TRANSCRIPT

Goodluck India Limited Q1 FY17 Earnings Conference Call"
Date: August 16, 2016

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Transcript

Goodluck India Limited

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Presentation Session

Moderator: Ladies and gentlemen, good afternoon, and welcome to the 1QFY17 earnings conference call of Goodluck India Limited, hosted by HDFC Securities 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 once the presentation concludes. Should you need assistance during the call, please signal an operator by pressing * and then 0 on your touchtone telephones. Please note, this conference is being recorded. I would now like to hand over the floor to Mr. Sarfaraz Singh from HDFC Securities. Thank you and over to you Mr. Singh.

Sarfaraz Singh: Thank you Moumita. Good afternoon everyone. On behalf of HDFC Securities, I welcome you all to the first quarter FY17 earnings conference call of Goodluck India Limited. We have with us Mr. Mahesh Chandra Garg, Chairman, Mr. Ram Aggarwal, CEO, and Mr. Sanjay Bansal, CFO. Without any ado, I would like to hand over the conference to Mr. Garg to take us through the details. Thank you and over to you sir.

Mahesh Chandra Garg: A very good afternoon everyone. Thanks for joining this con call for earnings 2017 first quarter. I take this opportunity to share that we are celebrating 30 years of our incorporation. The journey of these 30 years has been very rewarding and motivating for us in our organization. From a small company we have evolved into a professional organization. We started as a steel tube manufacturer and today we manufacture heavy duty support structures, telecom towers, transmission lines, solar structure, auto tubes, cold rolled sheets, and galvanized sheets and coils, besides welded black and GI tubes, what we started as manufacturers. We were originally named as Goodluck Steel Tubes, to capture our diversified product profile, which is why we named ourselves Goodluck India Limited and that is what we are today. Today, the first quarter has been very challenging, but our performance which Mr. Ram Aggarwal will give you details, have been very satisfying under the challenging conditions. I hand over to Mr. Ram Aggarwal.

Ram Aggarwal: Hi, good afternoon. This is Ram Aggarwal. To summarize the financial highlights of Q1FY16-’17, company has registered steel growth of 6% in Q1FY17 over Q1FY16 due to growth in forging and structure segment. Our EBITDA margin for the quarter remains same at 9.6% despite the volatile commodity prices environment, the company was able to maintain its growth momentum and there is a volume growth of 13% in Q1FY17 over Q1FY16. We have reported a net profit of 7.7 crores in Q1FY17 versus 7.6 crores in Q1FY16. In March ’16 Company has completed the capital expenditure of around 40 crores in the structure division. Our utilization and growth from this division is doing very well. Volume growth this quarter from this division is more than 80% versus a year ago. This quarter the forging division has also experienced a good volume growth of over 30%YOY. During the quarter, the company completed an overbridge order over river Ganga on Agra Highway. We had major order wins during the quarter which we had informed also, with the new orders from Powergrid Parli Transmission Line, a subsidiary of Powergrid Corporation of India Limited, worth 37 crores for supplies of towers. And won another order from Renewal Energy Sector worth 19 crores for supply of structures for solar plant. In fact our unique business model of continuous reshuffling of products and market keeps us ahead. As mentioned earlier also, we are done with our CAPEX cycle now and continue to concentrate on consolidating capacities and improving our bottom line. Now, given the good monsoon in this year, we are hopeful that from October onwards, there will be an upswing in overall consumption and economic activity which will lead to flourishing business. In the end, I would like to say that we really are thankful to all our stakeholders and also assure everyone that we are working very hard to improve our financial performance. Thank you and now we will open the conference for Q&A session. Thank you.

Question and Answer Session

Moderator: Thank you sir. Ladies and gentlemen, we will now begin the question and answer session. If you have a question, please press * and 1 on your telephone keypad and wait for your turn to ask the question. If you would like to withdraw your request, you may do so by pressing * and 1 again. Ladies and gentlemen, if you have any questions, please press * and 1 on your telephone keypad.

Sir, our first question comes from Mr. Jatin Damania from Kotak Securities. Please go ahead sir.

Jatin Damania: Good afternoon sir. Sir just wanted to check, what will be the volume growth that we expect for financial year 2017 capital division now fully being running on-stream?

Management: Can you repeat the question, it was not clear. Please.

Jatin Damania: Sir, what is the volume that we are expecting for full year FY17?

Management: Volume for the structure division?

Jatin Damania: Yes sir.

Management: Volume for the structure division we are expecting around 250 crores this year. Earlier it was 120 crores in last year, and this year we are expecting about 250 crores.

Management: On the structure capacity where we have expanded.

Jatin Damania: And sir on margin front we expect margin to continue, we are on 9.5, 9.6%, or because of the increase in the steel prices we expect the margin to decline in the coming quarters?

Management: Basically, what I have earlier said also, we are a steel processor. Normally our margins after processing remains fixed, or nearly in the range. So basically 9.6% or 10% or 10.5%, this is the EBITDA margin, which we will be maintaining. Steel prices impact, but overall year if you see, the steel prices do not much impact in this engineering sector.

Jatin Damania: Okay sir, that's all from my side.

Moderator: Sir, the next question comes from Sheetal Kashwani, individual investor. Please go ahead.

Sheetal Kashwani: Congratulations on a good result, on a good quarter, sir. Can you explain who are our top clients?

Management: Basically we are working in five sectors, so every sector has different clients. If you talk of the structures, they are L&T, Siemens, ABB, BHEL, AFCON, if you talk of regular sectors like auto tubes, there is BMW, Audi, and if you talk of structures, they are EIL, IOCL and many others. So there is a list of basically many clients because we are working with five sectors.

Sheetal Kashwani: But then also what will be the growth outlook, can you give the growth outlook for the next two to three years for the company?

Management: Company, basically we are looking for the growth of 15 to 20% every year, minimum, and if you talk of the top line, we should be, after two to three years, we should be nearly 1400 to 1500 crores.

Sheetal Kashwani: Okay sir, and so basically by '18-'19 or '19-'20 we expect to have total income of 1400 to 1500.

Management: This is the estimate for the current working where we are not taking any expansion in the calculation. We are consolidating this year and from the next year we will start investing in other projects, so that will be added thereafter. I am only taking a hypothetical situation where there is no CAPEX, and then we will remain about 1400 to 1500 within next two years.

Sheetal Kashwani: Sir, then how much more can your margins expand from here?

Management: Margin expansion, normally it is 9.6% what we are earning now, and I expect it can go from 9.6% to 11%.

Sheetal Kashwani: 9.6% to 11% sir in the next two to three years.

Management: In next two to three years, it should be around 9.6% to 10% to 11%, because turnover will also increase.

Sheetal Kashwani: How is the growth in the Railways and the solar sector for this quarter?

Management: Railway, we have started good in this sector, in this quarter we have done a Agra-Itawa highway bridge with AFCON with a value of around 11 crores and many more orders are in the line from DFCC, AFCON, and L&T, so this sector can go up to 60 to 70 crores in this financial year.

Sheetal Kashwani: Okay, and sir then can you give me the current order book for Railways and Solar?

Management: Solar, basically we are having an order book of 25 MW per month. And in Railways, the orders are coming. Because it is a new sector, so we cannot project, we cannot say that order book is booked for six to nine months, but orders are coming continuously and we expect to get a turnover of around 70 crores this year.

Moderator: Sir, our next question comes from Hemal Tanna, individual investor. Please go ahead.

Hemal Tanna: Hi sir thanks for taking my question. Sir, my first question is, did we repay any long term debt in this quarter? And my second question is, what would be our capacity utilization in the auto sector and the structure division on the newly expanded capacity? Thank you.

Management: The repayment during first quarter was Rs.5 crore and the capacity utilization, regarding the expanded sector of this engineering structures, it is almost 60% now. And the auto sector, it is almost 65% to 70% now.

Hemal Tanna: Okay. I remember, previous quarter you were guiding a capacity utilization in the structure division to the tune of 75, do you think we can end the year by a 75% capacity utilization over there?

Management: Yeah, definitely. We can look forward to it, because we are aiming around 40000 to 42000 tons in this year on the expanded capacity. Earlier capacity was 24000, now it has been expanded to 48000. And about 40000 to 42000, we will be completing in this year.

Hemal Tanna: Right, okay, thanks, that answers my question. Thank you.

Moderator: Thank you sir. Sir, the next question comes from Janvi Shah from Reliance Mutual Fund. Please go ahead.

Janvi Shah: Hello, sir why aren't the margins in the pipe and the sheets structure, if I see your…this quarter the margins have come off in that division. If I see the segment results, the margins in the pipes, sheet structures have come off.

Management: Basically, there are four sectors in this pipes, sheets commodity sector, what you are seeing in this segment reporting, so in this there is one product that is a regular product, that is pipe and sheet. Pipe and sheet, there were challenges this quarter, because prices were very much fluctuating. But whereas in the structure and the auto tubes, margins were good, what margins we had anticipated, we have got the same. But due to this leg pulling by the regular products, it has been basically flat or a little bit down.

Janvi Shah: Sir actually your turnover has gone up and your margins have come down. So, what's really the challenge on the pipe segment?

Management: Challenges have come in the raw material prices, MIP, anti-dumping, safeguard duties on steel, has given our producer a pricing power and demand of these regular products, there is lack of demand pull in the economy for the regular products, has put pressure on the margins. However…

Janvi Shah: Is there a pass through?

Management: It has been difficult to pass through. Besides that zinc, which is our main, very costly commodity, the price has gone up astronomically high during this quarter, which has affected our margin. The passing through takes place, but with a time lag. Probably the increase which has been effective the first quarter, we will get the effect in the second quarter.

Janvi Shah: Okay, alright. Thanks.

Management: Thank you.

Moderator: Thank you. Sir, the next question comes from Ankur Periwar from Axis Capital. Please go ahead.

Ankur Periwar: Hi sir thanks for the opportunity. Sir, my question was like longer term. So in your commentary you did mention, you know, targeting of 1500 crores of revenue the next three to four years versus 1000 crores. But if I look historically, if I cut this 1000 crore revenue into two, export and domestic, export is relatively languishing over the last three years, while the domestic business has still done well. So, if you can put some commentary or highlight in terms of how do we plan to achieve the 50% jump in revenues over the next three to four years, whether it is driven by exports or the domestic business and across what are all the key segments where we are looking at?

Management: Traditionally we have been growing for last eight years at an average rate of 15%, so there is no reason for us not to grow at 15%. We have ramped up capacity in structures and auto and ramping up of modernization only. We should be growing at 20%, which is our normal growth and with that growth, there is no reason why we will not see 1500 crores in three years.

Ankur Periwar: Sir, just a clarification. So, you mentioned we have been growing at 15%, so you are referring to the domestic business, not the aggregate revenue, am I right on that?

Management: No, what I am talking is of the aggregate. I am talking of exports, we have flexibility, because of diversified product profile and diversified penetration into the market in domestic as well as in exports, we can reach an aggregate of 15% to 20% growth, overall we can get. Exports, we have been pulling ahead, Indian exports have been declining, but our decline was much, much lower. Even last quarter, our exports have grown by 6% inspite of India's export declining. So there is no reason for us, there is no reason for us to doubt anything. Organization is vibrant enough to take care of it and will grow. 1500 is just, not to think of it, if I say 2000, then probably I have to strain a bit hard. 1500 management is not to strain at all. We will achieve that target easily.

Ankur Periwar: Fair enough sir, I appreciate that. So, this 20% growth, just for the sake of clarity, the margin profile for export versus domestic, how do both these go?

Management: No, export margins are very difficult to define because it depends on currency volatility. Currency plays a big part. With a stable currency, rather appreciating rupee, devaluation of yuan, and many other currencies, it is very difficult to predict. Domestic market is very viable, given the favorable currency situation; exports are more attractive than domestic.

Ankur Periwar: Sir, excluding that there is a currency impact, if you can, you know, point to some numbers, X% in domestic and Y% in exports?

Management: It is difficult to put numbers in exports, but we basically export when it is viable only. Currency loss or gain is a matter of environment.

Ankur Periwar: But don't we hedge our currency?

Management: It is totally hedged. Plain vanilla hedging we do, we only ensure hedging to the extent that our receivables are guaranteed.

Moderator: Thank you sir. our next question comes from Mr. Ankur from HDFC Securities. Please go ahead sir.

Ankur: Yeah, thanks a lot for taking my question sir. Just wanted your view on, I think we have highlighted the crash barriers given the growth in highways as one of the opportunities earlier. So, how is this shaping up and what is the kind of potential you see over next, let's say, two to three years?

Management: It is taking shape. We will be starting this from the second quarter, later part. Basically from the third quarter onwards, this revenue will start coming and as you see, government potential, government persistence on the roads is very high. Earlier we were making 15 km a day, now minister is saying 41 km a day, but if I say they make only 30 km a day, then also, and safety concerns government is increasingly putting money on the safety concerns. Road safety barriers is one of them. So, I look forward to a very good demand from this sector, but I can be sure only when I start in the third quarter.

Ankur: Right. What is the kind of capacity we will be geared to cater for, rough numbers?

Management: Basically we will be taking a capacity of about 750 tons per month.

Ankur: Okay, right sir. And is this a better margin product than compared to your average numbers that we see usually or largely in line?

Management: It should be largely in line, but that cannot be said confirmed because we have not done so far, but it seems from the market research, that it should be in line.

Ankur: Right sir. And second question on the CAPEX looking ahead, sir what is the kind of numbers that we expect to see on capital expenditure in next couple of years? Or are we largely done?

Management: Basically, mostly CAPEX we have done. We have done CAPEX in auto tubes; we have done CAPEX in structures. So for this year, we are taking it as a consolidation year and from the next year onwards, we will see from where the growth comes more and where with the minimum investment we can have the maximum returns. Then we will look forward in the next year. This year we are not looking for any CAPEX, but there will be minimal CAPEX 15 to 20 cores, which normally is the amount that is there, that will take place.

Ankur: Right sir. And finally on the debt numbers sir, could you just update your position on what the debt numbers look like right now?

Management: Long term debt is 93 crores as on 30th June and rest is working capital loan, which is to the extent of about 250 crores.

Ankur: Got it sir, thanks a lot.

Moderator: Thank you sir. Sir, our next question comes from Mr. Sachin Badha from Sharekhan. Please go ahead.

Sachin Badha: Hello, congratulations for a good number sir.

Management: Thank you.

Sachin Badha: I have a question regarding, you had mentioned in one of your annual reports, the last annual report, that you want to move 75% of business to high margin business and currently, which is not the case. So just wanted to understand where are we currently on that target and which exactly the business you think are going to be high margin or are generally high margin business for us?

Management: Basically this year, as on 31st March 2016, it was 47% regular products and 53% the engineering products. What we had said at that time, it was 30% and 70%, 30% was value added and 70% was regular products. But in the last one-and-a-half years, we have come to a stage where the engineering sectors, basically value added sector, it has come to 53% and we are looking forward to take it to 75% in coming two years.

Sachin Badha: Yeah. How are we progressing towards that and how is the contribution in the last quarter, this quarter, June quarter?

Management: This quarter basically we have inched up only to 1%, we have come only to 54% and 46%, but because first quarter and second quarter remains slow, in the second half of the year, we are likely to achieve 57%, 58% this year.

Sachin Badha: Thank you. That answers my question.

Moderator: Thank you sir. The next question comes from Mr. Salil Utagi from Systematics Shares. Please go ahead sir.

Salil Utagi: Good afternoon sir.

Management: Good afternoon.

Salil Utagi: Sir, regarding this margin profile of engineering, value added products, how big is the difference between value added versus the other products and can you quantify the margin number?

Management: Yes, yes. Basically this regular products, there the EBITDA margins are 4% to 5%, but in the value added sector, there the margins are ranging from 10% to 16%. In structure division it is 10% to 12%, in auto it is 15% to 16%, in forging it is 14% to 16%, so there is the basic difference in this.

Salil Utagi: Which are the regular products that you will be slowing down on?

Management: Regular products, basically these are GI Pipes and the CR sheets. This is the regular products, which we classify.

Salil Utagi: Okay. Sir, in these products if you expand the capacity, can there be, scale advantages that you can benefit from?

Management: I don't think so. Because the products should have a margin. My perception is, products should have a margin. By scaling up, we cannot have so much. It can be half percent basically, but if the margin difference is 5% to 16%, so I will put my vote in the favour of only value added products, I will not go for scaling up of the regular products.

Salil Utagi: Okay. Sir, in structural, what is our capacity now?

Management: Structure, capacity is around 48000 tons, earlier, this last year it was 24000 tons. From this year onwards it is 48000.

Salil Utagi: Okay. And you are planning to produce around 40000 this year?

Management: Yes, we plan this year, 38 to 40, 40 to 42000 we are working in this range only.

Salil Utagi: And no immediate plans for raising capacity here, right?

Management: Right. Right now first we have to completely explore this capacity expansion, and then only we can go for any further expansion.

Salil Utagi: Okay sir. And does any of our plants or overall do we get any tax benefits out of this?

Management: No, right now, we are not getting any tax benefits.

Salil Utagi: No tax benefits as of now?

Moderator: Sir, the next question comes from Sheetal Kashwani, individual investor. Please go ahead.

Sheetal Kashwani: Sir, could you give us the outlook on the GST and steel industry?

Management: Yes, GST is coming and it is going to definitely do lot of good to steel processing industry. We are paying huge tax, because most of the suppliers are outside our state, so GST becomes a part of our cost and we are, it is difficult to estimate, but I see a great advantage of GST in our operations.

Sheetal Kashwani: Sir, the steel industry outlook?

Management: Steel industry should brighten, definitely. We can have better days ahead in steel.

Sheetal Kashwani: Also sir, can you please explain how is the Pennar Industries and APL Apollo different than our company?

Management: We are a diversified product company, they are single product company, but I do not know much of them.

Sheetal Kashwani: Thank you sir.

Moderator: Thank you. Ladies and gentlemen, if you have any questions, please press * and 1 on your telephone keypad. Sir, there are no further questions. Now I hand over the floor to Mr. Singh for closing comments.

Sarfaraz Singh: Yeah, I want to say thanks to the management for taking the time to hold this conference call. Thank you sir. And to all the participants for attending. We trust the call was useful and that all your queries were addressed. With that we close the session. Thank you once again.

Management: Thank you.

Moderator: Thank you sir. Ladies and gentlemen, this concludes your conference call for today. Thank you for your participation and for using Door Sabha's conference call service. You may disconnect your lines now. Thank you and have a good day everyone.

Note: 1.This document has been edited to improve readability.
2. Blanks in this transcript represent inaudible or incomprehensible words.