

May 2010**Moderator**

Ladies and gentlemen good afternoon and welcome to the Maharashtra Seamless Limited Q4 FY10 Results Conference Call hosted by Alchemy Shares and Stock Brokers Pvt. Ltd. As a reminder all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. If you should need any assistance during the conference call please signal an operator by pressing * and then 0 on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Nirmal Shah, thank you and over to you sir.

Nirmal Shah

Good afternoon ladies and gentlemen, on behalf of Alchemy I welcome you all to the fourth quarter earnings call of Maharashtra Seamless. To discuss the results we have with us Mr. Anil Jain – Chief Financial Officer of DP Jindal Group Now I would like to hand over the floor to Mr. Jain for initial remarks and then we can have a Q&A session, over to you sir.

Anil Jain

Thank you Nirmal. Good afternoon to all of you. We declared our fourth quarterly results on day before yesterday 3rd May and post that we have also released an investor communiqué and press release which has been sent to all my investors are on our mailing list. In fact the highlights of the quarter would be, though there has been dip in the turnover but the profit has been all-time high primarily because of the good demand outlook particularly in the export market and on account of some inventory gains also. This is just an our endeavor to continuously reflect that our policies of marketing as well as purchasing because though there has been a turbulent year last year but we have been very successful in maintaining our profitability on a sustainable basis.

Now, with these highlights remarks, I would like to request to all of you to start the Q&A if you have any specific questions on any of the points.

Moderator

Thank you very much sir, ladies and gentlemen we will now begin with the question and answer session. The first question is from the line of Mr. Ram Modi from Dolat Capital. Please go ahead.

Ram Modi

Hello, good afternoon sir. Can you quantify how much would have been the inventory gains during the quarter?

Anil Jain

That is difficult to quantify because what we could probably highlight over here is that we have built up some inventories and since then the prices have started going up so we have been also able to take the new orders at new prices. So, this is a difficult thing to quantify separately what is on account of increased prices, what is on account of inventory gains.

Ram Modi

Can you just specify how could have ended in terms of tonnage of inventory on the March 31st in terms of billet?

Anil Jain

As of now?

Ram Modi

Yeah on March 31st whatever.

Anil Jain

March 31st you wanted to ask the billet inventory?

Ram Modi

Yeah, because there would be again a substantial prices movement after that.

Anil Jain

Let me take out the figures, in the meanwhile we can proceed to the next question. My colleague is just finding out that detail.

Ram Modi

Sir what would be the volume guidance for FY11?

Anil Jain

We are thinking that it could be around 15-20% volume growth.

Ram Modi

So another 35-40,000 tons of seamless pipes.

Anil Jain

No 15-20% means 25-30-35,000 tons.

Ram Modi

Okay, and sir just the CAPEX, how much will expect to incur this year?

Anil Jain

I got these inventory figures. We have closed almost 80,000 tons of inventory of billet.

Ram Modi

80,000 tons of inventory of billet? Okay, and what's the CAPEX Sir? What's the guided CAPEX for FY11?

Anil Jain

CAPEX outflow would be close to around 125 crore.

Ram Modi Okay sir, thanks a lot.

Moderator

Thank you, the next question is from the line of Mr. Ruchit Mehta from SBI Mutual Fund. Please go ahead.

Ruchit Mehta

Just wanted to get a sense, you said 15-20% volume growth for the current year. That would be for both seamless and ERW side?

Anil Jain

On seamless side 20%, on ERW side close to 15%.

Ruchit Mehta

Okay, in terms of also given the low-cost inventories that you have which help you get over the EBITDA margins, but at current levels of steel prices, if you are buying a billet at current prices as our coil's. What is kind of sustainable EBITDA one can expect going ahead?

Anil Jain

We could anticipate this steel price hike rightly and accordingly we have started building up the inventory. These inventories are at different levels but on an average whatever is our acquisition cost and if I look at the current market cost then my acquisition cost is lower than the current market cost.

Ruchit Mehta

Sure, I agree would be 17,000 of EBITDA on the Seamless front something which is sustainable or something closer to 14-15,000 is more sustainable?

Anil Jain

We have always been maintaining that Rs 15,000 per ton is more on sustainable basis, but what I can see now that at least for some couple of quarters the current levels of EBITDA looks quite achievable.

Ruchit Mehta

Of 17,000, before the fourth quarter exit rate?

Anil Jain

For couple of quarters.

Ruchit Mehta

And with the current level of steel prices also in the system. If you buy a billet at the current market prices and that was converted into Seamless pipe will you still be able to make 15,000 EBITDA?

Anil Jain

Yeah that's true.

Ruchit Mehta

Okay and on the ERW again there it is pretty strong whereas you have been guided for 3 and 3.5 being their normative range so where do we see ERW margins settling at?

Anil Jain

These are again on the margins on a sustainable basis of last couple of quarters we have been able to fetch good margins for primarily two reasons. One is inventory gains and other is some higher prices of oil sector orders.

Ruchit Mehta

How many more quarter do you think this kind of higher EBITDAs would continue to move ahead?

Anil Jain

See, for ERW I think this quarter.

Ruchit Mehta

Thanks.

Moderator

Thank you Mr. Mehta, the next question is from the line of Mr. Raj Gandhi from Principal Mutual Fund. Please go ahead.

Raj Gandhi

Hello, sir just wanted to highlight revenues this year initially we had guided about 2,20,000 tons, so any reasons for the slippage or is it just a spill over in the next year you have done?

Anil Jain

There has been an annual maintenance shut down for both the mills, where the production was off for almost a month. That has been the primary reason.

Raj Gandhi

Sir, again for billets generally I was under the impression that we always buy billets back-to-back with the order as in we get the order then you book the billet and then we take it if we win the orders so was it a kind of opportune buying the you did this time?

Anil Jain

See, in the business you can always leak out because this you are buying on a regular basis, so if you have a good amount of liquidity with you and you are foreseeing the hike in the steel prices so you build up the extra inventory level. This is nothing unusual for any of the industries. This is you can say that whenever the opportunity arises the management tries to capture that.

Raj Gandhi

Right and just for ERW I didn't get it. What is the margin guidance you set for next year?

Anil Jain

Between 3500 to 4000.

Raj Gandhi

Okay, but you are saying that this high margin can sustain for Q1 of 2011?

Anil Jain

One gentleman asked earlier, based on the current order book and I was just guiding that the current levels of margins are sustainable only for this quarter, Q1.

Raj Gandhi

Okay and sir just I have heard of some debottlenecking in our existing plant so with this annual shut down that would have this year has the capacity been enhanced in the current plant?

Anil Jain

See, not in the current plant actually we are concentrating on this Romanian Mill and I think the implementation work is going on schedule so by this year we are targeting that first to bring into production.

Raj Gandhi

Okay and but subsequent to that will you be taking some debottlenecking in your old plant?

Anil Jain

Yeah that is a regular process that we anyway do.

Raj Gandhi

How much will be the capacity expansion there?

Anil Jain

Close to 50,000 tons.

Raj Gandhi

50,000 tons in the older mill. When will the volume kick in?

Anil Jain

No, after you commissioned the plant with the facility it takes 1 to 2 year to come into the volume or to stabilize. But as it is my current facilities are there so because a good demand there is no problem as far as the supply side is concerned.

Raj Gandhi

Okay and any change in the configuration, will this specialized lower dia pipes or when we are debottlenecking it by 50,000 tons?

Anil Jain

It will be lower dia. We will be doing it in the lower dia, 7 inch pipe.

Raj Gandhi

Okay and sir again in the new mill mostly we plan to do lot of below 6 inch dia pipes? Because in the recent meeting Mr. Jindal had highlighted it to be even as low as 1 or 2 inch diameter that we will be doing there. So sir there is capacity which is there of 2 lakh tons that is assuming that if we do 1 or 2 inch will the volume be relatively lower?

Anil Jain

No, that is there but when you work out this 2 lakh ton that is based on average product mix. So obviously, when you produce the lower dia pipes in the quantity terms it is lower.

Raj Gandhi

Okay, but what will be the kind of margins kicker that you will get in this 1 inch, 2 inch diameter pipes. The margins should be substantially higher?

Anil Jain

Why it should be substantially higher, there is nothing like that that it will be substantially higher.

Raj Gandhi

Okay, because the tonnage goes down and it requires more of rolling and pressing plus your throughput for the mill goes down if you do lower inch diameter. To compensate for that I guess you get higher margins.

Anil Jain

No, but the industry trend is when the higher the diameter the higher is the margin. So it is not that if you produce 1 inch diameter pipe you think the margins are more. It is not like that.

Raj Gandhi

Okay, that's quite opposite to the H-SAW and L-SAW pipes where the larger the diameter the lesser the margin and here you are saying higher the diameter higher the margin.

Anil Jain

Yeah this is how the seamless pipe industry is.

Raj Gandhi

Okay any particular reason for this sir?

Anil Jain

Particular reason I would say could partly attribute to because for the higher diameter pipes there are limited number of suppliers. This is one of the main reasons and secondly because it is less number of suppliers you need to import that. For import the delivery time is more, so people are willing to pay more for the quicker acquisition.

Raj Gandhi

Okay and sir again in the newer pipe do you plan to do more specialized pipe like drill pipes and all instead of just pure casing price?

Anil Jain

No, in the new mill which we are coming up, Romanian Mill, we have that facility of drill pipe. It is a kind of value-added product so will be doing that in that facility.

Raj Gandhi

Okay and it will kick-in from the first year or it will take some time to get approvals to get into this?

Anil Jain

No it takes some time.

Raj Gandhi

Okay, what will be the kind of margins in this segment?

Anil Jain

In that drill pipe segment?

Raj Gandhi Yes.

Anil Jain

In the drill pipe segment it is you can say 20% more than the existing margin. If I see the plain normal pipes then 20% is the seamless margin then 25%.

Raj Gandhi

Okay and speaking to Mr. Jindal he was talking to some niche categories wherein our margins could be as high as about Rs 40 -50,000 per ton.

Anil Jain

That's 13-chrome pipe. Because it is using different inputs, the alloy steel so the margins are more.

Raj Gandhi

Okay so what will be the, again here any production target or it will take time to start up?

Anil Jain

No these are value added-product but produced in a smaller quantity.

Raj Gandhi

Right but again will we get 13-chrome pipe orders from the first year itself or it will take to three years, will go for certification?

Anil Jain

It always takes time. Whenever you develop a new product, your stability in the market and all that takes time. One or two year is a normal process.

Raj Gandhi

Okay so in the first year we cannot expect any of this drill pipe or 13-chrome orders in the first two years?

Anil Jain

We will be supplying but there is nothing substantial.

Raj Gandhi

Okay and sir about your backward integration, where do we stand currently?

Anil Jain

On the backward integration unfortunately we have not been able to move, when we talk last. So there have been some issues again relating to land, which has groped up. So at the moment you can say it is going very slow.

Raj Gandhi

Okay, in last update you had said you have acquired 70% of the land, right?

Anil Jain

50-60% of the land and we are still at the same level. Land acquisition has become a very tough task.

Raj Gandhi

I understand that. Okay just one question here, basically we have just got thermal coal allocation and in that sense the only advantage in putting up a billet plant would be having a lower power cost because neither do we have coking coal nor we have iron ore allocation. So just wondering what is the whole logic of going ahead with the steel mill.

Anil Jain

See the problem is you cannot have everything at one go. These are our long-term plans and we are very committed to it. As the things are coming up we will be taking it or we will be acquiring this.

Raj Gandhi

Okay but as per our plan what route do we intend to follow to make billet, a DRI unit or what is the whole idea?

Anil Jain

No it's a mix of both, it will be a mix of both.

Moderator

The next question is from the line of Mr. Sandeep Somani from HSBC, please go ahead.

Sandeep Somani:

Sir, my question is regard to the dumping duty investigation on Chinese pipes which was supposed to be happening in India as well. What is the status on this and your view on that?

Anil Jain

See, the government has issued the notification for the investigation which is still going on and they have not yet concluded their studies I would say and once they conclude their studies and then they will come up with the final tariff , what is they are going to impose. As far as the ground level situation is concerned of course the imports have lower down post that but still Chinese are supplying to the market. So, that is happening but it is happening in a smaller number.

Sandeep Somani

Sir, given the Chinese has been supplying here, what is the difference you have faced to the similar product and I am just trying to understand what is the differential pricing which Chinese are putting up on their product than if you look at the similar pipes supply through the Maharashtra Seamless?

Anil Jain

Are you trying to ask what the lower price was at what they are supplying compared to Indian prices?

Sandeep Somani

Yes, Sir.

Anil Jain

It is roughly going between 20-30%.

Sandeep Somani

Okay. Sir you are giving a confidence to maintain 15,000 to 16,000 sort of a margin and in fact 17,000 for at least couple of quarters. On this backdrop how do you see that this Chinese dumping could impact on the further orders given the ground realities?

Anil Jain

See, as I mentioned first of all it has not become zero but it has become definitely lower. And secondly the confidence which is coming to us is mainly on accounts of increased demand outlook within the domestic as well as international market. That in the export market there are a lot of inquiries, lot of orders which are coming now and anyways we have almost quarter order book position as on hand so still we are getting the orders at good prices. So that is giving us the confidence that we will be able to maintain the kind of margin that we have achieved for at least couple of quarters.

Sandeep Somani

Sir, secondly as regard to the order book is concerned you sound pretty positive as far as future inflows is concerned but from current quarter prospective the order book indicate that there has not been a huge inflow but you see there is the punching of impact coming through in couple of quarters' time wherein this positiveness will flow into the order book growth as well?

Anil Jain

See, first of all in this quarter there has been one-month shutdown so we have not been taking orders, number one. Number two, intentionally we are also slowly picking up the orders because of a steel price hike that we are foreseeing and in fact that has happened also. We can book the orders for almost a year even now but then we are exposed to raw material thing. So we're trying to keep a balance between the existing inventory position, the pricing pattern, and the order book availability or you can say the demand outlook. We are trying to take a very balancing view.

Sandeep Somani

Right, the last question would be given the strong balance sheet which you have, which is sitting with almost like Rs 650-690 odd Crore of cash in the books, does it not stops you to book your quantity for the full-year and you can use this money to hedge your raw material.

Anil Jain

But you need that space? With the bank you can keep any money but that way you cannot keep the unlimited inventory.

Sandeep Somani

So are you saying the 80,000 tons of billet is the peak level of inventory which you can keep?

Anil Jain

Apart from 80,000 there is an HR coil inventory so see, keeping an inventory to the tune of 1.25 lakh ton in a factory is not small, it occupies tremendous space so the space limitation comes in.

Sandeep Somani

Thanks a lot sir.

Moderator

Thank you, the next question is from the line of Mr. Vineet Maloo from Birla Sun Life. Please go ahead.

Vineet Maloo

Sir, I just wanted to know what is our HR coil inventory as of now?

Anil Jain

HR coil inventory would be close to around 25,000 tons.

Vineet Maloo

And sir this quarter how much would have been our exports in terms of seamless pipes?

Anil Jain

Exports quantum, it will be close to around almost 40-45%.

Vineet Maloo

40-45% on total volume went to export this quarter? And sir what would be the margin differential in both domestic and exports right now?

Anil Jain

At the moment the exports are giving us good margins.

Vineet Maloo

And sir the major growth that you expect will come from exports only, right going forward?

Anil Jain

No it is coming also from domestic. It is not that because the crude oil prices have already going up beyond \$80 so it is not that, that only export and the domestic demand, the boiler sector demand is also there. But driver is export at the moment.

Vineet Maloo

But then you have said that the proportion of export is going to increase, right, that is why your overall margins would remain strong, so currently it was 40-45% you expect it to increase further or it will stabilize at around 30-40% kind of level?

Anil Jain

No, I feel that it will be around the current level only.

Vineet Maloo

Around current level 40-45%?

Anil Jain

40% around.

Vineet Maloo

Okay and this is mainly Seamless only not DRW?

Anil Jain

Mainly seamless.

Vineet Maloo

Okay. Thank you sir.

Moderator

Thank you, the next question is from the line of Mr. Bhavin Chheda from Enam Holdings. Please go ahead.

Bhavin Chheda

Yes, good afternoon sir. Good set of numbers. Sir three-four questions, first is RM inventory basically 80 K billet and 25 K HRC at what price this has been booked?

Anil Jain

See Bhavin, for the obvious reason we would not like to reveal the rate but what I can tell you is lower than our existing buying price.

Bhavin Chheda

At this rate basically you are saying couple of quarters, you are making 17,000 on seamless and maybe HRC you can make 6000 for at least one more quarter.

Anil Jain

Yeah.

Bhavin Chheda

And sir other thing on the volume breakup, can you give us how much went into oil and gas and how much into boiler segment for FY10?

Anil Jain

That numbers are not readily available with me, that is the analyses which we will have to still do.

Bhavin Chheda

And sir this shutdown for one-month was for both seamless and ERW?

Anil Jain

No both 7 inch and 14 inch, not ERW.

Bhavin Chheda

It was at seamless only.

Anil Jain

Yeah.

Bhavin Chheda

Okay and sir can you give us the year wise volume of billet and HRC consumed if you have it ready?

Anil Jain

Consumed? My colleague is finding out in the meanwhile we can go to the next question.

Bhavin Chheda

Okay and sir in FY11 again there will be a maintenance shutdown for the mills or no or annually every time it is one-month?

Anil Jain

Annually it is three weeks to four weeks only and generally the time interval between the two shutdowns are going up to 12 to 18 months. I cannot say at the moment whether it will be one-year only or whether it can be stretched to go to FY12.

Bhavin Chheda

Okay and you said with the export margins are better than the domestic market so this is a current scenario or this is a scenario already on the order book which you have because I think your order book includes export orders of 164 versus domestic 250 so you are saying in your export market margin is better than the domestic one.

Anil Jain

Yes at the moment it is so.

Bhavin Chheda

And will it be better than the ONGC orders also?

Anil Jain

See, earlier ONGC orders I can talk about, future ONGC I cannot talk about. In the earlier ONGC orders the margins were better.

Bhavin Chheda

No, so export margins are even better than the ONGC order which is there in order book?

Anil Jain

No, I am saying the old ONGC order margins were better than the current export margins.

Bhavin Chheda

Okay, but going forward your not very sure? And seamless pipes imports you said that from China this has been on a reducing trend but they are still there?

Anil Jain

Yeah it is still there.

Bhavin Chheda

And these are for both the segments, boilers and oil and gas?

Anil Jain

Mainly oil and gas.

Bhavin Chheda

Not in the boiler segment?

Anil Jain

No, Bhavin I got the figures for billet. The annual consumption was close to 2,20,000 tons. And HRC was close to 1,20,000 tons.

Bhavin Chheda

And can you give me the value breakup of raw material consumed?

Anil Jain

That is not available right at the moment.

Bhavin Chheda

Okay Sir thanks a lot.

Moderator

Thank you, the next question is from the line of Mr. Ajay Vora from Enam Asset Management. Please go ahead.

Ajay Vora

Hi sir, good afternoon. Can you just give a sense of what are the current prices of seamless and ERW as we speak?

Anil Jain

Current prices of seamless? Seamless current prices are in the range of around you can say Rs 55,000-58,000 a ton and in ERW it is close to around Rs 39,000 a ton.

Ajay Vora

This is net of excise?

Anil Jain

Net of excise.

Ajay Vora

And sir have we booked all the gains on our investment or are we still doing on MTM?

Anil Jain

No, MTM is okay so do for the investment side and we are having unrealized profit of 30 crore as of March 31st which we have not booked.

Ajay Vora

So that is accounted as a MTM?

Anil Jain

That is as per the current accounting guidelines it is not required only for the FOREX thing it is required to be done but not for the investment. So, when we will come out with our annual report that will be shown under the schedule of investment as a market value of investment. It will be 30 crores higher than the book value.

Ajay Vora

Okay, sir you said that currently you are not rushing onto the orders because of the steel scenario, so you are expecting steel prices to fall from current levels?

Anil Jain

Steel prices to fall?

Ajay Vora

Yeah as in they have corrected already but do you anticipate further correction in steel prices?

Anil Jain

See actually whenever the things move very fast it tries to settle down. If you ask me medium-to-long-term trend I do not foresee the steel prices going down.

Ajay Vora

Okay, thank you very much sir.

Moderator

Thank you, there is a follow-up question from line of Mr. Ruchit Mehta from SBI Mutual Fund. Please go ahead.

Ruchit Mehta

I just wanted to get a broader sense on the demand outlook I mean in terms of your guidance is to about 15-20% higher for next year, but are you seeing a recovery come back on the spending by customers?

Anil Jain

No the recovery was already seen, has it not been there the demand would not have picked up. What I am saying is the recovery is already there.

Ruchit Mehta

Okay. And in terms of the order intakes also you said that your strategy on not to buy too much, taking too much as the steel prices is going higher?

Anil Jain

Yeah there is a known calculated strategy, that to go slightly slow on booking of the orders. We are not comfortable in taking the orders for the delivery in the month of November 2010 that way.

Ruchit Mehta

Okay in terms of the demand areas you have been mentioned that exports is doing pretty well but from any particular geographical area you are seeing the demand being better?

Anil Jain

See right now it is coming even within India and US market also. US, Middle east, India all three markets.

Ruchit Mehta

Sure, this is small query into that backward integration plan in terms of the iron ore mine what is the status right now?

Anil Jain

We do not have iron ore mines as of now but we are eyeing for it.

Ruchit Mehta

Okay, on the coal front?

Anil Jain

Coal front we have some coal blocks in Nagpur area.

Ruchit Mehta

But in terms of getting all the clearance and everything....

Anil Jain

That work is already on.

Ruchit Mehta

In terms of timeline would you hazard a guess as to how long it will take to get that steel mill up and running?

Anil Jain

For coal block?

Ruchit Mehta

Steel mill that we are planning to have over a period of time to fully backward integrate, in some sense if one has to hazard a guess to by where it should be up and running then would it be what fiscal 2013-2014-2015?

Anil Jain

Hope for a green plan plant then it takes three years so, at the moment we do not know that whether it will be a Greenfield or it will be a Brownfield. Suppose if we acquire something then it could be faster. It looks at least for the couple of years it would not be so.

Ruchit Mehta

Any specific size as you look for acquire I mean what it will be half a million ton plant or will it be?

Anil Jain

Yes half a million.

Ruchit Mehta:

Thank you.

Moderator

Thank you, the next question is from the line of Mr. Kinsuk Acharya from Eureka Shares. Please go ahead.

Kinsuk Acharya

One thing that I would like to ask you is that basically about your outlook because LNG prices are actually coming down in international market as well as in India but do you foresee that exploration activities will come down going forward because of the fact that the LNG prices coming down?

Anil Jain

No, I couldn't get your question which prices are coming down you mention?

Kinsuk Acharya

LNG prices are coming down globally, as well as in India, going forward do you see its going to have any kind of impact on the offshore oil exploration activities.

Anil Jain

First of all E&P activities are not determinant because of LNG prices, it is mainly for the crude oil prices and see, of course there has been some correction in the crude oil prices but that is always there because when things move too fast, too soon then it settles down. Overall trend is going up only. We do not expect that it will come down.

Kinsuk Acharya

So you expect on going forward exploration activities to remain quite buoyant, right?

Anil Jain

Yes, remain buoyant.

Kinsuk Acharya

Sir what's your outlook on Middle East region at this point of time? Do you see a lot of demand coming out of that particular region or?

Anil Jain

Yeah it is coming also from that region.

Kinsuk Acharya

Oaky, sir thank you, that's all from my side.

Moderator

Thank you, ladies and gentlemen that was the last question. I would now like to hand the floor back to Mr. Nirmal Shah. Thank you and over to sir.

Nirmal Shah

I would like to thank the management of Maharashtra Seamless for giving us chance to hold the conference call. Thank you sir.

Anil Jain

Yeah thank you all. It is our pleasure.

Moderator

Thank you very much sir. On behalf of Alchemy Shares and Stock Brokers Pvt Ltd, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.