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E-Communication

MSL/SEC/SE/2023-24 **08 November 2023**

BSE Limited
25th Floor, P.J. Towers,
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National Stock Exchange of India Limited
Exchange Plaza, C-1, Block-G,
Bandra - Kurla Complex
Bandra (E), Mumbai-400051

Stock Code: 500265

Scrip Code: MAHSEAMLES

Sub.: Transcript of earnings conference call held on 02 November 2023

Dear Sir/Madam,

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find below the link of transcript of earnings conference call held on 02 November 2023.

Link to access above transcript is as under:

https://www.jindal.com/msl/pdf/Transcript-of-Conference-Call-Q2-FY24-Earnings-Call.pdf

You are requested to kindly take the same on record.

Thanking you,

Yours faithfully,
For Maharashtra Seamless Limited

RAM JI NIGAM
Digitally signed by RAM JI NIGAM
Date: 2023.11.08 12:15:31 +05'30'

Ram Ji Nigam
Company Secretary

Maharashtra Seamless Limited

Q2 FY24 Earnings Conference Call

02 November 2023

MANAGEMENT:	**MR. D P JINDAL – CHAIRMAN – MAHARASHTRA SEAMLESS LIMITED** **MR. KAUSHAL BENGANI – DEPUTY GENERAL MANAGER, INVESTOR RELATIONS & FINANCE – MAHARASHTRA SEAMLESS LIMITED**
MODERATOR:	**MR. VIKASH SINGH – PHILLIPCAPITAL (INDIA) PRIVATE LIMITED**

Moderator: Ladies and gentlemen, good day, and welcome to Maharashtra Seamless Limited Q2 FY '24 Earnings Conference Call hosted by PhillipCapital (India) Private Limited.

As a reminder, all participant lines will be on the listen-only mode and there would 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. Vikash from PhillipCapital (India) Private Limited. Thank you, and over to you, sir.

Vikash Singh: Good evening, everyone. A warm welcome to Maharashtra Seamless Limited 2Q FY '24 Earnings Call.

From the management side, we have with us Mr. D.P. Jindal – Chairman and Mr. Kaushal Bengani – Deputy General Manager, Investor Relations & Finance.

Without taking much time, I will hand over the call to Kaushal for the opening remarks. Over to you, Kaushal.

Kaushal Bengani: Thank you, Vikash. Good afternoon, and thank you, participants, for joining our Earnings Call.

Performance of Maharashtra Seamless continues to improve following our sustained efforts to improve operations. In Q2 FY '24, we improved our margins and have achieved highest quarterly EBIDTA following strong execution of orders and better marketing initiatives.

I will briefly summarize key financial indicators:

In Q2 FY '24, our revenue increased by 25% from Q1 FY '24. EBITDA increased by 36%. PAT and EPS both increased by 19%. On comparison with corresponding quarter of last year, that is Q2 FY '23, our performance in Q2 FY '24 was also better.

Against corresponding quarter of last year, our revenue increased by 9%. EBITDA increased by 34%. PAT and EPS both increased by 51%.

This performance reiterates strength in our operations despite a troubled macroeconomic environment and inflationary pressures. Our ability to control costs remains unmatched as the same is achieved without compromising production and sales.

Apart from financials, there are five key points which we would like to draw attention to:

1. Commencement of capital expenditure. We have commenced our plans for capital expenditure by acquisition of land for installation of finishing facilities at our Telangana unit. We are in the process of placing orders for relevant machinery and expect installation to be completed by August to November of 2024.

2. The second point is regarding our debt position. We became 100% gross debt free and currently have liquid investments of almost 1300 crores. I take this opportunity to communicate yet again that the liquid investments shall only be utilized for core operations and shareholder benefit. They shall not be utilized for any other activity. We have maintained this position for past two years, and there has been no change in that.

3. The third point is regarding our inclusion in Morgan Stanley Capital Invest India Domestic Small Cap Index. Apart from index rebalancing, we have received tremendous interest from foreign institutional investors who have increased their holding from

2.84% to 7.98% within a span of 6 months. Our shareholders will be positively surprised with this development.

4. The fourth point is regarding our investor engagement, which has improved significantly. We have represented the company in two investor conferences already this year, and we expect to participate in at least three more.

5. The last point and the point which has the most significance to a lot of participants is the market demand moving forward. Capital goods and infrastructure, in general, are displaying strong demand for the medium-term. This directly impacts the seamless pipes market. In FY '25, ONGC is expected to spend between Rs. 3,000 crores to Rs. 3,500 crores on procurement of pipes. Oil India, which is another large customer, is also expected to spend between Rs. 500 crores to Rs. 700 crores. The seamless pipes market remains buoyant driven by capital expenditure and spending in oil and gas sectors.

I would now like to take you through the presentation. The first few slides talk about our capacities and about the financial highlights, which I have already touched upon.

Slide # 8 talks about the operational and financial performance in current quarter and corresponding quarters and half year. You will note that our performance has gone from strength to strength, and we are enthused to communicate this to you.

Regarding our EBITDA mix, our seamless pipes segment remains the largest contributor to overall EBITDA, contributing 87% out of total EBITDA of 333 crores.

The next slide talks about the ICDs and the equity and preference share investments. On the ICD front, we had committed some time ago that we will realize all of them by March 2024, and we are on track to do the same. ICDs have reduced from 78 crores in March '23 to 49 crores in September '23.

Our liquid investments have increased by 25% from March '23 to September '23. This has been on account of better execution and tax advantage. We expect to have even higher liquid investments going forward after considering capital expenditure as well.

Corporate guarantee reduction is on schedule. This corporate guarantee is expected to be fully satisfied by September 2024. There will be no cash outflow from Maharashtra Seamless on account of this legacy guarantee.

The order book on Slide 15 stands at 1,459 crores. This appears to be a reduction from the earlier order book which was communicated in July, which was at 1,725 crores. I would like to clarify that orders of around 325 crores have been confirmed and are in pipeline. The reason why they have not been included is because the purchase order is awaited.

On the sales and marketing update, we have been going from strength to strength, and we expect more orders for various products that we manufacture, and I would request shareholders to kindly go through Slides # 17 and 18 so that they have a better assessment of where the demand is originating from and how we are poised to take advantage of the same.

The last slide talks about the shareholding structure wherein we can see that promoters have increased their stake from 67.80% to 67.86%. FII and DII holding have also increased significantly, and list of marquee investors have also been given.

I would now hand over to Vikash to open the floor for questions.

Vikash Singh: Thank you, Kaushal.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Pratiksha from Aequitas Investments. Please go ahead.

Pratiksha: My first question is on the EBITDA per ton that we have for the Seamless division this quarter. So, just wanted to understand what led to the rise in EBITDA for this quarter? Is this range of EBITDA sustainable going forward?

Kaushal Bengani: EBITDA per ton this quarter was Rs. 27,495. This was on account of strong execution of our order book. The oil sector contributed significantly to this. Going forward, we expect margins to remain good as the seamless pipe market is buoyant and we are well poised.

Pratiksha: So, can we assume this to be sustainable range?

Kaushal Bengani: We can only say that margins are expected to remain good because market demand is quite good.

Pratiksha: Also, if you could tell us the execution that we did at USTPL plant in this quarter?

Kaushal Bengani: USTPL was amalgamated with Maharashtra Seamless, and it is part of Maharashtra Seamless. So, we do not provide that separately.

Pratiksha: You mentioned about an order from IOCL that is supposed to be executed, big order from IOCL. If we could elaborate on that, and whether the complete order is a part of the order book that we have right now?

Kaushal Bengani: So, I will just touch upon the previous point. Dispatches have increased by 20% from the previous quarter. Just to complete the point that our quarter-on-quarter performance has improved. Regarding the IOCL order, which we have mentioned, there were two orders which we received in September of '23 from Oil India and IOCL. Both were in the range of 100 to 125 crores, and we expect to fully complete both of these orders within current quarter, which is quarter three.

Pratiksha: And if you could elaborate about the pipeline for both seamless and ERW for the H2?

Kaushal Bengani: There are orders of around 325 crores which are in pipeline and which we have received, but it has not been included in the order book because issuance of purchase order is pending. They are from the dealer segment, export segment, and upstream segment.

Pratiksha: Dealer, export and?

Kaushal Bengani: Upstream.

Pratiksha: And just the last question. Going forward to this time, the order book mix is, the share of export has gone up. Do we expect this trend to continue going ahead as well?

Kaushal Bengani: The share of exports has not gone up because exports and other segments have been consolidated when this order book was prepared. So, since we had a significant execution of ONGC and Oil India orders, it appears that the other segment has gone up, but that has remained more or less constant. Only strong execution has taken place on ONGC and Oil India front.

Moderator: Thank you. The next question is from the line of Saket Kapoor from Kapoor Company. Please go ahead.

Saket Kapoor: So, in continuation, Kaushal ji just now you have said do we expect this execution phase to remain the same for H2 also?

D.P. Jindal: Yes, we will continue this way, and we would like to improve further.

Saket Kapoor: Lastly, sir, when we were working with our volume number for the year as a whole, we were guided to a minimum 5% growth. So, we are maintaining that 5% sales growth for the entire for FY '24 also?

D.P. Jindal: Yes, we maintain that.

Saket Kapoor: So, just to put the maths into work, sir, this last year, the volumes were evenly placed between 216 and 215 between H1 and H2, but this year because of the production loss in quarter one, we did H1 at 195. So, to meet our 5% volume growth guidance, if we do the calculation, it has to be around 130 to 135 for the remaining two quarters. Is that understanding for the dispatches correct? I am talking particularly for the Seamless segment only.

Kaushal Bengani: On the seamless front….so it will not be appropriate to split both segments. However, Seamless and ERW combined we will achieve 5% growth.

Saket Kapoor: And Kaushal, you mentioned about this, the activation of the new finishing line at Narketpally in the month of August to November, I think so, if I heard you correctly. So, there is a delay of four to five months. Can you explain the reason for the same and capital work in progress we have not spent anything. So, when exactly are we going to make the payment for the same?

D.P. Jindal: Well, actually, there were some delays in the procurement of the land. So, now the land is finalized and orders for the machinery are already placed. So, we expect everything will be completed within 2024. We will start production before December.

Saket Kapoor: And sir, land purchase, what would be the value accrued to the land purchase?

D.P. Jindal: About 13 crores or so.

Saket Kapoor: And sir, as our previous participant madam was mentioning about this sustainable EBITDA per ton, and Kaushal mentioned that it is going to be good. So, if we take into account the current texture of the current order book and the EBITDA margins that we have done for Q1, do we have the same nature profile in the order book mix that we are going to execute going ahead? Because as we do back-to-back raw material arrangement, we can outline how the profile would look like, because I think so from Q1, on a sequential quarter basis, it is up from sub 23,000 to 27,500. So, we would like to just understand the key reasons and what I have said.

D.P. Jindal: So, the picture up to now, the order books are at the good price, and the raw material prices also we are booking with the margins. Our order books are there. So, we would like to maintain the same.

Saket Kapoor: And sir, one more CAPEX about this Nagothane of 350 crores. Where are we in terms of this CAPEX money? What are the key parameters for this CAPEX? Again, we will look for new land or it is only the placing of orders for the machinery this 350 crores?

D.P. Jindal: So, in Nagothane we don't need new land. I will say in the year 2024, we will be completing all the expansion plans other than this 350. This 350 will be delayed because till now we have not taken much action here.

Kaushal Bengani: On the 350 crores expenditure.

Saket Kapoor: On the 350 crores expenditure.

D.P. Jindal: Balance all others will be completed within 2024.

Kaushal Bengani: Calendar year 2024.

Saket Kapoor: And sir, lastly on the premium threadpart, I think so earlier also Jindal Sir you have said that we are interested in JV because you are in advance stages of discussion about the same so is there any update on premium thread segment as of now for us?

D.P. Jindal: That already we are discussing and some trials in the factory is going on. So, as soon as the trials are completed, then we will enter into a joint venture.

Saket Kapoor: So, can we expect this to be completed in this financial year?

D.P. Jindal: Yes.

Saket Kapoor: And lastly, sir, on the tax advantage part post the merger, the carry forward losses have been subsumed with the profits made for the first half.

D.P. Jindal: Yes, all that is consumed in the last quarter.

Saket Kapoor: We hope for how the promoters plan to utilize the cash going ahead since now our CAPEX also is post. We will be making the major CAPEX only down the line in sometime ahead in the next year. How will the cash be utilized and what would be the dividend distribution policy? We hope that the Board comes up with a detailed coded dividend distribution policy. That would be a good idea. And also on your outlook on the buyback of shares as the valuation looks attractive provided the numbers that have been given, being done this year.

Moderator: Thank you. The next question is from the line of Vignesh Iyer from Sequent Investment. Please go ahead.

Vignesh Iyer: Sir, coming back to what you said during the commentary part of it, you said ONGC is expected to spend around 3,000 to 3,500 crores and IOCL around 500, 600 crores. So, what is the expected win rate for us considering our market share is around 50% plus?

D.P. Jindal: Certainly, we will be taking more than 50% of the business.

Vignesh Iyer: And what would be the execution timeline for this?

Kaushal Bengani: So, this expenditure is for FY '25. Execution will also be in that period.

Vignesh Iyer: Sir, we have utilized all our carry forward losses. So, what would be a steady state tax rate from here on every quarter, if you could let me know the number?

Kaushal Bengani: It will be 25%.

Moderator: Thank you. The next question is from the line of Udit Saigal, an individual investor. Please go ahead.

Udit Saigal: In seamless, we don't seem to be doing any volume growth, whereas some volume growth is coming in ERW. So, I wanted to know what the scope is for further growth. Will it come from the ERW or the seamless till our new finishing line comes up?

Kaushal Bengani: In the quarters ending June '23 and September '23, we have dispatched as much as we had dispatched in the previous corresponding period. The reason why we did not show tonnage growth in this six-month period was because of preventive maintenance taken in one of our plants. However, we have shown EBITDA growth. Going forward, once this finishing line is installed by November of 2024, we will start displaying significant tonnage growth as existing capacity of 1 lakh tons, which is currently inactive, will become activated.

Udit Saigal: Secondly, sir, I wanted to know, Mr. Jindal just clarified that there is a delay in the Nagothane project, but what exactly is the project? What do we mean by hot mill upgrade?

Kaushal Bengani: One second. I will just interrupt. There is no delay. The capital allocation plan which has been spelled out is from financial year '24 to financial year '26. We have 3 years to complete this financial expenditure. The priority for the hot mill upgrade from hot mill to PQF of 350 crores is the lowest.

Moderator: Thank you. The next question is from the line of Ankur Savaria, an individual investor. Please go ahead.

Ankur Savaria: My question is that could you throw some light on the competitors that we have in India in the Seamless division?

Kaushal Bengani: We have two competitors, Jindal Saw and ISMT.

Ankur Savaria: ISMT?

Kaushal Bengani: Yes. We are market leaders. We are pioneers of this industry. We have set up this industry in India, and we currently have a 55% market share. We have been market leaders from 1991 till today.

Ankur Savaria: Sir, my next question is that about a year back, you had commented that the promoter would like to increase their share to 75%. So, is it still on the card since there is hardly anything left with the general public?

Kaushal Bengani: Promoters have increased stake in Maharashtra Seamless over the past two years. Earlier the stake was close to 63%. The current stake is 68%. Promoter and Promoter Group have earlier committed that they will gradually increase their stake to 75%. That is still an open option.

Ankur Savaria: And my last question is, sir, in your presentation, you had mentioned about the demand in the natural gas sector in India. So, could you throw some light as to what are the opportunities we are having? And do we really see a growth coming in that rapidly?

Kaushal Bengani: Yes, we do, because as demand for piped natural gas will increase, demand for our products will also increase.

Moderator: Thank you. The next question is from the line of Radha from B&K Securities. Please go ahead.

Radha: So, one of the previous participants had asked that why the export mix is going up in the order book. So, you mentioned that because of higher execution in India. But actually, if there is higher execution in India, then it would mean that the export execution is lower. So, is there any, I mean, from the demand perspective, how is the demand India versus exports?

Kaushal Bengani: I had clarified earlier that exports and other segments have been combined together when the order book has been presented. It appears that the export and other segments have a higher composition, but that is not the case.

The reason why that is is because earlier we had larger ONGC and Oil India orders, which have been executed in previous quarter. Currently, we have orders of close to 325 crores, which have not yet been issued to us but have been confirmed, and they are not reflected in this order book.

In terms of exports, crude oil is in excess of $90. We are getting good inquiries from the export market. In the previous 6 months, exports was a small component of total sales. However, exports are expected to revive from the end of November onwards because of the crude oil situation.

Radha: Secondly, you were speaking something on the dispatches have increased by 20% from previous quarter. So, you are talking about the current quarter dispatches.

Kaushal Bengani: Yes. So, quarter one, we dispatched 90,000 tons of seamless. Quarter two, we have dispatched 1,06,000.

D.P. Jindal: This quarter also.

Kaushal Bengani: This quarter, in the third quarter also, we will dispatch more than what we have dispatched in the second quarter.

Moderator: Thank you. The next question is from the line of Amol Rao from Kitara Capital. Please go ahead.

Amol Rao: Two questions. One is on the capex front. Did I understand it correctly, with the exception of the hot mill upgrade, which is approximately 350 crores thereabouts, all other capex that is outlined by the company is underway and should complete within probably 15 to 18 months? Is that correct? So, that's 500 crores worth of capex over the next 15 to 18 months.

D.P. Jindal: Within a year, I will say.

Amol Rao: Within a year. That's excellent. Sir, we have registered a growth in dispatches, but, sir, is this slightly below our potential, I mean, in the sense that 10% to 15%, 20% more is the demand that is there in the markets, but is it that there is a shipping time difference or is it that the clients are coming into order now and that's how we are planning to ramp up our dispatches? Is my understanding correct on that front, sir? Because crude has been at a elevated level for the last almost four or five months. That's why I am asking.

Kaushal Bengani: Yes, so what you are saying is correct. However, a nuance which has to be considered is that when we manufacture large diameter orders versus a situation when we manufacture small diameter orders, although our mill is functioning 24 hours a day, we will end up with lower tonnage.

Amol Rao: Lower tonnage.

Kaushal Bengani: So, in terms of tonnage, it appears that we are lower than our potential, but the same is reflected in the EBITDA that we are able to generate, the margins that we are able to generate.

Moderator: Thank you. The next question is from the line of Vikash Singh from PhillipCapital. Please go ahead.

Vikash Singh: Sir, just wanted to understand one thing. There is a lot of talk about the US market again opening up and the tariff would be watered down. We once upon a time were very large exporters to US. So, just wanted your thought process. Are we again started to looking at that market and this could be again 20%, 25% of our total volume or we would adopt a different strategy this time?

D.P. Jindal: Certainly, we are open to US market and 6 months back also, we have exported lot of quantity to US and Canada. So, we will certainly cope up with that situation. And U.S. market is certainly opening up and robust demand will be coming.

Vikash Singh: So, given the opportunity to sell, is it still domestic market is more profitable than the export or U.S. market would be one-off where the margins would be higher? So, how to settle this?

D.P. Jindal: No, not necessarily. It will be complementary to each other. So, domestic market will also go up when the price in U.S. is higher.

Vikash Singh: Sir, my second question pertains to the new product development. A couple of quarters back we were talking about since the volumes are kind of getting plateaued, we are in the process of developing new products which would fetch higher margins. So, could you give us some more thought if we have, what we have done so far in this regard?

D.P. Jindal: Well, we are at a very initial stage to develop this green hydrogen pipes, which will be used in producing hydrogen gases. So, a lot of pipes are required there. So, special green hydrogen pipes will be there. Premium corrections, that is already there. This hydrogen pipe will be a new item.

Vikash Singh: And how big this market could be?

D.P. Jindal: That market is developing, still in the research stage. So, the type of market and other things we have to see.

Vikash Singh: Sir, just one last question. We have also indicated long back that, eventually, Maharashtra Seamless is holding one rig, and we may look to sell this rig off basically. So, any, since the oil prices are already good at a good level, so any progress on that regard or given our cash flows are very strong, so we have dropped this plan?

D.P. Jindal: No, we have not dropped, but we are looking for the right time to hive off.

Vikash Singh: So, what will we do with this cash basically? Because we are any which way earning significant free cash flow from our normal operations and don't have much avenues to invest it. So, just wanted your thought process. What will we do with this excess cash?

D.P. Jindal: First, we have a plan for these 852 crores, and then we are also open for any new opportunity in the same field of business. And certainly, we will look that our investors are also benefited from this cash.

Moderator: Thank you. The next question is from the line of Vivek, an individual investor. Please go ahead.

Vivek: I am new investor in your company. So, I just wanted to understand that apart from oil and gas, are there any other sectors where our products are sold or is it exclusively oil and gas and so our fortunes are basically linked to the oil and gas sector?

Kaushal Bengani: We manufacture Seamless and ERW pipes. Seamless pipes are used in oil and gas sector, in boiler segment, and in general engineering. Anywhere there is drilling activity, a seamless pipe is required. In the boiler segment, our pipes are required for heat exchangers. And anywhere a new factory or a plant is installed, they require seamless pipes.

The other kind of pipes that we manufacture are ERW pipes. They are used in oil segment and water segment. Pipes which are API certified are used in the oil and gas sector, and Bureau of Indian Standard certified pipes are used in the water sector.

Vivek: So, sir, as of now, how much would be the share of oil and gas sector and the other sectors put together?

Kaushal Bengani: 70% is our exposure to oil and gas sector, because our pipes are primarily used in drilling and transportation of oil and gas. 15% is the exposure to the boiler segment, and 15% is the exposure to the general engineering segment.

Vivek: And sir, with the recent pickup in capex over the last three, four quarters, are we seeing increased inquiries from the boiler and the water segments?

Kaushal Bengani: Yes, we are getting good inquiries from the boiler segment for seamless pipes and water segment for ERW pipes in addition to our existing regular inquiries from the oil and gas segment.

Vivek: So, sir, do you expect in the coming few years the share of the non-oil and gas sector to go up from about 30% to say 40%, 45%?

Kaushal Bengani: It is difficult to say, because we don't have any concrete data. The only data we have in this regard on the oil and gas sector is that ONGC is expected to spend between Rs. 3,000 to Rs. 3,500 crores in FY '25 for procurement of pipes, and Oil India is expected to spend between Rs. 500 crores to Rs. 700 crores in FY '25 for procurement of pipes.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today. I now hand the conference over to Mr. Vikash for the closing comment.

Vikash Singh: On behalf of PhillipCapital, I would like to thank Maharashtra Seamless Management for giving us the opportunity to host the call, and I would hand over the dais to Mr. Kaushal Bengani for any closing remark. Kaushal, over to you.

Kaushal Bengani: Thank you, Vikash. Thank you, shareholders, for interacting with us. We are committed in creating value for all shareholders, and we have been able to do so with your support. We will continue to work upon improving our operations and dispatches, and I will request Mr. Jindal to give his final remark and also thank him for taking time out from his schedule for today's engagement. Sir.

D.P. Jindal: Thank you, investors. Hope we will continue like this. And one point was in the last question that why oil sector is more? Because the oil sector can pay better prices, better margins. So, we are choosing the oil sector. Of course, there is a huge demand in water pipes, but the margins are thin. Thank you very much. Thanks.

Moderator: Thank you. On behalf of PhillipCapital (India) Private Limited, that concludes the conference call. Thank you for joining us, and you may now disconnect your lines.