"AIA Engineering Post Results Conference Call"

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Moderator: Good evening, ladies and gentlemen, thank you for standing by. This is Michelle the moderator of your call today. Welcome to the post results conference call of AIA Engineering Limited. We have with us today the management team of AIA Engineering Limited. At this moment all participants are in listen only mode. Later we will conduct a question-and-answer session. At that time if you have a question please press '*' and '1'.

I would now like to turn the conference over to AIA Engineering management team, please go-ahead sir.

Kunal Shah: Yes, hi thank you for the introduction. Very good evening to everyone. This is Kunal and I also have Sanjay bhai with me here, pardon my voice today. I think Sanjay bhai will do most of the talking. We are very happy to report probably one of our best quarters ever in this quarter with 78,500 tons sales over a production of 80,000 tons. That's up from about 69,000 tons of sales second quarter last year but also up from 68,000 tons sequentially from first quarter of this year. Most of the pass-throughs in terms of cost inflation has now been factored in into these numbers with a netted average realization for the quarter coming at about Rs. 167. That's where a lot of this pass through in terms of shipping costs, raw materials has now been baked in these numbers and that has taken our numbers to 1,300 crores, about 1,311.59 crores and which is up from about 871 crores in the second quarter last year.

I think the rest of the numbers are broadly in line. Our raw material consumption now has reduced from the second quarter last year largely reflecting the pass through that have come. Our EBITDA is at 344 crores which about 25.9% and profit after tax at 244.81 crores, up from 137.59 in the second quarter last year.

I think just finishing off a few housekeeping numbers. export benefit we get drawback and that reflected in the other operating income for the second quarter largely in line and little higher than first quarter reflecting the higher export. Treasury income is about 29.72 crores and then balance is foreign exchange adjustments. To the net other income in this quarter at 32 crores up from 20 in the first quarter this year and 35 crores, down from 35.72 in the second quarter last year.

I think working capital is largely in line. Our debtor days, our inventory days look a little lower than before. We have tried not to add to inventory, we liquidated it a bit and higher revenue figures from a tonnage standpoint it's reduced a little but because of the value of the goods the number of days has reduced a bit. Our inventory days are down from 84 to 75. I think our guidance would be closer to 78-80 going forward and our receivable days are at about 64 but they will also be normalized around 70-72.

Mining, as most of the growth in this quarter has come from mining. We did about 54,000 tons in this quarter and almost closing at 100,000 tons for the half year compared to 85,000 tons we did in first half last year. Non-mining has remained largely flat from 44,000 half year last year to 46,500 half year this year. From half year numbers, we've grown from 129,000 tons to about 146,000 tons for H1 this year.

A few more; our net cash end of the quarter is about 2,050 crores. There's net of some debt and some extra cash that we have got, gross cash is higher but there's also some debt working capital against that. Net cash in the 2,050 crores and we probably we expect that will stabilize with a lot of working capital deployment over the last 2 years given the inflation that kicked in and just a higher value of our working capital of our stock. I think all of that will also stabilize going forward.

We had three announcements that we had made this year. One was a supply arrangement that we've done with a company in Ahmadabad, based out of Ahmadabad SAL Steel and they are producers of Ferro Chromium. It's like a job work arrangement on a commercially under a supply agreement and all it does is helps us with a diversified locks in supply chain for us. As you all know Ferro Chrome is an important raw material. They have a plant in Gujarat and they are all set up for efficient logistics for ore from the east of India as well as captive power plant allowing for an efficient cost and conversion from ore to ferro chromium format. This allows us comfort of having almost a captive arrangement for production to this extent. At the peak of this arrangement, we expect to get between 3,000 and 4,000 tons a month from them. At which time it will be about 50%-60% of our requirement between this year and next, maybe a little more. But again that will be determined by a host of factors but we have had a lot of questions asking us more about it but it is actually a simple, they needed cash infusion in that business to stabilize their operations and they will get visibility on sales of their product while we get almost a captive producer and this being a critical strategic raw material we just felt more comfortable having a partner who's doing it for us. We've extended 125 crores secured loan to them and at a 10.5% yield, so to that extent we are well protected not just on the coupon on that but also on the security against those assets and which will be more than adequately compensated in terms of the supply arrangement that we're looking at.

In addition to that we are very excited about the mill lining plant that we commissioned after the close of the quarter. It's a fully automated plant or significantly automated plant for the casting. As far as castings which is other than grinding media production, I think one of its the best type of plant in the world for these type of castings which are large custom made. These are not repetitive parts. These are custom-made to our application with designs that we curate for the customer and we are very hopeful that we'll be fully utilizing this plant over the next 3 to 4 years. We welcome all of you to come visit Ahmedabad and have a look at the plant whenever you are transiting this side.

Also, we disclosed about Canadian Border Service, we are doing the assessment of the duties that they hah assessed last year in end of 2020. This assessment gets triggered when costs change materially. It is on their prerogative and because raw material cost and other costs have changed significantly from the time that this was last assessed, this is an administrative procedure to revisit and assess that structure. So, we'll be fully cooperating, with that we will not be able to share more information except that the materiality of this market today is that we've done about 3,000 tons first half of this year. Maybe we'll do 5,000-6,000 tons a full year. To that extent we are in the market. It's a sub judice matter again, it's business as usual for us. Duties may change, may get maybe in a little different format but our business model is far above and beyond that. We will not be able to take more questions on what it means beyond that it's a regular assessment. There may be more such as cost change and that's something that as a business as a company will be well organized to support and gear up for.

From a CAPEX standpoint, total this year and next we'll do 480 to 500 crores. Half of that comes from a grinding media plant, about 250 crores. There's about 20 crores spend on the liner plant which happened this year. There's another 50 crores that we plan to spend on the line of plan for supporting infrastructure in the pattern storage etc. We are investing about 60 crores for captive power and about between 70 to 100 crores on balancing other infrastructure support in the next 2 years. Broadly we've got a CAPEX plan of 480 to 500 crores this year and next. We've done about 112 crores till September this year and the plan is to do another 160-170 crores for the rest of the year or some may spill over to the next year. Broadly in next 1.5 or six to seven quarters going forward and two quarters past, over that 2-year period starting April ‘23 between March and June ‘24 we will go about 500 crores of overall CAPEX.

With that said I will have Sanjay Bhai just give you a brief about the markets and what we are seeing going forward. It looks like ferrochrome; scrap are at a peak pricing. Ferro chrome seen some downward adjustment over the last quarter but it’s anybody's guess which way it will go scrap still continues near the peak it reached some time back. Shipping costs are volatile particularly trending downwards. I think that's a good sign for us that finally these costs look to be stabilized or don't seem to go higher from here. But it's too early to say that it's going one way or the other. We are on a watch and stay and play mode and be ready to drop and adapt as costs in the situation changes. Most of the COVID restrictions around travel have gone. Our people are traveling all over the place, trying to go to gear back up for the whole strategy that we are trying to lay out. Between mining liners and grinding media we hope to add 30,000 tons at least going forward. We may not be able to guide on exact numbers on how far and wide that number looks like as you're aware.

One last point before I handover to Sanjay bhai is that as costs will ease down there will be a pass back on those costs. I mean long-term margin guidance; we may not again unfortunately be able to offer beyond 20%-22% operating margins. Please do bear with us on that. There will be quarters where we do better and we aspire to do better but there are too many variables as you all know that we work with. It's difficult for us to exactly pinpoint where those margins will ultimately reside.

I'll just hand over to Sanjay bhai and then we'll go on to Q&A.

Sanjay Majmudar: Thanks Kunal and good evening to all of you. So, as we can all see it was a fairly satisfactory quarter, both in terms of the volume growth as well as the overall margins. But as Kunal has cautioned yes going forward, we believe that the peak level pricing has already reached, so probably there could be a little bit of softening as the raw material prices rate has already gone down, started going down. We believe that going forward we should be able to, we might see of decline in terms of average realization though it is a bit difficult for us right now to predict exactly how much it will be. I think the average price realization in the first 6 months is around Rs. 162 a kilo in terms of sales which could be regarded to be I think peak and it may go down a little bit. But as we have always maintained it is our endeavor to ensure that the margins are protected and our absolute margins will be protected. Possibility that while there could be a little bit of a downward trend on the realization margins will be maintained, so we'll see margins in percentage terms also should be maintained. But the current level of operating profit margins are at around 23%-24% and we are quite happy about it.

Overall, the volume growth has started to kick in as is evident from the first 6 months numbers. We believe that we should be on track. We are on track, we feel that about 30,000 to 35,000 tons comfortably per year. Overall traction is appearing to be good although geopolitical issues are there. But so far, I think we have circumvented them and we should be able to go ahead. As Kunal explained, this Canadian authority's reinvestigation is more procedural rather than anything further to be read into it. We will keep all of you posted as we cross the bridges. So broadly we are quite on track. We are very comfortable. I think with this let's have the Q&A moderator. Thank you so much.

Moderator: Thank you very much sir. We will begin the question-and-answer session now. We have the first question from the line of Ashutosh Tiwari from Equirus Capital.

Ashutosh Tiwari: Firstly, on the volume side we almost had done almost 1 lakh ton in the first half in mining. Is the growth driven by new mine additions or ramp up at the older mines only? How should one look at it?

Kunal Shah: This is new mines. The growth is coming from new mines.

Ashutosh Tiwari: Any particular minerals are doing very well for any other let's say gold or copper or something which is doing very well for us in the first half?

Kunal Shah: 15,000 in this growth is not that large to really draw patterns from. But clearly gold and copper remain metal of interest.

Ashutosh Tiwari: Gold?

Kunal Shah: Copper and gold both.

Ashutosh Tiwari: Finally, now that probably you have done 146,000 tons in the first half. We probably are on track of delivering 30,000 tons incrementing this year right?

Kunal Shah: Yes.

Ashutosh Tiwari: You obviously mentioned, so like realizations have gone up because of this whole commodity pass on and plus shipping costs as well. But is there a benefit in this quarter that probably costs have started coming down and probably the pass-through happens with a lag so that's why we probably had a high margin in the current quarter.

Kunal Shah: Absolutely you are right. So, ferrochrome because a lot of these are formulae driven and which is where I was saying that as costs reduced there will be a downward adjustment which you'll see in the next quarter.

Ashutosh Tiwari: On the liner side, we expect major volume to kick in from next year only because just the plant is commissioned. So, it will probably take some time to go to customers and showcase them and all those things will happen.

Kunal Shah: No, we have orders but execution, see what happens in mill liner once we get the order there's a design phase, there's pattern making, approvals. With that lag you will see volume coming in next year. I think from an order standpoint we are actually seeing growth. We've seen growth. And we take orders in anticipation because the plant is commissioned. Invoicing may happen next year onwards. So, I think we are track to have at least 10,000 tons per year starting this year. Invoicing may be a little lower.

Ashutosh Tiwari: You said 10,000 tons incremental volume on line aside this year.

Kunal Shah: Yes.

Ashutosh Tiwari: Then probably like I said…

Kunal Shah: Invoicing will be lower.

Ashutosh Tiwari: Probably you want to utilize the plant, so that load should be extra….

Kunal Shah: 3-4 years its fully utilized. I don't think that looks too much of a challenge as of now.

Ashutosh Tiwari: Okay. This is also makes of domestic as well as export customers.

Kunal Shah: Largely export.

Ashutosh Tiwari: Lastly on the USD-INR realization side how much we did for the quarter?

Kunal Shah: Realization, just one second. 81.3.

Moderator: We have the next question from the line of Dhavan Shah from AlfAccurate Advisors.

Dhavan Shah: Just a couple of clarification from the last question. You said the mill lining volume will be 10,000 metric tons this year.

Sanjay Majmudar: No, orders will be 10,000 invoicing maybe…

Kunal Shah: We are just trying to give him answer directionally that he asked the question that because the mill got started now, you will go out and take orders. I said we've already started to get orders of more than 10,000 tons, invoicing may not happen this year. Some of it will spill into the next year.

Sanjay Majmudar: So, Dhavan just to elaborate. We are already selling mill liner. Now we have shifted to this dedicated plant and volumes should go up. It will be definitely higher than annual what we did last year. The exact number may be difficult but definitely higher than what we did last year.

Dhavan Shah: I think on average annually we are already selling 10,000 to 12,000 metric tons right?

Sanjay Majmudar: Exactly. More.

Kunal Shah: No, we are selling 18,000-20,000 tons mill liners last year, about 18,000 tons last year. And these are mining mill liners. That is over and above cement mill liners.

Dhavan Shah: So, when you say cement mill liner this is (+18,000) you would be selling whatever will be the cement mill liner, correct?

Kunal Shah: Correct.

Dhavan Shah: So that would be another 5000? That would be how much? That cement mill liner would be how much?

Kunal Shah: I don't think we are no, the idea of sharing this liner tonnage is only to give a perspective that we have set up a plant and just for comfort that product will be fully utilized as a practice not sharing segmental product wise data. It does not add to the overall understanding for the business. It just becomes a….

Dhavan Shah: I got it. Basically, I think now the total capacity is 50,000 metric tons, total?

Kunal Shah: For mill liners, yes.

Dhavan Shah: So basically, then we are already doing more than 18,000.

Kunal Shah: No, total capacity will be about 67. We've got existing casting plants there also we can make some quantities. This is a new….

Sanjay Majmudar: So, Dhavan let me summarize this. We have a dedicated plant for mining mill liners for about 50,000 tons which has been commissioned. As we explained last year, we still did about 18,000 tons from our existing plant. Now that volume will obviously be shifted to this dedicated plant, point number one. Partly so we have the flexibility of using the dedicated plant.

Kunal Shah: Mill liner is strictly dedicated plus another 15-20 will come from the shared plants. But what I'm saying is again don't get bogged down by that. This capacity will fully utilize in 3 to 4 years.

Dhavan Shah: And secondly that realization like normally we had guided for at least we will be at the level of 150. Basically, this quarter is obviously exceptionally high. At least we will maintain that 150-realization run rate or it will come down below.

Kunal Shah: That is a function of our cost. I mean cost, shipping, currency, so the average selling price is a function of a lot of other input variables and it will move in line with that.

Dhavan Shah: But basically, since till last quarter we were saying that we were not able to pass on exactly the whole thing, right? Obviously, we would have passed on in this quarter. I'm just saying that is there going to be a lag effect?

Sanjay Majmudar: Dhavan I'm sorry I'm interrupting you. There is a little bit of a misconception here. So first let us understand our model. Our model is that we are 100% in a position to pass on the cost increase in the input cost even when they happen with a lag of about one quarter in most of the cases. Many times, it may go up to two quarter. Now your statement that we are not able to pass on is not a correct statement. We have said we are able to pass on even the freight costs on a full basis, shipping costs on a full basis and raw material mainly ferrochrome and scrap. Now what we are talking therefore that current realization of Rs. 160 average for first half looks to be the peak because (a) the shipping cost started coming down (b) the raw material costs do not look like going up from this level but only going down a bit, so with a lag the price reduction will also happen the way it happens, increase happens with the lag reduction happens with the lag. It's a transition process which is continuous. Now our price realization is a function of therefore the costs which are going in the input, the freight plus the product mix. So, what is more important for you is that what is my margin, my margin has to remain comfortable and fixed and therefore we believe that we will be able to maintain a decent margin of 22% to 24% without any problem. On operating profit level, I am talking about particular range and that should happen. I think a better way is to track it as a percentage more rather than a realization. Realization is just to explain that we are giving benefit of pass through. That's all.

Moderator: Now we have the next question from the line of Bhumika Nair from DAM Capital.

Bhumika Nair: Sir, sorry to just harp upon this realization bit. Very accurately you said that we are clearly seeing the benefit in terms of the better pass through, which is reflected in our realization. While now of late we have started seeing the correction in commodities and trade costs, etc., would it be possible to see obviously in the second half there will be a decline in realizations because of this same aspect. But as things stand today on spot basis what would be the gap in terms of the pass through versus what today is in terms of spot of ferrochrome or in terms of scrap or logistics cost, etc.

Kunal Shah: Bhumika, which is where we've already shared our long-term margin of 20%-22%. And things ultimately even out at that level, right? It doesn't serve any purpose to tell you this quarter I've got 15 crores extra or in our next quarter it could, correct? I mean the math we can do but it does not help us because in any case our pricing is going to be a function of my cost and we aspire, and we work to make sure we keep a margin like Sanjay explained at 20%-22% margin. It does us no good to know whether next quarter will be 155 or 140. Yes, my absolute margin can change with that but it's fait accompli. I'm not going to change anything in a business to know that business because that requires us to estimate what it will be. And the way volatility has worked out we have realized it's an endless loop of trying to estimate. So, you will still have to consider that we'll be at a 20%-22% long term margin and we maybe a few quarters above that, a few quarters much above that and few below that. But it'll all normalize at that level is unfortunately all I can share.

Bhumika Nair: Sure. The other thing is in terms of volume. We've seen a pickup in terms of the volume trajectory in the current quarter. If you can talk about the next one or two years how we are seeing the volume scale up, where are we in terms of trial run, new customer acquisitions, how is it kind of moving, which gives us visibility for and confidence on the volume growth trajectory as we move ahead.

Sanjay Majmudar: First and foremost, Bhumika, as you have seen there is a definite increase in the level of volume growth is visible now and, therefore, it validates our statement that annually around 30,000 tons incremental volume growth is something that we are working on, and it appears that things are falling in place. We are very-very consciously optimistic because that is the way we always are. We want to be as close to reality. The good part is that now forget about these geopolitical issues but overall, it seems that we are on track for that incremental 30,000-35,000 odd tons minimum volume growth that we are expecting year over year. That is point number one. We have three major focus areas. One is the pure chrome or cost advantage that we can offer because of the ferrochrome vis-à-vis forged. That part is clear that many endeavors towards conversion of minds is happening on that. Plus, we are working very hard on the DP front. We have been always cautious about this that in our business it always takes more time for us to convert the customer because the mind is more concerned with the cost controls rather than the benefit alone that can come on table hence therefore it is taking time. Having said that we are very strongly working on DP and equally strongly working on the mill liner advantage that we are offering both for the purpose of improvement of throughput, improvement of yields and reduction of cost. We believe that with this three-pronged approach we should now see a fairly consistent trajectory. The growth can at times in one quarter it may appear to be a little low, in another quarter it may appear to be a little high. Our humble request is please track us year to year on a long-term basis medium to two to five years. And I think we are very comfortable. There's absolutely no change in any of the business propositions. All opportunities remain the same. Now we are able to demonstrate something on the balance sheet and that is what we are happy about. So let us see. We'll wait and watch.

Bhumika Nair: Sure. Definitely feasible. The basic thing is can it go ahead of that 30,000 incremental volume.

Sanjay Majmudar: It can but we are not giving you any guidance on that. As and when we have more clarity numbers will speak and we will also speak. It definitely can but when we don't know, let us see.

Moderator: We have the next question from the line of Amarnath from Ministry of Finance of Oman.

Amarnath: Hi sir. Congrats on a very good set of numbers ahead of what we have expected from you. Of course, the market condition has helped you as you explained. I have two questions on this. First of all, you said that you aspire to grow 30,000 a little bit here and there, on a year-to-year basis. So, for the next two to three years if we assume that this is going to be the case, do you have the adequate capacity to execute that kind of growth for next two-three-four years?

Sanjay Majmudar: Absolutely. So that is your first question. Should I answer that, or we will take question by question. Okay let me answer that. So, first as you would have seen my rated capacity today installed capacity today is 440,000 tons. I'm operating roughly at about 70%-72% average capacity utilization as we speak. We are also adding another 80,000 tons of brownfield expansion for grinding media which is our core volume-based product at the same location that is at GIDC Kerala which is close to Ahmedabad. And that will take me to about 520,000 tons. So, today assuming that today I reached somewhere around this year about 290 or thereabouts and if I keep on adding 30,000-35,000 tons year over year for next two to three years, I'm good to go for the next two to three years without any problem. Secondly historically we have been very conscious about the fact that our capacity addition does take time because we have to first get the site clearances from an environmental standpoint and then we can do the CAPEX, etc. So, we also keep on adding the infrastructure like the required land, etc. We have to buy well in advance, apply for all the permissions well in advance from an environmental or site clearance perspective which is now very standardized for us because we have been doing this kind of brownfield expansions and greenfield within the same area quite regularly. We are very conscious about the fact that we can't go beyond 80%-85% of the rated capacity and we have to keep on adding capacity at regular intervals.

Amarnath: In that case your current cash accrual speed will be adequate enough to fund all those future CAPEX requirements you are thinking about, right?

Sanjay Majmudar: Absolutely. So, I have about (+) 2000 crores liquid or cash investments available. I have decent cash accrual position so we should be able to take care of that.

Amarnath: Can you guide me what is your current ROCE?

Sanjay Majmudar: Our current ROCE without considering our investments is higher but on a balance sheet basis about 22%. Now if I exclude investments which or the surplus which is passed in these financial securities then because that is typically lower ROCE business then I would be around 27%-28%.

Amarnath: Now if I connect the dots, here we are talking about a volume growth of 10% to 12%. I don't know about I have a control over my margin which we're talking about, 20% to 22% with an operational ROCE is between 25% to 28% and most of our CAPEX is going to be plowing back to the business, so every incremental money I am putting into my CAPEX is going to give me a ROCE above 25% and based on the cash basis almost no debt. That is the way we are looking into the future cap generations from your company for the next two or three years. Am I right?

Sanjay Majmudar: You are right absolutely.

Amarnath: This is a very healthy situation in the current situation in the current scenario, I must say. Now I just have one more question relating to this cash. As you also know that this investment which is sitting in your book and your future prediction of the cash, and you are in a position to fund most of your CAPEX using your internal equals and you yourself also know that extra cash investment is lowering down your overall ROCE. Do you have a plan to deal with this extra cash to return to the shareholders in a different way or how do you deal with that? Because overall ROCE is getting rust if that cash accumulation trend increases.

Sanjay Majmudar: A very pertinent question and a question which we have been very regularly facing. One, as a company we remain a bit conservative, and we still continue with our same old dividend distribution policy of about 20%. We know that we do have surplus cash generation, free cash also coming in. However, there are two situations which we are envisaging. One, see as we have been repeatedly telling the headroom growth opportunity is significant. We are working on several mine conversion projects in various geographies all over the world. While we are very conservative and we are very realistic, I may use this word, in giving a growth trajectory overall indication of 30,000-35,000 tons annually, there is a possibility, as one of the previous participants did put a question, of a more aggressive growth. In our situation therefore, there is a possibility of some significantly heavy involvement in working capital because bulk of our sales happens through warehouses which are located all over the world where we maintain a significant inventory. It's tending to a little bit more working capital accretive if the growth trajectory but becomes steep and we start growing at a faster pace. Now the problem is we have not reached our optimum level of sales in mining which we believe could be anywhere between 300,000 to 400,000 tons. We're still talking about 200,000 tons odd of sales in mining. So, we are still talking of at least a couple of years where we believe that we may consider having reached a decent level of plateau and penetration the way we want. So as a management we want to continue to remain a bit conservative in cash distribution at least for the next one or two years in the maximum situation. Having said that in every board meeting we are consciously discussing this. We are very alert about this and as soon as we get the right opportunity, we will be taking a conscious view of making our distributions a bit more aggressive. But this is the conservative stance we want to maintain at least for some more time.

Amarnath: This is music to our ears sir to hear this explanation. As a shareholder we don't want the cash back in any form especially when a business while the plowing back can give me 25% return on capital employed. The things you just now said is giving us a hint that there is an opportunity to increase the growth trajectory and utilization of the extra cash within the business which gives me more return than getting the cash back. We don't invest in a company to get the cash back. We invest in a company where the company really takes this cash and utilize and give us more ROCE.

Sanjay Majmudar: Thank you, sir.

Amarnath: If I can give one more option, sir. Now the cement part of your business, as we all know last few years cement industry has undergone very difficult times, as well as it is a cyclical business as well. But what we are hearing from different cement companies concall that the business outlook is going to be very good in the next one or two years. Demand is increasing, pricing power is little bit coming back. So, from that side of the business, this grinding media business for cement how is your outlook please? That business, if you can focus, please?

Sanjay Majmudar: Simply put, my growth in cement will be coterminous with the industry growth which still with all said and done is only in a decent higher of single digit type of a growth, for the very simple reason, a) the cement industry worldwide is already converted to a very large extent to the product that I'm supplying that is high chrome. Second, if you talk of India the overall consumption of these ware parts in cement is significantly lower. We have been talking about the overall replacement market worldwide, an opportunity of about 3,00,000-3,25,000 tons. Most of it is already converted so therefore when I have an overall 35% market share in this industry ex of China whatever the industry grows in India or anywhere else in the world; we operate in more than 125 countries and we service all the cement mill key plants all over the world. But the consumption ratios are very low and it is already converted. Therefore, the growth will be only tepid if I may use that expression as par with the existing growth.

Kunal Shah: We will grow with the market but its anyways not material in the scheme of things now. Our non-mining business will be about 80,000 tons, 75,000 to 80,000 tons. Even if we grow 10% that's 8,000 tons. In the scheme of things if we are growing to will be 3,00,000 tons this year that's still not material. So, all our growths coming from or all our efforts towards growth comes from the mining market. Cement is fait accompli if it grows, will automatically grow with it.

Amarnath: Are you getting something in China Plus advantage somewhere you are seeing it because you are operating across the globe? Are you getting cement there?

Kunal Shah: Thankfully both our industries we operate in which is cement and mining our local industries. Our customers never migrated to China. They were anyways located all over the world. Chrome nevertheless came from ex-China suppliers us and migrate to and a few others. To that extent we are agnostic to all that happened in China.

Amarnath: Thank you very much, excellent sir. It's a very healthy reply you have given us a fantastic comfort.

Moderator: We have the next question from the line of Ujain Shah from Congruence Advisors.

Ujain Shah: One of my queries would be, can you just I think I have missed out the point. Can you just repeat that the secured line 125 crores of that SAL thing which we have been discussing at? It is a 3,000 tons in the incremental right from the SAL which we have been doing, backward integration?

Sanjay Majmudar: I'll just quickly explain. One, this company is manufacturing ferrochrome in Gujarat. They have a plant where their peak capacity can go up to 4,000 tons. What we have done we have entered into a contract with them whereby the entire capacity they are reserving for us with a minimum period of 3 years and therefore for us it's a raw material security. It's a raw material security and it's a very comfortable kind of an arrangement that we have entered into and since they have dedicated their entire plant, we have paid them a secured security deposit with is interest bearing of 125 crores at 10% where we have taken the first charge on their entire block of fixed assets of ferrochrome and the power plant.

Ujain Shah: Just add to this question. If we wanted to set this ferrochrome plant so what would be the total cost? If let's suppose we have to set up a 4,000 tons of plant currently. Could we say that the cost would be around 200-250 crores of?

Sanjay Majmudar: Minimum. More actually.

Ujain Shah: That is a very win-win situation for us because we are giving just 125 crores at a yield of 10% and we are getting secured raw material. That's a good situation from our side?

Sanjay Majmudar: Right.

Moderator: We have the next question from the line of Gopal Nawandhar from SBI Life.

Gopal Nawandhar: Two questions. One, on the post opening up the travel restrictions were still there and the client conversions were delayed and all. If you can just highlight how are the things on the new client conversion, travels and all?

Sanjay Majmudar: Things are very much back to normal. Frankly we have all forgotten about COVID. So, traveling there is no restriction, our people are able to travel to most of the mining locations without any problem and that is the reason why over last 6 months we have been sounding a little more confident about going back to the growth we had incremental volume trajectory.

Gopal Nawandhar: One of the other elements was like on the competitive landscape because of this higher shipping cost and all we might have lost some volume to the competition with this current reduction in the shipping cost and all. Are you winning back on the competition, on the pricing and all?

Sanjay Majmudar: Frankly I don't think we have lost anything significant to any competition. This is the first statement I want to make. Secondly the endeavor is always to gain market share and to convert mines from but current focus of competition is more on the forged players and we are focusing on converting people from forged media to grinding media in our alignment. There our whole equation and our whole business strategy is very different as explained earlier that we are talking of significant cost savings and we are also talking of reducing the cost of ownership and making the mining operations more efficient. That way I think we have a superior solution and of course, we have one major competitor worldwide that is Magotteaux but that situation very much remains.

Gopal Nawandhar: But in terms of pricing now will we have better competitive pricing with the reduction in the logistics cost and INR, right?

Kunal Shah: The margin standpoint which is why I am giving you a guidance of 20%-22%. It will be higher, lower depending on the pass through, it takes two to three quarters to pass through but that will even out over the period.

Gopal Nawandhar: With this current volume run rate of like 78,000 out of which almost 54,000 on mining should be a sustainable run rate?

Kunal Shah: Yes, very much.

Moderator: We have the next question that is a follow up question from the line of Dhavan Shah from AlfAccurate Advisors.

Dhavan Shah: Since this arrangement is there for ferrochrome will be having some benefit because of this on the gross margin also like let's say getting some discount from the market pricing and all those things?

Kunal Shah: I think this is the agreement, the purpose of the agreement is supply chain and that's we will have to look at it from that standpoint.

Dhavan Shah: The annual capacity with this plant is 48,000 metric tons, correct?

Kunal Shah: We can keep sharing more information not material to the scheme of things. I think all we are trying to say is that we would like to protect the supply chain by offering a secure loan. 3,000-4,000-2,000 there are lot of variables linked to that and as a practice now we are not sharing more information around it.

Dhavan Shah: Secondly in terms of the other income like the current run rate of other income what would be the FOREX part into the other income in this quarter?

Kunal Shah: It is about 3 crores this year, gain of 3 crores.

Dhavan Shah: 3 crores in this quarter, right?

Kunal Shah: Second quarter, yes.

Participant: 3 crores in this quarter.

Sanjay Majmudar: Basically, if we exclude 3 crores rest all is kind of a sustainable other income.

Kunal Shah: There is a treasury income of about 28 crores in the second quarter.

Dhavan Shah: And the tax rate would be around 20% to 22%-23%, 20.5%?

Sanjay Majmudar: The effective tax is about 20% to 22%, effective tax, overall tax rate.

Moderator: We have the next question from the line of Raja Kumar B, an individual investor.

Raja Kumar B: I have three questions. So, should I ask all at one go or should I ask one by one?

Sanjay Majmudar: Whatever makes you comfortable. We have no issue.

Raja Kumar B: The first question is on the margin. Sorry to labor on that point. What I understand from the call is you are maxed out on the selling price. But how about the absolute EBITDA reported will be more or less protected and go forward the margin expansion will come more in terms of the volume and the mixed increase. Is that a fair understanding?

Sanjay Majmudar: Yes of course. I am making it clear disclaimer that as a matter of policy we are not giving any guidance about the margins but your understanding is broadly correct.

Raja Kumar B: The second question is that you have a subsidiary called Welcast Steel. I was just looking at the numbers for this quarter. It has come down significantly compared to the previous quarter. Just wanted to know are we not fully utilizing the capacity in this subsidiary and what is the kind of a plan for the quarters to come?

Sanjay Majmudar: In the overall scheme of things Welcast is sort of our contract manufacturing support subsidiary. It has a facility in Bangalore, as you know we are putting up significant capacities here so it's more to be looked at not in isolation but in the overall scheme of things and therefore Welcast therefore from that point of view has a very limited role to play. But it's important because it's a facility in the South for grinding media.

Raja Kumar B: But do you plan to utilize them kind of fully in the quarters to come or it will be more in the current?

Sanjay Majmudar: Again, it will depend on which type of product, where markets etc., on a totality basis.

Kunal Shah: Look at us as a consolidated, we will not be able to share plant wise information that way.

Raja Kumar B: Lastly one housekeeping question. So, I saw 460 crores borrowing on the balance sheet side. Just wanted to know what is that given that you have a high cash balances?

Kunal Shah: It’s a treasury investment, not borrowing.

Sanjay Majmudar: No, I'll explain. The borrowing is in the nature of export credit, which we are getting at a very competitive rate. Therefore, as an export finance we are utilizing it because it is to our advantage.

Moderator: We have the next question that is a follow-up question from the line of Amarnath from Ministry of Finance of Oman.

Amarnath: Actually, I missed one question last time. You said that you are going for an investment for this power plant and for your I think renewable energy. Can you elaborate a little on that, that by doing that are you going to save some of your electricity and energy costs? And second related question is how is your outlook as a company towards the ESG side regarding decarbonization related target and how much investments or something you are planning for that because the industry you are operating at, at an international level the foreign investors including us; we all look at that ESG compliant part very seriously nowadays. If you can give little more outlook on that side, please?

Kunal Shah: Absolutely very conscious on the ESG footprint that a company has. It's a regular feature and conversation at the board level and which is where we started our journey for renewable power. So, end of '22, about 20% March '22 about 20%-22% of our power 23% of our power came from renewable sources. The idea is to take it up to 30%-35%. That's how the policy allows today. It was our choice. We would have done all possible. There's a limitation on how much captive renewable offsite one can set up. We will do all that is possible within the current regulation to migrate on the renewable side. In addition to that we have moved to cleaner fuel sources like PNG for our heat treatments which we moved away from electricity; coal fired electricity. That's as far as fuel is concerned but outside of that we are by and large not just compliant but looking to do, we're doing green plantations etc. but a large part, a multi-order value is what we bring on the customer side. We are helping customer reduce their power cost and overall reduce the amount of power that goes into their overall system. Some of these things, in as far as gold and copper is concerned where our Chrome grinding media potentially reduce the consumption of reagents which has a toxic residue or improve the recovery of gold and copper. These are the footprint that we have as far as ESG is concerned is significantly higher at the customer end but also mindfully doing all possible, as far as our doing things at our operational level is concerned.

Amarnath: During that process are you going to have some financial saving due to coming out of your traditional power input to 30%-35% of the renewable power? Net-net will there be any finance saving due to that.

Kunal Shah: Yes, captive power is always cheaper but instead of using or setting up our own coal fired captive we have chosen renewable which could be higher cost but ultimately obviously there's a cost saving link to it because you're getting an offset from the grid power which is more expensive than a captive source.

Amarnath: Just to if I may allow because it is all leading to one final question to. Now if I link all the things you said that we can increase our capacity, we can increase my capacity utilization, we increase our volume, we are using the renewal power and as the capacity utilization increase the economies of scale must be picked onto it. Then if I put all the things together then I supposed to get a higher EBITDA margin as all those things progressing upon. Then why we always keep that EBITDA margin range between 20% to 22%? Because okay at a small volume it is okay. But as you are increasing everything and economies of scale kick start, it should reflect in a higher EBITDA margin. Does it so?

Sanjay Majmudar: Actually, if you look at our history we have grown from a very small company, we were a joint venture earlier. Our whole mindset is to always remain conservative and be mindful of what we are talking. Now you see we are, the whole game today is market share gaining. So, which is my biggest range of I mean the biggest targeted range of customer. They are all mines. These mines are extremely decentralized if I may use this word from a power or a budgeting standpoint, mine manager is the boss, he works with a very close budget. In spite of all the benefits we have to take a lot of time and efforts to convert that mine and start getting orders. Therefore, we also many a times have to become very competitive in order to ensure that the mine manager remains comfortable. So, sum total of all these factors make us a little conservative when we talk about an achievable operating margin range of 20%-22%. Having said that again I'm talking of pure operating so you remove other income, you remove FX, you remove everything. My point is yes there is a potential for an increase in margin but since our entire focus today is gaining higher market share, we are very consciously giving this kind of guidance that yes this looks to be a long-term sustainable margin. Given the fact that all these imponderables or all these variable factors we have to always face.

Amarnath: So now you are giving us look that okay even if there is an opportunity to increase the margin, I will preferably make it within a range and use that as a weapon to gain the more market share by increasing our competitiveness in the international market which is very competitive there. I will gain through the volume and market share and probably I will maintain my EBITDA at the current level and use that economies of scale to gain my more market share. That is the strategy?

Sanjay Majmudar: Well broadly without taking this as a guidance yes, that is the strategy but we want to remain conservative. That's very important.

Moderator: We have a next follow up question from the line of Raja Kumar B, an individual investor.

Raja Kumar B: There is a news article that the government is trying to revive the Kolar Gold Fields in Karnataka. So, just wanted to know is that an immediate opportunity for AIA or it's like a long term and also what would be the potential?

Sanjay Majmudar: So, Mr. Raja frankly our market is actually worldwide. The volumes outside India are much larger. All our efforts are actually for mining concentrated outside India. Having said that if any such opportunity does in fact come, we will look at it.

Moderator: As there are no more questions, I would now like to hand over the conference to AIA Engineering management team, please go ahead sir.

Kunal Shah: Thank you all once again and Sanjay bhai and I remain available offline for any further clarification. Thank you so much and have a great evening.

Moderator: Thank you. Ladies and gentlemen this concludes your conference for today. We thank you for your participation and for using Chorus Call Conferencing Services. You may please disconnect your lines now. Thank you. Have a great evening.