



“MOIL Limited Q1 FY2021 Conference Call”

August 24, 2020



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MOIL**

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Moderator: Ladies and gentlemen, good day and welcome to the MOIL Q1 FY2021 Conference call hosted by Antique Stock Broking Limited. 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 that this conference is being recorded. I now hand the conference over to Mr. Pallav Agarwal of Antique Stock Broking Limited. Thank you and over to you Sir!

Pallav Agarwal: Thank you Aisha. Good afternoon everyone and welcome to the Q1 FY2021 results conference call of MOIL. We have the senior management of MOIL Mr. M.P. Chaudhari, the CMD and Mr. Rakesh Tumane, Director of Finance joining us on this call. I would now like to handover the call to Mr. Chaudhari for his opening remarks. Over to you Sir!

M.P. Chaudhari: Good afternoon to all. I am thankful to Antique Stock Broking and Mr. Pallav Agarwal for organizing this conference call. I welcome all of you to the con-call. Our Director Finance, Mr. Rakesh Tumane is also joining me.

You are aware that MOIL board has approved Q1 results in its August 20th meeting. Highlights of the performance are like this; Manganese Ore production during Q1 of 2021 is 1.34 lakh tons as against 3.18 lakh tons in Q1 of last year. There is a reduction of about 58%. This drastic reduction started from mid March due to lockdown post outbreak of COVID. Full lockdown in April and May with partial relaxations only for safety related works with social distancing norms resulted in reduction of the production to the level of just 0.16 lakh tons and 0.45 lakh tons as against 0.97 lakh tons and 1.06 lakh tons respectively in the earlier period. The production has picked up in June 2020 to a level of 0.75 lakh tons against 1.15 lakh tons in 2019 with several restrictions to prevent spread of Corona virus. With all these constraints, the loss of production due to corona virus is conservatively estimated at 2.00 lakh tons. In line with production, the Manganese Ore sales have also dropped sharply to 1.45 lakh tons in Q1 of this year from 2.84 lakh tons; so there is a reduction of around 49%. This is attributable to COVID effect as explained earlier and lower off take due to lower export volumes that also resulted in partial shutdown or in some cases total shutdown resorted to by many ferro alloy producers who are our main customers.

Manganese Ore prices showed rising trend in April and May, but the trend has reversed subsequently, and the price correction made by MOIL in line with international trends are available at website. As a result of this, the average realization has increased marginally by

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5% from Rs.9,324 per ton to Rs.9,810 per ton in current year. The combined effect was a reduction in turnover by 46% to 152 Crores in current year as against 280 Crores in corresponding period with consequential reduction in operational profit to 26 Crores as compared with 91 Crores. Cost, excluding exceptional items, has reduced by 34% to 126 Crores from 189 Crores. The figures which I have mentioned here are operating profit, i.e., excluding the exceptional items. So it has to be appreciated that irrespective of this kind of slowdown never before seen by us, the company on a meager turnaround of 152 Crores still has maintained the operating profit of 26 Crores. So that is all from my side. Thank you.

Moderator: Thank you very much. We will now begin the question and answer session. The first is from the line of Vishal Chandak from Emkay Global. Please go ahead.

Vishal Chandak: Sir my first query was with respect to reduction in the operating cost, so is this reduction sustainable or this will again increase as production ramps up?

M.P. Chaudhari: It has to increase with production ramp up because several activities were not at all carried out during this period. The development works have stopped, our secondary recovery of ore was stopped, riling and transportation/dispatches were reduced considerably. So, this cost was very low as compared to the earlier period. Only thing is that employee benefit expenses are more or less same because that is fixed cost. So expenses of variable nature have come down, but then these are not sustainable. I mean, when the production increase happens, the cost will definitely go up.

Vishal Chandak: In terms of our expansion plans, where are we and is there any delay or any change in the expansion or commissioning targets?

M.P. Chaudhari: Yes, definitely it has to be there because shaft sinking works have been almost stopped at the mines, especially the bigger shafts coming up at Balaghat and Gumgaon mines, now there is total stoppage of work. With the lifting of the curbs we are expecting progress, but then at least four to five months delay will be there in case of all projects. We will try to make up the delay, but in case of high speed shafts, it appears difficult. In case of some shafts which are nearing completion, we may be able to expedite things partially, to some extent.

Vishal Chandak: So, what would be the new timeline for the Balaghat high speed shaft, because I guess Balaghat and Gumgaon are the key expansion programs?

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M.P. Chaudhari: Earlier the timeline was January 2021 and July 2021 I think. The same will be delayed by at least five to six months. This statement is subject to the condition that I mean we are presuming that the lockdown restrictions would come down by August. If still it continues, then there will be a problem.

Vishal Chandak: Sir, second question was with respect to our receivables positioning. What we have seen across various companies is that the receivables have been increasing, so are we seeing a similar trend over here?

M.P. Chaudhari: I think my Director Finance will be in a better position to explain this issue.

Vishal Chandak: So, compared to March where are we Sir, in terms of our receivables currently?

Rakesh Tumane: When we look at the receivables last year, we were at 135 Crores and this quarter we are 130 Crores, so it is more or less similar. In fact, because the uptick was lesser this year as we have seen in terms of the revenues, so our receivables have in fact gone down, so we are not seeing the receivables increasing in a big way. We will have to look at the Q2, the kind of thing that we are talking about will basically materialize in Q2 when the uptick increases. In fact, we have seen in the recent times the uptick is increasing and when the liquidity is very poor in the market, then receivables position we have to monitor. But having said that, we have a policy where we give our materials based on advance payments, we have the LCs, so our receivables are very well covered, they are mostly securitized, so even though there would be poor liquidity, we are very sure that our receivables would be in a manageable position.

Vishal Chandak: Sir just one last question from my side where are the international prices vis-à-vis our prices currently domestic, international landed prices and what would be the current cash balance that would be from my side?

M.P. Chaudhari: They are around 4 DMTU and we are maintaining price parity, so our prices are also in line with the international trends.

Vishal Chandak: Sir I missed out how many DMTU?

M.P. Chaudhari: Around 4 DMTU.

Vishal Chandak: Cash balance please Sir?

- M.P. Chaudhari:** It is around 1,700 Crores.
- Vishal Chandak:** Thank you very much Sir. That is all from my side.
- Moderator:** Thank you. The next question is from the line of Jatin Damania from Kotak Securities. Please go ahead.
- Jatin Damania:** During the quarter we reported an exceptional cost of Rs.50 Crores what was that pertaining to?
- M.P. Chaudhari:** It is relating to the contribution made by the company to Prime Minister's Fund and Chief Minister's Relief Fund. This is an exceptional item, so we have disclosed it separately.
- Jatin Damania:** Director of Finance was saying that we have seen increase in sales in the last few days, so can you highlight the trend in month of July and August what was that as compared to June?
- M.P. Chaudhari:** Any increase has to be seen in the content in which we are speaking, never more than the corresponding period of last year. In August probably we may see a slightly higher volume, but in July it was on low side, marginally on lower side. My point is that you will not be able to establish the trend in the scenario.
- Jatin Damania:** Just want to check is the ore off take by the ferro alloys producers have already started or probably we are seeing some more delay or probably lower demand from them as well?
- M.P. Chaudhari:** No, off take was there in the first quarter too, but then it was at a much reduced level. Still off take is continuing. As I mentioned earlier, last month July it was slightly on lower side as compared to July 19, and in August it has slightly picked up.
- Jatin Damania:** In terms of pricing as you said that the current prices are in line with the import parity prices, but how do we see the ferro alloys producer in Africa and what are the trends that we are getting over the industry perspective because the price is around \$6 DMTU month of March, April had already come down to sub 4 as of now as we speak, do we see or what will be the benchmark breakeven level for the global industry, are manganese ore producers will go out of a system or somewhat that level?
- M.P. Chaudhari:** I have a feeling that prices have bottomed out, but then it is a feeling that is what I can say.

- Jatin Damania:** But globally what would be the sustainable production cost, miners will start making operating losses?
- M.P. Chaudhari:** Globally if it is around 3 DMTU then there will be some problems for miners in countries like South Africa, Australia.
- Jatin Damania:** 3 DMTU?
- M.P. Chaudhari:** 3 DMTU probably.
- Jatin Damania:** That means the prices are more or less bottomed out, but probably we can see another minor correction in the conditions continue in terms of the lockdown or what are the global demands?
- M.P. Chaudhari:** As we have explained earlier also (not in this concall) that the prices are inversely proportional to the ore stocks in China port. As the China port stock increases manganese ore prices could fall, if the port stock reduces manganese ore prices would go up. During COVID period when the stocks are at a very high level still the prices were also at a very high level, but the normal trends are like this only.
- Jatin Damania:** So, what is the current inventory at the Chinese port?
- M.P. Chaudhari:** It is more than 4.8 million tonnes.
- Jatin Damania:** What is the inventory in our book?
- M.P. Chaudhari:** With MOIL?
- Jatin Damania:** Yes.
- M.P. Chaudhari:** It is 1.70 lakh tonnes.
- Jatin Damania:** Thank you Sir. That is all from my side. If I have any more questions I will joint back in the queue.
- Moderator:** Thank you. The next question is from the line of Samil Surendran from Argus Media. Please go ahead.
- Samil Surendran:** Sir I just wanted to check with you what would be the production guidance for this quarter?

- M.P. Chaudhari:** The trends are not yet clear, we are trying to somehow maintain the level, right now it has come to a level of around 75% of last year with severe restrictions on social distancing and sanitization, all those things are going on. If the restrictions are removed then we are sure that the things would be better than last year, but then till the time restrictions are not removed we will have to be satisfied with around 75% of the production as compared to last year.
- Samil Surendran:** So, this would be 75% of the last year's production that we might project?
- M.P. Chaudhari:** Yes, if the situation continues like this, if the restrictions are not removed.
- Samil Surendran:** What would be the guidance for the full year?
- M.P. Chaudhari:** Unless we see the trends at a normal level and that lockdown restrictions are no more there then only we will be able to say something, today it is very difficult. What I am stating here is with a presumption that on August 31, 2020 this would end. Last time when I talked to all of you, when our annual accounts were approved, I was thinking that by end-June the restrictions would be lifted, but then still some restrictions are there, social distancing norms have not gone. So, right now, it is very difficult to say anything on this.
- Samil Surendran:** On the demand side how do you see this demand from ferro alloy industries coming?
- M.P. Chaudhari:** It has slightly picked up.
- Samil Surendran:** Normally we see a trend after October, December once the rainy season goes, we see hike in production.
- M.P. Chaudhari:** After October it goes up.
- Samil Surendran:** Do we expect also demand from steel industries and ferro alloy industries should pick up subject to what restrictions are lifted?
- M.P. Chaudhari:** Yes.
- Samil Surendran:** Thanks a lot for having a word with me. I will get back in the queue.
- Moderator:** Thank you. The next question is from the line of Rahul Jain from Systematix. Please go ahead.

Rahul Jain: Thank you for the opportunity. Sir we saw a decline in your other expenses, so is it like because we had some inventory liquidation what was it due to?

M.P. Chaudhari: Inventory liquidation was only to the extent of around 9,000 tons in case of mining activity.

Rahul Jain: So, it is not that substantial?

M.P. Chaudhari: As I explained earlier, the operating cost has come down in line with the production decrease.

Rahul Jain: Sir, the capex we should look at it around 200 Crores for this year and next year, that will also see a substantial decline?

M.P. Chaudhari: See, once the restrictions are removed, then there is no reason that capex would come down but looking at the particular projects which have been completely stopped - to pick up the normal levels, it will take some time.

Rahul Jain: How we should look at, over the next five years we are looking to raise our output to 2.5 million tons, is that right Sir?

M.P. Chaudhari: Yes.

Rahul Jain: To complete the entire program, what is the capex for the total program?

M.P. Chaudhari: It is around 2,100 Crores.

Rahul Jain: Then you would spread it evenly or more towards the end of the quarter?

M.P. Chaudhari: It is not evenly spread out. In fact, in some cases, it will go up in the middle and then will come down drastically. Sharp sinking projects require huge investments when you bring winders. I mean, when you commission winders. So, other things they progress slowly, but here in which the winders are installed, suddenly your capex would go up. So, it depends in the year in which you procure winders in that year the capex will be slightly higher as compared to the normal year.

Rahul Jain: We expect also the cost to come down once you reach those levels?

M.P. Chaudhari: Which cost are you talking about?

- Rahul Jain:** Your production cost will it because we will have?
- M.P. Chaudhari:** Operating cost, minus the Corona effect, our production has seen rising trends all through. So, when rising trend is there, the cost increase will be absorbed properly, I think. So, that will result in reduction in cost, maybe marginally, but then the cost reduction will be there. But now the things are not clear because the fixed costs which we incur mostly on employee benefits, would continue irrespective of what we do.
- Rahul Jain:** Do we expect to get any more mines out of any of the government allocation or any of those things? Do we have anything under process?
- M.P. Chaudhari:** We have signed MoUs with Gujarat Government and Madhya Pradesh Government. The work is going on. These are the two states where we are expecting good results. In case of our mines in adjacent areas also we have got some areas and exploration work is going on. In some cases, we have got environmental clearances also the details of which are there on the website also.
- Rahul Jain:** Your volume increase program is from your existing mines only?
- M.P. Chaudhari:** Yes.
- Rahul Jain:** Are they significant or maybe you will disclose whenever they are meaningful or something like that?
- M.P. Chaudhari:** No, I did not get you Sir.
- Rahul Jain:** Are these MoUs and other projects that you plan, are they meaningful in size or the tag is yet to know?
- M.P. Chaudhari:** We do not sign MoUs just like that.
- Rahul Jain:** I just wanted to know any numbers you can give on this?
- M.P. Chaudhari:** We are very serious. We are very serious about our MoUs and we are pursuing the projects actively.
- Rahul Jain:** Thank you so much.

- Moderator:** Thank you. The next question is from the line of Pallav Agarwal from Antique Stock Broking. Please go ahead.
- Pallav Agarwal:** Sir, just wanted to know if you could give us what proportion of the total cost would be fixed, I mean, employee, I guess mostly be fixed, but apart from that what about the semi-variable part? Would the total proportion of about 30%, 35% of the total cost would that be a sort of fixed cost level or not really?
- M.P. Chaudhari:** More than 50% is fixed costs.
- Pallav Agarwal:** Royalty and the prices coming down, the royalty would be directly linked to the realization part?
- M.P. Chaudhari:** Yes. So, it is not varying with number, it is varying with sales value and volume.
- Pallav Agarwal:** Sir, I also wanted your views on there was a lot of buzz around this manganese ore being used in electrical batteries. So, has there been any real progress on that on that front or it is still some time away?
- M.P. Chaudhari:** R&D efforts are going on. We have achieved success in two, three parameters, but work still remains. So, as and when we attend success in that then we will be able to say something about this.
- Pallav Agarwal:** Sir, does the EMD, the electrolytic manganese dioxide that is directly going into the battery application? So where would we have more pricing power, or it is more or less linked to the manganese ore prices?
- M.P. Chaudhari:** I did not get you, sorry.
- Pallav Agarwal:** I am saying that EMD, is the pricing more stable in that segment compared to manganese ore since the application is more specialized in terms of batteries? So, I am assuming that the realization there would not be as volatile as manganese ore prices. Is that correct?
- M.P. Chaudhari:** Yes. You can say that.
- Pallav Agarwal:** I think I am probably done with the questions at my end. Thank you.

- Moderator:** Thank you. The next question is from the line of Vishal Chandak from Emkay Global. Please go ahead.
- Vishal Chandak:** Sir, just wanted to understand globally how has the mines fared during this pandemic times? Because South African mines were shut for a while then they have resumed operations. How is the situations with other countries like Gabon, Australia, etc.?
- M.P. Chaudhari:** To tell you frankly, authentic information is not available. So, better not to speak about it at this stage.
- Vishal Chandak:** But have we seen imports rising from there? How is the imports trend from the places?
- M.P. Chaudhari:** It is slightly on the lower side.
- Vishal Chandak:** Lastly, in the raw material consumption side, in the P&L we often come across negative figure. So, it is difficult to presume why the numbers should go negative?
- M.P. Chaudhari:** Which one?
- Vishal Chandak:** The cost of materials, the cost of material goes negative, the raw material consumption. When the production is higher than we say, so there should be inventory accumulation, then I can understand, but then the production is also lower than still we see a negative number on the raw material consumption side?
- M.P. Chaudhari:** Are you talking about cost of material consumed? The cost of materials consumed was 96 lakhs in June 30, 2019 quarter that has come down to just Rs.10 lakhs in the current quarter.
- Vishal Chandak:** Sir, the overall number becomes negative when we look at?
- M.P. Chaudhari:** Are you talking about the changes in inventory of finished goods?
- Vishal Chandak:** Yes.
- M.P. Chaudhari:** Changes in the inventories of finished goods, if you are talking about last year, it was 27 Crores minus. Here it is 59 Crores minus.
- Vishal Chandak:** Sir, my point was when the sales number is higher than the production number then there is an inventory liquidation which happens therefore your change in inventory should be a positive number?

- M.P. Chaudhari:** See, we have given a note in our Stock Exchange results that this time the inventory has been valued on net realizable value instead of cost as usual, because the cost of production due to lower volume of production, it is on higher side. So, having valued the stocks at net realizable value the difference had come.
- Rakesh Tumane:** Vishal, we have given a note there. What has happened is our production was pretty low compared to last year, our cost of production has gone higher than the NRV value, the net realizable value from the sales. So, it has been valued at the realizable value, but the point here is that the realizable value itself is higher than the last year's cost that was around Rs.6,000. So that is why the inventory has been taken to the next period. That is why you are seeing a fair number.
- Vishal Chandak:** Sir, what would be the NRV and what would be the cost for which we have done this calculation?
- Rakesh Tumane:** The average cost per ton we have around Rs.9,800. That is the NRV. Cost is higher than that. It is around Rs.10,000 something.
- Vishal Chandak:** So that is a marginal rise only. So that should get corrected next quarter probably.
- Rakesh Tumane:** We have done it automatically. Once the production comes to a full steam, it will get automatically corrected.
- Vishal Chandak:** Thank you very much Sir.
- Moderator:** Thank you. The next question is from the line of Sagar Gandhi from Future Generali Insurance. Please go ahead.
- Sagar Gandhi:** Sir, my question pertains to the recent call of our Prime Minister on Atmanirbhar Bharat. So, most of the mining companies have been asked to replace the imports that are happening in the country. So, has government also directed you in that direction to reduce the imports that are happening of manganese ore in our country?
- M.P. Chaudhari:** The direction is applicable to all PSUs. So, all are covered. But in our case, you must have seen from the statistics in our annual reports that imports of equipment are to the minimum level only, the import drilling machines, sophisticated drilling machines. For rest of the things, our domestic production is only consumed.

Sagar Gandhi: What I am trying to understand is can that give a lift to your production numbers over the next few years, because if I understand correctly, lot of manganese ore is being imported in the country?

M.P. Chaudhari: Yes.

Sagar Gandhi: So, if some steps are taken on a broader level, wherein domestic players are given an edge, so can that lead to substantial increase in your production and consequently sale?

M.P. Chaudhari: See, it remains to be seen what kind of increase we would see due to these efforts. So, in line with that increase definitely the requirement of manganese ore would go up. That is the reason we are going ahead with our plans to increase production of manganese ore.

Sagar Gandhi: Nothing very concrete as of now and nothing as of now can be quantified?

M.P. Chaudhari: You know several constraints have been there.

Sagar Gandhi: Sir, my second question pertains to this EMD business, last year we had mentioned in the annual report that we are increasing the production from 1,000 tons to 1,500 tons. Where do we see this business going three to five years down the line?

M.P. Chaudhari: The capacity has already been increased to 1,500 tons. The only thing is that the plant, we have taken up some R&D activities. Parallely R&D activities are going on, so that plus the old plant is really very old, and the production efficiencies are on a lower side. That is the reason we are not able to give production of 1,500 tons. Last year it was 925 tons. Off late it has picked up in July, August it has picked up. So, 1,500 tons maybe in a normal year we will be able to definitely meet the target.

Sagar Gandhi: Sir, how large the market will be in the EMD case? What I am trying to ask is what is the demand? How many tons of demand is there in the market and how much of it is we are able to cater?

M.P. Chaudhari: Right now, MOIL is the only producer of EMD in India. Imports are ranging between 7,500 tons and 9,000 to 10,000 tons annually. So, the market should be of the size of 11,000 to 12,000 tons.

Sagar Gandhi: So, there is a large opportunity here and you are yet to pickup and cater to that demand?

M.P. Chaudhari: Yes. Our R&D activities are going on. Once that materializes, definitely we will also go ahead.

Sagar Gandhi: Sir, do you think in the next five years you will capture 50% of the market share?

M.P. Chaudhari: 50% of the market share, you are talking about India consumption?

Sagar Gandhi: Indian consumption? If I understand correctly with whatever is happening in the EV space this current market size which you mentioned that you can grow exponentially. So, you will also have to exponentially increase your production?

M.P. Chaudhari: Market size would be more probably, but then it all depends on our R&D, success of our R&D activities. As and when we achieve success then definitely, we can talk about this. As of today, it is very difficult to say anything about EV.

Sagar Gandhi: This will be one of the focus areas for MOIL going forward because this is a niche product where your pricing power, you have monopoly?

M.P. Chaudhari: Yes definitely.

Sagar Gandhi: Thank you so much Sir. That was from my side.

M.P. Chaudhari: Thank you.

Moderator: Thank you. As there are no further questions, I would now like to hand the conference over to Mr. Pallav Agarwal.

Pallav Agarwal: Thank you Aisha. I would just like to take this opportunity to thank the management of MOIL for taking their time out for this call. We would look forward to hosting them again at a future time. Sir, any closing remarks from your end?

M.P. Chaudhari: Nothing from my side. Thank you all.

.Pallav Agarwal: Thank you.

Moderator: Thank you. On behalf of Antique Stock Broking that concludes today's conference call. Thank you for joining us. You may now disconnect your lines.
