एक कदम स्वच्छता की ओर

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GODAWARI POWER & ISPAT

एक कदम स्वच्छता की ओर

REF: GPIL/NSE&BSE/2020/4166

Date: 19.08.2020

To,

1. The Listing Department,
   The National Stock Exchange of India Ltd,
   Exchange Plaza, Bandra Kurla Complex,
   Bandra (E), MUMBAI – 400051
   NSE Symbol: GPIL

2. The Corporate Relation Department,
   The BSE Limited, Mumbai,
   1st Floor, Rotunda Building,
   Dalal Street, MUMBAI – 400 001
   BSE Security Code: 532734

Dear Sirs,

Sub: Submission of Transcript of Conference Call held on 12.08.2020

This has reference to conference call held on 12.08.2020 for Analyst/Institutional Investors/Fund House/Investors etc., please find attached herwith the Tranascript of Conference Call.

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

Thanking you,

Yours faithfully,
For **GODAWARI POWER AND ISPAT LIMITED**

Y.C. RAO
COMPANY SECRETARY

Encl : As Above

Godawari Power & Ispat Ltd. GPIL Raipur (C.G.)

Transcript

Conference Call of Godawari Power & Ispat Limited

Event Date / Time : 12th August 2020, 12 Noon IST

Event Duration : 57 mins 43 secs

Presentation Session

Moderator: Good afternoon ladies and gentlemen. I am Bharathi, moderator for the conference call. Welcome to Godawari Power and Ispat Limited, Q1FY21 earnings conference call. At this moment all participants are in listen only mode. Later we will conduct a question and answer session. At that time if you have a question, please press * and 1 on your telephone keypad. Please note this conference is recorded. I would now like to handover the floor to Mr. Ankit Toshniwal from Go India Advisors. Thank you and over to you sir.

Ankit Toshniwal: Thank you Bharathi. Good afternoon everybody and welcome to Godawari Power and Ispat Limited Earnings call to discuss the Q1FY21 results. We have on the call Mr. B.L. Agrawal, Managing Director; Mr. Abhishek Agrawal, Executive Director; Mr. Siddharth Agrawal, Non-Executive Director; Mr. Sanjay Bothra, CFO and Mr. Dinesh Gandhi, Director. We must remind you that the discussion on today's call may include certain forward looking statements and must be therefore viewed in conjunction with the risk that the Company faces. May I now request Mr. Dinesh Gandhi to take us through the Company's business outlook and financial highlights, subsequent to which we will open the floor for Q&A. Thank you and over to you sir.

Dinesh Gandhi: Thank you Ankit, good afternoon ladies and gentlemen. I thank you for joining us for the earnings call of Godawari Power and Ispat Limited for Q1FY21 to discuss the earnings for Q1FY21. I trust that you had looked at our earnings results and presentations uploaded to the exchange and to the Company's website. During Q1 the company's business has shown significant resilience and has performed well despite the Covid lead lockdown disruption. The Company has followed all statutory guidelines to maintain health and safety of the employees across the operating plants and mines. The achievement of this result would not have been possible in these challenging times without the support of the local government authorities and employees of the Company. I will now briefly discuss some of the key highlights of the quarter. Pellet production at our subsidiary company Ardent Steel increased 39% YOY. This is lead by statutory announcement in the last financial year from 600000 to 690000 tons and better operating efficiency in the plant despite the Covid lead lockdown. Production and sales were overall impacted due to Covid lead disruption, however our operations now normalized and back to pre-Covid level. Our current plant utilization rate across the plant is 90% plus. We are also able to overcome the impact of lower domestic demand through higher exports sales mainly export of the iron ore pellet. 95% of our pellet production during Q1 was exported which helped us improve our profitability and maintain the operations of the company despite almost around 30 to 45 days shut down in all other plants, pellet plant was shut down for about three weeks in main Godawari Power and Ispat and Ardent Steel. Despite lower sales and volume, the impact of profitability was largely mitigated and we could adjust our product mix towards the high margin product and our EBITDA stood 4% higher quarter on quarter and just 10% lower on YOY basis.

We continue to maintain our focus on balance sheet strengthening and deleveraging and have been repaying debt more than the scheduled repayment. As of July we have repaid about 90 crores of debt in the current financial year against the scheduled repayment of 71 crores for the entire FY21. With the debt repayment, our finance cost continues to trend down which is heading to the profitability and return ratios of the company.

Some of our key priorities in the business as we have discussed in the past as well, continues to remain deleveraging the balance sheet and deploy the entire free cash flow towards the debt repayment. Infact we in the current year with 90 crores of debt already repaid, we plan to repay a total about 300 crores of debt during the current year. We may be able to surpass if the current business environment continues throughout the year. We are yearning to become a debt free company in the next four to five years; till then we will not undertake any major CAPEX and we do not want to undertake. However, our efforts will continue towards increasing the production capacities across the value chain through de-bottlenecking and normal CAPEX. We will continue to focus on increasing profitability by adjusting the product mix towards the higher margin product. High grade pellet production remains our key priority area.

Before I open the floor for questions and answer, I would like to briefly discuss the industry scenario. If you look at the international iron ore, prices have climbed from about $80 in April 20 to about $120 touching to year high. Iron ore prices remained well supported despite global players returning to normal production and maintaining their guidance. Demand from China continues to remain strong both for iron ore and pellet. GPIL being captive in its iron ore production, the profitability is well supported by the captive despite the increasing trend of iron ore cost in domestic market, GPIL cost is not increasing mainly because of the captive source of the supply. Pellet prices, similarly on the lines of the iron ore, pellet prices have also reached to about $129 CIF China as we speak and GPIL is fully booked for its export and sales order till September 2020.

The domestic pellet demand continues to rise. We are slightly shifting our supplier sales….during our first quarter our major focus was on the pellet export because of the lower demand in domestic market, now the demand in the domestic market continues to be improving. From the current month onwards we are partially diverting our sales towards the domestic market to meet the end requirement of the domestic consumer and we will continue to export the pellet to China till our high grade pellet strategy starts playing out. You may be aware in Odisha there was a mine auction in the month of March and despite these auctions taking place due to Covid-lead lockdown, all the mines have not been able to restart the production which is also leading to the supply pressure in domestic market for the iron ore resulting into iron ore and pellet prices continue to remain on the increasing trend. The steel prices across the value chain have also increased by about 20%, 25% over a period of last two months so that will also support our profitability going forward along with the pellet and finished steel prices; we expect to achieve much better profitability going forward in the current year subject to maintenance of this price level.

The external environment of course continues to remain challenging because of the on-going pandemic situation. We are keeping continuous watch over the same. We are undertaking multiple strategic initiatives to make our business model resilient. Our extremely integrated and highly efficient operations give us a unique edge thereby ensuring long-term sustainability off the business. With this I open the floor for question and answer now. Thank you very much.

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. First question comes from Niteen Dharmavat from Aurum Capital. Please go ahead.

Niteen Dharmavat: Thank you for the opportunity. Sir just wanted to know what is the capacity utilization currently and also want to know about the high-grade pellet…what is the price and price difference versus the normal pellet that we were producing or we are producing and what is the margins we are getting in high-grade pellet? Thank you.

Dinesh Gandhi: Thank you Niteen. As regards the plant operation, I've already said in my opening remark, all our plants across the facilities have been operating above 90% capacity utilization level. So on production front we are quite comfortable. As regards the high-grade facility strategy, I would request our Managing Director Mr. B.L. Agrawal to take on this question please?

Abhishek Agrawal: Hello? Dinesh Ji I will take this question. As far as the high-grade strategy is concerned, currently we are still manufacturing our normal pellet which is 63.5 basis pellet. We still haven't started manufacturing the high-grade pellet for the export market. The high-grade export market should come into execution probably by starting of Q3 of this financial year. So I would say another probably a couple of months or maximum three months. So as of now we are still supplying 63.5 pellet to China. The only good thing is since it is our own iron ore mining; the alumina content in our iron ore pellet is as low as 1.5% because of which we are getting a very good premium in the export market. The premium varies from $5 to $6 at the current Chinese market level. So whatever premium we are getting compared to other peers in the market for export is mainly on the alumina side and not on the high-grade side. High-grade pellets are still need to be delivered to the buyers probably that will happen in Q3 of this financial year.

Niteen Dharmavat: Got it. What is the current pellet price and how do you see the demand in the international market? Mr. Gandhi mentioned about it, but just wanted the prices with regard to the pellets.

Abhishek Agrawal: So in terms of the international market, iron ore prices are hovering around 120 levels and in the pellet markets, the general market for pellet is around 120 to 122 levels but because we have low alumina cargo, we are getting numbers at 129, 130 levels. For example, two days back we closed an export cargo to China at 129 CFR levels.

Niteen Dharmavat: Wonderful got it. Thank you so much. If I have any further questions, I will come in the queue.

Moderator: Thank you sir. Next question comes from Vikas Singh from Philip Capital. Please go ahead.

Vikas Singh: Good afternoon sir.

Dinesh Gandhi: Yes Vikas?

Vikas Singh: Sir, first of all congratulations on a very good set of numbers during a challenging period.

Dinesh Gandhi: Thank you.

Vikas Singh: Sir I just wanted to understand our mining capacity has not been able to reach the full utilization for quite some time. So do we expect this year to reach the total 2.1 million tons or there are some problems which would keep ourselves from realizing the full potential of mining?

Dinesh Gandhi: Abhishek?

Abhishek Agrawal: When it comes to mining side, since due to Covid, there was a disruption in our mining operations in both our mines. We are trying to achieve 2.1 million, we are confident we will be able to achieve at least 1.8 to 1.9 million tons this year.

Vikas Singh: So next we will be able to achieve 2.1 million tons…?

Abhishek Agrawal: Yes, definitely.

Vikas Singh: Okay. And sir, the second question is we see domestic our pellet prices also increasing; so just wanted to understand since export also has a few extra cost of freight and all that, is it now profitable to sell domestically or is it still profitable to sell in the export market and what's the margin business?

Abhishek Agrawal: When it comes to export, since we are always been selling in advance basis, so for example as Dinesh ji rightly mentioned, we are already covered for exports till I would say the first half of September, but owing to the current iron ore market in India where there is huge shortage, so the domestic prices of pellet has gone up to almost 8000 level which is I would say almost at par with export levels plus or minus 5%. So going forward there is a possibility we might reduce the export level and give some quantity in domestic market because on the domestic prices are also very, very high.

Vikas Singh: So just for clarity, 8000 kind of domestic prices gives you the same margin which is kind of $120…$125 of export prices gives you? Is that a correct assumption?

Abhishek Agrawal: No, locally you are correct 8000, but for export the last cargo we sold was t 129 so there the realization will be somewhere at 7700 India rate.

Vikas Singh: Okay, understood. And sir regarding Odisha iron ore supply, just wanted to get your view that post monsoon when there is a possibility of most mining coming back, how is your internal assessment when those 14 mines which are not producing right now…at what stage they are with respect to restart the production and post monsoon do you see the pellet size will again start tapering low because of supply coming back to the system?

Abhishek Agrawal: Due to Covid situation the entire mining process was closed for three months and finally in July the new owners were able to execute the government formalties to take over their mines, so I would say that at least a couple of months to three months for them to ramp up the production to the earlier level; so I don't think so the extrusion of iron ore will ease out very soon. It will take upto another three to four months for the iron ore market to come back to the normal level which it was pre-Covid.

Vikas Singh: Okay sir understood. Lastly in your presentation you had given that you had some de-bottlenecking in the solar power limit. What kind of additional unit generation it can give us on an annualized basis?

Dinesh Gandhi: I will take it Abhishek or you want to take it.

Abhishek Agrawal: Please go ahead.

Dinesh Gandhi: Vikas, it is something like this, our generation in the last quarter and even in the month of July has been all time high in our solar power plant. In fact there was not shut down in the solar power plant during the lockdown in India. We had been able to operate the plant in full capacity and because of the initiatives which the company has taken, the generation improvement is already is about 5% to 7%. In fact we were earlier generating about 5% to 7% lower than the…there is a software calculation based on the available DNI. Now for the first time we have started crossing the numbers given by the technical software for transmitting the production from DNI. So in all likelihood this year is going to be the best year for our solar power plant. I would like to further add with regard to the solar, we have continued to repay the debt in our solar power plant so far in the last five to three years we have repaid more than 250 crores of debt and our debt has gone down considerably and it is around 390 crores as of the debt. We have repaid the entire FY21 debt of our solar power plant. The solar power plant has been operating exceedingly well and from this year onwards we are expecting about 7% to 10% higher generation given the DNI numbers and hope that this company will also become debt free gradually over a period of time.

Vikas Singh: Okay sir and sir just one last thing. In our debt interest thing, since our performance has been improving significantly and the interest rate has been on the down trend, so have we got certain benefit as of now or we expect to get it in the subsequent quarters and what kind of incentive deductions….?

Dinesh Gandhi: Yes, I got your point Vikas. We have got some reduction in our interest cost in some of the lender between 50 to 75 basis points and we are expecting another 1 to 1-1/2% reduction across our facilities or across the three, four companies in the current financial year with substantial reduction in the interest cost over a period of last one year because under the MCLR region, MCLR gets reset at the each anniversary at the end of one year. So all our renewal proposals are under process with the lenders and we are expecting 100 to 150 basis points reduction in our interest cost during the current financial year in addition to what has already been reduced. Because of this our interest cost continues to trend down because of substantial repayment of debt which we have been making out of our free cash flow. So you can expect another 100 to 150 basis points reduction in our debt cost during the current year.

Vikas Singh: Understood sir. Thank you and all the best for the future.

Dinesh Gandhi: Thank you.

Moderator: Thank you sir. Ladies and gentlemen if you have a question please press * and 1 on your telephone keypad. Next question comes from Yogansh Jeswani from Mittall Analytics. Please go ahead.

Yogansh Jeswani: Hi sir, thanks for the opportunity. Sir a couple of questions on the export side; can you please help me share the breakup of pellet exports from Chhattisgarh and Odisha plant? How much did we do from each of these?

Dinesh Gandhi: In fact Chhattisgarh we have given numbers in our earning presentation, the entire shipment…almost 95% is to the export market during the Q1. July also it is entirely to the export market. It is only in the month of August we are expecting supply of some quantities from this month onwards in the local market. So that is what the break up is. Regards our subsidiary company in Odisha, during the first quarter, uptil at least the end of May the major supply was in the export market and after that some supplies have resumed in the domestic market to the local clients who have been regularly procuring from us.

Yogansh Jeswani: Right. I see on the presentation that pellet GPIL export was 3,61,000 and from Ardent it was 1,80,000. So Ardent's 1.80 is mostly export?

Dinesh Gandhi: Yeah almost 70% is export and 20%, 25% is domestic. In fact what happens, in Odisha, the entire domestic market pricing also runs with the export parity frankly. So it loaded into rake level, but in Chhattisgarh when we started the plant the realizations were much lower and demand was not there. So we had to entirely depend on the export market and in fact when we reached back operations in the month of April, China started looking up; so that is what supported our profitability and our operations during the first quarter and now the domestic demand is resuming so we are shifting our strategies towards domestic and exports which we have been doing in the past.

Yogansh Jeswani: Right that's really helpful in fact that was my follow up. So Ardent since it's in Odisha and it is near to the port, export does play a bigger role there but so far in the past we have never been able to export pellets from the Chhattisgarh plant, correct me if I am wrong, but I think this year we have been able to and thanks to the realization that we have got. So….

Dinesh Gandhi: No, not this year. In fact we have moved our strategy in the export market about two years ago and with this low alumina we are now able to compete with the Odisha player so far as the export of the pellet is concerned. Earlier what used to be there was, the logistic cost differentials would be there. Now, we have devised our logistics and our arrangement in such a manner and with additional $5, $6 per ton realization, from the low alumina product which we are making it is infact helpful to export the pellet from Chhattisgarh as well. So if you see my earnings presentation, last year also we exported considerable quantity in the export market.

Yogansh Jeswani: Right. I wanted to understand till what export level…till what export realization does our exports on the Chhattisgarh plants are viable? Can you share that?

Dinesh Gandhi: What happens is, our export and domestic market the strategy depends upon the demand-supply in the various markets but our ultimate aim is that our ex-plant realization should always be healthy; so that we achieve through domestic and international market. Maximum realization loaded into the rake level, net earning cost to us excluding freight for export.

Yogansh Jeswani: So what I am trying to understand is, what price in export market…I agree with the demand-supply scenario between the domestic and the export. Just to get a sense to what price in the export markets are pellet exports from the Chhattisgarh plants viable. Can you share that exact realization or part under that?

Abhishek Agrawal: So to check about the number, exporting from Chhattisgarh market to China even at 100 levels also we are making a profit. So we are making money on that. So when we started exporting in April, the numbers are as good as 100, 105 which now has reached to 120 level. Last year also if you see the market, China went upto 130, 135 and they were as low as 100. So we have been exporting in all market conditions, the only reason is, I am the only player in India is giving low alumina pellet where alumina content is 1.5% max. Apart from me, every player in India, the alumina is as high as 2.5%, 3% except KICL which imports its iron ore basis of what you can get alumina. I would say that Godawari itself is a kind of brand in China when it comes to low alumina pellet. So my pellets are always in demand in Chinese market.

Yogansh Jeswani: Understood sir. Sir one question on the Ardent steel, so in the quarter we have been able to produce around 1.85 lakhs; and if we extrapolate that it goes well beyond our approved capacity, so is it like we still have room to grow more but we don't have the environmental clearance to go beyond 6,90,000 or this is somehow we have managed through efficiency and we can still operate about 6.9 million on the Ardent plan sir?

Abhishek Agrawal: There are two reasons. One is there was no shut down in the plant during the quarter and that's why the percent is on the higher side and secondly we have already applied for enhancement of EC from 0.7 million to 0.8 million which we are hoping we should get by the end of this year but the main reason at this level was there was no shut down in the plant. For example in this quarter we had taken a shutdown of 15 days in the month of August. So if you compare the numbers of Q2 it would be eventually less than Q1. We know this will happen. So overall when you compare on production basis has to be on an annualized basis not on a quarter basis.

Yogansh Jeswani: Fair enough sir. And sir the last question will be on what is the status of Jagdama merger? Where are we on that sir?

Dinesh Gandhi: I will take that Abhishek?

Abhishek Agrawal: Yes, please.

Dinesh Gandhi: So in regard to the Jagdama merger, we have received all the approvals especially the production days' approval has been received but we have not been able to file the papers to the NCLT, because our NCLT falls in Cuttack in Odisha and as of now no applications are being accepted there because of the Covid, the NCLT has not been working and they have got a lot of pending applications. I am told that they are switching to the online system for filing the applications which will also be up and running in a few days and then we will be able to file there and after that the shareholder's approval and other approvals will be obtained.

Yogansh Jeswani: That's good to hear sir. I will get back in the queue for any follow up sir. Best of luck. Thank you sir.

Dinesh Gandhi: Thank you.

Moderator: Thank you sir. Ladies and gentlemen, if you have a question, please press * and 1 on your telephone keypad. And dear participants, please press * and 1 once for any questions to be asked and if pressed twice, the question will be withdrawn from the queue.

The next question comes from Mr. AM Lodha from Sanmati Consultants. Please go ahead.

AM Lodha: Hello? Am I audible sir?

Dinesh Gandhi: Yes, yes.

AM Lodha: Good morning sir. Thanks for the opportunity. And I congratulate the management for the excellent set of numbers even in the given circumstances, sir. I have two questions sir. One is regarding iron ore requirement. I just wanted to know sir, whether the company is presently fully using its own iron ore mines and not buying anything from the market.

Abhishek Agrawal: Sir, I would say the company has been using almost I would say 85% of its iron ore resources and only buying 15%.

AM Lodha: How much sir?

Abhishek Agrawal: 85%. 85%.

AM Lodha: Okay sir, okay sir. And 15% buying from the market?

Abhishek Agrawal: Yeah, because we are buying a typical quality iron ore from the market, so that is the reason we have been giving that 15% in the charge from alumina.

AM Lodha: Then in that case what would be the blended cost for the company sir?

Abhishek Agrawal: The blended cost for the company as of now it is around 2550. 2550.

AM Lodha: Okay sir. My second question is sir, what is the present capacity of the Beneficiation Plant which we have got the approval for the environmental clearance, what is the capacity of that plant sir?

Abhishek Agrawal: Currently we are operating our Beneficiation Plant of 1 million on an annual basis, 1 million throughput.

AM Lodha: 1 million, then when we can expect additional Beneficiation Plant approval and what will be the capacity for the company sir?

Abhishek Agrawal: So, the public hearing is already being conducted and we are hopeful that we will get the additional capacity from the Ministry of Environment by end of Q3 at the maximum. And once we get the permission, then maybe then we will enhance the capacity.

AM Lodha: Another question, last question sir, we are having presently iron ore mines at Chhattisgarh, just I wanted to know up to what period benefits of the mines are there sir?

Abhishek Agrawal: 2049.

AM Lodha: 2049?

Abhishek Agrawal: Sorry, 2059.

AM Lodha: 2059. Thank you sir. Thanks a lot sir. That is all sir. If anything, I may join the queue. Thank you very much sir.

Abhishek Agrawal: Thank you.

Moderator: Thank you sir. Ladies and gentlemen, if you have a question, please press * and 1 on your telephone keypad.

The next question comes from Mr. Ayush Mittal from MAPL Value Investing Fund. Please go ahead.

Ayush Mittal: Good afternoon sir.

Dinesh Gandhi: Yeah, good afternoon.

Ayush Mittal: Am I audible?

Dinesh Gandhi: Yeah, yeah.

Ayush Mittal: Firstly, congratulations to the team for a good performance in these times. Sir, I wanted to understand a longer term thought process for the company in terms of reducing the volatility that we see due to the volatile pellet prices. As compared to others, we are more sensitive to pellet prices. And whenever they fall, the numbers get affected much more and similarly they improve in good times. Is there some way by which we can reduce this volatility?

Dinesh Gandhi: Abhishek, I am taking this question. If you see my last three years numbers, you would be surprised to note that my volatility, I know you can see in the market there is a considerable volatility running between Rs.6000 to Rs.8000 pellet price over the last three years which you have been observing from time to time depending upon the demand-supply situation in the domestic and international price. But, if you see the GPIL performance and the quarterly or annualized realization, because the realization depends upon each day sales, purchases and sales etc. and you keep on selling the product. So, say today the prices are at about 7800 and at the beginning of say, third week of April the prices were close to about Rs.5900-Rs.6000 per ton in the local market, now we have been continuously selling the product in the market. And we always keep order for about a month or so. So, our average realization is ranging between 6000 to 6500 or maximum 6700 in the last three years. And our performance has been more resilient because of the pellets. And the volatility which we have been observing in our business or the profitability is mainly because of the fluctuations in the finished steel, right from sponge iron to finished steel prices. If you analyze my numbers, you will be noticing that my volatility is increasing and my 75% of the profitability or rather I would say 65% to 70% is coming from the pellet business alone. And about 10% to 15%, I am talking about it in EBITDA level. And if you see the numbers for our subsidiary company in Odisha, which is a pure pellet play, you will note that this company has been consistently performing closer to about 90 crores of the EBITDA for the last three years. So, that will tell you how the GPIL performance is driving this volatility. In the month of June quarter, we sold sponge iron at an average price of 15000 to 15500. Currently the prices are at about Rs.20000 or so. Similarly, billet price is going down to about 26000, which has increased to 30000. So, more volatility is there rather than the pellet business. The pellet business is more resilient. You will see the pellet prices slightly trending higher, when there is a higher demand from China and some demand when the Chinese demand goes down. And we see this pricing this year is more, it will be more resilient because now currently these are monsoon days, there is a supply shortage in the domestic market and as the Chinese winter has an impact, China will reduce purchase of iron ore and start buying the pellet. So, the point which I am trying to make is that don't say that pellet business is the volatile business. It is more than steel business which is about 20%-25% of my overall EBITDA. It is volatile and that is where we are maximum affected. I won't say that in pellet also our profitability is consistent. There is some amount of volatility, but not to the extent of your steel business.

Ayush Mittal: Sir, I agree with your point that you are conveying that pellet has been better than the other steel products. At the same time, what we see is that when pellet falls to say, 5000 levels or maybe 5500 levels, that is where the worry starts. And basically what I am sir trying to also understand is that, is there a way that given our input prices are broadly fixed as we have our own mines, do we plan to get into longer term contracts or do something to have a more stronger visibility for the next six months or one year or maybe hedging on the international exchange?

Dinesh Gandhi: That we are targeting through the high-grade pellet. That will be there, because that is how that product range is in the international market. And once the high-grade strategy starts playing out, that time we would be entering some kind of long term or medium term contract. Because, in high-grade the contracts are linked to the exchange prices there also, but it is on an yearly contract basis.

Ayush Mittal: Got it. Got it. And in the high-grade the delta is at least 15-20 dollars to the base line?

Dinesh Gandhi: To be higher, to be higher than what we are getting presently.

Ayush Mittal: Okay. And given that this time also seeing a bit of a delay from your side, like now you are saying we will do high-grade in Q3, while earlier I think it was in August or September and there have been delays from before. What is causing this delay?

Dinesh Gandhi: It is because of the international market conditions. We are ready with our Beneficiation Plant for 1 million ton. And it is the international market. Now, you see what is the position in Europe because of this pandemic, so everything is getting delayed and delayed because of that reason. But, so far as the facilities are concerned, we are ready for that. We are awaiting an opportunity in the international market to enter that market now.

Ayush Mittal: Got it. Got it. Sir, I had one important suggestion to make, when I look at your numbers.

Dinesh Gandhi: It is always welcome. It is always welcome.

Ayush Mittal: The Company has done much better than any of the peers. But, one thing that everyone worries is, one of the subsidiaries that we have is Godawari Green Power, because of which we have a very high debt and the return ratios are also impacted. Why don't we look to demerge this company, now that we are self sufficient and the loan has reduced, this will massively improve the balance sheet that Godawari Power is having currently and the risk profile will also reduce substantially.

Dinesh Gandhi: Okay. I think I have been addressing this question almost for the last four-five years. And I have been making a statement that this business, which people have always been feeling that has been a drag on the earning, of course on the ROE basis, it may look like a drag on the earning currently. But, so far as the debt repayment is concerned, it is operating consistently with the variation of 5% to 10% in this profitability and earning, EBITDA and that too primarily because of the natural factors like the DNI. Other than that, everything is in control in that company. That company has been never dependent on GPIL for its repayment. It has been performing from the day one. After the initial capital was invested, we have not infused any money. Our aim is to monetize this investment. Unfortunately, because of the CSP technology and this technology, nobody is putting up a plant on this CSP technology now, because of the higher cost of equipment, there is no interest in acquiring this business. Now, so far as the demerger is concerned, there are technical difficulties which we are facing is something like a subsidiary cannot be demerged. If there is premium undertaking, a decision of GPIL, then it would have been easier to demerge it into a separate company and list it separately. But, as this company repays debt, its profitability is increasing every year, you will see last year also we had some one-time expenditure for shifting of some pipe line and some litigation cost that has gone finally in our favor. Other than that company will start making good amount of profit as our interest cost annually goes down there also. And it will start throwing a good amount of return on equity maybe after two-three years or so. But till then, yes, but this company and if you take my consolidated debt, the debt of this company is not more than about 25% to 27% of my consolidated debt.

Ayush Mittal: Yeah, got it.

Dinesh Gandhi: So, this will rather cushion the profitability going forward in GPIL, because it is a consistent revenue generator, like in annuity business. The only thing is because of debt, you are not able to see any return there currently. And our strategy plays out from the current year, this itself will start throwing 10 crores to 12 crores of additional profitability in that company. And 3 crores to 4 crores of interest cost is going down annually. So, this will start throwing the return on equity now. So, while we continue to monetizing this investment, and given an opportunity we can demerge also. But, otherwise this will not be a drag on the earnings of GPIL, this is all I have to say on this.

Ayush Mittal: Sir, I got your point. My only contention is that we are doing quite well for the last three-four years, but that doesn't get reflected maybe because of the overall high debt and depressing of the numbers because of the subsidiary; but, point well taken that being a subsidiary, maybe it is technically not possible.

Dinesh Gandhi: And if you see right from 2010, when GPIL started this pellet business, pellet has been the more resilient business in GPIL with captive mining rather than the finished steel or any other thing. I would just like a minute on this, if you see many steel companies, especially the mid-size steel companies, after 2015-2016, they failed miserably. And most of them have gone to the door of NCLT. During that time also GPIL profitability was resilient and one of the best among the peers. And this is all thanks to the pellet business. And the pellet is of course, we have 2.8 million ton and that is a sizable capacity.

Ayush Mittal: Got your point sir. Thank you.

Moderator: Thank you sir. The next question comes from Mr. Pritesh Chheda from Lucky investment Managers. Please go ahead.

Pritesh Chheda: Sir, just confirming our complex can produce about 2½ million tons of pellets and about ½ a million ton of steel. And we tend to sell 2 million tons pellets outside and residual we convert into steel and sell, right?

Dinesh Gandhi: Right.

Pritesh Chheda: And lastly sir, this complex of 2½ million tons plus ½ a million ton of steel, what would be the replacement cost of this complex, if one has to construct it?

Abhishek Agrawal: Hello? Can you please repeat that?

Dinesh Gandhi: Do you have any idea what would be the replacement cost of this set up?

Abhishek Agrawal: Can you please come again with the question please? So sorry.

Pritesh Chheda: I said what would be the replacement cost of this setup which we have created of 2½ million tons pellet and ½ a million ton of steel, which we have created alongside the support power infrastructure, if any?

Abhishek Agrawal: I would say probably 2500 crores, 2500 crores.

Pritesh Chheda: Okay. And lastly what I have been hearing throughout the call is, at 120 to 130 dollars of pellet realization, which was about, let's say about, converts into about Rs.8000-Rs.8500 or more than that and which was about Rs.6000 that I see for the last two years consistently and I am seeing from your presentation. And you being a captive iron ore utilizer largely, so this incremental Rs.2-Rs.2½ per kg or Rs.2000-Rs.2500 per ton should translate into your EBITDA or there is any other top line?

Abhishek Agrawal: No, what we said, I quickly agree with it, actually it will come down to 2 to 2½ of EBITDA at the pellet level, definitely.

Pritesh Chheda: At the pellet level, right?

Abhishek Agrawal: Yes, yes, definitely.

Pritesh Chheda: Okay. And via debottlenecking, which you have initially mentioned that you are not going to spend CAPEX, but whatever debottlenecking etc. you will do minor CAPEX, what kind of capacities can you add or what kind of value addition capacities can you add?

Abhishek Agrawal: It may be concerned on the operation side. For example, the steel making capacity which we are running right now, in the market the furnace they are using are very old, probably ten years old. The furnace which are available in the market are highly power efficient, where you can easily save almost 100 units of power per ton of steel making. But then they require a certain CAPEX, they require certain production loss. So, all those things we need to evaluate before taking any decisions. Because, the technology is evolving every day, so every day a new thing comes up which can help in your production numbers. But, it has a cost, it has a time and eventually it actually has a ROI. So, we will only take a call on any kind of CAPEX depending on the situation. But, currently we are very focused on making this company debt free by the next four to five years.

Pritesh Chheda: Okay. So, there is no interim debottlenecking CAPEX which you are thinking of for the next two years at least.

Abhishek Agrawal: No, not right now. That we did not plan as of now.

Pritesh Chheda: Which will add capacity over and above the 2½ pellet and half a million ton steel that we have?

Abhishek Agrawal: No, we are not at the moment. We are not.

Pritesh Chheda: Okay, perfect sir. Thank you very much sir. All the best. Thank you.

Moderator: Thank you sir. The next question comes from Mr. Anurag Patil from Roha Asset Managers. Please go ahead.

Anurag Patil: Thank you for the opportunity sir. So, what kind of volume we can expect in high-grade pellets segment in Q3 and Q4, any target we have set?

Abhishek Agrawal: For the high-grade, I will tell you. Technically we are ready. But, owing to the Covid situation and how the bad, the demand in Europe is especially and Middle East where all the high-grade capacity is being consumed, so depending on the market how it evolves, based on that only we will be able to take a call, at what price and when we want to start the supply of high-grade. For example, when we started this project of high-grade two years back, the premiums which the buyers were willing to give was as high as 60 dollars, over and above the iron ore pricing. Those premiums have come down to almost 25 dollar level. So, you can see almost a reduction of almost one-third from the premium level and the quality is still same. Vale is still supplying the same quality pellet to the same buyers, but the value of that product has gone down by almost 30%. So, we can only take a decision based on the market, how it evolves going into the future. But, technically we are ready to supply high-grade in the market.

Anurag Patil: Okay sir. And any further debt repayment we are planning this year?

Dinesh Gandhi: We have already said in our opening remarks, we have already repaid 90 crores so far in the current year. And we aim to repay total 300 crores, including this 90 crores. So, additional 210 crores we are definitely targeting to repay in the current year. And it could be higher if the pellet prices continues to sustain, say throughout the year, then the repayment will be substantially higher from here.

Anurag Patil: Okay, thank you very much.

Moderator: Thank you sir. The next question comes from Mr. Parthiv Shah from Tracom Stock Brokers. Please go ahead.

Parthiv Shah: Firstly, congratulations for a decent set of numbers and most importantly for further reducing the debt. Sir, I understand from your comments that you have bookings till September and I just want to get a sense, what is the approximate price realization that we have fetched in these bookings along with some domestic orders that you would have taken?

Dinesh Gandhi: Hello? Bothra-ji, you have data?

Sanjay Bothra: Yes. Currently we have orders about 40 odd thousand for local market at around Rs.6800 to Rs.7000. Hello?

Parthiv Shah: Yes sir, okay.

Sanjay Bothra: And for export market, we have one pending cargo at 120 dollars and one in September at 129 dollars.

Parthiv Shah: And sir, I had attended one of the concalls of one of your peers in Siltara and they have sold 50% of the iron ore from the domestic market. So, as I understand that they will be getting advantage of their pellets by around Rs.1000-Rs.1500 per ton. But then that 50% component of their outside sourcing of iron ore is also increased by about Rs.1000 to Rs.1200. In our case as I understand, as we are sourcing only 15% ore from outside, is it safe to assume that our cost of production in pellet is relatively more stable and it has not gone up substantially because of our captive sourcing. Are there any other cost components in your pellet manufacturing which will take the cost higher off late?

Abhishek Agrawal: Totally, totally ,whatever you said I totally agree with it. So, our cost component would be comparatively lesser than my peer, because 85% of the iron ore is coming from my own iron ore mines, where the cost is relatively stable.

Parthiv Shah: And I think that is the reason why over the last three years, if I see your trend of pellets, despite the fact that the pellet prices have been very volatile, but you are still maintaining a very healthy EBITDA margin, anywhere between 18% to 25%, is that correct?

Abhishek Agrawal: Yes, I totally agree.

Dinesh Gandhi: Yes, that is correct. Abhishek, I am just answering this part. The point is that, even Mr. Bothra said that, our current order position is Rs.6800 a ton, some quantities are there. Now, as you keep on selling the product throughout the year and price on being volatile, so at some point of time, your average realization which comes under your profitability and not the absolute realization which is today, say, Rs.8000 a ton, so the prices keep going some up and some down. And you can't realize the entire part throughout the year. So, and therefore this average will always be 6000 to 6000 plus in the entire year. And that is what is making our profitability resilient.

Parthiv Shah: Sir, in one of the past conference calls, the MD sir, BL Agrawal, I think he had mentioned that because of the Odisha auction, where the premiums have run above 100%, based on the IBM prices; Godawari will always have around Rs.1000 per ton advantage in its own captive ore, because we do not have such auctions. Sir, based on the current IBM price trend, are we realizing that Rs.1000 or is it higher or what is the trend in that sir? And how sustainable it seems right now?

Dinesh Gandhi: Rs.1000 is what we have been regularly getting. Anything beyond that will be extra. Abhishek, you take this question.

Abhishek Agrawal: Hello?

Parthiv Shah: Yes, I can hear.

Abhishek Agrawal: Can you hear me please?

Parthiv Shah: Yeah, I can hear you Abhishek.

Abhishek Agrawal: So, can you repeat the question?

Parthiv Shah: Yeah, I will repeat the question. Yeah, I will repeat the question. In one of the past conference calls, our MD sir, Mr. BL Agrawal, he did mention that because in Odisha, the bidders have paid a huge premium of around 100% over the IBM price. So, that will always be a perpetual advantage to companies like Godawari, who are mining without paying any premium to the tune and the benefit works out to the tune of around Rs.1000 per ton in the landed cost of iron ore. So, that is perpetual as my understanding goes, irrespective of the IBM prices.

Abhishek Agrawal: I would say, more than that you are right, but I would like to repeat here is that in Odisha the mining cost, because the mining have been very big and the stripping ratio is 1:1, so in Odisha the mining cost is very, very less compared to my own mines. But yeah, overall scenario if anybody is having a captive mine without paying a premium, they will always have a cost advantage or at least I would say, not less than 20 dollars, going forward because of the high premium which the new miners have paid in Odisha to buy the mines.

Parthiv Shah: Fair enough sir. Thank you so much sir. That answers all my questions.

Abhishek Agrawal: Yeah, thank you.

Moderator: Thank you sir. The next question comes from Mr. Utsav Chhawchharia from A and R International. Please go ahead.

Utsav Chhawchharia: Hi. I just had some confusion regarding our raw material prices. I wanted to understand what determines our iron ore, captive iron ore prices, the cost of the raw material please?

Abhishek Agrawal: So, I would say on an annualized basis, our iron ore, our own captive mines iron ore landing cost is somewhere around Rs.2200-Rs.2300 per ton, landed to my plant from my mines.

Utsav Chhawchharia: Okay. That is fixed or is that something dependent on some other factors?

Abhishek Agrawal: You can say, you can add more or less 5%, because the royalty keeps on changing every month based on the IBM price, apart from that more or less the costs are fixed.

Utsav Chhawchharia: Okay. So, I can say that this cost is going to be fixed until the expiry of the lease which is in 2059?

Abhishek Agrawal: Yeah. But, of course there are certain external factors depending on the volume, the regional prices, for me the transportation is there, but you can say, yeah, more or less, maximum on the side, the fixed rate is 10%, it is not 5%, on the high side.

Utsav Chhawchharia: Okay, alright. Thank you.

Moderator: Thank you sir. That was the last question for the day. Now, I hand over the floor to Mr. Dinesh Gandhi for the closing comments.

Dinesh Gandhi: Good afternoon friends again. I thank you very much on behalf of the management of Godawari Power & Ispat for participating in this concall. And we would be happy to answer the questions, if any left unanswered. And you can always reach us directly or to our investors Relations Company and we would be happy to answer all the questions. Thank you very much. With this, I conclude the call. Thank you very much.

Moderator: Thank you sir.

Dinesh Gandhi: Thank you. Thank you Bharathi. Thank you everybody.

Abhishek Agrawal: Thank you. Thank you so much. Thank you everybody.

Moderator: Thank you all. 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 pleasant evening.

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