"Manaksia Coated Metals & Industries Limited Q4 FY-24 Results Conference Call"

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MANAGEMENT: **MR. KARAN AGRAWAL – WHOLE-TIME DIRECTOR, MANAKSIA COATED METALS & INDUSTRIES LIMITED**
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MR. TUSHAR AGARWAL – SENIOR VICE PRESIDENT, MANAKSIA COATED METALS & INDUSTRIES LIMITED

MODERATOR: **MS. PREETI BHARADWAJ – KIRIN ADVISORS**

Moderator: Ladies and gentlemen good day and welcome to the Manaksia Coated Metals & Industries Q4 FY24 results conference call hosted by Kirin advisors.

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 Ms. Preeti Bharadwaj from Kirin Advisors. Thank you and over to you ma'am.

Preeti Bharadwaj: Good afternoon. Thank you. On behalf of Kirin Advisors, I welcome you all to the conference call of Manaksia Coated Metals & Industries Limited.

From the Management side, we have Mr. Karan Agrawal – Whole-Time Director, Mr. Mahendra Bang – CFO and Mr. Tushar Agarwal – Senior Vice President.

Now I hand over the call to Mr. Karan Agrawal, Whole-Time Director. Over to you sir.

Karan Agrawal: Thank you, Preeti. Good afternoon, everyone. I warmly welcome each one of you to our first conference call for Manaksia Coated Metals & Industries Limited. Before we delve into specifics of our performance of Q4 FY24 and for the whole year of FY24.

Let me offer a brief overview about the company.

Manaksia Coated Metals & Industries Limited is one of the leading players in the production and export of coated steel products. With over 15 years of experience, we specialize in galvanized steel and pre-painted steel, both available in coil and sheet forms. With two cutting edge manufacturing plants, four branch offices and five strategically located stockyards and service centers, we ensure seamless production, distribution and service provision. This network enables us to deliver quality products and unparallel support to our customers across the country. Our product portfolio encompasses pre-painted steel sheets and coils, galvanized steel sheets and coils. Our pre-painted steel contributes 69% and galvanized steel contributed 27% to the total revenues of FY24. This showcases our focus on maximizing revenue from high value-added products, yet maintaining diversity in our revenue stream. Our company holds prestigious ISO certifications such as ISO 9001, ISO 1401, ISO 45001 and is also recognized as a BIS certified Star Export House. Situated in Kutch Gujarat, our state-of-the-art manufacturing facility benefit from an ideal location near major ports of Kandla and Mundra. This strategic positioning enhances our operational efficiencies for both imports and exports and also gives us access to domestic coastal routes, bolstering our capabilities to serve both local and international markets effectively.

With the annual capacity of 1,32,000 metric tons of galvanized steel and 86,000 metric tons of pre-painted steel operating at 65% and 71% utilization respectively, we have significant room to grow our revenues and profitability. Our galvanized steel marketed under brands Zingalvo and Singham ensures exceptional corrosion resistance through advanced technology and meticulous attention to detail, we consistently deliver excellence in every batch setting industry standard for durability and reliability. Our pre-painted steel products marketed under the brand color strong provides architects, builders and designers with versatile solutions for their projects. Utilizing advanced painting techniques and a diverse range of coatings, our pre-painted steel ensures durability and vibrant finishes. Our company maintains a strong presence in 22 countries spanning four continents and presence in over 20 states across India serving a diverse clientele both domestically and internationally.

In FY24, revenue from domestic sales accounted for 67% of our total sales while 33% of our revenue was generated through exports. We are growing our presence in the export market with support of an excellent quality product and consistent deliveries to prestigious customers in Europe, Middle East and Africa.

I would like to talk about the financial highlights of the company. In FY24 our company's standalone financial performance demonstrated remarkable growth and operational efficiency. We achieved total revenues of Rs. 745.80 crores marking a 13.54% increase over the previous year. Our EBITDA saw a significant rise of 49.41% reaching Rs. 56.91 crores. The EBITDA margin expanded by 183 basis points to 7.63%. The net profit soared by 133.08% reaching Rs. 11.73 crores. This growth is further highlighted by an 80 basis points increase in the net profit margin now standing at 1.56%. Our EPS surged by 124.68% to Rs. 1.73 per share. These figures not only reflect our financial health but also mark substantial progress towards our strategic growth objectives.

For the standalone results of Q4 FY24, our total income stored at Rs. 184.39 crores. The quarterly EBITDA reached Rs. 17.25 crores which is an increase of 71.27%. While the EBITDA margin improved significantly by 399 basis points to 9.36%. Net profit for the quarter was up by 74.05% to Rs. 5.34 crores. The net profit margin increased to 2.85% showing a 120 basis points increase. Additionally, the EPS for the quarter grew by 65.96% to Rs. 0.78 per share. This issuing the sustained positive trajectory in our financial performance.

In the consolidated results of Q4 FY24, our total income amounted to Rs 184.67 crores with an EBITDA of Rs. 17.15 crores. We achieved a net profit of Rs. 5.20 crores on a consolidated basis. For the consolidated results of FY24, our total income amounted to Rs. 746.18 crores, EBITDA stored at Rs, 56.87 crores. Showcasing sound operational management, we experienced a net profit of Rs. 11.55 crores, primarily attributable to improved realizations and higher capacity utilization. I would now like to handover the presentation to Mr. Tushar Agarwal; Senior Vice President, who will take you through the growth initiatives of the company.

Tushar Agarwal: Thank you very much. Good afternoon, everyone. Over the years, our company has undertaken strategic expansion initiatives to fortify our position in the steel industry. We have increased capacity in our pre-painted steel segment from 40,000 metric tons per annum in FY06 to 86,000 metric tons per annum in FY22. We have ambitious plans to elevate this to **1,90,000** metric tons per annum by FY26. Additionally, our galvanized steel capacity has surged from 1,08,000 metric tons per annum in FY18 to 1,32,000 metric tons per annum via upgradation of furnace and other equipment. We have a firm target to reach 1,80,000 metric tons per annum in FY25. Moreover, recognizing the demand landscape, we plan to invest in backward integration projects for production of cold rolled steel in FY26 aiming for a capacity of 3 lakh metric tons per annum. These expansions signify our commitment to meeting evolving market demands, enhancing our product portfolio and sustaining growth momentum in years to come.

Our upcoming Phase I expansion plan scheduled for execution in Q2 of FY25 involves a shift from galvanized steel to aluminum zinc coated steel. This product offers superior properties and cost efficiencies. Aluminium zinc coated steel outperforms regular galvanized steel providing 3X better corrosion resistance even with a 40% lower coating rate. Such superior performance of the product leads to a premium price realization along with an added benefit of lower input cost of raw material per metric ton. The increased demand of this product driven by its enhanced performance and higher market acceptance compared to galvanized steel positions us very favorably. We anticipate an additional EBITDA growth ranging between 4% to 5% compared to previous years and a higher profitability on the whole.

Furthermore, our planned investment in new coil finishing infrastructure like setting up a new slitting line will enhance our customization capabilities and product quality specifically catering to the needs of OEMs in the white goods and automotive industries. This targeted approach ensures that our products meet the precise requirements of these sectors, offering tailored solutions and superior performance. As part of our sustainability efforts, we are also evaluating installation of a 6-megawatt solar power plant to reduce our carbon footprint and lower our energy costs.

In conclusion our company is pride for sustained growth and success driven by strategic expansion initiatives and outstanding financial performance. With investments in advanced technologies and expanded manufacturing capacities, we are poised to meet evolving market demands. As we move forward our commitment to sustainability, innovation and operational excellence remains unwavering, positioning us for continued leadership and success in the marketplace with the support of our stakeholders.

Now I request to open the floor for questions and answers. Thank you once again for your presence and continued support.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Sandy Mehta from Evaluate Research.

Sandy Mehta: With the new capacity that's coming online over the next 1-2 years and then also your positive mix shift to color coated steel, aluminum products, what do you view as your normalized margin levels going forward for the next 1 or 2 years? And also, what sort of revenue and EPS growth can investors expect over the next couple of years?

Karan Agrawal: I think the landscape of the steel industry in the Indian context is increasing in terms of demand and in terms of the appetite to consume value added steel products. And when the GDP is growing in rates like 7% to 8%, the consumption growth of steel is definitely in double digits. I feel that by our efforts of increase of capacity utilization and the addition of higher number of production lines and the change in the production technology from galvanized to aluminum zinc alloy coated steel, we would be significantly able to improve our profitability percentages in EBITDA, in PAT and also in EPS where we can expect a growth of anywhere in the range of 20% to 25% immediately in the quarters starting FY25.

Sandy Mehta: And your margins, particularly your net profit margins have done well this past year but they're still relatively low. What do you view as normalized margins in the industry and off this low base looking out 2 years, do you see the margins jumping quite a bit because on an absolute basis they are relatively low base?

Karan Agrawal: You're absolutely right with the point that you made that it is a low base and in fact I would see that as a very big opportunity for the company to capitalize on the growth potential in terms of the profitability. And I think the main cause of the current profitability rates is our capacity utilization where in my presentation I spoke about, how we are going to grow the capacity utilization drastically where today we are standing at approximately anywhere between 70% to 75% capacity utilization. This shows that there is enough room to grow capacity utilization in FY25 and further years to come which would have a direct impact on the absorption rate of fixed costs leading to outperformance in terms of bottom line. To answer your question about absolute profitability percentages in a sustainable fashion, I think what we are doing is we are attacking it on two sides. One is the technology change from the galvanized steel technology to the aluminum zinc alloy coated steel technology. This itself leads to an increased EBITDA of 4% to 5% due to the higher realization per ton that the company is able to achieve while selling the product and also supported by the lower cost of raw material while producing aluminium zinc alloy coated steel. Apart from this, the benefit of the higher capacity utilization will be additional. So, I think to be fair I would not like to give you a particular number but I think an improvement of once the aluminum zinc alloy coated steel starts, one can see EBITDA levels sustaining at 4% to 5% higher than what we are today. And I think in terms of absolute bottom line also, one can see an improvement of anywhere between 30% to 40% on the minimum side.

Moderator: The next question is from the line of Yashwanti from Kojin Finvest.

Yashwanti: I just wanted to understand when will be the new capacity will be commenced and what kind of addition to the revenue we can see over the years?

Karan Agrawal: I think I would like to answer by saying that with the investment that the company is doing in FY25, we will be able to see increased capacity for production of aluminum zinc alloy coated steel by end of Q2/beginning of Q3 in FY25. Hence the impact of the higher capacity availability will be visible in the second half of FY25. From current levels of 1,32,000 metric tons, we will be moving towards 1,80,000 metric tons per annum. And the potential jump in top line from current capacity utilization to the second half of FY25 will be upwards of 30% to 40%.

Yashwanti: So that means the new capacity is available only for the second half of the year. So, can we expect a revenue doubling from the current level by FY26 when the full utilization is happening?

Karan Agrawal: In FY26, it is possible to target an increase of the indication that you have made. It is possible because in FY25 we will get an opportunity to access that capacity and time to stabilize the utilization level. So FY26 I think it is possible, yes.

Yashwanti: And there are three things that are happening at our operational efficiency. One is that we are expanding capacity, we are increasing the proportion of our value-added products which you just mentioned at the EBITDA margin and we were also going for a solar power. So, with all these initiatives what kind of a cost saving we can see going forward, especially with the solar? Are we reducing our efforts or our dependence on your net convention form of sources and that can add something you can see in the recent years?

Karan Agrawal: Only due to the solar power being harnessed, I think the pure saving on the power cost is in the range of 10% to 12%. However, there are many intangible benefits of such an infrastructure. Because you are aware that the world is becoming more and more serious about sustainable energy and the carbon footprint and carbon emissions by any company. And since we are a significant exporter, this would help us in increasing our access and acceptance in the developed markets of Europe and North America where we can showcase our production utilizes sustainable energy. The intangible front and on the tangible front, I told you 10% to 12% is a direct cost saving over the conventional sources of power.

Yashwanti: We're just using a solar power plant, are we eligible for any carbon credit? Is this kind of any kind of a benefit that we have?

Karan Agrawal: Of course, I think today any company that is using any modes of sustainable energy is capable or eligible of getting their carbon emissions evaluated by an independent body and obtaining certifications on the amount of carbon emissions that are being generated or offset by the sustainable sources. Now these kinds of certificates give you benefits in terms of carbon credits or in terms of the low-cost access into European market where the entire EU is going into a regime of carbon border adjusted tax. So, the lower the carbon emission, lower will be the import duty for goods coming from countries like India or China etc. So, you have the possibility of getting carbon credits and also the possibility of becoming a low-cost supplier to the European nations.

Yashwanti: How much EU that is European countries contributes to our revenue?

Karan Agrawal: In my presentation, I told you that we are exporting 33%. In FY24 we exported 33% of our total production. Our revenue consisted of foreign exchange revenue of 33% and of that total revenue close to 90% of the exports were done to European countries. And going forward also we foresee that the exports to Europe will keep growing and the total percentage of export is also poised to grow from levels of 30%-35% upwards to 40%-45%.

Yashwanti: And in the last quarter or the fourth quarter any new country has been added to our portfolio?

Karan Agrawal: Well, I think like I said 90% of our export is done to European countries. So, within Europe we keep developing the markets. Europe consists of more than 27 to 30 countries in total where we are regularly supplying to about 9 or 10 of them on a regular basis. And with our efforts of continuous marketing and market development, we keep adding new customers. So, for example we have added new customers in countries like Greece, Spain and countries like Bulgaria. These were the three new additions in the last quarter of FY24. And we hope to keep developing more and more countries in the European continent.

Yashwanti: How has been the average price movement for 1 metric tonne of the galvanized as well as the pre-painted coated metal sheets for the whole year or may be for the last 6 months, how has that been?

Karan Agrawal: For the whole year of FY24, we saw some volatility in the steel prices, for galvanized and pre-painted steel both because the international markets had a lot of large incidents such as the Ukraine-Russia war or the Israel-Palestine conflict and the Iran-Israel, the problems in the Red Sea and things like that. Therefore, I think the overall price movement was downwards of steel. I think that is why one of the reasons it's important to point out that our revenue in FY24 grew by only approximately 12%. However, the quantitative growth that we have done in terms of quantity sold has been 23%. So, we have actually done better in times where steel prices have been on a declining trend in FY24.

Yashwanti: And how you feel for the FY24, is there an improvement? Is there any upward bias expected?

Karan Agrawal: In FY25, I feel that the prices are looking more stable because large producing nations such as China have taken steps to stabilize their economy, their demand and they have given a huge influx of capital access to their infrastructure sector. And also, we are seeing stability of demand in Europe. We are seeing interest rates—the central banks of developed countries talking about interest rates—being moderated in FY25. So, I think all of this will lead to more stability and more demand leading to neutral to positive kind of movement in terms of steel price.

Moderator: The next question is from the line of Chinmayi U from Moneybee Investment Advisors Private Limited.

Chinmayi U: Just to just a few questions on the CAPEX. So how much do we intend to actually spend on the total CAPEX that we have planned?

Karan Agrawal: The immediate CAPEX that is lined up for the technology shift from galvanized to Alu Zinc coated steel is approximately 40 to 45 crores in total and that is the immediate CAPEX that we have planned. Any CAPEX beyond this has not been planned firmly or tied up firmly. It is all in pipeline as of now.

Chinmayi U: In future also and for the 40-45 crores as well, how do we plan to fund the CAPEX?

Karan Agrawal: It's a mix of debt and equity where a large portion is being funded by equity and internal accruals and out of the 40-45 crores, we are looking at getting support from financial institutions for approximately 25 to 26 crores of debt and the balance would be equity contributions.

Chinmayi U: So, we don't intend on using any of the proceeds from the warrants that were issued earlier for the said CAPEX, right?

Karan Agrawal: Correct. That is that is exactly what I said, the warrants are part of the equity contributions. So, yes you are right warrants should be part of that.

Chinmayi U: As I understand 18 odd crores will be used in the remaining equity portion from the warrant side.

Karan Agrawal: Yes, you're right. Correct. The the total equity your infusion in the company by way of warrants is Rs. 44 crores. And out of which about 18 crores will be used for the CAPEX, yes.

Chinmayi U: And one more question on the export front, so as I gathered from the discussion earlier, you're going to be focusing a lot more on exports as well. So, is there a margin differential or a realization difference between the domestic and export market? And if so, like can you quantify for me?

Karan Agrawal: So, the steel product is essentially commodity. Even though this could be a value-added commodity, it is still cyclical where there are times when exports offer better realizations than domestic and there are times when domestic market offer better realizations than exports. So, we keep carefully monitoring both avenues and opportunities. Although exports do have benefits for us because we are having a very close proximity to the port. But in general to answer your question, it would be right to say that in general exports offer a better price realization than domestic.

Chinmayi U: Can you quantify it in the sense I mean in percentage terms also would do on an average, what is the differential between the two?

Karan Agrawal: It completely depends at the point of time we are in; the difference can be as low as 2% to as high as 15%. It depends on the events in the different parts of the world. And in times of war, it changes, in terms of stability it changes, in the winter it changes, in the monsoon it changes. There is no fixed answer for this. That's why I thought it's better to give you a generic answer.

Chinmayi U: My last question is the Alu Zinc shift that we are getting from the galvanized sheet. So just wanted to understand what has been the rationale for doing so? As far as I understand yes it is better quality but also in terms of demand, considering that we are already going to be completing, how do you see the demand going forward for this product?

Karan Agrawal: I think it's an excellent question and I compliment you for the research that you have already done by asking this question. It's very important to know what is Alu Zinc. Alu Zinc is a product that has come into the steel landscape of the world globally just about a decade back. Today most of the developed markets in the world demand only Alu Zinc product because they know the superior corrosion resistance properties and the general superior performance that the product offers. Whereas galvanized steel is a very conventional product which has been available in the market for probably more than five decades and the technology also has not changed too drastically. As far as the domestic producers are concerned you will be surprised to know that in a country, the size of India and the population of India, there are only four producers of this product. And by adding this in our product basket, we will be in a very special and limited league of producers who have the capability to produce Alu Zinc Steel and export it worldwide and sell it to the domestic market. In terms of demand, we are seeing a very rapid shift in customers domestically asking for Alu Zinc over galvanized steel because of the growing and increased recognition of the performance and advantages of the product.

Moderator: The next question is from the line of Raaj from Arjav Partners.

Raaj: How much is the total CAPEX you're doing for FY25 and FY26 combining all the expansion and upgradations which we are doing?

Karan Agrawal: For FY25, like I mentioned to the previous caller, the fixed and the defined CAPEX is in the range of 40 to 45 crores and that is what is firm. Everything else is still in pipeline which would be only in FY26. So as and when the complete project matures in terms of the whole project costing and the fixation of the cost elements, we would be able to share more clearly the details. But for FY25 this is what is already fixed.

Raaj: And also can you give the growth path for FY25 and for FY26.

Karan Agrawal: For FY25, with the efforts of additional capacity utilization and the increased capacity of the new product Alu Zinc Steel, we are looking at production and revenue growth of upwards of 25% on the minimum side and for FY26, the potential is much larger due to the stabilization of the new capacities. We can look at 35% to 40% on the minimum side.

Raaj: How do we think about EBITDA behaving for FY25 and for FY26?

Karan Agrawal: On the EBITDA front as I had mentioned in my presentation, we are estimating an improvement in EBITDA by 4% to 5% as compared to FY24 due to the new product technology as well as the increased capacity utilization.

Raaj: So, for FY24 your EBITDA was around 7.25%, so for FY25 you are expecting an EBITDA of 10% to 11%, am I right?

Karan Agrawal: In terms of absolute numbers for FY25, I may not be able to give you a definite answer because it all depends on when we are able to get the new capacity of Alu Zinc coated steel product commissioned and streamlined. So, I can definitely tell you that in the second half of FY25 the increase in EBITDA will be quite visible. Now it may shift one or two months prior or one or two months later depending on the execution of the project and how efficiently we are able to do it.

Raaj: Also, I wanted to know the sales plan for aluminium coated zinc steel and for galvanized steel and also for the third product pre-painted galvanized steel?

Karan Agrawal: You want to know what about the sales?

Raaj: Sales per tonalization per ton, realizations per ton?

Karan Agrawal: The two products that you first mentioned which is galvanized steel and aluminum zinc coated steel. They are of a similar nature similar end use. However, aluminum zinc coated steel or Alu Zinc Steel, you may call it is offering much better realization per ton to the extent of close to Rs. 5,000 per ton higher than galvanized steel in terms of sales price realization per ton. And in absolute terms one can say that today's galvanized steel pricing is roughly Rs. 75,000 per ton. So naturally the sales price realization today for Alu Zinc Coated Steel is roughly around Rs. 80,000 per ton. And for the more value-added product which we are focusing in, which is pre-painted steel, the sales price realization is hovering around close to Rs. 87,000 to 88,000 per ton. This is net of taxes.

Raaj: And how much is the EBITDA per ton for all the products which we offer?

Karan Agrawal: I think that is visible in our results. The EBITDA that we are achieving is the EBITDA that the product is offering. This EBITDA will definitely improve as and when our capacity utilization goes from current levels towards higher capacity utilization of 85%-90%, EBITDA will increase by 4% to 5% which I already mentioned.

Moderator: The next question is from the line of Saket Kapoor from Kapoor and Co.

Saket Kapoor: As you were alluding to the capacity utilization levels what have been our average capacity utilization levels for the two preceding year ‘23 and 2’4?

Karan Agrawal: The capacity utilization for FY24 was an average of 70% and for FY23 actually the capacity itself was slightly lower. But one can say that it was close to 65%. So, we are growing our capacity utilization from 65% to 70% in FY24 and in FY25 we are definitely targeting levels of 85%.

Saket Kapoor: So for 85% we are eyeing H1, from H1 only we will keep the run rate of 85 or it will be in H2, is this the average?

Karan Agrawal: This will be a gradual progression starting from Q1 to Q2 and then the major bit of the higher capacity utilization will be in H2. It will be visible right from Q1. From Q1 itself you will see higher capacity utilization compared to Q4 of FY24.

Saket Kapoor: And which segment will see the major growth, the increase will be attributable to?

Karan Agrawal: The segment of pre-painted steel which is the highest value-added product will experience the maximum rise in capacity utilization.

Saket Kapoor: You did allude it to again Alu Zinc as an innovative product also and very few players in the country. So where do we find the application of the same?

Karan Agrawal: I think to explain you in layman terms in your day-to-day life one can see the applications of aluminum zinc coated steel or Alu Zinc Steel in many things, at home or at work or when you travel around. For example, the steel roofing today in low-cost housing one can see out of galvanized or painted steel sheets, your air conditioning, ducting, heating, ventilation systems, cold storages, refrigeration. Today when you go to any prestigious buildings like airports or hospitals or any such kind of buildings, the metal ceiling and the roofing is all made up of Alu Zinc Steel and pre-painted steel. The pre-painted steel is used in our home appliances such as the fridges microwaves dishwashers. It is used for metal safes. It is used for elevators. It is used for bus bodybuilding. It is used for refrigerated trucks, fire emergency doors in the malls and hospitals so on and so forth, I can keep giving you examples.

Saket Kapoor: It is the anti-corrosive properties that make it a choice of element, choice of the material?

Karan Agrawal: Mainly and then the anti-corrosive property is the biggest value add plus there are other value adds like Alu Zinc Steel is having a lower weight per square meter as compared to galvanized steel. So therefore, it is a more efficient and more cost-effective solution as well for many applications. And aesthetically also it I would say that it is aesthetically superior product as well.

Saket Kapoor: Who are the major players in this industry, are all large players, big players are doing Alu Zinc and what percentage of our capacity will be to the total requirement of the total ecosphere?

Karan Agrawal: The only select few large players are currently producing this, such as JSW Steel, such as Tata Steel through its joint venture with BlueScope called Tata BlueScope and there are few new entrants like Jindal India and APL Apollo. These are the four companies that are doing this product so far. As far as our share, we would be converting 100% of our production to Alu Zinc once it is commissioned and stabilized.

Saket Kapoor: Not to dwell further but what portion of our revenue for the fourth quarter is contributed to Alu Zinc? I missed your earlier comment and for the whole year and going ahead also for this year what will be the percentage contribution from Alu Zinc products for this financial year?

Karan Agrawal: So far, the product has not been commissioned. This is a project that we are taking up in Q1 and Q2 of the current financial year. Therefore, we will see the participation of this product in the revenue from Q3 onwards and by Q4 it would become 100% of the revenue.

Saket Kapoor: Our entire revenue profile will be contributed from the Alu Zinc production?

Karan Agrawal: From Alu Zinc and pre-painted Alu Zinc, yes.

Saket Kapoor: Today we are posting, we have a revenue profile of 740 crores where the contribution from Alu Zinc is not there. You are telling that going ahead from Quarter 3, Quarter4 our entire product profile will be contributed by Alu Zinc. So existing setup which we cater for our customers, how will we manage that part?

Karan Agrawal: I think it's very important to make you understand that the customer profile end use and customer segmentation for Alu Zinc is extremely similar to our current set of customers, their profile and their end users. So, we are not going to replace much. We are only going to replace the product that is being sold to similar set of customers thereby enjoying higher realizations, better margins and lower costs. In terms of the sales, marketing, distribution, the customer profile, the customer end use will remain predominantly quite similar to what we are doing today.

Saket Kapoor: So, it will be only a margin accretive and whatever increase in the EBITDA margin it will be contributed from the commissioning of these lines? That is what you are saying.

Karan Agrawal: Absolutely right. We will be also launching new brands which will give a face or a platform for the new product to be sold to the market with a brand name and with the prices which can command a higher price.

Saket Kapoor: Total market size for this product and our market shares as percentage if you can tell?

Karan Agrawal: Total market size of India for metal coated products like galvanized or Alu Zinc would be roughly close to—if you are able to if you want the ballpark figure, I can tell you will be close to—8 to 9 million tons per annum. And we are talking about a capacity of just under 2 lakh tons. I told you 180,000 tons. So, you can imagine that we are having a very big market to cater to.

Saket Kapoor: And so our capacity will be at the max will be 2 lakhs and the entire market size is…

Karan Agrawal: 180,000 tons,

Saket Kapoor: And the entire market is 80 lakh?

Karan Agrawal: Correct.

Saket Kapoor: In that who are top five players, what is their contribution?

Karan Agrawal: Like I said before.

Saket Kapoor: Where do we rank; we are the smallest player in the capacity of 2 lakh?

Karan Agrawal: In the capacity of 2 lakh, currently we will be amongst the smaller players. The bigger ones are the integrated steel companies such as JSW, Tata Steel, ArcelorMittal. These are the companies that are market leaders.

Saket Kapoor: You did allude that we will increase the EBITDA margin with the commissioning of the new product line. But if we take interest, finance cost as a percentage of our total EBITDA, that's a significant number. So what steps are you taking firstly to arrest this increase in finance cost as a total percentage of EBITDA? And I think so we are left with the Rs. 50 crores of capitalization, when will this get capitalized? This capitalization will come with the capacity or excluding?

Karan Agrawal: You are right. Your observation about the finance cost is there which I would like to say that I think due to the rise interest rates in India and globally over the last 12 to 18 months has had its impact on the cost of borrowing which is also reflecting in our balance sheet as it would be reflecting in any other company. However, we plan to reduce the impact in terms of percentage of finance cost on the total EBITDA like you rightly mentioned. Firstly, we are infusing a large chunk of equity in the company by way of warrant issue. And I think the higher capacity utilization that we are going to do which we have already started in Q1 will lead to a much better EBITDA percentage on the whole thereby shrinking the impact of the finance cost. So I think these are the two efforts which will have a direct impact on the reduction of the percentage impact of the finance cost on the total EBITDA.

Saket Kapoor: And our borrowing is just 60 crores. Long term borrowing is 60 crores and our short-term borrowings are 117 crores, so what is the current year maturity and cost of fund? If you can tell blended cost of fund.

Karan Agrawal: Long-term borrowing of 60 crores is actually also having some large part actually of the loans given by promoter and promoter groups. So, which is having zero cost but the cost from financial institutions that today we are borrowing from banks for the long term and the working capital front both are anywhere in the range of 8.5% to 9.5% per annum.

Saket Kapoor: What are our ratings right now?

Saket Kapoor: Our ratings are BBB+ currently on the long-term side however we are in the process of getting our rating evaluated based on the FY24 results. We are hoping that with the results published, we will be able to achieve notch upgrade.

Saket Kapoor: And agency who is currently rating our debt?

Karan Agrawal: The current rating agency that is rating our borrowings is acute A ratings. On the current asset front also, we have a substantial number of 59 crores on other current assets.

Saket Kapoor: On a consolidated number, what does this number attribute?

Karan Agrawal: You're talking about current assets on the consolidated basis?

Saket Kapoor: Yes. On standalone it is 41.53 crores, on consolidated its 58.52 crores. So, what are these line items? And lastly said just to very basic understanding we are a converter. If we summed up in the entire metal eco space we are only a converter company or how does the raw material basket? If you can explain the process, I have not gone through the entire presentation which is mentioned. Excuse me for that. I'll go through the same. Are we only a converter company? We are converting and adding value added and then realizing our conversion margin.

Karan Agrawal: I would like to explain you the value chain of steel flat products. Today any company who is into steel flat products is a converter. They are either converting raw material into semi-finished goods, semi-finished goods into finished goods and doing value addition in some form or the other. We are present in the secondary space. Since we are not making primary steel, we are making secondary steel or value-added steel where today we are buying cold rolled steel and doing value addition and producing galvanized Alu Zinc Steel and further doing value addition and selling pre-painted steel. So, this is the space that we are in of the entire value chain of steel flat products. I think to explain you in depth about the whole value chain, I would love to do it offline with the help of a presentation, it would take at least one hour.

Saket Kapoor: I will ask our Kirin Advisor to arrange going ahead. So that point is clear sir. So, we are subject to the vagaries of then the CR prices, the coal rolled prices moving up and down or how do we protect our margins, the back-to-back calculation in terms of selling our product? If you could explain, what steps, how are our margin insulated from vagaries of the commodity fluctuation?

Karan Agrawal: So basically, our business model is to sell highest value-added product which is pre-painted steel in as much quantity as possible. And since it is a value-added product, we are not selling it like a pure commodity where prices are fluctuating daily or hourly. The pricing mechanism that we follow is more on a contract-to-contract basis and we have customers who are medium to long term lock in customers also where the contracts are fixed for a period of ranging minimum one month to maximum three months. And also, to answer how we are protecting our margins, most of our sales are back-to-back where we are not having any risk on the inventory holding. Most of the inventory that we hold are already backed by orders from our export or OEM customers. Thereby we protect our margins. As far as commodity price risk is concerned, today I don't think there is any company in steel or aluminum or copper or any metal who is not exposed to commodity price risk. It is part of the business, it is part of the model and everybody is exposed to risk in some form or the other.

Saket Kapoor: I have a couple of more questions which I take in the queue or I will request the teams for a separate one on one conversation. And I hope that we will continue with our conference call on a quarterly level, so that we get some more further understanding of the company. In the Manaksia Group, I think probably we will be the only concerned who is hosting and is speaking to analysts and investors, so kudos to the team for hosting.

Karan Agrawal: I think this is an initiative and drive from us to in fact reach out to the investor and analyst community to showcase what we are doing and how we are trying to improve the performance. And definitely you can expect us to continue these efforts and only improve it quarter-on-quarter.

Moderator: Thank you, ladies and gentlemen. As there are no further questions from the participants I and now hand the conference over to Ms. Preeti Bharadwaj from Kirin Advisors for closing comments.

Preeti Bharadwaj: Thank you everyone for joining the conference call of Manaksia Coated Metals & Industries Limited. If you have any queries, you can write us at research@kirinadvisor.com. Once again thank you everyone for joining the conference call.

Moderator: Thank you. On behalf of Kirin Advisors, that concludes this conference. Thank you for joining us and you may now disconnect your lines.