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16th August, 2022

To

Manager, **National Stock Exchange of India Limited** Exchange Plaza, Plot No. C/1, G Block, Bandra Kurla Complex- Bandra (E), Mumbai-400051 ***NSE Symbol: HITECH***	Listing Department, **BSE Limited** Phiroze Jeejeebhoy Towers, Rotunda Building, Dalal Street, Fort Mumbai- 400001 ***Scrip Code: 543411***

Subject: Q1 FY23 Earnings Conference Call Transcript

Dear Sir,

With reference to our letter dated 08th August, 2022 regarding the intimation of Analyst/ Investor Conference Call on the Un-Audited Financial Results (Standalone and Consolidated) for the First Quarter ended 30th June, 2022. Please find enclosed herewith the transcript of the conference call being held on 10th August, 2022.

The transcript of the conference call is also made available on the Company's website viz.: www.hitechpipes.in

Kindly take the above information on record and oblige.

Thanking You

For Hi-Tech Pipes Limited

For HI-TECH PIPES LIMITED

Company Secretary

Arun Kumar

Company Secretary &

Compliance Officer

Encl: a/a

“Hi-Tech Pipes Limited Q1 FY23 Earnings Conference Call”

August 10, 2022

MANAGEMENT: **MR. ANISH BANSAL -- WHOLE-TIME DIRECTOR, HI-TECH PIPES LIMITED**
MR. R. N. MALOO – ED & GROUP CHIEF FINANCIAL OFFICER, HI-TECH PIPES LIMITED

Moderator: Good day, and welcome to the Q1 FY '23 Earnings Conference Call of Hi-Tech Pipes, hosted by PhillipCapital (India) Private Limited. As a reminder, all participant lines will be in the listen only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touch tone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Vikash Singh from PhillipCapital (India) Private Limited. Thank you, and over to you, sir.

Vikash Singh: Good evening, everyone. On behalf of PhillipCapital, I welcome you all on Hi-Tech Pipes Q1 FY '23 Earnings Call. Today, we have with us from the management side, Mr. Anish Bansal, Whole-time Director; and Mr. Narain Maloo – Chief Financial Officer. Without taking any much time, I would hand over the call to Mr. Anish Bansal for his opening remarks, and then we will follow-up with any Q&A. Over to you, sir.

Anish Bansal: Good evening, and welcome, everyone, for our Q1 FY '23 Earnings Conference Call. I'm joined on the call by Mr. R.N. Maloo – ED & Group CFO of the Company. I hope everyone has had a chance to go through our results and updated Investor Presentation uploaded on the exchange.

During this quarter, the Company is able to register a 35% year-on-year growth in the sales and 14% volume growth. This is mainly due to better capacity utilization and higher sales utilization. However, the profitability of the quarter impacted due to high price differentials between pipes manufactured from primary coils and secondary coils (Patra Coils). The reduction in steel prices due to the imposition of export duty on 22 May 2022 by the Government of India, as well as the downtrend in international prices of HR coil resulted into channel destocking and consequently also impacted our margins. We found the impact of steel price correction as short term and confident that this will definitely help in increasing our volumes in medium to long term.

Now I would like to take you through the **ongoing projects and other developments**.

The pipe mill upgradation project at Sikandrabad for production of solar torque tubes, which is completed recently and it's working well. These tubes are well accepted in the market, and we are scaling up the production.

Secondly, setting up of color-coated sheet facility of 50,000 tons per annum is at final stages of commissioning at our Sikandrabad plant which is a forward integration to our existing cold rolling and Continuous Galvanizing Line facility. This shall also increase the overall capacity utilization of existing facilities and increasing the share of value-added products. The color-coated sheets are used for roofing, wall cladding, white goods, domestic and industrial sheds, infrastructure, bus bodies, metros, railway station, door and window frames, et cetera.

Thirdly, the commissioning of large diameter pipe project of 60,000 tons per annum at Sanand, Gujarat facility is mainly to cater demand arising from water, city gas, oil distribution and construction sectors. The commissioning of the project is on full swing and trial production is expected in Q3 FY '23.

We are also committed and focused to actively improve our capacity utilization of our existing facilities and also increase the proportion of value-added products. The recent decrease in raw material prices and a narrow gap of primary steel versus secondary steel has resulted in increasing the volumes. The channel partners and dealers and distributors were earlier destocking the tubes and pipes, which are again starting buying material to build up their inventories.

We are continuously getting orders from the Jal Jivan Mission and other infrastructure projects like high-speed railways, metros, telecom and irrigation. Government CAPEX in energy, housing, infrastructure, railways, airports, agriculture, telecom and irrigation in next 4 to 5 years would surely be the big demand drivers for steel, tubes and pipes. Moreover, on private CAPEX side, sectors like automotive, capital goods, consumer durables and envisaging big CAPEX in coming years, which would further drive demand for our steel products. So, to sum it up, we at Hi-Tech remain very positive on India's structural growth going ahead. These developments are setting our stage for robust second half performance.

I will now hand over the call to Mr. R.N. Maloo, our Executive Director and Group CFO, to take you through the unaudited financial results of Q1 FY '23. Over to you.

Roop Maloo: Good evening, everyone. I will take you through the financial results of quarter 1 FY '23. Our revenue from operations for the quarter grew by 35% year-on-year basis to Rs. 517 crore as against Rs. 383 crore in Q1 FY '22. The revenue growth was primarily driven by significant increase in our sales volume with higher realizations. Our total sales volume stood at 0.70 metric tons, which is higher by 14% year-on-year basis.

Sales realization improved by 18% to Rs. 73673 per metric ton in Q1 FY '23. Our EBITDA for the quarter declined by 14% year-on-year basis to Rs. 18.4 crore as against Rs. 21.4 crore in Q1 FY '22. The EBITDA per ton for the quarter stands at Rs. 2,545 per metric ton as against Rs. 3,467 per metric ton in the last quarter. The profitability is impacted mainly because of decrease in raw material prices as stated by Anish sir. Our PAT declined by 50% to Rs. 4.48 crore as against Rs. 8.89 crore in Q1 FY '22. The decline in margin is due to higher price differential from pipe produced from secondary steel and sharp reduction leading to channel destocking. With this, we would like to open the floor for questions. Thank you.s

Moderator: We will now begin the question-and-answer session. The first question is from the line of Vikash Singh from PhillipCapital. Please go ahead.

Vikash Singh: Sir, I just want you to give some guidelines on the kind of the volume target we want to achieve and reason why we are running at so low-capacity utilization, if you can.

Anish Bansal: So, Vikash, yes, our capacity utilization in Q4 was around 65% which has fallen to 50% in Q1. This was mainly due to the destocking by the dealers and distributors. This was witnessed all across the industry as the export duty got implemented on 22nd of May, that led to a strong knee jerk reaction and coupled with the declining steel prices, especially from the Russian steel producers (they were dumping steel for first 2 to 3 months) because of the foreign exchange requirements.

So, these 2 events, they led to extreme pessimism in the market, which led to destocking. But now we are very confident that the prices have come to a quite reasonable and affordable level. The gap between the secondary producer and primary producers, also has narrowed down significantly which will help the Company to increase the utilization in Q2 and Q3. And along with this, I would also like to point out that historically, the H2 consists of almost 60% of our volumes and H1 is 40% due to several factors and monsoon. So, H2 should be significantly quite good because our color-coated facility that will also come into commercial production, which will eventually lead to the better capacity utilization of our cold rolling complex at Sikandrabad. So, all in all, despite the challenges of Q1, we are hopeful of maintaining 15% to 20% volume growth for this financial year at least.

Vikash Singh: Sorry, sir, I got disconnected. So, I heard gap between the Patra and the primary, which was narrowed down.

Anish Bansal: Yes. So, this was narrowed down and the prices have come to the reasonable and affordable level. And all the projects which were earlier stuck-up, the government projects which was stuck-up because of the high steel prices, that demand is coming back to the market. And historically also, like our H2 consists of 60% of the total annual volumes. And H1 is relatively lesser. So, having said that, we are still confident of maintaining our 15% to 20% volume growth for this financial year.

Vikash Singh: Understood, sir. And sir, what kind of volume loss we have suffered because of this destocking?

Anish Bansal: For this quarter, 15,000 tons.

Vikash Singh: So, otherwise, it would have been 85,000, 86,000 tons kind of the volume.

Anish Bansal: Yes.

Vikash Singh: And sir, my second question, pertains to our value addition, like one of your competitor APL Apollo, they have a lot of value addition things, which is going on, which also allows them to increase their blended margins. So, just wanted to understand where are we in terms of our overall value addition perspective. And where do we see ourselves in the next 2 to 3 years?

Anish Bansal: So, Vikash, yes, right now, in our product basket, the total mix of value-added product is 25% at this moment. And with the implementation of our large diameter pipes, the color-coated facility, and we are also enhancing some galvanizing capacity at Sikandrabad. So, all in all, we'll be going to a 30% share by end of this financial year.

Vikash Singh: And sir, in terms of our major competition, how confident we are in because you and APL Apollo, both are basically operators in a same kind of the business as well as in the same geographies. So, in terms of growth wise, how confident we are taking over this kind of growth. Is this growth is coming from the market size improving? Or we are also taking share from the smaller players which are unorganized?

Anish Bansal: So, Vikash, it's a mix of all these things. But with the growth also, we are also constantly facing challenges from the external factors like this duty, the reduction of international steel prices. And in some quarters, we have faced like lockdown challenges. So, all in all, like the situation is quite challenging, but even then we are hopeful of maintaining a good volume growth.

Vikash Singh: And sir, just lastly, our margins are nearly half of that of the nearest competitors. So, what are the steps you have taken in order to improve this margin? How do you see that would be our peak kind of the margins going forward?

Anish Bansal: Right now, like in last 4-5 years, we have set up the base capacities in all the plants. Now the step is towards value addition. So, we are progressing in that direction, and we are adding the coating facilities, the SKUs which has been getting higher EBITDA per ton. So, a lot of work is going on in all these areas, and we are focused in increasing our EBITDA per ton. So, this Q1 was extraordinary quarter we saw a price correction to the tune of almost Rs. 12,000 to Rs. 13,000 steel per ton, which is historic and just in a span of 1.5 months, such a steep fall is historic. So, now these markets have stabilized, and we feel the much correction has already taken place. I think another Rs. 3 to Rs. 4 is all that is left in terms of steel price correction. After this, once the prices get settled here, the demand will come back then in a full fashion.

Vikash Singh: So, any EBITDA per ton guidance which you would like to give?

Anish Bansal: We would like to maintain the previous year's EBITDA per ton. That's our target despite the Q1 challenge.

Vikash Singh: And then any words on our CAPEX plan, though I know that our capacities are much higher. So, this year, what kind of CAPEX we are doing? And to what capacity once we get to utilize, let's say, 60%, 70%, or 80% when our next phase of CAPEX cycle would start?

Anish Bansal: So, our major CAPEX has already been done for color coating and large diameter pipes at Sanand. And it is only about utilizing the same. So, both the production are expected in Q3. So, once these get streamlined, then surely it will definitely improve the top line and bottom line of the Company.

Vikash Singh: Operator, are there any questions from the participant side?

Moderator: As of now, no questions. The next question is from the line of Ronald Siyoni from Sharekhan. Please go ahead.

Ronald Siyoni: Just a few questions. So, first was on the compressed operational profitability. So, now post Q1, how have you seen in terms of operational profitability? Has it improved to a larger extent? Or still operational profitability remains under pressure until the post Q1?

R.N. Maloo: Yes, Mr. Ronald. As we explained that mainly the compressed profitability is a result of decrease in the prices and the higher price difference from the pipes manufactured, from the recycled steel that is the Patra pipes. So, these 2 factors has affected our profitability. Otherwise, from operational front, whether it is men power or it is the power or it is the other manufacturing expenses, we have been very, very cautious and we have become comparatively efficient in that part. I think I answered your question.

Ronald Siyoni: Yes. Post Q1, it has improved, you mean to say, during July and August till date, there has been some improvement is what you are trying to say.

R.N. Maloo: We have witnessed a higher demand for about 10%, 15% in the month of July and August as compared to the last quarter. There are lot of inquiries in the market. In fact, the lifting under the government schemes where we supply the goods to EPC contractors, there also we witness the lifting. And if you see that the complete pipelines are vacant at this moment. Once the market is confident about that there is not going to be further price reduction, we hope that the stability will come in 10-15 days, so lifting will improve, all these pipelines has to be filled up.

Ronald Siyoni: So, in terms of destocking, at the end of Q1, how was the channel inventory like in terms of days or month if you can share that. Before at the end of Q4, how was it at the end of Q1, how was the channel inventory in terms of days?

R.N. Maloo: Inventory of the channel partners, it is not like auto industry. It is not monitored by us. But the rough estimate is that maybe if someone was maintaining 1,000 metric tons, they have reduced it to the bare minimum level of say 500 to 600 metric tons. Those sort of reduction has happened. So, we can say 30%, 40% reduction in the inventories of the channel partners.

Ronald Siyoni: And if you can also take us in terms of gross debt numbers and how do you plan to reduce that? And also, on the working capital side.

R.N. Maloo: Our gross debt is more or less at the same level, which were there in the last financial year. So, it's around Rs. 380 crore.

Ronald Siyoni: And in terms of working capital, have you seen any stretch in that our inventories are payable. How is the working capital cycle at the end of Q1?

R.N. Maloo: Yes. There is a good program on this level that we are further able to reduce 3 days working capital, and that is basically on account of debtors. On a combined basis, 3 days reduction is there.

Moderator: Next question is from the line of Vaibhav Kapoor, an individual investor. Please go ahead.

Vaibhav Kapoor: I just wanted to know that at what capacity utilization do you envisage the next line of CAPEX to begin? Do you have some kind of a capacity utilization number in mind?

R.N. Maloo: As a policy matter and in the earlier calls also as well as in the industry, once we reach a capacity utilization of about 70%, we start thinking of expanding our capacity. Here the benefit with us is that for LDP pipe project, we have taken land more than two times. This is higher than our actual requirement. So, first of all, any CAPEX, we are thinking once we reach to a level of 70%. And second thing is that whatever CAPEX will be happening will be a marginal cost for us, means only cost of building and plant and machinery. Infrastructure is already existing at all the plants.

Vaibhav Kapoor: The other thing is if you could give some color in terms of the numbers of how the secondary, the Patra market, what was it previously and what is the current situation now in terms of the price differential. If you could give some color there?

Anish Bansal: Hi, Vaibhav. Anish this side. So, Vaibhav in the month of March and April, the spread between the Patra pipe and our organized sector fee price was in excess of Rs. 15,000 per ton. And right now, in the current month, it is around Rs. 2,000, to Rs. 3,000 per ton, which historically has been prevailing for many, many years. So, the excess differential, that has all gone a bit, which has given a major boost to our industry.

Moderator: The next question is from the line of Hetal Gada from ITI Mutual Funds. Please go ahead.

Hetal Gada: Sir, I just wanted to understand, like you mentioned that there is gap between Patra prices and primary HRP prices. So, at what gap or how much is it narrowed out, then people will start considering again the HRP prices or is that HRP way for manufacturing.

R.N. Maloo: I would like to tell you that first of all, there is quality difference, between the secondary steel and primary steel, but what happens that in EPC projects or in rural areas if these goods (Patra) are used, reasonably the difference in the range of Rs. 3,000 - 4,000 around is okay from market side, persons started to understand the quality difference. And the life of the pipe which we manufacture is not less than 25-30 years, whereas in that case, it is about 15-20 years.

Hetal Gada: So, it means that these levels will see that volumes will go back to primary side?.

R.N. Maloo: Yes. The branded price manufacturers growth had been 15% to 20% in industry, whenever the price difference has been reasonable from Patra pipes. So, that time is coming, that time has in fact come and we will see that sort of a growth.

Hetal Gada: And that you can see already in your orders and volume ramp up also?

R.N. Maloo: Yes.

Hetal Gada: Sir, secondly, I also wanted to understand, so your capacity has been expanding and your volumes have been ramping up. So, if you are Apollo, your competitor at least mentioned it, because of the sheer size that they have, they usually get discounts or rebate procuring their raw materials. So, are you also getting any benefit of that time from your suppliers?

Anish Bansal: So, regarding the procurement and the pricing of raw materials, we are confident that our raw material pricing is quite competitive and one of the lowest in the industry, considering the volumes and the relationships that we are having with all people for last many many decades.

Hetal Gada: So, to what extent, I mean, can you just quantify, is it possible?

Anish Bansal: I can't quantify this but in the market as per the market and what feedback we have from other suppliers, the pricing is like for our competitors and for us, it is quite reasonable.

Hetal Gada: And sir, regarding your plant that you have commissioned at Mumbai, how much has it ramped up? And what are your plans for that? And in future, what kind of expansions? Will there be more of Brownfield expansions or are you planning to look for a Greenfield at the end?

Anish Bansal: So, Mumbai operations from Q2 onwards, we are targeting 65% to 70% utilization from that plant for the remaining 3 quarters. And regarding expansion, like we are first focused towards achieving our 70% utilization across all the plants. So, once this happens, then we have enough room to expand on a Brownfield level.

Hetal Gada: So, whatever expansions will come it will be more towards the Brownfield side rather than the Greenfield side. Can I assume that?

Anish Bansal: Yes. Absolutely.

Hetal Gada: And by next year, can we say that Mumbai could be running at its full capacity utilization given that it is a very big market in itself?

Anish Bansal: Yes, Hetal.

Hetal Gada: Sir, just last 1 question regarding your guidance on your debt front, like how are you planning for deleveraging? Any guidance on this.

R.N. Maloo: We are very seriously working on reduction of working capital daysand increase the EBITDA per ton. Whatever CAPEX were required, we were in the growth phase up to last year. And I can say that up to this quarter, we are in the growth phase. And now onwards, there are no major CAPEX. So, whatever will be the profitability as well as whatever will be the surplus coming from reduction in current assets will be used for reduction of the debt.

Hetal Gada: But till when are you planning because any guidance can you give like what are your plans? What is your target?

R. N. Maloo: We are not giving any guidelines for this since our present capacity utilization will be increasing. But one guideline is very clear that including the growth plan, we will see a reduction in debt after a year or like that.

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

Vikash Singh: Sir, just a continuation to the former participant. So, what kind of land bank is available with us and up to what level of capacity we can go Brownfield?

Anish Bansal: So, Vikash, we have enough land available across all our plants, all our locations. And we can comfortably go up to 1 million tons within the existing land bank.

Vikash Singh: And Greenfield versus Brownfield expansion, what's the difference in the ROI basically, if I may ask?

Anish Bansal: So, the CAPEX in Greenfield is almost 2x that of Brownfield. So, ROI for the enhanced and for the incremental capacity should be somewhere around 25% to 30%.

Moderator: The next question is from the line of Ronald Siyoni from Sharekhan. Please go ahead.

Ronald Siyoni: Just one question regarding value-added products now with Q1, the prices had gone down. So, in terms of operational profitability, how this value-added products stands? You see a downward revision in EBITDA per ton for these value-added products also?

Anish Bansal: Ronald, the thing is basically, there is no reduction in EBITDA per ton. The EBITDA per ton is appearing lower because of the inventory loss that occurred in Q1. So, across all our products, whether it is like normal products or value-added products, the EBITDA per ton on the conversion rates remain the same. Decline in steel prices in the month of May and June, we have seen constant reduction in steel prices, which is impacting the profitability.

Ronald Siyoni: Okay. Sir, in terms of operational conversion profitability remains the same. So, how much the inventory loss is? Can you quantify it during Q1?

R. N. Maloo: It's a mix, actually we can't really, really quantify it. In some of the products we are selling in advance. Some of the products are sold from the stock. But a rough estimate can be in the range of about Rs. 600 to Rs. 800 per metric ton, the impact of reduction in the prices.

Ronald Siyoni: So, when this prices stabilize and say, if possibly they trade higher a little bit, then would that reverse inventory losses?

R. N. Maloo: Definitely. And when it happens, if there is a sudden reduction in the prices, So if you see in the month of May and June, there is a reduction of price about Rs. 12,000 to Rs. 13,000 per metric ton, otherwise if it is Rs. 2,000, Rs. 3,000 a month like that, then it do not affect generally our profitability.

Moderator: As there are no further questions, I now hand the conference over to Mr. Vikash Singh for closing comments. Over to you.

Vikash Singh: On behalf of PhillipCapital, I would like to thank Mr. Anish Bansal and Mr. R.N. Maloo to give us this opportunity to host their con call. And over to you, Anish, sir, for any closing comments.

Anish Bansal: Thank you so much, everyone, for sparing time to attend our earnings conference call. To sum it up, I would like to say that Q1 was a challenging one for the industry. We have seen a sharp decline in steel prices, which led to lower profitability. But having said that, the reduction in steel prices is a welcome step. This will contribute significantly towards higher volumes because of the reduction in the gap of secondary steel pipes. Also and the affordability quotient has also gone up very high. The projects which were earlier stuck, they are also coming back. So, with all these things, it is quite positive for the Company in H2 and also in the coming years. The Company is well poised to cater any kind of demand that comes from any geography or any sector. So, that is all from me. Thanks, once again.

Moderator: Thank you. Ladies and gentlemen, on behalf of PhillipCapital (India) Private Limited, that concludes this conference. We thank you all for joining us, and you may now disconnect your lines.