

22<sup>nd</sup> May, 2019

1]  
The Secretary  
The Calcutta Stock Exchange Limited  
7, Lyons Range  
Kolkata 700 001  
Scrip code: 10023915

2]  
Listing Department  
National Stock Exchange of India Ltd.  
Exchange Plaza, Bandra-Kurla Complex,  
Bandra (E), Mumbai - 400 051  
Scrip code: MAITHANALL

**Sub: Transcript of conference call with Investors/Analysts**

Dear Sir,

Please find enclosed herewith the transcript of a conference call on 6<sup>th</sup> May, 2019 with Investors/Analysts.

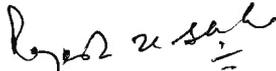
This information is submitted pursuant to Regulation 30 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements), Regulations, 2015.

This is for your information and appropriate dissemination.

Thanking you,

Yours faithfully,

For Maithan Alloys Limited



Rajesh K. Shah  
Company Secretary

Encl: a/a

cc: The Corporate Relationship Department  
BSE Limited  
1<sup>st</sup> Floor, New Trading Ring, Rotunda Building,  
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# “Maithan Alloys Limited Maiden Earnings Conference Call”

**May 06, 2019**



**MANAGEMENT: MR. SUBODH AGARWALLA – PROMOTER & CEO,  
MAITHAN ALLOYS LIMITED**

**Moderator:** Ladies and gentlemen good day and welcome to the maiden Earnings Conference Call of Maithan Alloys Limited. This conference call may contain forward-looking statements about the company which are based on the beliefs, opinions and expectation of the company as on the date of this call. These statements are not the guarantees. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing ‘\*’ then ‘0’ on your touchtone phone. Please note this conference is being recorded. I now hand the conference over to Mr. Subodh Agarwalla – Promoter and CEO of Maithan Alloys Limited. Thank you and over to you sir.

**Subodh Agarwalla:** Good morning and a very warm welcome to everyone present here. Along with me we have SGA, our Investor Relations Advisor. I hope you all have received our Results and Investor Presentation by now. For those who have not I would request you to take some time out and visit the same on our website.

Since this is our first call, I would like to give an introduction of our company. Maithan Alloys Limited is India’s largest Manganese Alloys producer and exporter, having two decades of experience and continuous growth. Currently our capacity is about 2.4 lakh tonnes per annum. We specialize in Ferro Alloys and we have attained a certain mastery over manganese alloys. This basket comprises of both products Ferro Manganese and Silico Manganese. In addition to the same we also produce small quantities of Ferro Silicon.

Our company’s vision is to be India’s premium alloy company that is built on the solid foundation of shareholder trust, customer commitment, employee satisfaction and sustainable communities to consistently deliver on our promises backed by meticulous hard work which is our motto for ensuring success always. Over the last five years our Revenues, EBITDA and PAT have increased by a CAGR of 16%, 45% and 86% respectively. The growth in revenues and profitability reflects the strength of our business model which we have built over the last many years painstakingly.

If I was to summarize the strength and differentiating factors of our business, it would be as follows:

- We are the preferred supplier with multiple large steel companies.
- We have high credibility in the market due to timely delivery and optimum quality. This results in graduating to medium-term contracts which provides the platform for optimum planning and greater visibility of revenues spanning more than a quarter sometimes.
- The company is cost efficient at every stage of manufacturing. We prepare the most efficient raw material blend even in the light of ever-changing availability of certain

material in accordance with the market scenario. We source our raw materials at the lowest cost and achieve a high output by input ratio.

- Our overheads are maintained at the lowest levels with the right quality of assets installed and right selection of the experienced team.

All this gives us a very significant advantage over our competition in terms of EBITDA margins. The company fully optimizes the product selection and manufacturing considering the finite capacity that we have. We have an optimum product basket that generates highest margins for us. With prudent capital allocation and superlative operating efficiency our operating ROCE has constantly remained way above 50% in the last three years. For FY19 our operating ROCE is above 60%. Every dollar is conservatively spent in the company to generate higher ROCE. This is what we take pride in.

Now I would like to give you a brief on the existing operations of the company; the company has three plants,

Kalyaneshwari, this is the oldest plant contributing about 40% of the revenues. The company started its operation there with the capacity of 10 MVA in 1997 and gradually increased to 49 MVA by 2007. This plant makes Ferro manganese and Silico manganese for the domestic market.

The second plant is in Brynihat in Meghalaya. This contributes about 10% of the revenue and was started in 2009 with the capacity of 16 MVA. The company manufactures only Ferro Silicon here; at this location logistics do not favor Manganese Alloys.

The third and the newest plant is in Visakhapatnam which contributes 50% of the revenue and was started in 2012 with the capacity of 36 MVA and then enhanced to 72 MVA the next year. The company manufactures Ferro manganese and Silico manganese at this plant, and this is all for the export market because it is located in the SEZ.

The most important raw material for us is Manganese ore. We import Manganese ore from Africa and Australia. The various grades of imported ore we buy is of high quality, is consistent and is available in quantities suitable for us. This leads to better input material for the final manufacturing. Since we are located close to the port, we get the logistic advantages as well.

Our revenues are equally divided between domestic and exports. Mostly exports are to the Asian economies excluding China. We have risk mitigation strategies in place with regard to country and customer. Moreover, we are very well aware of risks posed by commodity price fluctuations and open forex position and take care of that judiciously. The steel industry's capacity utilization is expected to remain at above 80% in the next three years and this is supported by a favorable domestic demand. It is expected that domestic steel makers will

increase the capacities further by about 16 million tonnes over the next three years. Additionally, investments being ramped-up and stressed assets resolved will lead to industry CAPEX estimate of about Rs. 75,000 crores in the next three years. With all the CAPEX announced and with increased capacities the steel industry is set to grow. This will boost the demand for Ferro alloys at a very fast pace going ahead.

In order to grab these growth opportunities Maithan Alloys has forayed in organic growth six months back wherein the board had approved to set up a Greenfield Ferro alloy manufacturing unit in West Bengal with an estimated capacity of 1.2 lakh tonnes per annum. This plant is going to be suitable to make both Chrome as well as Manganese Alloys i.e. it will be fungible. The unit is proposed to be set up within a period of 24 months with an estimated cost of about 275 crores. The entire CAPEX will be funded from internal approvals. We are looking actively at inorganic growth opportunities as well.

Now I would like to update you on the financial performance of the company; our company reported a good growth for the quarter ended 31<sup>st</sup> of March 2019. The board of directors has recommended a final dividend of Rs. 6 per equity share of face value of Rs. 10 that is 60% dividend.

On the revenue front: Our Revenue from Operations for FY19 grew by 6% to Rs. 1,988 crores that is a shade below 2000 crores. Our manufacturing revenue grew at the same pace and trading revenue remained constant at Rs. 176 crores. Manufacturing revenue is more than 90% of our total operating revenue. For the year FY19 our production was 2.25 lakh tonnes, nearly at full capacity and similar as last year. The demand for Ferro alloys continues to remain strong on back of increased demand of steel in India.

On the EBITDA front, the operating EBITDA for FY19 stood at Rs. 322 crores. EBITDA margins for both Q4 and the full-year FY19 stood at 16%. We are confident of sustaining a long-term EBITDA margin of 15% to 17% which is what we stated two years ago itself. Profit after tax for FY19 stood at Rs. 255 crores. PAT margins for both Q4 and full year stood at about 12.8%. Our company is a net cash company having about Rs. 667 crores of cash and liquid investments.

With this I would like to open the floor for question and answers. Thank you.

**Moderator:** Thank you very much sir. Ladies and gentlemen, we will now begin the question and answer session. We have a first question from the line of Abhijeet Dey from BNP Paribas Mutual Fund.

**Abhijeet Dey:** You mentioned that your capacity is about 2,40,000. Is that including Ferro chrome?

**Subodh Agarwalla:** No, currently we are not doing Ferro chrome. We have planned to do Ferrochrome in the future

- Abhijeet Dey:** So basically, the capacity of Ferro manganese and Silico manganese right now is about 2,40,000 tonnes, is that right?
- Subodh Agarwalla:** Basically, the capacity is 2,40,000 tonnes including Ferro silicon as well. So effectively if we were to do Silico manganese and Ferro manganese in our Meghalaya plant then we would actually be touching 2,35,000-2,40,000 tonnes. But Ferro silicon being an energy intensive product the tonnage is lower.
- Abhijeet Dey:** What is the industry capacity for both Ferro manganese and Silico manganese as it stands today in India?
- Subodh Agarwalla:** About 2.5 million tonnes.
- Abhijeet Dey:** Which means you are almost 10% of the industry in that sense?
- Subodh Agarwalla:** Yes, and this is I would say utilizable capacity as the industry currently is almost there. But there are certain capacities which are historical capacities. Those have been shut for more than five years. So, although they may appear on paper, we do not consider that. It has no meaning.
- Abhijeet Dey:** So, have you excluded that from the 2.5 million?
- Subodh Agarwalla:** Yes, I have. The 2.5 million tonnes is the utilizable capacity.
- Abhijeet Dey:** What is the utilization there currently within this 2.5 million?
- Subodh Agarwalla:** I would say in the market which has been in the last couple of years any capacity which could be utilized has been utilized. Nobody would want to be underutilizing when they can make money. So whatever level have been achieved I would say that is the level beyond which they will not be able to achieve. For example, you could say that some unit is capable of producing 1 lakh tonnes but in the best of market it operates at 80,000 tonnes then that should be taken as the utilizable capacity.
- Abhijeet Dey:** So is there any scope for further production growth in FY20 for the industry overall?
- Subodh Agarwalla:** Practically, not much scope. Whereas on paper you could see that the utilization is not so high. But practically I would say it is very high.
- Abhijeet Dey:** Apart from you, is there anybody else within the industry who has also announced increasing capacity over the next two years?
- Subodh Agarwalla:** There could be other people but because they are not in the listed space so you would not be coming to know about it.

- Abhijeet Dey:** On your raw material sourcing, mostly you import Manganese ore. Of late you have also been buying from the domestic market that is mainly from MOIL I believe. So in last year how much would be your proportion of domestic purchases?
- Subodh Agarwalla:** It would be less than 10% on a value basis.
- Abhijeet Dey:** Do you see that going up for any reason in the future?
- Subodh Agarwalla:** We are only buying low grade material from MOIL. So basically, the value of those material is let us say maybe about 30% to 40% per ton compared to the imported material. Hence, the percentage on the revenue cost basis is very small. We don't see that increasing because with MOIL the quality consistency is not there. So they can't promise us that they will be supplying a particular quantity of ore and meeting the specifications three years ahead. Without that planning it does not make any sense. Hence, we do not want to rely on them for our high-grade requirement.
- Abhijeet Dey:** So largely low-grade requirements you take from MOIL?
- Subodh Agarwalla:** Yes, absolutely right.
- Moderator:** We have a next question from the line of Jaiprakash Toshniwal from India First Life Insurance Company Limited.
- Jaiprakash Toshniwal:** Can you give us geographical breakup of the export revenue?
- Subodh Agarwalla:** Like I said most of it or all of it is going into Asia because the price pressure in the developed countries is significant. Also, because people who have been supplying to those areas, they have continued to do that, and they have protected their market share because they are based in those areas. For example, a producer in Europe has to supply into Europe only; if they want to supply outside then they would have a logistic disadvantage. So, because of that just after Lehman Brothers we shifted out of stagnant Europe into growing Asia. And in USA most of the steel mills are deep inside the country Thus, Europe and USA are not natural customers for us. China is a black box where we can do nothing much; the southern hemisphere continent is much-much smaller as far as population or the steel consumption is concerned which is why it makes sense for us to concentrate within Asia which is what we have done.
- Jaiprakash Toshniwal:** In reference to the new capacity which is coming of 1.2 lakh tonnes in the next two years, will it be domestic focus or again export focus?
- Subodh Agarwalla:** Any Manganese products will be domestic market focused. Chrome products will be catering to both domestic and export markets.
- Jaiprakash Toshniwal:** Have you finalized place for the expansion?

**Subodh Agarwalla:** Yes, we have. We have bought most of the land, maybe we will buy additional land for comfort but that does not hinder our construction of the plant.

**Jaiprakash Toshniwal:** How much have we already spent over this?

**Subodh Agarwalla:** I would say high single digit.

**Moderator:** We have next question from the line of Sarvesh Gupta from Maximal Capital.

**Sarvesh Gupta:** On the EBITDA metrics in the 13 quarters from September 2012 EBITDA margin was around 5% on an average. So now what has changed now is that our EBITDA margin would be in the 15% to 17% range as opposed to the 5% in those three years?

**Subodh Agarwalla:** Basically, are you referring to the standalone figures or are you referring to the consolidated figures?

**Sarvesh Gupta:** Standalone.

**Subodh Agarwalla:** So basically, what was happening in FY12 or by the end of FY12 is that we had commissioned the Visakhapatnam plant which at that time was in our 100% subsidiary. That subsidiary got merged into the parent company from the start of FY16. So, till the end of FY15 it was a subsidiary.

Now that plant in the first three years that is in FY13, 14 and 15 was not operating well. We were wanting to operate it in a hands-off approach thinking that things would automatically happen but that was not to be. When the plant did not perform even in the third year let us say about July 2015, I was given the mandate of taking over control of the plant and do whatever is required to ensure that that plant would perform at a level at which Kalyaneshwari plant was operating.

Now if you want to separate the performance and really understand what I'm saying you can take the standalone performance of the company and to get a sense of the Vizag plant working, you deduct the standalone from the consol. So consol minus standalone is the subsidiary. So, from that perspective you can see what was the EBITDA which was coming from the subsidiary and what was the EBITDA which was coming from the parent which was the Kalyaneshwari and Meghalaya plant.

The performance of the subsidiary was not so good in spite of the fact that it was not having to spend any money for its working capital needs. So, the parent company was buying raw material and selling it at cost and buying the finished product from the subsidiary and selling it outside at cost as well. This was essential because the raw material and finished goods tie-up was there with the parent company because overseas suppliers were comfortable with Maithan

Alloys and not with this new subsidiary which had come up. Because of the poor performance of the subsidiary, it really dragged the performance of the parent company.

So, if you're referring to EBITDA, the EBITDA which reflects on the standalone is the right figure. However, in the revenues you have a lot of trading revenues also figuring in which is the purchase and sales to and from the subsidiary which resulted in a zero margin. In the cost metrics you have a figure called purchases for sales. So, if you deduct the purchases for sales from the revenue of the standalone portion you would get an idea of the real manufacturing revenue of the standalone portion which is the Kalyaneshwari and Meghalaya units and you would have an EBITDA figure against that.

So, this is a little bit complicated but if you want to have a better understanding you can go deep into it and you will understand that the Vizag unit was not doing well, the other units were still doing reasonably well.

When we made a shift from private sector into the public sector in domestic market in that one year also, we had a hit on EBITDA because we had to grab market share and push people out. This was something which we had done consciously because we could see that steel was entering into a bad phase and we wanted to ensure that we would have no bad debts and we would not be losing money.

**Sarvesh Gupta:** One more question is sir could you let us know what can be the bottom or the bear case for EBITDA margins, although 15% to 17% is the long-term guidance. What can be the bear case in any 12-month period that we can hit in terms of EBITDA?

**Subodh Agarwalla:** I had done some figures. We have a 4% headroom over competition on the EBITDA front, so when the industry or our competition is making 8% EBITDA beyond that figure, they enter into a cash loss type of scenario. So, I would assume that the industry can go to that EBITDA margin which means at that particular juncture our margins would be 12%.

**Sarvesh Gupta:** You have done very well on the ROCE metrics but on capital allocation there are two parts to it, one is the cash generation part and you have done phenomenally well on ROCE metrics on that part. The other part is how do you plan to utilize that cash. Now if I see the cash position right now you have around Rs. 664 crores, this year we generated Rs. 320 crores approximately and next two years by which our new plant will come even in a bear case we will have Rs. 400 crores more cash, so we will have Rs.1000 crores cash and out of which we are spending maybe Rs. 300 crores odd, so Rs.700 crores odd which is remaining. Could you throw some light on how you plan to utilize that cash.

**Subodh Agarwalla:** We are earning about 7% post tax return on our surplus cash. The company is supposed to use cash judiciously for its own growth. Now we have seen three years of good growth in margins and cash flows which is why we have that kind of money. So, we became net cash 2.5 years

ago and in these 2.5 years we have been able to build a war chest of around Rs. 650 crores or so. Now we have been constantly looking at growth and looking for only the last 2.5 years because prior to that the entire industry was in doldrums and we could not think of growth. So 2.5 years ago is when we started looking at growth and we have a very long-term view on the business and therefore follow very conservative and prudent financial policy as our sector has seen ups and downs throughout.

In the past let us say to support our history of 20 years we have always been taking loans for one expansion project. We have been repaying that and in many cases prepaying the loan and only after the old loan is on the verge of getting totally prepaid is when the next project is planned, and the next term loan is taken. With this strategy we were able to grow from 10 MVA in 1997 to 137 MVA by the end of 2012 - that is in 15 years we were able to grow by 14 times. So, this has proved to be successful recipe and in spite of it being a low risk thing growth has been high. So, we would tend to continue with the success recipe, and we are constantly evaluating inorganic growth opportunities along with the announcement of a Greenfield CAPEX of about Rs. 275 crores. We need to conserve cash for the short-term because we are uncertain how much money we will be spending on the inorganic growth front.

We totally appreciate that keeping this cash has a negative carry and we have been debt averse, but we would still want to carry this money for another 12 months because we would hate to lose out on opportunities which come our way. And because we have been able to do a good job of expanding and operating, so we have a request to our various stakeholders to just be patient and give us another 9 to 12 months and we are hoping to put that cash to use.

**Sarvesh Gupta:**

Is there any possibility of a large buyback in the next 12 months?

**Subodh Agarwalla:**

If we are unable to put the cash to good use, then we would consider to return the money to the shareholders. But growth is our priority and if we can achieve better returns with the money, we would prefer that only.

**Sarvesh Gupta:**

Somewhere you mentioned that we are one of the world's lowest cost producer, if that is the case why are we not planning to enter China? What if given China's own slowdown they decide to dump given their low growth in excess capacity? How do we plan to compete with Chinese imports, and do we have any plans to do China exports?

**Subodh Agarwalla:**

China is the black box and they are not at all transparent, so we have no intention of trying to enter into China ever. They have their own dynamics. Their political system is much murkier than ours for outsiders. So that is something we don't want to venture into. As far as threats from China is concerned, about 15 years back Chinese government had taken a view that export of alloys is same as export of energy because lot of energy is required for which they have to burn coal. For each ton of alloy that you produce, this is about the Manganese alloy and the Chrome alloys, they would be indirectly burning about 5 tonnes of coal to be

producing coke and for producing power to produce the alloy and for Ferro silicon this amount is double. So, they want to produce enough alloys to meet the domestic requirement but they don't want to export because of that they had imposed a export duty of 20% instead of export incentive., So the Chinese are not able to export and they are meeting their own requirements. But we have no intention of selling into the Chinese market.

- Sarvesh Gupta:** In April 2018 we had said that we will do the expansion which will take 30 months and now we are seeing 24 months from now, so is it that our new Greenfield expansion has been delayed by around six months?
- Subodh Agarwalla:** Yes because of regulatory approvals.
- Moderator:** We have a question from the line of Pratik Singhania from SageOne Investment Advisors LLP.
- Pratik Singhania:** My question for the CAPEX outflow. Could you tell us what is the kind of CAPEX outflow you are looking for FY20 as well as FY21?
- Subodh Agarwalla:** Regarding the Greenfield we can be sure about the project. We are also looking for other Greenfield opportunities as well and once something is finalized the board will inform the investors accordingly. But as far as the inorganic growth is concerned that is something, we can't be certain about. So it could be something either very big or very small and time it would take place is not fixed. So that is something which is not in our hand, but we are very positive that something good will come out of it.
- Pratik Singhania:** Could you tell us for the Kolkata Greenfield expansion because that is something which is certain., With reference to that for FY20 and FY21 what kind of a CAPEX spent will be there?
- Subodh Agarwalla:** I would say in FY20 the CAPEX will not be very big because most of the equipment which are the expensive portion would come in FY21 only. So if you were to make a guess I would say about 20% of the CAPEX would be invested in FY20.
- Pratik Singhania:** Could you tell us if all the environmental clearances are in place for this plant?
- Subodh Agarwalla:** No, it is not in place. It is in process.
- Pratik Singhania:** So when did we file for the environmental clearance?
- Subodh Agarwalla:** We filed for it sometime in July last year, or close to that. Due to the elections, a lot of time has been lost.
- Pratik Singhania:** Any meetings in Environmental clearance for getting a progress or no?

- Subodh Agarwalla:** Yes, that is part of the process. So whatever process is there, that has to be followed. Everyone is aware that there are different stages for this and it takes some time.
- Pratik Singhania:** When are we expecting to get the clearance?
- Subodh Agarwalla:** I would say it could take us maybe about 6 months more.
- Pratik Singhania:** So would it be 24 months from this 6 months or 24 months from today?
- Subodh Agarwalla:** I would say 24 months from today because we are continuing with the designing, layouts and all the engineering and putting of enquiries etc. So we would be ready to go ahead full stream once that comes in.
- Pratik Singhania:** For the other Greenfield expansion that the board is currently anticipating, which part of the geography you are planning for it?
- Subodh Agarwalla:** I shall not be able to comment on that at the moment.
- Pratik Singhania:** For the inorganic expansion, how many plants are there in our plate in terms of evaluating them?
- Subodh Agarwalla:** I would say a few.
- Pratik Singhania:** If you can number it?
- Subodh Agarwalla:** It would not be fair to give a particular number because then our competitors start getting a feel about what we are trying to do.
- Pratik Singhania:** Do you think the cash that we have and the annual cash that we are generating put that together be useful for the new Greenfield and Inorganic expansion? So will we be able to utilize that Rs 700 crores towards this Inorganic Growth as well as the new Greenfield plant if it materializes?
- Subodh Agarwalla:** There is a good chance that we may require the cash, that is the reason we are retaining the cash because retaining any excess cash unnecessarily is counter-productive for everybody. I would say the promoters would be the ones who would be the most worried, but they are still showing patience because they also believe in the story.
- Moderator:** We have next question from the line of Ritika Garg from Aequitas Investments.
- Ritika Garg:** Could you let us know the raw material price trends for Manganese?

- Subodh Agarwalla:** We will try and put the presentation together for that so that price trends for the Manganese ore and the alloy can be made available. We will try and ask our marketing team to get that ready.
- Ritika Garg:** Do we see the raw material prices softening?
- Subodh Agarwalla:** In our type of industry, 5% to 10% plus or minus could happen any time, but significant softening or hardening is something which we are unable to say at the moment.
- Ritika Garg:** Have we taken board approval for sourcing alternate sources of power?
- Subodh Agarwalla:** Yes.
- Ritika Garg:** Are we using some alternate sources and what is our current power cost?
- Subodh Agarwalla:** After taking the board approval, we have been evaluating options and as something comes up, we will make it known.
- Ritika Garg:** Have the coal prices softened after China has put some import duty on Australian coal?
- Subodh Agarwalla:** You referring to spot changes. I would prefer not to answer these questions because these keep on changing on a day-to-day basis and this is not the right forum for it.
- Ritika Garg:** Are we impacted by the cyclone by any chance?
- Subodh Agarwalla:** No, nothing. Not even one rupee.
- Moderator:** We have a next question from the line of Rudhir Barma from Alpha Line Wealth Advisors.
- Rudhir Barma:** I wanted to know what our current realizations are per tonne?
- Subodh Agarwalla:** In the range of about \$1000 ex-plant I would say roughly.
- Rudhir Barma:** And in a bear case scenario what can the realizations drop down to?
- Subodh Agarwalla:** I don't know.
- Rudhir Barma:** Basically, I am trying to understand that as you mentioned that you intend to maintain the EBITDA margin between 15% and 17% but on an absolute figure basis how low can we go on that front, that is what I am trying to ascertain?
- Subodh Agarwalla:** I would say that you have the figures of FY16 available which was the worst possible year for the Alloy and Steel Industry. You have FY15-16 figures, you have FY19 figures, you have the production figures, I think you can calculate from there.

- Moderator:** We have a next question from the line of Shashank Palan from Rockstud Capital.
- Shashank Palan:** I wanted to ask about the Greenfield project that you have already declared so as you mentioned it will be partly export-oriented and domestic sales?
- Subodh Agarwalla:** I am trying to say that it will be fungible to produce both Manganese and Chrome. We do not intend to go deeper into export of Manganese Alloys because we anticipate that the market in India will be better than the export market. We already have some presence in the export market through our Vizag plant. So, whatever Manganese if we produce that will be for the domestic market. But if we produce Chrome and whatever quantity we produce, for that we would want to have a foothold both in domestic market as well as in the export market.
- Shashank Palan:** As you mentioned that the Manganese requirement in domestic market is going to increase, do you think that the current Steel Companies to which we are supplying they will require additional Manganese? Is there some soft commitment or any requirement that you see because I think we are at the top level of producing right now?
- Subodh Agarwalla:** There is no firm requirement or anything of that sort. We can clearly see that the Steel consumption in India and Steel production India is going up. Steel cannot be produced without the use of Manganese Alloys which means a higher quantity of Steel is higher quantity of Manganese Alloys so that is not rocket science and for that no particular customer has to come to us. It is not a specific product; It is a general product.
- So, we can have an understanding that the quantity of Manganese alloy is going to go up We would want to retain our market share, maybe increase it in the near future We are a market leader and are low on the cost curve Anything which we produce we will be able to sell, so that is not the problem. We sell whatever we want to sell but if in a situation where you have an excess capacity maybe the realization comes down slightly. Other people get pushed off and they shut off but there is no question of us not being able to sell what we could produce. For us the bottleneck is production not sale.
- Shashank Palan:** As you mentioned that we import Manganese ore from a higher-grade Manganese ore supplier, so in that case is our product also better than our domestic suppliers?
- Subodh Agarwalla:** It is more consistent I would say.
- Shashank Palan:** As you mentioned we are targeting only Asia, so regarding the growth factor do you see that in Asia as a whole export market? In addition, do you see growth and more requirement for any of Manganese or Chrome?
- Subodh Agarwalla:** The scenario that might take place is that the developing countries are let's say growing at 7% or 8% and the developed countries are growing maybe at 2% or 3%. So, I would say Asia minus India minus China, on an average would be growing slower than India on its own. So

that the export market into which we want to be there, that market is growing at a rate slower than the growth in India. Going forward we want to go deeper into India because the growth potential there is higher without the need to push off anybody else.

**Shashank Palan:** Could you throw some light on the matter that currently are we earning better margins in export or we are earning better margins in domestic market? Is Vizag doing better than the other two plants?

**Subodh Agarwalla:** India is the largest exporter of Silico manganese and hence export earnings and domestic earnings are typically almost at par. For us, we have Vizag plant where it is in SEZ, so we have to export. Most of the plants which are not in the SEZ they have the flexibility. So, if any plant is able to generate a higher EBITDA by exporting, they would export and if they are generating higher EBITDA for domestic sales, they will do that. So it is a self-alignment which automatically happens and say maybe half a percent difference sometimes but on an average it evens out.

**Shashank Palan:** With reference to your plans for Inorganic expansions, is there a specific reason because of which there is some delay or is there some problem that is coming in acquiring?

**Subodh Agarwalla:** No, it is not something which is in our hands. The erstwhile promoters are delaying the process and even the banks don't seem to be very interested sometimes. So sometimes a lot of pushing may be required to speed-up and you have various vested interests there. We don't want to unnecessarily push the process. We are okay just waiting and watching and we will take it up whenever the opportunity presents itself.

**Shashank Palan:** So, what you are going to acquire will be a clean acquisition?

**Subodh Agarwalla:** Yes, absolutely.

**Shashank Palan:** On the EBITDA front, you had also mentioned previously that we wanted to maintain 15 to 17% as a margin but you want EBITDA per ton to be constant over the years. Could you explain on that?

**Subodh Agarwalla:** I could want EBITDA to be abnormally high. That is only wishful thinking but from our understanding of how the industry works the calculation comes from the breakeven point for our competition. Like I stated early during one of the questions that we believe that when competition is at 8% that is the time when they start losing money. For any industry to prosper and to grow, the industry has to grow as well because the current capacity is not enough to meet the Steel producers' future requirement. So, if any investment has to come up there has to be some return on the equity and because of that I feel that 12% type of an EBITDA is a figure where it makes sense for people to invest. When the industry is at 12% you add 4% for us, so that is the basis of my belief and I totally believe that the market process will take their own

force based from my understanding of how things will pan out, this is not a figure which I am just trying to throw.

**Shashank Palan:** I think MOIL has also announced any particular expansion in Ferrochrome which they are doing into franchising in Maharashtra and Bengal. What is your thought on it?

**Subodh Agarwalla:** No. MOIL is a Manganese ore producing company. It has nothing to do with Chrome and they will not get into Chrome. There is some miscommunication there.

**Moderator:** We have a next question from the line of Falguni Dutta from Jet Age Securities.

**Falguni Dutta:** Would it be possible to give a breakup of this 2,25,000 tonnes that we produced last year into Ferro manganese and Silico manganese?

**Subodh Agarwalla:** It is almost of equal quantities but detailed exact break-up we would not be able to give. Out of the 2,25,000 tonnes, roughly about 13,000 tonnes and balance would be Manganese Alloys either 40: 60 to 60: 40 between Ferro manganese and Silico manganese.

**Falguni Dutta:** Just to understand the industry better, is it possible to give us any input-output ratio as to how much tonnes of Manganese ore is required for producing a tonne of Ferro manganese and similarly for Silico manganese?

**Subodh Agarwalla:** We can ask the IR to give you indicative figures. What happens is if you want to make let us say Silico manganese, export grade of Silico manganese typically has about 65% Manganese in it which means 650 kgs of Manganese per ton of the product. Now for that you would need to put in Manganese units so just putting in Manganese tonnes does not help because if that much quantum of Manganese is not there in Manganese ore then you would need to put in more quantum of quantum of ore. Because of that depending upon the grade we choose the quantum of Manganese ore requirement would change. Now, if we are choosing a lower grade ore, what that would do is that would entail a higher quantum of Manganese ore input, that would entail a higher power cost for us but it would make the Manganese ore cost itself cheaper because on a pro rata basis low grade ore is cheaper than high-grade ore. These are the dynamics.

**Falguni Dutta:** Which means the power cost will go up but this will appear to be bit lower.

**Subodh Agarwalla:** If we are using more of low-grade ore, Manganese ore quantity is higher, Manganese ore cost is lower but power cost is higher. If power cost is higher that would mean our production also is lower. So, these are the dynamics which are very integral to the factors that we work on and specialize in and the exact quantities I would not be able to divulge; but this is the concept.

**Falguni Dutta:** Broadly if you can tell me if suppose you are using a good grade ore then what is the percentage of the Manganese cost in the total cost of Ferro manganese?

**Subodh Agarwalla:** For Ferro Manganese and Silico manganese put together, our belief is in an average cost scenario which let us say it somewhere close to today's market scenario, Out of the total variable cost about 50% would be Manganese ore cost, 30% of the cost would be power cost, 15% of the cost would be Coke and Coal cost and 5% would be others. So, this is the breakup of the material cost for our product apart from other fixed costs. If you have a scenario where the market move starts moving up, which means a bull commodity market, the Manganese ore cost would move up faster than the other costs, thereby increasing the Manganese Cost % above 50% and vice versa

**Falguni Dutta:** Is the power cost also a contributor in our being a low-cost manufacturer?

**Subodh Agarwalla:** I don't think so anybody who sets up the unit at any place where the power cost is higher, they would be forced to shut down. So, I would say it is a necessary evil or a necessary hygiene but that does not give you a competitive advantage but if not attended correctly it would result in competitive disadvantage.

**Falguni Dutta:** Could you provide a broad range for the power cost as of now?

**Subodh Agarwalla:** A broad range is Rs.4.5-5.0 per unit.

**Falguni Dutta:** What kind of contracts do you enter into with clients? Are the contracts monthly? When do we negotiate prices, in what frequency?

**Subodh Agarwalla:** We are negotiating prices all the time. We would always want to maintain typically an order book of about 3 months' time. So, we can't wait till the end of the 3 months. If all the orders expired let us say in the month of March, then sitting on the 1<sup>st</sup> of April we will be having a zero-order book; that is something we would hate.

We have 3 different types of the contracts. One is a Spot contract. That is something that we are not very keen on and which would be let us say one-time contract for maybe 500 tonnes or 300 tonnes. Anything that is less than 200 tonnes is something that does not interest us.

Second is the contract for 3-4 months which is at a fixed price and it gives a certain amount of visibility to us. For any contract which is 6 to 12 months, these contracts are fewer in numbers, but these contracts are not fixed price in nature. They are linked to the index. There are publications which are publishing prices of Manganese ore and Manganese alloy every week. The published price of Manganese alloy at time of making the shipment would be applicable plus or minus any discount or a premium, decided at the time of the contract. It means if the prices of alloy move up by \$ 10 (from contract date to shipment date), then we also charge \$ 10 higher (compared to price prevailing on contract date) However this is applicable only for monthly contracts which are of the periods of 6 months or more. For contracts which are up to 3-4 months we have fixed price contracts.

- Falguni Dutta:** You mean to say up to 3 to 4 months contract the prices are totally fixed in those contracts?
- Subodh Agarwalla:** Yes. If the contracts are 6 months or more, only then we have a price linked contract.
- Falguni Dutta:** In our new plant that would be coming up, you would be essentially doing Ferro manganese and also Ferro chrome?
- Subodh Agarwalla:** Yes we would be doing Manganese Alloys and/or Chrome Alloys; we don't know right now. It depends on the market scenario prevailing once the plant is ready.
- Falguni Dutta:** So, it's fungible, we can do whatever we want with the plant.
- Subodh Agarwalla:** Yes, we can.
- Moderator:** We have a next question from the line of Bhavin Chheda from Enam Holdings.
- Bhavin Chheda:** You have been using Ferro manganese slag as a raw material for Silico manganese. So usage of this slag is able to substitute how much percentage of your overall requirement for Silico manganese? Do your competitors also do similar thing? Because if I have seen your model over the years and you have also said that you have better margins of 3% to 4% so I was trying to analyze how much of that you could attribute it to a very efficient use of a Ferro manganese slag for your Silico manganese operations and that had led to a delta?
- Subodh Agarwalla:** According to me it would be contributing a quarter to half percent and everybody in India does it. There is no doubt about it. But what happens is most people do not use the entire material in house. They either buy or they sell to a large extent so because of that the transportation cost of the slag from your plant to some other person's plant is what they waste. That is what we save but as a method there is no change.
- Bhavin Chheda:** Other question is a related one, if I understand the similar reactors can produce both Ferro manganese and Silico manganese?
- Subodh Agarwalla:** Yes, similar reactors can produce it.
- Bhavin Chheda:** They can, so there is no question of transporting the slag to the other unit? In that case, you can use it in the same manner.?
- Subodh Agarwalla:** Let us say that if I am introducing Ferro manganese and not producing enough Silico manganese that means that slag cannot be used in my plant and I need to sell it.
- Bhavin Chheda:** Ratio should match the production numbers.

- Subodh Agarwalla:** Yes, it does not match because out of the Manganese Alloy basket, Ferro manganese is 20% and Silico manganese is 80%, so most producers in India they have to buy a slag.
- Bhavin Chheda:** How much of this slag gets generated on 1 tonne production of Ferro manganese
- Subodh Agarwalla:** 70% to 80%. One tonne of Ferro manganese gives you around 0.7 to 0.8 tonnes of Ferromanganese slag.
- Moderator:** We have a next question from the line of Pranay Jhaveri from JNJ Holdings.
- Pranay Jhaveri:** If you can just throw some light on your top five customers or top three customers in terms of percentage of sales?
- Subodh Agarwalla:** That is something which keeps on varying as far as the export market is concerned. But in the domestic market about 80% of our material goes to Steel Authority of India.
- Pranay Jhaveri:** Power cost in Q3 FY19 was about 20% of the revenue and in Q4 FY19 it is about 17% of revenue
- Subodh Agarwalla:** I don't think there is any specific reason for that. We will need to check there because we did not have any sudden change in the power tariff or anything of that sort.
- Pranay Jhaveri:** In terms of your revenue growth quarter-on-quarter of 15% and year-on-year 25%. Was there any specific product mix change?
- Subodh Agarwalla:** In Q3 FY19, our revenues were lower because we lost out on production due to power supply issues at our Kalyaneshwari plant. Apart from that if you compare Q4 FY19 to Q1 and Q2 FY19. I think they would be similar.
- Pranay Jhaveri:** In terms of this acquisition, have we reached to a stage where you think that in 2-3 quarters, we can see something coming up? How close are we in terms of finalizing?
- Subodh Agarwalla:** In these things, you can be as close as possible and then somebody increases the bid and it can slip out of your hands. So until it is done and dusted, it should not be commented on. We can keep our fingers crossed.
- Pranay Jhaveri:** In terms of one board resolution for 'power', does it mean that there is any investment that you are planning additionally?
- Subodh Agarwalla:** We will not make huge investments no doubt about that. But we are evaluating various possibilities. We will try to do it in a more cash efficient manner.

**Pranay Jhaveri:** I have come across that Malaysia being a bigger threat in terms of the import scenario, how has that played out?

**Subodh Agarwalla:** I would say during second part of calendar year '16 and the calendar year '17, Malaysia ramped up their capacity significantly. Because of that there was pressure on prices and the prices remained in check otherwise they would have gone up much faster. It means for the last 15 months Malaysia has been producing to capacity so whatever disturbance they were to create that they have already created. There is no additional threat left. They don't intend to add more capacities there because the cost of CAPEX in Malaysia has been proved to be about 2.5 times that of India. Nobody is interested in putting up more capacities there; they will continue to produce what they are producing, and they will not be part of any growth or de-growth.

**Pranay Jhaveri:** In terms of one statement you made that we are earning about 7% on our cash and cash equivalent whereas can you just throw some light because if we take that figure? We see that it is about 4% only so is there some FMP investment involved?

**Subodh Agarwalla:** a lot of the cash has been accumulating during the year so whatever cash was accumulated during the year for that the returns would be there only for that particular portion of time and not for the full year. Maybe because of that you are seeing a difference.

**Moderator:** Ladies and gentlemen due to time constraint that was the last question. I would now like to hand the conference over to Mr. Subodh Agarwalla for closing comments. Sir, over to you.

**Subodh Agarwalla:** I take this opportunity to thank everyone for joining the call and taking the time out. I hope we have been able to address most of the queries. I hope most, for any further information is that in touch with SGA, our Investor Relation Advisors and we will try and resolve those queries. Thank you once again.

**Moderator:** Thank you very much sir. On behalf of Maithan Alloys Limited that concludes this conference call. Thank you for joining with us and you may now disconnect your lines.