Transcript

Conference Call of MOIL Limited

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Presentation Session

Moderator: Good evening ladies and gentlemen. I am Honeyla, moderator for this conference. Welcome to the MOIL Limited 2Q FY16 results conference call. We have with us today Mr. Sudeep Anand from IDBI Capital Market and the management team from MOIL. At this moment, all participant lines are in the listen only mode. Later, we will conduct a question and answer session. At that time, if you have a question, please press * and 1 on your telephone keypad. Please note this conference is recorded. I would now like to hand over the floor to Mr. Sudeep Anand from IDBI Capital. Thank you and over to you, sir.

Sudeep Anand: Thank you Honeyla. Good afternoon and happy Diwali to all of you. On behalf of the IDBI Capital, I welcome you all on MOIL Limited Q2 FY16 conference call. Today we have the entire top management of MOIL Limited, leading by CMD sir, Mr. G. P. Kundargi. Now, I would like to hand over the call to CMD sir to give the opening remarks, followed by the Q&A session. Over to you sir.

G. P. Kundargi: Thank you so much and a very happy Diwali to all of you. I am with my Director – Finance, Mr. Mukund Chaudhari and Mr. T.K. Pattnaik, Director – Commercial and Mr. Neeraj Pandey – Company Secretary with me. Now, this quarter just to brief, results in brief actually. The production is more or less same, very marginal reduction is there due to some rains, festival etc. Total production was 5.02 lakh metric tons, as against 5.16 lakh MT. And this has decreased from 5.16 to 5.02 lakh MT. Ferro grade production also is around 2.43 lakh MT as against 2.55 lakh MT, whereas sales realization, basically we are facing now problem with the steel industry that is the sales realization, because most of the manganese ore production depends on the steel. It is the vital element for making steel. So, sales realization was at the highest last year. It was 8551 per metric ton and it has come down to 6619 during the quarter and which is down by 23% in respect of the manganese ore. And the net sales accordingly have come down to 331 crores as against 444 crores and which has got an effect on the PBT as well as PAT. And the PBT was 210 crores; from 327 crores earlier and PAT is 138 crores, down by 36%, as against 217 crores. And EPS for the half year is 8.24. And the production targeted is 11.5 lakh tons for the year, which it is on the schedule. And the sales also we are targeting about 11.12 lakh metric tons for the year.

Whereas basically just to add to these results, net sales realization is coming down, because net sales realization includes our fines as well as the low-grade ores, which are over 30%, 25% and fines 20%-25%. So, now the prices have come down and market has not picked up for these low-grades and which are contributing to the to lower sales realization. Just in continuation to what I said earlier, basically the production of low-grades is contributing to the lesser sales realization, which we are taking care of and we are now in the process of increasing the ferro grade production, above 37% and above. So, the grades are more or less there. We are operating at the higher cost of production. So, there we are now trying to correct our product mix, as per the prevailing market conditions.

This is just a simple background I have given. Then when I will take questions accordingly, the things will be clarified. Operator?

Moderator: Yes sir, just a moment.

Question and Answer Session

Moderator: Ladies and gentlemen, we will now begin the question and answer session. If you have a question, please press * and 1 on your telephone keypad and wait for your turn to ask the question. If you would like to withdraw your request, you may do so by pressing * and 1 again.

Sir, the first question comes from Mr. Goutam Chakraborty from Emkay Global. Please go ahead sir.

Goutam Chakraborty: Hello sir.

G. P. Kundargi: Hello. Goutam-ji, good afternoon and happy Diwali.

Goutam Chakraborty: Yeah sir, good afternoon and happy Diwali to all also.

G. P. Kundargi: Thank you.

Goutam Chakraborty: Sir, basically first just if you can give us the production and sales volume numbers for fines and non-fines.

G. P. Kundargi: Yeah, just a minute. Sales volume I am giving. Sales volume is about 2.5 lakh tons for ferro grade ores and LGHS, low grade ore is 1.24 lakh tons and fines is only 75000 tons. Is it okay?

Goutam Chakraborty: Okay. So, 75000 is the fines?

G. P. Kundargi: Only 75000 fines.

Goutam Chakraborty: And non-fines you said?

G. P. Kundargi: Non-fines is 2.5 plus 1.24, it is 3.74.

Goutam Chakraborty: This is for the quarter?

G. P. Kundargi: This is for the half year. For the quarter it is 1.07 is ferro grade and 0.8 is LGHS. Non-fines is 1.15.

Goutam Chakraborty: 1.15 is the total non-fines?

G. P. Kundargi: 1.87. 1.87 is the non-fines for the quarter, whereas fines is only 0.21, 21000.

Goutam Chakraborty: Okay and sir, production also if you can just share for the quarter?

G. P. Kundargi: Production for the quarter is about, total production for the quarter is 2.27 lakh tons.

Goutam Chakraborty: Okay. And fines and non-fines, can you just give the breakup?

G. P. Kundargi: Fines is 21000. It is only taken into account when it is sold, so that production is equal. 2.06 is the non-fines production and out of which ferro grade is 1.19.

Goutam Chakraborty: Okay. And you said the realizations; blended realization was about Rs.6619 per ton, right?

G. P. Kundargi: Yeah, yeah.

Goutam Chakraborty: And sir, again normally you give this quantitative breakup. So, fines and non-fines, can you just again give the breakup for the realizations?

G. P. Kundargi: For sales, it is non-fines is 1.87 and fines is only 0.21.

Goutam Chakraborty: No, that is the volume. I am saying sir, realizations breakup.

G. P. Kundargi: Sales realization, you can take for the quarter. I am giving in three categories actually, ferro grade ore, low grade ores and fines. Non-fines you want, it is 6625 for the quarter. And fines is 2503. Out of non-fines, there are two categories, ferro grade and LGHS. LGHS is low grade. So, ferro grade is 8668, whereas low grade is 3889.

Goutam Chakraborty: So, because of this low grade actually the blended realization for even the overall…..

G. P. Kundargi: Average realization is coming to 6207, I think in the quarter.

Goutam Chakraborty: Okay. So, basically what I understand is non-fines realizations on a quarter on quarter basis saw a significant decline, because fines in Q1 also was about Rs.2600.

G. P. Kundargi: Yeah, fines is less. We are now not concentrating on the sale of fines actually. We want to concentrate on the high grade ore, that is 37% and above, which is above the cost of production. So, the margins will be better in the coming days. And these low grade ores are also 3889. And the prices in general have come down drastically in the international market. So, that is also affecting. Though the sale volume is same as compared to last year, we are affected by the market depression basically at present now, at present.

Goutam Chakraborty: Sir, in continuation with that, let me get some clarity on the demand side, because what I understand is that the ferroalloys market in Europe was actually facing problems. And probably there are some kinds of inventory lying up with your customers. So, is that the reason why actually there is significant pressure on the prices?

G. P. Kundargi: That is also there, because there is oversupply in the market and lots of inventories are lying at the ports actually and also with the customers, not only ferroalloys, but also the manganese ore also, in both counts. And second thing, international, China, because of the China slowdown, the market has come down and there is oversupply of manganese ore in the world market, which is also diverted to India. And since import duty is less, very less on the manganese ore as compared to the domestic taxes, taxation, so there imports become more lucrative and we have to match the import. We have to adjust the prices often.

Goutam Chakraborty: Okay. Sir, this import is basically coming up from South Africa or any other part also?

G. P. Kundargi: This import is coming from South Africa, Australia and Gabon.

Goutam Chakraborty: Okay. So, all major regions actually is doing this?

G. P. Kundargi: All major regions. And most of them, Gabon and South Africa, that is mostly 80%. And by doing these corrections in the product mix, presently low grade ore, we are reducing low grade and also we are not concentrating much on the fines. For the time being, we will be concentrating on the ferro grade, so that the margins will be maintained. Though there may be lesser sale volumes, but margin will be better.

Goutam Chakraborty: Okay. But sir, I think in November again you had cut prices for the Q3.

G. P. Kundargi: Yeah, because what happened, suddenly there was, within a week's time, from October 15 to October 29, there was a reduction of prices of 15% in the international market. And whatever contracts were signed with the MOIL, those customers were backing out from their contracts and going towards import. To hold them we had to make them at par. And we got some additional volume also for the quarter by doing that.

Goutam Chakraborty: Okay. So, even with that also you think that because of the better grade, there would be some improvement in the margins at least on the quarter on quarter basis?

G. P. Kundargi: There would be improvement. But, what happens is, whatever actions we have taken, we have taken in September-October. But whereas most of the ferro producers, they have already committed to some imports during this quarter. So, they have given an indication that from January they will be turning towards MOIL, instead of imports. So, we will hope that the next quarter sales volume will increase, as import adjustment will be done by the customers.

Goutam Chakraborty: So, basically Q3 again, we should be subdued. But Q4 should be better?

G. P. Kundargi: Q4 should be better, because well in advance we have taken action of the customers and we are talking to customers, because we are now at import parity, then there is no reason why they should go.

Goutam Chakraborty: Okay. So, basically just want to, you have been maintaining margins of around 40%-45% range for several quarters now. And this quarter of course is definitely very disappointing in that term, because of market conditions.

G. P. Kundargi: This is in the last 12 years, this is not a good quarter; this is the worst quarter.

Goutam Chakraborty: Exactly. Sir, do you see margins going forward again going back to that level, 40%-45% range?

G. P. Kundargi: That level I don't see immediately. But, next year it may extend, but, immediately I cannot comment on that level. That level was different.

Goutam Chakraborty: Okay. And sir, CAPEX you had a plan to spend about 120 odd crores I think during FY16 on different projects. So, this is maintained?

G. P. Kundargi: Yeah, that is maintained. And half yearly targets we have already spent about 85% of the half yearly targets. And that projects whatever we have taken, they are as per schedule and we will be spending 120 crores during the year. There is absolutely no problem.

Goutam Chakraborty: Okay and next year CAPEX, any guidance?

G. P. Kundargi: Next year CAPEX is 139 crores.

Goutam Chakraborty: Okay, 139 crores; and any development in your Maharashtra, those projects, how is it going on?

G. P. Kundargi: Yeah. The development is there, because two of the mines, we have got the prospecting licenses. Now complete exploration is done. And during this quarter only we will be applying for conversion of those PL into ML, the two mines. And the remaining area comes under the forest. So, the forest clearance is required for the further drilling process. That is under process.

Goutam Chakraborty: Okay sir, thank you. I have couple of further questions. Probably I can join back in the queue.

G. P. Kundargi: Yeah, sure, sure. Thank you Goutam-ji. Thank you so much.

Goutam Chakraborty: Thank you.

Moderator: Thank you sir. Sir, the next question is from Mr. Milind from Dolat Capital. Please go ahead sir.

Milind: Hi. Wish you a very happy Diwali.

G. P. Kundargi: Same to you sir. Wish you a very, very happy Diwali.

Milind: Just a couple of normal kind of questions. I couldn't understand this sales volume. If you can just say that it is 1.87 lakh tons for the grade ore and 21000 tons for the fines, so total sales is around 2.08?

G. P. Kundargi: Yes, yes.

Milind: And the production volumes total?

G. P. Kundargi: Total production volume for the quarter is 2.27.

Milind: 2.27, okay. Another question is, sir, your realization, if you look at the margin kind of suddenly the other expenditure also jumped significantly during the quarter, so any particular reason? What kind of run rate we can see in the other expenditure? It is because of the District Mineral Fund or higher royalty, what is the reason sir?

G. P. Kundargi: Just a minute. My Director – Finance is there, he will speaking to you. Just I am giving the mike to him.

Mukund Chaudhari: Hello?

Milind: Hello? Yes sir.

Mukund Chaudhari: I am Mukund Chaudhari – Director (Finance). Happy Diwali to you.

Milind: Yeah, happy Diwali to you also sir.

Mukund Chaudhari: As compared to 56.05 crores other expenditure in the June quarter, the current quarter expenditure is only 53 crores as compared to 30th September 2014 quarter, where the expenditure was 55 crores, again there is a reduction of Rs.2 crores. During half year, other expenditure has marginally increased from 108.03 crores to 108.99 crores. So, the increase is less than Rs.1 crores.

Milind: Okay. So, you have not made any provisions of DMF or anything like that way?

Mukund Chaudhari: All the applicable provisions have been taken care of.

Milind: Okay. So, it includes in that other expenditure, right?

Mukund Chaudhari: Yes.

Milind: Sir, another is, what would be the volumes for the next year? You can give some kind of idea about the production or sales volume?

G. P. Kundargi: Next year basically volumes we are aiming about 11.5, 11.75 lakhs to 12 lakhs, the range. Particularly we want to increase the little higher grade production and cutting down the lower grade production not yielding much. So, that is the aim at present and it depends on the, production depends on the inventory level as well as the market realizations and we will be adjusting it.

Milind: Sir, if you looked at the kind of history, MOIL is stuck between 1.1 to 1.2-1.3, maximum 1.2-1.3. So, can we break from that kind of a level and get into the higher and what is the target for that, getting into the higher volume on a consistent basis?

G. P. Kundargi: Yeah, you are exactly right, because from 2016-2017 we are aiming to jump from 1.2 million to 1.5 million tons actually as per the original program and the projects are running as per schedule absolutely. And the other two projects we are taking up this year also for deepening up new shafts, sinking in place of inclined shaft. And commissioning is conservatively done, because this year one shaft we have commissioned. Now, this quarter also we are commissioning one of the deepening shafts and next year also we are commissioning. So, now these things are maturing. So, after commissioning of these shafts, we will take about one year time gestation period to reach the production levels by developing infrastructure in the underground, just like haulage road and approach road for this. So, that we are expecting around 2017-2018 will be the right time for us to jump into production. So, next year will be there and from the next year, provided the market is there, because mainly production includes 55% high grade and another 45% low grades. So, low grade markets are not encouraging at present. That is why there is a cut in the low grade production. That is why the volumes are not coming. So, once the market also picks up and supports us, we will be ready with our infrastructure to produce more and more. And we will definitely, we are on a way to increase production.

Milind: So, can we expect that from FY18 onwards, provided that things improve on demand side also.

G. P. Kundargi: By FY17-18, as per the strategy management prepared, we are taking that 1.45 million tons-1.5 by 2017-18.

Milind: Sir, regarding the cost, are you doing anything to adjust the cost to the new reality in the pricing scenario, so that you can at least kind of maintain or at least improve on the margins?

G. P. Kundargi: We have taken a cost cutting measure at the very highest level. And we have constituted various level committees and they are monitored by the top management. The cost has not increased. You can appreciate that our cost of production has not increased much. Though now our main cost now is salary and wages. We will be able to able to control the manpower also, cost also and other miscellaneous cost. And also one more thing I am adding here, our board is considering setting up a 10.5 megawatt solar power plant in mines itself; mines open area in the mines. It is a left out area, so that that 10.5 megawatt power generated will be utilized in the mines to get the cost of production reduced in terms of power consumption also. So, that we are going to add next year, so to control the cost also, additional cost on account of power.

Milind: Sir, regarding the employee cost, because now with the implementation or recommendation of the 7th Pay Commission something, so do you see some significant increase or what kind of increase can the employee cost can be?

G. P. Kundargi: 7th Pay Commission is only for pure Government, actually for public sectors now commission is yet to be established, which will be due from 2017 onwards.

Milind: Okay, 2017. So, there is nothing like?

G. P. Kundargi: At present there is nothing like.

Milind: There is nothing. One last question sir, if you can permit me to.

G. P. Kundargi: Yeah, please go ahead.

Milind: If you look at the current market scenario, your market gap almost equals to the cash which you are having. And with the Government also, the kind of talks that the Government also wants, that maximum dividend or some kind of contribution from the public sector units, so is there any plan of giving some increased dividend or what we can expect something in that?

G. P. Kundargi: You will appreciate that dividend we continuously pay and almost 85% paid up capital we are paying and 33% of PAT as dividend, which is the highest ever since the inception of MOIL. And it all depends on the board. We will take up the matter with the board and Ministry also will discuss and we will take appropriate decisions.

Milind: Thank you very much and that is from my side sir. All the best for the future. And I hope that you will do well.

G. P. Kundargi: Happy Diwali.

Milind: Happy Diwali and wish you also sir and everybody. Thank you. That is it.

Moderator: Thank you sir. Sir, the next question comes from Mr. Pallav Agarwal from Antique Stock Broking Limited. Please go ahead sir.

Pallav Agarwal: Good evening sir. And happy Diwali to all of you.

G. P. Kundargi: Very happy Diwali Agarwal sir.

Pallav Agarwal: Yes sir. Sir just had a question on the basic macro steel sector. Sir, on the sale conference call, the management said they expect that the prices are more or less bottomed out in the domestic steel space. So, what would your view be on the manganese ore prices? Do you think there is still room for further downside from these levels, given the price cuts in November; we are more or less close to the bottom as far as the pricing is concerned?

G. P. Kundargi: It is the same case as the steel Agarwal sir. This is also bottomed out. Almost the manganese prices are bottomed out as far as the MOIL is also concerned. And international market also, I spoke to various producers also, this bottomed out level, I hope another 5%, there is no margin much left with the people. This is the bottomed out prices. Because, last this price was ruling twelve years back.

Pallav Agarwal: Okay. Sir, also I just wanted your view on, when these manganese ore for auction later on, and the prices stayed at these levels, it would not be very remunerative for probably private players to make excessive bids. So, is that a correct assessment or you feel that there would be excessive bidding if the auction of manganese ore mines comes up later on?

G. P. Kundargi: Because auction when it comes, this mines allocation is on long term basis. So, the mines allocation will be for the next fifty years. So, down the line, future requirement of steel and consumption made by India, so definitely there will be some kind of auctioning process will go on. And there will be some bidding. But aggressive or not, it will be difficult to say at this time.

Pallav Agarwal: Okay sir. Thank you so much.

G. P. Kundargi: Thank you so much.

Moderator: Thank you sir. Sir, the next question comes from Mr. Ankur from HDFC Securities. Please go ahead sir.

G. P. Kundargi: Hello? Good afternoon Ankur.

Ankur: Yeah sir. Thanks a lot for taking my question and a very happy Diwali to all of you.

G. P. Kundargi: Very happy Diwali Ankur.

Ankur: Yes sir. Sir, basically just wanted to understand that where all the new projects that we are doing, the sinking and the deepening of shafts, and the prospecting licenses, converting into mining leases, where does the, in your view manganese ore quality stand vis-à-vis our current production as well as reserves? Is it worsening or is it improving or is it remaining the same?

G. P. Kundargi: Based on our experience, existing quality will remain same, because our product mix may improve little bit because of the beneficiation processes we have to adopt in the new mines also. But whereas most of the average quality of ore will remain same, but whereas we will be increasing little bit higher grade on the higher side. The present mix is say, 55% is high grade, ferro grade and 45% is low grade as well as fines. So, that will go up. And we will be aiming it around 75% of high grade and remaining 25% will be of low grade and fines in the coming times.

Ankur: Right sir. Even the new mines that you open, you will be able to maintain these ratios?

G. P. Kundargi: Yeah, these ratios, because new mines are very near to our existing mines. We hope, because there will not be much change in geological conditions.

Ankur: Similar ore bodies, okay. Right sir. And the second question I have is on the inventory levels. So, if I look at the last six or seven quarters or so, consistently we have produced higher than what we have sold. So, just wanted to understand the dynamic behind this, what is driving this basically?

G. P. Kundargi: Inventory, because production, we are governed by some production quantities, because MOIL is signing MoU with the Government every year. The production I cannot reduce at present, because that amounts to increase in the cost of production other way. But, inventory levels, now higher grade inventory we have got around, half yearly inventory we have got about nearly two and a half months quantity and low grade we have got about five months quantity. So, low grade production we are now curtailing and we are concentrating on the high grade production. So that whenever the market improves from January next quarter, so we will be able to sell this material to get back into the volume business.

Ankur: Got it sir. And just one last to confirm, you have mentioned the employee wage revision is June 2020, just to confirm?

G. P. Kundargi: No, no, it is 2017.

Ankur: 2017, okay. Got it sir. Got it. Thanks a lot for taking my questions sir.

Moderator: Thank you sir. Sir, the next question comes from Mr. Ritesh Vora from Incedo. Please go ahead.

Ritesh Vora: Hello. Good afternoon sir.

G. P. Kundargi: Hello? Happy Diwali Vora.

Ritesh Vora: Happy Diwali to you also. My question is, how do we look at your EBITDA per ton? Will it move forward? How do we look at the coming years the EBITDA per ton and how it will move?

G. P. Kundargi: It will definitely move a little bit slow. Prices are bottomed out and I don't think much below this par. Whatever there will be there, slight increase will be there or (whatever) abnormal increase will not be there next year. But, it will be stabilized and it may slightly improve upon. And volumes, the volumes also have to improve.

Ritesh Vora: So, what are the factors deciding the pricing? Because, I understand manganese ore we are importing a lot. So is it, our prices are import parity price or how the prices are decided?

G. P. Kundargi: We are deciding on import parity prices, because ultimately imports are there and most producers are port-based. And they will be on imports. Unless or until I make them at par with imports, it will be very difficult for me to sell.

Second thing, imports are a little bit cheaper, because of the lesser import duty and higher domestic taxation and little more logistics, because of the port based plants, buying from Nagpur.

Ritesh Vora: Right. So, my question is how do we, if it is import parity, we cannot control the import prices, isn't it? It depends upon China and the other countries, producing countries, the prices. So, how we are confident that the prices are bottomed out?

G. P. Kundargi: Because, import we are now, I am also in the supervisory board of the International Manganese Institute, where most of the manganese ore producers, international players, they are there. And we talk to each other. It is bottomed out, because most of the cost of productions are coming to almost breakeven level and very, very minimum thin margins are now present. Unless or until they are not bottomed out, if they are further to bottom out, then there will be losses. So, that is why I don't see much depression.

Ritesh Vora: Okay. And how is the demand side scenario? How is the demand is playing out?

G. P. Kundargi: Demand is also less because of the oversupply, because there are lots of inventory of ferroalloys as well as the manganese ore. Since China's slowdown, then there will be lot of materials will be shipped towards India. And imports are now becoming cheaper and there are plenty available, material is available elsewhere and it is traded also (. But now because of the relations with the customer, we are able to manage with them, because by making the import parity of cost and also we are taking up this position with the Government this month itself for the safeguard duties also and the cheaper imports, because we are comparing with the domestic taxation of nearly 13.5% to 14%, as against the import duty of 2.5%.

Ritesh Vora: What is that excise duty is it, taxation?

G. P. Kundargi: Taxation is the royalty and road cess, sales tax and DMF, District Mineral Foundation.

Ritesh Vora: Tax also you have to pay.

G. P. Kundargi: Yeah, yeah.

Ritesh Vora: Tax also you have to pay, is it?

G. P. Kundargi: Tax, customer has to pay the tax also, because when he buys from imports, he has to give only 2.5%, whereas from us, he has to pay 13.5% traditional tax.

Ritesh Vora: But, there is no excise duty, is it?

G. P. Kundargi: There is no excise duty in manganese ore. And most of the ferroalloy units are also closing down due to non-viability. At present they have less capacity presently because of higher power tariffs in States. So, that is all, there are so many factors are compounding. Once the steel picks up, everything will definitely pick up.

Ritesh Vora: Okay. Sir, in your line item expense, what is the other expenses? What are those expenses?

G. P. Kundargi: Just a minute. Just a minute. My Director – Finance will reply to that.

Mukund Chaudhari: Hello. This is Mukund Chaudhari, Director – Finance. Happy Diwali to you.

Ritesh Vora: Happy Diwali Mukund.

Mukund Chaudhari: Other expenses mainly consist of consumption of stores and spares) power and fuel, railing and transportation to contractors and other administrative expenses.

Ritesh Vora: So, contractor expenses is considered as other expenses, is it?

Mukund Chaudhari: Yes.

Ritesh Vora: Okay. So, is it a contractor is applied to move the ore, manganese ore or…..?

Mukund Chaudhari: Development work.

Ritesh Vora: Development work?

Mukund Chaudhari: Overburden removal is also included in this head.
Ritesh Vora: Overburdening work. Okay. Sir, as I understand the present volume is somewhere around 1.2 million tons, is it?

Mukund Chaudhari: Yes.

Ritesh Vora: And then it will go, correct?

G. P. Kundargi: Present volume is 1.14.

Ritesh Vora: 1.14, okay. Now, that will move to 1.5 by 2018, is that correct understanding?

G. P. Kundargi: Yeah, it will be 1.45 around 2017-2018, after commission of this, yeah.

Ritesh Vora: Commissioning of some mine, is it?

G. P. Kundargi: The mines and these projects whatever we have taken, this additional sinking of shafts.

Ritesh Vora: And you are on track to achieve by 2018, the work has begun already?

G. P. Kundargi: Yeah, processes are on schedule and we have commissioned already, we have commissioned one project during this year and another we are commissioning. Next year also we are commissioning one more project. So, sinking of new vertical shafts, the new areas will be opened up. And also we are planning to convert this PL into ML, we are applying this year. Hopefully by 2017-2018, they will also come into production.

Ritesh Vora: Okay. And sir, I have read somewhere; I think in your annual report or somewhere, you are also planning to buy some overseas manganese ore mines. Is that plan going on or there is some difference now? Is there any rethinking of buying it or you are buying it already?

G. P. Kundargi: No, no, actually we have thought of earlier supplementing this high grade ore, because India is lacking high grade ore and that is why the imports are there. So, that is why we thought that if you get a high grade ore mines we can also go ahead and participate in equity and strategic sale also we can participate. But, what happened is, we are not getting good property so far. We are trying, if suppose some good property comes in, then we can definitely look at it.

Ritesh Vora: So, what range, you think what money you want to deploy by buying out this, if any good property is available?

G. P. Kundargi: We have lot of cash and we have earmarked earlier 500 crores for this good sized mine. And we have got some offers, but those mines are not good and very low grade and deposits are also not very consistent. So, unless we get good property because that kind of mines we are getting here only. So, why should we go out? Unless or until we get a good property worth for more than 40% grade, then we can think of it. So that we can supplement for low grade ore and so that we can blend and make a big charge here, better charge.

Ritesh Vora: Okay. What is our closing cash as of now? What is the cash with the company?

G. P. Kundargi: 2926 crores.

Ritesh Vora: Is there any debt, working capital or is there any debt?

G. P. Kundargi: Zero debt.

Ritesh Vora: Okay. So, 2926 crores is the cash?

G. P. Kundargi: Yeah.

Ritesh Vora: Sir, do you think now, from here onwards as you said the price is bottomed out, and if the recovery happens, what is your prognosis, what is your internal target? By what time you will see EBITDA per ton improving?

G. P. Kundargi: It is a very difficult question. At present volatile conditions of market, it is difficult, along with the bottomed out prices will remain actually. Hope, everything depends on hope.

Ritesh Vora: Right. Alright, wish you all the best. Thank you very much.

G. P. Kundargi: Thank you.

Moderator: Thank you sir. Sir, next question comes from Mr. Giriraj from SKS Capital. Please go ahead sir.

Giriraj: Hello?

G. P. Kundargi: Mr. Giriraj, good afternoon.

Giriraj: Yeah sir, good afternoon and happy Diwali. First of all thanks for hosting the call sir. It has been a long time since the management has hosted this call.

G. P. Kundargi: Thank you and I appreciate it.

Giriraj: My question is related to like, I don't know whether somebody has asked this, because I got disconnected in between, on dividend sir. You also mentioned that you are sitting on a large cash, plus even if we consider the CAPEX plus the future requirements for even inorganic growth, still cash is very high in the books. So, what is the thought on the same sir?

G. P. Kundargi: Are you hearing now? My voice is clear?

Giriraj: Yeah sir, it is very clear.

G. P. Kundargi: I am getting some disturbance. Actually CAPEX we are on line with the CAPEX spending this year and also next year, because the projects are coming up. And our CAPEX will mainly go when our expansions projects of new mines are opened up, when the capacity will be required.

Giriraj: No sir, I understand. My question is related to dividend sir, will we increase the dividend or will we have one time dividend payout?

G. P. Kundargi: No, actually onetime payment, no, it is not to be decided by the board. Because, last year we paid the highest amount of dividend, you know very well. And everything depends, because dividend question can be answered only when we meet, the board meets and the decisions taken.

Giriraj: But, is there a thought process that we are, because inorganic growth also we won't require such a large money?

G. P. Kundargi: once the market improves, we'll need the money; it is going to increase in India definitely. There will be a lot of requirement of manganese ore in future; we have to develop new mines. It is a short phenomena. This kind of phenomena came once in ten years or so. I think we will come out of this situation.

Giriraj: Okay. And in terms of CAPEX this time you are confident of going up to 2 million tons by 2020?

G. P. Kundargi: We are now 1.5 million tons by 2017-2018 and 2 million tons by 2021.

Giriraj:)??, because last time also, because I remember at that time….

G. P. Kundargi: The production plan is going on very well. There is no problem.

Giriraj: Okay. Thanks a lot sir and all the best.

G. P. Kundargi: Thank you. Thank you Giriraj.

Moderator: Thank you sir. Sir, the next question is from Mr. Ritesh Vora from Incedo again.

Ritesh Vora: Thank you for the opportunity sir. So, I was asking, what is the CAPEX plan for this year as well as the next year?

G. P. Kundargi: This year it is 128 crores and next year it is 139 crores.

Ritesh Vora: And that would be the end of it or you need more CAPEX in the coming years?

G. P. Kundargi: See because this is the CAPEX what we need for the present existing operations actually. But, we will be needing more this one. We will budget more, because we are coming up with a solar plant also and wind plant also, wind mill next year, we are hoping so. And again when the new mines open, this one we will be making extra provisions on this.

Ritesh Vora: So, this 128 and 139 is to open the mines, is it?

G. P. Kundargi: It is not opening mines. This is for the meeting the existing additional modifications and existing ongoing projects commissioning.

Ritesh Vora: Ongoing projects, to maintain the volume, present volume, is it?

G. P. Kundargi: Present volume also and increase the production from the existing operations.

Ritesh Vora: Okay. So, that would be continuous even after the next year, we have to consider 100 crore-130 crores of continuous CAPEX also?

G. P. Kundargi: Yeah, that will be continuing and it will be slightly increasing also. And some new projects comes in between, then we will be budgeting separately.

Ritesh Vora: Sir, I have been tracking lot of cash rich companies and they make a mistake of investing into solar power and wind power and the delay into this. What is the necessity of investing? You are in a mining company, what is the necessity to invest in solar and wind power?

G. P. Kundargi: It is a very good question, just I will tell you. Because, we are not investing in that, because we have put vast number of mine leases here near our mines in Maharashtra. We have got extra land and good radiation around the area. We are using our own extra area, lease area, where we are putting these solar projects of 2 megawatt-3 megawatt capacities in each mine, wherever it is feasible, with total 10 megawatt. And whatever power comes, it will be captively used in the same mines, so that we can reduce the cost per ton. We are paying a very hefty amount of units for these State Government Board actually for use of the power. So, this will be Rs.6.80…..

Ritesh Vora: How much? What is the power cost?

G. P. Kundargi: Rs.6.80.

Ritesh Vora: Rs.6.80.

G. P. Kundargi: Whenever you go for solar unit in the same mine and use captively, you will be saving around Rs.4; so, the cost of operation for underground mines, where power is required for the underground operations.

Ritesh Vora: Solar cost also will cost you Rs.7 per unit, isn't it?

G. P. Kundargi: No, no, it will not cost Rs.7.

Ritesh Vora: Capital cost and everything.

G. P. Kundargi: That is okay. But, there is a lot of good; we have made a feasibility report and how much it was? Rs.1.80. Rs.1.80 or maximum Rs.2 per unit, cost of generation.

Ritesh Vora: No, no, cost of generation is different. You have to consider the capital cost also, isn't it? Capital cost.

G. P. Kundargi: No, no, cost of generation is inclusive of capital related charges also.

Ritesh Vora: No, no, how come solar power can cost you only Rs.2, whereas all the projects which is coming up in solar category, the latest which was bid was the minimum price was Rs.5.50.

G. P. Kundargi: No, that is you are talking about the, that is per megawatt, installation capital cost. We are talking about the capital cost.

Ritesh Vora: Yeah, I am talking about the capital cost also.

G. P. Kundargi: No, no, I am talking about the generation, operating cost. But, you are talking about capital cost.

Ritesh Vora: Operating cost will be minimum. Operating cost, it will be in paise, because there is no fuel.

G. P. Kundargi: No, no, just I will tell you, because suppose 10 megawatt if you go, you will be spending about 60 crores capital cost. 60 crores capital cost will be generating 10.5 megawatt of nearly 18% PLF; you will be generating the units. So, per ton of generated unit comes to Rs.2. So, that is used captively in the mines. So, thereby you will save on the bill paid to the State grids, State Government Boards.

Ritesh Vora: Sir, if somebody can put up a solar plant with overall cost at Rs.2 per unit, then all the…

G. P. Kundargi: It is captive use. But, for sale, I don't know, because sale price…... We have got our own land and it will be cheaper for us also.

Ritesh Vora: We can have this discussion offline sir. But, I am skeptical about your quoting…...

G. P. Kundargi: I would like to discuss this thing sometime if we happen to meet also, because I have got a feasibility report to discuss with you also, prepared by an external agency. You are based at Mumbai?

Ritesh Vora: Yes, I am based in Mumbai.

G. P. Kundargi: Mumbai if you come, definitely I will take your address. My Director – Finance and myself will be interested to discuss with you, before taking any decisions.

Ritesh Vora: Okay sir. Thank you very much.

Moderator: Thank you sir. Sir, the next question comes from Mr. Romil Jain from Quantum Advisors. Please go ahead sir.

Romil Jain: Hello sir.

G. P. Kundargi: Good afternoon. Happy Diwali Jain sir.

Romil Jain: Yeah, happy Diwali sir. Thanks for taking my question and thanks for hosting the call sir. It is very helpful sir. I just have a couple of questions. Sir, firstly can you tell me what are the total proved and probably reserves, as per whatever latest estimates that you have done? And I just wanted the reserves which will be added separately from the area in Maharashtra which you have got, on which the projects are going on.

G. P. Kundargi: Actually I don't have actually online data. But I can say, last we have drilled about 34000 meters drilling and we have added about 3.88 million tons of resources in the last three years. This is, the total reserves now stands at 77.38 million tons, as against 73.5 million tons.

Romil Jain: Sir, just one clarification, this figure 74, that figure would be including the resources also, reserves plus resources?

G. P. Kundargi: This is including the reserves. The figure is total resources, which includes reserves, which are around 32 million tons, around 32 million tons.

Romil Jain: Yeah, so 32 is the reserves, total reserves.

G. P. Kundargi: Yeah, 32 is the proven reserves, and the remaining it is the resources category, where we are drilling and we are producing and converting the resource to reserve.

Romil Jain: Right. And sir, any estimate on how much reserves would Maharashtra land would be adding separately, if you could give that? Just a very rough estimate.

G. P. Kundargi: Rough estimate, but we have got some two areas, around 200 hectares, we have already completed drilling and we are now applying for ML actually. . I will just tell you, because the figures are not with me at present.

Romil Jain: Okay, no problem sir.

G. P. Kundargi: Definitely additional.

Romil Jain: Okay. So, 32 is as of the latest estimate that you are saying?

G. P. Kundargi: Yeah, from the existing mines only and not on account of any additional leases.

Romil Jain: Okay. So, the second question is sir, I just wanted to know the, like in the mining cost, let's say India is one thing, how much would be the mining cost let's say in South Africa or Gabon, from where we are getting the maximum imports, any idea on that side?

G. P. Kundargi: Mining cost, there will be little bit difference in underground mining and open cast mining. So, we have predominantly in MOIL underground mines, 70% of the production comes from underground and 30% comes from open cast. Whereas in Gabon actually, predominantly they have open cast and South Africa, it is again mixed kind of thing. South Africa and India are more or less or India is slightly cheaper than South Africa as compared to Gabon where we are low cost producers as on date. But, Gabon material, that is coming cheaper and it is the entire open cast mine. So, slightly they are very competitive to us.

Romil Jain: And sir, what would be the cost per ton, if you could just tell for companies based out of South Africa or something, very roughly, average cost? So, that I can just compare the average cost with MOIL cost also.

G. P. Kundargi: No, I don't have, because we had some data much, much before, two-three years back. Presently I don't have that. That was higher than us. Ours was around 70-75 dollars and theirs was nearly 100 dollars that time.

Romil Jain: Okay, 100 dollars. And sir, just one clarification, when we say that we are the lowest cost producer, what enables us to be the lowest cost producer versus South African players or any other players?

G. P. Kundargi: Because, their basic establishment costs are much, much higher. We have hundred years old mine and infrastructure is basic and we are almost age old mines we are operating with a dedicated manpower. And our operation levels are different kind of operations and their level is different also. Their wages are also different and ours are also different.

Romil Jain: So, we can say that the employee cost would be one of the major differences between the cost structures?

G. P. Kundargi: Yeah, employee cost will be the major difference definitely.

Romil Jain: Okay, sir and just last question, on regarding the manganese ore industry globally. As we have seen that the demand is not there, but the supply is still coming on from global mines. Have we seen any curtailment happening in production globally last couple of months or something?

G. P. Kundargi: There will be marginal reduction and not much actually what we have seen from the production, from the whole production. I think if the situation continues, it will be taken up as and when, it happened in 2008 also. There was a reduction in production from various mines. But, presently there are surplus production is lying and inventories are lying with everybody. So, sooner or later there will be some decision on this.

Romil Jain: Okay sir. That is it from my side sir. Thank you so much.

G. P. Kundargi: Thank you so much.

Moderator: Thank you sir. Sir, the next question comes from Mr. Goutam Chakraborty from Emkay Global. Please go ahead.

G. P. Kundargi: Hello, yeah Goutam-ji.

Goutam Chakraborty: Sir, just one clarification, maybe Mr. Chaudhari can help. This DMF you said is already added. So, in the first quarter we have made the provision on DMF?

Mukund Chaudhari: No, at that time it was not clear. The notification had not come.

Goutam Chakraborty: So, this quarter only you had made this provision, right?

Mukund Chaudhari: Yes, but the amount is recoverable from the customers. It doesn't affect our profitability.

Goutam Chakraborty: Exactly. Sir, can you just give the figure for this quarter and (audio break)?

Mukund Chaudhari: No, I don't have the information readily available.

Goutam Chakraborty: Okay. So, even the total quantum, total figure also is not there, total (not clear)?

Mukund Chaudhari: Immediately it is not available.

Goutam Chakraborty: Okay. Because, this will not be recurring in the coming quarter, barring the quarterly run rate?

Mukund Chaudhari: I didn't get you.

Goutam Chakraborty: Okay, okay.

Mukund Chaudhari: No, I didn't get you.

Goutam Chakraborty: No, I am saying the, even the next coming quarters, it will be only applicable for that particular quarter, right? Because, in this quarter you may have provided for the entire nine months, so next quarter onwards it will be only for a particular quarter, right?

Mukund Chaudhari: In any case it is recoverable from the customer. So, it doesn't affect our profitability.

Goutam Chakraborty: Okay, so it will be on the customers only. That is all. That is all. Thank you.

Moderator: Thank you sir. Sir, the next question is from Mr. Ankur from HDFC Securities. Please go ahead sir.

Ankur: Hello, can you hear me sir?

G. P. Kundargi: Yeah, sure. Go ahead.

Ankur: Basically on your new projects, you have mentioned in your annual report two projects, one is sinking of large dia high speed second vertical shaft at Gumgaon and another is the expansion of Balaghat mines. So, just wanted to understand what stage these projects are in, one? And two, what is the kind of capacity that will get added once these projects get commissioned?

G. P. Kundargi: The good news is that we have got traditional lease sanctioned in favor of MOIL, which was pending since 1972 in respect of Balaghat mines, which was a hindrance for Balaghat development. But, we have recently got the principal approval from the Government of India. And the mine plan also is submitted to the IBM. Now, the question is that after getting this lease, we are reopening this investment at Balaghat mines project of high speed shaft, which will be taken up. Already we have appointed CMPDI for making a feasibility report on this account and we will be taking up the tender documents and investment decision as and when within three-four months on this account. And once these projects happen, it has high speed shaft as well as beneficiation plant. And the production we are expecting to increase to 0.8 million tons, up to 0.8 million tons from Balaghat, from present 0.35. So, that is the plan, strategic management plan when we are going for 2.2 million tons or something.

Ankur: Right. At a capital cost of about 545 crores?

G. P. Kundargi: 545 crores, you are right.

Ankur: And about the Gumgaon, where you have mentioned a capital cost of about 150 crores?

G. P. Kundargi: 150 crores, Gumgaon project report has come. Now, we are just considering it for taking a decision on this account because Gumgaon is also another promising mine for us.

Ankur: Okay, great. Thanks a lot sir.

G. P. Kundargi: Thank you sir.

Moderator: Thank you sir. Sir, there are no further questions.

G. P. Kundargi: Thank you. Thank you madam. Thank you so much.

Moderator: Thank you sir. Ladies and gentlemen, this concludes your conference call for today. Thank you for your participation and for using Door Sabha's conference call service. You may all disconnect your lines now. Thank you and have a pleasant evening.

Note: 1.This document has been edited to improve readability.
2. Blanks in this transcript represent inaudible or incomprehensible words.