GOODLUCK

Goodluck India Limited
(Formerly GOOD LUCK STEEL TUBES LIMITED)
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October 6, 2017

Manager, DCS
The Bombay Stock Exchange Ltd.
Phiroze jeejeebhoy Towers,
Dalal Street,
Mumbai

Ref: Scrip Code: - 530655

The Manager
National Stock Exchange of India Ltd.
Exchange Plaza, C-1, Block G,
Bandra Kurla Complex,
Bandra (E), Mumbai – 400 051

Scrip Code: - GOODLUCK

Dear Sir/ Madam,

Sub: Transcript of Investors and Analysts Conference call

As earlier informed, a Conference Call for the investors and analysts held on Friday, September 15, 2017 at 1.00 P.M. IST to discuss the Q1FY18 Earnings of the Company.

Please find attached herewith the transcript of the aforesaid call.

This is for your information and record.

Thanking you,

For Goodluck India Limited
(formerly Good Luck Steel Tubes Limited)

GOODLUCK INDIA LIMITED

Director
Encl: a/a

"Goodluck India Limited Q1 FY18 Earnings Conference Call"

September 15, 2017

MANAGEMENT:	**MR. MAHESH GARG - CHAIRMAN, GOODLUCK INDIA LIMITED** **MR. RAM AGGARWAL - CEO, GOODLUCK INDIA LIMITED** **MR. SANJAY BANSAL – CFO, GOODLUCK INDIA LIMITED**
MODERATOR:	**MR. VIKRAM SURYAVANSHI – PHILLIPCAPITAL (INDIA) PRIVATE LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the Goodluck India Limited Q1 FY18 Earnings Conference Call 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 touchtone phone. I now hand the conference over to Mr. Vikram Suryavanshi from PhillipCapital (India) Private Limited. Thank you and over to you, sir.

Vikram Suryavanshi: Good afternoon and very warm welcome to everyone. Thank you for being on the call of Goodluck India Limited. From Management, we have with us Mr. Mahesh Garg – Chairman, Mr. Ram Aggarwal – CEO and Mr. Sanjay Bansal – CFO. I hand over the call to the management for their opening comments.

Mahesh Garg: Good afternoon, everybody. I welcome you all on this con-call. Our first quarter results are with you already. Our company is engaged in manufacture of industrial products as you know such as pipe, forging, CR and auto tubes. The growth of the company in the first quarter in the topline has been almost 15%; however, I am aware the bottom-line has not been very satisfactory for our standards. The reasons are very obvious.

I will dwell on detail the conditions ruling in the market. The auto tube demand has been booming domestically and internationally and it is doing very well. However, demand in our industrial products like pipes, CR and forging has been very muted. The demand pool is absent. First, it was the demonetization effect with the third quarter which continued for the last quarter of the last year and it tapered off quite substantially in the first two months of the first quarter. But due to fear of GST impact, the demand again got suppressed which has definitely affected our performance and this rising commodity prices and lack of demand has put pressure on the margin which has resulted in a muted performance for the first quarter; however, as we find here the trend of GST stabilization will continue probably in the second quarter also; however, in third quarter, things will improve. Due to good monsoon, demand is likely to take a boost and GST will stabilize. So, we are confident third quarter onwards the performance of economy and so our performance will correspondingly improve.

I will hand over to Mr. Ram Aggarwal, CEO and he will explain you.

Ram Aggarwal: Good afternoon, everyone. Ram Aggarwal this side. I thank you all for participating for the company Q1 Earnings Con-Call. Firstly, I would like to give you some background about the company and some brief highlights about the performance of Q1 FY18 and then we can closes with the session.

Goodluck India Limited as you know is a diversified engineering company with over 30 years of experience in manufacturing of cold rolled sheets, pipes, engineering structures like transmission power, fabricated steel structures and forgings. We make forged flanges, gearings, gear shafts, forged shafts, railway products and auto tubes, ERW tubes, boiler tubes, transformer tubes. The company's products were sold domestically and to over 100 countries across the world to high growth sectors like auto, power, infra, oil and gas. Going ahead, the company also plans for to offer high-end engineering structures for auto, solar, railways etc. Some of our multi-clients include global MNC companies like BMW, Audi, GE and other large domestic companies like PGCIL and PVC, L&T, Bajaj Auto, TVS. We are headquartered in Ghaziabad and have a total manufacturing capacity of 230,000 metric tonnes with employees over 2500 plus.

I would like to summarize the key operational highlights of Q1 FY18. As mentioned, we are slowly and strategically shifting our focus over the last few years towards the high margins value-added steel products like auto tubes and structure steel products. But in Q1 FY18, results are before you. Company has posted 15% topline compared to Q1 FY17, our bottom-line has taken a hit as Mr. Garg has said. Actually, Q1 FY18 is to be seen in conjunction with Q3-Q4, Q4 FY17. After demo impact, market recovered a bit in Q4 and got stabilized in first 2 months of Q1 FY18. Volumes sold, our structure division and automobile tube fared well in terms of volume and profitability both. Forging division could still not come out of the last year's hangover, but pre GST wise, it worries the market in advance and total sale and purchase brought in still mode for full and for the month of June with whatsoever the gains taken in April and May. Moreover, if government has become an active participant in steel prices on sites of steel producers causing volatility in the market. Government entry scenario selectively leading to gains for steel producers and pain for the steel processors. It should be streamlined and hope government will take interest for steel processors like us. Basic reason was domestic steel producers had a lease that the imports are circumventing the anti-dumping duty levied on steel products. This has been made possible because the entire value chain of steel products manufacturing has not been covered under the anti-dumping duty norms and it has impacted the margin badly. But in terms of your company, your company has got long delayed approvals in power sector, infra sector and auto sector. Company has started executing expansion projects at Kutch, Bhuj, Gujarat. It will be a gain for auto division and structure division. In terms of inland freight, an increased market share in Western and Southern India. Exports should take a jump because of imported raw material availability and access to export market.

Your company is expecting a legendry change in business outlook for the company. I would like to talk a little bit about the outlook of the steel industry because they are very interesting incident, interesting movements in the steel for last 2-3 months. Government is coming out with a provision in government tenders to mandate using domestically manufactured steel for the grades that are available in India. However, contractors can import grades of steel that are not available in the desired quantity in the country. So the domestic demand will increase. Our quarter is that the first quarter which has gone, our domestic demand in terms of rupee, it is up by 20%. Secondly, the government moved to maintain domestic sourcing contract with the government plan to local steel manufacturers who have been bleeding under heavy losses due to dumping by Chinese companies. So in all, if we see, now government is concerned about the steel. I will say it is now concerned about the steel producers, but later on I hope it will also be concerned about the steel processors like us and once the steel processors are taken care, Indian steel demand, Indian steel consumption whatever government wants, it will increase. Thank you now. I will give the mike to Mr. Sanjay Bansal – CFO for the financial highlights.

Sanjay Bansal: Good afternoon, everybody. At the outset, I am Sanjay Bansal, CFO on behalf of Goodluck welcome you all for joining for the conference on performance of the company Q1 of FY2018 and quarter one of FY2017.

Regarding quarter one performance, the gross sale was increased to Rs. 362.08 crores as against 311.97 crores during quarter 1 of previous year, registering a growth of 16%. However, EBITDA including other comprehensive income for the quarter stood at the rate of about 8% of net sales, Rs. 26.50 crores as against 27.58 crores during quarter one of FY17, registered a reduction in EBITDA margin of about 4% on year-over-year basis. The profit before tax including other comprehensive income was at 8.30 crores in quarter one of 2018 as compared to Rs. 11.40 crores in quarter one of 2017. However, the performance of the company in quarter one of current financial year 2018 is improved substantially as compared to quarter 4 of previous year. The sales has been increased by 15%. EBITDA margin has improved by Rs. 528 lakhs with EBITDA margin during quarter one at 7.94% as against 7.20% during Q4 of FY17. PBT margins have also improved by Rs. 1.92 crores.

EPS has been at Rs. 1.65 per share in quarter one of 2018 as against Rs. 3.30 per share during quarter one of previous fiscal. However, performance of the company has improved in current fiscal as compared to quarter three and four of FY17. This improved working trend will continue as after implementation of GST, things showing an improvement in overall business. Moreover, adverse impact of demonetization of currency notes would be fully nullified in coming days.

On financial front, our interest cost has marginally gone up due to capitalization of expansion project in structured division and debottlenecking capital expenditure in other divisions in previous year. Thank you very much.

Mahesh Garg: Now, we are open to Q&A session.

Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin the question-and-answer session. We will take the first question from the line of Swarn Agarwal, an individual investor. Please go ahead.

Swarn Agarwal: Can I have the production number for different divisions like engineering structure, forging, precision tubes and CR coil sheets and pipes for Q1 FY18?

Ram Aggarwal: Numbers are not available right now, but we will let you know.

Swarn Agarwal: Can I ask the EBITDA margin for this division for Q1 FY18?

Ram Aggarwal: The overall EBITDA margin for the total division 7.92% EBITDA for the total company. For the different divisions, it can be provided, but right now it is not available.

Swarn Agarwal: Do you have order book position for any of these divisions in terms of month?

Ram Aggarwal: For the structured division, we have the order book of almost 9 months and for the automobile tubes, it is almost 3 to 4 months and for forging, it is almost 4 months and for the other products like CR sheets and pipes, there is an order book of always one month.

Swarn Agarwal: How much inventory do you have for zinc as in what is the purchasing pattern? Do you purchase it every month and give one month's inventory or how does it work like for zinc as well as steel?

Ram Aggarwal: Every month, we have to purchase because we cannot keep stocks to such a high level like for 3 months or 4 months we can keep**.** So normally inventory is for the one month for most of the division. So we have to purchase every month.

Swarn Agarwal: So sir like in April, May, June, zinc price was around $2500 to $2600 and currently, it is at 3000 level. So what has been the impact on profitability and even steel prices have gone up marginally.

Ram Aggarwal: Basically for the zinc prices, yes definitely. Some of the orders, we had a price variation clause available, so we can get. But in the orders which are of the short type like one month or 1.5 month order delivery, there we do not have any price variation. So there the margins are impacted.

Swarn Agarwal: So for the pipes and CR division, basically you are saying there will be impact on margin and the rest of the division, there will be no impact.

Ram Aggarwal: Yes.

Swarn Agarwal: So, what is the portion of products will not get impacted due to increase in…what proportion of order will have an escalation clause?

Mahesh Garg: Look, I tell you the auto tube division is totally insulated, we get the price variation. Structure division, only some of the products like lattice has a price protection, but solar division does not have any price protection because the order tenure is very short. As you think of percentage, it could be 50-50 almost, you can assume as a whole for the company. But one thing I can tell you the price volatility of our raw material prices definitely impacts us. In the long run, neutralizes when the prices go down, so we get the advantage. When the price go up, we take some hit, but on a long-term basis, we will see it does not impact. On a month-to-month or quarter to quarter, it may have an impact, but one quarter it will have a negative impact, the other quarter will have a positive impact.

Swarn Agarwal: In engineering structure division, the total capacity is 48,000. So what will be the share of solar structures over there?

Mahesh Garg: It will be roughly 60%.

Swarn Agarwal: Sir on precision tube, we have taken an expansion of 12,000 which was supposed to come in Q4 FY17 or Q1 FY18. Has it worked?

Mahesh Garg: It is over. We are already running at a capacity of almost 60,000 tonnes now. We have achieved that output against the 72,000 installed capacities.

Swarn Agarwal: And sir the new capacity which is coming in, you said it will help in catering to customer in South India. So you said that by 4th maybe you can shift certain amount of quantity over there. So I just wanted to understand the first dynamics. What will be the ocean freight cost if you have to transport pipes from Bhuj to South India?

Mahesh Garg: Bhuj to South India, the freight will be roughly Rs. 2,200 a tonne by sea and while we transport from here, the freight is anything above Rs. 5000.

Swarn Agarwal: And sir currently what will be your proportion of South based client for only for the site division…

Mahesh Garg: There is hardly any. It is not viable to supply to South by road from here.

Swarn Agarwal: Okay. Sir from Bhuj plant, you will be basically taking the ocean route to supply to South?

Mahesh Garg: Yes.

Swarn Agarwal: And sir the warrant which has been issued to promoters. What is the interest rate over there?

Mahesh Garg: There is no interest rate sir.

Swarn Agarwal: EPS dilution will be around 2.5% once it is converted?

Sanjay Bansal: Yes.

Swarn Agarwal: By when will I get the production numbers and the other EBITDA numbers and all, how do I get that?

Ram Aggarwal: By April 2018.

Swarn Agarwal: No, do I need to connect to someone or?

Mahesh Garg: We have noticed the contents and the company secretary will take care of it and we will let you know.

Moderator: Thank you. We will take the next question from the line of Paras Prasad, an individual investor. Please go ahead.

Paras Prasad: Sir, I would just like to know why had the PAT margins fallen this quarter?

Mahesh Garg: As I explained you in the beginning itself, it is an extension of third quarter effect. The demonetization has very disruptive move for the industry like us and then GST impact which was visible in the second month of the first quarter. It has impacted the demand and the demand put pressure on the margins. That is why the performance was affected.

Paras Prasad: So how will these margins improve? So till when will you still be affected and when can we see it reverses?

Mahesh Garg: No, there are green shoots available. The GST is stabilizing. Demonetization effect is tapering off and with the next quarter coming, the good monsoon all over India will boost the demand. So margins are going to be better.

Paras Prasad: Will we see that impact in Q2 itself?

Mahesh Garg: No, you should be able to see in Q3.

Paras Prasad: By Q3 everything should be stabilized?

Mahesh Garg: Everything should be stabilized.

Paras Prasad: And sir why has there been such an increase in the expense, overall expense?

Sanjay Bansal: Overall expenses has been increased in proportion of sales except finance cost which has been increased due to capitalization of the project during previous year.

Paras Prasad: So are there any possibility of the debt coming down in going forward?

Sanjay Bansal: Definitely, debt will coming down by repayment of the loan.

Paras Prasad: So this repayment will happen and you are not going to take any more fresh loans after you repay?

Sanjay Bansal: Except the Bhuj project, there is no proposal to taking any fresh loan.

Paras Prasad: So once the repayment happens, the debt will come down.

Moderator: Thank you. We take the next question from the line of Salil Utagi from Edelweiss. Please go ahead.

Salil Utagi: Sir, can you throw some light on the exports market in this quarter and your plan in next one or two years?

Mahesh Garg: Export market is definitely internationally is better than what it was last year and demand definitely picking up in Europe and USA. However, sharp appreciation of rupee has dented our margins considerably. Other restraining factor, the GST has put a very big dampener in the export performance. GST is now all exports are to be made and are charged to IGST. The government has promised refund of IGST paid within 7 days and 2.5 months has gone, still there is no system specified by the government for refund of money and lot of money is getting blocked. Government has to come out fast on this. Secondly, there is no clarity on export incentive till date which we as exporter are trying pressing our associations and are discussing with the government to come clear on it, but I see a good uptick in export demand after several years.

Salil Utagi: This will be on the auto side or other sectors?

Mahesh Garg: We see a good demand in auto side from Europe and USA. In other commodities like pipes and CR also, after several years we find ourselves doing well in those areas also. But restraining factor as I explained to you earlier, it is the GST related problems and sharp appreciation of rupee. Appreciation of rupee, you already aware the inflows are very heavy in India. RBI trying its best to see rupee is stabilizing at a reasonable level, let us see. The government must be aware and must be doing something to keep export competitive.

Salil Utagi: But is it because there is anti-dumping duty on Chinese products in most of the countries that Indians are gaining edge now, overall economies are picking up in Europe?

Mahesh Garg: The Chinese affect may not be there, but it is an overall economic activity pick up in Europe and USA. That is my take on this.

Moderator: Thank you. We take the next question from the line of Vikram Suryavanshi from PhillipCapital (India) Private Limited. Please go ahead.

Vikram Suryavanshi: Sir, can you tell us more detail on expansion in Bhuj particularly how much debt we can take and timeline in terms of commissioning of the project?

Mahesh Garg: Sir, we have started work on the project in month of June. The project is going ahead as per schedule and the production should come in first quarter of the next year.

Vikram Suryavanshi: First quarter of FY19?

Mahesh Garg: Yes.

Vikram Suryavanshi: And in terms of debt, how much requirement would be there for this CAPEX?

Mahesh Garg: 52 crores debt we have taken from Axis Bank.

Vikram Suryavanshi: And sir broadly in terms of existing business, how is the opportunities we are seeing in the Railways because now we have approval waiting in place. So are we see that lot of things are happening from railway side, how is your experience?

Ram Aggarwal: Railway side, movements are taking place, but it has yet to come to the execution stage. DFFC corridor, east facing corridor, everywhere thing is there, orders have been placed, but they have not come to execution site. That is the real worry with the railways. We are ready, but they are not ready to take material so far.

Vikram Suryavanshi: And currently how much of the revenue is coming from the railways in terms of the structure?

Ram Aggarwal: In terms of the structure from railways, it is insignificant right now. We have the order, but deliveries have not started due to the government constraints on drawings and other issues.

Vikram Suryavanshi: So how big are the orders currently or?

Ram Aggarwal: Order currently, we are having orders of almost 70 to 80 crores, but when they will come to execution, that is still in suspense.

Vikram Suryavanshi: And in terms of working capital, how we are seeing the working capital for the company in terms of inventory, what we are managing?

Mahesh Garg: The working capital, definitely is a challenge. With bank becomes very cautious, so expansion of our production facilities is a big challenge to us and we are trying to beat it. Our main worry is in the infrastructure sector where we have ramped up the production quite a bit in last 6 months, but unfortunate for us to report that all our infrastructure buyers, I should not name it in my conference call, they use our supplies as their capital that is most of the infrastructure developers are doing it. But we are determined to set it right and we will only work, so there is no stress on our working capital requirement.

Moderator: Thank you. We take the next question from the line of Varun Singh from Emkay Global. Please go ahead.

Varun Singh: My question is that if engineered good segment, margins have fallen down significantly from 19% to 8% year-on-year. So one, what is the reason for this? And secondly, we are not expanding in the most profitable segment. So how do you look at it? What is the plan of expansion in this value-added segment sir?

Ram Aggarwal: Basically, the engineered goods sector, what you have seen, it is for the forgings. In our balance sheet, it is for the forgings. Basically, forging industry, it has not come out of the strain for last 3-4 years because of thermal projects are not on. But now in the last one month, government has changed emphasis for the thermal projects and green shoots are available in next one or two quarters. Demand should come from the thermal side and the forging industry should get good orders, it should get good executable orders because orders are still there, but there have not been executed. With the government push on this, I suppose demand will boost up and our expansion, we will take expansion only when the demand is actually come and we increase the turnover from whatever we are today.

Mahesh Garg: Not only this, I would like to add. So our engineering division had been under pressure because of the very low oil prices. Earlier when oil prices were high, lot of investment was there in the sector and we are getting the benefit of it. Now for last 3 years, oil prices are random**,** most of the expenditure of the oil companies is down. So we are shifting from flanges and oil sector to the engineering products and there the problem has come in the power sector where still things are not very rosy.

Moderator: Thank you. We take the next question from the line of Swarn Agarwal, an individual investor. Please go ahead.

Swarn Agarwal: What will be the capacities for railways?

Ram Aggarwal: The capacity cannot be identified because it is an integrated approach for railway. We make many products for railways. So the capacity cannot be identified.

Swarn Agarwal: And in solar structure, as you are saying pricing environment is very weak. What is the kind of competition in the solar division. You are saying the competition is very high. Is that competition from Chinese player or how does the competition framework work like?

Ram Aggarwal: Basically, now solar structure or solar division, they are not going for a change because earlier government was having a M&I exemption for the solar projects. But now that exemption has been withdrawn and GST has been levied on all the solar projects. So solar industry is adjusting itself. It may take even one quarter when the solar capacity, they will restart to put up the projects. Now all EPC companies in solar division, they are under pressure because prices have gone down to Rs. 2.44, Rs. 3, but the government has withdrawn the exemption and on the Chinese product, mainly it was solar cells. They have been put an anti-dumping duty on that. So solar industry, it has to realign itself and it will come out within a quarter or two quarters. Then only, we will know what is going to the next course of action for solar.

Swarn Agarwal: And in terms of pipes division where the major expansion is coming in, there a lot of players which are coming with huge capacity like APL of course is almost doubling at capacity, then smaller player like Rama Steel Tubes are also expanding, hi-tech pipes and also how do you see as in you have guided for around 10% margin for the new capacity. But with the heightened competition and all, do you see the margins going down?

Mahesh Garg: We are named as pipe manufacturing there in Bhuj, but our product range will be different them what you have spoken the name of. We will not face that competition at all. We will be focused on a export and auto tubes only.

Swarn Agarwal: Because APL, Apollo and all are also there in GP pipes and GI pipes which will be kind of expanding in.

Mahesh Garg: Our product will be for export. We will focus on export and auto tubes which will be a must different segment of expansion what they are doing.

Moderator: Thank you. We take the next question from the line of Mayur Jain, an individual investor. Please go ahead.

Mayur Jain: Sir, first question is that as per our last con-call, management guided that we will maintain 2000 crores topline and 10%-11% margin in 3 years. So whether management is stick for that projection?

Ram Aggarwal: Definitely, but whatever the projections are giving, they are based on certain assumption, but the assumption because of government has become an active player, GST is coming, demo is coming. So those sectors cannot be taken into account, but still whatever we have plan, we are going ahead as per our plan. There may be a delay of 2 or 3 quarters or there may be a lapse of one year, but whatever projections we have given, we are still hopeful that we will get those.

Mahesh Garg: Moreover, it should be noted that policy disruptions are not accounted by us when we make the predictions. The policy disruptions in last 3 quarters have been quite used.

Mayur Jain: I think sir if we see the current steel prices, if they will stay well there, then where we can see our margin trajectory?

Mahesh Garg: I can explain you if the prices are stable, this is the best thing for any processor, but unfortunately prices are not stable, they are very volatile and we look, we expect and we pray the prices remain stable at whatever the level they are.

Mayur Jain: So, currently I think prices are already surging right now, I think HR coil prices. So it will impact our quarter 2 also.

Mahesh Garg: It may.

Mayur Jain: And sir, is there any debt repayment plan internally in our company?

Ram Aggarwal: Every year, we are returning our debt. 17 to 18 crores, we are returning every year.

Mayur Jain: Around 17-18 crores we are projecting for this year itself?

Ram Aggarwal: Every year, we are paying. For last 2-3 years we are paying and in coming 2-3 years, we will be repaying the loan.

Mayur Jain: Sir basically what I am seeing that most of the loan are working capital loans. So is there any improvement you are seeing in your working capital cycle in future?

Ram Aggarwal: Once the market stabilizes, then definitely working capital cycle will also get stabilized and there will be improvement in the debt conditions in the working capital.

Mayur Jain: And sir last question is that at what capacity we work currently?

Mahesh Garg: Almost 95% over established capacity.

Moderator: Thank you. As there are no further questions from the participants, I would now like to hand the conference over to Mr. Vikram Suryavanshi from PhillipCapital (India) Private Limited for closing comments.

Vikram Suryavanshi: Thank you all for being on the call and we thank you management for taking time out for interacting with the stakeholders and we wish them good year ahead. Thank you all.

Mahesh Garg: Thank you.

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