"Kirloskar Ferrous Industries Limited Q2 FY2022 Post Results Earnings Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Kirloskar Ferrous Q2 FY2022 Post Results Earnings Call hosted by Antique Stock Broking. 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 "*" and then "0" on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Pallav Agarwal from Antique Stock Broking. Thank you and over to you, Sir!

Pallav Agarwal: Thank you moderator and good evening everyone. Thank you for taking the time out to attend the Q2 results concall of Kirloskar Ferrous. We have the senior management of Kirloskar Ferrous with us, MD, Mr. R. V. Gumaste, and CFO, Mr Raviprakasha Srivatsan. I would like to hand over the call now to Mr. Gumaste for his opening remarks. Over to you Sir!

R. V. Gumaste: Thank you very much Pallav. Let me welcome everyone to these call on quarterly results of Kirloskar Ferrous Industries Limited and let me start with the key highlights of the last quarter results.

I think the total sales turnover for the quarter is at Rs.958 Crores against last year Q2 Rs.486 Crores, an increases of 97% which is because of increased production and sales of casting as well as increased production and sales of pig iron, additional quantity of pig iron coming from Hiriyur, also helped in increasing the total sales at the company's level.

During this quarter, volumes increased in spite of coal prices going up and iron ore prices remaining quite high, during the quarter we could still manage to bring out very good bottomline report and we have PBT has Rs.161 Crores against Rs.186 Crores last quarter due to pressure coming out of the increased coal prices though we have not yet gone to the fully increased coal prices.

The EBITDA level was at Rs.187 Crores for the quarter against Rs.213 Crores of Q1 and Rs.110 Crores of Q1 last year so we have definitely moved ahead substantially and remained at higher level of EBITDA performance. This was basically coming out of as I mentioned increased pig iron sales, fully PAT quarter to this year, the production of pig iron was 148,000 tonnes and sales was 139,326 tonnes, which is 71% higher than the last year Q2.

With respect to castings compared to 24,388 metric tonnes last year second quarter, this year it is 30,107 metric tonnes, which is a growth of 23% and we have also grown sequentially compared to last quarter, the last quarter was 27,282. This quarter we have gone to 30,107 metric tonnes. So we had overall progress both in pig iron and foundry.

The pig iron sales improved from Rs.252 Crores to Rs.597 Crores and that of casting from Rs.222 Crores to Rs.333 Crores. The pig iron sales realization went from Rs.30,978 per metric tonne to Rs.42,880 per metric tonne which is 38.4% improvement.

Also in the casting the variable cost or the material cost increase has been passed on to the customer on quarter-to-quarter price escalation mechanism wise and the sales realization stands at Rs.1,10,600 per metric tonne against Rs.91,000 per metric tonne last year this quarter.

All other parameters in terms of receivables, in terms of inventory being healthy and capexes are going on as per schedule and we capitalized Rs.77 Crores but we have spent close to Rs.200 Crores in the first six months of this year and we continue to progress on all these planned capexes. Sinter plant at Hiriyur is just commissioned and utilization is likely to start shortly and that can reduce our cost of iron ore because we will replace close to 80% from lump to fine, and also it will bring down the coke consumption substantially and improve the productivity.

We expect to get another 3000 pig iron per month from the Hiriyur plant with commissioning of the Sinter plant. MBF-II upgradation we are getting it ready and we expect to take up these blast furnace MBF-II upgradation in the Q4 of this year January, February, and March.

Pulverized Coal Injection project has also been started, which will get commissioned in the Q2 next year and line two in Second Foundry Line at Solapur high pressure molding line project has started and we expect to commission that in June 2022.

The Bell less top for MBF I we plan to replace it in Q1 2022-2023 which also gives the small benefit on saving the coke consumption. Coke oven phase II with power plant again 20 megawatts power plant we have already started the project and we expect it will get commissioned by Q2 next year.

In all, all the projects with the total budgeting of Rs.750 Crores are in progress and we expect to spend about Rs.350 Crores to Rs.400 Crores in this financial year and the balance will come up for expenditure in the next year.

Overall, I think we are in line with our vision to grow as per plan in the coming quarters and coming years whereas the demand for casting continues to be good as on date and also demand for pig iron is quite good. We are not seeing very strong sales for pig iron and casting during this festive season, expecting to improve as we cross the holiday season of Diwali holiday.

That is all a quick update from my side and now we can open for the question and answers.

Moderator: Thank you very much Sir. Ladies and gentlemen, we will now begin the question and answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. Our first question is from the line of Govindlal Gilada an Individual Investor. Please go ahead.

Govindlal Gilada: Good afternoon Sir and congratulations for a good set of numbers in tough condition. Basically my question is in the direction that I want to understand the coal prices phenomenally have gone up recently also and concluded quarter Q2 also we have got impact on margins but because of raw material costs have gone up in terms of percentage in spite of passing to some extent the realization also has gone up but net, net some impact is there on margin so now going forward whether you have taken all price increases in casting and pig iron and what is the scenario now Sir seeing this coal prices? You might have some old inventory also so now how much old inventory we have got further and now the current prices is what we are going to buy in due course we are going to consume so net, net next one or two quarters what kind of margin impact will be there? That is what I want to understand Sir basically? Thank you very much.

R. V. Gumaste: The coal prices have moved substantially starting from July and may be June to July and the coal prices currently have stabilized around $400, in Australia it will be $440, CIF India prime coking coal and the other grades could go up to $ 275 to $300 CIF. If we look this is the rate at which the coal is available today in the market. The price increases which were going continuously, it has slowed down a bit, but the blended price which could come something like 375 CIF is definitely very high and we are not yet the peaked that level because we had some additional quantities which can take us very close to the year end so up to January and February we have the coal, but they are not at very low prices because they have been booked at various levels of this price increase cycle, but we still have some advantage compared to the market price of very close to $400. In the meantime, definitely we have been putting our effort to pass on the cost increase to our customers. Some pig iron prices have been increased but they are definitely not in line with the coal price increases. Currently, as we said, we can expect there is some dullness in the market because of extended monsoon as well as because of the festive season we will have to see how it opens up after the Diwali holidays and if market supports we will have to increase the pig iron prices to retain some reasonable margin in pig iron business.

Govindlal Gilada: Going ahead, second half comparing the Q1 or comparing Q2 how Q3 and Q4 volume will shape up Sir? Can we expect further increase quarter-to-quarter or first half versus second half volume increase in pig iron and casting?

R. V. Gumaste: You can expect some volume increase coming with commissioning of this sinter plant in Hiriyur, which could be about 2,500 to 3,000 metric tonnes per month which is one volume increase is possible and casting volume increase depends again on the market conditions, but we are putting our efforts to debottleneck and take the capacity utilization to as close to 150,000 metric tonnes per annum as possible. That is the installed capacity with three moulding lines or three foundries what we have and currently our run rate is about very close to you can say 30,000 to 31,000 per quarter. That level we are today and we are trying to increase the output in the coming quarters as well. One is support of the market. The other one is debottlenecking projects in the foundry including finishing and dispatch of casting to customers, but on the pig iron side the major increase should come from Hiriyur Sinter Plant and once we complete MBF II upgradation in the month of January, February and March, in that quarter, we will have stoppage of blast furnace for 90 days. After that we can expect additional 3,000 metric tonnes per month from MBF II so in all these two projects can give us close to 70,000 metric tonnes per annum increase in the pig iron output.

Govindlal Gilada: Casting you told Sir current project is 31,000 per quarter?

R. V. Gumaste: Casting?

Govindlal Gilada: Casting if I understood right you told that that 31,000 the metric tonne?

R. V. Gumaste: Per quarter, 30,000 to 31,000 per quarter that is the current run rate and we have the possibility to go up further in that.

Govindlal Gilada: Thank you very much Sir.

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

Saket Kapoor: Good morning Sir. Thank you for the opportunity. Sir firstly on the casting part Sir how was the utilization levels currently you are telling that there is an off season because of the festival so what is the deliverables from the OEMs which we are catering to in terms of the casting?

R. V. Gumaste: Yeah I just mentioned that against usable capacity of 36,000 to 37,000 metric tonnes per quarter we have reached a level of 30,000 metric tonnes per quarter so we have another possibility of 10% to 20% increase in the capacity utilization with the existing molding lines and we have customer interest and we are regularly adding the new components of our valuable customers. We are adding the new customers. In this last quarter, we added one customer and also we are increasing the share of business and we expect that within the next two to three quarters we should be at least able to take the utilization level by up to 35,000 metric tonnes per quarter. That is the effort we are putting to increase the capacity utilization in the existing three foundries and we also look forward that Q2 of next year we will have our fourth foundry in operation and that will join the production and thereby our effort is before that foundry becoming operational how we can go to at least 90% of 150,000 metric tonnes as the capacity utilization of the existing three foundries.

Saket Kapoor: Before hitting that new capacity, we should be there at 90% for the existing one?

R. V. Gumaste: At least 90% and that 10% can be for the continuous improvement.

Saket Kapoor: Sir currently which industries which you are catering are showing major gains whether it is tractors, railways, or the medium commercial vehicles where is the demand major thrust in the demand and where are the shortfalls if you could elaborate more? How is market getting shaped up in terms of demand going forward because I think so last one year has been all demand led and pent up demand so over that base what are your client's expectations are going forward Sir?

R. V. Gumaste: Definitely, the demand has been sluggish on the passenger auto, not that great and strong also because of the semiconductor availability issues and customers have not been able to fully capitalize on the demand to convert into production and sale. Last seven, eight months all casting demands were lead by tractors and also there has been good demand pull and demand increase, in commercial auto deemed exports. A lot of quantity is going into that. Basically we produce and our customers either make the vehicle and export or make the engine and deemed export commercial vehicle sector. Also there is a demand growth coming from the infrastructure customers who are in the earthmoving equipments and also good demand pickup from the stationary or off highway engine people as well. So I would say that it is a combination of all this, which allowed us in the last quarter to load the foundries full and right now if you ask me some sluggishness during this season and we have to see how it goes after the Diwali holidays.

Saket Kapoor: Sir to conclude Sir September the utilization levels were in the vicinity of 85% to 90%?

R. V. Gumaste: Around 85% to 90% yes. Some more push is possible and that is what we are doing.

Saket Kapoor: Sir lastly you told about the deemed export parts? What portion of our sales in the casting business is direct export Sir?

R. V. Gumaste: There are castings. It means casting exports are happening but we are not doing the export. Our customers are doing. They may be OEMs, but it is deemed export and not going into the Indian commercial vehicles, but it is going abroad to Germany, Brazil, Indonesia, Japan, etc.

Saket Kapoor: A very small point Sir. This other expenses line item has moved up a bit with the comparison with revenues so any one off items that has been debited for this quarter or this is the general trend depending upon the revenue on the topline of Rs.958 Crores the other expenses are at Rs.162 Crores? This line item has any one off items exceptional or it is the same Sir?

R. V. Gumaste: I do not know one of them could be typically volume related in terms of dealer commission on the pig iron as volume increase if it goes up that is one and the second item is the power consumption in the foundries, which also use volume related. I think these are the two big components in the other expenses.

Saket Kapoor: About our fuel mix Sir what portion?

R. V. Gumaste: You talked about fuel?

Saket Kapoor: Yes Sir power?

R. V. Gumaste: Actually last quarter was very great quarter. If you look at the power and fuel it used to be a last year second quarter was 4.5% but this year Q2 we are at 2.5% power and fuel, a phenomenal improvement and actually we also affectively reduce the employer related expenses as a percentage of change because of the growth in the volumes and they really helped us in terms of maintaining the EBITDA and PBT in good shape in spite of actually RMSP went up from 61.5% to 70.3%. Percentage wise it is 80.8% increase in the raw material costs from India RMSP, but we got advantage in power and fuel from 4.4% to 2.5% ERE from 5% to 3.4%, 1.6% decrease compared to last year quarter, and 3.6% in previous quarter, direct between these two components and many other components affecting that is why PBT as a percentage which was 17.4% came to 16.8%, effect of 0.6% whereas RMSP effective 8.8% so internal efficiency in terms of productivity increase and in terms of controllable cost reductions in terms of power, fuel, employer related expenses really helped us in mitigating the material cost and control the contribution.

Saket Kapoor: This power reduction from 4.5% to 2% the factors which are attributable are sustainable or was it one off? What contributed to it the significant reduction?

R. V. Gumaste: It is because of better utilization of power generated from the coke oven and we expect it is sustainable improvement.

Saket Kapoor: Thank you for the elaborate answers Sir and all the best to you Sir and festive greetings to you. Thank you.

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

Chetan Phalke: Thank you for the opportunity. Sir just two questions; one have you added any new customers during the quarter or in the last six months per se?

R. V. Gumaste: I just mentioned that we have added one new customer.

Chetan Phalke: Okay and is it a passenger vehicle or commercial vehicle or tractors if we can talk about it?

R. V. Gumaste: I think it is from the engine manufacturer/tractors.

Chetan Phalke: Just one more thing Sir. I think some time back we spoke about getting into passenger vehicles casting as well so is there any difference between the realizations for passenger vehicle casting vis-à-vis tractor castings or other engine castings?

R. V. Gumaste: No major difference basically difference is the passenger vehicle casting blocking it. They are Euro VI a little bit more complicated, water jacketed and now tractors are also falling, but with a gap. Similar but I would say passenger vehicle castings are more critical than tractor castings.

Chetan Phalke: That is it from my end. Thank you and all the best.

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

Bharat Sheth: Good afternoon Sir and congratulations on good set of numbers. Sir, on casting side when do we expect that debottlenecking to happen so we can reach I mean 150,000 capacity?

R.V. Gumaste: Two or three important points, one is that we had to complete the debottlenecking projects. I would say that most of them are in place and some of them will get completed in couple of months. That is why we are pushing all the teams to enhance the output and sales. Second thing is also this different sectors going up and down though they are ready but cannot produce and sell because of certain sectors going up and down that is why I feel that though we can produce theoretically 100% but there are three foundries and there are many sectors, I expect 90% of this can be utilized 135,000, I think we are geared up to do that next year itself so that we need to utilize close to full capacity before the fourth line coming in.

Bharat Sheth: Realization has improved Q-O-Q also so how much is on account of product mix, how much is on account of additional machining contribution and how much is on account of the cost increase if you can broadly rather than I mean trend wise if you can explain?

R.V. Gumaste: Basically we are enhancing the machining but our machining values are quite limited even today. Our machining value in the six months is about 15 Crores so it is yet to play a free significant role we are at around 12%, 13%, 14% machining of castings. We have to increase and that is done, how much is the impact of machining and most of the price increase is definitely, major lion's share is on account of cost increase of the input raw materials and all the new components what we are developing better castings, Euro VI castings and they are at better pricing level so all the new additions will increase the sales realization improvement.

Bharat Sheth: So that will be from next year onward or Q4 onward?

R.V. Gumaste: No every quarter to quarter something is getting added, it is a continuous process not a cut off process.

Bharat Sheth: How much is in this quarter, I mean pig iron contribution is form the Hiriyur plant?

R.V. Gumaste: I think we have added about 50 Crores to EBITDA from Hiriyur.

Bharat Sheth: Volume wise out of 139,000 is?

R.V. Gumaste: Out of 139,000 about 40,000 which in this quarter from Hiriyur.

Bharat Sheth: Okay so where I believe at current because still Sinter plant is not in place and coal pulverization and efficiency improvement I mean the measure we are taking is not reflected and has maybe a pig iron margin is little lower than the overall this work in existing plants?

R.V. Gumaste: I think what has to be compared is not just Q1. You have to compare with respect to stable operations of earlier years and earlier quarters. One has to see that pig iron and casting businesses as we said that before this commodity cycle or commodity boom we said that we were at 9% EBITDA and we had talked about achieving 9% to 19% EBITDA in this business and so I think one should not see keeping in mind only the Q1 results. Q1 were a combination of very low coal prices and increased pig iron prices and I do not think that those are normal levels of EBITDA and profitability. Having said that our vision and goal is very clear that we create the output productivity and go to say 7 lakhs tons of hot metal production and 200,000 casting production and also move towards increased sales and that should support us at higher levels of profitability and EBITDA from all over the business.

Bharat Sheth: Once all these coke oven II and everything will be in the place I mean Sinter plant as well as coal pulverization so we will expect to gradually improve pig iron margin irrespective I mean so on the cost side so one another market side whatever I mean play is a different game so we expect continuous improvement in pig iron margin also. Is that fair understanding?

R.V. Gumaste: Absolutely, now we continue to be focused for pig iron cost reducing the cost as one of the very key things along with that we get benefit of productivity increase.

Bharat Sheth: We will be ready that with that in somewhere in the second half of the next FY?

R.V. Gumaste: Most of the project what I mentioned will all get completed within next one year.

Bharat Sheth: 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 on amazing performance on the turnover side. I have two questions one, once we get the forest clearance for the mine how long will it take for us to use the volumes which we extract from there? I just want to understand is it possible to get some captive iron ore this year or will we get the major benefits from next year how much in the timings between getting the forest clearance and using the captive iron ore?

R.V. Gumaste: One of the aspect pending is the forest clearance but there are couple of other intricacies along with forest clearances and is it possible to complete all pending points in couple of months and let us say in a quarter and we can be left with one more quarter to use the iron ore and per quarter we require current run rate is 50,000, hot metal production per month but approximately into 1.6, 85,000 to 80,000 x 3 is 2.5 lakhs ton I can consume theoretically in one and our first year clearances of the order of 250,000. In one quarter also we can move on the iron ores and ensure that we do not lose anything what is permitted to us even if you get full quarter and then once we complete first year operations of the mines, we can try and get the enhancement in the production to say up to 5 lakhs ton or 7 lakhs ton but that is for the next year so I would say that even substantial benefit can come if we are permitted to operate for one quarter or we have time of at least one quarter to operate. So looking forward let us hope the mines will get cleared. In one of the mines we have already produced certain quantity and kept it but without forest clearance being live we cannot move it so we are waiting for it.

Sahil Sanghvi: Right Sir. Thank you. Just carry forward that question on that so for the next year will we again need to apply for any kind of clearances to ramp up the mining output?

R.V. Gumaste: No. the forest clearance once we get it, it is for the life of the mine but bureau of mines which regulates the approval quantity that definitely requires some approval but it is not forest clearance, environmental clearance.

Sahil Sanghvi: Thank you Sir. My second question is that we have been seeing the realization for casting moving up substantially from the levels Rs.90 to Rs.95 per kg has almost come to Rs.110 now so Sir is there some any kind of upper cap or any kind of rules or regulations in the quarterly pass on mechanism which limits the hikes that you keep on digging because next 2 quarters we will see coking coal and coke price hikes coming up so is there any kind of upper limit on this or we continue to get this as per the raw material cost movement?

R.V. Gumaste: There is no cap. in mechanism of escalation or variance. If there is any increase there will be an increase in the price. If there is a decrease, there is a decrease in the price of casting, there is no limit both the sides. I hope I answered the question for you?

Sahil Sanghvi: Thank you.

Moderator: Thank you. The next question is from the line of Yash Chandak an individual investor. Please go ahead.

Yash Chandak: Congratulations Sir for greatest number. I am sorry Sir if I missed this already but could you please give us guidance on what are the volume for pig iron sales and what margins are we making right now and what is the expected margin of all the projects which you said will be completed in the next year?

R.V. Gumaste: Basically margins greatly depend on various commodity and market forces. When we complete the various projects we are clear that we would increase the output from current run rate of 6 lakhs to 7.2 lakhs ton of pig iron and castings with the fourth foundry vision we will go up to 200,000 tons of castings and another thing as we are completing the project like Sinter plant, it reduces the lump ore consumption, similarly coke consumption and definitely we have also the benefits of reducing the cost and thereby support us in improving the margins and basically all out efforts to maintain kind of margins we have with the increased volumes.

Yash Chandak: Like you said that our pig iron realization for this quarter was roughly 43,000 so what percentage are we realizing on that margin like 10%, 20%, 30% if you could give an indication on the pig iron side?

R.V. Gumaste: I do not work with margin what you say. I do not have those figures with me. I do not have split up of margin in casting, margin in pig iron, do not work like that. Thank you very much.

Yash Chandak: Thanks.

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

Abhishek Ghosh: Thank you so much for the opportunity. Sir just two questions in terms of we have seen royalty increase lot of in terms of iron ore for lot of the manufacturers so how is the competitive intensity of pig iron and the pricing because of that any implications in the market place that you are seeing any thoughts around that sir?

R.V. Gumaste: On the royalty, I think whatever iron ore we have used they are all purchased from e-auction from the other mining companies and whatever applicable royalty we have paid and then purchased and already it has gone into the cost and it is already into the cost at least for our company. This point number one and point number two is currently as you know it is not only iron ore and iron ore royalty, it is also coal so the cost pressures are there but as you know markets I still do not see as very supportive and hopefully should improve coming weeks and we expect that we should be able to pass on the cost increase impact on the pig iron but right now we have not increased the prices for this month and last month so there is a pressure of cost on us as we have not passed on fully.

Abhishek Ghosh: Sir the other thing is in terms of most of your project that you have taken off 600 Crores, 700 Crores of capex over next 12 months and you will be generating close to 400 Crores of cash flow every year so any thoughts on the long-term, medium term capital allocation how we are going to look at this?

R.V. Gumaste: I would only say that one is we have already taken up the 700 Crores, which we will complete these projects within next one year. So you can say about 350 Crores to 400 Crores of spending this year and balance in the next year in terms of cash flow on the capexes and as we have already stated we are definitely looking at value addition on pig iron in terms of either steel or in terms of ductile iron pipes these are the stated aspirations but we are also definitely looking at what else can be done and I am quite sure that we will bring out very innovative projects for KFIL to keep this company growing and we would like to work towards our goal of making KFIL US $1 billion dollar company.

Abhishek Ghosh: Thank you so much and wish you all the best.

Moderator: Thank you. The next question is from the line of Abhisar Jain from Monarch AIF. Please go ahead.

Abhisar Jain: Congratulations for a good performance. Sir my question is on Hiriyur, can you mention that right now what are the lumps and fines mix that you are using at Hiriyur plant, right now?

R.V. Gumaste: At Hiriyur it is 100% lumps.

Abhisar Jain: Sir now since you are commissioning the Sinter you mentioned that 80% you will replace lumps with fines is it?

R.V. Gumaste: I mean 70% to 80% of lumps will be replaced by fines.

Abhisar Jain: Right and Sir so how much savings do you forecast on that because I think the price difference between lumps and fines will be more than Rs.2000 per ton if I am not wrong?

R.V. Gumaste: I just mentioned there are three components of savings or cost reductions which should come, one is iron ore lumps going to fine almost like 1.1 ton per ton of hot metal, coke consumption should get reduced by almost Rs.80 to Rs.90 kg per ton of hot metal and productivity increased of at least Rs.2,500 to Rs.3,000 per ton minus side will be cost incurred in Sinter making.

Abhisar Jain: Right and Sir this plant is already commissioned?

R.V. Gumaste: It is commissioned but still major productions are yet to happen and we are in the process of fine tuning the equipments and putting the Sinter into use. I expect it should go to smooth operation from December.

Abhisar Jain: Second question, just from the previous question on the iron ore royalty front just wanted to understand that once our captive mine start you know I understand there has been an inordinate delay in getting the approvals but whenever we start that we will also be getting the benefit of lower royalty because the captive mines have lower royalty of outgo versus when you buy from the third party merchant miners right?

R.V. Gumaste: We will be paying the normal royalty not the higher royalty.

Abhisar Jain: Sir that royalty difference itself is 150% versus third party outsourcing versus captive?

R.V. Gumaste: Two components, one is I think 15% is the regular royalty and of course as we have taken this mines in the e-auction whatever is the percentage of sharing that goes to the government, 36% and 56% whatever. It could be hopefully still the advantage compared to market price.

Abhisar Jain: Second question is on this coking coal size while we said that you know the spot blended average is almost $375 and we do have some lower cost but still that sequentially we will be seeing a decent jump in the blended cost for our input. Sir once in H1 would not be fair to assume that the H2 coking coal cost would be higher by more than $120 to $120 for us?

R.V. Gumaste: I think every month there would be gradual increase in the applicable coal prices because something is in been shipping something is in the port and first come first consumption what we are booking, subsequent months there will be increase in the effective coal prices which goes into the consumption and it will go up to whatever we have booked earlier, goes up to $300 from maybe $150 to $160 what has gone in the September.

Abhisar Jain: Understood Sir and just last quickly on the casting side is the price hikes still coming through or there is lot of resistance from the customers?

R.V. Gumaste: I could not get your question.

Abhisar Jain: Sir I am saying in the casting side, are we able to still get the price hikes or is there a resistance?

R.V. Gumaste: As per the mechanism, we have been able to set in the prices with all the customers. Just for your understanding. Thank you.

Abhisar Jain: Thanks. Best of luck.

Moderator: Thank you. The next question is from the line of Rushabh Shah from Anubhuti Advisors. Please go ahead.

Rushabh Shah: Thank you for the opportunity and congratulations on good set of numbers. Again, I think two sets of questions I will be having, first is basically lag in respect of the price hike that we are taking, now is it because of some demand pressures in the pig iron side or is it just wanted to understand the reason why there is a delay in the price hikes? Thank you.

R.V. Gumaste: I think it is a question of demand and supply because of one; I would say that extended monsoon and secondly because of the festival season and also I think the pressure coming because of the too high prices of coke and pig iron so some of the consumers could be looking at passing on to the customers that comfort before they start consuming or ordering the new prices. So there is the headwind.

Rushabh Shah: Just wanted to understand any timeline when we expect this actual price hike to start again kicking in when we can take these hikes?

R.V. Gumaste: In case of pig iron, there is no fixed escalation mechanisms with customers because we have very large number of customers and it is typically based on the market condition the demand supply and market is conducive then we are in a position to increase. It can happen anytime so there is no fixed timeline for it.

Rushabh Shah: Again, I think the second set of question was on the balance sheet items so on a half yearly basis our receivables and inventories both have sharply gone up 30% to 40% rise we have seen in both these components with a corresponding increase even in the payables, we will be seeing this as a recurring thing or is it one off things that the receivables are so higher? Thank you.

R.V. Gumaste: I have checked receivables. Receivables remain 40 days last year second quarter as well as this year second quarter, increase is because of the increased volume and increase is because of the increased prices. As far as the inventories are concerned, last year we were at 35 days of inventory and basically the input materials not the finished goods and 35 days was last year and this year is 31 days. I think these are normal levels increase in the value because of the increased business we have increased the output and sales by

97% and so it is the corresponding increase and there is no increase in terms of number of days.

Rushabh Shah: Perfect, so we can assume these levels to sustain going forward also?

R.V. Gumaste: Yes plus/minus they will sustain as long as commodity prices remain high.

Rushabh Shah: Thanks a lot for the opportunity Sir.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I now hand the floor back to Mr. Pallav Agarwal for closing comments. Over to you Sir!

Pallav Agarwal: Thank you Mr. Gumaste for very detailed answers to all the questions. Sir, is there any comments from your end before we close the call?

R.V. Gumaste: Thank you very much. I would like to thank all analysts, investors for their great interest in KFIL. I think it was pleasure interacting with all of you. Thank you Pallav. Thank you for conducting this call so smoothly. Thank you very much and look forward to the next quarter. Thank you.

Moderator: Thank you very much. Ladies and gentlemen, on behalf of Antique Stock Broking that concludes this conference. Thank you for joining us. You may now disconnect your lines.