GOODLUCK

Goodluck India Limited
(Formerly GOOD LUCK STEEL TUBES LIMITED)
Corp. Office : "GOODLUCK HOUSE" Nehru Nagar,
Ambedkar Road, Ghaziabad-201001 U.P. (INDIA)
Ph.: 91-120-4196600, 4196700, Fax : 91-120-4196666, 4196777

February 22, 2017

Manager, DCS
The Bombay Stock Exchange Ltd.
Phiroze jeejeebhoy Towers,
Dalal Street,
Mumbai– 400 001

Scrip Code: - 530655

The Manager
National Stock Exchange of India Ltd.
Exchange Plaza, C-1, Block G,
Bandra Kurla Complex,
Bandra (E), Mumbai – 400 051

Scrip Code: - GOODLUCK

Dear Sir/ Madam,

Sub: Transcript of Q3FY17 Earnings Call

Please find attached herewith the transcript of the Q3FY17 Earnings Call for the investors and analysts held on Wednesday, 15th February, 2017 at 12.00 Noon IST.

This is for your information and record.

Thanking You.
For **Goodluck India Limited**
(formerly Good Luck Steel Tubes Limited)

Authorise Signatory

Regd. Office : 509, Arunachal Building, Barakhamba Road, Connaught Place, New Delhi-110001 (INDIA)
CIN : L74899DL1986PLC050910 | **Website :** www.goodluckindia.com | **Email :** goodluck@goodluckindia.com
Works : A-42 & 45, Industrial Area, Sikandrabad - 203205 Distt. Bulandshahr (U.P.)

"Goodluck India Limited Q3 FY17 Earnings Conference Call"

February 15, 2017

MANAGEMENT: **MR. MAHESH CHAND GARG – CHAIRMAN, GOODLUCK INDIA LIMITED**
MR. RAM AGGARWAL – CHIEF EXECUTIVE OFFICER, GOODLUCK INDIA LIMITED
MR. SANJAY BANSAL – CHIEF FINANCIAL OFFICER, GOODLUCK INDIA LIMITED

MODERATOR: **MR. VIKRAM SURYAVANSHI – PHILLIPCAPITAL (INDIA) PRIVATE LIMITED**

Moderator: Good Day, Ladies and Gentlemen, and Welcome to the Q3 FY17 Earnings Call of Goodluck India Limited, hosted by Phillip Capital (India) Private Limited. As a reminder, all participant lines will be in the listen-only mode. And there would be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal the operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Vikram Suryavanshi from Phillip Capital (India) Private Limited. Thank you and over to you, sir.

Vikram Suryavanshi: Good afternoon, and a very warm welcome to everyone. Thank you for being on the call of Goodluck India Limited. From management, we have with us Mr. Mahesh C. Garg – Chairman, Mr. Ram Aggarwal – CEO and Mr. Sanjay Bansal – CFO. Now, I hand over the call to the management for their opening comments. Over to you, sir.

Mahesh C. Garg: Good afternoon. I take pleasure and welcome you to the con-call for Q3 FY17. I will give a brief about the economy condition and industry condition in the country. Past few months were full of events, demonetization, Trump victory in America, Brexit hovering on us have created lot of uncertainty in business and it has affected Indian industry as well.

The latest unexpected demonetization which was done on 8th of November has definitely affected the demand in the informal sector. We are in formal sector but in the total supply chain somewhere informal sector is involved which has impacted the demand to a great extent. The demand pull which was already slacking for last several months has further slackened from third quarter onwards. However, the Budget presented by our Government and emphasis on infrastructure and agriculture will definitely mitigate to certain extent the demand problem. To what extent? It is to be seen.

They have released some funds for solar development which will further promote the demand. The biggest benefit to steel sector demand will come from realty sector and affordable housing sector. Which we hope from the first quarter of next year things should start improving. However, the GST which is coming, in my opinion if it is implemented from 1st of July should give a good boost to our industry in the sense our raw material purchase cost will come down and overall cost implication to the manufacturing sector will come down which will boost demand.

Coming back to this current quarter in question, our performance has not been as expected because of unprecedented and very rapid and fast increase in raw material prices of HR Coil and zinc. This we had a very healthy order book size and it was not possible to pass on the cost immediately. And we were maintaining, we are one of the largest manufacturer of solar support structures where our order size was of almost five months, and this has resulted in a poor performance in Q3. Once the price will stabilize or start reducing we will be perfectly alright and in-line, our business model remains intact.

I have nothing else to say. I can assure you probably from the first quarter of next year the price cannot rise indefinitely and continuously cannot keep on rising, they have to stabilize, they have to come on a normal limit and then our business fundamental will return back to normal.

And I will give it to Mr. Ram Aggarwal to take on from here.

Ram Aggarwal: Good afternoon. Mr. Garg has pointed the third quarter results, the rampant unrelenting increase in raw material prices by as much as 30% to 40% coupled with a mega event of demonetization has impacted demand badly. Price increase is normally passed through with a time lag, but this quarter is unique because every month raw material prices have been increased and price increase could not be settled by major auto and OEM customers. Heavy price increase month after month has affected our net sales margins, it was difficult to cut through steel weights, all the price increase affected by the steel producers. Anyways, this cannot continue for long and Mr. Garg has indicated the prices have to come back to the normal and the stabilizes, any level, whatever level, because we are the steel processors and not the manufacturers. Once the price stabilizes our margins will bounce back.

As far as if we talk about EBITDA, EBITDA for the quarter was Rs. 19 crores, EBITDA margins were at 6.44% Q3 FY17. The EBITDA total of nine months is Rs. 72 crores, the EBITDA margins were at 7.89% for nine months. We have reported a net profit of approximately Rs. 13 crores. Ultimate consumer in regular product section encompassing pipe & CR has shied away from market impacting Q3 badly. So, company was supposed to sell pending orders at old selling price but increase raw material price impacting bottom-line badly, as Mr. Garg has just indicated about the solar prices. However, the silver line is the increase in the volume of value added products.

On the operational front we are slowly and strategically shifting our focus over the last few years towards the high margin value added steel products like auto tubes, forgings and structural steel products. Our value-added products which were contributing 53% to our total sales have gone up to 57% in line with the company's strategy. Company is aiming 75% contribution from the value-added growth by 2018 - 2019. Export revenues remain stagnant, we expect improvement in margins once the steel prices stabilize across the globe. Additional profit contribution by value added production has been eaten away by the regular products. Engineering structure facility which was commissioned in March 2016 has achieved its desired production levels well in advance and we are doing very well in heavy structures and solar structures. At present, we are supplying solar panel structure to around all the big players in solar power.

There was a dull market and still demand is yet to come up business environment, even though we have been able to maintain our top-line growth. Price increase is taking place but if demand was muted we would have achieved our expectations. We may talk of our value added sector, we can talk of the auto sector. Auto tube division likely to be better as government is mulling old vehicle scrap policy. It will give demand for fresh models and new maintenance and replenishment requirement will come. Moreover, company is under process to increase its auto tube installed capacity to 72,000 in January 2017 with a meagre Capex and it is likely to give revenue in Q1 2017. And if we talk of the forging sector, forging sector is coming out of the early stint. Government announced projects have started coming to execution level. Some new refineries are coming up but the full recovery is yet to come. We are doing R&D on some new products which will come to production in Q3, Q4. And if we talk of the railways and solar which comes under our structure division, fabrication of railway bridges and girders is getting momentum. Company has got orders worth Rs. 20 crores to be executed in first quarter of 2017 - 2018. Future orders worth Rs. 50 crores almost are also under negotiation. Future growth is visible in this sector and if we talk of the solar, Indian solar industry is maturing year by year, last nine months was a good turnover, and coming quarters are promising. Falling prices of electricity is a point of concern, but it seems industry will absorb it. We are giving almost 40 megawatts per month for last six months.

Now, this is the total scenario which we are seeing. Now I would like to hand over the floor to Mr. Sanjay Bansal who will tell the financial performance. Over to Mr. Bansal.

Sanjay Bansal: Good afternoon, everybody. I, Sanjay Bansal, CFO, welcome you all for joining us for conference on performance of the company in quarter three of current financial year 2017. Regarding quarter three performance, sales was increased to Rs. 309 crores as against Rs. 262 crores during quarter three of previous year, registering a growth of about 17%. However, EBITDA for the quarter stood at Rs. 20 crores as against Rs. 23.52 crores during Q3 of financial 2016, registering a reduction in EBITDA margins about 15% on year-over-year basis. The profit before tax was Rs. 3 crores in Q3 FY2017 as compared to Rs. 10 crores in Q3FY2016.

Regarding performance in nine months of current financial year, there was an increase in sales about 8% during the period as compared to previous year. Our EBITDA has gone down to Rs. 72 crores versus Rs. 79 crores in previous year. Profit after tax stood at Rs. 9 crores versus Rs. 12.3 crores in previous year. EPS has been at Rs. 6.19 per share as against Rs. 12.4 per share during previous fiscal. Main reason for lower profitability during third quarter of financial year was increase in raw material prices as explained by Mr. Garg. Moreover, demonetization of currency note has also adversely affected the demand of finished goods, resulting in more pressure on finished goods prices and lower profitability.

On financial front, our interest cost has gone up due to capitalization of expansion, projecting a structural division. Long-term debt outstanding as on 31st December was Rs. 92 crores with debt equity ratio of less than 1. Current ratio has been at 1.26 as on 31st December.

Thank you very much.

Ram Aggarwal: Now we are open to Q&A session.

Moderator: Thank you very much. We will now begin with the question-and-answer session. We have the first question from the line of Vaibhav Badjatya from HNI Investments. Please go ahead.

Vaibhav Badjatya: I just wanted to understand that how is raw material inventory planning works in the company? See, if we have an order do we completely book the inventory for that time of getting the order or we keep it open and we build inventory as we go along and execute the order, how does it work?

Mahesh C. Garg: Depends on the order size. If order size is small it is procured at the time of order, if the order is long most of our infrastructure order continue for several months, so material has to be bought month-on-month basis.

Vaibhav Badjatya: So for like long, the orders which have executable period of say five, six months, like for example solar, you will buy raw material on month-by-month basis?

Mahesh C. Garg: Yes.

Vaibhav Badjatya: So that is why you will be exposed to this short-term fluctuation in raw material prices?

Mahesh C. Garg: Yes, that is right.

Vaibhav Badjatya: And if I may ask one more question, what is the import price of HR Coils as of now, including anti-dumping duty and excluding anti-dumping duty if you were to import HR coils?

Mahesh C. Garg: HR Coils as such cannot be imported into the country, there are heavy duty, 12.5% is the custom duty and below a certain floor price i.e. $471. If it is above that then you do not get anti-dumping duty on that, if it is below $471 then you will immediately fined anti-dumping duty.

Vaibhav Badjatya: Sir, what I was trying to just tell was that HR coils are always priced in terms of import parity, most of the players actually try to price HR coils in terms of import parity. So whenever this MIP regime is over, I think hopefully after two months then the government is talking about enforcing long-term anti-dumping duty, as of now it is short-term anti-dumping duty. So, I was trying to judge from that perspective after two months when this MIP is over what would be the import prices assuming that there will be long-term anti-dumping duty and assuming that there will not be long-term anti-dumping duty?

Mahesh C. Garg: Sir, let me clarify, there is no MIP on HR Coil as on date, there is only minimum price which government has set below which we cannot import, that is $471. And as soon as we import at $471 then we are involved with the custom duty and safeguard duty and anti-dumping. Anti-dumping is already in place for HR coil for three years, safeguard is also there for three years. On HR coil it is already in place, there are other products of steel which government is thinking of putting the duties. So, HR coil anti-dumping regime exists today. MIP is not there. But today landed price of HR coil from international market is much lower than what we people have priced, there is no threat of import to HR coil manufacturing in the country. So they have got absolute pricing power and we will there**,** they have increased prices unwarranted in a very, very aggressive manner which has affected the processing industry as a whole.

Vaibhav Badjatya: So basically, then what you are saying is that because this anti-dumping duty is for three years on HR coil, then for three years domestic sale continue to have pricing power and they will continue to increase prices as and when the international prices allow them to?

Mahesh C. Garg: That cannot happen always because ultimately price fixation has to be backed with domestic conditions. If domestic demand is low, many factors as I told you regarding demonetization, regarding international slow demand, they cannot increase go on increase in the prices without thinking. As is happening today, today HR coil prices are standing at a level when there is no demand for products in the country, exports are suffering. Now, there is a softening of domestic steel HR prices and this will continue till a balance is established.

Vaibhav Badjatya: And sir, how does the decision making works in the company in terms of while taking any order or planning internally, what specific financial ratios do you target in terms of what you want to achieve on a particular order or for a company as a whole?

Mahesh C. Garg: Every order is analyzed by costing department and once they have clear margins then only we book the orders, that planning mechanism exists in the company and we work based on figures and fundamentals.

Vaibhav Badjatya: Yes, that is what I wanted to understand between the focus is on margin right, or is it on something else?

Mahesh C. Garg: That is right, focus is on the margins and not the volumes.

Vaibhav Badjatya: So, I mean, just a important consideration, I think margin focus is right so long as it yields you a good return on equity. And I just wanted to understand management views on that that are we kind of too much focused on margins because it might dilute return on equity, I mean, we might generate good margins but if our asset turnover is low then our return on equity will not be good enough. And what is most important to all shareholders and even promoters and from business perspective is return on equity. So I just wanted to make sure that how the decision making working in the company?

Mahesh C. Garg: Healthy margins with reasonable volumes, these are all the guarantee for a better return on equity. Healthy margins alone without volume will not help, volumes have to come, healthy margins have to come, our marketing team is strong enough to achieve the aim and we will be achieving it. What you see in the third quarter, I again explain you, what happened in the third quarter our order book size was very healthy, three to four months, and this unprecedented increase of HR coil and zinc has put us off. There all the orders what we get are always fixed prices, however we have been pursuing with the infrastructure companies but they did not raise the price, they will not raise ever. Even the prices go down then benefit comes to us and we accept the order, that is the way, it is the life in business cycle, there are no issues on that.

Vaibhav Badjatya: So, I was actually not talking from this quarter perspective at all, I wanted to get more from a normal decision making perspective which will actually drive long-term results, this quarter-on-quarter variation I am not actually concerned about at all and I am not worried about that at all.

Mahesh C. Garg: No, I can assure you complete mechanism been in place, each order, each project is analyzed and overall perspective of order book size is taken into consideration. Whenever order book size is not sufficient we sometimes sacrifice the margins and go for the volumes. We have to achieve full utilization of our capacity, that is what is in place. Many times we have to go for marginal costing, many times we have to go, that is the need of the day. Policy is to keep the plant running all the times, but at the same time margins should be healthy, volumes should be healthy.

Moderator: Thank you very much. Our next question is from the line of Kunal Motishaw from Reliance Securities. Please go ahead.

Kunal Motishaw: Considering that we are already half way through in 4Q FY17, how has the quarter been so far?

Ram Aggarwal: This quarter from February has started showing the green shoots. The prices have come to stabilization state and in the March it will be more visible. Whether this unintended price increase whether it has come to a halt or not, but it seems it has come to a halt.

Kunal Motishaw: Okay. Sir, because we believe that there was a price increase in the first week of January and after that it was not really accepted well in the market. And considering we already have a price lag, so shouldn't 4Q be better than 3Q?

Ram Aggarwal: Q4 is likely to be better than Q3.

Kunal Motishaw: In both volume wise as well as margin wise?

Ram Aggarwal: Both wise if we consider Q3 to Q4, Q4 should be better in all respect from Q3.

Moderator: Thank you. Our next question is from the line of Salil Utagi from Edelweiss. Please go ahead.

Salil Utagi: Sir, my question is on our exposure to oil and gas sector. So, in our precision tube segment how much is our exposure to this segment and are you seeing CAPEX happening in that sector?

Ram Aggarwal: Basically, in our ERW precision tubes we do not have any exposure to oil and gas.

Salil Utagi: So, do we have any exposure to oil and gas?

Ram Aggarwal: Yes, we have exposure to oil and gas in our forging division. And in that sector green shoots are visible because some new refineries are coming, but they have not yet come to the order stage basically, planning are on, government is likely to release funds. I hope from Q1 these projects will come for execution.

Salil Utagi: Execution or tendering?

Ram Aggarwal: No, tendering has been completed, now it should come for the order placement from quarter one, what we expect in the area we are dealing.

Salil Utagi: Orders are coming to Engineers India or directly from the refineries?

Mahesh C. Garg: Actually, we are mostly in exports in forging. With the trend of oil prices rising the CAPEX in oil sector was on hold until now, now the plans are getting released and more orders will be coming. In time to come export demand will pickup. Already orders have started flowing in and from next quarter the order flow should be good, because we expect oil prices to continuously rise. That is at honest pace, at a fast pace I do not know.

Salil Utagi: But you are talking about exports orders but what about domestic orders in refineries?

Mahesh C. Garg: Domestic replenishment requirement, MRO requirement continues. But margin, they are under pressures, if our buyers are comfortable then we are likely to get a better price for that.

Salil Utagi: Are the margins higher than structures or at the similar level?

Ram Aggarwal: No, margins are higher than structures in this oil and gas domestic sector, but the problem is of the demand, right now the problem is of the demand.

Salil Utagi: And what would be our focus sectors going forward, means in the next two years which will be the sector which will drive the demand for us?

Ram Aggarwal: Basically structure division we are looking for, because in structure division we have commissioned a project in March 2016 where earlier the capacity was 24,000 ton per annum, we raised to 48,000 and we just bought it in the month of November itself, 48,000 tons. So, I look forward for the coming two years our focus will be on the structure division and we will be adding some more sectors in the structure. Right now we are dealing with railways, solar, electrical lines, now we will go for the boiler support structures in a big way for the next year. So this is the line we are looking for next two years, and another line we are looking for is the auto sector, because the government is mulling a policy of scrapping the old vehicles, commercial as well as personal vehicles. So, I look forward a good demand should come from there.

Salil Utagi: And sir, margins in structures will be at 7% - 8% or higher than that?

Ram Aggarwal: Margins in structure, because there are many subsectors in the structure, if you talk of the transmission line it is in the range of 5% - 6%, but if you talk of solar products it will be in the range of 10%, if you go for the bridges it may go to 12% to 15%. So, it varies. But normally the margins are in the range of 10% to 12%, it is EBITDA margin I am talking.

Salil Utagi: Structures basically are ERW pipes, right?

Ram Aggarwal: No, structure is not ERW pipes, structures are basically the transmission line structures.

Salil Utagi: The transmission towers you are saying?

Ram Aggarwal: Yes, we are talking of transmission line towers like KEC, what they are making. We are Power Grid and NTPC approved and we are working for them for last 10 years.

Salil Utagi: So, in bridge the structure which are used in bridges, what is that material?

Ram Aggarwal: The material is basically special grade of plates in the bridges.

Salil Utagi: And sir, one more question on the finance, what is the debt as of now because interest cost has gone up YoY basis so what is the plan on that going forward?

Sanjay Bansal: Debt as on 31st December was Rs. 92 crores, long-term debt.

Salil Utagi: And short-term?

Sanjay Bansal: Short-term is about Rs. 248 crores, working capital loans.

Salil Utagi: So what is the plan going forward, means, would it come down going forward?

Sanjay Bansal: You see, our repayment is about Rs. 18 crores per annum, so on repayment, definitely interest liability will go down.

Salil Utagi: But are you taking new debt going forward?

Sanjay Bansal: Yes, new debt would be linked with modernization or expansion plans.

Moderator: Thank you. Our next question is from the line of Swarn Agarwal from Axis Bank. Please go ahead.

Swarn Agarwal: I just wanted to understand that as far as our understanding is from September to December the HR prices have increased by around Rs. 4,500, but since it was month-on-month, the average increase would be around Rs. 2,000 - Rs. 2,500, because in January we have seen a steep increase of Rs. 3,000 itself, assuming that Feb and March also the prices remain the same, but average increase in HR prices would be around Rs. 3,000 as compared to around Rs. 2,000 levels in the last quarter. So, why do you expect Q4 to be better?

Mahesh C. Garg: Sir, first thing I would like to dispute, the figures given by you. The price increase from July till January is almost Rs. 12, January price was Rs. 27,000 per ton and January delivery price was Rs. 40,500, so it is virtually Rs. 13.

Swarn Agarwal: Sir, I have given you figures from September to December, like I was just comparing…

Mahesh C. Garg: September to December also the price increase is around Rs. 9.5, from 1st September to 1st January the price increase is almost Rs. 9 and every month there was a price increase. With the results I can tell you that steel demand is price elastic, steel demand is not something for like food, more and more prices, less and less consumption, that is a universal rule. So much so, in January throughout the length and breadth of the country the new prices of HR Coil has been rejected by the trade and industry and they are not able to sale any material, HR produces. So now they are giving discounts left and right, trying to give discounts, they have not given, but it is likely that they will start reduction in month of January in steel prices, that is my expectation. There are broad indications of the same available to us.

Swarn Agarwal: And I wanted to understand the export dynamics, as in with the MIP and anti-dumping duty coming in place, I just wanted to clear out one basic understanding. If the steel HR prices are below the anti-dumping duty, say the steel HR prices is at around $400, so at that price how will you be able to export because you are buying price at say around $471 or say $460, how competitive you will be in export if the steel prices go down? That is the understanding which I want to get.

Mahesh C. Garg: For export purpose we can import against advance license whereby the floor price, anti-dumping duty does not come into place. So, by import of coil against export there is no issue we can still export.

Moderator: Thank you. Our next question is from the line of Sudheer Tripathi, he is an individual investor. Please go ahead.

Sudheer Tripathi: I have a query that once the steel prices will normalize how the margins will improve?

Ram Aggarwal: Sorry, can you repeat your question, because I am not able to hear.

Sudheer Tripathi: Once the steel prices will be back to normal as expectation, how much basis points the margins will improve which currently are very lower?

Ram Aggarwal: Basically, if the steel prices are back to normal we do not say it should be to the original price, but we just want it should be stabilized price regime where we can sale the products. So, if it happens so we will be back to our 9% to 10% EBITDA margins what we have been enjoying since last year.

Sudheer Tripathi: Any expectation on this, I mean, like another two quarters from here or something like that for this kind of margins?

Ram Aggarwal: Basically, from Q1 FY17 - FY18 it is likelihood that if the prices stabilize then we can be back to normal for the EBITDA what I am talking.

Sudheer Tripathi: Secondly sir, entire business right now is covered by the solar structure and structure fabrication? I mean, the entire structure fabrication for transmission line and everything, how much it is covering of the entire business?

Ram Aggarwal: The entire business, right now it is to the tune of 25%.

Sudheer Tripathi: And a part of it also comes under the value-added products or not?

Ram Aggarwal: Yes, it is a part of only value added source, our value-added product right now is 57% and 43% is our regular product which encompasses our pipe and CR only. And value added encompasses your structures of auto and forgings.

Sudheer Tripathi: So, actually it was from the reference that you said that this value-added product will be expected to reach up to 75% in due course of time, so that is why I asked that how much percentage of this solar structure, I mean this entire structure fabrication will cover of that 75%?

Ram Aggarwal: Out of that 75% it should be almost 25%.

Moderator: Thank you. Our next question is from the line of Sukrut Deshpande from Vibrant Securities. Please go ahead.

Sukrut Deshpande: So, can you throw some light on the competitive scenario and who are the key competitors with whom we compete, so something that on that would be helpful to understand the structure?

Ram Aggarwal: Sorry, I am not still able to understand what you want to ask clearly.

Sukrut Deshpande: So, I want to understand the competitive scenario in the products in which we play.

Ram Aggarwal: In terms of structures, in terms of our sector or total products?

Sukrut Deshpande: If you can take the key products in structures, in HRC and all, so if you can take the three, four key products in which we play and in each of them with whom we compete?

Ram Aggarwal: Basically, what I have understood from whatever you have said, what I have understood I am just telling you. Because we are dealing in five products so every product has a different segment where we have to compete with other people. So if you can specify the sector then I can let you know if you talk of structure, auto tubes or forgings or the regular products, then I can let you know what is the scenario. Because every product has a different market scenario right now.

Sukrut Deshpande: So, if we can take the precision tubes?

Ram Aggarwal: Yes, we are in the CDW tubes and not precision tubes, it is cold drawn welded tubes which are very specific to automobiles only, four wheelers and two wheelers. So in this sector in India TI is the model, we are following the TI model. And the competition in this sector in this particular CDW is less.

Sukrut Deshpande: So, we compete with companies like Tube Investments?

Ram Aggarwal: Yes, Tube Investments Chennai.

Sukrut Deshpande: So, in which exactly component is it used, where exactly in automobiles, can you just help us understand?

Ram Aggarwal: This is basically called automobiles tubes, in USA it is called DOM tubes, so this is basically used in two wheelers like shock absorbing tubes or in a car if you see if a car weighs one ton so 150 kg is the automobiles tube specifically is used in that, like your STI columns and many other diesel injection tubes or body tubes, this is the item.

Sukrut Deshpande: So, would we consider someone like Gandhi Specialty Tubes as our competitor, Ahmadabad?

Mahesh C. Garg: They are not our competitor, they are making especially thin walled tubes, they make special tubes only for fuel injection, Gandhi Tube in Baroda you are talking about?

Sukrut Deshpande: Yes.

Mahesh C. Garg: Gandhi Tube Baroda is a very specialized products, they make 6mm or very, very thin wall tubes.

Sukrut Deshpande: And also if you can throw some light on the structures, the structural division in which we play.

Ram Aggarwal: In structures, what we have told we are doing solar MMS, and the transmission line towers. So in that sector if you talk of transmission line towers there are Kalpataru, KEC who are very big. If you talk about the solar MMS structure, there are many players like Ganges, Pennar and many other players.

Sukrut Deshpande: So overall there is no barrier to entry as such in this business, am I correct or am I wrong?

Ram Aggarwal: Yes, there is an entry barrier on auto tubes. It normally takes three to four years to get one approval, so that is the highest entry barrier, quality requirements are very stringent. 5 ppm basically 5 pieces per one million pieces can only be rejected. So they have high quality standards and high approval in automobiles tubes. In structures, they have very specific requirements and it takes normally one to two years to get approvals, so they are entry barriers, everybody cannot enter as and when he desires.

Moderator: Thank you. Our next question is from the line of Vaibhav Badjatya from HNI Investments. Please go ahead.

Vaibhav Badjatya: Sir, I just want to have a small discussion around the value-added strategy that the company has articulated and is working on. So, if I look at your financials from 2008 - 2009 where EBIT margin, I am not talking about EBITDA margin, I am talking about EBIT margin that is after depreciation, it is almost same all the time at around 7% to 8%, except March 2015 which has gone up to 8.9% because probably one of the raw material prices firmed in that financial year. And that your asset turnover has come down and that is why your ROE has contracted significantly from that point onwards. So I think I just want to understand that how this value added strategy is actually working for the company, because the number does not seem to depict that it is actually working?

Sanjay Bansal: If you see in value added products the EBITDA margin is higher as compared to regular products.

Vaibhav Badjatya: Sir, I am sorry, but this does not matter whether EBITDA margins are high or low because your ROE is contracting because your asset turnover is low. So you might be getting higher margin in EBITDA terms but you are not getting higher margin in EBIT terms which is actually important. And on the contrary, because you have invested your asset, turnover is low and that is what is showing ROE.

Sanjay Bansal: No, you are very correct, if assets turnover ratio is lower than it definitely affects ROE. But simultaneously if margins in value added products is higher and asset turnover remains same then ROE will improve. So our focus is to maximize the margins along with the increase in asset turnover.

Vaibhav Badjatya: If you look at your EBIT margins it has not actually improved since March 2008, it is around 7%to 8%, it has not inched up a lot.

Sanjay Bansal: No, March 2008, you cannot compare eight years back story. You see, if you will compare from last two ,three years you would see the improvement.

Vaibhav Badjatya: Yes, even in last two, three years sir, if you see in March 2012 your EBIT margin was 7%, in March 2013 it was 7.1%, in March 2014 it was 6.6%, in March 2015 it was 6.9% and it just inched up substantially in March 2016 and probably there was a steep fall in raw material prices.

Sanjay Bansal: You are very correct, see we are a company who is progressing, almost in last three, four years we are expanding. So since the company is expanding year-over-year basis then definitely EBIT margin may affect and remain the same. The fruits will come in future.

Vaibhav Badjatya: Sir, what could be the capacity on an overall company basis, I am not talking about division by division basis but on overall company basis what would be the capacity utilization as of now?

Sanjay Bansal: Capacity utilization overall would be about 70% to 72%.

Vaibhav Badjatya: And probably we can go up to something around 85% if I am not wrong, and beyond that it would be a bit of a stretch I guess?

Sanjay Bansal: Yes.

Vaibhav Badjatya: Actually I would like to make a visit to the company and have a detailed discussion with someone in your company.

Sanjay Bansal: Give us a call and you can come anytime.

Moderator: Thank you. Our next question is from the line of Arjun Vij from IDFC Bank. Please go ahead.

Arjun Vij: I just wish to ask the employee cost, has increased by approximately 35% if I compare to the last nine months.

Sanjay Bansal: The increase in employee cost is due to capitalization of structural expansion.

Ram Aggarwal: Basically employee cost has increased because we have started new products and for these new products we have bought some new marketing executives, some production facility people we have got, that is the reason.

Arjun Vij: Sir, what are the new products?

Ram Aggarwal: The products we have just incorporated, this is the railway Bridges & structures, heavy boiler structure, solar MMS structure, some new transmission line structure for which we had done a CAPEX in March 2016 it was completed and the capacity was made from 24000 to 48000. To augment that capacity we have hired many people to sale produce and everything.

Moderator: Thank you. Our next question is follow-up from the line of Vaibhav Badjatya from HNI Investments. Please go ahead.

Vaibhav Badjatya: Sorry, just last one question. So, we are present in CDW tubes, I understand that, as a main competitor Tube Investments is there. Now if I look at Tube Investment's CDW business division their margin is not very superior to what we already make in other business divisions and on a overall company basis. So their tube division is making somewhere around 6% to 7.5% EBIT margin, so why do we think that CDW is a kind of ROE product for us?

Mahesh C. Garg: CDW tubes EBIT margins are around 15% to 16%.

Vaibhav Badjatya: But Tube Investments number does not reflect that.

Mahesh C. Garg: No, their margins and our margins are different, they have various products under that same umbrella, they have a rolling mill also. Their average margin is 7% to 8%, our margin is exclusively for CDW, that is the difference here.

Moderator: Thank you. Our next question is follow up from the line of Sukrut Deshpande from Vibrant Securities. Please go ahead.

Sukrut Deshpande: Sir, can you tell us what is the roadmap for the company or where do we see our company say in next five years in terms of our business, size, profitability, margins, where do we see ourselves, what is the roadmap, plan?

Ram Aggarwal: Basic roadmap plan what we are having, right now we look forward with the CAPEX what we have done so far. We look forward to a top-line of Rs. 1500 crores, EBITDA margin to remain in 10% to 11% range. And if we go for expansion, we have to go for expansion in our Bhuj plant, we have got a land in Bhuj. Basically we want to take our exports there because if we go there we have a logistic advantage there. And moreover, since this anti-dumping duty and MIP they are all in place, so import of HR coil will be viable there. So, our net project which we want to start it will be for the export of our products from our Bhuj plant and that CAPEX will take our turnover because it will be again two to three phases. So what we look in next two years with no CAPEX we will be Rs. 1500 crores and if we do CAPEX so we look forward to Rs. 2,000 crores in next three years.

Sukrut Deshpande: And in order to achieve this do we have the requisite management bandwidth or do we need to take professionals in the company or do we have the requisite human resource as of now in terms of in the senior level?

Mahesh C. Garg: Yes, we are fully capable; we have a full technical team, management team in place to take the expansion without any hindrance.

Moderator: Thank you. Our next question is from the line of Swarn Agarwal from Axis bank. Please go ahead.

Swarn Agarwal: Sir, the CAPEX which you are talking about at the Bhuj plant will be how much and how will you fund it?

Ram Aggarwal: Basically this CAPEX plan, it will be in two phases.

Sanjay Bansal: In first phase we have chalk out a plan and project cost would be in the range of Rs. 70 crores to Rs. 80 crores and it will be financed through bank finance and promoters' equity.

Swarn Agarwal: And second phase?

Sanjay Bansal: In second phase, after two years.

Swarn Agarwal: And first phase will start when?

Sanjay Bansal: First phase will start most likely from May 2017 subject to financial closure of the project.

Swarn Agarwal: Have you tied with any bank as of now?

Sanjay Bansal: We are in discussions with two, three banks, our existing lenders.

Moderator: Thank you. Our next question is follow-up from the line of Sukrut Deshpande from Vibrant Securities. Please go ahead.

Sukrut Deshpande: Sir, in terms of exports as you said, can you tell us which products are you targeting and what is the market exactly in export which you are targeting?

Ram Aggarwal: Right now we are exporting to at least 92 countries, it is across the globe. We are catering to Latin America, US and European countries, African countries, Gulf Countries.

Sukrut Deshpande: And which product are we exporting, if you can…

Ram Aggarwal: Basically we are exporting our GL pipes and tubes, CR sheets and automobile tubes, and lastly the forgings.

Sukrut Deshpande: So, the plant at Bhuj will only help us in logistics, is it correct or is there any other advantage as well?

Ram Aggarwal: Basically Bhuj plant has many advantage, the biggest is the logistics one because if we import at Bhuj and bring it to our existing plant, it takes almost Rs. 2,500 a ton. And when we export it back it again takes Rs. 2,500 a ton. And there the plant of incoming and outgoing, it will be almost Rs. 1,400. So it will be a gain of Rs. 3,600. Moreover, the biggest advantage will be, there is a hub called Sanand, it is 200 kilometers from our proposed plant. So in our automobiles tubes we will be able to service Tata, Maruti, Hero, so all the big automobile consumers are coming there. Moreover, one advantage is feeding to the south market, in south business we have to give almost Rs. 5,000 a ton freight from here. But from there barges have started, so from there a freight advantage will be there and we can capture market of south as well as the western. And whatever expansion, whatever development is going on, I understand it is mostly either in the west or in the south.

Moderator: Thank you. Ladies and Gentlemen, that was the last question. I now hand the conference over to Mr. Vikram Suryavanshi for closing comments.

Vikram Suryavanshi: We acknowledge management for taking time out for interacting with the shareholders. And thank you all for being on the call.

Ram Aggarwal: Thank you.

Moderator: Thank you. On behalf of PhillipCapital (India) Private Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.