Electrosteel Castings Limited
Q1 FY24 Earnings Conference Call
August 11, 2023

Moderator: Ladies and gentlemen, good day and welcome to the Q1 FY24 Earnings Conference Call of Electrosteel Castings 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 any assistance during this conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Vikash Verma from Ernst & Young LLP. Thank you and over to you sir.

Vikash Verma: Thank you Vidhya. Good afternoon everyone. Welcome to the earnings call of Electrosteel Castings Limited for quarter one FY24 results. Today we have with us the management represented by Mr. Uddhav Kejriwal, Whole Time Director, Mr. Madhav Kejriwal, Whole Time Director; Mr. Ashutosh Agarwal, Whole Time Director and Chief Financial Officer and Mr. Gaurav Somani, Joint General Manager of Finance.

Before we start, I would like to remind you that the remarks today might include forward looking statements and actual results may differ materially from those contemplated by those forward-looking statements. Any statements we make on this call today is based on our assumptions as on date, and we have no obligation to update the statement as a result of new information or future events. With this, I would now like to invite Mr. Uddhav Kejriwal, to make the opening remarks. Over to you Uddhav.

Uddhav Kejriwal: Thank you. Good afternoon everyone. And a warm welcome to the company's quarter one of Q1 FY24 earnings conference call on behalf of the entire management team of Electrosteel Castings. Highlighting the company's quarter one operational performance and the business opportunities. Electrosteel Castings consolidated total income stood at INR 1712 crores marginally down on account of planned maintenance shutdown, at Srikalahasthi plant in the first quarter of the financial year. Electrosteel long term bank loan facilities have been upgraded by CRISIL from A+ to AA- and the short term loan facilities have been reaffirmed at A1+ respectively. This demonstrates the strong financial performance and the strengthening balance sheet with the support of all the stakeholders.

During the quarter, our ductile iron pipe sales volume stood at 1,55,137 metric tonnes and the domestic to export mix stood at 80:20. The government's flagship project, Jal Jeevan Mission for connecting every rural household with tap water connection has achieved 65.4% of its nationwide target till date. The Jal Jeevan Mission has benefited 9.5 crore rural households with safe access to safe drinking water. Out of India's total 19 crore rural households, nearly 12.8 crore households now have access to safe drinking water. Electrosteel continues to be amongst the key beneficiaries of the water infra spends, thanks to its industry pioneer and leadership position in ductile iron pipes and fittings, backed by nearly seven decades of rich industry experience and five advanced integrated manufacturing units in India. The company's quest to walk an extra mile for delivering customer delight, along with R&D thrust not only helps to maintain and widen relationships with existing clients, but it also helps to attract new domestic and export marquee clients and key projects.

The ductile iron pipe and fittings industry is currently gaining higher domestic as well as global attention for the need to secure drinking water safely along with robust wastewater management. The company is likely to maintain its leadership status with its ongoing CAPEX plan, visible cash flows and the debt reducing stance resulting in a stronger balance sheet. Electrosteel is one of the first ductile iron pipe companies in the world accredited with the ISO 14001 Certification along with the social accountability and responsibility SA 8000 Certification. The company continues to implement several environment social and governance initiatives aligning with triple bottom line sustainability towards people, profit and planet. I would now like to hand over the floor to Mr. Ashutosh Agarwal, our Whole Time Director and CFO to take you through the Electrosteel Castings Q1 financial highlight. Thanks.

Ashutosh Agarwal: Thank you Uddhav ji. Good evening and warm welcome to all the investors for joining this call today. I would like to start with quarter one results consolidated performance of Electrosteel Castings which was slightly down from the previous quarter and it is 4% year-on-year basis. The turnover is INR 1,712 crores and is down by 4% due to planned maintenance shutdown of Srikalahasthi Plant during this quarter. EBITDA stood to be INR 187 crores with a margin of 10.9% that slightly dip in the EBITDA is on account of shutdown in the Kalahasthi plant. PAT was INR 75 crores in the Q1 and PAT margin was 4.4%.

Now talking about the standalone results of Q1. Company total income stood at INR 1,530 crores against INR 1,751 crores of Q1 23. EBITDA stood at INR 184 crores, with the EBITDA margin of 12%. PAT stood at INR 81 crores and PAT margin was 5.3% during this quarter. During the quarter company did net repayment of INR 35 crores of long term debt. The company net long term debt stands to be INR 850 crores as on 30th June 2023. Gross debt has come down from INR 2,454 crores as on 31st March 2023 to INR 2,200 crores on 30th June 2023.

Highlighting our CAPEX update. As mentioned earlier, the company plans to ramp up its existing capacity from seven lakh tonne to nine lakh tonne per annum and it will be achieved by FY2025, thereby we are focused on maintaining the leadership status in the industry. We have incurred around INR 235 crores till June 2023 and balance approximately INR 360 crores will be incurred gradually. What is good is, all the CAPEX would be primarily funded by internal accruals. With this, I can now open the floor for the question answers. Thanks a lot.

Moderator: Thank you very much sir. We will now begin the question-and-answer session. First question comes from Deepesh from Anya Finance. Please go ahead.

Deepesh: Sir, what is the status of the money which was supposed to come from JSW Steel?

Madhav Kejriwal: Sir, things are progressing, we are on route to getting the evaluation's in place for the various assets with the Ministry of Coal. And as we go through the entire list, we will get a better idea as to the timelines, at this point we are in the midst of the exercise of the valuation of the assets.

Deepesh: As in, the valuation of the assets according to us and according to what JSW Steel is there any mismatch?

Madhav Kejriwal: Not as of now.

Deepesh: And how much are we expecting, what is the approximate valuation which we have kept for that?

Madhav Kejriwal: Our claim amount that is there on the balance sheet. And as of now, to the extent that the exercise has been done for the assets for which the exercise has been done, there is no mismatch.

Deepesh: Okay. Wanted to know about the order book status, at the start of the quarter how much orders were there, in this quarter how many orders you've received and how much have we converted into sales?

Madhav Kejriwal: So, we've started the year with approximately order book of between six and a half to eight months and as of now we've increased that to around eight and a half to nine months this quarter we've booked more orders than we have serviced.

Deepesh: Can you quantify with the numbers?

Madhav Kejriwal: I'll get back to you with the exact numbers sir. Gaurav maybe you can.

Gaurav Somani: So, that would be close to around five lakh tonnes.

Deepesh: This is the order book closing position or this is the added number to the quarter?

Gaurav Somani: This is the order book on hand.

Deepesh: Okay. Approximately five lakh tonnes?

Madhav Kejriwal: Yes.

Deepesh: And in this quarter how many orders did we add?

Madhav Kejriwal: This quarter you mean in terms of the differential between the opening orders between April and June end?

Deepesh: No, actually what I wanted is that by April beginning how much order book was there, how much was converted into sales and how much order was added?

Gaurav Somani: So, we had a order book of around four lakh tonnes when we started the financial year. So, the order book has gone up by one lakh tonne and in between we have also done sales. So, our net order book has gone up by one lakh tonne.

Deepesh: Okay. Net order book has gone up by one lakh tonne and out of the four lakh tonnes also we've done something that has been converted to sales also right?

Gaurav Somani: Yes.

Deepesh: Okay. So, maybe the net addition will be more than that, fine. And what is the debt situation sir?

Gaurav Somani: Debt as we said in the beginning, we have a growth rate of around INR 2,200 crores which has come down by around INR 250 crores from the 31st March 2023 period.

Deepesh: Okay. And in case if we and hopefully we will get in this quarter the money from JSW Steel, most of it will go into removing the debt?

Madhav Kejriwal: So, I previously mentioned during the last call the capital received against the mine will be distributed a balance between servicing debt and potential further capital investment will be done. But the major concentration would be towards debt servicing.

Moderator: Thank you, sir. Next question comes from Arian Selma from Infinity Capital. Please go ahead.

Arian Selma: So, I have a few questions. My first question is how many Indian states ECLs products are made available right now?

Madhav Kejriwal: All of them.

Arian Selma: Okay. I was going to ask that how would you widen your distribution network any light on that?

Madhav Kejriwal: Sir we are omnipresent in India and almost the entire globe as well. There are limited countries which are exceptionally protectionist in which we are not present, but apart from that we are selling 110+ countries, so we're hitting a good number that way and growing in the sense that we are constantly looking for more opportunities, new markets.

Arian Selma: Okay, got it. Sir my next question is, what is the domestic and export market share of ECL, in specifically DI pipe segment?

Madhav Kejriwal: For the domestic market we will be approximately somewhere between 25% to 28% at this point, and for the export market. If we compare to the exports made from India, approximately 65% of the export from India is done by Electrosteel Castings.

Arian Selma: Okay, got it. And lastly, this Nal Se Jal program has been a great demand driver for us during recent years. So will it be sustainable post 2024 also. And a follow up of that is, we are also looking to foray into new categories like agriculture and irrigation, that kind of?

Madhav Kejriwal: So, sir we are already supplying our product for the purpose of irrigation, approximately 25% to 30% of our demand comes in from the irrigation sector globally. And in regard to the Nal Se Jal, the percentage that has been covered so far is approximately 65% or so. So, there's a long way to go and I'm very confident that the government is not going to leave this without reaching the 100% marker. So there is if you see in 2019 this was announced and it's been around five years if you remove the COVID years as well, it still took three and a half, four years to get to 65%. So, we are hopeful that this will continue and also we have the Amrut 2.0 which is for the urban areas, which is coming in with an investment of approximately three lakh crores. So demand is very robust for a good two years to come.

Moderator: Thank you, sir. The next question comes from Saket Kapoor, from Kapoor Company. Please go ahead.

Saket Kapoor: Sir when we see the Q1 numbers, our EBITDA margins have dipped to 10.9. So taking into account the impact of the shutdown, that getting vent in the second quarter, what should be the EBITDA margin trajectory going at ahead?

Ashutosh Agarwal: It will be better than the Q1, the Q1 was less as rightly said by due to shut down of Srikalahasthi unit, but the second quarter will be definitely better than Q1.

Madhav Kejriwal: We are expecting around 13% to 14% sir.

Saket Kapoor: Okay. Sir, our margin profile used to be in 14% for FY22 as its mentioned in the presentation and last year because of the volatility and the higher raw material prices impact it was at 11.2%, so for this year even factoring this 10.9 for Q1 can we look at an exit of 14+ on a blended basis 13 to 14 for the entire year as of now, depending upon the current benign prices of the raw material, is it a good understanding?

Madhav Kejriwal: Sir, it should be within that range.

Saket Kapoor: Okay. And the other income component we see other income at INR 27 crore. So, can you give the breakup of the same, what constitutes this other income and do we have any ICD balances pending as on 30th June?

Ashutosh Agarwal: ICD balance as on today is zero and 30th June it was around INR 0.5 crores and other income is interest received.

Saket Kapoor: Okay. And this interest income is only on account of this ICD part only, or other instruments also where we have invested?

Ashutosh Agarwal: ICD and the temporary FD we have created and created out of the surplus fund.

Saket Kapoor: Firstly, I would congratulate the team for the very detailed investor presentation. It answers many of our questions and I also got the ESG part of the story which have been elaborated very well in the investor presentation so kudos to the team on account of that. Sir, in the CI Spun Pipe category. If you could elaborate, where our applications for these into and what percentage of our revenue and profitability are contributed from the CI, 91,000 or 71,000 tonne capacity is mentioned?

Madhav Kejriwal: So sir to answer the first question, the segment for which it is used is sewage. And for the percentage of revenue and profitability, I'll ask Gaurav to elaborate on that.

Gaurav Somani: Saket, CI would contribute around 2% to 3% of our total revenue, so not much.

Saket Kapoor: Okay. And the fitting part is also subjected to 2% to 3% only the DI fittings?

Gaurav Somani: Fittings should be slightly more than that.

Saket Kapoor: Sir, when we look at the growth for the pump segment, in the pump from category do we have this synchronizing part between pipes and pump category, if there is a greater demand for pumps vis-à-vis for pipes, do we find the correlation for DI pipes also, or is it only for the long distance pipe that the pump demand generally, if we find incremental demand, do we have a correlation between them?

Madhav Kejriwal: I'm sorry, Saket I couldn't really understand your question quite clearly.

Saket Kapoor: Sir, I'm looking for a correlation between pumps and the pipe segment, is it for the DI pipes also we find pumps being installed or is it only for the long ended pipes like **LSAW/HSAW** so the pumps category also comes into play, I just wanted a correlation between pumps and pipes segment.

Madhav Kejriwal: So sir pumps per se have a plethora of applications beyond just the main lines, what you are referring to is the long distance mainline that are used, but pumps have a lot more of application. So, when you talk about pumps that are used for the mainline purpose, then there is a direct correlation in the sense that the demand should be equivalent in the same but again as I mentioned pumps are used for distribution lines and for many purposes beyond just that. it's difficult to put an exact number in the correlation between the two.

Moderator: Thank you. The next question comes from Vikash Singh from Phillip Capital. Please go ahead.

Vikash Singh: Sir, I just want to understand the competitive landscape basically, recently Tata Metallic's is also going for a capacity expansion which is in West Bengal and even in Southern region where you used to have known plant now Jindal Saw has come up with Sathavahana. So, just wanted to understand, if the market is expanding to accommodate everybody or there could be a little bit of high intense competitive intensity which could impact our margins going forward?

Madhav Kejriwal: Sir, in the short to mid-term, the demand is extremely robust. With the new capacities also there is adequate demand for the margins to not get impacted. As mentioned a little earlier, there is substantial investment coming into the water supply and Irrigation sector. So, we don't see that as a problem.

Vikash Singh: So, does this works on the Southern market also or we would now see Srikalahasthi margins are more normalized because historically it was a bit premium. Now with another 2 lakh tonne capacity coming into the same space, which was previously operational demand usually grows with a lag. So, what we see more normalized margins from Srikalahasthi or we would maintain the slightly better margin than the West Bengal region?

Madhav Kejriwal: Even today with the increased demand in the Southern and the Western market which we cater to from the South. There is adequate demand for accommodating another manufacturer with Sathavahana's capacity and still to be able to command similar margins.

Vikash Singh: Understood. My second question pertains to our coking coal cost, if you could give us some insight that how the cost would move in the next quarter, coking coal as well as the overall cost of production, and if we get benefits on the fixed price contracts?

Uddhav Kejriwal: Hi, good afternoon. So, on the coking coal market in general, we all know that the market has not spurn any surprises as such and it continues to remain in a way range bound, that is the first thing. Now, as far as the company specific scenario is concerned, since we are largely dependent upon imports to take care of our coking coal requirements. So, as of now we do have certain tie ups or certain inbound in place, which should definitely take care of the way we have done our product costing and budgeting and further planning. So, definitely, if not more definitely till the last end of this calendar year. Now going forward, how the market is going to behave is something that I would not like to emphatically comment on. But, having said that since we are very much alive to our entire scenario and every single development or every single movement in the market, and we are personally very, very engaged and active in the entire scenario, definitely we keep reviewing this at our end on a very, very regular basis. And whatever it may be, we would definitely take a call or decision based on any movements or indications we see in the market which we would believe at that time to be in the maximum interest of the company and try to cover ourselves maybe even beyond December if the situation so arises.

Vikash Singh: So, sir I'm a bit lost here, I just wanted to understand the coking coal costs savings movement into 2Q versus 1Q or what I can make out that we have already covered till December. So, is that at a higher price in which we have already built up inventory or the cost would keep on gradually coming down and if it is coming down then what is the cost raising on 2Q or 3Q you are expecting that's what I have asked the question.

Uddhav Kejriwal: As of now, I do not think that the inventory buildup is at a higher cost. Secondly, it is not entirely inventory buildup at our end, it is just that there is some vessels which are in process and other than that, we also have some inventory at plant. So in totality depending upon the blend, they should take care of more or less this calendar year. But beyond this, because we try to keep improving on our blends and try to see without affecting the quality of the coke how we can optimize in the cost it would not be right to share very, very exact cost data of what is the coking coal cost as such, because it is not only coal we do, the blast furnace we definitely consists of other than coke various other elements which you know like iron ore, etc.

Vikash Singh: Point taken sir. Sir, just wanted to understand right now in our contract of five lakh order book, so are these our fixed price contracts or linked to basically pig iron index how it is for us right now?

Madhav Kejriwal: The majority of them are on fixed prices.

Vikash Singh: Understood. So, on a rolling basis once as the cost start rationalizing we should benefit right, generally we should be benefiting in the subsequent quarters?

Madhav Kejriwal: That is what we are expecting, Yes.

Vikash Singh: Understood sir. And lastly, we have paid INR 250 crore so have our entire repayment for this year from debt has already been done, or some part is pending, if you could give us some insight into your debt repayment as well as the targeted repayment for this year?

Ashutosh Agarwal: The long term debt is scheduled to be paid in the span of three, four years. And this year our commitment was around INR 200 crores out of that we have paid INR 35 crore during this quarter, balance is outstanding and it will be paid on due dates. And working capital debt is on and off we are using and not using it is very, very fluctuating debt.

Moderator: Thank you. Mr. Shriram. Please go ahead.

Shriram: So, I have three questions. So, basically what is our current capacity utilization and if you can give a break up in terms of the application wise for the DI pipes like, how much would be for irrigation, sewage, potable or clear water that would be helpful?

Madhav Kejriwal: So, the capacity utilization is 100% right now, there is no backlog by God's grace on that front because we see very robust demand. In terms of the percentage of demand between clear water, irrigation and sewage, this is something that fluctuates depending on the concentration by the various state governments. At this point, a major chunk is towards the supply of clear water, going forward with Amrut coming in we see some of the sewage picking up and reducing a little bit into, or eating a little bit into the distribution of clear water while irrigation stays at a robust 25% to 30%.

Shriram: Okay. And sir do you directly sell to the consumers or EPC**?**

Madhav Kejriwal: So, the consumer here are the department sir.

Shriram: Yes, I understood so do you directly sell to them or via EPC?

Madhav Kejriwal: Both.

Shriram: Both. And how much would be the split, if you can give what is the direct versus EPC?

Madhav Kejriwal: It will be an 80:20 sort of a situation at this point.

Shriram: 80 would be?

Madhav Kejriwal: Direct to EPC. Sorry, 80 is to EPC not direct, just to clear. Through EPC I meant sorry.

Moderator: Thank you sir. The next question comes from Raj Mehta from Robo Capital. Please go ahead.

Raj Mehta: I just wanted to get a trajectory on the revenue growth going forward. So we have seen that like from 2019 to 20 was flat after that it was a 20%, 30%, 40% growth. So what would we expect going forward?

Gaurav Somani: So Q1, as we said, we had a planned shutdown. So revenue there was a dip, but generally second half of the year is robust in our industry.

Raj Mehta: And what about the full year growth sir?

Gaurav Somani: So, this year we will not have much growth because we are having the CAPEX ongoing which will be completed by close to end of next calendar year. And then we will be reaching at nine lakh tonnes. So it will be 30% more where we are right now and the full benefit we will get to see in FY26, having said that, some of the portion of the enhanced capacity expansion will come into play in next financial year. So, next financial year, we'll have some growth over this financial year. But the majority will come in FY26. So, 10% approximately you can say in FY25 will have 10% growth and FY26, we will see the major growth.

Moderator: Thank you. The next question comes from Nagraj Chandrashekhar from Emerge Capital. Please go ahead.

Nagraj Chandrashekhar: Just sequentially you should be seeing an all in decline in cost per tonne of INR 2,000 to INR 3,000 per tonne. I just want to get a sense on given the tenure of our order books, typically nine to 12 months would we see any decline in realization per tonne or would that be stable?

Madhav Kejriwal: I'm sorry, sir.

Nagraj Chandrashekhar: You should be seeing based on what you said. A drop in your all in cost of INR 2,000, INR 3,000 per tonne sequentially. Based on the fixed price contracts we have, and the fact that our order books are nine to 12 months in tenure typically booked out at fixed prices, that should translate directly into an EBITDA gain of the same amount correct?

Madhav Kejriwal: So, to a very large extent you are correct sir, a majority of these orders are going to be serviced within the timeframe of nine months, during which we will see an improvement in the costing but it's not that there will be a direct 1:1 impact because some new orders will be picked up which will be serviced within these nine months at a lower rate owing to the lower raw material prices, but saying that, yes, there should be a substantial part of this cost correction should make its way into our margins.

Nagraj Chandrashekhar: Understood. And the shift in the industry over the last few years to your benefit of, like you mentioned selling 80% through EPC contractor reducing a receivable risk. Has that meant that the industry has moved away from fixed price contracts to sort of price escalation, the escalation loss pass through or is it purely fixed, but obviously coming at very variable intervals?

Madhav Kejriwal: Sir, majority of it is fixed apart from extreme situations such as what we faced last year where we had no other option but to get on to the renegotiation table even with our EPC partners. It's mostly fixed.

Nagraj Chandrashekhar: Understood. And was there any component in your cost this quarter of any raw material or finished goods inventory mark to market downwards, given the declines in cost of goods?

Ashutosh Agarwal: No. Nothing great.

Moderator: Thank you sir. The next question comes from Pashawa Veer an Individual Investor. Please go ahead.

Pashawa Veer: Well, I wanted to understand about the recent CAPEX that you said, will be happening or completed by calendar year 2024, or financial year 2024?

Ashutosh Agarwal: Calendar year 2024.

Pashawa Veer: That would be after one and a half years, am I correct?

Ashutosh Agarwal: Yes.

Pashawa Veer: And what exactly was the reason for going for CAPEX, is it more and more orders that you're getting?

Madhav Kejriwal: Yes, please. We're seeing a robust market and being the leaders in demand we find ourselves in a very opportune position to capitalize on the same.

Pashawa Veer: Okay. So major turnaround of the company would happen post the CAPEX is done, Am I understanding that correct?

Madhav Kejriwal: So we would like to believe that a good turnaround has already happened. And going forward, we'll see even better days. Even the inflow from the recovery of the coal mine stuck up capital will help substantially in that.

Pashawa Veer: By what time do you expect that capitals going back to the company?

Madhav Kejriwal: You mean in terms of the capital expenditure payback?

Pashawa Veer: No, the stuck up capital in the government organizations

Madhav Kejriwal: What we think optimistically is within this financial year, there can be a bit delay and it can be done before as well.

Pashawa Veer: Alright. And coming to the raw material costing, are you seeing the cycle on the downward side or is it almost stable compared to the last year and year before?

Uddhav Kejriwal: The raw material cycle right now is, I would like to believe and say that it is in a kind of a stable mode. Having said that, we're definitely alive to any of the factors that may result in our shift in the current situation or any change there too.

Pashawa Veer: So, currently it is stable compared to the last year, which was on the higher end if I'm not mistaken?

Uddhav Kejriwal: Yes, last year was dramatically very, very active and we did see some record highs in the last year absolutely, you're very much correct on your knowledge on that. Yes, this year, thankfully has not seen that kind of drama in terms of the movements.

Pashawa Veer: Okay. And what would be your major raw material input cost?

Uddhav Kejriwal: Well, our major raw materials that contribute to the larger share of our cost would be coal and iron ore largely.

Pashawa Veer: Okay. So nothing on the power end, because electricity would be another thing too right?

Ashutosh Agarwal: 60% of power is captive, that's why it's not a major component. But you're right generally it is a one of the major components.

Pashawa Veer: Okay, so 60% is already captive, you might be having those power plants for yourself?

Ashutosh Agarwal: Yes.

Pashawa Veer: Okay. And any benefit that you arrived at after getting the merger or Srikalahasthi pipes that happened last year, or last to last year, any significant benefits that arrived?

Madhav Kejriwal: Whenever two entities in a similar field of business merge although we were operating in a lot of sync being associate companies but post the merger we see that homogeneity creeping in even more, and definitely there are severe cultural and systematic benefits that have come out of this merger.

Pashawa Veer: But in terms of financial benefits for the company, it will be different from the cultural benefits?

Madhav Kejriwal: It will be difficult to quantify an exact numbers.

Pashawa Veer: Percentage is fine, any approximate percentage or an outlook that could take this company to greater heights.

Gaurav Somani: If you see the numbers and if you see the overall performance, it has improved. And if you see the credit rating, we have gone to AA minus by CRISIL. So that itself testifies that the performance and the balance sheet has strengthen after the merger.

Moderator: Thank you. Next question comes from Rajesh Agarwal from Money Ore. Please go ahead.

Rajesh Agarwal: Sir, can you quantify how much production was lost due to the maintenance shutdown?

Uddhav Kejriwal: We have lost approximately about 15,000 to 16,000 tonnes of production due to this shutdown. And, that is very clearly reflecting in the P&L and the EBITDA margin.

Rajesh Agarwal: Can you quantify in terms of rupee amount, INR 100 crores or INR 200 crores?

Uddhav Kejriwal: That would be difficult.

Ashutosh Agarwal: INR 250 to 300 crores.

Rajesh Agarwal: Okay. And sir one more question, a lot of EPC contractors are saying there's a shortage of DI pipes. So in export, do we hope to get a better evaluation by the shortage of DI pipes?

Madhav Kejriwal: Yes. Sorry, can you repeat the question?

Rajesh Agarwal: Lot of EPC contractors are complaining because there's a shortage of DI pipes. And suppose, we are in to export also, can be get a better evaluation in exports to come up of the shortage?

Madhav Kejriwal: We do get a better price in the export market, than we do in the domestic market even with this deficit. There is a constant balancing act that we are looking at to maximize profitability and maintaining long term market presence.

Rajesh Agarwal: Okay. And EBITDA margins will improve because of the realization improving or the cost coming down?

Madhav Kejriwal: Both.

Rajesh Agarwal: Okay. And will there be a growth in volumes this year?

Madhav Kejriwal: Not really sir. As mentioned earlier, the impact of the capital expenditure will come in by the later quarters of the next financial year.

Rajesh Agarwal: So major profitability will come by increase in margins by 2% to 3%?

Madhav Kejriwal: Right.

Rajesh Agarwal: And quarter-to-quarter there's been a saving in the finance cost, we have paid debt. So, how has the working capital **behaved** this quarter?

Ashutosh Agarwal: Depending on the working capital utilizations since the prices of coking coal has fallen down, there was less utilisation of working capital and there was saving of interest cost, long term debt is already paid and there was some saving on account of that.

Rajesh Agarwal: What are the number of days for working capital this quarter?

Ashutosh Agarwal: Working capital (Debtor Days) generally 60 days.

Rajesh Agarwal: Okay. And has been there any inventory write off because of the fall in cooking coal for any inventory write off this quarter?

Ashutosh Agarwal: Till now nothing.

Moderator: Thank you sir. The next question comes from Katherine from USG Securities. Please go ahead.

Katherine: I'm sorry, sir. I joined a little bit late. So, sir this is regarding the proceeds that you are expected to receive for the coal mine that was reallocated. Sir, I'm not sure I don't recall but I read somewhere that you're planning to reduce your debt with that particular proceeds coming in, is it true are you sticking to that or?

Madhav Kejriwal: Ma'am major chunk of what we will receive in terms of the coal mine compensation will go towards reduction of debt, but we are also looking at utilizing a portion of it towards expanding.

Katherine: Can't hear you.

Madhav Kejriwal: I'll just repeat to, a major chunk of the capital that comes in will go towards reduction of debt, but we shall also be using some of it for potential expansion.

Katherine: Okay. Could you please give us guidance on how much reduction of debt and how much for capital expenditure?

Madhav Kejriwal: Ma'am that is something which really depends on opportunities that come in front of us at that point, we are not entirely, we have not yet fixed upon the percentages so far.

Ashutosh Agarwal: It depends on how much money we are going to receive.

Moderator: Thank you, sir. The next question comes from Sushil an Individual Investor. Please go ahead.

Sushil: So, sir in continuation to the previous question, if we differentiate our EBITDA between domestic markets and export markets, so how will it look like that is the first question. Second is, when we say 80% of our sales are through EPC how is the collection cycle different from an EPC sale or direct sale and the third one is, are there any imports into India of DI pipes, while majority of the large peers are exporting, is there any particular category or something like that where India is importing DI pipes as well. These are the three questions from my side.

Madhav Kejriwal: I will answer your questions in reverse. With the first one there are no imports coming in from any other country into India. All the demand for the product is supplied via domestic suppliers. Can you just repeat the second question again please?

Sushil: So when we say our 80% of the sales come from the EPC contractors, we sell to EPC contractors and they in turn sell to the government agencies. So how is our collection cycle different know when we sell it to an EPC contractor or directly to a government agency?

Madhav Kejriwal: So the EPC contractors is approximately 45 days earlier than the government bodies.

Sushil: And what is the cycle of the government bodies?

Madhav Kejriwal: Well, at this point, it should be somewhere between 90 to 120 days.

Sushil: Okay. And my third question was regarding the EBITDA differential between domestic and export?

Madhav Kejriwal: Sir, this is something that we don't like to share because considering our large chunk of exports, we can tell you this much that it's a substantial amount higher.

Sushil: Okay. Sir, one more question. If we see this Nal Se Jal scheme so how much of our top line is contributed by this government scheme?

Madhav Kejriwal: It won't be incorrect to say that, a major portion of the demand as I mentioned irrigation is one part of it, export is another. But still, 55% or say 50% to 60% of our top line is coming in from water supply. And majority of that would be Jal Se Nal and part of it is Amrut and a few parts or the other state funded projects that are coming in.

Sushil: And when all the players are coming up with a good amount of CAPEX and government has achieved 65% of the targets. So what do you see three years down the line, the government achieved 100% of the target under Jal Se Nal, so then what will drive the revenue in this segment?

Madhav Kejriwal: AMRUT 2.0 is another very big project that is going to be, that has already started taking off which at a very nascent stage though. That will see a substantial demand source for us. Another part which is important to address is that Jal Se Nal is all virgin lines of pipes that are there whereas a good chunk of India's pipelines require replacement, India's average leakage is anything between 35% to 50% today, so this is for the existing pipelines. I'm very certain that our government is taking this up very seriously and we will see a good consistent demand coming in from the replacement market.

Sushil: And what are the annual tenders that are coming under the AMRUT scheme which you mentioned, rough estimate?

Madhav Kejriwal: The total outlay for the center is around three lakh crores rupees over the next five years. There are certain other elements of Finance through state and foreign funding. It’s little difficult to exactly talk about the annualized outlay for the same things.

Moderator: Thank you sir. The next question comes from Saket Kapoor from Kapoor Company. Please go ahead.

Saket Kapoor: Sir, the volume loss that has happened due to the plant shutdown, this will make up in the other end during the remaining part of the year or what should be our volume number for this whole year sir?

Uddhav Kejriwal: It will be the endeavor of the company to definitely make up this volume in the next couple of quarters. And on a year-on-year closing we should not, we should close the year without any loss of volume.

Saket Kapoor: Okay. So, last year we did 7,10,000 so, we will be nearer to that?

Uddhav Kejriwal: Similar.

Saket Kapoor: Similar to that, have you provided the volume number for this quarter, the tonnage part?

Uddhav Kejriwal: Sorry?

Saket Kapoor: The tonnage we have provided for Q1 what have been our production in sale number?

Uddhav Kejriwal: Yes, obviously we have. So, we have produced for this quarter DI pipe production has been total 1,63,000 tonne, so you can say it is 1,64,000 tonnes.

Saket Kapoor: Okay. And sales?

Uddhav Kejriwal: And sales have been about 1,56,000 tonnes.

Saket Kapoor: And last year comparative numbers?

Uddhav Kejriwal: So, this was Q1 23-24 now when you look at, you want to look at the Q1 of 22-23?

Saket Kapoor: Yes.

Uddhav Kejriwal: So, Q1 22-23 production was at the same levels DI pipe production, 1,64,000 was the same figure, the sales was also 1,57,000 tonnes.

Saket Kapoor: So, when we are comparing like-to-like there is no change last year and this year?

Uddhav Kejriwal: This is when we are looking at into the pipe part. But in addition to this, last year we were able to produce in addition to this pipe quantity, we were able to produce and sell pig iron, to the tune of about 25,000 tonnes which this year we have not been able to do so far.

Saket Kapoor: So, can you give that revenue figures for last year that contribute to the pig iron and the EBITDA number for pig iron segment?

Uddhav Kejriwal: Separately giving this number may not be feasible but howsoever we try to.

Madhav Kejriwal: Saket we will share the production figures with you for industry standard for then you can guess it a bit.

Saket Kapoor: Yes, in understood. But we don't have any sale of pig iron in this quarter like you said due to shut down?

Madhav Kejriwal: Last time our sale was 26,000 tonne and this time it's around 10,000 tonne. And the loss of 15,000 tonne hopefully if we can keep it till pig iron sale, but our efforts to make up what we lost on pig iron.

Saket Kapoor: Sir the conversion is 1:1 for pig iron and DI pipe, 15,000 tonnes get converted to 15,000 tonne into pipes?

Madhav Kejriwal: Almost.

Saket Kapoor: Sir one understanding and one suggestion. Our numbers come at the back end of the ending season, so if you and your team can work to present the numbers early and do work on the dividend distribution policy as well, so that we get clear guidance as to how the dividends will be given to the investors. And till now there is no announcement about last year's AGM and our last year dividend is also due. So, we don't get all these information. But now we are into the next financial year and we are proceeding towards the first half H1 and still now the dividend for the last financial year is still unpaid to the investor. So, we should try to communicate all these factors within the first quarter itself and not keeping pending till December. So that has been the practice over the years. So when you are getting engaged now with investing community trying to create value for investors giving us the insight these are the problems which we as investors and people have always seen in the company. So please take steps to correct these anomalies, this can be done very easily. If you take part in this action.

Madhav Kejriwal: So we highly appreciate your feedback and we will definitely work on these elements. Thank you.

Moderator: Thank you sir. Thank will be the last question for the day. I now hand the conference over to the management from Electrosteel Castings Limited for the closing comments. Over to you sir.

Uddhav Kejriwal: I would like to thank all the market participants for their valuable time and continued interest in our company. We believe the company is well positioned to be benefited from the growing water infrastructure spending in domestic and export markets. Electrosteel Castings will continue to maintain industry leadership stance with its CAPEX plan, competent management, customer delight proposition backed with trust on quality, coupled with robust balance sheet. If in case you have any further queries kindly feel free to reach out to the E&Y IR team. Thank you, have a great evening.

Moderator: Thank you sir. Ladies and gentlemen, this concludes your conference for today. Thank you for your participation and for using Research Bytes Conference Call Service. You may all disconnect your lines now. Thank you and have a pleasant evening everyone.