



“MOIL Limited
Q2 FY2021 Conference Call”

October 29, 2020



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MOIL Limited
October 29, 2020

Moderator: Ladies and gentlemen, good day and welcome to the MOIL Limited Q2 FY2021 Conference call hosted by Emkay Global Financial 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 at the end of the day presentation. Should you need assistance during the conference call, please signal for an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Vishal Chandak of Emkay Global. Thank you and over to you Sir!

Vishal Chandak: Thank you Zaid. Thank you everyone for participating in the Q2 earnings call for MOIL Limited. We have from the senior management of MOIL Mr. M.P. Chaudhari, the Chairman and Managing Director and Mr. Rakesh Tumane, Director Finance. Without much ado, I handover to you Chaudhari Sir!

M.P. Chaudhari: Good evening. Thanks to Vishal and Emkay Global. I am sorry for the slight delay that has occurred. It was an unscheduled call. So I had to attend to it. I welcome all of you to this concall.

As you are aware, MOIL’s Board has approved Q2 results in its October 20, 2020 meeting. Highlights of the performance for Q2 and H1 are like this; Manganese Ore production during Q2 of 2021 is 2.61 lakhs tons MT as against 2.61 lakh tons MT in corresponding period of last year. This has to be seen in the context of loss of production due to restrictions like social distancing; despite restrictions the company has almost maintained the production in Q2.

Manganese Ore sales have shown significant improvement to 3.44 lakh MT in Q2 as against 2.52 lakh MT in Q2 of earlier year. The average realization has dropped to Rs.7898 per ton, as against Rs.9,223 per ton in corresponding period of last year. Thus, there is a sharp reduction of around 14%.

The combined effect of the above is increasing turnover of Manganese Ore by 21%. Total turnover is Rs. 307 Crores as it is Rs. 253 Crores in Q2 of last year. Total cost excluding changes in the inventories is Rs. 190 Crores as against Rs. 181 Crores in the earlier year.

So far as half year is concerned, Manganese Ore production during current year is 3.94 lakhs tons as against 5.78 lakhs tons in corresponding period of last year. There is a drastic reduction of 32% and the loss of production attributable to COVID is estimated at around 2 lakhs tons and that is the only reason for the drop in production.

MOIL Limited
October 29, 2020

Manganese Ore sales have dropped to 4.89 lakhs MT from 5.37 lakhs MT; there is a reduction of 9% here. This is again attributable to lower dispatches during COVID shutdown at mines. The average realization has dropped to Rs. 8466 per metric ton as against Rs. 9277 per metric ton in corresponding period; thus, there is a reduction of around 9%.

The combined effect of the above is reduction in turnover by 14% to Rs. 460 Crores as against Rs. 546 Crores in Q2 2019-20 and consequential reduction in profit is Rs. 9.21 Crores as compared to Rs. 179 Crores in the earlier year. Cost excluding changes in inventories has reduced by 6% to Rs. 353 Crores, (Rs. 377 Crores in last year). That is all from my side.

Moderator: Thank you very much Sir. Ladies and gentleman we will wait for a moment while the question queue assembled. The first question is from the line of Rahul Jain from Systematix. Please go ahead.

Rahul Jain: Good evening Sir. Thanks for taking my question. Sir I had two questions, one we had a strong volume during the quarter on sales especially? Do you think again you can surpass last year's volume on both sales and production in the second half?

M.P. Chaudhari: Yes.

Rahul Jain: Can you get some of how here also looking like?

M.P. Chaudhari: In the second quarter we have almost maintained the production and this has been surpassed as I have given the statistics earlier.

Rahul Jain: For the next six months about how do you see things shaping up?

M.P. Chaudhari: As compared to June or July, the trends are partially clear but then not fully clear even now. Last month production was slightly more than September 2019 production. We expect that the trend will continue and we will be able to partially make up the loss in production.

Rahul Jain: Right and sales volume we can do better than last year? Is that the way we should look at it?

M.P. Chaudhari: Now the position is like this, the inventory that was piled up on March 31, 2020 has almost liquidated. So, the sales are now to be out of the current production only. The kind of extra

volume you have seen in earlier quarter that may not been seen; this is in relation to the production I am talking.

Rahul Jain: Sir, we have taken to eventually write down in this quarter could you quantify that amount and is it like the last that or some more is pending in the next few quarter?

M.P. Chaudhari: No I am not clear. There is no write down. Last quarter also we had valued our inventories at cost or net value, whichever is lower. This time also we have followed the same practice. We consistently follow the same accounting practice.

Rahul Jain: I do want the quantum. How much is that coming to because that is non-cash item right? Would you quantify that for us?

M.P. Chaudhari: At the beginning of the quarter, inventory was 1.90 lakh tons, it has come down to 87, 000 tons on September 30, 2020.

Rahul Jain: In your financials, there is one line item that we have taken some Rs. 110 Crores inventory adjustment, I am just wondering is that entirely related to marking down your inventory or is it also related to destocking?

M.P. Chaudhari: Yes. It is related with the reduction in inventory.

Rahul Jain: Because I think it is looking very large that is why I am asking?

M.P. Chaudhari: I know. It is looking very large, but it is there. Hold on please, our Director Finance would like to clarify something on this.

Rakesh Tumane: Basically our inventory change that you are seeing is again a reflection of COVID. What happened we used to value or inventory at around Rs. 6500 per ton, that was the average value of our inventory but in COVID period, there was a decrease in the inventory. Even then we see inventory value is passed on to P&L. This happened because the production was very low, which was not normal due to COVID in the first quarter. So the inventory valuation went up to Rs. 9800 per ton. That was a very high; as per the accounting practice, accounting policy and the standards, we have to value the inventory at the lower of the average realization or the cost. So we valued it at the realization which itself, which was higher than normal cost of production. Because of that the inventory valuation was very high. The same thing happened here in the second quarter, the H1, where some of the grades where the cost was high and the realization was lower and in some of the cases, the

realization was higher and the cost was lower. Because of this mismatch there is the change in inventory and this is reason that we see a huge amount of cost passing onto the P&L as change inventory for the second quarter. So it is purely a temporary phenomenon, which is basically happening due to a drastic reduction in the production and the complete variance from the normal business cycle. We hope to see that by the third quarter stabilize and we will see the normal inventory valuation level and normal change in inventory valuation. I think that answers to your question, right?

Rahul Jain: If you can just break it up between how much is related to inventory getting depleted and how much is due to change in accounting practice?

Rakesh Tumane: There is no change in accounting practice. It is all due to change in inventory. As I said because what happened as I said earlier the inventory used to be around Rs 6500 per ton, so if you multiply by that amount any change, so that will come lower figure, but now the inventory value itself was higher because of the lower production, so that is why you see which is large number and it will stabilize in next two quarters. So by the year end we will see the normal of the change in inventory. So there is no change in the accounting policy. There is no write down it is purely business cycle.

Rahul Jain: Thank you so much.

Moderator: Thank you very much. The next question is from the line of Prashanth Shah, individual investor. Please go ahead.

Prashanth Shah: Good evening Sir. I am from Gujarat and I am a small investor. I do not really understand the number and everything. My main concern is like first half the company had made around 60 Crores profit and we have currently made some 40 Crores to 55 Crores. Almost the entire profit is like that and as per my understanding I am not sure how much I am right or wrong, but Q2 being the inventory it is on 110 Crores and as per my understanding it also has an impact on the bottomline and profit like 7 Crores for the second half also. So I am just wondering what is the future plan for third quarter and where we have aligned at the end of the year?

M.P. Chaudhari: As I have told that we are trying to increase our production. During this period although it is difficult to maintain the production level, we have been successful in last month September. In October also we are trying hard. As the production level stabilizes, we are expecting better results. However the trends are not yet very clear. So we are not able to clearly say

what are going to achieve with annual results. Hopefully that will be better as our Director Finance has just now told you.

Prashanth Shah: Right because you know we are a small investor? I am from Gujarat and we are just looking at dividend and all these stuff.

M.P. Chaudhari: Investor is an investor, small, big does not matter. You are of the same value to us.

Moderator: Thank you. The next question is from the line of Vineet Maloo from Aditya Birla Sunlife Asset Management. Please go ahead.

Vineet Maloo: Good evening Sir. Sir I have a question, that this inventory valuation, you are saying that normally the cost used to be Rs. 6500 per tonne. Because of lower production, you are actually 6 Crores absorption was poor and hence costs went off. Am I correct in my understanding?

M.P. Chaudhari: Yes you are right.

Vineet Maloo: Then it had to be brought down to net realizable value?

M.P. Chaudhari: Yes you are right.

Vineet Maloo: Can I know what was the cost that it went up to and what was the net realizable value on an average basis?

M.P. Chaudhari: The average realization I have just told you up to quarter to it was Rs. 8466 as against Rs. 9277 in corresponding to the last year. There is a drop of 9%.

Vineet Maloo: Sir what was effective cost coming to for this stock in hand?

M.P. Chaudhari: For stock in hand, right now it is still around Rs. 8600.

Vineet Maloo: What would be the current carrying value after making this provision? I am saying that because of lower production, what was the effective cost coming to just wanted to understand that?

M.P. Chaudhari: Cost has increased by around Rs. 2700 per tonne during this period.

Vineet Maloo: It has to be higher right? Sir because it is 6500 per tonne it would come to somewhere around Rs.9200 per tonne right? And hence the write off would amount to something like Rs.600, Rs.700 per tonne only, right? But the write off seems to be higher?

M.P. Chaudhari: I think on this issue, we will put up a note on our website or will give a clarification so that all the queries related to this issue are resolved in one stroke. I think many of the participants in this group would ask the same question. We will do that because it is slightly intricate issue, when we put it up in the form of a note that will be absolutely clear to all of you.

Vineet Maloo: My next question is on what has happened to the capex plan because of this COVID and our project, can you just talk about that. What is the status of the project and the capex plan?

M.P. Chaudhari: We had an ambitious target of 380 Crores this year. That consisted to two big projects of high shaft sinking at two of our mines. The capex plan due to these two projects are affected to the extent of more than Rs. 150 Crores. Still we are trying to take our capex to a level of around Rs. 220 Crores as against Rs. 240 Crores last year. Last year, out of Rs. 240 Crores, Rs. 40 crores was an extraordinary kind of item for laying 132 kv line, which is of non recurring nature. The balance capex last year was Rs. 200 Crores. Irrespective of all COVID related problems, we have put our target at Rs. 220 Crores. For the current year, as against 74 Crores of capex in earlier year up to Q2, we have incurred around Rs.47 Crores. There is a sharp decline here. Still we are trying to maintain it. For the shaft related works it will be difficult to make up the loss because it is related with shaft sinking; purchase of winders for the shafts was also scheduled in the current year. They cost around Rs. 65 Crores but are not coming this year due to COVID related problems. That capex has to be shifted to the next year and hence there is reduction in our capex target. We would try to maintain to Rs. 220 Crores capex target.

Vineet Maloo: Understood Sir. Sir what do we mean for your project timelines?

M.P. Chaudhari: Project timelines will be affected at least six to seven months. The Chinese crew is doing the work at the projects. The projects have stopped completely in April and the crew has gone back to China, the next batch is expected to arrive only at the end of November and the work would start at the earliest from December. The loss of around eight months would ultimately result at least six to seven months of delay in the project timelines.

- Vineet Maloo:** One last question for my side. Because of this disruption, are we facing some payment issues from our customers' etc., is any money stuck which we have not been able to recover?
- M.P. Chaudhari:** Nothing of that sort. See we are not offering clean credit to any of our private customers. All credits are backed by bank guarantees and letter of credit so no issues on that front.
- Vineet Maloo:** Thank you very much Sir.
- Moderator:** Thank you. The next question is from the line of Samarth Singh from TPF Capital. Please go ahead.
- Samarth Singh:** Thank you for taking my question. Just two, first question was can you just give the net cash balance as of September 30, 2020?
- M.P. Chaudhari:** It is around Rs. 1800 Crores.
- Samarth Singh:** **Rs.** 1800 Crores. Thank you and the next question was, can you just tell me what is our cash breakeven? At what price per tonne do we are at cash breakeven.
- M.P. Chaudhari:** No I did not get you. What is your point?
- Samarth Singh:** Sir, at what selling price per tonne are we cash break even?
- M.P. Chaudhari:** In normal course it is Rs. 6500, but then now that cost had increased due to the lower production.
- Samarth Singh:** We talk about assuming 100% utilization.
- M.P. Chaudhari:** Assuming 100% utilization it is around Rs. 6000 per ton.
- Samarth Singh:** Thank you so much.
- Moderator:** Thank you very much Sir. Next question is from the line of Pallav Agarwal from Antique Stock Broking. Please go ahead.
- Pallav Agarwal:** Good evening Sir. Sir just question on the pricing outlook, I have continued to see iron ore at international levels continuing to remain very strong whereas you not seen a similarity in manganese ore. So do you think that dynamics are different because ultimately the crude

steel in China the production still continues to be a record low? So what do you think you know why there is such a big difference between manganese ore and iron ore?

M.P. Chaudhari: Dynamics are different.

Pallav Agarwal: Yes Sir, but broadly you are supplying to the same end user industry. The supplies situation in manganese ore there are being more disruptions that iron ore is that one of the reasons that you think is possible?

M.P. Chaudhari: No I think the disruptions in manganese ore would be more at least so far as India is concerned! So far MOIL is concerned we have seen it at a higher level because most of our production comes from the underground mines.

Pallav Agarwal: Just on the pricing outlook we have seen some softness over the last month in international prices so do you think you know the price hike that have taken there could be some impact or rollback on that front?

M.P. Chaudhari: Fixing prices takes into consideration the international prices at the end of every month I mean these are reviewed and we are fixing the prices on quarterly basis. The next review is scheduled on October 31, 2020. We would go by October 30, 2020 figures and accordingly decide ore prices taking into account other factors like China Port stocks, stocks with our Indian producers, market of ferro alloys, the cash crunch that they are facing. All these factors are taken into consideration and accordingly we are fixing the prices. As of today, it will be very difficult for me to tell you anything about it.

Pallav Agarwal: Sir, just lastly, we have seen all the major steels producers almost back to full capacity utilization levels so we also source quite a good volume of manganese ore. So, that given that this trend you expect to continue, because some of the smaller producer also could start coming back on stream, so the demand for manganese ore should remain firm in the domestic market?

M.P. Chaudhari: Yes we have not seen any reduction in manganese ore demand. So we do not see any problem on demand front, marketing front.

Pallav Agarwal: Thank you Sir.

Moderator: Thank you very much. The next question is a followup from the line now from Rahul Jain from Systematix. Please go ahead.

MOIL Limited
October 29, 2020

Rahul Jain: Once again I just want to make a slight update on your project, so which we know that we have two ferro alloy plants also coming in and also what I understand that Balaghat there is a significant deep sinking of shaft for which you have set timeline for July and also in UKWA there is a shaft sinking so can you give brief run through as to where are we on these projects and so what should we look at for next year? Is there any major projects which is coming, which can add for your volumes for next year?

M.P. Chaudhari: All these projects are in progress. The benefits of these projects would come only after few years. I mean, when the projects are completed in all respects, we have to take up horizontal developmental and that takes around one year to one and a half years. After we complete the horizontal developmental and reach the ore body, then only the production increase would be seen. So all the projects are not at that stage where we could see increase in production.

Rahul Jain: Which one originally more, which are upcoming into may be next 1 year I mean any particular one which comes to your mind?

M.P. Chaudhari: Now that all these projects are delayed by at least six to seven months, although we were expecting UKWA shaft completion in current year and Balaghat and Gumgaon completion in the next year but UKWA production increase would be seen now from 2022-23 onwards and Balaghat and Gumgaon production increase could be seen from 2024-25 onwards.

Rahul Jain: Balaghat how deep have we gone so far? I think you are looking at 750 meters right?

M.P. Chaudhari: Balaghat we have completed around 400 meters I think.

Rahul Jain: Right and UKWA where it would be roughly?

M.P. Chaudhari: UKWA offhand I will not be able to give this figure, we will post this in the website.

Rahul Jain: On EMD any long term prospects we have, we are thinking that to increase capacity there? Anything happening on that front?

M.P. Chaudhari: We have already increased the capacity to 1500 tonnes. Earlier it was 1000 tonnes and we have certain problems in reaching capacity utilization, which was slightly on lower side earlier but then last month onwards we are seeing good capacity utilization. So, next year onwards we can expect to 1500 tonnes from this plant.

- Rahul Jain:** Thank you so much.
- Moderator:** Thank you. Next question is in the line of Ajay Jain from Makrand Investments. Please go ahead.
- Ajay Jain:** Good evening Sir. Sir we talked a lot of change of inventory. The reason is because I think the bottomline is looking less this quarter probably because of the inventory change in inventory. So I suggest Sir if when you are giving us a note on this, could you tell us how going forward do you intent to you know equal on to it so that there is not much of actual production loss.
- M.P. Chaudhari:** We will do that, but immediately I can also tell you that with increase in production and attaining normalcy, this would also be at the normal level. We are expecting that we should be having normal inventory valuations by the end of the year.
- Ajay Jain:** Because as I understand Sir, it is a loss due to some valuation some booked valuation and not actual loss, so am I correct, I am thinking that as times goes forward we should be able to recover this amount?
- M.P. Chaudhari:** Yes correct.
- Ajay Jain:** Secondly, Sir while going through your quarter results, I have noticed that cost of material consumed varies a lot by percentage. If I just think September 2019, it is showing about 3 Crores and the same thing has jumped over to September 30, to 5 Crores or 4.5 Crores. Now why is that of so much of variation in cost of material?
- M.P. Chaudhari:** Yes. Can you repeat those two figures please?
- Ajay Jain:** As I see the quarter results in front of me, the figure on September 30, cost of material consumed is showing 285 lakhs converting it to 2.85 Crores and the same thing on September 30, 2020 it is showing as 4.48 Crores. Now if you see the percentage difference is quite huge. Can you give us explanation why there is so much of variation in cost of materials consumed?
- M.P. Chaudhari:** Cost of material consumed includes our ferro manganese and EMD plant expenses because the raw materials are consumed there only. It depends on the activity level at these plants.

- Ajay Jain:** As I think it, it is basically the raw material price, which varies and that is why the difference is so huge.
- M.P. Chaudhari:** This is an important factor there. Coal prices also matter a lot, sulphuric acid prices matter a lot.
- Ajay Jain:** Lastly, we had quite of good cash and bank equivalent up to 1500 Crores, so what do you feel how is the company thinking going ahead so that there are no volume increases and so the company becomes, like I recollect in an earlier conference we were told that it would increase from 1.3 metric tons to 2.5 metric tons by 2025, which I presume would go at your delay, but are we going to be on the same lines as he go forward Sir?
- M.P. Chaudhari:** Yes definitely.
- Ajay Jain:** That is it. Thank you so much.
- Moderator:** Thank you. The next question is from the line of Abhijeet Vora from Sharekhan. Please go ahead.
- Abhijeet Vora:** My question has been answered.
- Moderator:** Thank you. The next question is a followup from the line Mr. Prashanth Shah an individual investor. Please go ahead.
- Prashanth Shah:** I am just asking the simple question what is second half projection for in terms of net profit?
- M.P. Chaudhari:** The trends are not very clear yet. So it will be difficult. In a normal year we would have probably given some indication but this time it is slightly difficult for us.
- Prashanth Shah:** No problem Sir. Thank you for your reply.
- Moderator:** Thank you. Next question is from the line of the Vishal Chandak from Emkay. Please go ahead.
- Vishal Chandak:** Thank you very much for taking my question. So my first question was with respect to be inventory level in China, typically you do track the inventory levels in China while taking into consideration your pricing. So how was the inventory level over there currently Sir? You mentioned that the capex for winders has now moved to the next year, so currently

current years capex we have brought down from 380 Crores to 220 Crores. For next year what is the kind of capex outlook that we should look at?

M.P. Chaudhari: The figures are not yet finalized, but then we are aiming around it should be around Rs. 280 Crores.

Vishal Chandak: My next query was with respect to the import pricing that is coming up, if we look at this out 32 manganese ore pricing, they are guiding for a lower pricing or even November, December numbers. So when we do our pricing, we look at the import parity prices, but the ferro alloy produces were on the shore based are really not our customers, they are dependent on the import pricing only, but they are looking at imports only, but our customers are typically in the vicinity of about 500 kilometers range from our mines. So why do we really look at the import parity pricing. If I were to draw a corollary to the iron ore pricing, the domestic prices are not linked to the import parity prices at all. If you know the domestic prices were to be the import parity prices, probably the domestic iron ore prices would have been 2X the price they are currently, minimum. So should we add a premium differential to our pricing to achieve it or more realistic prices?

M.P. Chaudhari: We are doing that; it is factored into our calculations.

Vishal Chandak: Sir other way to look at it, should we look at the way steel is priced let us say if the steel prices move up, our pricing should also move up irrespective of wherever the international prices are. You know 500 kilometers in our vicinity, a lot would be dependent upon MOIL for the manganese ore?

M.P. Chaudhari: Got your point. When the country was net exporter of manganese ore, we were doing that. We were setting the prices and the linking to international prices was also not there, but then now we have moved out of this. We are looking at the China Port Stocks. Now the figure is available with me. Mr. Raul had probably asked about this. As on date the China Ports stock is 6.26 million tons as against 5.9 million tons pm September 30, and 5.6 million tons on August 31. So it has slightly increased.

Vishal Chandak: Sir, lastly one question, you know there are several media reports which is suggesting that our government has requested all the cash rich PSUs to look at the option of a buyback as well. So is that something that you are also looking forward too?

- M.P. Chaudhari:** That may not be legally permissible now. We had our earlier buyback in 2020 January or February. Timeline would not permit us to do it because for one year at least you are not allowed to announce the next buyback.
- Vishal Chandak:** Any volume guidance for next year would be similar to the current year levels I would assume or we can still look at some growth?
- M.P. Chaudhari:** I did not get you. What are you saying? You are talking about manganese ore production?
- Vishal Chandak:** Should we look at 1.2 million ton or should we look at something slightly better than this?
- M.P. Chaudhari:** We are trying hard to achieve 1.25 million tonne.
- Vishal Chandak:** This year.
- M.P. Chaudhari:** We have revised our targets. So it is 1.25 million tonnes irrespective of all these problems. So in case you take into consideration, the loss of production in the first quarter on an annualized basis, this works out to around 15 lakh tons. Of course, it is on presumption basis and annualized basis.
- Vishal Chandak:** I think next year it would be fair to assume 1.5 million tonnes?
- M.P. Chaudhari:** Yes we will try hard.
- Vishal Chandak:** Thank you very much Sir. Thank you very much.
- Moderator:** Thank you. The next question is a followup from the line of Vineet Maloo from Aditya Birla Sun Life AMC. Please go ahead.
- Vineet Maloo:** What is current run rate of production we might be running in the recent months?
- M.P. Chaudhari:** Recent months I have told you in September we have slightly exceeded September 2019 production. So we are trying to match up or exceed the last year production now. From April to June it was very less. July onwards it has started picking up but then it was not comparable with the last year. Now September we have exceeded.
- Vineet Maloo:** In October or December, we will add 1.2 million tonne on a run rate basis and probably exceed eventually?

MOIL Limited
October 29, 2020

- M.P. Chaudhari:** I am not clear what are you asking?
- Vineet Maloo:** I am saying on annualized basis, we will be exceeding 1.2 million tonnes during this quarter right? That is a fair assumption.
- M.P. Chaudhari:** Yes.
- Vineet Maloo:** Thank you so much.
- Moderator:** Thank you very much. As there are no further questions, I now on the conference over to the management for closing remarks over to you.
- M.P. Chaudhari:** I am thankful to Emkay Global and Vishal for organizing this conference call. Thank you all. Bye.
- Moderator:** Thank you very much members of management. Ladies and gentleman on behalf of Emkay Global Financial Services that concludes today's conference call and keep a joining us. You may now disconnect your lines.
