RHI MAGNESITA

RHI MAGNESITA INDIA LTD.
(Formerly Orient Refractories Ltd.)
301, 316-19, Tower B, EMAAR Digital Greens
Golf Course Extension Road, Sector 61,
Gurugram, Haryana-122011, INDIA
T +91 124 4062930
E corporate.india@rhimagnesita.com
www.rhimagnesitaindia.com

20 February 2024

To,

BSE Limited
Phiroze Jeejeebhoy Towers
Dalal Street
Mumbai – 400 001, India
BSE Scrip Code: 534076

National Stock Exchange of India Limited
Exchange Plaza, Plot No. C/1, G Block,
Bandra Kurla Complex, Bandra (East)
Mumbai – 400 051, India
NSE Symbol: RHIM

Dear Sir/ Madam,

Sub: Transcript of Conference Call - third quarter and nine months ended 31 December 2023

Pursuant to the Regulation 30 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements), Regulations, 2015, and further to our earlier intimation dated 24 January 2024, the transcript of the conference call held on 14 February 2024, for discussing the earning performance of third quarter and nine months ended 31 December 2023, is annexed herewith.

The same will also be uploaded on the Company's website at the below link:

https://www.rhimagnesitaindia.com/investors/investor-meet

Kindly take the same on record.

Thanking you,

Yours faithfully

For **RHI Magnesita India Limited**

Sanjay

Sanjay Kumar
Company Secretary
(ICSI Membership No. -17021)

RHI Magnesita India Limited
RHI MAGNESITA

RHI Magnesita India Limited
Q3 & 9M FY'24 Earnings Conference Call
February 14, 2024

Moderator: Ladies and gentlemen, good day and welcome to the RHI Magnesita India Limited Q3 and Nine Month FY24 Earnings Conference Call. This conference call may contain forward-looking statements about the company which are based on the belief, opinion and expectation of the company as on the date of this call. The statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict.

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 touchtone phone. I now hand the conference over to Mr. Parmod Sagar, Managing Director and CEO, RHI Magnesita India Limited. Thank you and over to you, sir.

Parmod Sagar: Thank you very much. Good afternoon, ladies and gentlemen. Welcome to our quarterly earnings call for the third quarter of financial year 24. Your company has navigated through that dynamic market conditions successfully during this quarter. Our year-on-year growth continues as the overall market growth across segments and the benefits of our acquisitions reflect in our performance.

Recent updates and consolidation of M&A activities. Synergies from all our recent acquisition continue to reflect in our operations, as production and shipments grew year-on-year on the back of the contribution from acquired assets. On a quarter-on-quarter basis, we undertook a strategic cut in production mainly due to deliberate tightening of our customer credit risk criteria, which led to our sequential dip in top line this quarter. Despite this, production in our Jamshedpur plant grew mainly driven by functional products. This plant proximity to key steel plants should help benefit logistics costs for us.

On blended EBITDA, the margin was adversely impacted due to investment in increasing skilled workforce and higher year till date bonus provision, which together offset the benefit from lower material cost. We continue to take initiatives to improve our operational efficiencies. As part of this, we recently announced plans to close down our Bhilai plant, which is under RHI Magnesita India Refractory Limited, this plant comprises hardly of 0.07% of our consolidated revenue. It's net worth is hardly 0.04% of our consolidated revenue. This plant is much smaller than the other plant under RHIMIRL and produces only one product which can be made at a larger scale at our Rajgangpur unit more effectively. Therefore, this move will help the cost efficiencies, economies of scales and overall consolidation. Moreover, we also announced plans to amalgamate RHIM Seven Refractory Limited into RHIMIRL. This move aims to consolidate the refractory business acquired from Dalmia Bharat Group at one place and effectively managed well under one entity. We expect this to enhance value, expand net worth, provide a competitive edge, reduce cost and streamline the corporate structure.

About production and the capacity utilization, during this quarter, we strategically reduced our overall production to 78,000 tonne from 90,000 tonne in Q2 24. It is mainly attributed to inventory reduction by 14,000 tonne of which strike at Rajgangpur for almost nine days impacted a 2300 tonne. Our overall capacity utilization shifted from 67% in quarter two to 58% in quarter three of 24. RHIM, RHIMIR, and JSP, Jamshedpur has utilization rates of 70%, 52% and 58%, respectively, this quarter compared to 88%, 59% and 48% in Q2. Going into the last quarter, we are optimistic based on our ability to cater to the market demand while optimizing the cost.

About macro view of strategy, as mentioned in the past, one of our key focus area is increasing our share, industrial and iron making and value added products through product diversification and bringing synergies from our acquisitions. We are actively taking the initiative to consolidate all our operations and improve internal efficiencies. RHI Magnesita aims to leverage its expertise, capacities, and market vision to capitalize on market opportunities. We are strategically combining our inorganic initiative to complement organic growth strategies to cater to the rising demand. The benefits of the recent acquisitions are reflected in the form of higher production and shipments as well as more diverse product portfolio. These moves position the company to cater to a wider range of end-applications.

Now, I would like to hand it over to Ms. Vijaya Gupta – our CFO to take us through the financial performance highlights. Yes, Vijaya.

Vijaya Gupta: Good afternoon, everyone. Thank you sir. In the third quarter of this fiscal when we compare them on Y-o-Y basis our consolidated results reflect a 43% revenue growth driven by substantial 58% increase in shipments. This primarily reflects the benefits from our recently acquired assets. However, our EBITDA margin experienced a 2.2% decrease to 12.8%, mainly due to 4.6% rise in employee-related expenses, and 3.1% increase in other expenses attributed to increase in shared services setup costs, legal and professional fees and travel. On a positive note, there was a 6.1% decrease in material costs, which partially offsets these impacts.

Now comparing on a quarter-to-quarter basis with the previous quarter. Our, revenue declined 6% as mentioned earlier, this was because we strategically shipped 5% less you to deliberate tightening of customer credit risk criteria. And average realization also was 1% lower due to lower interest costs. Our EBITDA margin decreased to 12.8% due to lower revenue. This was due to investment also in our workforce, led to higher employee costs, influenced by YTD bonus provisions and lower absorption of fixed costs. Moreover, we are continuously making initiatives to improve operational efficiencies.

With respect to debt, we were able to maintain our debt levels at Rs.461 crore as of December 23, which comprises mainly of external commercial borrowings of €33 million and rest is all working capital debt. We had optimally utilized cash, our commitment to sound financial management is evident in the optimal utilization of our cash reserves towards working capital and capital expenditures. As of December 23, our cash position stood at 43.1 crores. The strategic approach ensures that our financial resources are efficiently deployed, fostering stability and positioning us for sustainable growth. We have been able to maintain our cash conversion cycle at 95 days, one day improvement versus 96 days in the previous quarter. This improvement is attributed to a reduction in the inventory cycle and shorter payables cycle collectively impacting the overall working capital cycle. That is all from our side. We can now open the floor for questions.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Jonas Bhutta from Birla Mutual Funds. Please go ahead.

Jonas Bhutta: Couple of questions. Firstly, if you can quantify the sort of impact across multiple P&L line items, firstly on the volume front and the corresponding impact of that on revenue. So, what we see is, there is a negative delta of roughly 52 crores on the volume front in the bridge that you have given on page five of the presentation is that the entire impact of the curtailment of volumes to one of the clients or there is more firstly, secondly if you can quantify the impact of one offs, if the employee cost which seems to have jumped and on the interest cost, again, because of the FOREX fluctuation So, these three sort of, if you can just call those out in terms of numbers. That's my first question.

Vijaya Gupta: thanks for the question. As far as volume is concerned, this was mainly shipments were impacted due to implement of credit block our global processes and this was mainly two to three main customers, but they all are highly profitable and cash rich customers. So, there is nothing to worry about their credit worthiness and we are not seeing the impact in the current quarter that is what I want to say, but this was required to bring in discipline and improve our working capital and our cash flow that is one, which led to this drop in shipments. Then on employ cost actually, it has gone up.

Jonas Bhutta: So, ma'am the quantification is what 52 crores?

Vijaya Gupta: Yes.

Jonas Bhutta: And the sales happen, we would have been closer to 975 odd crores?

Vijaya Gupta: That's right.

Jonas Bhutta: So, volumes would still would have been flat sequentially then, there would be no growth in volumes. Had this credit block not happened, is that understanding correct?

Vijaya Gupta: Yes, that's right. And as regards employee cost 1% of revenue is because of the higher YTD provisions we had made, because we had met global bonus criteria. So, that led us to provisioning for the full year in this quarter. So, this 1% impact will not be there in the next quarter. And higher interest cost is because of revaluation of the debt, the external commercial borrowings, which we had 33 million, because the closing rate of Euro to rupee, rupee had depreciated to 92.58 there was a 22% depreciation, but now rupee has come back to normal 90 levels. So, we will see this benefit in the next quarter.

Jonas Bhutta: How much was the impact ma'am 16 crore. Would it be around eight, nine crores of Delta?

Vijaya Gupta: Yes, the delta is.

Jonas Bhutta: Or eight and a half crores of interest cost in Q2?

Vijaya Gupta: Yes, that's right.

Jonas Bhutta: Got it. Parmod sir my second question was on, DOCL, this track the nine months performance in terms of sales. We've done about 750, 760 odd crores worth of revenue and we are in line to do roughly 1000 crores of revenue this year. This is more or less sort of flattish in that sense on a Y-o-Y basis despite having some improvement in capacity utilization at least in the first two quarters of the year. What explains this sort of flattish top line is there a higher-than-expected price impact in this in DOCL. And, how should one think of FY25 volumes and revenue in just that subsidiary?

Parmod Sagar: So, again there is a combination of the two, three factors so one is, we have about nine days strike in Rajgangpur, it was unreasonable, so we stood firm, and they have to come inside unconditionally. So, it drags up to nine days and then they agreed to whatever we said. So, that was a good sign, but we lost some production and subsequently some revenue as well. Apart from this, not only this quarter, but last quarter also from DOCL two, three plants where the payments were not coming as per commitment of the customer. So, we squeezed the supplies to have a right balance of working capital, this has impacted a lot. The third one is, the business of DOCL and RHIM in SAIL plant we were having two order and now with the combined entity, we remain one company. So, in SAIL plants, it's the policy of Steel Authority of India to have two or three vendors for every order. So, earlier put together our L1 in RHI Magnesita and DOCL is L2 so we run away with 40% RHIM and 30% or 25% L2, but now with a single entity, I can get 40%. So, there is a business loss in Steel Authority of India also, which we are now looking at to add products which we were not supplying to Steel Authority of India during this year. And, in FY25, we shall be able to recover that losses.

Jonas Bhutta: Got it and quickly the last one sir. So, if you can remind us the installed capacity at RHIM standalone, Hitech and DOCL individually. And if you can reflect the capacity utilization at these three entity levels that's my last question.

Parmod Sagar: So, roughly RHIM is 180,000, 175, 180,000. And Dalmia is about 300 and Hitech is about 36, 37,000. It was 62,000 reported earlier, but we stopped some production in Jamshedpur, that is to see the scale of economies, but put together everything, roughly its about 5,37,000.

Jonas Bhutta: And the capacity utilization if you can repeat at these three entity levels separately?

Parmod Sagar: Yes, I said earlier also, that capacity utilization in RHIL plant is about 70% last quarter and DOCL 52%, Jamshedpur 58%. Earlier it was 88%, 59% and 48%. So, Jamshedpur capacity utilization has gone up by 10% whereas, in the DOCL about 7% less And also in RHIM plant. So, it was a deliberate decision to reduce our inventories.

Jonas Bhutta: But do you believe this was the last bit of it as an order there is some more inventory destocking or management still left in the system that will come in Q4 or Q1 of next year?

Parmod Sagar: I don't think this last quarter. We will not have that issue probably January, we still are in the process of controlling and Feb, March we will be back to normal process. But, I can only say one thing. We still have pressure of overdue payments from some customer, and we will be quite strict with our supplies, and it will be linked with this, irrespective of top line.

Moderator: Thank you. Next question is from the line of Rajesh Majumdar from B&K Securities. Please go ahead.

Rajesh Majumdar: I have a few questions, first one was on the top line. So, you mentioned the fact that one alarming thing actually, that because of the merger now, we are one company and will not have two entities to bid for projects. Does that actually mean going forward we will not be able to gain market share because whatever say the steel production growth is 6%, 7%, we will be able to grow only at that rate or will not be able to outperform the growth rate of the steel market because of this reason, is that a concern?

Parmod Sagar: No, Rajesh I said only Steel Authority of India, SAIL is having tender system. Earlier there were three companies participating Hitech, Dalmia and RHI Magnesita. And now we are a combined entity and at the same time, if we become L1 everywhere, we will get maximum 60% share. And if three, three companies are L1, L2, L3 we were 100%. So, this SAIL part, yes we have an impact and it will remain. So, that's what I said we are trying to mitigate the product which we were not selling in Steel Authority of India or only one party was selling for example, I will give you an example of say Jamshedpur plant or Hitech plant, it was the only supplier for ladle opening compound. So, now we are going all out to increase share of that product. So, there are similar three, four products, where only one party was there, it will not have impact we will be increasing the share but where three parties are bidding for one product there will be impact and we will try to mitigate but overall revenue of say 3800 crore for this year, there will be maybe 12%, 13% total revenue in SAIL. So, out of the 12%, 13% there will be some impact, not the overall.

Rajesh Majumdar: Okay, thanks. And sir I wanted to also ask that for Tata Steel there is Kalinganagar expansion and NINN expansion is going on, are we in a position to increase our market share there or are we getting a significant part of this expansion project other than JSW expansion which we are aware of?

Parmod Sagar: Yes, you are right.

Rajesh Majumdar: Okay, so we can get some traction from that, is what you are saying?

Parmod Sagar: Absolutely.

Rajesh Majumdar: Okay. And on this 5% less shipment, I couldn't get Vijaya ma'am correctly, is that number going to reverse this quarter or what, because we are already in the middle of this quarter, that 5% lower shipment which happened because of credit conditions, we are going to reverse this quarter or is it going to be not there at all?

Parmod Sagar: It is totally linked with the payment behavior of these customers. If the payments will come, we will not have any revenue loss and definitely ship up everything.

Rajesh Majumdar: And sir this YTD bonus provision, in which quarter was there last year similar time, was it there in the same quarter was it there in the fourth quarter, this bonus provision and was it of a similar magnitude or much lesser?

Parmod Sagar: It varies year-on-year basis, there are global KPIs which is applicable for our region for India as well. So, if we achieve those KPIs, we achieve 100% of the provisions. So, in the beginning we are considering that we are going to achieve 100% of whatever is the bonus percentage. So, if we underachieved, we have a surplus money, provision is more we are going to pay out to the employees less because we have not performed well or we have not achieve our KPIs. If we over achieve, so then there is a bonus more than 100%. So, this year, we are going to get more than 100% bonus for the employee. That's why this impact otherwise we have distributed in 12 months based on 100%.

Vijaya Gupta: That's right.

Rajesh Majumdar: Sir what is the steady state annual employee cost ma'am, if I could get a figure, like it was 120 crore before the merger, 204 crore in FY23, what is the annual steady state employee cost one should assume?

Vijaya Gupta: So, it is around 9% of revenue.

Rajesh Majumdar: 9% of revenues is 350 crores?

Vijaya Gupta: Yes.

Rajesh Majumdar: Okay, so employee cost will be annualized about 350 crores now, is that the right figure?

Vijaya Gupta: That’s right.

Moderator: Thank you. We move to the next question. The next question is from Lakshmi Narayan from Tunga Investments. Please go ahead.

Lakshmi Narayan: Couple of questions, first if I look at the top five integrated producers in India. What's the kind of sales you get from them, which include JSW in them, ArcelorMittal and Tata Steel?

Vijaya Gupta: Can you repeat your question, it's not.

Lakshmi Narayan: Number one, what percentage of your sales comes from the top five steel companies in India?

Vijaya Gupta: From the top major customers, it's 65% to 70%.

Parmod Sagar: Five or six major customers.

Lakshmi Narayan: Got it. And in that if you just demarcate between flow control and non-flow control, which is one of them is sold per tonne basis, one is not sold by heat basis. So, what is that mix, to these top five?

Vijaya Gupta: 25% roughly it is in line with previous quarters, 25% of revenue came from flow control and on a consolidated basis.

Lakshmi Narayan: I was just talking about with these top five players, which account for 65%, 70% of the revenue, what is the mix of flow control and non-flow control?

Vijaya Gupta: That's what I'm saying 25% is flow control, rest is non-flow control.

Lakshmi Narayan: Got it. I thought that you mentioned for the entire company, but I was just asking for the flavor of top clients.

Parmod Sagar: More or less the proportion is same, for bigger five customers and overall also. It is approximately 25%, 26% flow control.

Lakshmi Narayan: Got it. And you mentioned that there has been some issues in terms of labor, can you just elaborate which plant was it and which customers we couldn't serve because of that, like we chose the nearest one?

Parmod Sagar: It was DOCL plant in Rajgangpur and the customer impacted, out of these five customers, what we are talking about maybe three customers are from that bigger customers.

Lakshmi Narayan: Got it. And the next question is that, what has been the exports so, for us on a consolidated basis, what is it now and what is the plan for the next three years or so?

Parmod Sagar: As of now, it is about 9%, 9.5% of consolidated basis and the standalone is around 11-11.5%. We earlier said that we want to increase our export, but unfortunately because of this geographic and political situation outside India, we are not able to push as hard as we could like to, Ukraine and Russia war and all these sections and all. The impact is heavy. So, we are almost at the same level which we were last quarter.

Lakshmi Narayan: And for the products which you are making for export market, what proportion of that is for the RHI network is solely manufactured in India that you are the sole have the dominant export hub?

Parmod Sagar: As of now, I would say no, we are not export hub, we are supplying to many customers 100% also, but still we have various locations, various plants of flow control, they are contributing throughout the globe. So, I would not say we are still a export hub we want to be, but it will take time, but in our region we have larger region like west Asia, we have FLS contract, full line contracts, management contracts, where all these products are going from India.

Lakshmi Narayan: Got it. So, with the industry is consolidated on your customer side when the top five are actually leading the key production of steel capacity expansion in India. On the other side there is also consolidation of players in terms of RHI and the other two or three competitors. So, how this equilibrium has changed in terms of pricing for industry from a refractory point of view, whether your, things have become more competitive or it has become more rational when compared to what it was like three years earlier?

Parmod Sagar: I would say since India is the only growth market, so everybody wants to come to India or increase their production capacity in India. And, I would not hesitate to say that if the way people are expanding, if everybody keeps on expanding we will have our capacity very soon. And then it will put a lot of pressure on everybody's margins. We as industry should be very cautious when we are adding capacity.

Lakshmi Narayan: Because what I see is that, for you the margin is going down either it is because of internal reasons like employee cost, or is it also because of the fact that the other competitors is also putting the price down, is it I am trying to understand whether the competition is good competition or bad competition to have now?

Parmod Sagar: I will not say the competition is good. I would say yes, everybody is under pressure to deliver. But, I don't agree with you that our margins are going down continuously. It is abrasion only this quarter what we said earlier, we still believe we can deliver 14%, 15% on a consolidated basis.

Lakshmi Narayan: 14%, 15% EBITDA?

Vijaya Gupta: Yes.

Moderator: Thank you very much. The next question is from Riddhi Panchal from Chanakya Capital. Please go ahead.

Riddhi Panchal: Sir, I have only two questions. So, how steel company selects refectory players and what are RHI competitive strength over the other and the second question is what is the CAPEX per tonne of RHI?

Parmod Sagar: What is second question?

Riddhi Panchal: CAPEX per tonne for RHI?

Vijaya Gupta: CAPEX cost?

Riddhi Panchal: Yes, CAPEX per tonne?

Vijaya Gupta: Okay, so what we have incurred CAPEX so far, so, our CAPEX this year, So, far we have done 50 crores and of which this quarter is 20 crores.

Parmod Sagar: Earlier about criteria of selecting, whenever a new steel plant comes up we are at advantage if steel expansion goes on, because of our all convert, electric arc furnace, for RHD gasser, for ladles they prefer us over anybody else. So, they will commission their plant with RHI Magnesita products, when it comes to flow control, it is divided between us and Vesuvius, sometimes a little bit of IFGL but, when it comes to lining, converter, furnaces, ladles, RHD gasser, we are the preferred suppliers.

Moderator: Thank you. Next question is from Chetan Doshi who is an Individual Investor. Please go ahead.

Chetan Doshi: I have a couple of questions. The employee cost on standalone basis is gone up from 39 crores to 64 crores. Now, that is almost 50% of the earlier quarter what we were paying, that bonus of 1% will not increase this much. And the second question is, how much raw material we are buying from our principles. I hope it is at arm's length, but what is the amount what we spent from our principles, and this traded goods, are these trades goods also bought from our principles?

Parmod Sagar: I will touch base with this raw material path. So, we are not buying any raw material from our parent company, though we have backward integration, but it is again a matter of economies if we buy from say for example, China as product at Rs.100 and if we bring it from Europe or from Brazil it is Rs.105. So, I prefer to buy from the market if it is cheaper than our own company. So, we are not buying any product raw material from our parent company as of now, but if given a situation if something goes wrong with the geography, China, etc we have a backward integration we can bring material and we are the only company who can bring material from Europe, America and keep on catering to all our customers. When we talk about trading products, yes there are some products which is coming from parent company which we are not producing as of now, in India. We are trying to shift many products from Europe or America or from China to India, but still there are many products which are coming from parent company to India.

Vijaya Gupta: I will take this question, see coming to employee cost you said it has gone up from 40 crore on standalone basis to 65 crores. This is because Hitech has got merged in standalone and the number of employees we have around 500 people from Hitech. So, the number of employees is one and half times that from the previous year. That is one reason why the employee cost has gone up, plus the bonus provision which I have said, so this two together has led to increase.

Chetan Doshi: How much your bonus provision is there on specific because next quarter you said it will not come in the balance sheet but what is the amount?

Vijaya Gupta: So, it’s around five crores on standalone.

Chetan Doshi: And one last suggestion, in the presentation, no mention as to what benefits we have derived after taking over Hitech and Dalmia. See basically when we see the margin going down on quarter-on-quarter basis, whether it was a wise decision to take over these two companies or not because, going to the presentation we don't come across anything as to what benefit we have derived and when you intend to improve the bottom line this same thing prevails.

Parmod Sagar: We have mentioned on slide number #8, strategic progress it is not clearly mentioned in numbers of how many crores we save here and there, but we have outlined what we are doing maybe next time we will come up with some more granular information.

Chetan Doshi: Yes, because as a lay person, how as a shareholder, how do we know what benefit we are deriving after these two big takeovers which has taken place, we understand that some time is required when anything is merged into the main principle company and to get the 100% output from the new entity it takes time definitely, but we are interested in, ultimately say from second quarter, third quarter, we need to know when this fruits will be on the balance sheet.

Parmod Sagar: Next step we will come up with this information in coming days.

Moderator: Thank you. Next question is from the line of Vipul Shah from RW Equity. Please go ahead.

Vipul Shah: So, a couple of questions, to Ms. Gupta. This ECBs which are there on our books. The understanding was that, they are on a fully hedged basis. So, this quarter-on-quarter fluctuations because of the IndAS standards, this should even out over the duration of the ECBs am I correct or are these ECBs open?

Vijaya Gupta: You are absolutely correct your assumption is correct this is fully hedged thing is, the hedge rate which we have taken there was a Rs.1 gap between the hedge rate and the SAP closing rate, which we get from the group the closing rate. So, the rupee had depreciated 22% in this quarter. That is benefit of, the seven crore, 10.6 crore, what is here in December quarter we get the benefit in the next quarter.

Vipul Shah: That is, irrespective of the rate I'm saying the benefit will come over the duration of the ECB am I right?

Vijaya Gupta: That's right.

Vipul Shah: Second question was, on the last call also, I have made a suggestion on this capital structuring, where one could look at scheme of arrangement to offset the goodwill on the books with the reserves which premium, et cetera which we have, last time you mentioned, the management will consider that to make our ROCEs much more efficient. Just wanted to understand, is there any update on this or is there any thought process which has gone through?

Vijaya Gupta: We take your suggestions very seriously sir. So, we have taken a legal opinion also because, what the legal opinion says that reduction in securities premium by adjustment of goodwill will lead to a reduction in capital and this is not allowed for a solvent organization. So, we cannot go ahead that.

Vipul Shah: So, basically, the balance sheet will actually remain a little elevated till the time we find a way out of this?

Vijaya Gupta: That’s right. We cannot reduce our capital

Vipul Shah: Fair enough. One more question, which I had, for Mr. Sagar was that, sir you mentioned in your initial remarks that, the credit tightening measures which were undertaken on the customer side, that led to reduction of volume, we also mentioned that, essentially these are credit worthy customers and there is no issue as far as this receipt of any pending news is concerned.

So, my question is sir, this volume loss which has happened, and you alluded that it may not be reversed if the credit cycle doesn't, if the customers don't come in as per your credit cycle. So, has it led to gains for our competitors, has the volume shifted there or how does it work sir?

Parmod Sagar: So, I don't think the volume has shifted because, so fast they cannot do it, the products which we were supplied to them, we have annual orders. So, they have depleted their inventory in a way I would say, they were running at three months inventory, now maybe they are running at one month inventory, overall more than half month of inventory. So, at the same time, we don't want to stop any customers, their production, but it is a two way traffic if customer is obstructing us to deliver quality product on time delivery, we also expect money should come otherwise, this top line, bottom line is just a number I will show 50% EBITDA and average is in my inventory and overdue payments, then economic profit is zero.

Vipul Shah: Fully agree sir, fully understand, ultimately the cash generation has to be there. So, the takeaway sir is that, since you alluded that the customers are sort of using up their inventory, as and when they return to our credit cycle and their old levels of inventory, there could be a bump up in the coming quarters?

Parmod Sagar: Yes, it is possible if they pay us at handsomely, we will supply.

Moderator: Thank you. The next question is from the line of Harsh from Marcellus. Please go ahead.

Harsh: For the quarter, I understand that the top line was impacted because we tightening our credit norms. However, even if we remove that, the quarter-on-quarter sales growth or volume growth is sort of flat from what Vijaya ma'am said. However our customers like JSW and Tata Steel, they have reported like 5%, 6%, quarter-on-quarter production growth at their plants. So, I am not able to reconcile that why did we also not see such order per growth rate number sir?

Parmod Sagar: One is, if you add these credit blocks, then we are at the same level or a little 1% more than that, about 4%, 5%. But if you take out only Jindal's and Tata's, which is about 40 million tonne of steel, out of 130 million tonne, so it is 5% of their growth is actually 1.5% growth in an overall scenario. So, there some stating the reason you need to take some time looking at the pricing, you are looking at credits and all those things, but I can reiterate that we will be growing at least with the market, if not more than, internally we believe we can grow better than market because all these new plants as I said in my earlier comment they will go with us for all critical items.

Harsh: Have you lost some share of business with Tata or JSW?

Parmod Sagar: Pardon.

Harsh: Have we lost any share of business with Tata or JSW as well?

Parmod Sagar: No, we have not lost any business, we are their preferred partner.

Harsh: And could you repeat the calculation for SAIL, how much of the quantum has been lost because of the merger?

Parmod Sagar: It is very complex calculation, I cannot explain to you in one or two minutes, what I'm trying to say is, see if our market share overall whatever is our revenue, if it is 13% 14% in SAIL plants. So, out of that, some products which Hitech was also producing, Dalmia was also producing, we were also producing, those products are combined together, we will get only one not three company with order, but there are many products which only Hitech was producing not Dalmia or RHI Magnesita I gave the example like Nozzle Filling Compound or Tap hold clay, et cetera**.** So, there are many products which only single party was producing that will not have any impact. So, we are trying to increase our market share by bringing other products which we were not selling to SAIL.

Harsh: What was the net impact of this?

Parmod Sagar: Out of say 13% if I say is our total market share in SAIL plant that will be about say 3%- 4% minimum.

Harsh: Okay, so our share of business would go down from 13% to 10%. Is that understanding correct?

Parmod Sagar: Yes, but it will be temporary as we are trying to mitigate these risks by introducing new products.

Harsh: And this happened recently like in the last quarter or it has been the case since April?

Parmod Sagar: From the acquisition, we had some orders in place already. So, when these orders are in place, we were enjoying all three companies' orders, when a new cycle comes in June, July, then the impact will start coming.

Harsh: Okay. And we don't see this happening at other steel plants because why sir, why can't JSW and Tata can also have the same sense?

Parmod Sagar: Sorry, can you come again?

Harsh: So, sir that you reckon it will happen that something similar will happen at our other customers as well where JSW, Tata Steel and the other ones will say that since we are procuring from one entity, they will reduce their purchases from RHI and maybe diversify their vendor base?

Parmod Sagar: In one or two cases yes, if these are only the product and only two companies for example, RHI Magnesita and Dalmia were suppliers. So, definitely now they are left with one company. So, they will try to develop some alternate source, so it is a natural phenomenon.

Harsh: So, according to you, how much do you reckon that we will be impacted more by this?

Parmod Sagar: I don't have a number it is very minimal in percentage.

Harsh: Okay, got it. And sir regarding the strike and the overall integration with Dalmia, could you throw some remarks where are we in that space, where are we in that space, this integration already happened and why did we see a strike happening at Rajgangpur?

Parmod Sagar: No, the integration is still ongoing though it's almost a year, it is a cultural thing, management style, we are thoroughly professional company, multinational company, those were family driven company, whether it's a Dalmia or Hitech, so, there way of working was different, our way of working in different of bringing the cultural change, it takes time. Secondly strike, there is a union from last 30 years that strong unions, so they were handling it differently, union has come up with something they stopped the production, they will say come let's discuss and resolve. So, we don't want to do that, so we said there's a way to discuss without stopping production and we will not accept this. We have a good relation with them now.

Harsh: Okay. And have you seen any loss of share of business because of this strike, the three customers that we missed out the supplies too, have they approached other suppliers like any, any thoughts there?

Parmod Sagar: As I said, if the plant is closed for a 8, 10 days, yes there will be shipment impacted or revenue impacted temporarily, but the customer cannot reach out to any other supplier and the other supplier cannot also supply the materials, they need to make a mold, they need to produce the need to ship it is a cycle of maybe 45 days. First they need to float an inquiry then there is offer, then negotiation then honor, any big plant will take maybe a month time to even placing the order on another supplier. So, this didn't have an impact.

Moderator: Next question is from Sahil Sanghvi from Monarch Networth Capital. Please go ahead.

Sahil Sanghvi: Sir my first question is regarding the Red Sea issue, since we are sourcing a lot of raw material from outside, is that a really concerning factor the freight cost going up, the container availability being affected, leaps time increasing and would that really impact our RM cost and margins going ahead?

Parmod Sagar: You are talking about this Red Sea issue?

Sahil Sanghvi: Yes.

Parmod Sagar: The freight is going up and that timing because the rerouting so it is a impact of almost two weeks. And freight is almost sometimes double, sometimes even triple. So, that will have that impact and in coming days, we will also be reaching out to our customers to tell them the fact and some of the customers are also worried about how they will get that inventory in time, material in time. So, we are working on it, we are very committed market leader, we will not allow any steel plant to stop because of this issue. We are taking various steps at a global level also.

Sahil Sanghvi: I have heard that some of these annual contracts may not revise in January and some of these steel plants have been asking for price guards up to the magnitude of 5% to 7%. Are we seeing a similar pressure on price cuts and would that come in from Q4?

Parmod Sagar: There is a pressure on price cut but now with this Red Sea situation even the container availability will be an issue in coming days, because then you are rerouting two weeks, two and a half weeks delay that container availability will be an issue whether it's in Europe or in India or in China and there will be congestion at ports and all. So, now the first clarity of steel plants given to us will be to have refractory instead of talking about pricing and reduction. So, we are under pressure but they are also under pressure because materials will not be coming as smoothly as it was coming. Our raw material suppliers are also asking for price increase because the freights has gone up.

Moderator: Thank you. The next question is from the line of Mayank Bhandari from Asian Market Securities. Please go ahead.

Mayank Bhandari: Sir my first question is in the standalone excluding Hitech, what is our Y-o-Y growth if you can tell for this quarter and for the nine month?

Vijaya Gupta: See, in place of standalone we have integrated SAP system. So, we do not have numbers for Hitech separately, so that standalone numbers have to be with Hitech only.

Mayank Bhandari: So, how much would be your export from standalone then?

Vijaya Gupta: Export from standalone in 11%.

Mayank Bhandari: And this has declined Y-o-Y how much?

Vijaya Gupta: So, last year it was around 16%. So, it has come down as sir has mentioned that freight, Red Sea issues and sluggishness in overseas market is the reason for lower exports.

Mayank Bhandari: Okay. And ma'am in terms of export capability, how much you have ramped up so now, are we doing export for flow control products also now, what is your status for export?

Parmod Sagar: Normally, we are doing export of only flow control products.

Mayank Bhandari: Okay. So, within flow control, how many products?

Parmod Sagar: How many products means?

Mayank Bhandari: Like isostatic is what you had highlighted.

Parmod Sagar: Yes, mainly it is isostatic and slide gates**.**

Mayank Bhandari: Okay, because you are in the process of improving the export for three or four more products in the near future?

Parmod Sagar: So, mainly this is flow control and from Vizag plant, there is a high alumina special refractory for export.

Mayank Bhandari: Okay. And lastly sir, in terms of Hitech capacity utilization, this year it is you said 58% right?

Parmod Sagar: Right.

Mayank Bhandari: Any expectation for this year, next year?

Parmod Sagar: We are working seriously on creating Jamshedpur plant real isostatic export hub. But, in exports it takes time, a lot of time, doing trials and becoming an approved vendor, it takes some time around one and a half year. So, I believe in this year, we will be doing better than the previous year and 25, 26 onwards we will have substantial export business from Jamshedpur plant.

Mayank Bhandari: During that in the export market, the situation has bottomed out now. So, is it related to some demand slowdown in the export market, or how long can you expect that?

Parmod Sagar: Yes, naturally in general there is a depressed market, particularly you talk about Europe or because of this Ukraine, Russia war, and in general Europe is not performing well. They have their own issues. And I don't see next three or four months anything is going to change.

Moderator: Thank you very much. In the interest of time, we will have to take that as the last question. I would now like to hand the conference back to the management team for closing comments.

Parmod Sagar: Thank you, everyone for taking time out to join us today. We look forward to interacting with you again next quarter. And whatever suggestion you people have given we will consider that to add to our PPT next time. Please get in touch with our Investor Relations team for any further queries. We will be more than happy to answer your question. Thank you very much.

Moderator: Thank you very much. On behalf of RHI Magnesita India Limited, that concludes this conference. Thank you for joining us. Ladies and gentlemen, you may now disconnect your lines.