

24th Annual General Meeting – Transcript - July 29, 2022

Moderator: Over to Chairman Sir.

Rahul Kirloskar: Good afternoon everyone. The Company Secretary has informed me that the requisite quorum for the AGM is present and I call the meeting to be in order. On behalf of the Board I welcome you all to the 24th Annual General Meeting of ISMT. I would like to introduce the Board of Directors of the Company. I am Rahul Kirloskar – Chairman of the Board, Mr. Ravindranath Gumaste – Vice Chairman and Chairman of CSR Committee, Mr. R. Poornalingam – Independent Director and Chairman Audit and Nomination and Remuneration Committee, Mr. Kanakraj Madhavan – Independent Director and Chairman Stakeholders Relationship Committee, Dr. Shalini Sarin – Independent Director, Mr. Sathya Moorthy Venkataramani – Independent Director, Mr. Nishikant Ektare – Managing Director, Mr. Rajiv Goel – Whole Time Director and Chief Financial Officer. We also have with us Mr. Chetan Nathani – Company Secretary, Mr. Bharat Jain – Statutory Auditor, Mr. Kuldeep Ruchandani – Scrutinizer.

I shall now brief the members on AGM proceedings including e-voting. Due to COVID-19 pandemic the Ministry of Corporate Affairs and SEBI has allowed companies to hold the AGM through videoconferencing and has also dispensed with the requirement of sending physical copies of annual report for FY2021-'22 to shareholders. Accordingly, annual report for FY2021-'22 has been sent through electronic mode to all shareholders whose e-mail IDs are registered with the Company or the depositories. Few instructions on the meeting, members who have not yet voted can cast votes electronically during AGM which ends 15 minutes after the conclusion of the AGM. All members have been kept on mute. Shareholders who have registered as speakers will be unmuted once their name is called. Speed and working of audio/ video mode for joining the meeting by members depends on internet capacity. As the AGM is through electronic means no proxies are allowed. The Company has received representations from body corporate to attend the AGM details of which are available with the scrutinizer. Statutory registers as required under Companies Act are made available on website of the Company for electronic inspection by the members. I shall now deliver my speech.

Once again a very good afternoon to all of you on behalf of the Board it gives me immense pleasure in extending a warm welcome to you all to the 24th Annual General Meeting of ISMT. Thank you for being present and I solicit your trust and support in the years ahead. Kirloskar Ferrous Industries Limited that is KFIL has acquired majority stake in the Company and I welcome the shareholders of ISMT into the Kirloskar Group. ISMT has an established well run business and the products of the Company are well regarded in India and abroad. This is a forward integration for KFIL since ISMT is a large buyer of pig iron. ISMT over the years has been working with its lenders for resolution of its debt which had ballooned for reasons beyond ISMT's control. A successful debt resolution has now been concluded by way of a one-time settlement that is an OTS with lenders with the help of funds infused by KFIL accompanied by a change in management. For funding the OTS, the Company availed loan from KFIL of Rs. 195 Crores and also allotted equity shares to KFIL of Rs. 476.63 Crores equivalent to 51.25% of the post issue paid-up share capital of the Company. Accordingly, the Company became a subsidiary of KFIL with effect from March 10, 2022. Pursuing to the change in management, the Board of Directors of the Company on March 10, 2022, appointed me as the Chairman, Mr. Ravindranath Gumaste as the Vice Chairman and Mr. Nishikant Ektare as Managing Director of the Company. Mr. B. R. Taneja, Promoter and Managing Director stepped down from the Board and the management of the Company after serving the Company for over four decades in course of which the business has grown substantially with an initial capacity of 3,000 tonnes at a single location has now reached 4,65,000 tonnes of tube making at three locations and 3,50,000 tonnes of steel making capacity. On behalf of the Company, I place on record my whole-hearted appreciation for the yeoman services rendered by Mr. B. R. Taneja.

I will now take the opportunity to apprise members of the investor family of ISMT on performance of the Company. During the year under review, the Company has achieved highest ever net sales of Rs. 2,123 Crores. EBITDA stood at Rs. 80 Crores. Increase in demand from automobile, bearing and power sectors in the first half of FY2021-'22 coupled with higher selling prices on account of increase in input cost led to higher domestic sales against the previous year. Lifting of lockdown in most of the countries and depreciation of the Indian rupee helped more than double the export sales over the previous year. The Company's focus for the year will be on cost optimization. Due to the financial situation of

the Company over the past few years we were not able to concentrate on cost, now we have a plan to optimize cost and will work to ensure that our costs are in line with industry. Also, again due to a negative net worth of the Company, we were unable to participate in government tenders, now that our net worth has turned positive we have started participating and winning in some of these tenders. The current turmoil in the world has affected all companies including your Company; however, we will work to make sure that we come out stronger in the years to come. Members will be pleased to note that the business has already been turned around in the first full quarter after acquiring control. We are hopeful of building on this success in the coming quarters and years.

Coming to the first quarter results, during the quarter ended June 30, 2022, revenue from operations stood at Rs. 617 Crores and EBITDA at Rs. 40 Crores whereas profit after tax was Rs. 23 Crores. On behalf of the Board, I express my gratitude to our shareholders for their continued support and cooperation. I also take this opportunity to express my sincere thanks to all the investors, customers, suppliers, bankers, lenders and all employees of the Company for their continued support through these challenging times. Thank you.

I now commence to transact the business contained in the AGM notice dated July 01, 2022 and shall read out the proceedings relating to e-voting. As per Companies Act and SEBI LODR the Company has provided two modes to shareholders for casting vote on resolution set out in the AGM notice. Remote e-voting and electronic voting facility during the continuation of the live AGM that is e-voting. This remote e-voting facility was made available to all members from Tuesday July 26, 2022, that is at 9:00 am to Thursday July 28, 2022, at 5:00 pm and the same has now been closed. E-voting at AGM is being made available to enabled members who have not cast votes through the remote e-voting to exercise voting rights. Since the AGM is through video conferencing and resolutions mentioned in the AGM notice have already been put to vote through remote e-voting there will be no proposing and seconding of resolutions. Members already voted through remote e-voting shall not be eligible to vote again; however, they can participate in the AGM. Upon completion of e-voting, voting results will be declared within 48 hours based on scrutiner's report and would be published on Company's website and uploaded on BSE and NSE websites. Now I request shareholders who have registered as speakers to ask questions. Over to Tanvi!

Moderator:

Thank you Chairman Sir. I now invite Mr. Manjeet Singh to unmute audio and video.

Manjeet Singh:

AGM mein Chairman, Director, Company Secretary and my co-shareholder sab ka main swagat karta hoon aur prathna karta hoon ki sabhi swast rahey. Apne apni chairman speech me bataya ki apne jo sale pehle ek saal ke douran itne badhiya karkar di hai iska koi jawab nai kyuki steel, alloys items mein kafi rate increase huwey tey, ab decline huwey rate mein iske hamari share par farak padage kyu ki jo ispath ka rate badey they, aab woh usi tera sey kum hue tho future plan humara kya hai usemien kuch decline ayaga, sale up hi rayegi. Sir aapse ek request rayegi ki jitna hum kam kar rahay hein anay wala time mein yeh auto aur ye jo alloy ka kam hai ismien demerger kar sakte hai, aagar aap is taraf dhyan denge to acha rahega, aap is bare mein jarur bataiyega. Employee benefit plan mein, humne 20% sey jyada karcha kiya hai ju pele haim na purana karcha kiya pichle sal 2021 ke andar or 2022 andar mein humne uske andar 20% kiya, to yeh employee ke uper ek ache bat hein ki aap apne employee pe dhyan dete hain ache tara sey. Sir, toda yeh puchana chahunga ki apne jo other expenses diyan hai usme jo hey, usme jou hai 30%, 35% ki badaai dikiy dey rahi hey. March 2021 kay under 516.88 or March 2022 kay under Rs. 675.81 Crores ka aap dika ray hain, to yeh other expenses hamara expenses bada hai jo iske upar itna karcha huan hai thoda aap is barey mein bathiyega, aur hum ney jo itne subsidy dikaya hein thu yeh ijafa karta hein or hamare profit thoda jatate hein thoda is bare mein bhatayaga subsidiary humeri kafi dikaya dey rahi hey or promoter holding jo sarkar dwara neerarith 75% hey uske kareeb kareb hai to hum apne koi QIP laney ki taraf hai koi layange aisa thoda is or mediator ne bothe mehnat kar hai, secretary ne bahut mehanat kiya hain, department ki eshara pe hi kaam hua hoga jo mediator ne hume bakiyada inform bhi kiya or link be bheja uske liya department ko danyawad or Chetan Sir so humko bei bath karne chate hai par unse bath naye oh pathe, koi enquiry aur kuch hota hai to aap Chetan Sir ko kuche bathye ki koi shareholder abhe hey tho koi unka direct number ho kyu ki wo jo landline number hey aapka use contact naye ho patha Chetan ji sey, bade arsh ki bate hey ki hum itne dur behatker bi aap Kirloskar group company hum bhag le sakthe dhanyawad.

- Moderator:** I now invite Mr. Rajendra Seth to unmute audio.
- Rajendra Seth:** *Mein chairman Sir, management team aur shareholder mein Rajendra Seth Bombay sey bol raha hu Sir. Ek tu Kirloskar ek dum hum ko thu management ke uper poora barosa hai aur go kaam company ney humko bathaye ussey hum bohat parbhavit huey sir bus merko management kay upar poora barosa hai, secretary team nay bhi buhat acha kaam kiay, time pey humko notice miley Sir aur link humko doo dafa humko phone say pucha gaya key mile ki nai. Sir mere ko ek puchna that Sir kay abhe aaja humar do sal developing karage o zara kas developing o zara bathaye Sir, humara kya policy raheja bakhi to saab management ke upar merko poora baros hai. My support karta hou bolne ka mouka diya mein management aur secretary in ka abhar manta hu.*
- Moderator:** I now invite Mr. Sarabjeet Singh to unmute audio and video.
- Sarabjeet Singh:** *Chairman Sir first of all good afternoon to the Board of directors and all the staff of ISMT limited and my co-shareholders. Chariman Sir humey sir is bat mein bilkul bhi ashmatha nai hoe jo Sir apna apne shuravat mein humey speech mein bataya ki ajay agar company tharake karegi to Sir hum logko bhi return ache milayge baki Chairman Sir yeh hi kanay chaunga aap ki promoter holding bhi takariban bahut upar his sahi hai baki Sir aap koi buyback yeh koi aise cheese soch rai jisey shareholder aur bhi faida hoy paiya baki Sir yeh he puchna chaonga ane wale apne du saal ke toda road map ki bara bathyein jis se hume pata chale ki aga kitne return ache mil payage jis tarikay sey aap loog meynat kar kay kaam kar rey hai aur Sir is company ko aaje bada rahey hai din pey din baki sir ap ke secretarial department aur moderator ney jo kam kiya, hum itna dur sey batey hai aur app key samney bol par rey hai. In logoka danaywad karana chayange, yeh iche gang hey Sir jis tarekay sey in logoney meynat kara ke itne frequently Sir hum apke samne bol paya hey. Apsey Sir heye request hai is meeting kay katam oona kay bad yeah secretarial department ka ek baar peet zaroor thap thapayega, jinno nay itne acha kam karke humhey apke samne bolna ka moka diya hai. Thank you chairman Sir.*
- Moderator:** Our next speaker Mr. Saket Kapoor is connected via an audio call. Mr Kapoor please go ahead. Mr Kapoor we can hear you please go ahead.
- Saket Kapoor:** Sir thank you for this opportunity firstly and thank you to the Kirloskar group for not only taking over ISMT but definitely looking after the existing promoters, existing shareholders because in several cases we have seen that whenever an asset is being acquired not through the IBC but other route the minority shareholders interest are not looked into so I congratulate Kirloskar Group for taking a keen interest in looking after the interest of minority shareholders and it sets a good example in corporate history now. Sir coming to the business part ISMT currently before financial troubles that hit the company earlier what used to be the market share in the seamless pipe segment and currently what are we eyeing in terms of market share for the current financial year or may be two to three years down the line how are we going to position ISMT in similar market and also how currently is the seamless pipe segment shaping up in terms of the trust in the oil and gas segment and also I think so with China vacating the space and also with the Russia-Ukraine crisis still ongoing I think so there has been some tensions on the exports of similar size from Ukraine region also correct me there Sir, we are already done with our Q1 numbers so would like to get some further understanding on how the operations have been although we reported PBT number positive for this quarter and no exceptional gain so if you could elaborate on the same and how the Q1 has been and what are our business objectives in terms of the utilization levels which we are eyeing for the current financial year and the key areas I think so in the earlier opening commentary you did speak about cost rationalization as the key for the management going forward so would like to know which are the key areas I think so energy is the major line item of expense so what we looking for and I think so Mr. Gumaste is doing an excellent job in Kirloskar Ferrous and also guiding and speaking to investors at regular intervals so I think going forward ISMT being subsidiary he would also be enlightening us on concalls in Kirloskar Ferrous or heading similar calls for ISMT as and when the need arises. We only want to know the roadmap for ISMT how the past glory or the market share which it used to command before the financial trouble it has been into, what time it will take and also on the business environment in the seamless segment with the current management and operations team must have worked out so if you could give us some understanding on the same that would suffice and in your notes there was one mention about subsidiary company impairment rather that is about SHAB and then it was

also mentioned that I think some receivable amount is also looking to be collected and it has been considered good so if you could make us understand what should one look into this SHAB's deal of Rs. 48 Crores I think so as mentioned in note number one so if you could throw some more light on the same that would suffice and all the best to the team. I will once again join to the video mode and wait for the reply from the management.

Moderator:

I now invite Ms. Yashna Bhatia to unmute audio and video.

Yashna Bhatia:

So very good afternoon to everybody on the forum. I had couple of questions which I will divide into the industry set of questions and then company specific questions. Sir industry level I just wanted to understand how is the current global demand scenario for seamless tubes and I understand with high oil the demand is good but in terms of the supply side I specifically wanted to understand that China has apparently got over capacity for seamless tubes and they have some 50% to 60% kind of capacity utilization so if that is a competition for us or are we protected because China plus one worked in this industry or are we protected with duties if you could elaborate on that and second in my estimate 10% of the global supply comes from Russia and Ukraine which has now got disrupted is that correct I just wanted to understand the dynamics from this part? Second I understand that domestically Maharashtra Seamless and Jindal Saw are your competition just wanted to understand who would be your key competitors globally and third question at industry level is that in this industry are there any specialized differentiated products which differentiate one company from another or are they very similar products across companies with no differentiation so for example ISMT product versus a China product or ISMT versus a Maharashtra Seamless or a Jindal Saw that was at the industry level and at company level my first question was since the time you have taken over in the last couple of months how do you see the interest level from customers both domestic and global I am asking this because of the historic issues and any difference do you see at in terms of what you are getting versus your competitors? Second in terms of cost structure you alluded to this in your opening remarks the cost structure in terms of both fuel and employee cost is very significantly different from the competition, you have a captive power plant which has some court proceedings going on so I wanted to understand what are the various course of action you are considering there to solve this for both fuel and employee cost and how do you plan to address this? My third question was what are your target capacity utilization and operating level margins that you are targeting say in two-to-three-year timeframe from now? The fourth question was there was a mention in the annual report which says that there has been a steep increase in raw material cost which has resulted in domestic setting price move higher than the reference price and affective antidumping duty needs to address the impact of the increase in input cost if you could just elaborate on this point? My second last question is would you also prospect any other inorganic expansions in this space either by ISMT or by Kirloskar Ferrous or would you prefer to stabilize your operations first, scale it up before you look at anything else and my last question is if you could update on merger timelines with Kirloskar Ferrous, if you have anything in mind in terms of what timelines would you consider this? Thank you so much.

Moderator:

Thank you. As there are no more speakers, I request Chairman Sir to continue with the proceedings.

Rahul Kirloskar:

Thank you very much. We always encourage our shareholders to take part because I think that leads to better performance so all shareholders who have spoken I want to thank you for your complements and I will try and answer to the best of my ability and the ones that I cannot answer I will ask Mr. Gumaste and Mr. Ektare to answer. So yes most of you asked about the cost structure in ISMT and we are fully aware that the power and fuel costs, the ERE costs, etc., are high, now I think first thing we have to remember is it has been four months since we have come in and four months since the banks have been paid so it takes a little bit of time to understand the problem and to come up with a solution for these problems so we are in the process of coming out with a solution or coming out with a plan and we should be in a position to answer it I think by the end of this September or so that what our plans are but definitely our plans are to make sure that our ERE as well as our energy costs are going to be in line with the competitors. ERE will decline as our sales go up and that is what we are going to concentrate on is to ensure that our sales keep increasing at a faster rate than they were before.

Mr. Manjit Singh also asked about subsidiaries yes those subsidiaries are loss making and we are in the process of again going there and trying to find out what can be done to turn them around. We are not planning a QIP. We thank you for your compliments to our secretarial department.

Mr. Rajendra Seth asked about what the next two years are so our two years are basically going to be spent on optimizing costs and increasing our topline so that is where we want to be heading to. Dividend will come in at a point of time when the company is comfortable. We would like to start paying out dividend as soon as possible but I cannot commit a dividend that will happen for the year ending March, 2023.

Mr. Singh asked about promoter holding and also buyback I definitely know that we are not going to do a buyback at least this year because we need to have the financial capabilities to invest in cost reduction activities at least for the next year or two.

Mr. Kapoor, thank you again for your compliments. We are intending to take ISMT back to its old glory and that is the intention. As you have rightly pointed out and most of the shareholders have rightly pointed out we have a problem with our costs so we have to get our raw material costs in line, our energy cost in line, everything has to be brought in line and that is what we will concentrate on doing and of course we have to take our utilization to a much higher level than what it is currently. I think Mr. Gumaste will also thank you for the compliments you have given him. Structo again that is a thing work in progress we will come back to that in another six months or so.

Ms. Bhatia you had asked about what is the structure of the industry, etc., I do not know. You said China has over capacity. I do not know of any product where China does not have over capacity. 10% is from Russia and Ukraine you are absolutely correct it is somewhere between 10% and 15%. Yes Maharashtra Seamless and Jindal Saw are our competitors and cost structure I have answered. Operating margins we are going to make sure that we are again in line with industry. There was a steep increase in cost but the costs have now started coming down. Inorganic we have no plans on inorganic right now. We are making sure that ISMT comes to a situation where it is stable, profitable and dividend paying. Merger timelines we have not even thought about it so there is no timeline so we will have to come back to you whenever if we decide to go ahead or if we decide not to go ahead. I now request Mr. Gumaste if anything I missed to reply.

Ravindranath Gumaste: Not much Sir. I would say that one of the points was related to how is the customers' interest in ISMT. I would like to say that whatever the customers I have interacted the customers are very keen and want more and more ISMT products for their supply and we see opportunity in that and as regards China, Russia and Ukraine and in general worldwide market conditions for the seamless tubes it has been an opportunity for India in general but however these are the changing market scenarios and we are keeping a very close watch on that and have to be carefully analyzing but I would say that as on today it is plus for India and we can continue not only the supplies across India but also exports from India. Another important aspect I think is related to the power and fuel cost. Green power investments and green power opportunities are going to be the opportunities for ISMT and we will be definitely investing and trying to bring down the overall energy cost but it is a challenging area as the gap is too big as on today.

Rahul Kirloskar: I think we have replied to all the questions that have been asked. I will now reply to queries which we have received from our shareholders on e-mail on cost reduction, challenges, opportunities, priorities, debt position, etc. ISMT is a globally renowned brand for its quality product lines of seamless tubes and specialized steel. Despite all odds, the Company has been able to grow its business over previous 4 to 5 years. Kirloskar Ferrous Industries Ltd ("KFIL") has acquired 51.25% in the Company thereby facilitating the Company to settle lenders debt by way of One Time Settlement. With change in management and debt settlement, the Company now has a strong balance sheet with positive net-worth of around Rs. 1200 Crores which will help in addressing the issues faced by the Company and making cost of production cost efficient, increase sales, profit margins, address maintenance and balance equipment requirements of plants and availability of working capital for future growth of the business. This is the immediate focus of the management to ensure that the Company treads the sustained growth trajectory. It is also important to note that the Company does not have any significant bad debt which may dent the profitability and also the Company is not, at present, contemplating fresh borrowings except for working capital

facilities (fund and non fund based) from banks for business requirement. Further, net debt of the Company as on 31/03/2022 stood at Rs. 151.87 Crore.

Recently challenges are emerging from increased inflation and rupee depreciation. Any significant increase in Inflation is always a cause of concern for business as it increases input cost as well as finance cost. Generally, the Company is able to pass on the increase in cost but with some time lag. As regards rupee depreciation, the Company has both import of raw material and export of tubes. Hence, it is to some extent has natural hedge to protect the fluctuation in exchange rate of USD. Further, the Company always adopts suitable forex hedging measures to protect against fluctuation in USD/ Euro, currencies in which the major trade of the Company is undertaken.

Queries if any raised by shareholders during the AGM in the chat section will be suitably replied to by the Company.

I now request the scrutinizer to submit the report to the Company in order to declare voting results.

This now concludes business of the meeting and I thank all members present for participating in the meeting. Thank you.