GODAWARI POWER & ISPAT

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REF: GPIL/NSE&BSE/2023/5143 Date: 25.05.2023

To,
BSE Limited
Phiroze Jeejeebhoy Towers,
Dalal Street,
Mumbai-400001.
Scrip Code: BSE: 532734

To,
National Stock Exchange of India Limited
Exchange Plaza, C/1, Block G,
Bandra Kurla Complex, Bandra (East),
Mumbai-400051.
Scrip Code: GPIL

Dear Sirs,

Sub: Submission of Transcript of Conference Call held on 22nd May, 2023.

This has reference to conference call held on 22nd May, 2023 to discuss the results and performance of Q4-FY23 for Analyst/Institutional Investors/Fund House/Investors etc.

Please find attached herewith the Transcript of Conference Call held on 22nd May, 2023.

The aforesaid information is also being hosted on the website of the company viz., www.godawaripowerispat.com.

Thanking you,

Yours faithfully,

For **GODAWARI POWER AND ISPAT LIMITED**

CHANDRA RAO YARRA
Digitally signed by CHANDRA RAO YARRA
Date: 2023.05.25 13:23:22 +05'30'

Y.C. RAO
COMPANY SECRETARY

Encl: As Above

“Godawari Power and Ispat Limited

Q4 FY '23 Earnings Conference Call”

May 22, 2023

MANAGEMENT: **MR. ABHISHEK AGRAWAL – EXECUTIVE DIRECTOR – GODAWARI POWER AND ISPAT LIMITED**
MR. SANJAY BOTHRA – CHIEF FINANCIAL OFFICER – GODAWARI POWER AND ISPAT LIMITED
MR. DINESH GANDHI – EXECUTIVE DIRECTOR – GODAWARI POWER AND ISPAT LIMITED

MODERATOR: **MS. SANA KAPOOR – GO INDIA ADVISORS**

Moderator: Ladies and gentlemen, good day, and welcome to Q4 and FY '23 Earnings Conference call of Godawari Power & Ispat Limited hosted by Go India Advisors. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Ms. Sana Kapoor from Go India Advisors. Thank you, and over to you.

Sana Kapoor: Thank you, Yashashri. Good afternoon, everybody, and welcome to Godawari Power & Ispat Limited Earnings Call to discuss the Q4 and FY '23 results. We have on the call Mr. Abhishek Agrawal, Executive Director, Mr. Sanjay Bothra, CFO, and Mr. Dinesh Gandhi, Executive Director.

We must remind you that the discussion on today's call may include certain forward-looking statements and must be, therefore, viewed in conjunction with the risks that the company faces. May I now request Mr. Dinesh Gandhi to take us through the company's business outlook and financial highlights, subsequent to which we will open the floor for Q&A. Thank you, and over to you, sir.

Dinesh Gandhi: Thank you, Sana. Good afternoon, everyone. Welcome to the Q4 FY '23 Full Year Earnings Call of Godawari Power & Ispat Limited. The results and earnings presentation is available on our website and the stock exchanges. I assume that you have had a chance to review it. We'll provide a conscious overview of the results, and then we can proceed to the Q&A session.

At the outset, I would like to mention that we have had a prosperous year in 2023. I'm thrilled to announce that we have reached all-time high milestone in terms of revenue, Iron Ore Extraction, Pellet Manufacturing, Sales and despite significant obstacle of 45% export duty on Pellet and other Iron and Steel product the company has achieved reasonably good financial numbers.

Before dwelling into our financial performance, I would like to give you an overview of the strategic updates, which we have made throughout the year. The company is committed to delivering favourable returns to the shareholders. As a part of this commitment, the company has initiated a buyback -- a share buyback program of INR250 crores. This involved repurchase of 50 lakh shares worth of rupees -- at the price of INR500 per share. The buyback process was successfully completed in the month of April '23.

Additionally, the Board of Directors of the company has declared a dividend of INR4 per share, that is 80% on the sales value of shares for the year FY '23 on the remaining paid-up share capital after we buyback, the dividend because it has been declared by the company and available on the stock exchanges.

The company has also announced -- in which its capex embedded in -- significantly enhancing the iron ore mining capacity and pellet plant capacity, the mining capacity of Ari Dongri mine is proposed to be around from 2.35 million to 6 million tons and a new benefication plant with the capacity of 4.5 million ton will be stable. The project timeline for completion for iron ore mine is about 18 months with an estimated capex of INR200 crores.

Moreover, the pellet capacity -- the existing pellet capacity of 2.7 million tons is proposed to be announced to 5.7 million tons by constructing additional pellet capacity of 3 million tons. This expansion is anticipated to be completed within a period of three years from the date of announcement, which is March 2023 with an estimated capex of about INR800 crores.

The company has applied to the Ministry of Environment and Forest and Climate Change for environmental approval for iron ore mine -- announcement of the iron ore mining capacity as well as the pellet plant and the process is currently on. We expect these approvals to be received within a period of six months. And after that, the actual capex will start on the project.

In June '92 long-awaited acquisition of Jagdamba Power Plant was completed on a slump sale basis with a capex of INR70 crores. During the year, the company commissioned 70 megawatts of solar thermal -- solar PV power capacity and which was -- we started commercial operation from August '22. The company is constructing additional 30 megawatts of capacity, which is expected to be completed in Q2 FY '24.

Further, I'm pleased to announce that 30 mega -- out of the 55-megawatt solar thermal -- solar power capacity of Hira Ferro Alloys, 30-megawatt has been commissioned on 29th of June, March '23, and balance capacity is expected to be commissioned in Q2 FY '23. Just to mention, the Hira Ferro capacity has been reduced from 60-megawatt to 55 megawatts on account of certain problems in the acquisition of the required land. And similarly, 25-megawatt GPIL solar power plant in Chhattisgarh, the capacity is announced to 30 megawatts where we have a sufficient land and additional requirement of power at our mines. So, the entire 155-megawatt capacity will be commissioned in the current year.

Current grid power rate, our estimated savings on the cost of power, which we are drawing from the grid, including the solar generation is close to about INR4 per unit. The PLF in solar is expected to be around 15% of the installed capacity. Some of the capex for debottlenecking capacity announcement in the steel plant are expected to be completed in the current year. The available capex to complete this project is about INR113 crores, the details of which are given in Page number nine and page number 10 of the investor presentation.

With regard to the solar, the balance capex is about INR43 crores. Overall, INR158 crores of capex is carried forward to the current financial year out of the capex initiated in FY '22 and FY '23, other than the capex for the mine expansion in the pellet plant.

The visibility of capex on the mine and the new pellet plant, the external capex will start only after the environmental approval is received. And the exact quantum of the capex to be made in the current year on these two projects will be announced once the environmental approval is received.

Coming on the operating performance side, as you are aware, captive iron ore mining provides the company with a significant competitive advantage. It is worth noting that the market price of iron ore in Q4 FY '23 stood at INR5,560 indicative price, whereas the landed cost of the captive iron ore is INR3,100. This highlights the favourable cost position enjoyed by the GPIL in captive mining operation.

On an annual basis, iron ore mining volume reached a record high, increasing 12% to 2.5 million tons as compared to 2.3 million tons in the last financial year. We also attained the highest ever production and Sales in Iron Ore Pellet with increase of 9% quarter-on-quarter and 19% year-on-year as compared to previous year. GPIL witness record breaking numbers in power generation and Galvanized Fabricated products during the year. The inputs are available in the investor presentation. While the realization of pellets saw a decline of 24% in FY '23, the realization for sponge iron, steel billet, TMT Bar, wires, etcetera, increased 6%, 14%, 9% and 12%, respectively.

Coming on the quarterly number, the iron ore mining volume in Q4 was lower by 15% Y-o-Y to 570,000 tons. As you are aware, there was a collapse of over-burdened dumps in the mine. And therefore, the iron ore production was impacted during the second half of the March '23. Now the operations at the mine have been normalized, and we expect to operate at normal levels. The iron ore pellet production increased 8% Y-o-Y and 3% quarter-on-quarter basis at 660,000 tons, Galvanized Fabricated products saw an increase of 31% and 36% Y-o-Y, quarter-on-quarter basis at 24,357 metric tons.

Iron ore pellet sales increased 13% Y-o-Y and 24% quarter-on-quarter to 573,278 metric tons. Realization in all this showed an increase compared to Q3 FY '23 pellet and Sponge iron realization increased 19% and 6% on a quarter-on-quarter basis to INR9,833 and INR33,700. And there was a drop on the annual basis in the iron ore pellet realization.

Coming on the consolidated financial performance, the EBITDA during the quarter increased 55% on quarter-on-quarter basis to INR268 crores despite lower net sales at INR1,360 crores, down 10% quarter-on-quarter and 8% Y-o-Y. EBITDA margin improved to 20% during the quarter on a Q-o-Q basis. the pace attributable to owners increased to INR170 crores, 32% quarter-on-quarter.

Coming on the annual performance side, the company active record high sales volume sales of INR5,753 crores, up 7% Y-o-Y. The company achieved a three-year CAGR revenue growth of 20% and the five-year CAGR of 18%. EBITDA for the year stood at INR1,133 crores, down 39%, majorly due to drop in realization of pellet, which was offset to some extent by the increase in volume. The EBITDA margin for FY '23 is strong at 20%, which is attributable to owner was INR793 crores.

Coming on the market outlook. Internationally, the global iron ore prices was $133 per ton CIF China in mid-March '23 following the resumption of China's economic activity. However, a substantial increase in iron ore supplied by permanent global producers and the lower-than-anticipated demand recovery in China led to subsequent correction in bringing the iron ore prices down to $108 in international market, CIF China.

The World Steel Association predicts a robust growth of 2.3% in steel demand for FY '23, followed by another 1.75% increase in FY '24 -- in calendar '24. The positive outlook bodes well for the steel demand of iron ore, and we anticipate that the prices will remain supported at the current level.

On domestic front, iron ore prices, NMDC has experienced a modest increase of INR3, 660 per ton in January to INR4,010, although the prices have recovered from the lows observed during the imposition of export duty, they still remain below the last year's level of this INR5,000 per ton. In this context, the pellet price has reached a peak of INR10,300 per ton in the second half of January '23, but has since dropped to about INR9,000 per ton.

With positive steel demand forecast, it is anticipated that the pellet prices will find a strong support at the current level. India continues to shine as the prominent global market for the steel demand, while Steel Association reflects -- predicts 7.3% growth in Indian steel demand for FY '23 following an 8.2% growth in '22.

The Indian government focused on infrastructure development accompanied by 33% rise in capital outlay in the last budget and a significant 75% increase level outlay holds great promise for the country with steel demand, which will see the iron ore pellets prices also supportive, particularly in the name of -- and also in the long steel products.

With this, we can now open the floor for question-and-answer. Thank you very much.

Moderator: Thank you very much. We have a first question from the line of Jatin Damania from Kotak. Please go ahead.

Jatin Damania: Couple of questions from my end. First, want to understand the impact of overall overburden done that has fallen on our mine. So can you help us in understanding what was the volume loss that we had witnessed during that particular period.

Abhishek Agrawal: So yes, because overburden collapse happened in the second half of March, again we lost some volume end of March, and we lost some volume in April. Put together, the total volume, I say, would be about 100,000 tons, but there was no impact on the operations side because we maintain our mine's inventory of, say, about 38 days to 45 days. So, there was no commercial impact on the plant side. But yes, on the volume side, there was a less production of say, 100,000 tons, from say, 15th March, 17th March to say about 20th April, about a 100,000 tons.

Jatin Damania: And now the operation is fully operational, right?

Abhishek Agrawal: Operation is fully normalized. And they've also taken few further steps so that such incident doesn't happen in the future.

Jatin Damania: And secondly, sir, in the last quarter, we had taken a shutdown of Sponge Iron and Billets and rounds for maintenance and the relining. Has the shutdown completed or do we still see a lower production of that?

Abhishek Agrawal: So, from 1st of April, we have resumed all the operations very normally at the peak capacity.

Jatin Damania: And sir last two questions was on the guidance. I mean you said that you'll be doing a 3.6 million ton of the pellets in FY '24, you have already touched 2.5 million tons in FY '23. So, looking at that, do we think that there is no volume growth or the EBITDA growth one can assume during FY '24, other than the contribution that can come from Solar Power?

Abhishek Agrawal: See, we have been operating all the plant at peak capacity. So, on the pellet side, we produced 2.6 million last year and we've given the same guidance because that is close to almost 100% capacity. You know, 2%, 3% here and there does not make much difference. But yes, at the current levels, we have almost reached 100% capacity. So, the further probable capacity addition will happen when we start the new project. Until then, the current guidance will be as it is for future year as well.

Jatin Damania: So, sir, if you look at and take that into consideration, you know the INR1,000 crores of the capex, which will probably start 18 months down the line, starting at the iron ore mining once you get the approval. So -- and what we have done in FY '23 in terms of the buyback and dividend. Looking at our current balance sheet and the cash flow that we'll be generating in FY '24, I mean, I guess, I'm probably, I mean, the rewarding of the shareholders or the corporate actions can we accept better corporate action from the management and in FY '24 since you don't have any use of the cash for FY '24 as a whole.

Dinesh Gandhi: See, Jatin bhai, it is like this, for FY '23, we have used the cash mainly including the buyback which we have completed, of course, the numbers are reflecting -- the capability is reflecting in the month of March, but we completed the buyback in the month of April. So, you expecting more corporate events at such a short notice seems difficult as we need funds for the working capital as well, and we have to preserve the cash for the future capex.

As I said in my opening remarks, the INR150 crores approximately capex is pending, which will be completed in the current year. And we are expecting within six-month approval -- environmental approval. So, some capex will be required to be incurred for the pellet plant as well as mines with initial advancing, etcetera, which will be in the -- I expect this to be in the Q4 of FY '24.

So, the capex could -- in the current year could be in the excess of INR300 crores to INR400 crores approximately. And dividend will continue to be there based on the dividend policy of the company. And if you take our last three years dividend payment as well as buyback, we have distributed more than 20% of our cash flow from operations -- the profit in terms of dividend and buyback.

Jatin Damania: Sir appreciate that but if you look at the INR800 crores of the annual cash flow, if you can consider it in a year and a capex of only INR400 crores, that means one can expect a good dividend. That's the only reason why asked you, sir.

Dinesh Gandhi: No, definitely the dividend will be good as we go forward in line with our policy. And you will see once we get this environmental approval and capex in the mine as well as in the pellet plant will be sizable in the next financial year. So, we'll have to carry forward some cash balance so that we can meet the requirement in the next financial year without resorting to debt raise -- raising of debt.

Moderator: Thank you. We have a next question from the line of Mitul Shah from Reliance Securities. Please go ahead.

Mitul Shah: The first question is on how has been the demand during April and May for pellets particularly, overall demand situation for pellets, if you can give more details?

Abhishek Agrawal: See, on pellet, overall industry, it's all about -- pellet being a commodity, it's all about the pricing because in India, currently, as you're aware, there is a capacity of pellet compared to the current demand of India. And of course, export plays a major big role, export to China pellet from India. So, as you're aware that the index of iron ore has come down from 130 levels to 110 and 105 levels. So of course, there is pressure.

There is pressure on the pricing as the demand side because everything is coming down, be it thermal coal, be it coking coal, be it the steel prices. So, there is pressure. But in our case, since our, I would say, 65% is on the high-grade side, which is a very niche market. So, we don't pay -- we don't face any pressure on the demand side, but we have fixed buyers who are looking for such quality pellets.

Mitul Shah: And sir, how has been the input cost side, if you can give some detail on the coal and inventory and average pricing for past quarter and for this Q1.

Abhishek Agrawal: And you're talking about for the pellets or for overall -- for the operations?

Mitul Shah: Overall, for the operation and for the coal side on the -- there was a reduction, again, then it went up now again current spot prices are much lower.

Abhishek Agrawal: See, on the thermal coal side, which we import, the price has definitely come down. It was about $150, $160 levels during the last quarter. Right now, the national index is close to $105. So that impact, you will start seeing in our balance sheet when the new coal start coming into the inventory. So, the imported coal cost going forward, we estimate should not be more than INR12,000 per ton, 13,000 per ton, which used to be about INR18,000 per ton last quarter or six months before. So that is a big change in terms of coal.

On the domestic coal side, also the price is almost crashed 50% in the last three months. So since -- of course, they supply is more, the demand is less. So overall, the raw material price has come down drastically. And on the operations side, since you are aware, most of our iron ores are captive. So, for us, the operating cost is more or less same from a quarter-on-quarter basis with minor changes depending on the fuel cost. So yes, currently, I think we can see a reduction of sales for the -- about INR2 to INR3 on the coal side when it comes to pellet.

Mitul Shah: Sir, the INR12,000 kind of price -- INR12,000 per ton would be realized in this quarter itself or going forward in Q4 onwards?

Abhishek Agrawal: Will start realizing from June onwards. So, the full impact can be seen from Q2 because you place an order a month before, then you have to place your vessel, get the coal to India, then transfer to plant. So, it's about 45 days to 60 days total process. So, the full impact you will start seeing from quarter 2. From June onwards, we will start seeing the impact. But full impact will start coming from Q2.

Mitul Shah: Okay, sir. And lastly, on the inventory side, if you can highlight because of this shutdown for some time, how is the inventory situation right now?

Abhishek Agrawal: See, since the shutdown was planned, so we ensured we didn't buy any extra raw material, especially on the coal side, because the market was falling. So, all the inventory stocks should be over in the next two or three weeks. And then the new coal will start coming. So that itself will start affecting to our price realization in terms of operating costs. So, we're not carrying any heavy inventory, in terms of iron ore, in terms of coal as well.

See iron ore, of course, the mining function was down, so the inventory is down. But on the coal side, we didn't buy any fresh coal during the March and April quarter because of the shutdown and finally new coal starts coming. So, we're not operating at an heavy inventory levels.

Moderator: Thank you. We have a next question from the line of Sumangal Nevatia from Kotak Securities. Please go ahead.

Sumangal Nevatia: Sir just a few clarifications. First, timing, which we are seeing, 18 months and 36 months for the mining and the pellets expansion. This does not include EC approval, which we're expecting in six months, right? So, this timeline kind of kicks in after the EC approval, is that the right understanding?

Dinesh Gandhi: No, no. Sumangal, this is from the date we made the original announcement about the pellet and the mining, and environmental approval has already been -- so these 18 months and 36 months we see here is including the environmental approval, not excluding the -- after receipt of the environmental approval, it could be between 18 months to 24 months.

Sumangal Nevatia: Okay, understood. So, we kind of budgeted six-odd months for the EC approval and in case there is...

Dinesh Gandhi: Nine months for EC approval.

Sumangal Nevatia: Okay. Got it. Understood. And sir, in terms of how the schedule of the capex will be, say for the pellet plant over 36 months, it's largely going to be in the last year 3 or it is evenly spread, if you can share this.

Abhishek Agrawal: So, see, on the pellet side, some amount has gone into purchase of new land and finally, once we had the approval in hand, environmental approval, so we start taking orders. So that some amount will go in as -- some of the advance. So, you can see major capex happening, I would say, in '24 and '25, on the pellets side.

Sumangal Nevatia: Understood. Okay. And I mean, since the pallet is coming later than the iron ore mine in the interim, what is your strategy? I mean, do we intend to sell iron ore in the market or maybe just build up inventory.

Abhishek Agrawal: No, we have no intention of selling the iron ore in the market, probably we will start stocking up on the inventory side. So, if mining production picks up at a desired pace, so we will start inventory in such stocking, but we'll not sell anything in the market. We have no intention of selling in the market.

Moderator: Thank you. We have a next question from the line of Vikas Singh from Phillip capital. Please go ahead.

Vikas Singh: Sir, I just want to understand, given the coal cost has been continuously declined, have we seen the kind of the increased production from the secondary segment and is that started to impact us or still some time?

Abhishek Agrawal: No, just to clarify, even when the coal costs were higher, there was no reduction in secondary production because I think the margins in secondary steel was still, I would say, quite decent. So, with the coal prices coming down, so eventually, I feel the steel prices domestically should start going down and the margins should remain healthy. So even when the coal prices were quite high, there were never reduction in the steel production on secondary side. There was not.

Vikas Singh: Understood, sir. Sir, secondly, given that we had a shutdown, we should have been carrying some of the imported coal inventory. So, have we reported any inventory losses in terms of at least the imported coal, which we use in sponge iron this quarter? And how is the cost of production is expected to move next quarter?

Abhishek Agrawal: As I already mentioned before, that -- so usually, we operate at an influx of 45 days to 60 days because we import all the thermal coal for DRI. So, when the plant was shut down, so that inventory will definitely carry over in this quarter, but we ensured we didn't make any fresh purchases. So, the new coal, which is -- will start coming in month of June. So that will take care of whatever inventory losses we incurred during probably April and May because the index is quite low. Index from $150 in March has come down to $100 in May. So that will take up -- that will cover up the inventory losses we suffered during the shutdown.

Vikas Singh: So just to clarify, we have not taken any inventory loss as of now, but using the high-cost inventory in 1Q, is that what we have just said?

Dinesh Gandhi: Bothra ji, can you highlight on this point?

Sanjay Bothra: No, we have not taken any inventory loss in FY '23.

Vikas Singh: Okay, sir. And sir, just one last question regarding our capital allocation. So given that we -- this pallet and iron ore mining thing is going to run for a longer period. But our cash inflows, like the previous participants have pointed out, would remain much higher. Just wanted to understand at what inflection point you would think of for putting money in the steel business again, given the constant capacity in steel from almost a decade now.

Dinesh Gandhi: So, see the steel side, we already announced a capex plan of 1-million-ton pig iron plant. And for that, we are awaiting the approval -- further approval for the and allocation and environmental approval, both of which are in process. And once these approvals are received, we would aim to start the work at the site. So that will be the additional substantial capex in the steel side.

Vikas Singh: Sir, that will start only next year, right, nothing this year?

Dinesh Gandhi: Yes, this will start next year. We don't expect this to start in the current year.

Moderator: Thank you. We have a next question from the line of Chirag Singhal from First Water Capital. Please go ahead.

Chirag Singhal: Just a couple of questions from my side. First, what I wanted to understand is what issues are we exactly facing in context to expanding our Sponge Iron capacity from 0.5 million to 0.6 million tons?

Abhishek Agrawal: Okay. Just to answer you that, we have already got the EC from MoEF for 5.94 against from 0.495 and we are waiting for the consent to operate from the state pollution board, which is a part of the complier without which we cannot hand the capacity. So, we have been trying to follow-up with the state government to give grant us. But for some reason and others, they are not moving ahead. So, we're still struggling, but we are confident in this financial year, we should be able to get the permission.

Chirag Singhal: So, speaking of which by the end of FY '24, we should expect this...

Abhishek Agrawal: Yes, we are hopeful. They're always saying, right, "Ummed Pe Duniya Kayam Hai". So, when we go by that, so we are hopeful this financial year, we should get the enhanced permission from state pollution board.

Chirag Singhal: And what about the billet size? So, in Billet, we are saying that will increase from 0.4 million tons to 0.5 million tons, I think earlier we said that we have plans to increase it to 0.6 million tons. So, anything on that?

Abhishek Agrawal: So, on the billet side, the work is already in progressed. We have already mentioned in the NSA presentation. So, the billet sanction will be completed in Q2 of this financial year. So currently, you're taking the capacity from 0.4 million tons to 0.5 million tons. We did mention we want to take it to 0.6 million tons, but we have revised the guidance to 0.5 million tons at the moment. And if you want to take it further from 0.5 million tons to 0.6 million tons, we will announce it again. But at the moment, the capacity is going to be 0.5 million tons and we should be -- the capex is already done, and the work should be completed in Q2 of this financial year.

Chirag Singhal: Okay. Understood. My next question was on the coal consumption costs. So, you just told us that this INR18,000 per ton coal consumption has actually gone down to INR12,000, INR13,000, which will fully start realizing from Q2 onwards? Can you help with the consumption cost in the current quarter for coal?

Abhishek Agrawal: See, so currently, with all inventories, we are carrying the spot in cost of sponge iron will be say about INR13,500 per ton to INR14,000 per ton of sponge iron, per ton of BR iron, which will eventually go down at 30% in the Q2, which will come down below INR10,000 per ton in Q2.

Chirag Singhal: And what was the corresponding number for the INR13,000 to INR14,000 in Q4?

Abhishek Agrawal: Q4 will be at the same level because the market started correcting from March onwards. And in March, it was about $150, $160 the index. It has come down to $100 levels in next -- in the last two months. So Q4 and Q1 will be on the single level. Big impact will be seen from Q2 onwards.

Chirag Singhal: Okay. So that means that in current quarter, will you be taking a hit on the NSR because the steel prices, pellet prices both have gone down, but in terms of the raw material costs, there will be hardly any change for the current quarter.

Abhishek Agrawal: You can say so, yes, there will be impact because from June onwards, you will start realizing the lower coal prices. But yes, the full impact will be in Q2, so you can consider Q4 and Q1 on the similar levels in terms of coal.

Chirag Singhal: Okay. Got it. My last question, Abhishek, was on the subsidiaries. So, if I look at the performance of the subsidiaries in the last one year, and if I look at the EBITDA of stand-alone and consol, there is hardly any contribution coming from Hira and Alok. And also, we saw that Alok didn't produce anything in the last quarter. And if I compare other Ferro Alloy companies, they are at least doing high single-digit margins on an average for the last 2, 3 quarters. So, what is your target in terms of annual EBITDA from both of these companies going forward?

Abhishek Agrawal: See, on the -- I'd say on the Ferro business, if you leave out year 2021 because it was exceptional for Ferro Alloys because the prices were as high as INR1.2 lakh to INR1.25 lakh per ton with average realization of INR7 lakhs. Ferro business, usually, you can see a margin of about 10% of your price realization and the second issue, which we faced was we were carrying a lot of inventory on the manganese ore side because the manganese ore market was on the upside. So that also has given us a big hit. But eventually, the manganese ore prices started coming down in line with the market prices. And all the old inventory is almost over, so from this quarter onwards, we can see the both the units back into profit again.

Chirag Singhal: Can you give some number in terms of what is the average annual EBITDA that we target to get from both of these companies put together, Hira and Alok.

Abhishek Agrawal: I think probably we can consider a margin of INR5,000 per tons on the entire production on average basis. Just with Hira solar power being commissioned, that will also add up to the profitability because the power cost will go down because the contribution of power in our business is almost 25% of the operating costs, so that will also help them in improving their margins.

Chirag Singhal: Okay. You said INR5,000 per ton, right? Average EBITDA for the entire year.

Abhishek Agrawal: Yes, yes, yes, yes. That is the industry standard plus or minus 10%. But yes, that should be the number that we're looking at for this financial year.

Moderator: We have a next question from the line of Siddharth Agarwal from Prudent Value Partners. Please go ahead.

Siddharth Agarwal: So, my first question is, our cost of mining ore has been inching up from roughly INR2,400 per ton in '19, '20 to roughly INR3,100 now. So where do you think is this likely to stabilize, especially as we intend to scale operations to 6 million tons. So, what would you expect this to stabilize at?

Abhishek Agrawal: So, there are 2 major components from '19-'20 to this year, where you are -- the difference is almost INR100. The first is amount of royalty because royalty is almost 20% of the IBM price. And IBM is really published 3 months later. For example, if you're sitting in May right now, so we're paying a royalty basis their February publication. And as you understand, the price market or the iron ore market has started down from March onwards. So, there will be a reduction in royalty going forward. That will be a direct savings to the company. They estimate about say INR150 to INR200 from there.

And on the transportation side, earlier diesel was about INR60, INR70. Now government has almost stabilized diesel prices between INR95 to INR100. And transportation is, of course, 1 of the biggest costs including mining cost. So, on these 2 accounts, there were primary increase in the costing. So, diesel, of course, is not in our hands. I don't see any reduction in that. But on the royalty side, as the market keeps going down, there will be a reduction in the royalty pricing. So, we estimate this year, we should be below -- we should be somewhere about INR2,850 to INR2,000 average, mining costs we would be carrying around.

Siddharth Agarwal: Okay. Abhishek, what are the total -- hello?

Dinesh Gandhi: Just I would like to add one more thing in this. As we ramp up our mining from 2.3 million tons in a rate over to about 6 million tons, I'm sure there will be a benefit of operating leverage as we go forward. There will be particularly a benefit of operating leverage as part mining cost will go down. Of course, transportation costs and royalty may not impact because of the operating leverage, but mining costs and our thing of overhead of the mine will definitely be distributed over the higher volumes. So, there will be some reduction in the cost initially when we ramp up the mining.

Siddharth Agarwal: Okay. And sir, what are our total reserves? And when do we really expect that the 6-million-ton annual production to start happening?

Dinesh Gandhi: Abhishek?

Abhishek Agrawal: I think on the reserves side, I think we've already informed everyone about the reserves. I think we have already -- until we export right now, I think we have already gave the reserves of almost about 180 million tons. And on the operations side, once we receive the approval, which we expect to happen probably in Q3 of this financial year, so from there on, you can consider 12 months. So, we can see a full mining production, I would say, end of FY '24 or starting of FY '25.

Siddharth Agarwal: So at least FY '25 end we should see closer to 6 million tons out of annual production.

Abhishek Agrawal: Yes. Along with, just to add, we are -- so we have also applied for benefication, so that capacity will also be coming in line along with the mining capacity, that both will happen parallelly.

Siddharth Agarwal: Okay. And at that capacity, that level of ore mining, assumingly the ore prices are at a similar level as of today, we would have roughly INR1,400 crores, INR1,500 crores of cash generation every year at that level of production.

Abhishek Agrawal: Yes. I think today's market price, yes, you can say that.

Moderator: Thank you. We have a next question from the line of Aman Madrecha from Augmenta Research. Please go ahead.

Aman Madrecha: Could you please highlight more on the Ferro Alloy business like how is it panning out globally and what is the scenario of the Indian Ferro Alloys manufacturer as of now?

Abhishek Agrawal: See on the Ferro Alloys side, the problem is China, of course, the biggest manufacturer of Ferro Alloy, the biggest importer of manganese ore as well. So again, the Ferro Alloy business is quite China-driven. So, at the moment, the exports from India was quite on the low side because, of course, with energy prices in Europe and the parts of the world, capacity has been out of production even on the steel side. If you see capacity in Europe was out of production, people have stopped their blast furnaces, be in Japan, be in Korea or be in Europe. So now I think energy prices have come down to normal levels.

So slowly the capacities are coming back into production from Europe and other countries. So as capacity start coming on, there will be again demand of exports from India. So eventually, there will be, again, a balance between supply and demand. So, we see the market is going to be -- and if you see the price of Silico Manganese, it has been around INR75,000 for more over the last 6 months. So, on the finish side, the prices are quite stable. And manganese ore prices have come down to almost towards the bottom, probably a reduction of 10%, 20% might be there. So, with these input prices and the finish, there will be a different margin side also going forward.

Aman Madrecha: So, we are trying to say that because energy prices stabilized and raw material stabilized, so the Ferro Alloy business would start going good?

Abhishek Agrawal: Yes, the margin should come back, yes. The margins should come back in financial year, definitely.

Aman Madrecha: Okay. Good. And could you please allocate what would be the industry capital utilization currently on the pellet side? Any idea about that because...

Abhishek Agrawal: Okay, on India -- the pellet capacity is close to about 75% to 80% on the installed capacity for India.

Aman Madrecha: What about -- and when can we expect the export side of market to pick up like are we not focusing on that right now?

Abhishek Agrawal: No, see, we are always open for exports, but eventually, we have to see the export realization, but the export was domestic. So, as we said earlier also, wherever we get better realization, we will target that market. So currently, domestic is much better than exports. So, our focus in on domestic market at the moment. But we are always open to export, we are always in discussions with our potential buyers. So as an opportunity presents, we will start exporting again. The window is always open.

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

Dinesh Gandhi: Thank you. FY '23 has been proven to be an exceptional year for our company, marked by significant strategic advancement and operational performance achievement with robust balance sheet, ambitious growth strategies and dedicated workforce, we are confident in sustaining our strong performance in years to come.

We sincerely appreciate and thanks for your presence in the conference call as we hope that we have been able to address your all questions to your satisfaction. If you have any further questions or require any additional information, please feel free to get in touch with us or contact our Investor Relations agency, Go India Advisors. Once again, thank you. Thank you all for your participation.

Abhishek Agrawal: Thank you.

Moderator: On behalf of Go India Advisors, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.