MAN Industries (India) Limited
Q3 FY 2023 Earnings Conference Call
February 13, 2023

Moderator: Ladies and gentlemen, good day, and welcome to the Q3 FY'23 Earnings Conference Call of the Man Industries Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" plus "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Anuj Sonpal from Valorem Advisors. Thank you, and over to you.

Anuj Sonpal: Thank you. Good afternoon, everyone, and a very warm welcome to you all. My name is Anuj Sonpal from Valorem Advisors. We represent the Investor Relations of Man Industries (India) Limited.

On behalf of the company, I would like to thank you all for participating in the company's earnings call for the third quarter and nine months ended of financial year 2023. Before we begin, let me mention a short cautionary statement. Some of the statements made in today's earning's concall may be forward-looking in nature. Such forward-looking statements are subject to risks and uncertainties, which could cause actual results to differ from those anticipated. Such statements are based on management's beliefs as well as assumptions made by and information currently available to management. Audiences are cautioned not to place any undue reliance on these forward-looking statements in making any investment decisions. The purpose of today's earnings call is purely to educate and bring awareness about the company's fundamental business and financial quarter note.

Let me now introduce you to the management participating with us in today's Earnings Call and hand it over to them for opening remarks. We have with us Mr. Ramesh Mansukhani-Chairman-, we also have with us Mr. Nikhil Mansukhani – Managing Director and Mr. Ashok Gupta – Chief Financial Officer. Without any further delay, I request Mr. Mansukhani to start with his opening remarks. Thank you and over to you sir.

Ramesh Mansukhani: Thank you Anuj. Good afternoon, everyone and welcome to the Company's Earnings Call for the Third Quarter and Nine Months ended Financial year 2023.

Let me begin by giving a brief of the consolidated financial performance for the quarter. We reported revenue from operations of Rs. 658 crores, which increased about 4% year-on-year.

EBITDA just stood at 59 crores with EBITDA margins at 8.93%. We reported a net profit of 37 crores, which grew by about 19% on a year-on-year basis, the PAT margin stood at 5.65%. Coming to a consolidated financial performance for the nine months of FY23 our revenue cum operations stood at 1634 crores, representing a growth of about 7% year-on-year. EBITDA stood at 96 crores with EBITDA margin reported at 5.9%. Net profit at 42 crores while PAT margins were 2.57%. On the operational front, the growth in revenue in this quarter was mainly driven by the timely execution of the projects, which gives us the confidence of achieving our yearly targets. On the CAPEX front the installation of our ERW steel pipes project is also completed and the trial runs are expected to start the coming week. The work of the induction welding plant is likely to become that finished by March 2023. The stainless steel for the steel pipes project is also progressing well. With orders of major long lead critical equipment from Europe and Japan already been placed. We continue to have a robust bid book of more than 18,500 crores at various stages of evaluation for several oil, gas, water projects both in domestic and global markets. Lastly to give you a brief update on the industry scenario as per the recent budget outcome India will pursue a diversified energy strategy to meet experimental demand growth in the coming years that will witness a sharp rise in refining capacity, a big push towards exploration and a shift to a gas based economy and a zero carbon fuel. There is a huge potential for India's oil demand share rise to 11% in the global market in the coming years, from 5% currently. India's gas demand is expected to grow over 500% in the foreseeable future, as India had set a target to raise the share of gas in the country's energy mix to 15% by 2030. The country's regasification capacity is set to expand considerably as new terminals and proposed pipelines are being planned. Data shows that India gas pipeline network has resumed 22,000 kilometers currently from 14,000 kilometers in 2014. In the next four to five years, it should reach around 35,000 kilometers for oil and gas sector and a lot of CAPEX will also come in this sector.

Overall, the next five years in the Indian Oil Gas market are expect to register a CAGR of 5% to 6%. To cage into the rising demand of oil and gas majors are planning to increase the CAPEX to develop network of line pipes. Additionally, an outlay of one lakh crore has been used for the drinking water program in 23-24 which was 60,000 earlier, which will bring in strong demand in the piping Industry. With the revival in demand environment and our strategy to diversify our product portfolio, we are confident to scale our business to new heights in the coming years with sustainable and stable profits.

With that, I conclude my opening statements, and we can now open the floor for the question and the answers question.

Moderator: Thank you very much. We will now begin the question and answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. We have our first question from the line of Vijay Kumar from RM Performance. Please go ahead.

Vijay Kumar: Yeah, thank you. Hi Mr. Mansukhani congratulations for good result. I wanted to ask about the financial interest costs in the quarterly results. So, this quarter the interest cost is 10 crores and previous quarters the interest cost is 9 crores. So, your annual interest cost is around 40 crore and you have a debt of less than 100 crore. So, how is it possible? Can you please explain the interest charges?

Ramesh Mansukhani: I may pass it over to our CFO right which will try to satisfy you. Most of the interest cost have increased because of the rate of interest, RBI increased as well as to some new jobs we quoted (Inaudible) 0:06:55 and Mr. Ashok Gupta will explain in a much better way. Over to Mr. Ashok Gupta.

Ashok Gupta: For September 2022 the finance cost was about 9.2 crores as against 12.2 crores in the current quarter. The increase is mainly because of increased operations you can see the top line is increased from 465 crores to 658 crores. One reason for increase finance course is basically higher utilization of our working capital limits as well as you know that Reserve Bank of India is keeping increasingly the rate of interest very often now. So, some of the impact is because of an increased rate of interest in the finance cost.

Vijay Kumar: So, sir what is the debt on balance sheet and what is the interest rate you're paying. What is your total loans on balance sheet and what is the interest rate you're paying to the bank?

Ashok Gupta: The long-term debt is about 165 crores which is basically taken for our upcoming new project of ERW. Over and above, we have a fund based on this working capital facility of 1500 crores.

Vijay Kumar: Okay. Thank you very much.

Moderator: Thank you. We have a next question from the line of Rahil Shah, an individual investor. Please go ahead.

Rahil Shah: My question is just regarding the outlook for FY 24 in terms of revenue and margins, how will they sustain and how are things looking for the next year anything on that?

Ramesh Mansukhani: Yes Vikas in 2023 we are computing EBITDA average I mean from 9 to 11% depend on project to project quarter to quarter and we are going to improve because some new project ERW is going to start very soon, the trial is expected in next two three weeks and some value addition coating and bending etc. we are going to complete next month. For 2023-2024 will be higher value addition we are expecting.

Rahil Shah: Okay, okay, so overall, you see that trajectory like going up and maintain the current run rate hike what we are seeing in terms of margins. Okay, thank you, sir.

Moderator: We have our next question from the line of Anirudh Shetty from Solidarity Investment Managers.

Anirudh Shetty: Hi, thanks for taking my questions. Sir I have a couple of them. Sir my first question was, you know, wanted to understand what was the status on Merino Shelters? At this point in time, what stage of the arrangement are we at and also, you know, if possible, could you also quantify how much you could possibly get out of this sale like how much are we expected to pay the lender and what is the value of the real estate so, if you could give a sensor on how much we can get, that will be very helpful.

Nikhil Mansukhani: So, Anirudh we have already closed the transaction in the sense signed the document and given an advance to Piramal for Merino. Closure date with them is 31st of March due to the documentation and everything. So, it should be completed on or before 31st of March. On the second point, which you asked the valuation of Marino, what amount we should get a reasonable to good market value should be anything between 125 to 150 crores.

Anirudh Shetty: Got it and how much are we expected to pay the lender here? So, how much is the net value MAN Industries is expected to deceive.

Nikhil Mansukhani: So, we have to pay them in total 70 crores out of which 15 has already been paid.

Anirudh Shetty: Got it and the Karnataka land, I believe we would have sold it by now. So, how much have you received from that net of taxation.

Nikhil Mansukhani: Payment has already been received.

Anirudh Shetty: Got it and could you quantify how much you would have received from that sale of land net of tax?

Nikhil Mansukhani: So, approximately 40 odd crores.

Anirudh Shetty: And the last time we had spoken, you had mentioned that we are looking to settle with SEBI so is there any update on that right now and in case, there could be any penalty from SEBI could you also quantify how material that could be?

Nikhil Mansukhani: So, settlement is already been filed with SEBI. It is under process and mostly, it takes around two to three months, once you file this for them to analyze, call us and then do the needful and the penalties we have seen all the other cases also, so we cannot quantify but it is not something sizable.

Anirudh Shetty: Got it and this settlement, what would it be exactly pertaining to like what issue because I remember, sometime in Feb last year, you had given a disclosure about what's the, you know, the SEBI, forensic audit, you know, what was the scope of that, in some sense so what exactly what are the issues that we're exactly settling for?

Nikhil Mansukhani: So, basically the major issue was non consolidation of Marino's Shelters and some disclosure delays, due to which was the issue other than that there is nothing else.

Anirudh Shetty: And also, you know, we are, embarking on a very fairly large CAPEX program, and these are towards categories that are more lucrative, but also new categories for us. So, my question, there was twofold, one is, do we have the management bandwidth, you know, to kind of successfully execute on this, are we in the process of hiring people or is that something that you have already done some more color on, are the bandwidth to handle this large CAPEX that we are undertaking and secondly, these are new categories, you know, for us, so, you know, they're already players who are doing it so how what would you say is the reasons why MAN industries should succeed in this? Why are we well placed here if you could give some color around our right to win in these new categories that will be helpful?

Nikhil Mansukhani: Number one, regarding the manpower, we have already executed, the ERW mill, which is going to be up and running. It is already up and running and in the trial stage. Regarding the SS Seamless Tubes, we have already appointed specialists for that particular business and end of the day we are running 12 to 13 plants so we have a capable enough team to expand and grow and we always take the specialist people for a particular project whenever we are expanding. So, regarding the manpower and capability, I do not see any issue and regarding the product is ERW is the same product which we manufacture so it's just a smaller range for city gas which we were lacking for many years. So, we have completed that product range and SS seamless tubes we were considering in some time as it's the same tubing business only and piping business. So, that is why it's not much of a different completely different sectors that we are entering into.

Anirudh Shetty: I understand that in ERW, the customer segment could be very similar, but in the SS the customer segment, there will be some overlap, but also there are a lot of new industries are getting to so how long do you think it would take to get the customer trust and approvals there

Nikhil Mansukhani: So, it is a product over there. So, basically, customers trust and customer approvals will take its due time between three to six months, which any business set up when you do a new one, which is there is no entry barrier as such. So, and majority of the clients including L&T, and because big companies are common.

Anirudh Shetty: Got it and just one final question for my end, you know, our existing small business right now I understand there's a bit of overcapacity in the industry. So, utilization levels are lower but what is a normalized EBITDA margin one can expect from the saw business

Nikhil Mansukhani: 10 to 11%.

Anirudh Shetty: Got it. Okay, great. I just join back in the queue if I have any other questions.

Moderator: Thank you. We have a next question from the line of Miraj from Arihant Capital. Please go ahead.

Miraj: Hi, thank you for taking my question. So, I just have two questions. So, first one is on the volume side if you could give us the details of what are the volumes that we did in the quarter and so and the second one I believe the capacity is coming in the end of FY 24, I just want you to understand, we are aiming to export this product while there is an import substitution play also going on. So, just want you to understand our thought process on this, these two questions

Ramesh Mansukhani: Most of the our HSAW and LSAW, the inter-shifting is always there because some side is LSAW and some side is coming in HSAW so every quarter some quantity shifted from here and there between LSAW and HSAW so difficult to announce what will be the capacity placement. We have to see the overall capacity. With regard to ERW the new capacity most of the clients are same. Regarding export, the export is mostly the LSAW segment by the island gas company throughout the world, we have approvals from around 23-24 countries where we get the regular. So, one thing is good again the Government of India has started the Road tech facility which was discontinued for two years almost some incentives already they introduced 1% which also helping to get more market which was passed last year. So, again, it is restarted. So, we hope to get LSAW business much better in the international market.

Miraj: Right understood but sir on the SS stainless steel pipe side, we are planning to export those if I am not wrong, we have got orders from Japan, but your peers in the same industry are playing on the import substitution idea. So, if you could just talk about that, are we going to go that in the future I do understand that the line will be coming in another 15 to 18 months but if you could just give a brief on that if you have something planned

Ramesh Mansukhani: Yeah, the SS most of the business we hope to start in a year time because the lead time very high of the critical equipment we already placed the order. Regarding import substitute because China was sending some goods to India and India was doing some process and re exporting. Now, the European Union already put the ban, but now the primary producer like we whatever, which we make the Mother tubes and Mother metal will have the advantage much greater advantage to export without any problem. So, only process and giving the some form this is not allowed world market. That's why and the import substitute because from China now it is difficult to import for this purpose it will help to import substitute and they use this tool

Miraj: Understood thank you for the answers sir. I will get back in the queue if I have any more.

Moderator: Thank you. We have our next question from the line of Aman Thadani from Solidarity Investment Managers. Please go ahead.

Aman Thadani: Hello, thank you for taking my question. So, my first question is, so, how much debt are we yet to take for the new capacities?

Ashok Gupta: See Aman so far as ERW is concerned the project has already been completed and the SS project which I was talking about the total project was 500 crores for which we have sectioned land of 340 crores in our wholly owned subsidiary.

Aman Thadani: Okay, so the remaining part would be funded through internal accruals, am I right?

Ashok Gupta: Yeah, just under 360 crores would be from our internal accruals over the period of the next two years.

Aman Thadani: Okay and my second question is that what's the update on man infra shares and any formality that remains from our end.

Ramesh Mansukhani: The problem is here, these are the record date we have already called and there is a court order from not to go ahead on this process or as regards to MAN Industry completed all the formalities and given to the court and the matter is subject subdued we do not want too much comment, we hope it should be clear very soon, we are trying.

Aman Thadani: Okay, sir my next question is what is the order book status as of now and any update on the $100 million export order that we spoke about in the last call?

Ramesh Mansukhani: Yes. Today we announced a new order of around 500 crores including around $45 million the export order roughly and this is a path and the path is coming as per bid book position and different evaluation stages it will come also.

Aman Thadani: Okay, so the current order book size as of now would be around 800 crores that is 500 crores of the existing order book plus this $45 million. Am I right?

Ramesh Mansukhani: No, sir, 500 crores including 45 million.

Aman Thadani: Okay.

Ramesh Mansukhani: And the rest of around 200 crores is balance of total order around 700 crores.

Aman Thadani: Okay, so, so the balance, so it would be 500 plus 700, or the total would go to 700?

Ramesh Mansukhani: Total 700 excluding whatever the turnover of one and a half months roughly, we excluded with this coming to around 700.

Aman Thadani: Okay, got it and sir my next question is that we didn't consolidate Marino bases a legal opinion from our advisors. It was mentioned in one of your con-calls. So, can you just explain what the legal opinion was?

Ramesh Mansukhani: Actually, the matter started the company when we split demerged MAN infra in 2015. Then the splitted group, they challenge the evaluation of the company which we split it not as the MAN Industry, the MAN infra which was not in our control, then subsequently court, they have gone to court, after giving the vote in favor of the scheme, they challenge this time, which is pending in the court and that the court is given instruction, not to go ahead and they will listen to it whatever I told is recorded so this scheme, but both are the two parts of the same coin both are related.

Aman Thadani: That is it and sir I just have one more question since most of our bad debts are related to delayed deliveries. So, any steps that we are taking to reduce delayed deliveries?

Ramesh Mansukhani: In the current year, there is not any significant case of late delivery. In the last two three years because of the COVID there is no government directive clearly so some matters is going on, we are talking to the government to get the some waiver, some arbitration, some waiver, that's why we are trying to recover our money.

Aman Thadani: Okay and sir my final question is what

Ramesh Mansukhani: The things were beyond our control. Some cases we got the relaxation, some cases we we are getting in future.

Aman Thadani: Okay and sir that is the delayed deliveries is it the normal part of the business that one should expect?

Ashok Gupta: Delayed deliveries is basically the contractual terms. Basically, if the contract has not been completing the contractual time then according to the contractual definition, they deduct the amount on account of delayed delivery as per the terms of the contract, but our endeavor is always to complete the order well within the time so as to avoid an unnecessary waste our time for negotiation and taking up the matter they have to take time from the client.

Aman Thadani: Okay and sir my final question is what percent of the interest is BG and LC opening charges versus the interest cost?

Ashok Gupta: LC, BG charges it is not linked with interest is they recover bank guarantee and LC charges and that ranges from 0.5% to 1.2%. So, it is from because our facilities from concession from banks depend every bank separately every bank.

Aman Thadani: So, let's say in a year, so if I look at the FY 22

Moderator: Mr. Thadani, I request you to come in the queue sir. Thank you. We have a next question from the line of Siddharth Mohan for Maharaja Products for Maharaja Products. Please go ahead

Siddharth Mohan: What is the order book portion of the company and by when we did get a new due date.

Ramesh Mansukhani: Yeah, one of the inventor I already replied the new order 500 crores, the old pending order is coming around 200 to 300. So, total order book is approximately 700-800 approximately.

Siddharth Mohan: So, sir when will it get executed?

Ramesh Mansukhani: You can consider is the next four to six months total.

Moderator: Thank you. We have a next question from the line of Miraj from Arihant Capital. Please go ahead.

Miraj: Thank you for taking my follow up question. As you just said current order book closed close to 700 crores how much of it would be from the water pipe segment and if you could also just explain the difference in EBITDA per ton margins you earn from water and oil segments if you would highlight these two?

Ramesh Mansukhani: Miraj 50% out of 700 you can say the export and 50% is a mix of oil and water.

Miraj: Okay understood answer if you could give a highlight on the bit about which one would move would really lucrative.

Ramesh Mansukhani: Always the high value additions coating different kinds of fixings always that have more EBITDA than the waterworks (Inaudible) 0:30:14 industries.

Miraj: Understood. Okay. Thank you. Thank you for answering the questions.

Moderator: Thank. We have a question from the line of Aman Thadani from solidarity investment managers, please go ahead.

Aman Thadani: Thank you for taking my follow up question. So, sir, coming back to the last question, which I asked sir, is BG and LC charges a part of the finance cost in P&L?

Ashok Gupta: Yes Aman.

Aman Thadani: So, sir, can you give me a split like in FY 22, I see 37 crores of interest. So, can I get a split between what would pertain to the BG and LC charges out of this?

Ashok Gupta: Around 10 crores pertains to LC and BG charges, some bank charges like processing fee and other bank charges and major portion is on interest. Basically, on working capital facilities is…..

Aman Thadani: This explains more, thank you so much.

Moderator: Thank you. We have our next question from the line of Manish Gupta from Solidarity. Please go ahead.

Manish Gupta: Thank you for the opportunity. I had two questions. One is that we have a lot of debtors in arbitration right now. So, theoretically speaking, if I look at your debtors as of September, how much should be one that theoretically we might have to write off in the future while we are contesting this and hopefully we will get all of it back. But can you give us a broad range of what we might have to take as write-offs over the next two or three years?

Ramesh Mansukhani: Manish, Good afternoon Manish a very difficult question you are asking we cannot predict what will be debtors, some matters are under settlement, some matters are arbitration, some matters we have gone to the government to get the waiver for COVID. Somewhere we are already successful, somewhere we are still trying, very difficult to announce what would happen with this thing, but one thing is very sure. Now, everything timely deliver is started so past two three years there was difficult, we cannot say how much money we are going to put in the bad debts, this thing is very, very difficult, but if the company endeavor and total we have to recover our money, because there are some Supreme Court decision in the Force Major and some oil & gas company if they are not made any last because of the our supply delayed, they are not supposed to cut the penalty. There are Supreme Court three decisions also there in last two years. We are trying to use this to recover our money, so we are trying hard to recover all the money.

Manish Gupta: Okay, very clear sir, just I understand your perspective and I hear where you are coming from. I think just the challenges that every time one sees write-offs, you always wonder about the accounting policies being followed by the company. So, you know, I don't know how to think about it, but I understand your perspective. My second question, last question, sir, is that now assuming you can settle with SEBI and SEBI’s timeframe, but if SEBI told you not to, if SEBI’s issue is non consolidation of Merino, but you have got legal advice not to consolidate Merino, are you going to consolidate Merino for FY 23? How are you going to deal with this issue?

Ramesh Mansukhani: Manish, situation is like this way, the SEBI is working separately and Bombay High Court decision stay order you can stay order restraining order whatever you say is a separate thing. So, we have to see both in the combinations the SEBI cannot insist. SEBI can ask only why you have not done SEBI cannot say you do it, but if Bombay High Court decision, which we are expecting very soon, maybe you're now top priority. The top priority we are taking our law firm which is coming and they will come in they will do the consolidation as per the law and also we will give that what is the total impact, last seven eight years the total impact coming very minimal, very minimal not even the total profit of the last eight year even the coming even the half percent. So, we are confident we will resolve this issue and apart from non-consultation there is not any major issue with SEBI, whatever we already replied to them and trying to settle down the issue. So, very soon I think next few weeks, you will get something we hope to go to positive manner.

Manish Gupta: Okay, thank you very much.

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

Ramesh Mansukhani: Yeah, thank you all for participating in this Earnings Concall. I hope we are able to answer your questions and same time offer insights into our business. If you have any further question or would like to know more about your company, please reach out to our Investor Relations Manager at Valorem Advisors. Thank you. Stay safe and stay healthy.

Moderator: Thank you. On behalf of MAN Industries Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.