“Kirloskar Ferrous Industries Limited

Q1 FY ’24 Earnings Conference Call”

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MANAGEMENT: MR. R.V. GUMASTE – MANAGING DIRECTOR – KIRLOSKAR FERROUS INDUSTRIES LIMITED
MR. R.S. SRIVATSAN – EXECUTIVE DIRECTOR (FINANCE) & CHIEF FINANCIAL OFFICER – KIRLOSKAR FERROUS INDUSTRIES LIMITED

MODERATOR: MR. PALLAV AGARWAL – ANTIQUE STOCK BROKING

Moderator: Ladies and gentlemen, good day, and welcome to Kirloskar Ferrous Industries Limited Q1 FY '24 Earnings Conference Call, hosted by Antique Stock Broking. 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 conference is being recorded.

I now hand the conference over to Mr. Pallav Agarwal from Antique Stock Broking. Thank you, and over to you, sir.

Pallav Agarwal: Yes. Thank you, Seema and good afternoon, everyone. A very warm welcome to everyone for the Q1 FY '24 Earnings Call for Kirloskar Ferrous Industries. Today, we are joined by the senior management, which is represented by Mr. R.V. Gumaste, Managing Director; and Mr. R.S. Srivatsan, the Executive Director of Finance and CFO. So I would now like to hand over to Mr. Gumaste for his opening comments. Over to you, sir.

R.V. Gumaste: Yes. Thank you very much, Pallav, for your introduction. Let me, first of all, welcome all the analysts and the investors for the Kirloskar Ferrous Industries quarter 1 conference call. Let me start briefly with the update on pig iron business. As all of you know, iron and steel industry is currently going through headwinds, and we've been part of the pig iron industry. So pressure on margins is very clear because of the much higher levels of iron ore prices as well as the coking coal prices. Subsequently, coking coal prices have come down slightly. And currently, the premium coking coal is around $250 per metric ton.

During quarter 1, we operated mainly two blast furnaces and not all three blast furnace running in full because of the relining requirement at Hiriyur and subsequently changing to bell-less top on blast furnace one. We are currently not running blast furnace one. And we expect to start blast furnace one in the first week of September.

The pig iron quantities for quarter 1 was at 1,24,414 metric tons, which is an improvement of 29% compared to the quarter 1 of last year. And in case of castings 34,264 tons, which is an improvement of close to 3% from 33,124 tons. With respect to sales, we sold 1,11,438 metric tons of pig iron in quarter 1 compared to 87,292 metric tons in quarter 1 last year, an improvement of 27.7%.

However, the pig iron realization this year in quarter 1 was INR45,663 against INR59,606, which is a drop of 23.4%. So because of this sales of pig iron in terms of in value terms has come down from INR520 crores last year to INR509 crores this year, which is a drop of 2.2% in spite of the 27% increase in the volume.

In case of castings, casting sales has been flattish from 31,499 metric tons to 31,205 metric tons. One of the reasons being the subdued demand for castings from tractor industry and also many things required to be done to ramp up the outputs and sales from all the three foundries from KFIL.

With this, the casting sales has gone down to INR395 crores against INR406 crores, 2.9%, also because of 2% drop in the sales realization. Casting sales realization, which was INR1,29,000 has come down to INR1,26,000, which is a drop of 2%, which is because of the passing on of the commodity price reduction to our customers. We continue to work on our projects right now, as I mentioned, the blast furnace one, changing the bell to bell-less top and also certain technological upgradations being implemented.

With respect to Coke Oven and Power Plant, we have commissioned phase 2, and we are running full on coke making and power plant also, all the boilers commissioned, and we are now right now optimizing on power generation and power consumption, whereas we have started selling the power to the grid and into the exchange.

With respect to other projects, we have commissioned foundry 2 in Solapur. And now, we have already started working for increasing the capacity of Line 2 in Solapur to go to full capacity, which would be close to 40,000 metric tons per annum. And we have also started the project activity for the large foundry, which is two-part foundry.

As regards to the borrowing, we continue similar level of borrowings and no major increase with respect to last year, substantial reduction because of the certain payments, we are INR895 crores of total borrowing against the INR887 crores end of the last quarter and INR1,132 crores last year.

With respect to casting demand, the demand from auto industry, commercial vehicle industry continues to be strong and subdued demand requirement from the tractor industry. And we are working for increase in the output from Line 2 in Solapur, and we expect increased sales to come from the coming months in order to achieve higher capacity utilization including the Line 2 in Solapur.

This is in brief from my side as opening remarks. I would like to take questions, if any, from the analysts. Thank you very much for joining and over to question and answers.

Moderator: Thank you very much, sir. We take the first question from the line of Aashav Patel from Molecule Ventures PMS. Please go ahead, sir.

Aashav Patel: Thank you for the opportunity, sir. Sir, my first question is in the pig iron segment. This quarter has seen significant volume loss on account of MBF closures. So please quantify the volume loss for Q1? And what are the volumes, we are targeting for Q2 given that MBF-1 will again be closed throughout the Q2?

R.V. Gumaste: Yes. The current capacity, if you see, we are at a level of 55,000 metric tons per month of hot metal, approximately, which takes us to 1,65,000 full quarter all three furnace operations. That's our capacity today. And against that, you mentioned, I expect our production from blast furnace one to start from around 10th of September and quarter 2 volume should be similar or slightly more than quarter 1.

Aashav Patel: Okay. And sir, do we still maintain our earlier estimate of 6 lakh metric tons in FY '24?

R.V. Gumaste: There has been a slight downward capacity utilization in these four months. It could be more like somewhere between 5.50 lakhs metric tons to 570,000 metric tons of total hot metal production in this financial year.

Aashav Patel: Sure, sir. So that will make us being only marginal volume increase over last three years in pig iron segment. So does this debottlenecking finally ends in FY '24? or is it an annual activity, maintenance shutdowns and everything...

R.V. Gumaste: With respect to debottlenecking to go to 55,000 gets completed, but we have another project, which is pulverized coal injection plus oxygen enrichment. This is supposed to give us about a 10% to 12% volume production increase from blast furnace one and two. It depends on extent of oxygen enrichment. But this, we will be ready towards the end of calendar year '23.

Aashav Patel: Got it, sir. December '23. Got it. And sir, as per AGM, you mentioned that in the AGM that our Q4 coking coal cost was around $250. So what was the coking coal cost for Q1?

R.V. Gumaste: I don't have exact number, but in the range of about $270 to $280.

Aashav Patel: Sure, sir. So just summarizing, the quarterly coking coal cost, given that our entire high-priced inventory has been consumed because the current market price of coking coal is near to what our cost of consumption is. And realizations are already around 45,000 metric tons Q-o-Q. Why are we not seeing improvement in gross and EBITDA margins

R.V. Gumaste: What has happened is two things. One is pig iron sales realization subsequent months, it has further gone down. Today, we don't have 45,000 metric tons realization. It has further gone down to maybe 44,000, 43,000. So that's one reason why our margins have not improved by reduced coal prices. So we are moving in the sales realization on pig iron also, one. Of course, other one is not operating all the three furnaces.

Aashav Patel: Got it. And sir, given that Coke Oven and CPP both were operational throughout the quarter, we expected significant improvement in the EBITDA margin, but it was not seen in Q1. So what factors do you attribute for lack of increase in the EBITDA margins?

R.V. Gumaste: No. One is definitely the lower margins coming because of pig iron prices being under pressure and to some extent, higher priced coal inventory. Only these two. And as it is, you are seeing because of the shutdowns, volumes also being low.

Aashav Patel: Sure. And can you please quantify the expected benefit for FY '24 on account of Coke Oven and CPP?

R.V. Gumaste: No, as we have seen, it has been very complex, it's not straightforward because one is very clear that on the power, we are getting benefit, which is improving from INR6 crores per month to at least INR10 crores, INR11 crores per month on the power front. On the front of coal-to-coke conversion and coke consumption reduction, we have already got the benefit. Now we are getting the full benefit both in Hospet and Hiriyur

So only thing I would say that, pig iron demand pickup and improvement in the pig iron prices is the need of the hour to mitigate the higher prices of iron ore. So we are almost paying more than INR6,000 per ton, whereas the iron ore prices are gone, but we are unable to increase the prices of pig iron. There is a need for mitigation of pig iron price.

Aashav Patel: Got it. And sir, in casting segment, over the last year, we were seeing a robust demand throughout the year. Outlook was also very positive in the casting division. We also added new customers last quarter. But our volumes have been falling marginally over last three quarters back to back. Despite the new foundry line being active when operational throughout the Q1, so what explains this situation? Is it demand side macro issues? Or is it ramp-up and product approval led delays from our side?

R.V. Gumaste: No. One is the Line two in Solapur, is yet to really get into the volume production because before volume production, there are also approval requirements, the new development, new foundry related customer approvals are there. So more or less, that is falling in place. We expect quarter 2, quarter 3, we start getting some volume production and sales coming from Line 2. With respect to earlier three lines, overall capacity utilization, generally, it is combination of tractor and auto blocks and heads.

One of these sectors being low, we can always load with the other, but there are overall, we still get some setback. And because of that, volume ramp-up has not happened. And on the operational side, also some of the headwind, and we will have to crack those and progress on to increasing the production and sales. Both are attributing to the flattish numbers on castings. I'm quite hopeful that, we'll break that ice and move forward to increase the production and sales in coming quarters.

Aashav Patel: So what would be the revised volume estimates for FY '24 in the casting segment?

R.V. Gumaste: Not really any major change at this point of time. We have just completed one quarter. I will not immediately rush to change the volume estimate. We are still hopeful that, we should be able to cross 1,50,000 volume for the full year.

Aashav Patel: Thanks, sir. I have other question, I will come back in the queue. Thank you.

R.V. Gumaste: Thank you.

Moderator: Thank you. The next question is from the line of Sunil M. Kothari from Unique PMS. Please go ahead.

Sunil M. Kothari: Thank you, sir, for the opportunity. Sir, my question is, we have got a little better realization quarter-over-quarter. Quarter 4 realization of casting was roughly 1,25,000, now it is 1,26,000. And the bigger casting, the farm sector related casting is also lower contributing to. So what has changed if you can talk a little bit...

R.V. Gumaste: See basically it shows that, higher realizing auto sales have improved, whereas the low realizing tractors sales has come down. Maybe a couple of basis points, a couple of percentage points, but it still makes some difference. But we can't remove 30%, 40% tractor castings and add exactly

30%, 40% of auto casting. So that's why the volume growth is not coming, but small realization growth has come compared to last quarter. It's a product mix result, whereas we have given some reductions to customers.

Sunil M. Kothari: Okay. Sir, we have spoken about two new global OEM customers in our annual report and we increased share in existing customers also. We have increased machine casting and new order with machine also we are expected to get. So how you see a combination of all these things during maybe current year and next year looking at the exports opportunity and new customer addition?

R.V. Gumaste: No. see, the way there is a demand requirements from customers and a lot of castings being developed in all the lines currently. I still feel that we should continue to have volume growth of 12% to 15% this year and maybe 10% to 12% next year also. That is the kind of growth what is expected because that's also required inline with capacity utilizations to come from the new lines.

Sunil M. Kothari: So sir, will this export opportunity high machine casting? Should it improve better -- I mean realization pattern in a better fashion, or it will remain in this type of range?

R.V. Gumaste: No, I think the machining value will not make any dramatic change in the sales realization. Sales realization, one, is linked to commodity, pig iron and steel scrap prices. Second one is, all the new developments are the high-end castings, some of them are going towards now EURO7 and that way, more complex castings, and I expect new casting developments would be at the higher sales realization, which will push our overall sales realization also improving year after year.

Sunil M. Kothari: And sir, any development on iron ore mines mining and mine ore to be listed?

R.V. Gumaste: The file movement was not happening because of declaration of elections, , then because of new government formation. After that, one of our file out of the 2 mines has started moving. We got one of the important approval. but still some more approvals are required.

We are optimistic that out of the 2 mines, at least one mine will get through to the operations as early as possible, whereas the second mine has some major problem or major challenge with respect to declaration of the mines area as wildlife reserved area. So that's yet to be resolved.

Sunil M. Kothari: And sir, my last question is, we are paying almost INR25 crores, INR30 crores on a stand-alone consolidator level the interest costs. How do you see this? Will it increase further? Or we are hopeful that it will not go ahead from here?

R.V. Gumaste: No. Right now, as you have seen, we are maintaining the borrowing and interest cost at that level. But as we progress, there are opportunities, which are attractive, whether it is acquisition of the north foundry or any other opportunity, including solar power plant opportunities. Our focus is on how we manage the investments to the cash generation. But if it is required, we will borrow and it may have slightly increased the interest cost.

But as a philosophy, we would like to maintain the borrowing and interest rates at the current level, unless there is an important progress on to any of the projects of acquisition or important progress on any of the important project coming up. But otherwise, this interest rate is likely to continue for some time and not increase dramatically.

Moderator: The next question is from the line of Lalit Kumar, an individual investor.

Lalit Kumar: Are you seeing any uptick in terms of realization in the last few months for the pig iron from 45,000?

R.V. Gumaste: No, I couldn't get your question, sir.

Lalit Kumar: The realizations in terms of our pig iron 45,000 MTPA right. Are we seeing any northward movement what is the blended realization for FY '24 you're expecting?

R.V. Gumaste: Right now, I'm not seeing any major increase in the pig iron prices. But if you ask me today's market condition, I would say that there is a bit of shortage of steel scrap in certain types of steel scrap. And I also see the price increase of steel and pig iron to an extent up of INR1,000 per ton in the northern market. It is maybe early sprouts. And I hope that, that should trigger some improvement in the pig iron and steel scrap prices.

Lalit Kumar: Okay. And I think in AGM, we had mentioned, sir, for coking coal prices at $250. No you said that it is $280. How much of this we have been able to pass on to the end customer?

R.V. Gumaste: No, I just mentioned that last quarter, it was in the range of $270, $280. But currently, whatever is our blend, it is linked to $250 prime coking coal. Some reduction is happening with respect to the cost of coal, what we consume, but pig iron prices have also slipped during these months. So margins continue to be under pressure. Unless the pig iron prices pick up, with that only the margin improvement is possible.

Lalit Kumar: Again, our current capacity utilization level is how much?

R.V. Gumaste: See, the current capacity that I just mentioned, we are likely to end this year with 550,000 liquid metal production, pig iron production. And we expect quarter 3 and quarter 4 to be full, which is 165,000, and once we commission pulverize coal injection, we expect further improvement in the output.

Lalit Kumar: Got it. And textile industry demand side, you're seeing any upticks, sir, over there?

R.V. Gumaste: Which industry?

Lalit Kumar: Textiles?

R.V. Gumaste: Textile?

Lalit Kumar: Yes.

R.V. Gumaste: Not really any major change there. I just mentioned that metallic costs or metallic price small improvement of about INR1,000 per ton is seen in the North Indian market. I only hope that,

that should sustain and should result into further improvement in the prices of pig iron. But right now, I would say it's only an early indicator, there's nothing much to support beyond that.

Moderator: The next question is from the line of Mahesh Atal from Atal Associates. Mr. Atal's line was on hold, so we move on to the next question from the line of Radhika Rathi, an individual Investor.

Radhika Rathi: I wanted to ask, we have earned an EBITDA margin of 14% this quarter. I just wanted to know what is the percentage margin of the pig iron and castings separately?

R.V. Gumaste: I don't have exact numbers separately, but I would say casting margins are better compared to pig iron margins. Pig iron margins are under pressure.. I don't have separately for pig iron and foundry. But I would only say that better margins in castings and lower margins in pig iron.

Radhika Rathi: Okay. And sir, I wanted to know what is your views about market outlook for pig iron, including the demand in the NSR part. In which industry do you think the demand would be more?

R.V. Gumaste: See, basically, as you see, overall, iron and steel industry has been under a headwind. We are definitely affected because of that. And typically, monsoon time, you can expect secondary steel manufacturing is down because of the construction activity being down. I expect that, if not early by 15th of August or by September, we expect improved demand for steel, secondary steel and then that should also trigger some improvement in the pig iron prices. And that is typically the trend in this industry. I expect that it should improve. It can't remain the way it has remained over the last 4- 5 months.

Radhika Rathi: Okay. And sir, one more question. We have a project about pulverized coal injection. So I wanted to know what do you think would be the benefit in terms of rupees per ton?

R.V. Gumaste: See, typically, we expect our overall basket, we should be able to replace 100 kg of coke by 100 kg of coal, and we save half of the cost. So it depends on coke prices. If they are at INR35,000, we save INR16,000, 100 kg. So you can say we should save about INR700 to INR800 per ton of hot metal. It is a substantial saving, and everyone goes for it, and we are going for it. INR700, INR800 per ton is a big saving, and that should add to our contribution and EBITDA.

Moderator: The next question is from the line of Sahil Sanghvi from Monarch Networth Capital.

Sahil Sanghvi: Sir, my first question is regarding Oliver. We have any updates or can you give us any updates on the progress of that?

R.V. Gumaste: I have been told that we should have the update by 10th of August. So the one more date, but that is the date given to me. The creditors have to come back. So we are awaiting. we have completed all our activities. What is expected from our side is done. Creditors have to come back to us, which has to go to the NCLT. We are awaiting for that. I think it should happen. And next date, I have been told is 10th of August.

Sahil Sanghvi: Just a follow-up on that one, sir, if at all we get that asset, we'll have a lot of extra capacity when it comes to the Solapur line 2 and this Oliver also. So do you envisage that much of demand that we'll be able to ramp up both these foundries in the next 1, 2 years? I mean do we have that much demand to work parallelly on both?

R.V. Gumaste: See, typically, Sahil, we should note that any new foundry will take 3 to 4 years too load to full capacity. It won't happen in 1 or 2 years because you need to develop castings, you have to ramp up, go for engine testing approval, then ramp-up, resolve quality issues. So 3 to 4 years it is. So we expect that's the kind of load production increase we expect from that line.

If it is 40,000, I expect I reach 36,000 in the fourth year of operation. This year can be taken as first year of operation. 10,000 to 12,000 is what I expect in the first year, and then it should keep adding. But we are also trying to increase the output from Line 2 in Koppal. Again, so we have to break some productivity issues, etcetera.

And overall, that's how we are seeing that from 130,000 last year, how we can go towards 150,000 is what we are looking for. I hope that we should be able to crack it. But it's hardcore manufacturing, and we have to really get the support of the market, and we have to also crack some of the challenges to achieve the productivity increase.

Sahil Sanghvi: Right, sir. Right, sir. My second question is regarding the steel plant that we want to commission in Koppal, sir. I understand we are awaiting the EC, but when do we start spending for it, sir?

R.V. Gumaste: No, right now, we have already got the terms of reference. And by end of October, we should then go for the public hearing and then let's hope that by end of 2023 calendar year or early '24, we should have consent to establish. Then we take a couple of years, 2.5 years to establish the steel plant.

Sahil Sanghvi: Okay. Okay. The capex, whatever it is, will be spread over 2 years, right, sir, once we get the consent?

R.V. Gumaste: Capex, I hope, it will start from next year.. Small capex basically to get EC and all, but capex to start next year.

Sahil Sanghvi: Got it, sir. Got it. And my last question is regarding, sir, the capex target we have for this year, sir, including ISMT.

R.V. Gumaste: I have spoken about this in lots, for example, we have done with Coke Oven and Power Plant. We're done with MBF upgrades we're done. But what we are currently working is this majorly solar power plant in ISMT.

Sahil Sanghvi: Mainly I was asking the numbers, sir, rather than the projects.

R.V. Gumaste: See, I would say that our capex spending would be between the two, KFIL and ISMT would be up the order of INR600 crores per year.

Moderator: The next question is from the line of Bharat Sheth from Quest Investment Advisors.

Bharat Sheth: Sir, sorry, just I missed 2 things. You said that this coking coal, the power plant will start benefiting around INR10 crores per month from this new plant, correct?

R.V. Gumaste: No. Both the plants put together, what was INR6 crores of power per month will go to INR10 crores power per month. It has already gone.

Bharat Sheth: Yes. So new plant will help us, I mean, but that has happened – gone in July or June already?

R.V. Gumaste: I think more like it has started from July.

Bharat Sheth: Okay. So additional INR4 crores kind of a benefit can happen...

R.V. Gumaste: In the power cost. Yes.

Bharat Sheth: Yes. And sir, I mean, how much saving will be because of converting coal to coke also which we are getting done through outside?

R.V. Gumaste: See, typically, we take a benefit of like conversion cost benefit of INR1,500 per ton as a benefit when we do it ourself with our own capex. But it's a ultimately complex situation, coal, coke, pig iron price. So now it's part of our process. We have to see what EBITDA contribution margin, we are able to generate with Coke Oven. So there are no separate baskets now having commissioned everything.

Bharat Sheth: Fair, sir. Sir, and second thing, sir, this pulverization happening in this debottlenecking? So we were talking of reaching the 7 lakh hot metal somewhere in '24. Is that still around there?

R.V. Gumaste: '24, '25. I think we will be updating the 2 blast furnaces with pulverized coal injection with both the blast furnaces upgraded. And in my view that should give us all put together very close to more than 7 lakh metric ton if possible, yes.

Bharat Sheth: And how much of that we have to convert back to pig iron?

R.V. Gumaste: . See 2 important things which will happen. Around it becomes slump 3% to 3.5%, it's not pig iron. And some pig iron gets consumed in our foundries in Koppal and Solapur. And with merger of ISMT in to KFIL, whatever we sell ISMT pig iron will be internal transfer. So I expect out of 7.2 lakh ton, about 1 lakh ton going for all this. Sales will be 6.2 lakh tons.

Bharat Sheth: Available for sales, correct?

R.V. Gumaste: Available for sales. You can say 6 lakh ton as available for sale until we start making steel. Once we start making steel, again, it will come down, but steel will increase.

Bharat Sheth: Sir, one more thing on this ISMT, we have really turned around it very well. And in Q1, we have already reached a 12% margin. So can you explain, I mean, what has really helped to have this kind of a jump? And how do we see full year EBITDA number for this? We were looking for, say, going to INR3,000 kind of a turnover from INR2,600 last year. So where do we stand in this?

R.V. Gumaste: No. I think most important aspect is the work what we have done in stable operation of the plant, both steel making and tube making. We have brought a stability to 14,000 tons of tube sales per month. You can say that it will amount to 170,000 kind of tube sales, I think, which has never happened in the past, never recent years. We brought this stability.

Another is we have worked and improved the yield. We have worked and improved the cost structure. Stable operations have brought down the power and fuel costs in the company. We have worked and improved the sales realization and eliminated the wastages. All wastages have been tightened and have been optimized. So this is our skill set in turning around the company. So it's not turned around with the solar power plant. It's turnaround with the efficiency improvement, productivity improvement, sales volume increase, sales realization increase

This is our typical way of working and reducing the cost of manufacturing and achieving the turnover. On top of this, now we will commission over the next 6 months, solar power plant and which we expect to give us a benefit of around INR6 crores in the power cost reduction. So that is on top of whatever has been done now.

In this year, we have also taken up debottlenecking projects in ISMT Baramati and also debottlenecking in Jejuri, which we expect that as we go to next year, we should be able to go towards from 170, we should be able to go towards 2 lakh tons of sellable tube. That would be another, you can say, 17%, 18% increase in the output.

I don't say that there won't be any headwinds. There will be challenges. But we expect to increase the output, which gives us the cost reduction as well as increased sales and increased contribution and EBITDA.

And in the meantime, we are also working, whether we can also add some wind mill in renewable energy and additional solar, again, renewable energy. Those projects, as they join our cost reduction efforts, that will support improving the EBITDA margins in steel and tube as well. These projects are also aimed not only for increasing the profit, but also to make the businesses sustainable.

we can't expect or we can't take it for granted that all big market conditions, the businesses are sustainable. It is extremely difficult to support in any industry 15% power and fuel cost. We have no choice but to bring down the power and fuel cost to 5% level as a requirement to make the business sustainable. And if the market conditions are favorable, we get the benefit of higher profitability, but it is also for sustainability of business.

Bharat Sheth: Sir, fair.

Moderator: We take the next question from the line of Manish Goyal from ThinkWise Wealth Managers.

Manish Goyal: Sir, a few questions. One on the power cost that we have been discussing. So what we see is that KFIL also at quarterly basis, the power cost seems to be on a higher side despite we have commenced the second phase of waste heat recovery. So is it purely due to increase in grid cost and we are not yet getting the full benefit of the incremental power generation?

R.V. Gumaste: No, I think you must take note that KFIL has 3 plants. One is Koppal, the other one is Hiriyur in Karnataka, both, and third one is SolapurSolapur power costs are higher, but being foundry, we consumed lot of power from the grid. That is why we we have one 11.6-megawatt solar in Solapur, but we will need another 15 to 17-megawatt solar in Solapur to mitigate the power cost. So the higher power cost mainly attributed to Solapur foundry power consumption and a little bit in Hiriyur, whereas it is quite efficient at Koppal.

Manish Goyal: Okay. So sir, so did we mention that the benefit of increase from INR6 crores to INR10 crores will happen from the month of July?

R.V. Gumaste: No, they have already started generating and the benefits have started coming from July, yes.

Manish Goyal: Okay. And we also mentioned that we'll be selling excess power to the grid. So that benefit also we have started seeing?

R.V. Gumaste: No, that is included in that 6%/

Manish Goyal: Okay. And sir, on the ISMT, as we were discussing right now, what we see is that in the Q1, the improvement at the ISMT is entirely driven by improvement in the tubes business. And that is also what we see is that the revenues have not gone up significantly, but the profits have jumped from 3% margin to 13% margin.

So you did mention that realizations have improved, cost has declined. But in terms of revenue mix, has it changed in terms of higher sales to the exports market? Because last full year, what we see is that export realization were far higher at around INR189 as compared to domestic at INR190. and also, are we selling more in exports so as to get a better profitability?

R.V. Gumaste: I have not collected all the information on my export. Yes, there is export. But more important is lower pig iron price and lower steel prices are conducive for the tube margin improvement. And consistent volume production and sales is conducive for these sustained margins and profitability for the tube business. I think that market demand being good, we are in a position to increase high realizing market sales to a better extent than sales of low realizing products or trade sales.

Manish Goyal: Okay. Okay. And so you...

Moderator:

Manish Goyal: Just last one question, On the casting side, sir, the incremental volumes of 20,000 tons what we expect and going forward also the volume increase. So how much can we probably look forward from the new programs or the new customers coming in like, say, 15% growth, 12% to 15% growth, how much can come from the organic growth, from the existing? And how much can come from the new customers?

R.V. Gumaste: I would say both are happening, but going forward, more volumes will come from the new customers, whereas auto, earthmoving equipment, all the customers are growing, I think it would be a good blend of both.

Moderator: The next question is from the line of Digant Haria from GreenEdge Wealth.

Digant Haria: My question is, sir, in the annual report, we have mentioned that our vision for 2030 that the tube volumes will be around 0.3 million or 3 lakh tons. Sir, today, we are already at a run rate of 170,000 tons, as you mentioned. So just wanted to know why is there such a low ambition on the tubes front and because that we assume is the most profitable or the highest margin product. So any thoughts here would be helpful, sir.

R.V. Gumaste: No, I think the moment if I put bigger figure, you will ask me, give me details of how you will go to that figure. So 3 lakh ton, I can tell you that this is capacity utilization, etcetera. But the moment I put 4 lakh or 5 lakh, you will ask me what acquisition, which new plant we are setting up. So we really don't have any concrete plans of acquisition or concrete plans of setting up a new tube.

What we are saying is between Baramati and Ahmednagar, it is possible to go towards 2 lakh metric tons of sales, 250,000 metric ton of sale. 3 lakh is aspirational really going out of the way to achieve the highest level of productivity. But beyond that, it definitely means bringing one more plant. Right now, we do not have any concrete plans to go beyond that. Not that we don't want to go. We definitely want to go. But currently, this is what is in the concrete plan of actions, but we will keep our options open to go beyond 3 lakh ton as well.

Digant Haria: Sure. Last question is on the alloy steel, our aspiration is 1 million tons. So what would be the tentative end market that we target when our alloy steel plant comes on stream and when we eventually reach that 1 million ton kind of a number?

R.V. Gumaste: No, ideal thing is Jejuri becoming green steel plant and rolling and selling all the steel because it has a customer base and we need to build on the market to take it to 3 lakh ton of rolled steel sales, whereas we build in 2 phases 7 lakh metric ton at Koppal, we don't have concrete plan for second 3.5 lakhs.

We just have it for the first 3.5 lakh ton. But ultimately, if we complete steel plant phase 1 and phase 2, 0.65 million to 0.7 million ton, we would rather look at rolling everything into seamless tubes, or it could be some part of it, different product could be anything, any other application. But there is a possibility to expand seamless tubes to higher levels as you ask me why only 3 lakh and why not more. That is the provision we are keeping that we should be able to expand beyond 3 lakh tons.

Moderator: The next question is from the line of Bobby Jay from Falcon.

Bobby Jay: If one looks through your annual report for the past 10, 15 years, you have been constantly doing capex and...

R.V. Gumaste: Your voice is not clear, can you be a little bit close to the mic?

Bobby Jay: Right. What I'm saying is, if you look through your 10, 15-year annual report history, you have been constantly doing capex in terms of modernizing your clients, right? What I wanted to understand was that does it give you any sort of competitive advantage over your competitors because if everyone else does the same, this just constantly increases your cost base without any increase in return on capital. So how do you see this?

R.V. Gumaste: Good question. I think it's a question to, also important to brainstorm on this. But it has given us a competitive edge because of the technology upgrade, because of the manufacturing capability upgrade in the casting field. We don't make any more ordinary castings. We make high-end castings. We make high-value castings, which gives us higher margin, higher competitive advantage. Our plants are mechanized, automated and robotized plant. So definitely, there is a competitive edge.

What is plan at the pig iron site, though it is commodity, and if you look at productivity levels and variable cost levels, I think we have brought sustainability, but there are headwinds. But I think subsequently, if you look at what we are trying to do in the steel, I think it is opening up new opportunities and return on capital, these days are much, much better than return on capital earlier period. if you look at all the financial parameters of the company have in spite of the capexes, these are very fast payback and returns on capital employed are more attractive these days than 10 years back.

Bobby Jay: Okay. I understand. A follow-up would be, how do you compare the economics of the ISMT steel tube business to your traditional pig iron and casting business? Is it much better?

R.V. Gumaste: I think it is logical extension on the forward integration side. One of the way to change is why sell more and more pig iron at INR45,000 per ton, why not sell tube at 150,000 tons. From pig iron, we make steel booms and steel boom goes to Baramati and then we roll it to seamless tubes and then it gets further value added.

I think it is a forward integration logical product upgrade and even large steel at Jejuri making it green steel, making use of more the renewable energy. I think it's the future, and we can make very, very fine quality steel. I think all this really is a good combination. We are going to redefine the business itself, not just turnaround, but redefine the quality of the business, the quality of the product and growth prospects coming up in that, I think it's going to be quite exciting for us to take that. When we say tube, I don't have to do only seamless tube, we can do spun pipes, we can do welded tubes, we can do many tubes.

So I think it's opening up the market for KFIL. I think our opportunities get increased. I don't have to be bogged down only with pig iron and casting. Yes, casting is interesting field, it's growing, and we are committed to that. But pig iron, I don't think I will sell 1 million ton pig iron. We are saying we won't sell more than 0.5 million ton of pig iron. Because why do we sell that because there is a market. the foundries need good quality pig iron and we are committed to give them 0.5 million ton, including our own foundries and our own steel plant.

Bobby Jay: Right. From what do you said can we then surmise that more of the capex will be spent on your steel tube business versus your pig iron business going forward?

R.V. Gumaste: Yes. You are right. Steel and tube and casting continues for some more, maybe 1 or 2 foundries more, yes. But otherwise, the future -- steel and tube would be the future of KFIL.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I would now like to hand the conference over to the management for closing comments.

R.V. Gumaste: Yes, I'd like to thank all the analysts and investors on the call today. We had great interesting questions coming from all of you. Thank you so much, and look forward to meeting you in the quarter 2 conference call. Thank you very much. Back to Pallav.

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