"Kirloskar Ferrous Industries Limited Q4 FY 2021 Earnings Conference Call"

May 06, 2021

MANAGEMENT: **MR. R.V. GUMASTE – MANAGING DIRECTOR, KIRLOSKAR FERROUS INDUSTRIES LIMITED**
MR. R.S. SRIVATSAN– CHIEF FINANCIAL OFFICER, KIRLOSKAR FERROUS INDUSTRIES LIMITED

MODERATOR: **MR. SAHIL SANGHVI – MONARCH NETWORTH CAPITAL LIMITED**

Moderator: Ladies and gentlemen, good day, and welcome to the Kirloskar Ferrous Industries Limited Q4FY2021 Earnings Conference Call, hosted by Monarch Networth Capital 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 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 Limited. Thank you. And over to you, sir.

Sahil Sanghvi: Thank you, Faizan. Good afternoon to all. On behalf of Monarch Networth Capital, we welcome you all for the Kirloskar Ferrous Industries Limited Q4 and full year FY 2021 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: Thank you very much. First of all, let me welcome all of you for the quarter four and year ended 2020-2021 conference call. I wish all of you and your family and your near and dear ones are safe during this COVID-19 pandemic situation. I also request all of you to get vaccinated and also to take care of yourself. And then I will start with my presentation in short, followed by question answer to clarify the points.

Our revenue from operations for the Q4 FY2021 was Rs. 749 crores against the earlier year's Q4FY2020 revenue of Rs. 448 crores, an increase of 67% with good demand for the pig iron as well as castings. Sales were actually higher as we compare it with fourth quarter of last year which was affected after 15th of March because of the lockdown. Also, it has the effect on the growth. Profit before tax went up for the quarter from Rs. 71.29 crores last year to Rs. 170.97 crores for 2021, an improvement of 140%. Profit after tax for the quarter improved from Rs. 57.49 crores to Rs. 135.33 crores, an improvement of 135%.

Pig iron production in terms of liquid metal increased from 88,704 metric tonnes to 1,13,974 metric tonnes, an increase of 28.5% over the last year's quarter. In this, about 15,080 metric tonnes is from Hiriyur plant. Pig iron sales increased from 81,953 metric tonnes to 1,03,244 metric tonnes, an increase of 26%. In value terms, pig iron sales increased from Rs. 248.65 crores to Rs. 404.31crores, an increase of 62.6% growth due to improvement in the sales realization from Rs. 30,341 per metric tonnes to Rs. 39,161per metric tonnes.

Casting production during the quarter was 29,778 metric tonnes against 22,645 metric tonnes, an increase of 32% over the last year. Casting sales during the quarter stood at Rs. 285 crores against Rs. 189 crores, an increase of 51%. Realization improved from Rs. 91 per kg to almost Rs. 100 per kg as on 1st April 2021.

Liquid metal production for the whole year stood at 3,45,474 metric tonnes, against 3,85,510 metric tonnes of the previous year, which was a drop of around 40,000 metric tonnes, because of the COVID lockdown in the month of April-May 2020.

Pig iron sales volume was 3,13,690 metric tonnes compared to 3,58,146 metric tonnes of the previous year, which is a drop of 12% by sales quantity. By value, pig iron sales for the year 2021 is at Rs. 1,067 crores against last year's Rs. 1,070 crores, almost the same in terms of the value against volume drop of 12%. Pig iron sales realization for the year improved from Rs. 29,876 per metric tonnes to Rs. 34,025 per metric tonnes. And towards the end, there were further increase in the pig iron prices.

Casting production was 97,173 metric tonnes against last year's 84,300 metric tonnes, an increase of 15% by volume. Sales increased from 78,663 metric tonnes to 92,507 metric tonnes, an increase of 18% of value. Casting sales realization improved from Rs. 93 per kg to Rs. 94 per kg, further price correction and increases happened after the 31st of March from 1st of April due to quarter-to-quarter mechanism with many customers. By value, casting sales for the year was Rs. 874 crores against Rs. 734 crores, one year before, it is an improvement of 19% against the value term improvement of 18% in volume.

Capacity utilization in pig iron plant during quarter four was almost like 101% against the last year's 91%. Further ramp up happened with Hiriyur plant operation during the quarter. Power cost has come down for the year from 6% to 4% with the use of captive power. Employee Benefit Expenses (EBE) is at 5.2% of sales against last year's 5.2%. For the quarter four, EBE to sales is at 3.6%. Our top three customers in casting business account to 65% of the total sales, whereas top six customers account to 86% of our total sales. Machining value during the last quarters during this year was Rs.16.5crores, against Rs.14crores one year back. We have added many more machines as well as new orders from various customers, and we expect casting machining value to increase quarter after quarter.

Out of the two iron ore mines which we have won, one iron ore mine was made operational towards the end of the year. In a short window available before the expiry of the forest clearance, we could do mining of 98,694 metric tonnes of iron ore, which is yet to be removed from the mine and consumed in the factory. This will happen after the renewal of the forest clearance during this year. We also expect that the second mine will become operational this year hopefully in the second quarter, and we would be able to get the supplies from both the mines for this year as well as the last year's 98,694 metric tonnes, what is already mined.

Finally, for the complete year, company level sales we could manage to get to Rs. 2,038 crores, against 2019-2020 figure of Rs. 1,850 crores, a growth of 10% on the top-line. PBT improved from Rs. 156 crores to Rs. 363 crores, an increase of 183%. PAT for the year improved from Rs. 112.37 crores to Rs. 302.11 crores, an improvement of 169%. EBITDA during the year was 22.8% for the full year and 26.3% for the fourth quarter. And if we go for 2019-2020, it was at 12.5%.

During the year we incurred a capital expenditure of Rs. 215 crores. During this year we also acquired the Hiriyur plant and made it operational in three months. And we have run the plant for about 1.5 months and produced and sold about 15,000 metric tonnes of pig iron in the quarter. In 1QFY22, we expect full quarter operation for Hiriyur plant.

We have already started to increase the installed capacity of the casting. From our current three molding lines i.e. two molding lines or two foundries in Koppal and one foundry in Solapur, we are going to add one more foundry in Solapur with the capacity of about 40,000 metric tonnes per annum, to be installed and commissioned towards the end of this year or the first quarter of next year. And we will be investing about Rs. 200 crores.

We are also taking up Coke Oven & Power Plant Phase-II to take the coke manufacturing capacity from 2 lakh metric tonnes per annum to 4 lakh metric tonnes per annum. We will also be generating the additional 20 megawatts of power. This project is expected to cost us about Rs. 300 crores. We are also picking up the upgradation of Blast Furnace-2 from 250-meter cube to 300-meter cube, with the technology upgradation, making it suitable for pulverized coal injection, as well as replacing the bell system on the top of the furnace to bell-less top system for Blast Furnace-2. This project is expected to cost us Rs. 60 crores.

Sinter plant at Hiriyur, the balance work is taken up and we are working on the sinter plant to commission at the earliest. And we are also required to make a balance payment of Rs. 61 crores to VSL Steel. Both of these put together is expected to have an expenditure of about Rs. 100 crores. Pulverized coal injection, we are in the process of ordering and it will be ordered for Blast Furnace-1 and 2 and is expected to cost us Rs. 40 crores, including the oxygen enrichment.

Ongoing foundry capacity enhancement, infrastructure projects and machine shop projects are expected to incur an expenditure of about Rs. 100 crores. In all, the projects which are being envisaged for Koppal, Hiriyur and Solapur put together are expected to cost us about Rs. 700 crores within the next 18 to 24 months.

That's all I have for this short presentation for this quarter earnings as well as the 2020-2021 earnings. And now I am open for any questions from the audience. Thank you very much.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Akshay Satija from Alpha Investments. Please go ahead.

Akshay Satija: Congratulations on great set of numbers. I wanted to start with a bookkeeping question. Sir, could you help us with the volumes of iron ore, coke and steel scrap consumption?

Mr. R.V. Gumaste: I don't have the figures right now. But typically, we consume 1.7 metric tonnes per tonne of hot metal, that would be the consumption of iron ore in Koppal. We don't have sinter plant in Hiriyur, we generate fines while using the lump ore, and the consumption is likely to be slightly more because there is about 15% to 20% generation which is currently stored. This is with respect to consumption of iron ore. Gross coke consumption, as we manufacture foundry grade pig iron, is about 680 kg to 690 kg of coke, gross, including moisture, etc.

Akshay Satija: And on the steel scrap front for casting?

Mr. R.V. Gumaste: Steel scrap, I can say that total iron scrap and steel scrap put together would be equivalent to net castings sales quantity.

Akshay Satija: Okay. Sir, on the machine castings front, so we have a casting capacity of 120,000 metric tonnes, so how much of it can we do the machining and what was the quantity that we machined in this year?

Mr. R.V. Gumaste: Approximately 15% is what we are machining currently, and there are different levels, semi-finished, finished as well as the rough machining, about 15% is what we have machined, and we are attempting to add more orders and we increase this percentage but we also increase the casting sales, so the percentage increase will be challenging. But we are putting efforts so that in about three to four years we go to about 50% of the quantity machined and supplied to our customers.

Akshay Satija: Okay. Sir final question, on the current coke oven plant, is it operating at full utilization?

Mr. R.V. Gumaste: Coke oven is operating at full utilization level and it is producing 110%.

Akshay Satija: Okay. Sir, anything on forward integration for the VSL Steel acquisition?

Mr. R.V. Gumaste: We are looking for total stabilization of plant operations, only after total stabilization and sinter plant commissioning we will think of the forward integration, but not immediately.

Moderator: Thank you. The next question is from the line of Parthiv Johnsa from NVS Brokerage. Please go ahead.

Parthiv Jhonsa: I just have a couple of questions. Just wanted to check what is the CAPEX program what the company is planning? And what kind of capacity expansion the company would be doing? And how the CAPEX would be funded, internal accrual or any other combination?

Mr. R.V. Gumaste: Yes, I just explained to you towards the end of the presentation. We have various projects for capacity expansion as well as the cost optimization, coke oven with power plant basically for ensuring some coke availability, so it's basically for cost reduction. And we have blast furnace two up-gradation for capacity increase, productivity increase is almost 20% from the current level. Sinter plant in Hiriyur also increases the production and productivity. Second molding line in Solapur is for the capacity enhancement. Pulverized coal injection is both for capacity increase i.e. productivity increase as well as the cost reduction. And all the ongoing foundry projects, which are for capacity enhancement, that is line 2 phase 2 work what we are doing, they are also for capacity utilization point of view. Overall, our investment plan within the next two years is Rs. 700 crores. And if required, we would be borrowing not very major amount, but small amount, it could be Rs. 100 crores, Rs. 200 crores max. But if the earnings are strong, and project implementation if it takes a 24 months, then we should be able to support it with the internal generation.

Parthiv Jhonsa: Okay. And sir, once all capacity expansions, productivity and your cost cutting measures, everything is on stream and online after 24 months - 26 months, what is the kind of top line it will translate into? How much growth are you expecting from this expansion?

Mr. R.V. Gumaste: See, for example, last year I told that we sold 330,000 tonnes of pig iron, and we are talking about once we complete the expansion we should be able to produce close to 700,000 metric tonne of liquid metal. So, you remove our internal consumption plus the yield, we could still have 6 lakh tonnes to 6.5 lakh tonnes of pig iron for sale. And we are moving towards very close to 2 lakhs of castings.

Parthiv Jhonsa: Okay. So, almost basically double of everything?

Mr. R.V. Gumaste: Yes, that's the kind of volumes we are looking for.

Parthiv Jhonsa: All right. And sir, what is right now the demand scenario what you are seeing on the ground level with your customers and everything?

Mr. R.V. Gumaste: As of now we are still finding it okay, but we are quite cautiously optimistic. But caution comes more from the COVID situation around lockdowns, showrooms are being close. So, there are many things which caution us that the sales from the auto sector could be impacted. And hopefully sales from the tractor sector could still be maintained because it's a priority sector, agriculture is given exemptions in many ways and I hope that tractor will support, and we should be able to escape through in spite of the COVID situation.

Moderator: Thank you. The next question is from the line of Shyam Sunder Sriram from Sundaram Mutual Fund. Please go ahead.

Shyam Sundar Sriram: My first question is on the demand scenario, just continuing on the last question asked. FY2021 was the highest ever tractor production in the country per se. As we stand today, I mean, leaving aside the April-May disruptions that are happening because of the COVID-led shutdowns, are you seeing a similar FY2022 being equal in terms of production as FY2021, fiscal 2022 being similar to fiscal 2021 in terms of the tractor production per se? Is that how you are hearing from your customers?

Mr. R.V. Gumaste: Customers have indicated demand or requirement of casting more than what they have procured last year. But we will have to factor, or we have to look from the emerging scenario on the COVID front, and that is the caution what we have for ourselves. But the April month has gone quite all right and May we are going through. This pandemic, we really don't know what shape and how it is going to take, that is the big question mark. But otherwise, customers are gearing up to produce. But as you know, we know there are many areas where some disruption is happening from the supply chain also, from the closure of showrooms also. We have to wait and watch. But right now, on the ground, still there is a demand for castings.

Shyam Sundar Sriram: Understood, thanks for that. And secondly, you mentioned that we are also investing in machining capacity to increase our total machining content that we supply to customers. Now, for example, we have this company called Craftsman Automation that does pure largely machining of the BS-VI engine blocks per se. So, just from a customer perspective, first of all, do the customers want a single supplier who can do both the casting as well as the fully machine engine blocks and give to them? Secondly, are there any capabilities that we need to increase the supply of fully machined blocks per se?

Mr. R.V. Gumaste: I agree with you, customers would definitely prefer to buy the fully machined castings from one source, straight from foundry to assembly line which would mean the shortest travel distance and one shop shopping. And that's what we have been offering to our customers. And in order to move ahead and have substantial machining, I also agree with you that we have to improve our competencies and capabilities to deliver better quality castings as well as better quality machined castings. And we are working on that, and so far whatever we have done and whatever we have delivered to our customers, we have been quite successful in giving good quality machine casting to our customers. And we expect that with that performance we should get the encouraging orders in future also from our valued customers.

Shyam Sundar Sriram: So, the customers are more willing to give you increasing share in terms of the machine castings as well?

Mr. R.V. Gumaste: Yes, that is their first choice because that is the lowest cost for them.

Shyam Sundar Sriram: Understood. Sir, my last question in terms of the casting realizations recovery per se during the quarter, sequentially we saw something of 5.6% sequential increase in the casting realization on a per tonne basis. But the cost seems to have gone higher, so how are we seeing the recovery from our customers?

Mr. R.V. Gumaste: Most of the customers, except one or two customers, have the quarterly mechanism which is a standard mechanism. Once the quarter is over, whatever is the average increase during the quarter, is adjusted in the price of the casting. So, whatever has been the increase from Jan to March, we are getting it from 1st of April or maybe 15th of April, but mostly 1st of April. And that will take care of the raw material cost increase. And if it is not in the mechanism, then we are talking to the customers and getting the price correction done.

Shyam Sundar Sriram: Understood. So, there is no major hiccups in terms of getting the required price increases from the customers.

Mr. R.V. Gumaste: No, I think understandings are working.

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

Saket Kapoor: Firstly, on the scrap part, how have the scrap prices been trending over the last quarter?

Mr. R.V. Gumaste: So, all the metallic prices, including pig iron and steel scrap have moved up, and they have moved up quite substantially. And I would say that they have peaked in the last quarter.

Saket Kapoor: Okay, you want to say from March, prices have declined for April i.e. contracts we have done for the month of April?

Mr. R.V. Gumaste: I am not very sure about how much they have come down, but I think they have not yet come down much.

Saket Kapoor: Right. Sir, since there is a lag effect with every price revision, so what is the trend line for the casting prices going forward? I mean, are there more price hikes to be taken now or everything has been in the system now, the hikes I am talking about?

Mr. R.V. Gumaste: See, most of the price increases have taken place from 1st of April. And as you also thought, there would be one or two customers who are settling with the negotiation, they are in the process, hopefully they should get completed shortly. And there is a possibility that somebody also follows a slightly different cycle, like one month later on, then it comes from 1st of May. Those are happening, but most of the customers have settled the price increase from 1st of April, and other are also falling in line. And also, if there are any additional price increase claims, they get with the negotiation. But all the raw material mechanism related are in place.

Saket Kapoor: Sir, since you have already articulated that the OEMs worked with a production plan way ahead, and that is how you people work for the casting for them. So, keeping in mind the COVID situation, how have the OEMs aligned their production and you aligned your dispatches for the castings for this quarter, for the quarter of April, May and June? Has there been any revision in the schedule as of now?

Mr. R.V. Gumaste: Not exactly. What I am finding one tendency is, whichever materials are able to come, customers are trying to inward them and not stop them right now. Because they are putting efforts, it's very similar effect, and if they are not getting certain parts, they are putting efforts to get them. But in the meantime, all other parts are inwarded and I am not seeing major cut in the schedules given. But there are a few customers whose schedules are lower in April compared to March, especially the auto ones.

Saket Kapoor: And the reason is due to the inventory part or the less numbers of wholesale?

Mr. R.V. Gumaste: Sales have come down in April for some auto players. Maybe March sales could be also low.

Saket Kapoor: Sir, last part is on the MHCV front and the railway front. Sir, tractors you are seeing a good traction even now, so what is the outlook for the MHCV and what portion of our sales goes to the railways?

Mr. R.V. Gumaste: We don't have railway sales; we have commercial vehicle. Commercial vehicle, as I mentioned, we have some deemed export and the commercial vehicles, they are going reasonably well. But I can see some softening overall in the auto side.

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

Ritesh Poladia: Sir, I believe BF-II will go for the up-gradation, so there will be a shutdown period. So, what can be the impact on the volumes for that?

Mr. R.V. Gumaste: Which up-grade?

Ritesh Poladia: Your one of the blast furnace will go for the up-gradation, right, this year?

Mr. R.V. Gumaste: MBF-2, yes.

Ritesh Poladia: So, what would be the impact on the loss of days?

Mr. R.V. Gumaste: About 90 days on one of the furnace.

Ritesh Poladia: Okay. So, whatever is the production loss, can that be made up during the rest of the time?

Mr. R.V. Gumaste: No, I don't think because we are likely to lose about 50,000 tonnes production from MBF-2 during that stoppage. So, we will be left with maybe three months, October, November, December, maybe two or three months we will be left with, in that increased production coming after up-gradation won't be sufficient to recover in this year. But whatever is the plan, it is factored in the planned production activity. However, blast furnace 1 and Hiriyur blast furnace will continue to operate during that stoppage.

Ritesh Poladia: Okay. And sir, on the profitability wise, is the VSL Steel pig iron profitability equal to this Koppal unit?

Mr. R.V. Gumaste: There will be some differences because freight costs are different. And also, there are some differences because we will have to transfer the coke from Koppal to Hiriyur. And there is also a difference because we still don't have sinter plant, everything has to be lump iron ore. So, lump iron ore consumptions are higher because of fines generation. And also, the cost of lump ore is higher than the size. So, naturally the prices, as of now, the cost of manufacturing in Hiriyur is higher.

Ritesh Poladia: Okay. And sir, you spoke about doubling the quantity in over three years. So, can we say that for next 1-1.5 years the volume may not be higher and after that the volume may jump?

Mr. R.V. Gumaste: No, I think you will have to plot them with respect to the different projects. Once the blast furnace 2 upgrade is over, we will start getting that upgraded volume. Once we put in the pulverized coal injection, we will get some increase. So, once the projects are completed, then the benefit of project comes after the commissioning. So, they don't wait for 1.5 years or 2 years. If we commission in December, we will get the benefits from January.

Ritesh Poladia: Sir, can you give us the timeline for your project wise completion?

Mr. R.V. Gumaste: No, what we are saying is furnace upgrades will happen this year. Pulverized coal injection will happen within the next 12 months. And coke oven will happen within the next 18 months.

Ritesh Poladia: Okay. So, this year we may spend about Rs. 250 crores, Rs. 300 crores kind of CAPEX for FY 2022?

Mr. R.V. Gumaste: Yes, half of it will be spent in this year and half will go to next year.

Ritesh Poladia: Okay. Sir, on CAPEX wise we are really like three years back we were doing Rs. 100 crores, Rs. 150 crores, and from there we are now jumping to Rs. 300 crores, it's an achievement. Great. That's all from my side. Thank you.

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

Chetan Phalke: Congrats for a great set of numbers. Sir, any comments on the rejection rate? I mean, on a blended basis, what was the rejection rate during FY 2020 and FY 2021? And going forward, what is the rate?

Mr. R.V. Gumaste: In FY2020 we were at 7% total and in FY2021, we are at 5%.

Chetan Phalke: Okay. So, we have stabilized around 5% or are there further reductions?

Mr. R.V. Gumaste: Yes, we have good amount of stability around 5%, 5.5%.

Chetan Phalke: Okay. Sir, one more thing, just wanted to understand how are we planning to diversify our customer base and reduce the concentration risk? So, out of our existing volumes of close to 90,000 tonnes to 92,000 tonnes on the castings, how much of it is going to a single largest customer, any ballpark number if you can reveal it?

Mr. R.V. Gumaste: No, I just mentioned that top three customers are 65% of our sales. And top six customers is 85% of our sales.

Chetan Phalke: And how many new, I mean, net new customer additions have happened during the financial year?

Mr. R.V. Gumaste: See, in the last three years we have added every year, two customers.

Chetan Phalke: Okay, every year two customers. And how is the ramp up happening on the new customer additions, any comments on that side?

Mr. R.V. Gumaste: See, I think we will be successful to achieve 15% growth in castings volume. Year-on-year if we can get around 15%, because we have to develop the parts, validation and going for the serial production then ramp up, I expect we should be successful in increasing year-on-year about 15% in terms of casting volumes.

Chetan Phalke: Sir, this 15% growth will come from existing customers ramping up or these new customers, their volumes coming online?

Mr. R.V. Gumaste: See, all the three things are happening. Existing customers, existing casting share of business is going up, existing customers are developing parts, and we are also adding new customers. There is lot of interest by customers that is why all the three are happening.

Chetan Phalke: Okay. I think sir, on last call we mentioned that we are getting into the large diameter casting, the volumes are going up on that front. Any comments on that front? I mean, any new segments or any new markets have opened up for us, let's say, including exports or something like passenger vehicles, are those the addressable markets that we're looking at potentially? And plus, large diameter castings?

Mr. R.V. Gumaste: We have started making large castings, but not any big way through there. We are yet to complete the project to produce volume, we have completed the project to make small volume. And we are currently at that level. I expect it to take some good shape and more volume in the coming years i.e. of large castings of more than 300 kg.

Chetan Phalke: Okay. And any new segments or new markets that are opening to us?

Mr. R.V. Gumaste: Working on that, but I have nothing to really report as a new segment or new. Right now, I have nothing to report.

Chetan Phalke: Okay. And my last question, sir, anything happening on the deemed export side? I mean, how are the volumes over there? Are we looking at significant growth over there in coming days?

Mr. R.V. Gumaste: Yes, deemed export growth, all the customers, there is some growth happening. Very interesting growth last year has happened. In addition to Europe, we have started also sending casting to Brazil. And that has given us some good volume increase, and that was a sustaining thing in the auto volumes. We sustained the auto volumes also because of the deemed exports of castings to Germany and Britain.

Chetan Phalke: Okay. What are the volumes or growth numbers on deemed export?

Mr. R.V. Gumaste: I don't have exact growth volumes. But overall, you can say, out of the auto, we sell about 20% deemed export.

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

Bharat Sheth: Sir, congratulation on an excellent set of number. Sir, I mean, first question is on the pig iron. So, with this Hiriyur plant, I mean, we expect to contribute around 12,000 to 13,000 production per month. So, that roughly around 1.5 lakh tonnes additional will get from this VSL plant, against which 50,000 we may lose because of plant up-gradation and some additional because of upgraded blast furnace will be able to help us, I mean, grow that. Correct, is that fair understanding?

Mr. R.V. Gumaste: Yes, that is correct.

Bharat Sheth: So, approximately we can increase our sales by more than 1.25 to 1.5 lakh tonnes, subject to demand in FY 2022 over FY 2021, correct?

Mr. R.V. Gumaste: Yes.

Bharat Sheth: And also, how much iron ore this year will be able to meet our requirement from our own mine?

Mr. R.V. Gumaste: No, I am not still looking for that. See, we have to complete the forest clearance and we have done 98,000 tonnes plus 1.2 lakh plus 1.2 lakh tonnes. If we do everything, we will get 3.4 lakhs.

Bharat Sheth: Any approximate timeline there, in second half or…

Mr. R.V. Gumaste: All the timelines I can give, but timelines are not getting maintained because the files have to move many tables and there are a lot of disturbances because of the COVID offices getting closed and they get stuck. So, I would right now say that those clearances are not going as per the timeline. I am still hopeful both the mines should become operational, at least in this financial year.

Bharat Sheth: And I mean, post Q3 con-call, you were a little worried about the coking coal price, but now which has started softening, so you were little cautious in giving the EBITDA margin, sustainability. But what do we understand, again, coking coal prices are coming down and again same problem of China and Australia has come up. So, do we expect that coking coal price to climb again? Where do we expect it to stabilize?

Mr. R.V. Gumaste: No, I do not have any clue on how it is going to move because of the relationship between Australia and China when they are going to end or anything, no clue on that. But right now, the coal prices are stable, and we are at a level of US$130 per metric tonne cif India. And blended cost may be slightly less, may be $115 or $120. These levels are definitely very attractive landed price levels. And right now, I think they are quite okay for us.

Bharat Sheth: In Q3 it had gone up to $150 level, $150, $160 level.

Mr. R.V. Gumaste: Very short period but it came down and we never bought during that time.

Bharat Sheth: Okay. And sir, VSL, I mean, if one has to really look at it vis-à-vis till we are upgrading and all, when do we expect that up-gradation will be over and that will help us to reach this Koppal plant level kind of EBITDA margin?

Mr. R.V. Gumaste: See, two things. One is because of this COVID pandemic environmental clearance is valid up to October. So, we will be able to complete and start the sinter plant. So, we expect it to start somewhere in August. So, if that happens, we will cut down the cost of iron ore, we can use the fines. And after that, I think it should be very close to the Koppal price levels.

Bharat Sheth: Okay. This Hiriyur plant is located a little towards south side, so from Koppal we are catering to the demand of North India customer, and Hiriyur we are looking for a southern India market, is that fair understanding?

Mr. R.V. Gumaste: Yes, Hiriyur can supply to south and balance quantity from Koppal.

Bharat Sheth: And sir on casting, I mean, we have been listening from our deemed export side, our all-European customers, whether it's a Mercedes or Volvo, then Hino. Hino is not of course our customer for Europe, but these two, they are very, I mean, hopeful on CV side where we have been in a long-term relation. So, are we seeing good uptake from them in this coming next six months to nine months?

Mr. R.V. Gumaste: See, last year, their offtake, in spite of the pandemic, was very stable. Didn't grow much but still whatever they were taking they took last year. This year, I may see a small drop in that rather than increase. But not a very big drop, but small drop.

Moderator: Thank you. The next question is from the line of Abhishek Ghosh from DSP Mutual Fund. Please go ahead.

Abhishek Ghosh: Sir, just a couple of questions. In the current quarter, we have seen almost about Rs. 59 crores kind of revenues from by product, could you please help us understand what's that is relating to?

Mr. R.V. Gumaste: Maybe I think we have sold some coke. Surplus coke has been sold. And also, while in the coke oven we generate foundry grade coke, which is a lumpy coke, bigger size coke, which is suitable for the foundry, and which is slightly more priced. So, we have sold some foundry grade coke from our coke oven.

Abhishek Ghosh: Okay. And sir, the other thing is, you have been able to get all the price increases in raw material from the auto OEMs because the overall auto demand had been good. But now given the overall situation, the overall consumer demand, do you see a risk of auto OEMs not giving you the price hikes going forward if the auto cycle or demand was to come down? Do you see that?

Mr. R.V. Gumaste: No, we have long-term, long sustaining price correction mechanisms and a fair understanding that good time and bad time, both the partners should adhere to the mechanism agreed which has been holding for many, many years. I expect that both of us will honor that and not break that.

Abhishek Ghosh: In the last down cycle you didn't experience anything of that sort, is what my question was?

Mr. R.V. Gumaste: No, in down cycle we have to give it to them. So, it is high time they give it to us, if there is a price drop we have to give it to them. And both of us are following the mechanism. One or two small things may be there, but more or less everybody's following that.

Abhishek Ghosh: Okay. And sir, you also mentioned a point that you are also increasing the market share with the individual OEMs. So, could you throw some light on the competition in terms of, is there a weakening in competitive intensity that you are seeing in the casting division wherever you are operating, anything of that sort is something that you are seeing?

Mr. R.V. Gumaste: See, a very large portion of our casting, what happened is we are single source, very large proportion. So, whatever was multisource also has become single source for N number of reasons. So, a lot of castings are single source today. And where multiple sources are there, there is demand for KFIL to supply more proportion or more share than the normal demand from the customer. But we have limited capacity, so we are trying to ramp up and supply more and meet more requirements of our valued customers.

Abhishek Ghosh: And this increase in the market share or the amount of supply, you would attribute it to lower rejection rate and better product development, are those some of the reasons that is helping you kind of get that?

Mr. R.V. Gumaste: Yes, many aspects where machinability is good, our service is good, casting quality is good, rejection rate is good. And many of the customers prefer to use only our casting for export casting. So, there is preference for casting.

Abhishek Ghosh: And sir just last question from my side, we see the overall receivable days has kind of increased in the current quarter in the current year, so anything that you are seeing in terms of both the receivables and the payable also has come down marginally, but receivable days there is an increase, so is that something that you are seeing from the customer side?

Mr. R.V. Gumaste: The debtors days has come down as well as inventories have come down, in terms of number of days they have come down.

Moderator: Thank you. The next question is from the line of Pritesh Kumar from AXA Capital. Please go ahead.

Pritesh Kumar: Sir, to one of the participants, you did highlight that you have been adding customers on the casting side and also trying to increase your wallet share with the existing OEMs. But if I look at your castings volume, now FY 2021 was perhaps the best year for the tractor industry, and because we get two-third of our business from tractors, your volume growth of 18% is in line with what the industry has also grown, at about 18%, 20%. So, how do we see the benefit of this bracketing into volumes, the benefit of new customer additions and higher wallet share that you are talking about?

Mr. R.V. Gumaste: See, I just mentioned that yes, I agree with you we have grown in line with the market. But what I said is, if you see our run rate today, right now we are at about 10,000 tonnes per month is what we are producing and selling. And if we are successful and we are putting all efforts to go to 10,500 metric tonnes or to go to 11,000 metric tonnes per month. So, as do that, then our share will go up further beyond what we are supplying.

Pritesh Kumar: So, so far it's not yet translated into numbers, but then given the benefit you have had, you believe that…

Mr. R.V. Gumaste: No, it has translated because you are seeing the 95% or whatever for the whole year, but actually, I can say it is 10 months sale.

Pritesh Kumar: Okay, sure. So, your anticipation of 15% volume growth, I mean, in Q4 you were operating at about 85% utilization, now if you are anticipating a 15% volume growth, you will perhaps be thinking about a second or third line of casting line, right?

Mr. R.V. Gumaste: It is not a calculation like that. We have done last year 92,000 metric tonnes, if I am correct, our sales last year is 92,500 metric tonnes. We can expect this year 15% more, maybe we can do 1 lakh, may be slightly more than that because we get complete 12 months. But I am not saying that it is 15% growth than fourth quarter, I am saying 15% growth from last year. So, we can expect 1.20 lakh, 1.25 or 1.30 lakh tonnes, depends on the overall situation. From there we will have to again increase, do something next year to increase the output by 15%, including the fourth foundry coming up by that time.

Pritesh Kumar: Sure, got it. Second question is on the profitability. So, three years back at your AGM you did mention that your bulk of your profits were coming from the pig iron division and at castings at that point I believe you had some technical issues with your Euro-VI castings higher rejection rates and all that. So, I believe all those should have got rectified, you don't give the split between pig iron and casting, but broadly can you give us some sense on how different would be the profitability margins in these two segments? And what are we really doing to scale up this margin on the casting side?

Mr. R.V. Gumaste: See, first of all, casting is a stable and long sustained business, and takes time to grow the business but has more stability. Whereas the pig iron is in the commodity group which we are integrating backwards to mining and bringing the value addition. So, whatever I said three, four years back, I won't say it today. Today, both the businesses are bringing profits to the company. And there can be differences in the profits coming from each business, but if you look at the EBITDA margins, I will say that they are quite similar in both the cases, maybe pig iron today could be better, but on the long-term basis we expect that the value additions or EBITDA from castings business and pig iron business could be quite similar.

Moderator: Thank you. Next question is from the line of Manish Goel from Enam Holdings. Please go ahead.

Manish Goel: Sir, really congratulations to you and the entire team at Kirloskar Ferrous for excellent numbers. Sir, I just had a couple of questions. On the recent COVID pandemic, just want to get your sense that are we kind of seeing any challenges on labour availability due to COVID with us or with some of our vendors or oxygen diversions, what government is doing, which may probably have some issues with our vendors? Any such challenges of supply chain, labour, do you see currently any such challenges?

Mr. R.V. Gumaste: First of all, COVID is around us and this time also, I would say, wave two is quite close to us, but we have also learned how to manage that. Second thing, the governments this time have not closed down or locked down the industries, and hence we are operating, we are working. And we have also learnt how to take care of COVID and to that extent the number of cases involved, right now till date we are okay, we are maintaining our operations around. And here and there, there are a few cases reported and there are no any major concern as on today. But what is our concern is, we are getting the reports with respect to our customers who are in large cities and where the disturbances are happening, or in some other parts of India where supply chains are likely to get affected. We can't be closing our eyes, we have opened our eyes, because then all suppliers supply the parts then only vehicle will get completed. So, to that extent, we are part of the supply chain, and it can affect us. But right now, we have been able to supply our castings, and customers have not yet told to cut down the supplies or reduce the supplies. But here and there, there are logistic challenges, those challenges are definitely we are experiencing.

Manish Goel: Great, thank you. And second question on tractors and construction equipment. We have seen the emission norm change with effect from 1st April, where the engines will be changed. So, are we expecting any impact on demand, because the end product prices will also increase for the new tractors and the new construction equipment? And has it also led to any pricing change for our casting? So, two questions.

Mr. R.V. Gumaste: We have not experienced anything, the demand for the castings from both tractors and the earthmoving equipment; it continues to be quite good, and especially tractor. But we have not experienced any drop in the demand because of the emission change.

Manish Goel: Okay. And was there any change in the pricing for the castings, the new casting?

Mr. R.V. Gumaste: No, because see, these are I think they are changing to Euro-IV. And I think that is not a major change for the casting. And even I think it's not a major change from the point of view of pricing. And Euro-VI happened, I think there is a major cost impact. Euro-III to Euro-IV, in best of my understanding, it is not very major change in the pricing.

Manish Goel: And sir, last question on the casting. So, at Hospet, our capacity would be increased to 120,000, so are we taking 40,000 tonnes increase in the Hospet and then another 40,000 at Solapur?

Mr. R.V. Gumaste: No. See, our Hospet plant, we are doing the debottlenecking project in melting, core making and felting & finishing so that we can go up to 1 lakh, 1.10 lakh from Hospet itself. That is debottlenecking to get more casting output from line 2.

Manish Goel: And this should be ready by what time, sir?

Mr. R.V. Gumaste: See, one is getting ready, another is actually ramping up. So, we are in the process, I expect one to get ramped up in September, October, and another should be towards the end of the year.

Manish Goel: And sir, so at Solapur also we are looking to increase capacity.

Mr. R.V. Gumaste: Solapur, we are adding a foundry to produce additional 40,000 metric tonnes. It's a new foundry because we have new orders, and we require new foundry.

Manish Goel: So, that will start by Q4 or maybe Q1 of next year?

Mr. R.V. Gumaste: Q1 2022-2023.

Manish Goel: And it will involve a CAPEX of Rs. 200 crores?

Mr. R.V. Gumaste: Yes.

Manish Goel: Okay. So, that means, sir, next year onwards we should be able to see higher growth rate in the casting volume, right now, broadly you said 15%, but now with almost capacity more or less doubling or 80% increase, and with your confidence to increase the capacity so much, so can we expect that FY 2023 onwards we can see little higher volume growth?

Mr. R.V. Gumaste: I expect an increase of 15,000 to 20,000 tonnes per year. 80,000 means it will take three to four years to realize.

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

Sahil Sanghvi: Congratulations for the results. Sir, I just wanted more clarification on the power side, sir. So, the Hiriyur plant is sourcing power from the grid or are we supplying it from Koppal?

Mr. R.V. Gumaste: No, they have turbo generator using blast furnace gas. That supplies almost 80%, 85% of the power requirement. And second source is KEB grid. Right now, we are buying from the state grid, around 15%, 20%. But in future, if we have surplus in Koppal, we will be able to give it to them.

Sahil Sanghvi: Okay. And Solapur, have we been able to transfer power? As in, is it all from the grid?

Mr. R.V. Gumaste: No, we have not been because it involves so many steps of clearances, and we got a special permission for six months to do something and the entire exercise took six months, so we are on renewal. So, hence it is taking time. But in the meantime, Koppal, they are producing more casting and consuming more power and practically we are not left with much power.

Sahil Sanghvi: Okay. So, sir, when do we expect Solapur permission to come for the power transfer?

Mr. R.V. Gumaste: See, I have been told anytime, two weeks. See, I think this file moves up and down, 10, 20 approvals, it took a cycle of six months and we had a permission for six months. Then again the renewal, so it has been the renewal for another six months. So, I expect it can happen any time, maybe 15 days, one month.

Sahil Sanghvi: Okay. So, till the time the grid power is at Rs. 6 or Rs. 7, or more than that per unit?

Mr. R.V. Gumaste: I think more of like Rs. 7 to Rs. 8 per unit.

Sahil Sanghvi: Okay. Got it. And last question would be Sir, once we have Phase 2 of the power plant, we will be able to cater it to the expansion of the casting unit at Solapur also?

Mr. R.V. Gumaste: Yes, surely.

Sahil Sanghvi: Okay. That will suffice all our expectations, right?

Mr. R.V. Gumaste: Yes.

Sahil Sanghvi: Okay. And one clarification that I wanted, Hospet debottlenecking that you were just discussing, that is not completed, right? So, that will be, as you said, in two phases, September and December, right?

Mr. R.V. Gumaste: Yes, I expect that to happen September and December, or September end and April.

Moderator: Thank you. As there are no further questions, I would now like to hand the conference over to Mr. Sahil Sanghvi for closing comments.

Sahil Sanghvi: Yes. Thank you Gumaste sir and thank you Srivatsan sir for patiently answering all the questions. On behalf of Monarch, we also want to thank all the participants. And Gumaste sir, do you want to give any closing comments?

Mr. R.V. Gumaste: No, I would like to thank everyone and would like to thank all the investors for their great interest and confidence. And thank you very much for joining this call. Thank you. And take care.

Sahil Sanghvi: Thank you, sir. Thank you.

Moderator: Thank you. Ladies and gentlemen, on behalf of Monarch Networth Capital Limited, that concludes this conference. Thank you for joining us. And you may now disconnect your lines.