"Man Industries (India) Limited

Q3 FY '24 and 9 months Earnings Conference Call."

January 24, 2024

MANAGEMENT: DR. RAMESH MANSUKHANI – CHAIRMAN – MAN INDUSTRIES (INDIA) LIMITED
MR. NIKHIL MANSUKHANI – MANAGING DIRECTOR – MAN INDUSTRIES (INDIA) LIMITED
MR. ASHOK GUPTA – CHIEF FINANCIAL OFFICER – MAN INDUSTRIES (INDIA) LIMITED
MR. RAHUL RAWAT – COMPANY SECRETARY – MAN INDUSTRIES (INDIA) LIMITED

MODERATOR: MR. KRIPASHANKAR MAURYA – CHOICE EQUITY BROKING

Moderator; Ladies and gentlemen, good day, and welcome to the Man Industries Q3 FY '24 and 9 months FY '24 Earnings Conference Call. 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 star then zero on your touchtone phone. Please note that this call is being recorded.

I now hand the conference over to Mr. Kripashankar Maurya from Choice Equity Broking. Thank you, and over to you, sir.

Kripashankar Maurya: Thank you, Manuja. Good afternoon, everyone. On behalf of Choice Equity Broking, welcome to Q3 9 month FY '24 post conference call of Man Industry. I also take this opportunity to welcome the senior management team.

On today's call, we have with us Dr. Ramesh Mansukhani, Chairman; Mr. Nikhil Mansukhani, Managing Director; Mr. Ashok Gupta, Chief Financial Officer; and Mr. Rahul Rawat, Company Secretary.

Kindly refer to the safe harbor statement on the second last slide of the earning presentation. I will now invite the management for their opening remarks to be followed by the question-and-answer session. Thank you, and over to you, sir.

Management: Let me begin by giving you a brief of the financial performance for the quarter. Our total revenue stood at INR847 crores, representing a growth of 26% year-on-year. Our EBITDA stood at INR79 crores with EBITDA margin reported at 9.49% and the net profit stood at INR30.6 crores.

Coming to our financial performance, 9-month FY '24. We reported a total revenue of INR2,331.5 crores, which increased about 43% year-on-year. Our EBITDA stood at INR221 crores and the EBITDA margin of 9.5%. And we reported a net profit of INR81 crores, representing a growth of about 93% year-on-year.

On the operational front, the unexecuted order book as on date stands at around INR1,300 crores to be executed in the next 6 months. We continue to have outstanding bids for more than INR11,000 crores at various stages of evaluation for several oil, gas, water projects in India and abroad, which sets our expectancy for good order inflows in the next few months. Currently, some of the orders are also we are at a good strong L1 position.

Maintaining sound financial health, our debt equity ratio is 0.14% and currently hold a net cash position in the company. Coming at the outlook of '24-25, our top line will grow at approximately 20%, 25%, which would be approximately around INR3,600 crores and the similar growth of 30%, 35% on the bottom line. EBITDA will stand at approximately 9% to 11% and -- which would contribute to around INR350 crores to INR360 crores.

For '25-'26, our top line will grow around 60% to 70% from year on, which will be approximately INR5,000 crores. And the EBITDA would stand at approximately 10% to 11% to around INR500 crores.

Recently, we've achieved a significant milestone in the industry by successfully testing a hydrogen transportation line pipe, setting a benchmark as we are the first one in the industry to do so. Looking ahead, we are confident taking the first mover's advantage, enhancing our capability and book for the new hydrogen line pipes. The world increasingly recognizes hydrogen's pivotal role in decarbonizing industries and establishing a clean energy.

Man Industry addresses this with its pipe having passed the fracture toughness for hydrogen service test, ensuring structural integrity and safety for hydrogen transport. This certification safeguards us against challenges related to hydrogen small molecule size pertaining material, more easily other than the other gaps.

In India, the Ministry of New and Renewable Energy has set ambitious targets for energy independence by 2047, and net zero carbon by 2017, underscoring the importance of green hydrogen in achieving these milestones. The breakthrough reaffirms Man Industries' commitment to driving positive change in the energy landscape and master giant leap towards the sustainable and hydrogen powered future.

For our ERW plant, we received all the accreditations recently, and the revenue has just started flowing in. And the major revenue, which will flow in from '24-'25 and the company has also received some of the orders. The company Q3 results is impacted also due to certain delay in approvals of ERW and due to the depreciation and finance costs of ERW. We are also expanding our geographical presence through our subsidiary companies by setting a new plant in Jammu for stainless steel pipes. The capacity is around 20,000 tons and which is expected production in Q4 of 2025.

Total investment capex outlay is around INR550 crores. And post the abrogation of 370 in J&K, the government has planned to increase the economic activities to set up the new units. The state government is also providing various subsidies and a large incentive on total capex outlay on planted machineries through SGST and CGST credit over 10 years and pass the land allotment approval in Jammu Industrial belt.

Moving on to our bending plant, which was started last year. We've already got three orders internationally and which is already under execution, and we are booked for the next 3 to 4 months. In our subsidiary company, Merino Shelters, we are in process of finalizing a joint development agreement with a reputed developer by which we will get INR40 crores to INR50 crores by this financial year-end. And in the long-term revenue in the next 4 to 5 years, we will get a large chunk of revenue, which will be coming in the next 4 to 5 years.

The company has decided to raise funds up to INR250 crores by the way of issue of one or more instruments including equity shares, convertible, or non-convertible securities of any description of warrants or debt securities to preferential issue qualify institution placements, right issuer, any other methods or a combination, subject to such regulatory statutory approvals as may be required, including the approval of shareholders of the company. The fund generated will support the company's strategic initiatives and expansion plans, ensuring the company's future commitment.

With that, I conclude my opening statement, and we can now open the floor for the question-and-answer session.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Kaushik Jhavar, AKJ Capital.

Kaushik Jhavar: Great top numbers on the team. Sir, I have a question on the stainless steel business. So can you correct me if my understanding is wrong, so we are having -- we will be outlaying the capacity of 25,000 tons there. And the place has been decided as Jammu & Kashmir. And I wanted to understand this plant will be operational in FY '26 because aren't we a late entrant here because already the similar capacities have been running in other companies also, we follow those sector companies?

So how much time it will take the order book because it takes time, right, to scale up that stainless steel business, but you're saying on the operational first year, you would expect somewhere around, if you do the math, some INR500 crores to INR1,000 crores of revenue from the first year. So is that the expectation? And how does this cycle works? Can you explain on the order book, etcetera, on the stainless steel part?

Management: Yes, good afternoon, Mr. Jhavar. So from the stainless steel, the operational is Q4, '24-25, and this is for commercial production. And as per the business plan, which we have taken in context right now, the first year, we've taken our top line of between INR400 crores to INR500 crores. This is mainly the mother pipe, and part of it will be the pilger product, which will go into the market.

And as for the other, the players, obviously, Ratnamani is already there, and there is Sandvik and few more players. And as per the business plan and the market scenario, there is quite a big demand on the product currently. And due to the BIS and the restrictions put in to import the mother pipe from China, the current demand is quite high and the local people such as other vendors are not giving the mother pipe. They are actually pilgering it and giving it for the projects. So there is a good demand currently, and that's what we envisage when we are putting this project.

Kaushik Jhavar: So we will be catering to the domestic market here?

Management: Yes, we would be initially catering to the domestic market and also the export market.

Kaushik Jhavar: So it will be in the oil and gas sector only?

Management: Yes.

Kaushik Jhavar: So it will be mother pipes, whatever the -- this is our product?

Management: The percentage of ratio will vary. The first year, we will do probably 60% to 70% of mother prices and only 30% pilger. And as the accreditations and everything, as you start exporting and get approvals worldwide, we would change the balance accordingly. And also, we are capable to do higher Inconels of duplex, super-duplex titanium from this mill. So once the stabilization happens initially, then we will also convert it to a higher-margin product as well.

Kaushik Jhavar: That part, what you said 30%, I did not understand that part, mother and the other one. What was that? Can you explain that?

Management: Sure, pilger. So they are basically -- they are high-value products in the sense they are smaller diameters. So a press can remove a certain size of a mother pipe and then you pilger it down for different usages such as you have for aviation and then you have for nuclear. So there is a certain size which the press cannot make, which will get pilgered and then goes, which is a higher-margin business also.

Kaushik Jhavar: What would be the margin for the shallow mother pipe?

Management: So the total margin for the SS seamless tubes is between 18% to 22%. So any time anything between 10% 11% for the mother pipe and 10% to 11% for the pilgering bit.

Kaushik Jhavar: And what is series we are focusing on Series 3, 4…

Management: So we has 3 1 series in the sense the product quality you mean or which one? Grade?

Kaushik Jhavar: Yes, yes, grade.

Management: 316 principle, 316 and 316L and then so on for the 304, which is one grade lower. And then you have the higher Inconels, the super duplex and super duplex alloys.

Moderator: Thank you. The next question is from the line of Riddhesh Gandhi from Discovery Capital. Please go ahead.

Riddhesh Gandhi: The question is, given we are already almost debt free, and we've already issued actually, I mean, warrants to the promoter and the healthy EBITDA that we have guided to for both FY '25 and FY '26. Just wanted to understand the rationale for raising incremental INR250 crores.

Management: So Riddhesh, how are you? The reason for the incremental is that currently we are doing a capex, which is outlay of the capex is INR550 crores for the SS. And then also, we have certain capex in the pipeline. We're just waiting for certain permissions for our expansion of LSAW, HSAW in a different country. So we are already looking at that.

And on the basis of that, our capex level will be between -- the debt levels will go up approximately to around INR600 crores, INR700 crores. And to balance between the debt and cash in the company, we are just keeping some incremental value in the company.

Riddhesh Gandhi: Sir, the other question was with regards to the approval you have on the hydrogen side, which you've spoken about. Can you explain as to how difficult this approval actually is to get, who are the other people, are looking for it? And how do they place us in terms of this space and when do we expect actually the revenue to come from here?

Management: So like I said, hydrogen is a new sector. It took us 16 months to get the approval from the European Research Lab. It was quite a detailed survey on the pipes and the fracture process that under certain pressure, there should not be any leakage and fracture during the -- once the pipeline is laid and the hydrogen because hydrogen is quite a notorious gas.

It was a 3-step process, which the lab had done, and the final process approval certification we got just a few months ago. And looking at the outlook, India is looking for hydrogen and clean energy to go, I think, 2050 is the vision for India. But Europe's vision is 2030, 2035. So there are a lot of orders in which now we are already bidding in which the hydrogen enables.

So basically, the designing is done in such a way that the steel and the quality which is used is for the hydrogen. But currently, they are not using hydrogen gas, but they are enabling the pipeline so that you can be used in the future. Also future, the hydrogen thing is very important that every single line pipe of hydrogen has to be laid down new because the old lines do not work for the hydrogen.

So it is a brand-new sector for us. So I cannot tell you exactly how much business will come, but it's a brand-new sector like how our gas sector is there today. It's a brand-new sector. And tentatively, what we've worked in the Vibrant Gujarat also, which was announced, approximate quantity in the next 10 to 15 years is probably more than 5 million tons, out of which I think certain bid is committed by the Adani and certain bid for the new -- SR is putting a new hydrogen base in Gujarat. So the sector looks very positive going forward. And I think the orders will come from the next 3 years onwards.

Moderator: The next question is from the line of Sampath Nayak from Tiger Asset. Please go ahead.

Sampath Nayak: First question is, I joined queue a bit late, so for FY '26, what is the revenue and margin guidance for you, sir?

Management: So FY '26, we are looking at a top line of approximately INR5,000 crores and EBITDA level at between 10% to 11%, which would be around INR500 crores to INR550 crores.

Sampath Nayak: So my second question is on like in last con call you said like you are expecting payment in 1 month for Merino Shelters. And like today, you said like still in process and we are like expecting by FY '24. I mean why was there a delay?

Management: No. So the basic thing is we will -- we are going to get the payment in this couple of months. That's why I said by the end of this -- before the end of this year, we will get the certain amount of payment. The delay was because there was a legal due diligence, which was going on, which has got completed now. So the final documentation is in process. And once that is done only we can give the entire thing and get the details out. So it has to be more…

Sampath Nayak: What is the quantum of payment you're expecting?

Management: So we should get around INR40 crores to INR50 crores this year. And then once the transaction is completed and the entire detail is out, then I can disclose further details of it. But a large chunk of revenue will come to the company for the next 4 to 5 years.

Sampath Nayak: Also, sir, on the margin trend, like in this further like there's like a bit confusion between operating and other operating income. Like if we exclude that, it will come around 7.5%. Like can you tell us the nature of other operating income that you mentioned?

Management: So actually it is income through operational source only, the foreign exchange benefits, which we get through this business and sometimes the cash flow, when we have extra cash flow and it is going in FD and everything, these are the only revenue which is generated from other expenses.

So -- and sometimes, even the export incentive, which is there, when we buy locally and export, so we get that also. So that is what goes in the other expense. So that is why we always nowadays add it and put it together that it is other income from operations.

Sampath Nayak: Sir, final question is on like, in this case capex that we are doing. So you said like we're developing two products, one is mother pipe. And can you give the other product?

Management: You make -- it's basically mother pipe and through the mother pipe you make -- you draw it down or pilger it down and make a pilgered product, which is -- goes in, like I said, nuclear, pharmaceuticals, and different sizes because the mother pipe, main machine of the extrusion press does not manufacture to that size. So one is a hot drawn process, extruded process, and one is a cold drawn process after the hot drawn process is completed. So that is why this is the two-layer process.

Sampath Nayak: And with these products, we are planning to enter into aviation and nuclear sector?

Management: Yes, yes. This product is used from aviation, nuclear, pharmaceuticals, fertilizers, heat treatment, everywhere. Dairy.

Sampath Nayak: Any particular discussion with the potential client in this regard?

Management: Sorry, I can't -- I didn't get that.

Sampath Nayak: Any particular discussion with the potential client for this product?

Management: It's in progress. We will be participating in one of the tubes fair. So we keep meeting, so we are discussing continuously. But then I think the -- it will only materialize once the plant is operational and in execution at that time.

Moderator: Thank you. The next question is from the line of Vatsal Kothari from Alfaccurate Advisors Private Limited. Please go ahead.

Vatsal Kothari: So I have a couple of questions. The first question is that I would just like to get some clarification on the EBITDA guidance for FY '25 and FY '26. Is the -- are the EBITDA numbers you mentioned including other income or excluding other income?

Management: So, hi Vatsal. So the EBITDA would be around between 9% to 11% for '24-25 and 10% to 12% for '25-26. The EBITDA is including other income because the income is generated from this particular company itself. It is not generated from another source or outside source.

Vatsal Kothari: So I just wanted to understand that excluding other income, what would the EBITDA margins look like for '25 and '26?

Management: I think more or less, if we see as an average 2%, 1.5%, 2% difference. Almost 1% -- I think 1%, 1.5% as an average when we put it, it's almost that much.

Vatsal Kothari: And my second question is how would the order book breakup for the current quarter look like between the oil and gas segment and the water segment? And expanding on that, what would the EBITDA per ton look like for both these segments, respectively?

Management: So the order book currently stands at INR1,300 crores, and it's currently 50%, 50%, it's oil and gas and water also 50%. And going forward, we are L1 in a few bids, which are for oil and gas. The EBITDA margins normally for oil and gas comes around between 11% to 13% and for water comes between 7% to 8%. So at a blended rate, it would land up between 9% to 11% year-on-year. And we are working on some operational activities to increase the EBITDA at least by 1%.

Vatsal Kothari: And what would this breakup look like for one year before, in Q3 FY '23?

Management: One year before, it was, I think, the 70-30. I think 70% was oil gas and 30% was water.

Vatsal Kothari: And for Q4, would it be reasonable to expect the same numbers, 50-50 breakup?

Management: Yes, it would be.

Management: Adding to his point, see, in our other income, we do consider foreign exchange gains. Since we are generating this foreign exchange gains out of our core business, we are considering it as our other income -- other operating income indeed. But it is classified under other income according to IndAS guidelines.

Moderator: The next question is from the line of Anirudh Agarwal from Valuequest Investment Advisors. Please go ahead.

Anirudh Agarwal: Thanks for the opportunity. So Nikhil, first question was on your plant. So if you could just share some more details on that?

Management: We can't hear you, Anirudh.

Anirudh Agarwal: Is it better now?

Management: Yes, slightly better.

Anirudh Agarwal: Yes. I was just saying if you could share some more details about the Saudi plant plans, I think you were mentioning in one of your interviews and you alluded to a new plant on other geographies. So if you can just expand a little bit on that?

Management: Anirudh, for the Saudi, we are just still waiting some in-principle approval. So we cannot really discuss any of the numbers, and we cannot declare it till the time it is signed off and clear. Once that is done, we can give you all the details and everything. We are the workings and everything, but I cannot, obviously, for reasons, I cannot disclose it right now.

Anirudh Agarwal: But safe to say, it would be like buyout of an existing plant or something emerging and because you would want to hit the ground running, right, not new increase that will take 3, 4, more years. Is that broadly correct?

Management: It would be -- it would not be correct for me to do that.

Anirudh Agarwal: Second on real estate, if you could just mention, I think you mentioned something on revenue share going ahead. So that is basically some sort of JV that we enter…

Management: We can't hear you. Your voice is not coming properly.

Anirudh Agarwal: Is it better?

Management: Yes.

Anirudh Agarwal: Sir, I was just saying on the real estate deal, the correct understanding is that basically this is a JV that you would be looking to integrate, I think, when the deal finalizes, and that is why you would see some revenue share over the next 4, 5 years?

Management: Yes. So it's our JDA. It's a Joint Development Agreement with a A+ grade developer from Mumbai. And they will develop the entire project, and they will give us obviously upfront revenue and as well as revenue throughout the next 4 to 5 years of the project.

Anirudh Agarwal: No incremental financial investment from our side required, right? It is only the land that basically?

Management: No, nothing. Only we are supposed to receive only now. We are not putting any more.

Anirudh Agarwal: Third thing was on new orders. So basically, I think historically, like you also mentioned 70% to 80% used to be oil and gas and water we used to typically avoid or take lower contract. Is there something on oil and gas that is leading to pressure in terms of new orders for us? Can you just throw some light on that?

Management: No, I didn't understand your question.

Anirudh Agarwal: So typically, are we seeing oil and gas, we used to focus on largely oil and gas orders, right? So over the last year, basically, we've seen that new order wins have been slightly slower than we would have expected and what we have seen for some of your peers. And even within that, it seems that there are larger water segment orders. So anything on oil and gas that is not working for us or any challenges?

Management: Yes. So basically, the water is contributing to a good portion now is because of the drive in India for the water. The oil and gas, like I said, it is ongoing a couple of years. There's some sort of slowdown, then something else picks up. So we are looking at a big upscale in the oil and gas in the coming years. That's also ONGC, deep sea exploration, they have done now.

So that is also demand -- a lot of demand is coming from there. And as well as ERW, there is a capex planned by the government for INR18,000 crores for City Gas furthermore. So looking at the future demand, the last year, though we were also more focused on exports because there were good sized export orders.

Going forward, we are seeing a good amount of demand in oil and gas also, India and abroad. And water will continue to obviously drive up the revenues also, water is equally important for us.

Anirudh Agarwal: And oil and gas export orders, I mean, the right way to understand is you would need some local manufacturing presence to garner larger orders, right? India plant itself is not sufficient to do that, right?

Management: No, not really. It depends. Some countries have a restriction of a percentage or something. But rest of the countries, where it's an open tender, there is no restriction. So we make it from India only and we are more than sufficient to make from here.

Moderator: The next question is from the line of Khadija Mantri from Capri Global. Please go ahead.

Khadija Mantri: My question is regarding the numbers. So was there any one-off in the other expenses because…

Management: We can't hear you. Your voice is coming very low. Can you speak up, please?

Khadija Mantri: Yes, is it better now?

Management: Yes, it's much better.

Khadija Mantri: Yes. Sir, so my question is regarding increase in other expenses. Was there any one-off in other expenses because as we can see, there's a sharp increase?

Management: Look, majorly, the freight charges have gone up because we had an export order. So the major cost and the other expenses is the freight.

Khadija Mantri: Sir, can you quantify that?

Management: In the corresponding quarter, December '22, that was the overseas freight was around INR25 crores. This year it's -- for the current quarter it is INR70 crores.

Khadija Mantri: And sir, my another question is regarding gross profit margin. So do you have any guidance for gross profit because we can see it has increased by 300 basis points this quarter. So what would be your guidance on a sustainable basis?

Management: So basically, the -- like we said, the EBITDA margins -- can you hear us? Hello.

Khadija Mantri: Yes, yes, sure, sure, yes.

Management: So the EBITDA margin levels will be around 9% to 11% like we guided.

Khadija Mantri: Sir, my question was regarding gross profit margin.

Management: Profit margins are also similar level only, which has been in the company for the last three years.

Khadija Mantri: And sir, a bit of a long-term question. Do we see any opportunity in the coal gasification project that the government is taking up?

Management: For any gas or transportation line, the cheapest form is obviously to put it by a line pipe. So as we are already approved in all the government authorities, definitely, we'll be looking at it, if anything comes up.

Kamal Sahu: Hello, Kamal this side. Our gross margin is always around 18% to 24%. Since our opex is getting increasing because of our ERW expenses and other expense and plan, that's why you are looking at the EBITDA margin at 9% to 11%, which is sustainable. Gross margin, it will tell, our gross margin is standing around 18% to 24% every quarter.

Moderator: The next question is from the line of Ruchika Dhanuka from Phillip Capital.

Ruchika Dhanuka: Just wanted to know if you could help us with the volume numbers for the quarter?

Management: Yes, yes, Ruchika. So it's approximately 85,000 tons to 90,000 tons.

Ruchika Dhanuka: And a similar number for the same quarter last year, if you could?

Management: It's same quarter last year would be slightly similar, I think around 65,000 tons last year, but the steel price was higher. So you cannot match it directly proportionate to top line.

Ruchika Dhanuka: And so what is the capex number for FY24 and FY25?

Management: The capex number for '25 is around INR150 crores and '24 was around INR90 crores.

Ruchika Dhanuka: INR90 crores. So what would be the unspent amount currently for this, sir?

Management: Around INR25 crores, which we are spending now in the next two months, INR25 crores, INR30 crores.

Moderator: The next question is from the line of Nikhil Chodhari from Investor.

Nikhil Chodhari: Sir, I wanted to probably understand the -- our visibility with respect to the hydrogen pipes. And you did mention there is an opportunity in Europe. But are there any active probably orders that we expect in probably coming quarters? Or is it a still far-fetched like thing that might come in probably next two to three years only?

Management: So we have bid certain orders in Europe, but it's in the pipeline. It's basically in hydrogen-enabled line. So I don't know whether they will run it, but it is designed as per hydrogen. So it will be very good for us also if we could win that order. And other than that, India is, we are looking at it, but it would take two to three years. I think everyone is working on it. And like I said, once it comes up full-fledged and a couple of clients are laid down and everyone gets the confidence, then it's all new lines of a brand-new sector like how we have water, gas, and oil. Hydrogen will be a brand-new sector, which would drive a lot of the natural energy.

Management: So Nikhil, adding to his point -- adding to this point. The hydrogen pipeline market is projected to grow from $9.1 billion in 2023 to $26 billion by 2030. So the CAGR would be around 16% here on till 2030. And you have to look at from a global angle, not from India angle. So we are open for every market. So demand is high. As you rightly said, all the lines would be virgin. So there is a huge demand in this sector. And being a front mover, we'll take that advantage.

Nikhil Chodhari: Also probably any margins that probably you might be envisaging and probably this new thing that we are doing?

Management: Margin would also be higher than our regular SAW pipes. But we have not done any such products. So it will be very difficult to quantify that. But we do expect the margin would be somewhere around 18% to 20% at least.

Nikhil Chodhari: Also I wanted to understand with respect to our -- the seamless expansion that we are doing, what would be the risk to our commencing of operations by, let's say, Q4 of '25? Anything that probably you feel will delay the capex, any land acquisition, which is pending on our cards, something that worries you or that should worry yourselves also and investor?

Management: No, not really. We have already placed all the long lead items already has been placed and all the LCs and the finance has been opened up already. So we do not see. Definitely the only challenge will be to get it executed properly and on time, which we anyway have the team and specialty to do the needful. So other than probably a few months, plus and minus, I do not see, envisage any other issue than that.

Moderator: The next question is from the line of Vignesh Iyer from Sequent Investments.

Vignesh Iyer: Coming on the capex part of your business. So we are expected to do INR550 crores for the industry in the pipe, right? And as I can see the CWIP stands at INR50 crores now. So just to get an understanding, will you be spending the INR500 crores in -- remaining part of the FY '24 and '25?

Management: Yes.

Vignesh Iyer: No. Because since you guided for INR150 crores of capex in '25. So I mean, I wouldn't add up the amount.

Management: No, no. So the debt INR550 crores isn't -- I'm talking about the internal capital utilization. The rest is from the bank debt, which is taken. So yes. So more than that also, INR170 crores to INR200 crores has already been including LCs opening and everything, approximate expense of the SS which has been done till date is [124%] around INR190 crores to INR200 crores. So for this year, till December, the further capex would be approximately INR300 crores to INR350 crores to complete and start the project.

Vignesh Iyer: And since -- so you're raising around INR250 crores -- okay, for in equity, still guiding for a debt of INR700 crores. So I'm thinking what is that addition amount coming for, I mean?

Management: So we have planned certain expansion abroad in which we are just waiting for the final approval. Once that is done, we will be moving there as well. And for that reason only, we are raising the funds. And we don't want to stress out the current cash and existing business running. So that's the reason for raising the fund.

Vignesh Iyer: At what rate are we raising this debt? I mean, what is the expected cost of fund?

Management: We are not raising it through this particular -- we are talking about INR250 crores is through a preferential allotment part two.

Vignesh Iyer: No, no, I mean, I'm talking about the debt that will be raising over and above this to fund the plant.

Management: 9% to 9.5%. And when it's U.S. dollar, it's around 7.5%.

Vignesh Iyer: Sir, coming to the part of other income, so we have -- we see -- go through a lot of companies that are posting their quarterly or half yearly financial statements, right? They do insert a column called other operating income in the financial statement itself and are, I mean, approved by in the [MDF] as well as Companies Act, right?

I mean that gives you a better picture of what EBITDA is because or else we have to wait till the investor presentation, how to understand what is the actual EBITDA margins, right? So I would request you if that new line can be added where it is shown as other operating income and we have another income column separately for it.

Management: Yes, we'll do that. We'll do that. Yes. Thank you for your suggestion. We'll do that. Thank you, Vignesh.

Moderator: The next question is from the line of Dhananjay Mishra from Sunidhi Securities.

Dhananjay Mishra: Sir, in your guidance of INR3,600 crores for FY25, so how much contribution you have considered from ERW? And for FY26, because we are saying that stainless steel will be contributing close to INR500 crores in the first year. So are we considering some other incremental revenue coming from unplanned capex in FY26 revenue? Because -- can you just clarify on that?

Management: Yes. So from this year, we are contributing to ERW is around INR300 crores to INR400 crores. For the '24-'25. And '25-'26, we are looking at around INR500 crores from -- INR400 crores to INR500 crores. INR700 crores to INR800 crores from the existing ERW, which will be fully in track. And plus certain capex, like we said, we are going to one of the Middle East countries, and we are -- we will be getting certain revenue, but a small revenue. That's why we have kept it at around INR5,000 crores of our top line. It is on the conservative approachable side, 10% to 11% for '26.

Dhananjay Mishra: And for ERW, this 1,15,000 capacity, last time, I think, you said that peak revenue could be around INR400 crores. Now you are saying that it could be further increased to INR700 crores?

Management: No, no. ERW peak revenue can go up to almost INR1,000 crores. And we are considering for this year as this is the -- because we just got all the upgradations now. So the first year, we are considering around 40% of -- 40% to 50% of the top line from their capability to operate, 30% to 40%. And stainless steel, for the first year, we've considered between 30% to 40% again.

Dhananjay Mishra: So this INR1,000 crores…

Management: Really ramped up.

Dhananjay Mishra: So INR1,000 crores top line you are considering at what volume, 1 lakh, this volume, 1 lakh tons or?

Management: 1.50 lakh.

Management: It cannot be based on volume. It is driven on the market. If the steel price is INR70, then the margin on that is based on ERW. So that I cannot comment one year down the line, what will be the current price. The volume, what we are saying is that if 1,00,000 to 1,25,000 is the capacity, we're looking at anything between 30% to 40% usage of that capacity, which will culminate to around INR300 crores to INR400 crores for '24-'25 and almost INR700 crores for '25-'26 from ERW itself. And SS '26, the first year, would be around between INR300 crores to INR400 crores.

Moderator: The next question is from the line of Manan Shah from Moneybee Investment Advisors.

Manan Shah: I wanted to understand on the hydrogen pipe segment that we plan to enter. So how are these pipes different from the pipes which are getting used for the existing natural gas pipeline? I mean why can't those pipes be used for transporting natural gas -- sorry, hydrogen?

Management: So basically, the grade of steel is completely different. These grade of steels are used for sour gas. So the formation, the process, what we do is the same, but the grade of steel and the welding is different. So these, basically, these are used for highly sour grades of crude and gas, these kind of grades of sour grade steel is being used. And these are the same grade, which we tested through our pipes for hydrogen, which were qualified. So that's why they have to lay down the whole new lines, each and every new line required for hydrogen.

Manan Shah: So what would be the competitive landscape for these kind of pipes currently?

Management: For the hydrogen pipes?

Manan Shah: Yes.

Management: Basically, once the approval is there with the authorities, it's the first mover's advantage and how you get your approvals in place, which is a very big process in our industry. Once you are through with that, then I think it will be a good, but India will be still competitive to the world. That's -- we've seen that. And qualification is very, very important.

Manan Shah: To ask, when you're bidding generally, how many players are there who are bidding for this versus, say, when you're bidding for an oil and gas order? So I mean there are just two players or three players who are bidding for the same order or there are more players?

Management: There would be far lesser because this is only used in LSAW, not in spiral. So firstly, all the mills who are only making LSAW pipes will be qualified for hydrogen, number one. So a large quantity or 70% of the quantity of the world of spiral quantities go out. So you've reduced the number to quite a small amount. And out of that also who are qualified and capable and have the credibility and have a past experience of sour grade will get the further experience and also having a steel tie-up and good relationship with steel mills because this kind of steel, currently, which is approved for hydrogen is only five, six mills in the world.

Manan Shah: And for us, this will be the raw material, the grade of steel required will be domestically sourced or we have to import it?

Management: No, it's all imported. Domestically it's not available.

Manan Shah: And are there any current live tenders for these projects, for hydrogen pipes?

Management: Yes, we've bid for a couple of them in Europe.

Manan Shah: And what will be the size of these tenders?

Management: Reasonably large size.

Moderator: The next question is from the line of Samapt Nayak from Tiger Asset.

Sampath Nayak: Sir, in this quarter, you said there's a freight cost increase from INR25 crores to INR70 crores, right?

Management: Yes, please?

Sampath Nayak: Yes. There's an increase in freight cost in this quarter from INR25 crores to INR70 crores.

Management: Because for the corresponding quarter of December '22, this composition of order from the domestic market. And current year, the quarter is basically on export, sea freight is more on account of sea freight.

Sampath Nayak: So -- is there an impact of Red Sea crisis to us or to our business?

Management: So no, no, these are regular expenses of shipping. It's not any increase as such because of the Red Sea issue or anything right now.

Moderator: The next question is from the line of Dhyey from Niveshaay Investment Advisor.

Dhyey: I just wanted to understand that the Red Sea issue has not been accounted in this quarter's results, right? So how much pressure do you expect, if any, in the current quarter?

Management: No, nothing as such. The contracts were pre-signed and there has not been any changes from that front. And so we are not envisaging any price impact or anything due to the Red Sea.

Dhyey: So as I understand this, going forward, if the issue continues, then we might face the pressure, right, the freight pressure?

Management: It's not that. We always accommodate that in our cost. So whenever we take the cost as per the logistics software and the future also cost can be seen in that. If right now, because the Red Sea issue has already played up, so it is already catching higher cost. So when we are bidding for the projects, we are already catching a higher cost for the logistics. In case it might turn out, if it cools down, and we have taken a higher cost, we might get an advantage at a later stage. So currently, we're not at any loans.

Dhyey: Also you told that our order book is split into 50% oil -- oil and gas and 50% water. So seeing that there is an immense demand, as you told, in the oil and gas sector, are we seeing that any -- so are we seeing incremental percentage of oil and gas segment in the order book?

Management: So we average when we say it's around 70%. Current quarter, like you said, going forward quarter was 50%-50% and this quarter. But normally it is 70%-30%.

Dhyey: So are we looking at 70%-30%?

Management: The same kind of outlook.

Dhyey: Also I had this last question on the China competitiveness. As you know that China is coming back into the global markets now. Are we seeing any competitiveness from Chinese players in the tenders which we bid for in the international market?

Management: Not really. Maybe some tenders in Africa. But rest of the places, they are only -- they are only part of the AVL in the steel supply. They are not in the part of the approved vendor list in the pipe supply. So which is a big advantage for us.

Moderator: The next question is from the line of Manan Shah from Moneybee Investment Advisors.

Manan Shah: I wanted to ask, you mentioned that we are expecting some approval from the Middle East. So I wanted to understand if the fund raise is contingent on that approval or we would be still going ahead with that?

Management: No, no, no. It is we are going ahead. This is in principle as in, this is an approval, which is not -- it's a process, that's about it. It is not something which is like I have to take it from someone else. It's basically just a process base, and it is not contingent as per that.

Moderator: The next question is from the line of Kuashal Kedia from Wallfort.

Kaushal Kedia: I just wanted to understand, earlier in the call you mentioned that some freight costs have gone up to INR70 crores, vis-a-vis INR25 crores last quarter or last year?

Management: Corresponding quarter of last year, December '22, I was talking about.

Kaushal Kedia: And sir, hasn't across industries, freight costs come down compared to last year? I mean I think you are an exception where the freight, so can you just give a little more detail about this?

Management: It's not gone up. Freight cost is down only, but it is the size of the project which got shipped out because last year, like we said, this year, almost 70% to 80% was export orders, large -- couple of large export orders which we did. It's on the basis of that. So the domestic logistic cost came down and the shipping costs went down.

Kaushal Kedia: So this is not a one-off cost, it's a regular cost, which will be incurred going forward also for export orders?

Management: Regular cost. It's nothing we might have faced on freight, so on the regular cost.

Kaushal Kedia: No, come again, sorry?

Management: If not, we would have faced the freight when the freights were down rather than spend more cost on the freight. So that's what I'm saying.

Kaushal Kedia: No, I'm not clear, sir. Sorry, I'm sorry. So you're saying that -- can you give some inpupt?

Management: It cost, we did not spend more on the freight cost. We were in line with the freight cost of the market or we were actually lesser because the market was down at that time, so we negotiated well. So we would be probably lesser, not more.

Kaushal Kedia: Okay. So this is more to do because the volumes are up. That's why the freight cost is seeming to be more.

Moderator: The last question is from the line of Vinay Rokadia, an Individual Investor.

Vinay Rokadia: Just I wanted to know what are the basic raw material? And what was the price movement in this quarter regarding, was it stable or something of that sort?

Management: So basic raw material in steel it is HR plates and HR coils. It is special basically for API grade, we procure it from domestic market as well as we get it imported from country like China, Korea, Japan, Germany.

Vinay Rokadia: Then what was the pricing trend in the raw material? Was it stable or something?

Management: It is more or less stable.

Vinay Rokadia: And just last one question, sir, regarding this Merino Shelter, can you just brief something about the size of the project? Or what will be the -- our share or something and the area in which this project is coming up or something that?

Management: Vinay ji, if I tell this now, it will not be right. I cannot disclose it till the time it is get signed off, but it's a large size of project. That's what I can say. It's approximately between 20 lakh to 25 lakhs square foot of area which will be developed, and we will get a good chunk of share for our revenue. And these revenues, like I said, would continue to come in for the next four to five years. And the company, whatever companies invested, hopefully, the company will get 3x of that amount.

Moderator: As there are no further questions, I would now like to hand the conference over to management for closing comments.

Management: Thank you all for participating in the earnings con call. I hope we were able to answer your questions satisfactorily and at the same time offering insight into our business. If you have any further questions or would like to know more about the company, please reach out to our Investor Relations Manager at Valorem Advisors. Thank you. Stay safe and stay healthy.

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