"Kirloskar Ferrous Industries Limited Q3 FY '23 Results Call"

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MODERATOR: **MR. PALLAV AGARWAL – ANTIQUE STOCK BROKING**

Moderator: Ladies and gentlemen, good day, and welcome to the Kirloskar Ferrous Industries Limited Q3 FY '23 Results Call, hosted by Antique Stock Broking Limited. 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, please signal an operator by pressing star, then zero on your touchtone phone. Please note that this conference is being recorded.

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

Pallav Agarwal: Yes. Thank you, Dorwin and a very warm welcome to all of you all to the third quarter FY '23 results call of Kirloskar Ferrous Industries. We are joined today by the senior management team consisting of Mr. R.V. Gumaste, Managing Director; and Mr. R.S. Srivatsan, the Executive Director (Finance) and the CFO.

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

R. V. Gumaste: Yes. Thank you very much. Good evening to all who have joined this call, the quarter 3 results call of Kirloskar Ferrous Industries Limited. Let me start with the quantitative details. For the quarter, we had a very good run, both in Pig Iron and Foundry, though the external market conditions were a little subdued, a little pressure on the market demands in certain segments, but we could still maintain our growth.

For the pig iron, we could produce 150,000 plus pig iron and which is a growth of 5.3% over the last year third quarter. And in casting, we also produced 35,501 compared to last year's 31,000-plus, a growth of about 14%. And on the pig iron sales, we could sell 1,39,000, which is a growth of 7.9% and on the casting the sales are 32,522, which is a growth of 13.2%.

Compared to the last quarter, we will find some dip in the sales of castings, which is one of the reason being the product mix difference. We had more auto sales rather than tractor. Tractor castings are typically heavy in nature and add more to the tonnage. So compared to that, you find some small drop in the sales coming out of the reduced demand from the tractor industries.

On the sales front, we have total sales of INR 1,075 crores against INR 933 crores, so growth of 15.2%. And out of this 631 tons coming from pig iron and 417 tons from castings, almost 25% growth in the case of castings over the last year. But compared to quarter 2, there is a small drop in it.

Whereas the sales realization for pig iron has dropped from INR 50,000 to INR 45,000, and a drop of almost 10% as casting sales realization has also dropped from INR 131,000 to INR 128,000, which is INR 3 per kg, which is about 2.32%. Reduced or lesser drop is because of the product mix we produced more of auto components compared to the tractor components. So typically, the pricing also better in auto, more complicated, much thinner casting. So we could improve on the realization. We have during the quarter, given the price reduction to the casting customers, which was in line with the raw material reduction mechanism. So after that also, the drop in the casting price realization is down by 2.32%, INR 3 per kg against the pig iron which is almost 10%.

Coming to overall company level, we had implementing the RMSP, which is slightly improved because of the reduced pressure of commodity pricing. We have done well on employee-related expenses as a percentage of sales. And overall, if you look at compared to the last quarter last year, third quarter, we have improved on the EBITDA. It stands at 17.1% now against last year's 14.7%.

PBT stands at INR 138.5 crores against last year's INR 110 crores, an improvement of 25% and PAT at INR 103 crores against INR 81 crores, which is an improvement of 26.5%.

Return on capital continues to be good. Receivables under control. Number of days wise, almost similar to earlier quarters. Inventories under control. Sales to gross, the current assets under control. And overall debt at INR 838 crores, about INR 500 crores more than last year, which is basically because of the investments and also acquisition of Indian Seamless Metal Tubes, or ISMT, which is now part of our group. And you earlier have seen the results of ISMT, which are very encouraging.

We have improved in all aspects of the business in terms of cost, sales realizations, sales turnover and we could achieve a turnaround in ISMT and could bring the company into profit compared to the last year's scenario, major improvement in ISMT as well. ISMT is no more a burden, rather it is bringing in the good revenue and also profitability.

And with these comments, I think it's better I would open it up for the question and answer so that I can answer more queries rather than continuing with more explanation. Just before I conclude, let me cover in short, the progress on our major projects. We are continuing with all the projects as per schedule. We have come to a commissioning stage for the Coke Oven & Power Plant Phase 2 at Koppal. And we have already started pushing the coke from the new batteries. And by the end of this year, all the batteries will be operational and our coke production capacity will go to 4 lakh metric tons per annum.

We have started getting some production already, but it will become fully operational by end of March. And by that time, we will also commission the power plant, which generally takes more time to heat up and take the commissioning trials. And right now, we are in that process. Expect by end of the year, even the power plant will be operational.

As regards as you have been earlier updated, we have already completed the upgrading of blast furnace 2, which has worked very well because we did not only upgrade, increasing the size to 300 metric cube and also installed the bell-less top on top of the blast furnace. With all these upgrades, blast furnace 2 has given intended results. That means we have started producing more than 20,000 tons of liquid metal from blast furnace 2 at reduced coke consumption levels. So the furnace 2 upgrade has gone on schedule as per expected lines of returns.

And Solapur Line 2 or foundry 2 is ready for commercial production. In last month, we did the trial pouring. The trial pouring and trial production for submission of casting samples for validation of the products by the customers is going on. By the end of this year, the commercial production from Line 2 will start. And we look forward that Line 2 Solapur will contribute for the continued growth in casting production and sales of KFIL.

And with regard to pulverized coal injection, both in MBF1 and two at Koppal, the project has been started, and we expect by quarter 3 or at least quarter 4, the pulverized coal injection and oxygen enrichment will be ready for use in both the blast furnaces. We also continue to pick up further improvement programs at Hiriyur. And currently, we are working out technological upgradation and the possibility of furnace upgradation including upgradation of these stoves to completely get the benefit of both scale and cost savings, what has been done in Koppal blast furnace 1 and 2 to be achieved in Hiriyur as well. And we will be in a position to give more details as we take up the project.

And with respect to all the debottlenecking projects and facility improvement projects both in pig iron and foundry, they are going as per schedule. And this should help us in increasing the production from Line 1, Line 2 and Line 3 of foundry. All the 3 foundry lines currently are producing. Till date, they have produced the highest in the history of their life.

So with this, I will now request to open the question answer so that any queries, I can address them. Thank you very much.

Moderator: The first question is from the line of Ashutosh Somani from JM Financial.

Ashutosh Somani: Congratulations on a good set of numbers. Sir, going into 4Q, what is the kind of demand that you're looking at from customers, both from the auto and from the tractor side, if you could give us some colour there and what it does to our realization and margins for the fourth quarter starting January?

R. V. Gumaste: Yes. Thank you very much, Ashutosh. The demand continues to be quite strong, both for the pig iron as well as foundry. As you know, in between Government of India had the imposed export tax on pig iron to the extent of 15% value, which had put a complete stoppage to export of pig iron out of India. But now that has been withdrawn and the export of pig iron from India has once again started. That definitely we will ease out the situation. And at the same time, demand supply is quite balanced. And I expect stable pricing on pig iron and the demand to continue.

On the casting front, our deemed export business as well as auto business, especially the commercial vehicles, are doing well. Customers need more and more products out of Kirloskar Ferrous Industries Limited, and we are stretching ourselves to ensure that we increase the output and sales. I expect that demand to continue. Hopefully, even tractor demand should pick up from February and March for the tractor season. So I definitely look forward to continued strong demand for our products.

Ashutosh Somani: And sir, what it does to our margins, if you could give us some sense on how the costs are escalating with the rising coal prices?

R. V. Gumaste: Right now, one is coking coal prices, which have shown a substantial increase over the last 4 weeks, 1 month, but I think it has become part of the game plan, and it has right now pressure on pig iron costing. I'm hopeful that we should be able to pass on the cost effect to the customer. But right now, I don't see immediate pig iron price increase opportunities, but we keep our fingers crossed. I think maybe we have a chance to pass it on. I would say that the margins right now are more balanced. I don't see any serious threat on the downside. And I also don't see any big opportunity on the upside.

Moderator: The next question is from the line of Aashav Patel from Molecule Ventures BMS.

Aashav Patel: Sir, congratulations on an excellent set of numbers. My question is regarding the expected plant stoppages at Koppal and Hiriyur. So can you please give the expected timeline of the same, as in which quarter we would be seeing volume losses on account of those expected shortages?

R. V. Gumaste: On shutdowns?

Aashav Patel: Yes, sir.

R. V. Gumaste: Yes. Yes. I think I should have covered this point. I think I missed that. So we are taking up a realigning shutdown for Hiriyur, which is middle of February to end of March. So around 40 days stoppage. And we have some pig iron's stock to take care, but we have blast furnace 1 and 2 producing a robust quantity. I think we will be able to take care of our customer requirements and not have a major issue with respect to customer supply position.

But with respect to sales, it will be marginally down. I don't see a big effect coming to the bottom line, but a marginal effect will come. And we have also planned blast furnace 1 stoppage for close to 90 days in quarter 1 of coming year and that's a big one. But that becomes a part of 2023/'24 plans, .

2023/24, as of now, we plan to produce more pig iron, more hot metal compared to this year. And we expect to achieve substantial growth in spite of 90 days stoppage. And that remains intact though there will be a small downward production in quarter 1. That completes all the shutdowns. And after that, we have only 3 blast furnaces to continue full operations till the end of the year.

Aashav Patel: Sure. So sir, despite these quarterly stoppages and plant shutdowns, will our annual target of 5 lakh MTPA and next year, 5.5 to 6 lakh MTPA remains intact. That is correct understanding?

R. V. Gumaste: I think we should be able to produce and sell close to production of very close to 6 lakh ton. So still we're working on more details, but very close to 6 lakh tons is what we plan to produce. That has been our plan, as you know it.

Aashav Patel: Sure, sure. And sir, next question is that in this quarter, the blended coking coal cost has reduced from $350 to $250. So roughly 30% lower cost, but realization led is down only by 10% from INR 50,000 to INR 45,000, as you rightly mentioned. So we saw EBITDA increase and operating margin increase. But now as you mentioned, coking coal is back to close to $370, and iron ore is also at annual high at around 6,000 metric tons. So pig iron prices have not increased on those lines, have only marginally increased from INR 45,000 to INR 48,000. So how do you see Q4 profitability vis-à-vis Q3 profitability?

R. V. Gumaste: Now typically, as you know, sudden impact won't come with today's coking coal price increase because we typically work with 3 months inventory in hand. So it also gives us an opportunity to gradually increase the coking coal prices by that time, if they come down, we can average it out as well as it is possible to also reduce further. But what I see is that one side, these are the kind of market pressures. On the other side, we have been very strongly planning and executing projects, which are essential.

As I tell you that by the end of this quarter, we are commissioning Coke Oven Phase 2 & Power Plant. It's going to bring us some benefits. We'll feed the coke directly by belt conveyer to the furnaces. We'll have reduced fines. We'll have reduced consumption. We'll generate more power we consume as well as we'll export and sell power. So we are also looking forward to increased casting production and sales. So there is going to be a mixed basket. It's part of the next year annual operating plan. And we definitely look forward for better next year than this year.

Aashav Patel: And then, sir, one question regarding our mines. As per the forest clearance website, it looks like we are on the verge of getting clearance at our Reddy Mine, but there is no status change of our Bharat Mine since 2020, so close to two years now. So can you explain what are the compliance issues, if any, faced by the Bharat Mine?

R. V. Gumaste: No. I think there are a number of steps in getting the clearance. For example, we are supposed to give some compensatory land for using the forest area. So then it has to be registered to forest department. But after that, the Forest Department has to declare it as reserve forest within the government. So these are the steps. They need some approvals. Senior government leadership approvals, they take time and that's how we are learning. But every month, every quarter, there is a progress, but the number of steps are not finishing.

Aashav Patel: But can we expect Reddy Mine approval at least in FY '24?

R. V. Gumaste: Yes, there's one area we have where my commitments have repeatedly failed. So you understand my position. It's not mostly in our hand and a lot in the government machinery and approval. So we are putting over efforts to do everything possible to progress, but we are still not able to start the mines. We are quite hopeful that we will finish the remaining steps and mines will be operational.

There is no major issue or hurdle, but there are still some more steps. I'm hopeful government is also trying to help us. But within government also, there are a lot of departments, and they have procedures, and it is taking more time. So hopefully, it will get completed. Both the mines will become operational shortly.

Aashav Patel: My last question, I will come back then again in the queue. After the commissioning of Phase 2 power plant, which we expect in this quarter itself, is there enough captive power demand at our Koppal plant to use it at the optimal level? Or it will be used towards optimal utilization only after once we shift our furnace to steel grade?

R. V. Gumaste: You are perfectly right. We have some more power consumption opportunity, some more requirements, which right now we are taking from the grid, which is not fully 20-megawatt or 17 megawatt. Some power will be surplus for some time next 2, 3 years mostly or maybe 1 or 2 years, which we will export to the grid and sell it or consume in our plants in Maharashtra. So it is not very optimal. So we get less benefit from that. As the steel plant comes, then once again, we'll start consuming full generation and will be continuing to consume the grid power. So this little bit up and down will happen over the next 2, 3 years. You are right, everything won't be consumed when we commission.

Moderator: The next question is from the line of Preet Jain from Finnacle.

Preet Jain: My question has been answered, sir.

Moderator: The next question is from the line of V Rangan, an Individual Investor.

V Rangan: Excellent numbers. And regarding the price reduction you are giving to the customers, it is on the basis of 3 months average or 6 months average, how is that? And what are the items, major items which you give price reduction? I'd like to know that. And as I can see that the lower the turnover, the profitability is more and what's the reason?

And what are the reasons for this current year, this quarter is good. But I would like to know what is their backward integration going regarding the power, it will be where -- there's no point in giving to the government and getting money, it's a very difficult process. And whatever the expansion you are making, at least for the next two years, at least after that, it should be fully be used by us actually. And what is the total megawatt you have got there? And regarding this ISMT, what are your plans? It is going on as per schedule as per the internal, I mean projections, it is going on well? I would like to know that.

R. V. Gumaste: Yes. With respect to power, as I mentioned already, but we won't be giving it to the government. We have the necessary permission to sell the power at IEX. So we get advance payments for whatever power we sell. Still, it won't be as efficient as consuming ourselves. That is the only difference. And we also have the plan of making steel in Hospet after that we can fully consume ourself.

With respect to ISMT, we have been doing very well. We have turned around the company very quickly. We have improved the sales realizations. We have improved the production, productivity and sales. We have achieved the cost reductions, and we are ahead of our own projection.

V Rangan: By which time you will be coming out -- or ISMT will come -- within another -- I guess two years, it will take, I mean, conservative basis? It will come out of the...

R. V. Gumaste: For what?

V Rangan: ISMT.

R. V. Gumaste: Yes, ISMT. Coming up with similar productivity and profitability like can you say if are looking for that, or the major challenge is the power and fuel cost. We are still at 15%, and we have to come to a level 5%,6%. And I think that will take about 2 to 3 years. And we are going green there. We will have more and more solar to support the power requirement of ISMT. We will be doing lot of Energy audits conservations to cut down the power consumption.

So both will take about two, three years, and then we can expect ISMT to be as competitive as any other competitors in line with the ISMT.

V Rangan: The cost reduction what you're giving to the customer, sir, you have not answered that point. See, what are the major items to give that?

R. V. Gumaste: Yes. Yes. Yes. See, in case of the price which we call it the price escalation clause. It's not exactly same with all the customers. If there are more elements considered for the price increase, then more elements will be considered for price reduction. If there are less elements considered for price increase, same there will be less number for the -- but typically, all the important elements are considered for the price escalation. It's like pig iron and steel scrap, ferro alloy, power fuel, sand, like that the many customers we have about 15, 16 elements which go into price increase/decrease mechanism.

V Rangan: What will be the current year's capital gross block will be increasing likelihood? And what will be the next two years, can you just give me conservatively?

R. V. Gumaste: there will be the acquisition investment, basically last year, it was -- ISMT the year before that was VSL. So leaving those, I think last two years, we have been investing at the rate of about INR 400 crores. And with the ISMT coming in, and also increased and expanded business, I expect projects to increase and our cash flows will support us for a stronger expansion. We are yet to come with more specifics. As we move ahead in the next quarter, I will be in a better position to tell you which projects we are going to take up. And I don't expect that the projects will come down.

So we still have a lot of ideas and we want to continue with our growth story, and we will have a good quality projects, which have very short payback periods to come into KFIL's program, and we will update you as and when we are ready to update them. Thank you very much, Mr. Rangan.

Moderator: The next question is from the line of Sagar Parekh from One Up Financial Consultants.

Sagar Parekh: Congratulations for good set of numbers. Just first question was on the capex only actually. So you partly answered it, but just wanted to get some sense. So next year's capex would be more than INR 400 crores is what you are saying?

R. V. Gumaste: Yes, yes. You are right.

Sagar Parekh: And this is INR 400 crores would be including this is only KFIL stand-alone or it's including ISMT as well because ISMT, I believe the solar plant itself will be taking up a lot of capex, right?

R. V. Gumaste: Yes. Solar, we have already ordered and that is an important project. In addition to that, we will have capex both in KFIL and in ISMT separately until we merge.

Sagar Parekh: So INR 400 crores would be KFIL stand-alone, if I understand correctly?

R. V. Gumaste: No, INR 400 crores per year has been the capex for the last two years, means this year and last year. But I expect capex to go up. I don't have full ready because we are still working on the annual operating plan and long-range plan. Once I'm ready, I will definitely maybe next quarter call, I should be in a much better position to tell you how much we are likely to invest in coming two years. But my assessment is that it would be higher than INR 400 crores because we have very good projects such as low payback rate projects and which help us in progressing well on our journey of growth.

Sagar Parekh: Sure. Understood. So basically then, if I have to look at your debt number, will it start like probably coming down so that the cash flows of the business will be calibrated -- like the capex will be calibrated based on the cash flows or you think that overall debt should be short from here?

R. V. Gumaste: No. All our borrowings have been very short term in nature, 2 years, 3 years, not exceeding 4 years because all our cash flows indicate very strong cash flow to pay them back very quickly. But if we come across like acquisition opportunity of ISMT, if we come across good projects, for example, solar power plant project and they appear very, very attractive as far as consumption. What is a disadvantage having high cost of power in Maharashtra becomes an advantage if we are setting up our own solar power plant. So we are looking at these opportunities and we have low leverage. We will continue to be low leveraged. I think our cash flows will continue to support us in remaining the low leveraged.

Sagar Parekh: Got it.

R. V. Gumaste: Projects we can always take the opportunity to increase capex.

Sagar Parekh: My second question is on the castings volume. So 9 months volume is about 98,000, 99,000 tons. We are doing about 30,000, 32,000 tons per quarter. So basically, we are looking at ending FY '23 at around 1.3, 1.35 broadly. Next year, can we assume about 15% to 20% kind of growth given that the line -- I mean, second line in Solapur will also be operational? Or you think the growth could be higher?

R. V. Gumaste: No, I think we will tend to achieve anywhere between 15% to 20%, as you mentioned, we have a new line. One of the goal end of it is how we can load the line faster and quicker. But typically, you can say that my experience has casting production enhancement shows more like 15% growth year-on-year than what we expect higher. I think I would bet more on achieving 15% volumetric growth which I think is a good to manage, it gives the value, we have to keep maintaining the quality performance stable. Not to trip on thatthat is a very, very key customer requirement.

Moderator: Next question is from the line of Bharat Sheth from Quest Investment Advisors Private Limited.

Bharat Sheth: Congratulations Mr. Gumaste and team for stellar performance in challenging time. Sir, I have 3, 4 questions. First is on what is our net debt in both Kirloskar Ferrous as well as ISMT? And consolidated also that -- and what is the cost of borrowing? That is first. Sir, second, now if you look at, I mean, the Solapur foundry plant, so are customers different than existing customer or we are targeting some more high value added? And third on the casting only, sir, you were discussing on going for a heavy casting 10,000 ton plant. So what is status of that?

R. V. Gumaste: Okay.. Yes. Let me the answer your first question. As far as the debt is concerned, total debt around INR 800 crores. Around that, mainly in KFIL and all the debt in ISMT basically is working capital arrangement and not any term loan. And if at all, we have to take that would be for the solar power plant investment.

And as you also know that we could hive off the unused power plant. We have some cash flow coming out of that helping the improved cash flow. I think these cash flows are quite good, stable without any term loan. And they have also paid back our loan completely INR 194 crores plus interest. So definitely, working is well over there and no major debt as such there and our consolidated KFIL debt will remain the same, I think this is my understanding. If I'm not right, my CFO can correct me.

And coming to the customer base, all the casting customers are handled centrally, all the inquiries are handled centrally based on the kind of castings we have and how well it fits the casting and customer goes into 1 of the 3 lines or 4 lines. And we are adding customers regularly. Last year also, in these 9 months, we have added two customers and one happens to be for the new line. But I can say very safely that more customers have interest, we are adding customers, and we are also adding the existing customers, new castings as customers have interest to develop new parts.. So it's many fold, threefold opportunities to increase, and that's why we feel confident that we can continue to grow volumetrically 15% growth on castings.

As far as the 2-part foundry is concerned, we have made a small arrangements, of producing up to 100 ton of casting per month. We are just producing 10, 15, 20 ton out of that. Actually at the new foundry, we are taking up now and should be ready in about 12 to 15 months forward, and that would be for producing up to, say, 1,000 tons per month. It's fairly large casting, fairly large foundry and it's 2 part foundry and for very big castings. And we expect that to become operational about a year from now. I hope I answered all your questions.

Bharat Sheth: Yes, largely because I don't want to take your much time. Second, sir, whatever -- I mean this cost improvement in efficiency side we have taken in Hospet about coal pulverisers as well as this Coke Oven 2 plant because third-party processing will come down. So how much in absolute we expect -- as well as, I mean, selling of the power to either to exchange or grid, whatever we do decide can add to the, I mean, our overall cost savings in absolute terms? And second -- once in FY '24 and then going ahead with '25 because there also we are taking up a lot of cost improvement plant project in Hiriyur. So how much is total savings that in FY '24 as well as '25 do we expect absolute, factoring all the prices remain at current level?

R. V. Gumaste: Yes. Markets and the commodity prices are not static. They are quite dynamic, so don't hold me to absolute figures account capabilities on me.

Bharat Sheth: My question is if all these remain at current level prices.

R. V. Gumaste: Unfortunately, they don't remain current level, but I will just explain our immediate project, which is getting commissioned, Coke Oven Phase 2, we expect that even we are investing close to INR 280 crores on that. And we expect that even Coke Oven Phase 2 would be less than 3 years, about 3 years to get the project. And pulverized coal injection, which will come after 9 months, are going well, it's like 1, 1.5 year payback project. And we are investing close to INR 90 crores or you can say INR 100 crores on that project, including our oxygen plant.

And at Hiriyur as we see we are close to -- for the furnace upgrade to 300 meters and also stove upgrade to achieve 1,250 degree centigrade instead of 900 degree centigrade, same on consumption. It also has an opportunity of 1.5 years to 2 years payback opportunities on about INR 100 crores of investment. So very attractive in terms of pay back and urgency to build them as quickly as possible.

Bharat Sheth: Yes, sir. Now coming back to ISMT, how do we see now with the solar plant commissioning in, say, H2 source cost saving and -- as well as, I mean, with the -- there is a good demand from oil industry, which is a very high-priced product and high profitability. So how do we see the -- we have done wonderful work in all these 9 months for ISMT. But going ahead, how much improvement then further can we expect as well as increase in the volume also?

R. V. Gumaste: We are still working on that. One is definite that we have grown faster than our own plans and destinations. In terms of turnaround and normalizing the operations, we still have a lot of work to do there. But I would like to just mention here that from the business of casting and pig iron, we are now adding alloy steel and seamless tubes as our main business interests and main business verticals.

And I personally see higher opportunities in alloy steel and seamless tube growth opportunities and value-addition opportunities over the next few years would be even overtaking the opportunities in pig iron and casting.

So we are quite optimistic that we will succeed in creating a good business model, good value opportunity avenues in the alloy steel. We are very strong with our OEMs in our commitment to performance, in our commitment to create value for our customers. And our products in the steel would be liked by our customers and our share of businesses should go up and we should be able to add more customers. So it's a very interesting field, and we are definitely going to see we will pursue that line to give, once again, a great experience to our customers in those sectors.

Bharat Sheth: And last question, sir, on alloy steel, what I understand bearing people are largely importing the steel. So we were working -- I mean, some of the steel bearing manufacture. So have you got any success? And how big is that opportunity?

R. V. Gumaste: As you know, I'm not an expert on alloy steel bearing and tubes, so I'm learning. And we are working on that. We are trying to understand the depth of it. But our understanding is very, very clear that ISMT as a brand and ISMT as a company is well respected and we are going to strengthen that with KFILs key area of customer focus. And Kirloskar's business processes will add value to the complete delivery from ISMT both in alloy steel and seamless tubes. That will definitely strengthen the business offering to our customers from ISMT and KFIL in both the fields of the alloy steel and tubes. So we are looking for big opportunities there to open up.

Moderator: The next question is from the line of Digant Haria from GreenEdge Wealth.

Digant Haria: Sir, I heard in one of the TV interviews last month that we are planning to convert one of our pig iron furnaces into making alloy steel. Just wanted to know what happens to our plan of expanding the pig iron capacity to 700,000 tons? Like would the other furnaces debottlenecking in that? And alloy steel produced 100,000 at KFIL, how much more competitive would be versus alloy steel currently being produced at ISMT?

R. V. Gumaste: Two parts. One is that we will continue to focus on pig iron business and our pig iron business volumes wont come down. So possibly, they will also grow, may not be very strong as alloy steel growth or casting growth, but pig iron is an important business. We will continue to protect those volumes. And if we are to add a blast furnace, we will always add a blast furnace.

And other thing is with respect to steel, we have already declared that we will pursue the opportunity of making steel at Koppal with our blast furnaces. And we will follow the cost-effective route. But at the same time, we will continue to work towards green power, green steel making. So we'll pursue both, cost effective steel making profitability as well as green energy and green steel making and tube making.

So we will take a balanced approach. We will progress very well on ESG and go down on cost -- the per unit cost of our products. But at the same time, we continue to work on cost effective processes like the steel making in Koppal. And it will open up opportunity for us to deliver say, like more than 25 OEMs we are giving casting to, we will be able to give them seamless tubes and alloy steel to their industry as well. So that is the opportunity we are looking at.

Digant Haria: Right. Sir, just the capex, what would be involved and the time that would be involved in conversion of this furnace at Koppal, if you can just give a broad view?

R. V. Gumaste: We expect that including environmental clearance, it is a three-year project, and we have already started. We are just completing the 4 months of impact studies, so it should take us another 2.5 years to commission the steel plant.

Digant Haria: Sir, and capex was, the rough estimate?

R. V. Gumaste: I couldn't get your last question, sir.

Digant Haria: I'm trying to ask that this conversion of the pig iron furnace to steel-making furnace at Koppal, what amount of capex will be needed over the 2.5 years of the project?

R. V. Gumaste: I think what we are looking at is yet to work out the full details, about INR 700 crores to INR 800 crores of capex to get 0.35 million metric tons steel facility.

Digant Haria: That's the same as what we had at ISMT, right? The same quantum at -- which is there...

R. V. Gumaste: Yes. But the processes would be different. It's not our furnace to do. Our cost structures would be different, making use of cost metal line making steel.

Moderator: The next question is from the line of Sahil Sanghvi from Monarch Networth Capital.

Sahil Sanghvi: Yes. Very huge congratulations to you and your team for very good results. My first question is regarding Hiriyur. So for these projects that we are undertaking, use of the capex will be INR 100 crores, right?

R. V. Gumaste: Yes. Well, we are working out the details. We'll come back to you with more details. But the idea is to improve the stove and the furnace to make it more efficient.

Sahil Sanghvi: Right, sir. So I understand at this point, you might not be able to give us very accurate details. But does this mean that we will go from around 15-kiloton run rate over there to, would that increase from 1.82 lakh, say, by 1 lakh ton -- I mean, products, how much will the production improve? And can you also expect some reduction in book rate over there? What would be the implication of this project, sir?

R. V. Gumaste: No. Yes, I just mentioned to you, we are working on that, what upgrade project we need to take, whether we're taking 1 phase, 2 phase. Basically, they would be for increasing the productivity and they would be for reducing the coke consumption and the cost and make them as efficient as what we have in Koppal. So how much capex is required, how much coke reduction will come down, etc Basic idea is to make them as efficient as the Koppal MBF1 and MBF2. So more details in the next quarter we will try to work out by that time should be able to update you. Right now, I don't have those figures.

Sahil Sanghvi: Sure, sir. And regarding the Koppal MBF1 shutdown. So if you can some information on -- I mean, for what reason is the shutdown? Because PCI will be completing by March.

R. V. Gumaste: No, this MBF1 on shutdown is there a long pending activity of introducing bell-less top onto blast furnace 1. While we are taking that, we are taking up couple of more activities and all put together, we need 90 days to complete that. There is some work related to casting, label tilting, something more technical in nature. But main work is the setting up of the bell-less top and we have already done that in blast furnace 2, and we are getting benefit in terms of production and in terms of productivity as well as coke consumption reduction. So we will be doing that, and we need 90 days for that.

Sahil Sanghvi: Right, sir. And my second question is regarding ISMT. So could you let us know what kind of utilization is currently going on at the steel plant and the tubes plant?

R. V. Gumaste: Yes, I said I'm not covering the quarterly call like what I've covered ISMT -- sorry, KIFL. I don't have ready number of ISMT in detail. But what we are working out is to take the ISMT in think two steps. We may need the 3 to 4 quarters to go from current level of 2.4 lakh metric ton per annum to 3 lakh metric ton per annum. This is our aim. 3 lakh will come or 2.8 lakh will come time will tell us. But this is the one effort to increase the output in Jejuri. And Baramati would be long-drawn project, initially small project to debottleneck both Baramati and Nagar put together how to take it to currently they're at about, I would say, 1.5 lakh metric ton per annum of tubes.

And we are trying to see that in the next 2 to 3 years how to take it to 2.5 lakh metric ton per annum and subsequently go to 3 lakh metric ton per annum. That is the plan. So we are still working out -- currently only looking at the low-hanging fruit and streamlining the maintenance, up-to-date, spare parts, whatever has suffered over the period, we are setting it right. So there's a lot of work yet to do on that. So hence, big projects are not touched and not up taken. So we work for a few more months on improving the facilities and conditioning the facilities and facilitating the good maintenance. This is the first aim. After that, we will look at the capex.

Sahil Sanghvi: Sir this has been an elaborate answer and it certainly helps. Just one last follow-up question on ISMT when I look at the financial results, we are still doing negative EBITDA in the industry plan. So I mean, at what kind of utilization level can we call it breakeven? I mean, are we break even at EBIDTA level or how should we look at this?

R. V. Gumaste: You are talking about Jejuri or ISMT tubes too?

Sahil Sanghvi: Yes, yes, yes.

R. V. Gumaste: No. When the ISMT steel is EBITDA positive, the question is it has power and fuel of 15%. And ERE at 6% it used to be 10%. You remember? In the beginning it was at the 11% was ERE. So now we are talking about 6%. The profitability comes out of all this. And power and fuel, very little drop has happened, but over the period we will take the power and fuel to a 6% level. 9% EBITDA has to come out of the power and fuel line, we are working. We have ordered 70-megawatt solar power. Though we are not taking big capexes, but solar is ordered. And we need 170 megawatts of solar, need maybe 20 megawatts of wind. That is the kind of thing which will make it 3% power.

So all these are big plans and I think it's a very, very attractive investment and attractive value-creation proposal. So we are focused on that, and we will do it as quickly as we can.

Moderator: Ladies and gentlemen, that was the last question for today. I now hand the conference over to Mr. Pallav Agarwal for closing comments. Over to you, sir.

Pallav Agarwal: Yes, sir. Thank you for the very detailed and elaborate answers, and congratulations on navigating through such difficult times and volatile times. We've seen a lot of volatility in steel company reporting numbers, but we have managed it pretty well. So sir, any closing comments from your end?

R. V. Gumaste: No. Thank you very much. I think I'm happy. Again, we could complete it in 1 hour time. And also I think very great questions, very interesting questions from all the participants. I would like to take this opportunity to thank each and every one, the organisers, moderators and all the participants. Look forward to see you, talk to you again in the next quarter. Thank you so much.

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