Rathi Steel And Power Ltd.
CIN : L27109DL1971PLC005905
An ISO 9001:2015 & 14001:2015 Company
Works & Corporate Office
A-3 Industrial Area South of G.T. Road Ghaziabad 201009 India
Phone (0120) 2840346 to 51, 0120 4934034 Fax (0120) 2840352
Website www.rathisteelandpower.com Email info@rathisteelandpower.com

RSPL/SEC.DEPT/2024-25
Dated: November 22, 2024

BSE Limited
P J Towers
Dalal Street, Fort Mumbai – 400001

Scrip Code – 504903

Subject: Transcript of earning conference call for the quarter ended 30th September, 2024

Dear Sir/Madam,

Pursuant to regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, we are enclosing herewith transcript of earnings conference call held on Monday, November 18, 2024 in connection with the Un-Audited Financial Results for the quarter ended September 30, 2024.

The transcripts are also available and can be accessed on the following link:

https://youtu.be/FO3W3UIMQjw

You are requested to take the above on record and oblige.

Thanking you

Yours sincerely,
For and on behalf of
M/s Rathi Steel and Power Limited

Prem Narain Varshney
Digitally signed by Prem Narain Varshney
Date: 2024.11.22 14:22:06 +05'30'

(PREM NARAIN VARSHNEY)
Managing Director
DIN: 00012709

"Rathi Steel and Power Ltd.

Q2 and H1 FY25

Earnings Conference call"

November 18, 2024

"E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange will prevail."

Management: **Mr. Udit Rathi**
Promoter
Rathi Steel and Power Limited

Mr. Rajesh Jain
President (Finance & Corporate Affairs)
Rathi Steel and Power Limited

Moderator: Ladies and gentlemen, good day and welcome to the Rathi Steel and Power Limited Q2 and H1 FY25 Earnings Conference Call. This conference call may contain forward-looking statements about the company which are based on the beliefs, opinions and expectations of the company as on date of this call. The statements are not the guarantee of future performance and involve risks and uncertainties that are difficult to predict.

As a reminder, all participant lines will be in a 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 touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Udit Rathi, Promoter of Rathi Steel & Power Limited. Please go ahead, sir.

Udit Rathi: Good morning, everyone. I would like to wish you a very warm welcome to Rathi Steel and Power's Earnings Call for the Second Quarter and Half-Year Ended 30th September 2024. I would like to begin by expressing my gratitude to all of you for taking the time to join us today. I have with me Mr. Rajesh Jain, who is the President, Finance and Corporate Affairs. Along with Adfactors our Investor Relations team. It gives me great pleasure to address you all today as we stand on the cusp of a spectacular growth journey.

Since this is our maiden earnings call, I would like to share a brief background about the company and some recent developments before we get into the business and financial performance. Background of the company. The Rathi Group goes all the way back to the 1940s, when the group started by setting up a small rolling mill in Delhi. Through the next couple of decades, the business grew steadily under the leadership of our founder, Shri Punam Chand ji Rathi who brought six decades worth of experience in steelmaking and rolling industry.

The company Rathi Steel and Power, earlier known as Rathi Udyog Limited, was incorporated in the year 1971 and it started off its journey with a small rolling mill in the state of Uttar Pradesh, Ghaziabad. In 1973, we did our first public offer, followed by two rights issues through 1993. During this time, we adopted the TOR technology, and we were the pioneers and one of the first companies in India to be doing so.

Over the next few years, we adopted the latest technology to make TMT bars through the Thermax brand. We also started setting up our stainless-steel facility in Ghaziabad, somewhere in the year 2006-2007 and we also set up an integrated steel plant with a captive power plant in the state of Odisha around the same time. As part of our continuous endeavour to optimise our operations we have undertaken various modernisation projects, which was – our facilities were largely modernised somewhere in the year 2011-2012.

Today, I am proudly saying that we have state-of-the-art facilities to make special steels, starting from steelmaking, refining, casting and then rolling into long products spread across almost 12, 12.5 acres of land in the heart of Ghaziabad. Our product portfolio currently comprises of stainless-steel billets, stainless steel long products, which are mainly stainless-steel wire rods.

We also manufacture certain small quantities of flat products in stainless steel, along with mild steel TMT bars with several other stainless-steel products under development. Over the years, we have carved out a niche for ourselves in the market and established a leading position in the overall industry in the business that we cater to.

Today, the Rathi brand is synonymous with quality, consistency and reliability. We are proud to say that Rathi is a preferred brand, has been a preferred brand in most of infrastructure and construction projects spread across NCR. Some of our key clients have been DLF, Delhi Metro, Indian Oil, JMR Group, JP Group, amongst others.

Moreover, we have a distribution network spread mainly across North India, having several retail shops which are not owned by the company, but they are under a distribution network, which are keeping Rathi products. Now, coming to the very impressive financial turnaround that we have been able to demonstrate over the last few years, I would like to share some inputs on it. The last couple of years have been very eventful and exciting for us, having witnessed some major milestones financially as well as operationally.

Due to factors beyond the control of the company, the Odisha plant which we had set up somewhere in 2006-2007 did not perform as expected, as a result of which the accounts with the lenders of the company turned NPA. The adverse financial position was overcome with the help of support of all the stakeholders, including banks and financial institutions. By the year 2023-2024, we had managed to reduce our debt levels to zero and became absolutely debt-free.

In fact, in April 2024, post becoming debt-free, the company re-initiated banking relationships by availing need-based working capital facilities and a very small term facility from Kotak Mahindra Bank. The reduction in debt was largely carried out by selling non-core assets in the state of Odisha which is the Odisha plant I was referring to which had shut down its operations sometime in 2012. It was also possible to come down to reduce and eventually reduce and come down to the zero-debt level by making payments to the lenders and the ARCs also as well, to which the lenders had assigned the debts from cash flows of the company.

We had also successfully completed a fundraise of almost INR114 crores through a preferential allotment sometime in the month of February 2024, which also enabled us to reduce the debt and build up working capital and need-based capex plans for increasing our growth plans going forward. It is heartening to see that the resilience that the company has demonstrated has enabled us to navigate through market headwinds successfully.

Post the fundraise of INR114 crores I was referring to, the company undertook a cost optimization and modernization project in our Ghaziabad facility, which has also been completed in Q1 and Q2. This gives us enough headroom to improve our product mix and improve our product quality and product acceptance in the market. Leveraging our integrated facility, which has melting facilities as well as rolling, we now intend to optimize the product mix as well as the capacity utilization going forward.

Our endeavour will be to be a sustainable steelmaker, minimizing the carbon footprint and contribute to a cleaner and greener environment while having a very, sharp focus on cost reduction and optimization. Just a small brief on the strategies going forward. Our immediate strategy will be to increase the capacity utilization, sweat out the existing assets to the fullest, also foray into value-added stainless-steel products, which are basically downstream products, a forward integration project comprising of converting our existing product portfolio into wires and bars.

We shall also be exploring a possibility of entering into a very niche segment, which is an upcoming segment which is promoted and encouraged by the government to enter into stainless steel rebars. We will probably be the first company in the country to be launching rebars in the retail segment, amongst the first companies in the country. This will not only allow us to improvise the product mix, increase the capacity utilization, but will also enable us to create a niche for ourselves in the retail segment.

So, shifting from the existing B2B model of stainless steel, we will also have a portfolio of B2C products. I assure you that Rathi 2.0 will be a story of sustainable and inclusive growth, wherein we hope to create value for all our stakeholders. Now, I would like to hand over to Mr. Rajesh Jain. He will help you to go over the results for Q2 and the half year ended 2024.

Rajesh Jain: Hello and good morning to everyone. We reported INR121.43 crores of revenue during Q2 FY25. Approximately 4.2% year-on-year decline, but decline was mainly due to the impact of strategic plant shutdown which we had undertaken in the first quarter for modernization, which resulted in lower job work and on account of lower trading sales. Our EBITDA excluding other operating income for the quarter stands at INR5.14 crores, which was INR5.60 crores in Q2-FY24.

EBITDA margins remain flattish at 4.23 %. Better utilization of resources and higher yield was offset by a rise in employees' costs. Our PAT during this quarter is INR6.94 crores as against INR0.82 crores in the second quarter of FY24. PAT margin stood at 5.72%. This quarter PAT includes one-time gains from exceptional items. EPS for the quarter was INR0.82.

Coming to the half-year numbers, our revenue for this half-year came in at INR249.15 crores, lower by 8.8% year-on-year. This was due to lower volume since we undertook a temporary plant shutdown for a modernization project during the first quarter, which resulted in lower job work income and on account of lower trading sales. Our EBITDA excluding other income for the 6 months stands at INR11.11 crores, up by 3.4% year-on-year. EBITDA margins is 4.46 %, a growth of 53 basis points. Better utilization and operational efficiencies helped improve margins.

Our PAT during this quarter is INR9.63 crores as against INR2.62 crores in half-year FY24. PAT margin stood at 3.86 %. This half-year PAT includes one-time gains from exceptional items. EPS for the current half-year is INR1.13. This is all from our side. We can now open the floor for questions.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. The first question comes from the line of Pradeep Rawat from Yogya Capital. Please go ahead.

Pradeep Rawat: So sir what could be our revenue potential from our current facility? Right now, you said that our facility is operating at 60% utilization. So, what kind of revenue can we generate at max utilization?

Udit Rathi: So I will clarify it. So basically, our facility comprises of approximately 90,000 to 1 lakh tons of stainless steel making, which is running at about 55% to 60% and remaining 1 lakh tons of TMT bars. Due to the present market conditions, we have not been operating the TMT - we have hardly been operating the TMT bars plant or the mill for the last almost 1 year, 1.5 years. We were earlier operating it on a job-work basis.

But the focus of the company is clearly on value-added stainless steel. So, I would say a larger part, mainly almost all of the revenue currently, which is coming in, is from the stainless-steel operations. Now, obviously, that is running at, let's say, 55% to 60% and as I said that our immediate endeavour is to ramp up the capacity to an optimum level. I mean, typically, a steel plant like ours which is continuously being upgraded, modernized, I expect the capacity from a technical perspective, capacity utilization at about 90% is definitely achievable.

Now, the revenue potential will be incommensurate with the increase in capacity, but it will obviously be dependent on the overall sales realization in the market and also any change in the product mix. So, broadly, we can consider that the present revenue may, sort of, with the gradual increase in capacity, it will be incommensurate with the increase in the capacity utilization.

Pradeep Rawat: Okay. So, from just stainless-steel operations, we can achieve somewhere around INR700 crores of top-line, and the TMT bar would be additional to that?

Udit Rathi: TMT bars, we are yet to take a call because we are taking a call as to whether to utilize that infrastructure of the TMT bar to make the mild steel TMT bars or utilize that going forward to utilize the facility for making stainless steel TMT bars. So, that is being contemplated. As far as exact numbers are concerned, I mean, I would not like to give any formal guidance, but yes, we definitely aim and aspire to increase the capacity utilization to 90% odd and we are taking various measures for it, including the forward integration project that we have announced that will also not only enable us to increase the capacity utilization, it will also add – we expect definitely some additional margins also.

So, yes, as you have pointed out the figure, without giving any formal guidance with the commensurate increase, it should definitely be exceeding the number that our expectation would be to exceed the number going forward.

Pradeep Rawat: And what is the realization for stainless steel TMT bars?

Udit Rathi: These stainless-steel TMT bars currently which the government of India has brought under the quality standards, that is a particular grade which is called 400 series. So, the realization there are approximately that the present prices are in the close – in the range of around INR90,000 per ton, but this will obviously depend upon the prices being offered by other customers – sorry, the other suppliers and also the input costs, but yes they are in the range of around INR90,000 per ton currently.

Because there are other grades of stainless steel, higher grades of stainless steel which for now have not come under the quality standards specified by the government. So, we have to assume that it is – that the TMT bars will be comprising of a series called 400 series, which is realization-wise, I mean, selling price it is a lower grade of stainless steel.

Pradeep Rawat: Okay, sir. Understood. Do we need to have more capex for this like do we need to invest more into the TMT facility to convert that facility from mild steel to stainless steel?

Udit Rathi: Not anything major. We will have to obviously do some – set up some facilities for which we will be taking approvals for surface treatment because TMT bars of SS, the surface has to be sort of precipitated and cleaned and pickled. So, it's only to that extent. The rest of the things will be continuous upgradations and modernizations that we have been doing where the plant is almost ready in place to roll out the segment.

We are awaiting a few technical things to be done and then we'll be awaiting the clearances and launch it. And as I said and as we have also presented in our presentation which we have disclosed to the exchange, we not only want to be a supplier of TMT bars in the projects. Basically, right now there are various government announcements which have come up wherein they are encouraging or rather there are directions by the government to make the use of stainless-steel TMT bars mandatory along the coastal area which is more prone to basically corrosion.

They have directed NHAI to use TMT bars across all the bridges and anything which is made over water in the coastal area. That is an evolving market, but we intend not only to sort of have a presence there, but we also want to sort of launch TMT bars, stainless steel TMT bars leveraging the Rathi brand because we are a very old brand in the retail segment, particularly to start with in North India.

Pradeep Rawat: Yes, sir. Just two questions and then I will join back the queue. First, how much time would it need for our conversion of facility? And second, how much is the demand? Can you give a number that how much stainless-steel TMT bar is used in India and some of the competitors that you can name who are into stainless steel TMT?

Udit Rathi: Yes. So, I don't foresee a lot of time in the conversion of facilities. The surface treatment or the pickling facility that I was mentioning to, the plant is ready to roll TMT bars. In the first stage, we will probably outsource the surface treatment plant and then set up our own facility because setting up of our own facility may take a couple of quarters. And coming back to the second question of the demand scenario, it is an evolving product because of various bridge collapses which have happened recently.

We heard of something happening in Bihar also recently. The government along with their technical strategies are very clear that this is a much better product because it doesn't sort of corrode and they are encouraging the use of it not only by NHAI, but there were circulars floated by the railways also that they want to make the use of TMT bars in the bridges that they are building.

So, it is an evolving market. I would not be able to comment on the exact market size right now, but this is definitely an evolving market and as and when it grows it should be a reasonable size market. There are other manufacturers who are already making it and supplying to these government projects. To name a few, I mean, from what I understand, Sunflag, which is a listed company, then there is Shyam Metalics also doing it out of the recently acquired plant which they did in Indore. Jindal Stainless is also supplying and we welcome.

I mean, the more the suppliers, the more we feel the ecosystem will grow and the more inclusive this overall product will become. So, there are a handful of suppliers. There are handful of suppliers there are three, four of them or maybe, you know, five, six of them. I mean, I have just named a few which I remembered.

Pradeep Rawat: Yes, sure. Understood. Thank you. I will join back the queue.

Moderator: Thank you. The next question comes from the line of Akash Sharma, an Investor. Please go ahead.

Akash Sharma: Yes. Hi, sir. I just had a few questions. The first one is related to capacity utilization. So, what will be our current capacity utilization, and do you anticipate any capacity expansions in near term to meet the rising demand for stainless steel products?

Udit Rathi: Yes. As I just said, the capacity utilization for my stainless-steel operations currently is about 55% to 60%. This is keeping aside the TMT bar facility that we have, which we are not focusing on right now, the mild steel TMT. So, with the plant, almost all of our revenue today is coming in from stainless steel operations. We have an infrastructure in place to ramp up this capacity further at a minimal project cost. I mean, minimal would mean it's a relative number.

Minimal would mean definitely less than setting up of a new project because that is an advantage that we have with the existing infrastructure in place. We intend to first ramp up the capacity to optimum levels as soon as possible. And as in, when we see that happening, we will definitely explore the possibility of ramping up the capacity further. I mean, there is scope to ramp up the capacity further. And we will be taking those steps as and when we optimize the existing capacity levels.

Akash Sharma: Okay, sir. And, sir, what would be the maximum capacity utilization that we expect?

Udit Rathi: In a plant like ours and looking at what the industry standards, we can definitely assume a utilization level of 90%. This is, of course, from a technical perspective. But from, this will depend upon how the response of the products are in the future, but definitely 90% odd capacity utilization on average is achievable subject to market conditions. So, from a technical perspective, there is no reason of not achieving 90%.

Akash Sharma: 90% okay. So, that's, I think, a quite high number, I guess, because most of the capacities are fungible which makes maximum capacity utilization around 75% to 78% maximum. So, I just wanted to know with 90% as being our maximum capacity utilization targets, are our machines not fungible?

Udit Rathi: No, that's what I said. Now, we have been time and again upgrading our facilities. So, achieving from a technical perspective 90% is not a concern, but yes it will depend upon how the market response is overall from a sales angle. And in order to sort of achieve that, we are taking steps to diversify or increase the product portfolio a bit and also foray into downstream production. I'm not saying 90% is immediately achievable, but definitely the plan is in shape to achieve it.

I mean, I don't see a concern there, because a lot of our facilities, we recently undertook a modernization project, and we keep doing that. So, I don't think from a technical perspective that's a problem.

Akash Sharma: Okay, sir. Sir my next question is regarding modernization only. So, with our recent modernization and cost optimization initiatives that we have done to reduce our power consumption and emission, would you share more about your sustainability roadmap and are there any additional green projects or carbon footprint targets that we are aiming for?

Udit Rathi: Yes, sure. So, basically, we did two kinds of projects recently. One was a modernization project, as I said because our clients because in the recent since, as I explained in my initial remark, the company has gone through some financial stress over the last few years, over the last few years, largely because of the integrated plant at Odisha which didn't do well because of various external factors.

We could not really upgrade the facilities here to the extent we would have liked. We carried out a modernization project largely to improve our product mix and to improve our product acceptance and quality. So, that has been completed. That does not result in any significant cost savings. I'm talking about the modernization project. Alongside, we did a cost optimization project, which we have been the first company in the stainless-steel wire rod space in India.

And probably, I can't think of, I could not sort of find out a lot of companies globally also. We probably - we're definitely the first in India and the very few globally to be able to achieve direct charging of stainless-steel billets to wire rods, thereby eliminating an entire process of reheating the stainless-steel billets. So, what that helps us to do is that it helps us to reasonably, substantially reduce the fuel consumption because there is a fuel component which goes into reheating the billets which come into ambient temperature and to reheat it back to 1,100 degrees to make it rollable.

So, that definitely helps us, but alongside that, there are certain additional costs also like the power consumption goes up to a certain extent in order to carry out this process, but yes since as I said, we've been the first one to do it, there has been reasonable learning. And slowly, but gradually, we are increasing the level of the synchronization, the percentage of synchronization and the rate of synchronization on a month-to-month basis. And we're still learning to be able to roll all sophisticated grades of stainless steel into it.

I believe this process has been going on for carbon steel or mild steel for a long time, but it did not sort of materialize in stainless steel, because it is sort of technically a little complicated. But with the support of a technical team everything, I think we have been able to largely achieve success in it. And definitely, it enables us to save on the carbon footprint substantially, because every ton of steel which is reheated would have led into a certain specific consumption of fuel and carbon dioxide.

So, that is definitely from a sustainable angle, it has been a sort of - it has been very successful. And our fuel consumption on a month-to-month basis has been coming down.

Akash Sharma: Okay, sir. And my last question would be that we have expressed optimism about a second half and usually second half is good for steel companies. Would you elaborate on any key growth drivers that we expect to support?

Udit Rathi: The key growth drivers will be I think from - it will be the demand from the market because of the extended monsoons, the overall consumption of steel and allied products have been a little slow. If you see the numbers for all the steel majors for the 6 months and Q2, they have been soft. And considering those aspects, I think the company has done reasonably well in maintaining the operating margins.

There has been a lot of inflow of steel coming in from China and Southeast Asia. We the government, the industry lobby has been representing the matter to the government and we expect some measures to be taken, to be announced by the government also. So, drivers would be the domestic demand which would pick up post the monsoons, because typically Q3, Q4 are traditionally are better for the industry. And from the import angle if certain measures are taken by the government, that is going to help the industry a lot.

Akash Sharam: Okay, sir. Thank you so much, sir. That's all from my side.

Moderator: Thank you. The next question comes from the line of Nishant Gupta from Minerva Global Capital. Please go ahead.

Nishant Gupta: Thank you for the opportunity. I have two, three questions. One is you mentioned the realization is 90,000 per ton. Can you also quantify what is a typical gross margin per ton and the EBITDA per ton that you can get from this stainless steel?

Udit Rathi: No, the 90,000 realization was for the TMT bars, I think, is what we mentioned, but even the current sales realizations are in the range of INR90,000 to INR95,000 per ton and typically, if you look at the numbers for the last 3 years we have been able to consistently operate at an EBITDA level of range bound at about 4.5% to 5.5% to 6%. So, that is what is the broad range that we have been able to achieve.

And going forward, our endeavour will be to sort of drive the margins further by increasing the capacity utilization and improvising a product mix.

Nishant Gupta: Got it. And what would be the percentage of gross margin?

Udit Rathi: I will just hand over to Mr. Rajesh Jain.

Rajesh Jain: EBITDA margin is approximately 4.23%. The EBITDA margin.

Nishant Gupta: No sir I am talking just the cost of the raw material which you are getting?

Rajesh Jain: Cost of the raw material is approximately 75% to 80% depending on the product mix.

Nishant Gupta: 20%, 25% of a gross margin?

Rajesh Jain: Yes depending on the product mix.

Nishant Gupta: The second thing is you did a pref. issue on Feb 24. Can you tell me what was the price at which you did the Pref issue? I could not actually find it in the public domain?

Udit Rathi: Sorry, your question was to do with the price of the Preferential allotment?

Nishant Gupta: Yes, the price per share of the preferential allotment which you did this year?

Udit Rathi: Yes. So, we did that in the month of February 2024. So, we did two kinds of offers there. One was the allotment, which was done to non-promoters, which was done at a price of INR32.25 which was in line with the SEBI guidelines or the guidelines of the exchange. Then the promoters also converted some outstanding preference the redeemable preference shares to equity. That was done at a price of INR55.

Nishant Gupta: Okay 35 to 55 was the range you were saying?

Udit Rathi: Yes 32.25 was the offer to the non-promoters. And the conversion which the promoters did was done at a price of INR55.

Nishant Gupta: Got it. And now you are free of any debt obligations from the past, whatever the stress you were carrying, now you do not have any debt obligation or any security which is charged to that particular piece of debt?

Udit Rathi: No. So, we clarified. We became a zero-debt company as on March from a banking debt perspective in March 2024, but steel being a capital-intensive industry, particularly to do with working capital, we took a conscious call or a prudent call to enter back into banking relationships because of the legacy issues, it was important to rebuild the banking relationships. So, we have availed need-based facilities from Kotak Mahindra Bank, but that is largely deployed towards working capital needs. It is mainly for working capital needs, barring a very small amount of term loan.

Nishant Gupta: Okay git. Sir the next question is business-related . Since you are planning to uptake your capacity utilization from 55%, 60% to 90%. So this 30%, 35% of the growth which you are enforcing, is this happening with the market expansion or you are going to eat away market share of any existing player or like how are you planning to envisage that?

Udit Rathi: No. So, we are expecting to - our strategy is to be cost-wise very, very lean and very, very optimal so that we would like to be amongst the lowest-cost producers of stainless steel amongst the peers and the cost optimization project that we carried forward definitely gives us an edge which others won't have. And of course, they would also have certain of their own cost advantages, which is a very general thing in the industry.

But coming back to your specific question, our endeavour is to expand our product range and not sort of keep away things out of competition because that is something which is getting shares of others, they getting my share is a routine part of business. But we believe that sustainable and long-term growth will happen by sort of having increasing our product range, getting into downstream products which allows us to absorb other material in-house to a certain extent. And new products that I spoke of like stainless steel TMT bars, which we are currently not making.

So, those new avenues will open up and hopefully and definitely we are aiming and expecting that those will help us to increase our capacity utilization.

Nishant Gupta: Okay. So, basically from the value-added products which you are going to add, I mean, that is what will drive the growth forward?

Udit Rathi: Yes, value-added products and new products also.

Nishant Gupta: New products. And sir any particular risk from bigger players which you see in the market who can probably come in and kind of take over the market once you kind of develop the stainless-steel TMT etc., which you are planning or the new products which you are planning, any risk that you can foresee?

Udit Rathi: I mean, market, there is enough space for everybody, I believe. The domestic story, the domestic demand is quite good, and we expect with the infrastructure push given by the government, this is going to grow. And there will be enough space for everyone. And as long as we are able to rationalize our costs and be at par with anybody else, big or small, I think we should be in a reasonably safe zone.

Nishant Gupta: Got it. Sir one final question how is the customer mix right now? Is it entirely a B2B and do you have any contractual offtake agreements there or it's like a mix of B2B, B2C?

Udit Rathi: No, right now, for my stainless business, which is driving a majority of the revenues, it is almost entirely B2B currently. I mean, of course, B2B the end product being sold as B2B, it may be channelized through distributors and traders, but the end user is a B2B user currently, but going forward, the other products will help us enter into B2C segments also.

Nishant Gupta: Great. Sir in B2B, do you have any exclusive distributors or how is that structured around, or you are kind of supplying in every market where there is demand? How do you do that?

Udit Rathi: No. So, basically for B2B also, we do some direct sales to our larger customers. And for a relatively sort of an SME customer or a smaller customer, we prefer to channelize their sales through distributors in order to ensure that our cash flows are secured. So, yes, our distributors who are dealing with us are largely taking our material, but there is no as such exclusivity with anybody.

It's like an open market. So, I mean, there is no need also for any sort of any exclusive tie-up because we intend to sort of instead of focusing a larger part of our sales to a few customers, our intention always is to broaden our customer base so that we believe in the long run fetches a better realization.

Nishant Gupta: Okay. Sir actually, I was just referring to your slide number 18, which in the previous presentation where you mentioned the marquee clients, a lot of client names. So, what is the agreement around this like are you directly supplying to these players like GMR, JP Group, etc., or like, was this through distributors which you have kind of mentioned here?

Udit Rathi: No, those, the infrastructure clients that we mentioned in our presentation was largely consuming our because, of course, those are B2C clients. So, those were largely consuming our carbon steel, mild steel TMT bars. So those, we mentioned about certain historic projects that we have supplied as a brand Rathi, Delhi Metro, NHAI, those were basically grew with TMT parts. The stainless-steel segment is more of a B2B segment wherein our customers buy our products, and they further draw those products into final products.

Nishant Gupta: So, it's basically kind of an intermediate raw material for them, the kind of a work in progress finished goods for them, which they kind of use to manufacture the final end goods, right?

Udit Rathi: Exactly. So, it's more of an intermediate raw material to them.

Nishant Gupta: Got it. So, just one question out of curiosity since your product has a lot of applications into auto, railways, etc., why not directly go and supply to the bigger players, which kind of will provide you some sort of revenue guidance and that this much business is secured rather than going from distributor to distributor?

Udit Rathi: Yes, that was one of our reasons to sort of that is one of the reasons to behind the plan, to go into forward integration project, because those customers, like applications from auto, renewable energy, defence, those will be basically for final products. So, that is one of the reasons why we want to get into downstream value-added forward integration project by converting our material, the intermediate material to a final product first and then sort of approach these customers.

Nishant Gupta: Okay. So, that is up on the card, like eventually that will happen?

Udit Rathi: That is something which we - we have initiated plans. Our technical team is, is reviewing what is to be done and as we've also mentioned that the first phase of that, we want to do it in our existing premises itself to optimize the logistics cost, overhead costs and also the timelines will reduce, but that is what we intend to do. It is still being planned out right now, but definitely once we do that, we will be able to approach these customers who are end users.

Nishant Gupta: Got it. Fine sir. Thank you for your answer. Thank you.

Moderator: Thank you. The next question comes from the line of Rakesh Roy from Boring AMC. Please go ahead.

Rakesh Roy: Yes. Hi, morning, sir. My first question regarding as you said your first half is impacted by due to modernization and a lot of the new project is going there. So, in the second half, we can see improvement in volume and how is it, sir?

Udit Rathi: See, first half definitely, as we've explained we had to take frequent shutdowns in the plan to carry out the projects. Second half going forward we definitely aim to improve the volumes. As I've explained there is an influx of a lot of steel coming in from China, Southeast Asia. So, those measures are being sort of by the larger players in the industry they are sort of lobbying with the government or representing to the government to have some sort of a check there.

And this persists in next year also. So, we expect an overall growth also to sort of the economy also to open up going forward. And with the demand coming in we definitely hope that the utilization should be better.

Rakesh Roy: Okay, sir. So, my next question regarding, sir, you are the only player who has set up a hot charging unit. So, can you shed light on how is the benefit to the company in terms of margin expansion, and in future, how is it working, sir?

Udit Rathi: It's kind of difficult at this stage to quantify the margin expansion, but since we've sort of said before it's one of its kind, it's the first of its kind in India. So, when we did this, we did not have any sort of a base number as to what the others are achieving and as to where we can go. It being a learning curve for us as well as the main equipment suppliers for it, but the results have been encouraging.

As I said, there has been a reasonable reduction in fuel cost, but there has been some increase in the power consumption in order to sort of enable us to heat the billet in line. There is an obvious reduction in the scale loss, thereby meaning an improvement in the yield losses. So, our aim is to sort of stabilize it for every product category. So far, we've not been able to stabilize it for the higher grades.

But slowly, we are sort of trying to achieve that and going forward, I think we are pretty optimistic about it, that this will come out the way we expected. It's a learning every day, but we are improving on it.

Rakesh Roy: All right, sir. My last question regarding, sir, as you mentioned, you are launching new products like the SS rebar and other products. Can you throw light on more about the product which are going to your launch in near future, sir?

Udit Rathi: Yes, as I said, our facilities are ready to launch SS TMT bars. There are certain facilities which go in for the surface treatment for it, which is required as per the quality standards, which we will be outsourcing for the initial period. We are awaiting a few approvals to come in and then I expect the approvals to come in soon. And hopefully in the last quarter, we are expecting to launch the SS TMT bars. That is what we plan to do.

Rakesh Roy: Right. And one last question regarding, sir, how is the market scenario in terms of overall stainless steel market scenario in North India or pan-India basis? How is the demand scenario and how it is improving near term?

Udit Rathi: It is with the impetus of the government and infrastructure and with the new avenues which are opening up, let's say from the solar industry, from the defence industry, from automobile. Stainless is a growing market. I believe that stainless steel's growth with the per capita consumption that we have in the country, there is a large distance to cover. And it is replacing a lot of carbon steel applications.

So, the growth is two-way. It is a normal growth which happens because of an overall growth in consumption. And also, a growth is happening because of replacement in carbon steel applications because stainless steel, it has greater life. It has better aesthetic values. It is a more cost-optimum product if you consider the life cycle. So, I am very optimistic about the prospects of the stainless-steel growth overall. This is from a domestic size.

Of course, from a global perspective, there is an oversupply scenario in China which is dumping, but that is not much happening in the long product space that we are into. That is basically happening in the flat product space, but it does affect the overall sentiments to a certain extent and as soon as that is addressed, I think it will be another big positive for the industry.

Rakesh Roy: Okay, sir. Thank you, sir.

Moderator: Thank you. The next question comes from the line of Pradeep Rawat from Yogya Capital.. Please go ahead.

Pradeep Rawat: Yes. Thank you for the follow-up. So, we have a facility of 12 acres in Ghaziabad. So, is there any vacant land for further expansion in the future?

Udit Rathi: Yes. We have chalked out certain areas for the forward integration project that we want to do. At least the initial phases of it can be implemented there. Then the existing infrastructure that we have also allows us to have a larger stainless steel melting capacity. Our present capacity is about 90,000 tons per annum, which can further be increased by a reasonable size. I will not be able to comment on the exact potential right now, but that can also be increased further. So, yes, there is potential to do stuff here for the next couple of years going forward.

Pradeep Rawat: Yes. So, do we have land or a plot that we have?

Udit Rathi: I'm sorry?

Pradeep Rawat: So, do we have any further land beside the 12-acre facility that we have?

Udit Rathi: No. The company does not have any further land as such, as on date. But as and when we see the existing parcels being utilized, we will explore the possibility of doing anything further after that.

Pradeep Rawat: Okay. Understood. And what could be the replacement cost of our current facility?

Udit Rathi: Sir that's a little bit of a difficult question to answer because, of course, it's a historic land. It's been there since the 1970s. So, the land value around this area has appreciated quite a bit. So, to a certain replacement value of the facilities, you will have to sort of see where you want to put it up and what sort of a land price consideration that you consider. And from an angle of putting up a steel plant also, all commodity prices over years have gone up. So, it's kind of become not easy now to put up projects at a lesser cost. So, I do not have an exact number in place to sort of give an idea of the replacement cost.

Pradeep Rawat: Okay. Understood. And my last question regarding the preference share that has been converted by a promoter. So, is there any remaining preference share in the balance sheet?

Udit Rathi: Yes, that is there. If you want me to spell out the exact number of shares outstanding I can sort of help you with that. If you could give me a minute, but yes, there are certain preference shares, but those investors the holders of preference shares have agreed to sort of increase the period of redemption by 10 years. It's about 88 lakhs shares which are pending to be sort of redeemed and the maturity period has been extended till 2034 or 2035, I think.

Pradeep Rawat: Okay. Understood. Thank you. That's all from my side and wish you all the best.

Moderator: Thank you. The next question comes from the line of Nikita Mehta from SRA Investments. Please go ahead.

Nikita Mehta: Good afternoon, sir. Thank you for the opportunity. I have a couple of questions for this. First is, can you just give me like what items have been included into the exceptional items?

Udit Rathi: Yes, I'll just hand over to Mr. Rajesh Jain. He'll be able to help you with that.

Rajesh Jain: Hello. Good afternoon. There is a UP government policy regarding electricity duty exemption, for which we are eligible to. And by virtue of that, they have refunded us approximately INR4.71 crores for the electricity duty for the period pertaining to 2022-23. And this has resulted in cash improvement to us.

Nikita Mehta: Okay sir. Got it. And revenue for Q2 FY25 decreased marginally both compared to the same period last year and the previous quarter standing INR121.43 crores. So, could you give me more details on the factors that are contributing to the decline and what kind of outlook do we expect in the coming quarters?

Rajesh Jain: The main difference in decline is mainly on account of trading sales and the job work charges.

Nikita Mehta: Okay. And like, can you like give me what outlook do we expect in the coming quarters?

Udit Rathi: Yes. So, in the coming quarter, I mean, as I said, I would not like to give a formal guidance as such, but as our strive is to improve the capacity utilization if that sort of and we are aspiring and expecting that to improve. So, we're definitely going forward assuming that the sales realizations are range bound. We can expect a commensurate increase in the overall scenario, subject to improvement in capacity utilization.

Nikita Mehta: Okay sir. And from the stainless-steel products, how much EBITDA margin can be bought, or can you just give a light on that?

Udit Jain: The stainless steel, sorry?

Nikita Mehta: So, for the stainless-steel products, what EBITDA margin can be achieved? Can you just give an idea about it?

Udit Rathi: Yes. So, we have been last if you look at our numbers for the last maybe 3 years post COVID, the EBITDA margins have been range bound in the range of around 4.5% or maybe let's say 4% to 6%. This, the half year so far we have been in the range of around 4.25% average, I think, approximately. That is overall due to an overall muted scenario for the industry, due to various factors. In a better scenario, we expect the margins to be up by around 200 basis points. That is what we have historically assumed also in the recent past.

Nikita Mehta: Okay, sir. And sir my last question is what is the reason behind the reduction in the material cost, raw material cost as a percentage of sales, which has resulted in improved gross margins?

Udit Rathi: So, that is basically the input costs also have been quite soft for the industry as a whole and that is a factor of the product mix also that we are continuously trying to achieve. So as and when we are able to sort of improve the overall product mix, the raw material cost comes down. And the cost optimization project that we have implemented, that also sort of helps us to improve the overall yield. So, that also goes into that impact, but that has not impacted the industry substantially so far, because we implemented the project in Q2, but going forward, you know, as I said, it has been a learning curve for us also during the project. And as and when it is stabilized further, we expect the yields to be improving on that account.

Nikita Mehta: Okay. And for one more question, like any timeline in terms of when we will get into the downstream products, and when they'll be out in the market?

Udit Rathi: No specific timelines for now, because we will be taking steps. We are at the drawing board stage currently. We have capped our capex plans for it to the extent of INR50 crores because that's the plan so far. We want to do it in phases. We want to do it in a manner that whatever is implemented is running at a decent capacity. So, we want to be cautious of what we do, and we want to do it in a sustained manner.

Having said that, we've done the technical team has done a lot of work on it. And since we intend to put it up in the same premises, so as and when the plans are formed up, it will not take much time and we also are in the process of applying for certain approvals for it, which are required.

Nikita Mehta: Okay. Got it. That answers all my questions. Thank you so much for such brief answers and all the very best.

Udit Rathi: Thank you so much.

Moderator: Thank you. Ladies and gentlemen, this concludes our question-and-answer session. I would now hand the conference over to Mr. Udit Rathi for his closing comments.

Udit Rathi: Thank you all for participating. I thank the entire team of Rathi for their untiring efforts, hard work and dedication, which drives the company forward through various market conditions. I also thank all of you for participating in our conference call. Please do get in touch with us or our Investor Relationship team for any further queries. Thank you so much.

Moderator: Thank you. On behalf of Rathi Steel and Power Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines.