again 200 is in the mutual fund and again we have gone for the QIP. So around INR 400 Crores is the cash which we are holding.
- Sivalai Senthilnathan:** approximately yes. Around INR 200 Crores in the fixed deposit, that is why cash and cash equivalents are appearing at about INR 202 Crores.
- Saket Kapoor:** So what is the end use for this because this is not meant for us as a manufacturing company would not be investing in mutual funds. So when is it going to see the light of the day, the real purpose of it or will it be return back to the shareholders?
- Sivalai Senthilnathan:** As you are aware, we have recently increased our DI Pipe capacity from 2.25 Lakh tonnes to 3 Lakh tonnes and we are working towards achieving the 100% capacity utilization. Considering that, we have sufficient time to decide whether to go for an organic or inorganic way of growth. We are into all the opportunities. So we will be utilizing the funds accordingly. We will get better picture in this financial year.
- Saket Kapoor:** So everything is on card, we cannot say that the name is not mentioned for the Southern players which are bankrupt, we are still in the foray to acquire anyone of the asset as and when the time comes going forward.

- Sivalai Senthilnathan:** Yes.
- Moderator:** Thank you. We take the next question from the line of Govind Raj, individual investor. Please go ahead.
- Govind Raj:** Basically, we are operating in Ductile Iron Pipe at 92% capacity utilization. Is there any scope to increase it?
- Sivalai Senthilnathan:** We are working towards it.
- Govind Raj:** That means are we going to proceed with any additional capacity because once the ductile pipe capacity is being fully utilized?
- Sivalai Senthilnathan:** We can also go beyond 100% to some extent. We are looking at both organic and inorganic way of having the capacity expansion.
- Govind Raj:** And second question, we have raised INR 250 Crores in QIP and of which we are putting up INR 55 Crores new Ferro alloys division and INR 70 Crores in annealing plant. So what about the rest INR 125 Crores. Whether it will be for organic acquisition?
- Sivalai Senthilnathan:** Whether organic or inorganic, we will see that situation and accordingly we will take a call in coming days.
- Govind Raj:** So of now it has not been decided?
- Sivalai Senthilnathan:** Not yet decided.
- Govind Raj:** With regards to this ferroalloys plant sir, when it will be operational?
- Management:** It will be operational in 2019.
- Govind Raj:** Regarding this ductile pipe how much of the quantity has been exported?
- Sivalai Senthilnathan:** Whatever we have reported, there is not much of an export, off late we have done some exports.
- Govind Raj:** So everything gets consumed locally?
- Sivalai Senthilnathan:** Yes.
- Moderator:** Thank you. Next question is from the line of Saket Kapoor from Kapoor & Company. Please go ahead.

- Saket Kapoor:** Sir I missed one point about the raw material basket sir. How is the raw material prices the environment shaping up because you told us that it was last year's volatility that dented our margin so how was the price trend being post-December or January if you could give some idea?
- Sivalai Senthilnathan:** Now the coal prices are around INR 13,000- per tonne, so if the prices remain same, we will be able to maintain the margin, and if there is a favourable correction in the prices, we will be able to improve the margins.
- Saket Kapoor:** And for the iron ore and other segments, iron ore I think so was also on the higher side for the last few months?
- Sivalai Senthilnathan:** Yes, iron ore was also hovering around INR 4,500- INR 5000 per metric tonne and we are carefully watching the situation.
- Saket Kapoor:** Overall, for this financial year for the investing community we can expect better times as the volatility in the raw material is expected to be not that bad as it was earlier and the utilization level moving up to the maximum, we should expect a good year from Srikalahasthi Pipes going forward? This should be our conclusion today?
- Sivalai Senthilnathan:** If the assumptions you mentioned hold good, Yes, we can, and that is our endeavor also.
- Moderator:** Thank you. That seems to be the last question for today. I would now like to hand the floor over to Mr. Deepak Agarwal for his closing comments.
- Deepak Agarwal:** Thanks a lot. I would like to thank the management for giving us the opportunity to host this call. And also, to all the participants for their presence. Sir would you like to make any closing comments.
- Sivalai Senthilnathan:** We are thankful to all the investor community for all the questions and thank Phillip Capital for hosting this call today. And thank you all.
- Moderator:** Thank you. Ladies and gentlemen, on behalf of Phillip Capital (India) Private Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines, thank you.