



**“Hi-Tech Pipes Limited
Q2 FY ‘23 Earnings Conference Call”
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**MANAGEMENT: MR. ANISH BANSAL – WHOLE-TIME DIRECTOR
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MR. SANTOSH RAI – HEAD OF FINANCE – HI-TECH
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MR. ARUN SHARMA – COMPANY SECRETARY AND
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Moderator: Ladies and gentlemen, good day, and welcome to Q2 FY '23 Earnings Conference Call of Hi-Tech Pipes Limited. As a reminder, all participants lines will be in a 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 star then zero on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Anish Bansal, Whole-Time Director. Thank you, and over to you, sir.

Anish Bansal: Good evening and welcome everyone for our Q2 H1 FY '23 Earnings Conference Call. I'm joined on the call by Mr. Santosh Rai, Head of Finance; and Mr. Arun Sharma, Company Secretary and Compliance Officer of the company. I hope everyone has had a chance to go through our results and update our investor presentation uploaded on the exchange.

During this quarter, the company is able to register a 30% Y-o-Y growth in sales to INR 599 crores against INR 462 crores in Q2 FY '22 and registered a record highest sales volume of 85,500 tons, which is almost 33% growth. This is mainly due to better capacity utilization and improved sales utilization. The EBITDA per ton for the quarter declined by 26% to INR 2,760 versus INR 3,742 in Q2 FY '22.

Net debt of the company has reduced by INR 33 crores. Net working capital days reduced substantially to 50 days as compared to 67 days in FY '22. However, the profitability for the quarter remains in pressure due to onetime provisioning of expected credit loss on an OEM customer and declining trend in HR coil prices. However, steel prices should be bottomed out soon and with our strong presence and continuously expanding reach, we can cater most of the demand and will be further increasing our volumes in medium to long term.

Now I would like to take you through the ongoing projects and other developments. I am extremely delighted to inform that the company has commenced the trial run of color coating line at the UP facility. The launch of Hi-Tech Color Star for our Color Coated coil will further be expanding our portfolio of value-added products. We are happy to announce that Hi-Tech Pipes has become the third player in North India, having this fully integrated manufacturing facility from HR Coil to Color Coated Coils. This will significantly enhance the EBITDA and margin profile of the company.

The Color Coated Sheets are widely used for roofing, Wall Cladding, white goods, domestic and industrial sheds, infrastructure, bus bodies, metros, railway stations, doors and windows frames. We are then poised that with the existing and develop distribution network and our deep penetration in the markets, we would be achieving excellent reach and regular supply of these products.

Simultaneously, our greenfield project of large diameter pipes or API pipe at Sanand Gujarat is in advanced stage of commissioning. With this, we'll be adding one more value-added product vertical in our basket. The demand for these products have ramped up significantly over last few years with the announcement of various government mega ambitious projects such as Jal Jivan Mission, City Gas Distribution, River Linking and Smart City Mission.

On the utilization front, during this quarter, we have reached 60% capacity utilization and by introduction of color-coated products and last diameter pipes we shall further be increasing our existing capacity utilization and EBITDA on blended level. Going forward we emphasize a big capex from the government in energy, housing, infrastructure, railways, airports, agriculture, telecom, irrigation and from private sector also in fields of automotive, capital goods and consumer durables.

In coming years, this would be the big demand drivers for the steel products that the company is offering. And we are confident that with our state of the manufacturing facilities, present almost all the geographies. We shall be able to capitalize on this big demand. Now we can open the floor for questions.

- Moderator:** We have a first question from the line of Vikas Singh from Phillip Capital.
- Vikas Singh:** Sir, I just wanted to understand what is the growth profile which we are targeting for next year -- for this year and next year? And the first question is that. And second question that now the larger part of the attractive price correction is behind us, sir. So how quickly do you think that we would get back to the EBITDA per ton closer to the previous year basically?
- Anish Bansal:** So Vikas, our volume guidance for this financial year remains same at 375,000 tons. And we are very optimistic that company will be like – can achieve this with the ongoing run rate. Secondly, your question regarding the steel prices and the margin profile, the HR coil prices, we felt that they have bottomed at this price level of INR 55,000 per ton. But we are seeing a further correction of INR 4 to INR 5 in coming months.
- So once this done then we can hope that the prices will bottom out and from there on, our original EBITDA of INR 3,500 to INR 4,000 per ton can come back. Because in last 6 months, what we have seen is continuously decline in steel prices from INR 76,000 to INR 55,000. So another INR 4 to INR 5 we are expecting as in line with the international market. So once it is done, the company should definitely get back on its original level.
- Vikas Singh:** So maybe one more quarter of pain we are expecting and then we would bounce back. That's what your thought assertive?
- Anish Bansal:** Yes. Hopefully, yes. I think by December, it should be bottomed out.
- Vikas Singh:** And sir, regarding on just new facilities, which is for the API grade of 50,000 tons. Just wanted to understand the – basically by when do you think that it will start and usually in API today, it takes a pretty big timeframe before you can break into get all the approvals and all that. So just wanted to know that is there any time line which you have planned and regarding the approvals, how are you proceeding with that?
- Anish Bansal:** Yes, sir. We are hoping for a trial production of water pipes and structural pipes by end of Q4 and another six months to get the API certification from that point.

- Vikas Singh:** So probably this plan would start contributing from the second half of FY '24. Is that the correct understanding?
- Anish Bansal:** Yes, but there will be some generation and some contribution from the water and restructuring side.
- Vikas Singh:** So sir just one thing regarding this, basically, what would be the fixed cost of this front? Basically, I just wanted to understand in case if it takes a longer time than how it affects the remaining portion of the business?
- Anish Bansal:** Vikasji, the company has done this very, very diligently and we have like constrained the capital cost for this project immensely because the company was having the land and buildings previously. And there's no – there will be no pressure as such, if at all, they'll delay in this. So for plant and machinery, we have incurred a capex of INR 25 crores for this.
- Vikas Singh:** And any idea about the operating cost yearly basis, what would be there basically just to minimum level of fixed cost or operating cost for this plant?
- Anish Bansal:** Vikas, that is negligible because here we'll be starting with structural pipe. There is good demand for structure pipe. So we can immediately start with our structural pipe segment. And then slowly, certainly, we can go up the value chain.
- Vikas Singh:** And sir, if I may ask just 1 last question. Just wanted to understand what is your value addition percentage as of now? And how do you see it's moving up in the next, let's say, by FY '24, FY '25?
- Anish Bansal:** Sir, right now, we are in the range of between 5% to 6%, and I think going forward, once the steel prices stabilize, this will continuously expand with the addition of our value-added products also. So same like I'll give you that INR 3,500 to INR 4,000 per ton our EBITDA per ton should come back in two quarters to three quarters.
- Moderator:** We have a follow-up question from the line of Vikas Singh from PhillipCapital.
- Vikas Singh:** Just wanted to understand regarding our working capital strategy since we are targeting a lot of growth going forward, probably next year as well. So what are the strategies we are taking to reduce the working capital debt working capital days so that our debt number should not increase beyond the second level?
- Anish Bansal:** So Vikas ji, if you analyze our H1 results, there is a substantial reduction in the working capital cycle base from 67 to 50. And this is all basically dependent on the steel prices also. So like in the month of March, the steel prices were at their peak and now they have come down. And going forward also with our stringent control on the stocks, and this will further come down.
- Vikas Singh:** Any target?
- Anish Bansa:** So I think by the end of FY '23, we should be between 40 to 45 days net.

- Vikas Singh:** And sir, regarding our normal ERW capacity, we have 50,000 ton, but we are targeting our utilization would be much less than that. So by when we, there would be a need of restart of the capex cycle. So basically by when we think that, let's say, FY '24, what kind of the numbers you are targeting? And by when we think that the capex cycle would start again?
- Anish Bansal:** Vikas ji, we are right now at 60% utilization level. And with the start of color coating project, I think this utilization should go from 60% to 65%. 70% is the peak that we can reach. And we have projects in hand, which is the Phase II of Sanand plant. So we have enough land, building and other infrastructure in place. So whenever we have to like expand it, I think we'll do it in a very short period.
- Vikas Singh:** And then the capex cost would also be lower since we have infrastructure in place?
- Anish Bansal:** Yes, of course, it was all like the further capex will be brownfield. So adding two lines is very less capital intensive compared to the greenfield project.
- Vikas Singh:** And sir, any debt number. So basically the peak debt-to-equity ratio or the big debt-to-EBITDA ratio, which you are comfortable with?
- Anish Bansal:** So right now, we are at 1.2. And I think with the current performance and once these steel prices, they, this impact, this negative impact is over. I think we should very soon be around 1:1 level.
- Vikas Singh:** And sir, just one last question. Some of our peers, basically, some of our larger players has actually targeting that 30% kind of the growth. Our growth number looks a little bit less than that. So is it the constraint is on the product mix or -- are the targeted geographies are different. So what's the difference here? Just wanted to understand.
- Anish Bansal:** No, sir. This year, we'll also be expecting a 30% volume growth.
- Vikas Singh:** And so basically, they are talking about next three to four years continue to 30% of volume growth. You have not given any guidance for the next year. So I just wanted to understand, are you just trying to be a little bit conservative....
- Anish Bansal:** We are targeting a 25% growth every year.
- Moderator:** We have a next question from the line of Mahesh Vaze Individual Investor.
- Mahesh Vaze:** Hi Anish, I just wanted to understand this credit write-down that you have taken, if you could give more detail. And have you written-off whatever come to what we want do completely? And is there any expectation of recovery from there?
- Anish Bansal:** So, Mahesh ji, this credit loss was to an OEM customer. This, we have been dealing with this customer for the last four years. And due to COVID, they have gone down, and they have done, this company has gone into NCLT, and we have filed our claim of INR 6.51 crores in the NCLT. The recovery process, like I am, honestly, I'm doubtful because we are right now in the fourth category. So once the financial creditors get their things and then the unsecured lenders

will get, and then they will come to operational creditors. So the chances are minimal, but we are still trying our best to recover whatever we can from this loss.

Mahesh Vaze: But what's the estimation currently? Currently, it's write-off?

Anish Bansal: We have done full provisioning.

Mahesh Vaze: Secondly, I can see that the balance sheet has improved quite a bit from March to September and there is some operating cash flow also. So what specific initiatives were taken to improve the balance sheet during this during this H1?

Anish Bansal: So sir, basically, despite the steel price correction, the volumes of the company has increased significantly. Apart from this better working capital management in terms of receivables and inventory days. So we were quite focused on bringing this down. And in coming quarters also, you will see a good improvement in these two areas. And then simultaneously there will be a reduction in the net-debt also.

Mahesh Vaze: In third and fourth quarter, approximately, what kind of volumes will we get from color coated?

Anish Bansal: So sir, November month is the first month, we have started trial production. There are a few teething problems, which should get resolved by end of this month. So December, I think we'll start with a 50% utilization from month of December. And it will slowly, steadily if it will go up. And we can reach 80% utilization by end of March.

Mahesh Vaze: So what does that mean in terms of numbers?

Anish Bansal: So basically, this is the capacity of 50,000 tons per annum. So we are targeting a 2,000 tons production and sales in month of December. And slowly, steadily, it will go up to 3,500 tons to 4,000 tons per month.

Mahesh Vaze: What is the kind of the new, the galvanizing line, what kind of production we are getting out of it currently?

Anish Bansal: So right now, we are producing almost 4,000 tons from this line. And with the color coating line, I think the production of Galvanized line will also enhance.

Mahesh Vaze: So will most of the Galvanized line production once the color coating line stabilizes will be used in-house?

Anish Bansal: Yes, that will run on full stream basis.

Mahesh Vaze: And in the presentation, you have mentioned that as the color coating goes on-stream, the capacity utilization will improve. So basically, we are talking about the cold roll capacity utilization?

Anish Bansal: Yes, sir.

Mahesh Vaze: What is the current, let's say, in the month of September, how much was the cold roll production?

Anish Bansal: 11,000 tons.

Mahesh Vaze: 11,000 tons. So basically, the incremental ones, it will come there will be increases by 4,000 tons to 5,000 tons as our color coating stabilize.

Anish Bansal: Yes, sir.

Mahesh Vaze: Well, last thing in between, there are some notice of preference issue. And after that, I didn't see the details. Can you update on it?

Anish Bansal: Sir, there was a promoter equity infusion that was planned, but it will now to be taken in the next meeting.

Mahesh Vaze: So this board meeting, it was not discussed.

Anish Bansal: Yes Sir, It is deferred till further intimation.

Moderator: We have a next question from the line of Vaibhav Kapoor an individual Investor.

Vaibhav Kapoor: Sir, I just want to know what exactly would be your API capacity, and I couldn't get the number on the amount of capex that you have done in this plant? If you could just repeat it.

Anish Bansal: Sir, this will be approximately 15,000 tons per year capacity. And the capex is ongoing. So we'll have the final number by the end of FY '23. Right now till date the company has incurred a capex of INR 25 crores on this project.

Vaibhav Kapoor: And any range on how much more do you think we would incur?

Anish Bansal: It is almost, almost completed. Another like INR 4 crores, INR 5 crores would be needed.

Vaibhav Kapoor: So approximately INR 30 crores and INR 25 crores is done.

Anish Bansal: Yes, sir.

Vaibhav Kapoor: And your capacity would become 630 along with this plant or this is just a value addition so...

Anish Bansal: No. There will be net capacity addition.

Vaibhav Kapoor: So this will become 630, correct?

Anish Bansal: Yes, sir.

Vaibhav Kapoor: Sir, the other thing I just wanted to know is with your Color Coated facility, what kind of differential in terms of EBITDA per ton, do you expect range from the normal EBITDA that you generate for this value addition that is on?

- Anish Bansal:** Sir, this historically, the EBITDA per ton has been in the range of INR 6,000 to INR 7,000 per ton on this product. But in the month of May, due to the imposition of export duty on the coated products. So this gap has come down to INR 4,000 per ton. So, and the industry is expecting this to go away in the next budget session. So once this is done, the expected EBITDA per ton will be above INR 5,000 per ton.
- Vaibhav Kapoor:** And do you see that because of the addition of you and as a new player and more people entering the space, this kind of EBITDA of INR 5 per ton that you are anticipating would remain or do you see a reduction?
- Anish Bansal:** No, sir, I think with the demand and with the ongoing projects that we are expecting and if these all shape up here, the demand will not be a challenge.
- Vaibhav Kapoor:** So you're saying the size of the market is pretty large to basically absorb?
- Anish Bansal:** Very large, and it is growing by the pace of 15%-20% per annum. This, the roofing segment.
- Vaibhav Kapoor:** Sir, the second question I have is on working capital days. It's a great improvement. But on a line-by-line basis, sir you projected about 45 days. Could you give me a breakup of how do you see the ratios improve from here going forward with respect to receivables and inventory and payables in a number of days?
- Anish Bansal:** Sir, I think there should be improvement in all the three areas in terms of receivables, in terms of payables and in terms of inventory. So we are very focused, but the prices, the fluctuation we're not able to like to chart it out, because sometimes we feel markets have bottomed out and then we can increase our inventory and sometimes we will know there is still some decline expected. So the volatilities are too much, but we are very cautious. We have to bring this down to 45 days by end FY '23.
- Vaibhav Kapoor:** And you're saying that you see a jump in the payable days also from this quarter, the result that you have declared?
- Anish Bansal:** Yes.
- Vaibhav Kapoor:** And receivables, I believe what my understanding is that it would go down based on the policy and the inventory you're seeing once the volatility is a little bit better than probably it would help us?
- Anish Bansal:** Yes, sir.
- Vaibhav Kapoor:** I think, so one, just sort of a book-keeping question. In terms of the CFO, I mean, do you, I mean, any time lines on the coming of a new CFO? And what kind of time line should we expect in that? And what are you looking for something?
- Anish Bansal:** Sir, I think another one or two months.
- Moderator:** We have a question from the line of Ronald Siyoni from Sharekhan.

- Ronald Siyoni:** On the, question only on the differential between secondary and primary steel producers. So last time we spoke because the spreads had almost narrowed down and similar. So how now they are behaving and what kind of price differential is there between this two?
- Anish Bansal:** Sir, prices have reduced significantly from like at one time INR 16,000 per ton difference was there. It has now narrowed to around INR 5,000 to INR 6,000 per ton. And we see this gap further closing down by Q4. So I think the prices of secondary steel products and primary steel, there will be very-very negligible gap, which will help in our volumes.
- Ronald Siyoni:** Yes, so but INR 3,000 to INR 4,000 is a good gap to maintain, right?
- Anish Bansal:** Yes.
- Ronald Siyoni:** And another thing is how has been the channel inventory behaving like?
- Anish Bansal:** Sir, there's not much inventory in the pipeline. So once the prices bottom out, they'll be restocking by all the dealers and distributors. So we are just waiting for that period, and I think it should come in at the end of December.
- Moderator:** Thank you. As there are no further questions, I would now like to hand the conference over to Mr. Anish Bansal for closing comments.
- Anish Bansal:** Thank you so much, everyone, for sparing time to attend our earnings conference call. For any other further questions, you may reach the Company Secretary on e-mail or by phone. Thank you so much for your time.
- Moderator:** Thank you. On behalf of Hi Tech Pipes Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.