

Man Industries (India) Limited
Q1 FY23 Earnings Conference Call
August 12, 2022

Moderator: Ladies and gentlemen, good day and welcome to the Man Industries India Limited Q1 FY23 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 "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Mahantesh from Man Industries. Thank you and over to you sir.

Mahantesh M: Good evening everyone. This is Mahantesh, Manager Investor Relations from Man Industries. I welcome you all to Q1 FY23 Earnings Conference Call of Man Industries India Limited. I have with me from the management. Dr. Ramesh Mansukhani, Chairman Mr. Nikhil Mansukhani, Managing Director, Mr. Ashok Gupta, Chief Financial Officer and Mr. Jatin Shah, Company Secretary. We will have brief opening remarks from the management followed by Q&A. Please note that this call may contain some forward looking statements involving risk and uncertainties. Participants are requested not to put any undue reliance on the patch presented during the call. With this I hand over the call to Mr. Ramesh Mansukhani for his opening remarks. Thank you.

Ramesh Mansukhani: Thank you Mahantesh. Good evening everyone and a warm welcome to quarter one FY23 earnings conference call. Let me begin by giving you a brief of the standalone financial performance for the quarter. We have registered a total income 508 crore, and growth of the top line around 23.8% compared to quarter one, FY22. Our EBITDA stood 35 crore approximately with a profit of net profit 10.5 crore. During the quarter we witness cost of key commodities like metals, polymers, chemicals, etc. And logistic cost also increase because of the war between Ukraine and Russia which impacted quarter one badly. However since past July, we are witnessing easing of prices of these commodities and helping and this softening will accept our performance to improve going ahead. With the cooling logistic prices and other raw materials along the government focus on creating a strong infrastructure for oil & gas and water sector. We expect higher order over the next few quarters as on date our total unexecuted order which is approximately 1000 crore and will be executed in 5-6 months. Our bid position is approximately 17,000 crore and is at various stages and we expect to book sizable order over the next few months.

Coming to some of the sector highlights, it is expected that the increasing demand for natural gas, petroleum products with the oil and gas market. Over the next five year, Indian oil and gas

market is expected to grow at a CAGR of 6% and to cater to this rising demand oil and gas major are increasing their CAPEX plans to develop a network line pipes as it is the most economical way to transport gas, crude oil and petroleum products over long distance. We also see demand in the water sector coming on track and increasing in traction across various states. There is a strong intent to achieve the ambitious target set under various schemes like the har ghar jal national level linking, etc. The volumes well for the piping Industry is considering the infrastructure requirement to develop this network in the coming year.

Update on the CAPEX. I am delighted to share that the work on our ERW Steel pipe project implementation is on track and is developing well as per the revised schedule. Along with this our plans to enter international business is also being progressing well as order for major order equipment, critical equipment already placed. And work is going on the full swing. In our enhance manufacturing and execution capabilities. We are confident to scale our business in the near future, deliver consistent growth. This is all from our side, we can now open the call for question, answer.

Moderator: Thank you. We will now begin the question-and-answer session. The first question comes from the line of Usherman, an Individual Investor. Please go ahead.

Asherman: Sir, I would like to first of all, I was unable to attend the last conference call. So, I would like to point out that Man industry has violated the SEBI rules for the listing obligation I guess the promoter have purchased equity when the trading window was closed during the previous quarter. This is not the first time that it has happened this has happened in 2019 also. So, I would like on the behalf of minority shareholders would bring notice to that that if we can focus on the corporate governance side it will be really good sir.

Ramesh Mansukhani: Okay, Mr. Usher. I would like to say 2019 there is not any violation regarding buying the share by any group companies. There may be some other thing not this one. This is the first time in our history last 25 years, our one of the sister concern where they purchase the share and they were not aware the concerning person they put the deal he was not aware. And once we realize then it was that's why we under the settlement process we paid the penalty and we submitted that to the SEBI. I hope that matter is now close and it was only 100,000 shares which was not intentionally not purposely. But the company promoters are having share of more than 3,00,00000 so 100,000 not a big thing, it is clearly a mistake and accepted by one of the sister concern not by the promoter company but one of the promoter company by mistake.

Asherman: Okay. Sir one more thing, I would like to point out about the forensic audit that SEBI had ordered. So, is there any lead from that or report from that?

Ramesh Mansukhani: No still nothing is happening we are awaiting some response from there and as and when the matter is progressed we will inform you.

Asherman: Okay. And this cost of the room raw materials which has inflated a loss. So, this is for whole of the industry. So it is not the Man Industries which is only facing this problem right?

Ramesh Mansukhani: Yes, you are right. The raw material prices from July onwards, last two months is softening all the sectors including metals, plastics, chemical all is coming the pre hike level is slowly reaching. It's good for the industry.

Asherman: Okay. And I would like to know the volume and value growth on the revenue side?

Ramesh Mansukhani: You're talking about the future?

Asherman: No, volume growth, we can see that the volume of 400 crores of revenue is rising to 510 crores. So, what is the part of the value and what is the part of the volume can you bifurcate it if it is possible?

Ramesh Mansukhani: Not possible this moment but I can give the ballpark figure. The turnover increase of 25% and the volume also almost same.

Asherman: So, we haven't taken any price rise right, the raw material prices have inflated but we haven't taken any price rise.

Ramesh Mansukhani: No, price rise but in future whatever the business are coming price high is now already passed through and our price formula now, we have already taken care of this thing.

Asherman: Okay. So, in quarter two we have already take a price hike you are telling that right?

Ramesh Mansukhani: Yes.

Asherman: And the contract which we have already, the order book it is not based on escalation?

Ramesh Mansukhani: No, normally in our cases, most of the cases we can say more than 90% cases our government is buyer so, there is no escalation clause.

Asherman: Okay. I would like to suggest only one thing in case where the raw material data is very high, can we bring down the time period for the order book, then it would be really helpful for us to pass on the raw material prices, then if it is not escalation clause, we can vary our price at every order?

Ramesh Mansukhani: Yes, normally we do once we get the order, we normally do back-to-back. But not 100% quantity maybe 90, 94 quantity. Quantity as per the yield a lot of other parameters are there, which are left out which is impacted only. So as the input was low, but normally we take care back-to-back bases and historical maybe 10, 15 year once, it was once in a while, it was a a matter.

Asherman: And sir last question from my side, operating margin has fallen to 4.33%. So will this be the operating margin for the next coming two quarters and then it will improve or what would be your guidance. See, I'm not asking for quarter wise I'm asking for the whole year or for coming two years what would be your price margin for the coming year?

Ramesh Mansukhani: We estimate and we are expecting our EBITDA will go back the same level in future because we have right now the good order book position as well as value added products and in the coming time good book also, expecting the improvement in all the coming quarters.

Asherman: So, at prudent level, I can assume around 7% of EBITDA right?

Ramesh Mansukhani: Not just 7% but we will go with whatever we were doing last year also which was approximately 10% we are expecting to go back to that level also.

Moderator: Thank you. The next question comes from the line of Chirag from Kinoss Capital. Please go ahead.

Chirag: Sir, as you're saying that we have started passing on the cost or the cost of raw materials are coming down. What kind of gross margin are we looking at from the second quarter itself?

Ramesh Mansukhani: I'm not talking about the gross margin Chirag, we are talking about the EBITDA, if you see last year our three, four quarters result EBITDA is 10% plus. Except this quarter, we will go back the same level, and normally our business, gross profit margin EBITDA you say between 8% to 12%. This quarter was very exceptional and the future quarters depend on should be much better value added coating, kind of coating, which kind upgrade the pipe lot of calculations there. But considering order balance on hand and the bid book position we are expecting good growth and EBITDA and as well as order book position.

Chirag: Sir, what percentage of our order book is value added products?

Ramesh Mansukhani: Right now you can say this moment we have around 90% orders roughly are good value added products roughly.

Chirag: And can I expect that 90% of our books are also based on oil and gas industry?

Ramesh Mansukhani: 90% this is a all-value-added production this is from oil and gas only, so hardly 10% from the water segment.

Chirag: So, it makes sense that we are going to have 10% to 12% operating margin for the next three quarters?

Ramesh Mansukhani: Yes, which we are expecting to say the original whatever last year we did, we will reach over there very soon.

Chirag: Okay. Sir my second question is, we have the policy of reverse bidding auctions correct?

Ramesh Mansukhani: Yes sir, in not all cases, in some cases.

Chirag: Can you elaborate it, what does that mean, that in not all cases, but in some cases, because I was under impression that majority of our orders are based on reverse bidding. So, that is the reason we did have a stable gross margin, but that is not the case.

Ramesh Mansukhani: No, I will give a little bit more highlight on this issue. Actually the Indian PSU which are now all adopted reverse bidding, but the international market whatever export bid is there still is a close bid and although it is electronic bid but not reverse bidding. That's the difference, Indian IOCL, HPCL, BPCL they follow Central Government Purchasing Policy which is now most of the cases is a reverse bidding but export no.

Chirag: Got it sir. Sir, can you bifurcate the revenue based on domestic and exports for the quarter?

Ramesh Mansukhani: Yes, this time, this moment you can say 80% is a domestic, 20% export but for whatever bit we 17,000 crore bid we put which is almost 80% export and 20% domestic, just reversal.

Chirag: Tell me if I'm wrong on this, that export business have comparatively lower margins than domestic business correct?

Ramesh Mansukhani: No, not like that export business is mostly better pricing and less competition because many, locations very few people are competition over there, depend on which country, what kind of company is buying, lot of parameters are there. So, now our export bid book is much, much higher and the domestic is routine is going on.

Chirag: Sir, actually I was under impression that due to higher freight cost, generally export margins are a bit lower than domestic margins in the pipe. So, you are saying that is not the case correct?

Ramesh Mansukhani: No, you're talking about export freight you are talking?

Chirag: Yes, as we are making more export, we are having an active book of 80% or 17,000 crores into export business, I'm expecting our freight cost is going to go up due to which there can be an impact on operating margin, this is my presumption and I am asking that is it correct or not?

Ramesh Mansukhani: Right. Because nowadays the difference is there, the sea freight whatever gone up also it is also cooling down. The export now are more lucrative, both are lucrative depend on country project sometime India, sometime this thing. So, we have to see the client and client requirement and the period of supply a lot of things are there but because of the commodity prices pulling down now the shipping freight also little bit is gone down.

Chirag: The last question, I was hoping that we had a, as we have seen that strong price increase in (Inaudible) due to which Indian companies, Indian OMC companies are coming up with good CAPEX, are active order bids in India to bid compare to export are there any kind of order disbursement from there end?

Mahantesh: Your voice is breaking.

Ramesh Mansukhani: Your voice is not clear. Chirag once again can you please come again please.

Chirag: Sir, from my understanding, when I heard the calls of ONC and other set of companies into steel pipes, I was expecting that a bit of higher order books and active order books on Man Industries is also related to the domestic player. Sir, I'm not able to understand, aren't we looking at domestic orders currently, and our active order book is also only 20%, which is targeting domestic markets. So, I just wanted to understand why is that the case, whereas others are not doing this?

Ashok Gupta: At this movement whatever the order book is there that is all 90% is on domestic front but what we are telling that the bid book position where we have bid for almost 17,000 crores worth of projects, there around 80% on the bids are for export orders and remaining 20% bid for domestic orders. So we are targeting our turnover, maybe equal to balancing 50% for domestic and 50% for exports, end of the year.

Chirag: Got it. And can I expect that out of this active order book, we can convert 20% into actual orders?

Ashok Gupta: Whatever order books are in hand that is going to be converted into, that is going to be executed in next five to six months. And so while bid book is concern we have good chances of winning good quantum of volume, good portion of this.

Chirag: No, sir I am just asking that historically I have seen that Man Industry is able to book 15% to 20% of the active order book.

Ashok Gupta: That is what we are saying, having good chances to win a good amount of orders.

Chirag: So can I expect that it can be around 20%?

Ashok Gupta: Could be.

Moderator: Thank you. Next question comes from the line of Manish Gupta from Solidarity. Please go ahead.

Manish Gupta: Sir, I had three questions. The first one is that, you mentioned you cover back to back your steel cost to the extent of 90%, so the question was why do you cover it to 90, why wouldn't you just

hedge the complete commitment that you have to produce for, why would you keep 10%, 15%?

Ramesh Mansukhani: Manish, good afternoon. The company policy back-to-back 90% the fuel is reason the two factors are there, one yield calculation always we do up to 75%, we always review the situation what yield we are getting, yield maybe 1%, 2% here and there that is why safe sidely booked 90%. Number two sir, the other issue in some purchase order the client is having the liberty to plus minus few percentage which is approximately 5%. So, we have to consider this both the factors as why we book 90% and the 10% we book very close to completion of the project. Here the quarter which we got the hit apart from metal, the other items chemicals, plastic, et cetera which is normally we do not hedge, we normally buy on the spot market normally because, price fluctuations are very less this quarter was very exceptional problem because of the Russia Ukraine war in the month of February, then prices shoot out of the plastic and chemicals in the month of April, May, June. So whatever the spot price we have to come to the project. Now the situation is reversed last one and a half month, then get benefit also we will get in future. So 90% policy is bad maybe one quarter, but good for the future quarters forever. So, this is a company policy.

Manish Gupta: Okay, very clear sir. My next question is, can you give us an update on Marino specifically, what stage are you in your resolution process, do you have, are you still in discussions, do you have a verbal agreement, do we have a term sheet, is it possible to get some concrete timelines by which this can be resolved?

Ramesh Mansukhani: Yes, I can give the settlement process is completed, negotiation is completed, documentation is going on and next two months everything will be executed I can give this thing.

Manish Gupta: So, that means you have a term sheet, if you're saying documentation is happening, you have a signed term sheet?

Ramesh Mansukhani: Yes. We have settlement deed, you can say term sheet, settlement deed whatever you say, and that is executed by them, they send to us our law firm made some changes, which is going on, but almost it's finalized and we hope to sign next week. And then we have two months for execution.

Manish Gupta: Okay. My third question is that, would you be able to tell us what is the market value of real estate that is on the company's books today approximate market value?

Ramesh Mansukhani: Approximate market value, approximately is 200 crore.

Manish Gupta: So, in your balance sheet, what is shown at cost the market value of real estate will be about 200 crores?

Ramesh Mansukhani: We are estimating 200 crore actually our investment is 100 crore.

Manish Gupta: Okay. And the last question I have sir, is that the company is not growing very, very aggressively 10% to 12% kind of growth. So, will you have any surplus free cash flow available to you after you make your CAPEX investments?

Ramesh Mansukhani: The CAPEX investment is already considered and our CAPEX more than 50% is already deployed. And this moment, we are not taking any disbursement because the work is smoothly going on. But still we have some amount to draw in near future as a need of the company.

Manish Gupta: No, my question sir is, that over the next 24 months will the company have any surplus cash after completing its CAPEX obligations?

Ramesh Mansukhani: In next 24 months, I can say Mr. Gupta will reply also, he will support me this current year whatever ERW will be completed end of the year there will be surplus but after putting up the SS plant next year, whatever the surplus will be deployed over there. But I'm talking about 24 months

Manish Gupta: Okay. So, what I hear you say sir is that practically speaking there is no surplus because you need the surplus for the stainless steel plant next year?

Ashok Gupta: So, Manish let me explain in a different manner. See after having this cash profit in current year as well as next year, we are planning to put our ERW as well as stainless-steel. So, that price generation plus whatever the asset monetization program what we are like planning to dispose it all. Then, additional cash we are going to get that additional cash from that and further though that land deal what we have in our books for 31 crores that has also been under monetization program and soon it is going to be in the cash form in our books. So, we will be having sufficient cash flows even after deploying our cash for a CAPEX program.

Manish Gupta: So, my question is very simply is that, you have 200 crore of real estate on your books, you have surplus cash, the promoter holding is well below 75%, why would you not more aggressively buy back your stock?

Ashok Gupta: Let the time come we will once this whatever asset monetization program is going on. If any find day we will see if we have sufficient surplus funds in our books physically, then probably we can think of buyback and other options.

Ramesh Mansukhani: Manish in simple word Mr. Gupta is saying, that we are monetizing the money now, we are monetizing the Bilari plant which we already sold, money will come next month. This is the problem between the Piramal, etc. will be finished by this thing then we will be more confident to say what will be the excess money in future. The first excess money to clear everything put in our expansion program and what is this surplus and then we will see what can we do, but

this moment difficult to comment on this issue very founded as on we complete our CAPEX program. But your suggestions are well taken. But at this moment, we are non-committal, we want to finish all old matters first that is the top priority.

Moderator: Thank you. Next question comes from the line of Manjeet Buaria from Solidarity Investment Manager. Please go ahead.

Manjeet Buaria: I just wanted to understand what is the outstanding loan in Merino and at what percent is the settlement being roughly done. So, I just want to understand what is the excess we will have as equity after the settlement is done?

Ramesh Mansukhani: We have signed the NDA with the borrower and lender and documents are under execution and this moment to comment, this is not a right time because we are abide by the legal procedure. Please wait for a few more weeks, you will get to know what we have done, while the larger interests of the shareholders, they will be the good thing is being done.

Manjeet Buaria: Okay sir, we'll wait for that update. The second question was the 200 crores market value of real estate approximately which you mentioned this is housed under the Merino subsidiary am I correct or is it a standard alone balance sheet of the company?

Ramesh Mansukhani: Can you just repeat your question?

Manjeet Buaria: You mentioned the market value of the real estate is the company value is roughly 200 crores is this under the Merino legal entity or is this under the standalone balance sheet?

Ramesh Mansukhani: No, sir this is the value of the project, only one project in that company and we are disposing of then some liabilities also will go, company will get the money and then the situation will be more clear, only one project they have nothing else.

Manjeet Buaria: Right sir, but I was clarifying this, this project is in Merino this Rs.200 crores approximately the project is in Merino?

Nikhil Mansukhani: The 200 crores is basically for all the asset which Man Industry owns which has Merino and one more land in Karnataka which together put together makes a 200 crore asset.

Manjeet Buaria: And would it be possible to split that between?

Nikhil Mansukhani: Out of which 40 crores is directly on Man Industries and Merino Shelters is around 160, 200 crore.

Moderator: Thank you. Next question comes from the line of Arvind an Individual Investor. Please go ahead.

Arvind: I have two, three questions. First one is, as you said out of 17,000 bid book we have how much percentage we will be successful in getting the orders, how much percentage of that 17,000 crore?

Ramesh Mansukhani: Sir, 17000 bid this is all the time very dynamic. Every time it changes, what will be the percentage of success, what is the evolution stage there is a different condition. But we can say whatever our requirement of the business to fulfill our order book will be sufficient so far.

Arvind: My second question is can we have some revenue guidance for coming next two years?

Ramesh Mansukhani: Revenue guidance as we discussed last time also, we are anticipating some good growth in this year, depend on some projects we already bided, situation will be more clear in next one month and next year will be the additional revenue apart from the growth will be additional revenue from ERW and some value added products also. In percentage wise I cannot say right now, what will be but there will be the good growth in 23 as well 23-24 also.

Arvind: Okay. And my last question is regarding the Man India bonus shares. Is there any clarity on that?

Ramesh Mansukhani: What is your question?

Arvind: Regarding Man India bonus shares?

Ramesh Mansukhani: No, you are talking about the bonus share?

Arvind: Yes.

Ramesh Mansukhani: No, right now, we cannot comment on this issue please.

Nikhil Mansukhani: All the commitment for the bonus shares regarding for Man Industries we've already done and now the matter is prejudice in court from the other side. So, from our Man Industries everything is completed.

Arvind: That is from last two years the same issue is pending.

Ramesh Mansukhani: we are trying as soon as possible for decisions then we will see.

Arvind: Can we have some specific guidelines for the timeline?

Ramesh Mansukhani: No, sir. Matter is subdues our legal team is trying to as soon as possible to resolve to give good news to you.

Moderator: Thank you. As there are no further questions, we have reached the end of question-and-answer session. I would now like to hand the conference over to the management for closing comments.

Ramesh Mansukhani: Thank you everyone for your participation in quarter one, Q1 FY23 earnings call. In case of any further queries, feel free to get in touch with us. Thanks a lot for your time and attending this. Thank you.

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