“Kirloskar Ferrous Industries Limited Q1 FY2022 Earnings Conference Call”

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ANALYST:	**MR. SAHIL SANGHVI – MONARCH NETWORTH CAPITAL**
MANAGEMENT:	**MR. R.V. GUMASTE – MANAGING DIRECTOR – KIRLOSKAR FERROUS INDUSTRIES LIMITED**
	MR. R.S. SRIVATSAN – CHIEF FINANCIAL OFFICER – KIRLOSKAR FERROUS INDUSTRIES LIMITED

Moderator: Ladies and gentlemen, good day, and welcome to the Kirloskar Ferrous Industries Limited Q1 FY2022 Earnings Conference Call hosted by Monarch Networth Capital. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Sahil Sanghvi from Monarch Networth Capital. Thank you, and over to you, Sir!

Sahil Sanghvi: Good evening to all. On behalf of Monarch Networth Capital, we welcome you all for the Kirloskar Ferrous Industries Limited Q1 FY2022 earnings call. We are glad to host the management from Kirloskar Ferrous today, we have their MD, Mr. Gumaste Sir and we have their CFO, Mr. Srivatsan Sir with us. So, without taking much of your time, I will hand over the call to Gumaste Sir for the opening remarks. Over to you, Sir!

Mr. R.V. Gumaste: Good evening all of you and I welcome all of you for the conference call for Q1 results of Kirloskar Ferrous Industries Limited. I hope every one of you are fine and healthy and request all of you to take care.

Let me start with sales for the Q1FY22 which is Rs. 823.84 Crores as Q1 of last year was badly affected because of COVID-19 related lockdowns and sales were pretty low. If I compare with Q4, which was reasonably improved quarter, sequentially we have a sales growth of 10% from Rs. 749.69 Crores to Rs. 823.84 Crores. This is also because of additional production from newly acquired Hiriyur plant which is a pig iron plant.

Profit before tax stands at Rs. 186.35 Crores, improvement of 9% as compared to fourth quarter which was at Rs. 170.97 Crores. PAT stands at Rs. 139.29 Crores against Rs. 135.44 Crores in Q4 last year. We have also improved upon the EBITDA, which stands at Rs. 213 Crores for the quarter against the fourth quarter EBITDA of Rs. 197 Crores, both are approximately 26% EBITDA margins.

Coming to the production, pig iron hot metal production was at 1,29,000 metric tonnes. During this quarter, both blast furnaces 1 and 2 at Koppal, we had taken up for the Robo- gunning or the refractory repairs, hence we had production loss both in blast furnace 1 and 2 for one week each. However, we have full production coming from Hiriyur plant for three months. So, the overall production has gone up to 1,29,000 metric tonnes. With respect to castings, we have a production which has come down slightly compared to the last quarter. Last quarter we were at 30,849 metric tonnes and this time it is 28,000, we had sluggish months in the months of April and May.

The sales of pig iron for the quarter is at 1,17,681 metric tonnes against the last quarter 1,03,244 metric tonnes. Casting sales during the quarter was at 27,282 metric tonnes against 28,600 metric tonnes. There is an increase in the pig iron sales by 14% overall and drop in the casting sales by 4.6%. However, sales realizations have improved in case of castings by Rs. 3.9 per kg from Rs. 99.5 per kg to Rs. 103.50 per kg. In case of pig iron, sales realization has gone to Rs.42,000 from Rs.39,000 per metric tonnes in the last quarter.

Overall capacity utilization, Koppal pig iron plant is operating at 93%, Hiriyur pig iron plant utilization for the quarter is at 102% and all the foundries put together, the capacity utilization is at 76%. The demand for the casting continues to be strong except the months of April and May, June onwards once again the demand from the tractor industry has picked up and the current month and the immediate next month we see a good demand for casting from the tractor industry. Also, commercial vehicles compared to the initial first two months, there is a pickup in the casting sales and demand from the auto industry as well and also deemed export casting demand has also picked up considerably compared to the beginning of the year.

We remain strong on sales as we are getting into the Q2, mainly with strong demand from tractor industry. The total employee related expenditure remains at 3.6%, same as last quarter of last financial year. Our borrowing remains under control. We have reduced borrowing compared to the last quarter. We are at Rs. 178 Crores of term loans and Rs. 100 Crores of working capital loans against Rs. 203 Crores of term loans and Rs.94 Crores of Working capital loans in first quarter in last year.

Now coming to the projects in progress, we are continuing with all the projects. Basically, as you know, we have decided to go for coke oven phase 2 to take the capacity of the coke oven from 2,00,000 metric tonnes per annum to 4,00,000 metric tonnes per annum and power plant from 20 megawatt to 40 megawatt. We have started the project and continuing with the investment. Blast furnace 2 upgrade project, also we have started the implementation and we expect that towards the end of the calendar year 2021, we will be able to take the blast furnace to stoppage and complete the upgradation project by end of FY22**.** We are also starting the project for pulverized coal injection. Hiriyur sinter plant project is also under implementation and we expect commissioning by the end of first half of this year. Solapur Foundry project work has also started and the project is expected to take one year. Other projects in capacity utilization, improvement in both the lines in Koppal as well as infrastructure improvement project including the expansion of the machine shops is in progress and overall we have kept roughly of about Rs. 700 Crores to take all these projects forward. I have just completed my introductory speech, I would now request you to kindly open for the question and answers.

Moderator: Thank you sir. Ladies and gentleman we will now begin the question and answer session. The first question is from the line of Sunil Kothari from Unique Investments. Please go ahead.

Sunil Kothari: Thanks for opportunity sir and very hearty congratulations for such a good performance during this very tough time also. Sir my question is related to this new logo and we are talking about limitless customer-centricity, so internally you already do your best to produce best quality products, so what changes externally and how you see this will change thought process and strategy.

Mr. R.V. Gumaste: Thank you very much indeed for this question. I think today in the AGM also Chairman explained about the vision, we are looking forward with new branding, with the new logo and with the new tagline of Limitless. I think it is very, very important that we move ahead with the time and we will have to revitalize our businesses and what we are looking at is to really focus on customer centricity and also honestly limitless potential and look for offering limitless opportunity to the people and also look to touch limitless customer service and as you know KFIL, we will definitely look at repositioning. We are always focused on working and putting our best efforts in what is key to customers. I have spoken about it earlier that our focus is on what is key to customers and we would like to deliver those products and submit it in a better way and bring the refocus on customer centricity. Also you know it is very very important that this is the challenging time and it is also time where things are changing. We would like to also change and we look forward revitalize our organizations to offer limitless.

Sunil Kothari: Sir my second question is your view on strategy and your thought process, regarding this external opportunity which is we hear from lot of the companies that so many western world and European companies will not work in terms of development on IC engine so that can become a very big opportunity for companies like India and companies like Kirloskar Ferrous, who is master of producing very high precision but heavy casting and we can be a very big global supplier. So, what is your thought process on this?

Mr. R.V. Gumaste: I think what you are saying is perfectly right; opportunities are going to open up and increase. Certain markets may close but that may open the opportunity and the markets for us.

Moderator: Okay sir. The next question is from the line of Govindlal Gilada, an individual investor. Please go ahead.

Govindlal Gilada: Thanks for giving me the opportunity. Good evening sir. I got a couple of questions. First one is on raw material average prices, I want to know coking coal and iron ore for Q4 average and Q1 average and what current prices are prevailing?

Mr. R.V. Gumaste: See as you know this coking coal prices have moved up and current prime coking coal prices are in the range of US$240 and they have been going up in the last three months on regular basis. Even the iron ore prices have moved up from the level of Rs. 5000 per metric tonnes and I think they have already gone to a level of Rs. 8000 per metric tonnes, but we always have especially the coal inventory of almost three to four months and either they are in the port or on the ship or at our plant, so the usage and the ordering there is a gap of almost two to three months. Hope I have answered your question.

Govindlal Gilada: This coke oven phase 2 what kind of capex we are incurring and what savings we will be having like coke oven 1 what we have done, same saving we will have for coke oven phase 2 because it is similar?

Mr. R.V. Gumaste: I think with respect to power generation it is similar, power consumption depends on our power requirement, in addition to usage in Koppal, we are looking at the possibilities to use in Hiriyur and Solapur as well and with respect to coal to coke, we will have self-reliance and we will also get the good quality coke of which full quantity will go directly from coke oven through belt conveyors into the blast furnaces, so we will have some advantage for the full quantity instead of 60% quantity in terms of reduced handling losses and fines generation. So we will have similar benefits like coke oven 1 but we are partly getting it converted from others and taking some benefit, but there will be different benefit arising for phase 2 compared to phase 1.

Govindlal Gilada: What kind of capex we are putting for this phase 2 sir?

Mr. R.V. Gumaste: About Rs. 250 Crores.

Govindlal Gilada: And for stage 1 how much we offered?

Mr. R.V. Gumaste: Rs. 375 Crores.

Govindlal Gilada: Rs. 375 Crores and Rs. 250 Crores, almost same infrastructure we are putting in stage 2 with less capex.

Mr. R.V. Gumaste: Some facilities we created while doing phase 1, like bunkers and conveyors were all done in stage 1 but the ovens and charging cost we are adding.

Govindlal Gilada: Now raw material prices have gone, so total impact has come in our price increases for casting or we are going to take further price increases?

Mr. R.V. Gumaste: In terms of casting prices, there are quarterly mechanisms and also negotiated settlements, which are happening every quarter applicable to the casting, whereas the pig iron depends on the market demand supply and any price increase, it depends on the market condition.

Govindlal Gilada: So I hope sir because prices have gone up so next when we renew our quarterly contract some prices increase we will take to compensate this raw material price increases?

Mr. R.V. Gumaste: There have been already price increases quarter to quarter happening from April also from July also, already they have happened. I just mentioned if you see from 1st of April there will be increase of approximately Rs. 4 per kg.

Govindlal Gilada: That is the only price increase we have taken or again recently any price increase?

Mr. R.V. Gumaste: Our raw material cost increase is of the order of Rs. 13 and we have also taken similar increases, it depends on customer to customer, number of increases have happened over the last one year.

Govindlal Gilada: What I want to understand is in second quarter versus first quarter, will we have more average realization for casting on net basis?

Mr. R.V. Gumaste: Yes you are right.

Govindlal Gilada Some tentative number Sir on how much per kg?

Mr. R.V. Gumaste: The cost increase will be order of another Rs. 4 per kg.

Govindlal Gilada: So similarly we will pass on.

Mr. R.V. Gumaste: Yes.

Govindlal Gilada: Thank you and last question is next few years in our capex plan anything you can guide on that next three to four years, what kind of capex we are planning?

Mr. R.V. Gumaste: I just now explained the next two years capex which is of the order of Rs. 700 Crores.

Govindlal Gilada: Thank you sir. I will come back in queue.

Mr. R.V. Gumaste: Thank you very much.

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

Sahil Sanghvi: Congratulations sir on the very good performance on the casting side, even in times when the CV sales and production were muted, you maintained your volumes sir. My question is more related to the raw material cost sir. As and when the new coking coal prices come into our raw material cost sir what kind of impact would we see, I mean the coking coal price have risen by almost US$ 80 to 100 from US$130, 140 on an average, so all that would completely come in our cost, would our spread compressed by almost US$100 or how much hit can we expect from coking coal?

Mr. R.V. Gumaste: We were at the blended coal price of about US$110, 120 and now it is going to US$210, so about US$100 dollar is the increase in the input cost as far as the coal is concerned and proportionately there will be increase in the cost of coke.

Sahil Sanghvi: Okay and we are also doing blending of coal right sir, so will that lower the overall impact?

Mr. R.V. Gumaste: I have guided on increase in the blended cost only.

Sahil Sanghvi: Okay got it sir. Second question is regarding in the AGM that I attended this morning, so we have disclosed in the AGM that we will be looking to venture into newer products in castings and also casting out of the iron casting segment, so do we have any plans right now and what kind of products are we looking at sir?

Mr. R.V. Gumaste: I just mentioned that in addition to auto industry and tractor industry, we are also exploring diesel engine and earth moving equipments and there are customers who are already on board and we would be looking at expanding the volume in those kind of customers, which will have longer life than the smaller engines whereas the bigger engines whether it is heavy commercial vehicle or tractor and earth moving equipments, they are likely to have better life and we can expect that those engines will continue for next 15 or more years.

Sahil Sanghvi: Okay. Thank you Sir. That’s all from my side.

Moderator: Thank you sir. The next question is from the line of Sunil Kothari from Unique Investments. Please go ahead.

Sunil Kothari: Thanks, my line was disconnected. So again on this external opportunity because of IC engine related matter and combining this point that during the last one or two years what type of new products, new customer you got, any other similar or maybe different type of products you must be developing for newer customer, so if you can qualitatively talk about newer opportunity it would be very helpful.

Mr. R.V. Gumaste: One thing if you look at the opportunity, I admit with your view that when change is happening in certain geographies of the world, for us the demand pickup is likely to come and we are keeping all the options open, when it comes to heavy commercial vehicles, tractors or earth moving equipments, many customers and many sectors are opening up and so it is not only passenger vehicles but other casting requirements, as of now also demand continuity is there and we are looking at exploring more and more into those areas so that we can continue to service our customer over the next decade or so.

Sunil Kothari: Sir currently also in this very challenging environment, we were supplying and producing almost 10,000 tonnes casting per month, so given demand pickup which everybody is expecting, will you be able to produce 13 to 14,000? maybe near that before this new foundry comes?

Mr. R.V. Gumaste: Before the new foundry comes our usable capacity is 12,500 metric tonnes per month. It would not be straight forward available, we will have to debottleneck certain areas like fettling, finishing logistics and we are in that process and we expect that we should attempt 12 to 12,5000 metric tonnes per month, reaching that level within next one year time before our new foundry joins.

Sunil Kothari: Great sir. Wish you all the best. Thanks a lot.

Mr. R.V. Gumaste: Thank you very much.

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

Bharat Sheth: Congratulations sir on good set of numbers. Coming to this casting business, we are increasing capacity by one-third which will be available at 2022-2023, so how this new line will be different than the existing line and what new type of customers we will be able to service out of this new line?

Mr. R.V. Gumaste: Basically, we are setting up this line because two of our customers have new requirement and that new requirement will have at least life of 7 to 8 years and the two customers will occupy at least 50% capacity and balance 50% we can utilize it for servicing the other customers, who are not fully serviced today.

Bharat Sheth: Sir we are talking of developing castings for earth moving as well as HCV so when we are likely to see those products and how the profitability of those products will be the different than the existing one?

Mr. R.V. Gumaste: I think if you see a decade back and today, we have already transformed, all of you have seen how we have transformed and new customers have got added and new products have got added like all the auto components are Euro 6 today and when we are adding new customer, new castings or existing customers new castings, definitely there is a blend of new products or new castings as well as continuity of the existing customers with upgrade but increased volumes, it is a combination of both. There is a demand from our existing customers to supply more castings and it is our obligation to meet their requirements and supply more castings to them. Hence, the creation of quality capacity for meeting the customer requirement is a necessity and hence we are increasing our installed capacity.

Bharat Sheth: The price realization for the heavy vehicle or earth moving equipment or from the Solapur new foundry, will that be higher than the existing or it will be in the same range?

Mr. R.V. Gumaste: Always it is the efforts to increase the realization.

Bharat Sheth: Coming to the expansion of this mini blast furnace as well as coke oven phase 2 with pulverization of coal injection and Sinter plant at Hiriyur so how much of the capex are we doing and what kind of a benefit we envisage out of this, when it will be totally commissioned, starting from FY2023?

Mr. R.V. Gumaste: No I think it is very important that benefits will be available almost immediately after commissioning, may be stabilization period of one or two months is required quite often. If we are commissioning Sinter plants by end of September, we can expect November, December onwards the benefit of Sinter plants in Hiriyur. For example towards the end of the calendar year, if we take up the upgradation of blast furnace 2, similar benefit like what we are getting in blast furnace 1 with increased output would be available for MBF 2 from March or April 2022. So all these projects after the stabilization period, will start giving benefits and all along as we are seeing we have been able to produce full and also market and sell the products, so we hope to complete these projects as planned in the coming 12 to 18 months and also bring the increased production, sales and growth in the top line as we commission these projects one by one.

Bharat Sheth: And this pulverization of coal injection will reduce the coke consumption by what percentage?

Mr. R.V. Gumaste: Depends on what kind of products we make, if we are making foundry grade pig iron, we can replace up to 80 kg of coke by coal. If we are making steel grade, we can replace even up to 150 kg of coke by coal.

Bharat Sheth: Are we manufacturing this steel grade pig iron and what is the export opportunity for that?

Mr. R.V. Gumaste: I think, one is we are seeing the possibility of export opportunities but always it is better opportunity for the port based companies than the interior companies, so we continue to focus on serving the domestic requirement but we are also seeing the opportunity and possibility to export and we will not hesitate in exporting if it is commercially viable and competitive to export.

Bharat Sheth: Thank you sir and that's all from my side and all the best.

Mr. R.V. Gumaste: Thank you very much.

Moderator: Thank you. The next question is from the line of Siddhay Saikar from UTI AMC. Please go ahead.

Siddhay Saikar: Congratulations sir. The company is doing very well for the last few quarters despite the pandemic situation. Sir, can you please elaborate on the working capital segment because our customers are from the auto sector and also how have the debtor days changed?

Mr. R.V. Gumaste: Very short elaboration, working capital is under control. They are number of days wise either exactly same as what used to be earlier plus or minus few days. They are well under control, only the volumetric increase in our sales have increased the working capital but number of days wise I think they are very much under control.

Siddhay Saikar: Has there been any substantial changes?

Mr. R.V. Gumaste: No I think they are exactly same or better in my understanding, no increase in the number of days. All the customers have been prompt and the payments are on schedule.

Siddhay Saikar: Is it because we are facing some headwinds or because of recent pandemic situation?

Mr. R.V. Gumaste: I understand but even during pandemic we had very high level of recovery, last year first quarter also, so that gives us the confidence that all over debtors are active and we could recover very close, I think up to 90% even in the pandemic times. The current assets are healthy and under control.

Siddhay Saikar: Generally on the creditor side on coking coal, do we get like four to five months credit cycle?

Mr. R.V. Gumaste: Generally if it is import we take 180 days credit.

Siddhay Saikar: Okay. Thank you Sir.

Moderator: Thank you. The next question is from the line of Ritesh Poladia from Girik Capital. Please go ahead.

Ritesh Poladia: Thanks for the opportunity. Sir most of the questions have been answered. Just one thing, of Rs. 700 Crores capex, how much is already spent and what would be the capex number for this year?

Mr. R.V. Gumaste: I expect that the spent in this quarter is about Rs. 80 Crores. If we continue spending in that phase, our spending could be anywhere around Rs. 300 Crores in this year.

Ritesh Poladia: So for this Rs. 700 Crores capex do you think you need raise some debt or can it be done through the internal accruals because last two quarters operating profit is about Rs. 400 Crores and cash generation would be somewhere Rs. 270 to 250 Crores, so what would be the peak debt for you to complete this capex?

Mr. R.V. Gumaste: As you have seen end of Q1 rather our borrowing has come down, we have borrowed something but we have also repaid something, so our effort is to borrow less and manage most of the project with internal accruals but if there are different opportunities and if we need we will borrow, but not necessarily and exactly for funding this project of Rs. 700 Crores, if we do it in two years we may not require much of borrowing.

Ritesh Poladia: Lastly any updates on your iron ore mines because I guess Q4 you could not lift the quantity. What is the status thereof?

Mr. R.V. Gumaste: As you know, we just could do the production but we could not move the iron ore because lapse of forest clearance or forest permissions, we are working on that. Unfortunately, some of these clearances are taking unduly long time and we are trying to put out best efforts but it is getting delayed and we are following up to make them operational as early as possible, at least in the second half of this year.

Ritesh Poladia: So you could not lift any quantity?

Mr. R.V. Gumaste: No, we will lift only when it gets cleared.

Ritesh Poladia: That's it from my side. Thank you very much.

Mr. R.V. Gumaste: Thank you Ritesh.

Moderator: Thank you. The next question is from the line of Jimesh Sanghavi from Principal AMC. Please go ahead.

Jimesh Sanghavi: Congratulations on good set of numbers. Couple of things, one I wanted to know how do you foresee the pricing pressure on the casting side of the business, are we seeing any kind of feedback from the auto OEMs of not taking the entire price increase considering the significant increase that has happened in the steel prices, just wanted to understand if there is a possibility of we taking some hit on our margins because of the cost increase or will it largely get passed on to the OEMs.

Mr. R.V. Gumaste: No I think the quarterly mechanisms are honored by all the OEMs and we have been able to settle as per the understanding. All the cost increases as per the mechanism, there is no failure on that part and all our customers are honoring.

Jimesh Sanghavi: So probably the entire increase will probably get passed on, it is probably indexed and there is no hindrance on that side?

Mr. R.V. Gumaste: Whatever is the difference in the index will remain, but whatever is the understanding as per that, settlements are happening and everyone is honoring and all our customers are honoring.

Jimesh Sanghavi: Are we seeing any ramp up in volume around 10,000 to 11,000 on the casting side in the immediate future or that will probably happen only next year?

Mr. R.V. Gumaste: No, I think the demand, as I said tractor industry demand continue to be strong and as auto is picking up and heavy commercial & export oriented customer offtakes are increasing, we are once again back to full production and sales and we will definitely look for numbers, which should be definitely better than 10,000 per month but there are challenges like we faced last two months on the logistics and local flooding and local quarantines, some unexpected challenges have come in the last two to three months, subject to that I think demand is good and we will put effort to increase the output and sales.

Jimesh Sanghavi: Sir the July run rate has it been something similar to 9,000 odd tonnes or it is better than that?

Mr. R.V. Gumaste: No that's what I am telling current demand is more than our full volume, peak volume where we have sold more than 10,000 in a month and looking for that kind of numbers and also going beyond that because as I just mentioned our effort is to go to 1,20,000, 1,25,000, maybe it will take few more quarters but we have to take that journey and utilize the capacity of 1,50,000 with these three lines.

Jimesh Sanghavi: Sir lastly on the pig iron side, how is the spreads in Q1 and what are the spreads right now on the pig iron side of the business?

Mr. R.V. Gumaste: See I do not have that kind of calculations and numbers with me. We have as I mentioned typically two, three months coal in pipeline so prices will go up gradually and today's price will be effective after two, three months. This is one aspect which is the cost side and iron ore is also impacting the cost side and pig iron prices as you know have more or less stabilized but whatever is the raw material increases in the last two months they have not got compensated in terms of increased pig iron price, we have to see whether the things will improve after the rains recede little bit.

Jimesh Sanghavi: Thanks a lot.

Mr. R.V. Gumaste: Thank you very much.

Moderator: Thank you. The next question is from the line of Dhwanil Shah from iWealth Mangement. Please go ahead.

Dhwanil Shah: Congratulations on the good set of numbers and thank you for the opportunity. Sir first question was on the pig iron side, just wanted to understand as our ramp up is happening if you can help us this year what kind of sales in terms of overall volumes we are looking at on the pig iron side?

Mr. R.V. Gumaste: On the pig iron side, as I mentioned to you, we are moving to production very close to full capacity, which is currently like 46,000 to 47,000 tonnes of liquid metal production but as I mentioned, later part of the year, we have blast furnace 2 upgrade with that correction we would be running full and after upgrading we will have higher output from MBF 2, but currently I would say that we have done with refractory maintenance and blast furnace 1 and 2 and all the 3 furnaces we would be running for few months before we stop blast furnace 2 for capacity upgrade or modernization of that. So I do not have the exact numbers of what will be the total number for the year but we will be running full operation, all the three furnaces from this month onwards.

Dhwanil Shah: Currently for the quarter our capacity is close 1,35,000 to 1,40,000 metric tonnes?

Mr. R.V. Gumaste: Yes and the Sinter plant commissioning will improve capacity, which will grow from 1,25,000 to maybe 1,40,000 to 1,45,000, we expect increase in the output from Hiriyur and subsequently towards the end of the year once we complete upgrade of blast furnace 2 we will get close to 38,000 from Koppal.

Dhwanil Shah: In quarter 1 sir if you can just help us understand how much will be pig iron mix in the gross profit because you do not provide separate numbers, just directionally wanted to understand that in Q1 how much will be our pig iron share in our total business?

Mr. R.V. Gumaste: No I think I have mentioned 1,17,000 is the sales.

Dhwanil Shah: No sir, close to 380 Crores of gross profit, on that how much will be share from pig iron?

Mr. R.V. Gumaste: I do not have those numbers.

Dhwanil Shah: I will take that offline. Last question on the mining side, Sir just wanted to get more clarity where we have stuck here because we were earlier confident that by March we will be able to utilize our new mines so if you can just explain.

Mr. R.V. Gumaste: Only one area, right now we are stuck is the forest clearance and then also it has up and down file movement two times but basically it will take its own time but forest clearance is what is right now holding us from start of operations and as of now it involves even central government, I think we are stuck there.

Dhwanil Shah: So by Q2 FY22 you are expecting the issues to get clear.

Mr. R.V. Gumaste: It should get cleared. I am talking about H2 FY22, not Q2 FY22. Even if we get at least three to four months in the H2, then we can complete our capacity of mining and transporting to plant within the available time and we will not lose this year capacity.

Dhwanil Shah: Got it, great sir. Thank you.

Mr. R.V. Gumaste: Thank you very much.

Moderator: Thank you. The next question is from the line of Rahul Dewan, an individual investor. Please go ahead.

Raful Dewan: Congratulations for good set of numbers. I have two questions. The first question is once this forest clearance for the mines we get, will we be self-sufficient as far as iron ore requirement is concerned?

Mr. R.V. Gumaste: We are saying that it will cover about 30% of our requirement. We have a possibility to enhance the production from the mines as environmental clearance volumes are higher but we are also increasing our hot metal or the pig iron output but there is a possibility to increase the utilization from our mines to at least 50% level.

Raful Dewan: So does that mean we continue to buy the balance 50% from the market.

Mr. R.V. Gumaste: Yes we will continue to buy the iron ore from the market.

Raful Dewan: The iron ore from our own mines is more cost competitive?

Mr. R.V. Gumaste: Definitely much more, I expect it to be cost effective as we have bought at reasonable percentage sharing; hence it is definitely more competitive.

Raful Dewan: Then do we have further plans to acquire more mines?

Mr. R.V. Gumaste: As and when it comes for auction, we will participate and put our effort to acquire more mines.

Raful Dewan: My second question is in terms of sales mix, what is the contribution currently for the quarter for pig iron and casting?

Mr. R.V. Gumaste: I think we are at 60% pig iron and 40% casting.

Raful Dewan: And profitability wise, pig iron is more profitable than casting is that correct?

Mr. R.V. Gumaste: No, I think both have their own contribution; it varies from time to time.

Raful Dewan: Okay, thank you sir.

Mr. R.V. Gumaste: Thank you very much.

Moderator: Thank you. The next question is from the line of Chetan Phalke from Alpha Invesco. Please go ahead.

Chetan Phalke: Good evening sir. Thank you for the opportunity and thank you very much for conducting the conference calls regularly; it really helps us to track the company closely. Sir from the inputs that you have given over a period of time it looks like we are going to generate significant amount of cash flow over the next four to five years, which will be more than what our investment plan demand so just like the acquired VSL steel plant, which we have successfully operationalize as well, do we have plans to go for any inorganic routes for further expansion in near future or going forward?

Mr. R.V. Gumaste: We always keep looking for quality assets and when we come across quality assets we will definitely look for acquiring them.

Chetan Phalke: Okay, so basically from our standpoint if we have to look at the potential growth in this business then from where the volume growth will come from that is what we are trying to understand?

Mr. R.V. Gumaste: I think looking at number of stressed assets, opportunity of getting a quality asset has actually improved and we will definitely look for some of these assets.

Chetan Phalke: That's it from my side. Thank you.

Mr. R.V. Gumaste: Thank you very much Chetan.

Moderator: Thank you. Ladies and gentlemen, that was the last question, I now hand the conference over to Mr. Sahil Sanghvi for closing comments.

Sahil Sanghvi: Thank you Gumaste Sir and thank you Srivatsan Sir for patiently answering all the questions. On behalf of Monarch, we also thank all the participants. Gumaste Sir would you like to give any closing comments.

Mr. R.V. Gumaste: I would like to thank all the investors and analysts who have been on the call. Thank you very much for your interest in KFIL and also thank you very much for your support. Thank you.

Moderator: Thank you Ladies and gentleman. On behalf of Monarch Networth Capital that concludes this conference. We thank you all for joining us and you may now disconnect your lines.