"Kirloskar Ferrous Industries Limited – Q2 FY '23 Earnings Conference Call"

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

Moderator: Ladies and gentlemen, good day, and welcome to Kirloskar Ferrous Industries Limited Q2 FY 2023 Earnings Conference 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 call, 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, and over to you, sir.

Pallav Agarwal: Yes. Thank you, Aman, and good afternoon, everybody. Thank you for joining the Kirloskar Ferrous second quarter results call, we have the senior management represented by Mr. Gumaste, the Managing Director; and Mr. Srivatsan, the Executive Director (Finance) and CFO, on the call. So I would now like to hand over the call to Mr. Gumaste for opening remarks. Over to you, sir.

R.V. Gumaste: Yes. Good evening, all the participants. Thank you very much for joining this call. The quarterly results call of Kirloskar Ferrous Industries Limited for quarter 2. It's my pleasure to start with the highlights. And after that, it will be followed with the question and answer. During this quarter, we were running with all the mini blast furnaces running, all three of them, quarter 1, MBF1, MBF2 and Hiriyur mini blast furnace. Pig iron production during this quarter is 142,000 MT against 148,000 MT the quarter 2 last year and of course, much better than quarter 1, which was 96,000 MT because of upgradation stoppage of blast furnace 2. the capacity utilization in the blast furnaces up to almost 99%.

We have been able to also increase the productivity in the foundries, all the three foundries put together for the quarter, the total production is 35,200 metric tons, up from 32,000 metric tons. Sales quantities for the quarter to this year, pig iron 1,28,969 metric tons against 1,39,000. and castings from 30,100 metric tons has moved to 34,700 metric tons, which is almost 15% increase in the casting sales, whereas the pig iron sales is down 7%. One of the reasons being the lower production being the stoppage of blast furnace 2.

With this sales value-wise, we are at INR 1,133 crores. We crossed the INR 1,000 crore sales in the quarter, against last year's second quarter of INR 958 crores and quarter 1 sales of INR 950 crores. With respect to sales realization in case of pig iron, which was close to INR 43,000 per ton in quarter 2 and now quarter 2 this year, it is INR 50,400 per metric ton. Of course, it was almost INR 60,000 per ton in quarter 1.

The casting sales realization compared to last year quarter 2 which was INR 1,10,600 per metric ton has gone to INR 1,31,100 per metric ton, which is an improvement of almost 18.5%. Our RMSP is under pressure compared to last year's company level was 70%. It has gone higher to almost 76% because of the commodity price variation, mainly coming from coking coal. Whereas our power and fuel remains less than 3% employee-related expenses around 3.2%. With this, we have improved the EBITDA from INR 153 crores in quarter 1 to INR 160 crores in quarter 2. However, it's lower by INR 17 crores compared to last year, which was INR 187 crores. PBT at INR 114 crores improved from INR 109 crores in quarter

1, however, substantially lower compared to quarter 2 last year. PAT at INR 82 crores against INR 120 crores last year's second quarter.

We continue to maintain reasonably good return on capital employed and inventory status across current sites remain under control. Overall, the quarter 2, though under pressure because of the coking coal prices, we could manage the inventory valuation as well as the sales realization and supported by increased casting sales and casting sales realization, we could maintain the overall performance in terms of achieving the top line growth and maintaining the bottom line at recent levels.

As all of you know, we are moving towards a slightly lower coking coal prices into quarter 3 and quarter 4. And that should support us in terms of mitigating the variable cost in quarter 3 and 4. During the quarter, as all of you know, the Government of India introduced tax on export of iron and steel products, which has put a tremendous resistance for export of pig iron by some of the pig iron manufacturers and also same is applicable to export of steel products. This has dampened the demand for iron and steel products in general.

Also very important to note that this year has been phenomenal year, the rain has been very well spread, but rain continued almost for full five months across India. Certain sectors naturally get affected with the extended rainfall one of them being the construction industry and thereby the demand for steel and also pump industry and its related the pig iron demands. So in spite of that, we have been able to operate all the three blast furnaces normal and also load the foundries in full, and we could maintain the casting and pig iron in sales in full.

Yes, all of you know our Board of Directors met recently and the boards of both KFIL and ISMT decided to merge ISMT into KFIL effective from 1st April, 2023 and we are starting the process of merger related activities in line with the Board and the committee decision. And the swap ratio for the shares of merger is 17 shares of KFIL shares for 100 shares of ISMT as the swap ratio for the merger of ISMT into KFIL. As regards to the casting demand with the rain situation, coming to end, and we expect some improvement in the demand for the steel and iron picking up, and hopefully, it should support us in the coming months.

And also, it's important that taking coal for these coming months, the bookings have been at lower price compared to what we consumed during quarter 2, this should help us in improving our margins and profitability in the coming quarter 3 and quarter 4, we need to look at how the things progress in the coming quarters. In addition to this, we await government decision in giving relaxation for export of iron and steel products and hope that it will lift the export tax on iron and steel products from India export out of the country.

And as regards the loan position, we end up about INR 1,000 crores of loans at 30th September. And as on date, our loan position is around INR 800 crores. And we expect that coming quarters, the loan outstanding on KFIL books will go to a level of about INR 700 crores. And it's in line with our plan and program for acquisition as well as plans and programs of capex and loan management. In the meantime, as all of you know, we completed upgradation of Blast Furnace II and the benefits thereof from upgradation of Blast Furnace II, we have been able to realize in line with the planning program. So we are getting productivity increase from Blast Furnace II and also reduce coke consumption.

And with that, we are left with BLT change for Blast Furnace I, where it will make some difference in improving the production and in reducing the coke consumption, and we plan to take this activity either in the last quarter of this year or the first quarter of next year. Same thing applies to relining of a Blast Furnace in Hiriyur, we may be required to take that activity towards the end of this year or at the most going to the next year.

Whereas the pulverized coal injection project has been started, and we expect to complete that project in quarter 2 next year. That is quarter 2 of '23-'24. The project of Coke Oven and power plant Phase II is progressing well, and we should be making the Coke Oven and power plant operational in the month of January 2023. Whereas the second foundry in Solapur or the fourth foundry of KFIL will be ready for commissioning towards end of November, and we should be able to commission online or at the most going into the month of December. And thereafter, we will be working on gradual capacity utilization and ramping up of the production and sales from Line 2.

Apart from this, all other debottlenecking projects and productivity increased projects are in line, and we expect that we should be able to progress well. And as some of you must have seen the results of ISMT, we have been able to successfully turn around the company, ISMT in terms of achieving higher sales and we have been able to increase the sales in ISMT towards INR 700 crores in a quarter with very decent profit before tax of INR 44 crores and profit after tax of INR 33 crores. It's a lot of work in progress still in terms of capacity utilization improvement and cost reductions and profitability improvement. It is the beginning of the turnaround, and we are very happy to note that ISMT gets into profit creation and decent EBITDA creation.

By these results in quarter 2, we have been almost able to double the EBITDA compared to the earlier quarter. So we see great opportunities for KFIL in merging these two entities and bring the synergy together. And subsequently, we can integrate from iron ore mining to the seamless tubes as well as machined castings, and that really brings value to the value addition seamlessly from end-to-end. And we are looking forward to completing the projects and consolidating on the volume growth, both in pig iron castings, alloy steels as well as the seamless tubes.

With this, I complete my introductory talk or briefing on performance of quarter 2 and request, we can move on to the question-and-answer session. Thank you very much.

Moderator: [Operator Instruction]. Our first question is from the line of Aashav Patel from Molecule Ventures PMS.

Aashav Patel: Congratulations on a stable set of numbers despite an environment of very high volatile coking coal prices. Sir, my first question is our first half results already reflects the impact of increase in coking coal prices. But coking coal prices have halved from highs of $600. So how differentDo you expect the second half to shape up in comparison to the first half? And what would be our average coking coal cost in dollar terms of our inventory as of now?

Management: Yes. First of all, I think it has not gone to half, our quarter 2 average price was in the range of about $350 per ton of blended coking coal. And quarter 3, at least, I expected blended coking coal blend price of about $250, $255 per ton. And while will the cost of coking coal goes down and the cost of coke goes down there has been also movement in the pig iron prices, one of demand supply related as well as because of the export tax and pig iron. So however, I still expect that it should help us to improve the margins compared to quarter 1 and quarter 2.

Aashav Patel: Sure and sir, after the upgradation of MBF, our pig iron capacity was expected to increase from 5.4 lakh metric tons to 7 lakh metric tons. But as for the JM Financial meeting presentation, which you have uploaded on the website, you have mentioned that our pig iron capacity would increase to 8 lakh metric ton per annum. So kindly explain that part?

Management: See, there are two, three steps of improving the pig iron production capacity, and these are the projects in pipeline. One is whatever the upgradations we have completed till date as on date, I would say that the capacity is about 6 lakh metric ton per annum. And as we complete the pulverized coal injection, we expect to get 12%, 11%, 12% production increase, which should take us very close to 7 lakh metric ton per annum. And we also plan that maybe after 1.5 to 2 years, we upgrade also Hiriyur Blast Furnace to almost 300 meter tube like what we have done on Blast Furnace 1 and II. With that, we expect that our total hot metal production, then we'll go with pulverized coal injections to very close to 8 lakh metric tons per annum.

Aashav Patel: Sure. Got it. And sir, in casting segment, you mentioned on the last call that due to buoyant demand in the casting segment, clients are asking us to add a new foundry lines in addition to the upcoming fifth foundry at Solapur. So what are any updates on that, sir?

Management: See, one thing is in addition to the foundry four in Solapur, we are working for already two-part foundry or large casting foundry, which, again, it is in Solapur. So we had 10k capacity over the next two years, three years. But in the meantime, as you mentioned, reference to my earlier call, the demand is beyond what we have been able to produce with these four lines, which is 200,000 capacity. And we are still evaluating working and what can be done, whether we need to go greenfield, whether we need to go brownfield, to have some more capacity to service our customer demands. So we are keen to see that our valuable customers get the castings from KFIL as they require, and that may result into adding or acquiring their foundry to increase our capacity. to our stated long-term vision of 0.75 million ton castings.

Aashav Patel: And sir currently what percentage of Solapur's power requirement is completed by our installed solar capacity of 20 megawatts?

Management: We have installed, I think, 11 to 12 megawatts solar power plant near Solapur, it is the Solapur foundry and that takes care of about 50% of the current foundry. As we move ahead as we are adding the second foundry we will have to add second solar power plant to take care of at least 50% of the power requirement from the green source and also cost savings solar power plant.

It would be in the pipeline, and we will come up with a solar power plant II project for Solapur at appropriate time. Very soon because it saves us our cost

Aashav Patel: So we will be doubling our solar capacity at Solapur from 11 megawatt to 20 megawatts. Is that right understand?

Management: It will go to around 25 megawatts.

Aashav Patel: And sir, 25 megawatts will take care of, considering the incremental increased capacity of new foundry, how much of that our total 2 lakh casting capacity, capitively we can produce power after getting the 25 megawatts

Management: And we go for solar, we can typically take care of about 50% to, 60% of the power requirement. And once we go solar power plant 2, then we will be taking care of 50% of Solapur requirement.

Aashav Patel: And incremental requirement at Solapur sir can be sourced after commissioning of second Coke oven. So the energy power can be transferred in extra power from Koppal to Solapur. So after that, would we be completely backward integrated in terms of power at incremental capacity?

Management: Power transfer from state-to-state and into Maharashtra, are not power generation, power consumer-friendly. All the taxations, including the additional taxation would be applicable because of which the benefit gets reduced to a very marginal level, like maybe INR 2 per unit. So it's not very encouraging. We are definitely working for how to increase our consumptions in Koppal itself. We test the plant rather than trying to transfer the power. If at all, we transfer the power and consume in Maharashtra, it's only temporary measure till our consumption comes up in Koppal. Then we get the full benefit as we use in-house.

Aashav Patel: Got it, sir. And sir, out of our INR 900 crores of capex towards Coke oven upgradation, foundry line, everything. So how much is still remaining to be spent?

Management: You can say that we completed about INR 400 crores last year and another INR 400 crores this year. And we again build up new projects, and we will have now ISMT merging with us. We will have ISMT solar power plant, which could be about INR 300 crores capex. We will have PCI and oxygen and nitrogen plant. So we will have, even next year about INR 400 crores of capex, which would be basically two solar power plants and pulverized coal injection.

And maybe we will also bring out Phase II of foundry in Solapur. So we typically do all the projects in Phase I, Phase II where 70% to 80% recovery in Phase I and we had 20% to 30% after a year or so, just to mitigate the cash flow, but it won't affect the capacity utilization because first year, we don't use the full capacity. So we will continue to have next year also about INR 400 crores of capex in addition to INR 400 crores this year.

Moderator: Thank you, Mr. Patel, requested to join the queue for any follow-ups as several participants are waiting for their turn. Also, before we move to the next question, I'd like to remind the participants limit questions to two per participant if time permits, you may join the queue for any follow-ups. We have the next question from the line of Sunil Kothari from Unique PMS.

Sunil Kothari: thank you and really hearty congratulation for such a smart and very timely move for merging ISMT. Sir, my question is a little bit on ISMT. When we acquired, I think your statement on cost reduction was there. So if you can a little bit elaborate on which are the segments and parts of the cost where you can see very high scope of cost reduction over maybe two years?

Management: Yes. I just mentioned that we have been able to work very quickly on acquisition in the first six months, and we have been able to improve our sales realizations and also reduce the procurement cost by various strategic approaches and thereby in the quarter 2, we have been able to double the margin and we go very close to 9-10% EBITDA conducting. So this is not really attacking the core cost difference areas. The core cost difference areas compared to the best competitors in the field. One is, of course, the employee-related expenses. KFIL had 3.2% and ISMT was at 10% to 12%, and we have now brought them to around 6.5% to 7%.

Our approach to reducing the employee-related expenses to sales is by growing on sales. So we expect that within the next two years to three years, we should be able to increase our sales by at least 15% to 20% per year for the next two years to three years, which should bring the employee-related expenses down to around 4% to 5%, which we consider as respectably, reasonable, and we should leave it there, though we will keep working for productivity and cost effectiveness and employee-related expenses further.

This is actually No. 2 high cost component. But No. 1, first component is power and fuel. which we were 17%, 18%, 19% level. by capacity utilization by mitigating and repeatedly carrying out the energy conservation of its energy conservation activities. We have been able to bring it down by 1%, 1.5% in the six months. And we'll continue to do and continue to do small investment to mitigate power and fuel. But the big number will come through two things. One is I just mentioned we will be investing INR 300 crores to bring 70 megawatt solar power plant, which is expected to give us a savings or benefit of about INR 60 crores to INR 70 crores per annum. And that we plan to bring it up within next one year time.

And subsequently, we are also working how to bring cost-efficient steel making in Koppal and also subsequently working further on how to bring green energy, either solar or wind additional quantities into ISMT and then bring down the energy, power and fuel from current level of 15%, 16% to at least 8% to 9%, which will take the EBITDA of our business in ISMT from current level of 9%, 9.5% to 15%, 16%, which we consider as a decent level.

Sunil Kothari: Great, sir. Sir, my next question is, could you talk more on the current scenario for demand for casting machine casting, -- what is happening from customer side? What efforts we are taking -- and how do you see next two, three years?

Management: One is the India story whether it is tractors, whether it is automotive or it is moving equipment continues in my view. There are some headwinds because of the export restrictions, but I would still say that it's very robust. When I meet customers, I find that many big OEMs, very crucial OEMs, are talking about manufacturing certain products in India, doing 100% export or doing manufacturing in India and 85% export or all tractor manufacturers talking about 30% export of tractors.

So it's not only for consumption in India but it is consumption into Europe, America and many parts of the Asia. I feel there is still tremendous opportunity to us for exporting the equipment and vehicles and export of engines and also export of machine components. So as long as we keep our quality and delivery level, service levels high, I still feel tremendous opportunity for us going forward to 250,000 or 3,00,000 tons of cutting manufacturing growth in the next two to three years.

Sunil Kothari: sir. Last question is, during last many years, you've done really commendable job. Which are the area of your concern, where you want to see that you require a team or maybe some technology or maybe some investments? Where is your focus for next year or two?

Management: No, I think very important is the ISMT was a big acquisition for us, as big as our own company. In terms of people, it was bigger than us. In terms of the market, it was smaller than us. Making ISMT a cost-effective manufacturing company and delivering the products and quality services would be key and focus for us. And we would like to bring the entire it close to 3,000 crores sales from ISMT beyond that going forward, well integrated into KFIL and also well integrated in terms of profitability levels, power and fuel challenges in steelmaking to be addressed.

And we are very clear that this acquisition and these challenges will open more opportunities to us to open more product lines to us. And definitely handling multiple locations and solving such high power and fuel cost challenges and converting them into better profitability would be the challenges where we look forward to work and resolve these challenges

Moderator: The next question is from the line of Ritesh Poladia from Girik Capital.

Ritesh Poladia: Sir, my question is on merger. What kind of shareholder approval is needed for this merger?

Management: Yes. I think in addition to all the committee and the board approvals, I think we need shareholder approval from both the companies.

Ritesh Poladia: Is it a majority of minority shareholder approval needed in the ISMT?

Management: I think so.

Ritesh Poladia: So like with current price, do you think it's the majority of minority will approve. Are you confident of that?

Management: See, I think a lot of deliberations have happened with the values of both the companies. And it's we have tried to give ,we have given the independence to the valuers to bring fairness to both KFIL and ISMT, as all of you know that KFIL has been well invested and still looking forward, realizing those well invested investments, which are yet to come and in the pipeline and whereas ISMT is a challenging company where we have done the preliminary turnaround, a lot of investments, capex and lot of work is required to bring the value out of ISMT business.

Hence, I think the valuation teams of ISMT and KFIL have worked and brought out these ratios. And I'm sure that they will help us, and they will defend these valuation to get the requisite upwards. We are quite optimistic that we will go through the approvals, because it's not only KFIL shareholders who appreciate the efforts and the performance of KFIL. I'm sure that even the ISMT shareholders appreciate the efforts and performance of KFIL what we have done in the short period.

I'm sure they tell you the merger and acquiring KFIL shares and this year are long-term looking , one should look forward long term and one cannot look what is the share price today. -- but if you impact the long-term vision last two years and next two years kind of thing, I think the ratios are fair to both the shareholders.

Ritesh Poladia: great to hear that And in fact, yes, ISMT turnaround is very, very quick. It's much ahead of the expectations. And as you have already elaborated that it is just beginning, looking forward for that. Sir, just one question on pig iron. Sir, what are the current ruling prices? And where do you see demand supply in short to medium term?

Management: See, our biggest concern is not the demand for pig iron in India. It's definitely a very balanced demand supply situation in India. But as all of you know, certain quantity of pig iron was always exported from the plants, which are shore based like Goa, Vizag and with the restrictions or with the taxation, export tax on pig iron, no export is happening. -- that much quantity again has to be sold in India, thereby the pressure on the prices of pig iron maybe that have been mitigating the inflation but it is affecting the pig iron price. And with coking coal prices, which came down to USD 250 again climbed to USD 330. And USD 330 current figure in prices are not sustainable. we only look forward that this tax on export of iron and steel product is not encouraging in the India steel growth story.

We are all looking towards 200 million ton steel industry in India. If that has to happen,- substantially export is required out of country and certain markets like even European markets, looking for Indian steel, I'm sure we get the support of the government and this export tax goes away, which will support the realizations coming to a reasonable level in line with the commodity prices.

Ritesh Poladia: Sir, what is the export of pig iron? Is it more than 10% or somewhere around that?

Management: I think it's about 20%.

Ritesh Poladia: So it's substantial quantities right now…

Management: It was going because regular tenders of Vizag and the tender from Goa were happening and it was getting balanced with the export and also 10% of this steel was getting exported out of the country. And also, there is 10% import of this steel from the country. We don't make all kinds of steel. So we always import something, but we also export something and that was how it was balanced. I'm sure that balance will come back with government, basically having achieved its objective on mitigating the inflation, they should once again encourage 10 million, steel export is a big earner for foreign exchange, and we definitely need foreign exchange for India.

Moderator: Thank you, Mr. Poladia request you to join the queue for any follow-ups. The next question is from the line Bharat Sheth from Quest Investment Advisors Private Limited.

Bharat Sheth: Congratulation good set of numbers. Sir, first question is on this pig iron, this coal mining that have got started and we have started at current price. What will be the cost? Whether cost will come down?

Management: Are you talking about iron ore mining?

Bharat Sheth: Yes. Iron ore, sorry.

Management: Yes.

Management: The iron ore mining, unfortunately, no major change in that though, we have got a couple of approvals and file moved forward, and hopefully, one of the mines should start shortly. And as you know, these mines, 1 mine is at 36% other than that 55%. Overall, we are at 40% or 45%, it will give a substantial benefit, and I expect benefit to be of the order of at least INR 2,000 per ton.

Bharat Sheth: Sir, and how do we see pig iron volume this year and casting volume overall this year and next year?

Management: This year, I have already spoken earlier conference call also. So we would be producing slightly above 5 lakh tons and sales could be slightly less than 5 lakh tons because we consume internally also. And next year, I think our production will go up by close to 15%, maybe 80,000 tons, 90,000 tons, we should be able to go very close to 6 lakh tons, because we will have 90 days stoppage of Blast Furnace 1 in the next year, in spite of that, we expect to get around 6 lakh tons of hot metal output next year.

Bharat Sheth: And casting, we have already reached, say, 66,000 tons. So full year, could it be a little more because now once Solapur will start and next year?

Management: See, this year, we are like 1,40,000 tons. And we can expect we have yet to work out another 15% growth over this and about 1,60,000 tons, 1,65,000 tons is what we look forward next year and load the new foundry in a couple of years is what we look optimistically.

Bharat Sheth: And last question on my side. Sir, our one of the largest customer, Daimler, is changing the source of engine from current vendor to Cummins . So how do we see that will play out for us?

Management: We will change the customers.

Bharat Sheth: So it will not affect us, correct?

Management: No, we will try and get the order from where the engine will come.

Bharat Sheth: Okay. That will help us, I mean, some because Daimler currently is getting machining through some third-party, so this can open a new source of machining for us?

Management: I agree with you, any new customers, if they are, definitely, we will be always happy to supply the casting in machined condition. We can set up machine shop, we also work with partners to deliver machined castings. It can be definitely an opportunity for us.

Bharat Sheth: So what is currently, I mean, machining portion? And how do you see this casting volume growing, so machining keeping the rate…

Management: Currently, our machining volume is about INR 3 crores to INR 4 crores per month, about INR 3 crores per month.

Bharat Sheth: In rupee value?

Management: In rupee value. And in terms of percentage, you can say about 20% of our castings are machined been supplied. And any new development, we always offer machined casting. And if they don't have machining facilities, then we get the opportunity to do that.

Bharat Sheth: To understand, I mean, this casting realization, which has increased. So that also because of some product mix change a little more machined product and apart from price increase?

Management: No. The major increase is because of the commodity price increase and thereby the casting price increase. You can always expect as the commodity prices have come down, the casting prices could come down marginally. And all the new castings, which are Euro 6 and more critical castings, they are at higher price. So the increased price is the combination of all these three.

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

Digant Haria: So my question is on ISMT. We referred that maybe two years, three years down the line, we could reach a revenue of somewhere close to INR 3,000 crores in ISMT. So what would be the mix like there between the alloy steel and the tube within tubes, what kind of tubes are we like really looking at? If you can just give some broad overview, no specific answer but -- just what the output in that INR 3,000 crores revenue could look like?

Management: Major revenue is from tubes because steel made what is not rolled is consumed in-house. So we have been selling maybe 7, 8 -- not even 5000 to 6,000 tons per month like 60,000, 70,000 tons of steel, which you can say that about INR 500 crores, INR 600 crores of alloy steels, and the rest is all about tubes. And all the tube sales are seamless tubes. Still, we don't make any welded tubes in ISMT. So maybe in the future, we could make that. But right now, it's all about seamless tube. So if we are going like INR 3,000 crores, so you can say that except 20% alloy steel sales, 80% would be seamless tubes.

Digant Haria: And then the 15% margin, which is like our aspiration is obviously taking into consideration that most of the revenue will be in the tube segment, right?

Management: Yes. I mentioned it is likely to be 18%-20%.

Digant Haria: 18%, 20% Okay.

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

Sahil Sanghvi: Congratulations again quoting stable numbers. Would you be able to share the sales volume at ISMT, sir?

Management: Can you repeat?

Sahil Sanghvi: Sir, would you be able to share the sales volume of alloy steel and tubes in 2Q FY '23 at ISMT?

Management: I have not prepared for the figures of ISMT, maybe I can do that from next quarter. Right now, I do not have it

Sahil Sanghvi: Sure, sir. Sure, no worries. And my second question would be, sir, you just said about that technokart foundry, the large casting 10 kiloton capacity, so I mean, have we already started production over there? Does this mean that our casting capacity is 2,10,000 tons, I mean if you can throw a bit more light on that, I mean how that will ramp up, what kind of revenue can you expect from there?

Management: Basically, I just mentioned that we have just started the process of developing technokart foundry. And starts in a small way and in a couple of years, maybe two years, three years, we should reach 10,000 tons of technokart foundry castings, and which can generate maybe INR 200 crores, INR 250 crores of revenue.

Moderator: Thank you. Our next question is from the line of Yash Chandak as an individual investor.

Yash Chandak: I would just like to ask you first question on the coking coal cost, which you said was $250, which is expected for Q3, so is it FOB Australia or consumed at plant is DMT or WMT?

Management: No. This is CIF Indian port.

Yash Chandak: CIF, Indian port. So that means, sir, we are saying that in Q3, if 250 CIF Indian port, roughly, we have bought at what 220 or 210 for the index. --

Management: We don't buy an FOB. We buy in CIF, and we bought at around that price 250, we blended our blend CIF cost.

Yash Chandak: Right, sir, I'm just trying to get a sense that…

Management: 220 FOB, I agree….

Yash Chandak: So around -- at the lowest of the index for this year, we have stopped for entire Q3, sir. That is what we are saying.

Management: Yes, we have done that.

Yash Chandak: So that was a spot purchase.

Management: Yes. These are like spot. We don't have index-linked buying and long-term arrangements. We don't have because pig iron is spot buying and we are spot to our buying spot.

Yash Chandak: Sir, my second question is on the side of pig iron, which you have shown is INR 50,429 which is -- so how much can I take on an average to the freight component out of that?

Management: No, this is net of rate.

Yash Chandak: INR 50,429 crores is net of freight. So -- and sir, then if you can share some light on how much is the value -- foundry grade out of it and how much is the basic grade out of it, on very high level?

Management: No, we don't give all these details because they all are part of the more intricacies of the business.

Yash Chandak: Sir, just last question on the upcoming MBF relining part. So what kind of volume we are expecting to lose due to this 40, 45 days of whatever relining operations we take in January -- December end of the….

Management: 20,000 tons of hot metal in Hiriyur and about 55,000 tons of hot metal in MBF1 in Koppal

Yash Chandak: So this -- both will parallelly go simultaneously in January?

Management: We wont do that. We will do one at a time because otherwise, our customer will suffer. We will do -- one by one, Hiriyur happen this year and Koppal will happen next year.

Yash Chandak: And sir, when we take -- when we reduce our production of hot metal in this time, so what exactly we do for at FG level? Do we reduce the production of casting? Or do we reduce the production of pig iron, merchant pig iron?

Management: See, we consume very small quantity of pig iron produced in our own foundries, less than 10%. So casting production is independent of hot metal production. So they are not interlinked. So casting production will happen as per the casting requirement pig iron production whenever there is a shutdown, we produce less and we don't generally stock pig iron and we sell day-to-day, everyday basis. Inventories are like 1 or 2 days.

Yash Chandak: So very clear. In that case, in January, we will be losing roughly 20,000 tons of sale and later in year probably in FY '24 Q1 will be on…

Management: You have to take with a little bit calibration that we will lose lowest realization sales, not the average realization sales. Yes. There were like freight 4,000 there I realize less that will lose. So impact will not be proportional when we reduced the sale.

Moderator: Thank you. Ladies and gentlemen, due to paucity of time, that will be our last question for today. I now hand the conference back to the management for their closing remarks. Thank you, and over to you.

Management: Yes. Thank you very much. I think it's a wonderful talking to all of you. And I would like to thank all of you for joining this call of Kirloskar Ferrous Industries Limited quarter 2 earnings conference call. I look forward to seeing you after the next quarter. Thank you. Thank you, one and all.

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