

Electrosteel Castings
Q2 FY23 Earnings Conference Call
14 November 2022

Moderator: Ladies and gentlemen, Good day and welcome to the Q2 FY23 Earnings Conference Call of Electrosteel Castings Limited hosted by Valorem Advisors.

As a reminder, all participant lines will be in the listen only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" and then "0" on your touchtone telephone.

I now turn the conference over to Purvangi Jain from the Valorem Advisors. Thank you and over to ma'am.

Purvangi Jain: Thank you. Good evening, everyone and a warm welcome to you all. My name is Purvangi Jain, AVP from Valorem Advisors. We represent the investor relations of Electrosteel Castings Limited. On behalf of the Company. I would like to thank you all for participating in the Company's Earnings Conference Call for the second quarter of the financial year 2023.

Before we begin, let me mention a short cautionary statement. Some of the statements made in today's earnings con call may be forward looking in nature. Such forward-looking statements are subject to risks and uncertainties, which could cause actual results to differ from both anticipated. Such statements are based on management belief, as well as assumptions made by and information currently available to management. Audiences are cautioned not to place any undue reliance on these forward-looking statements in making any investment decisions.

The purpose of today's earnings conference call is purely to educate and bring awareness about the Company's fundamental business and financial quarter under review.

Now, let me introduce you to the management participating with us in today's earnings call. We have here with us. Mr. Sivalai Senthilnathan - Vice President Finance and Corporate Affairs, Mr. V. M. Sridharan - Senior General Manager of Finance, Mr. Neelesh Daga - General Manager of Accounts and Finance and Mr. Gaurav Somani - Joint General Manager of Finance.

Without any further delay, I will hand over to Mr. Sivalai Senthilnathan for his opening remarks. Thank you and over to you sir.

Sivalai Senthilnathan: Thank you Purvangi Jain. Good evening, everybody. It is a pleasure to welcome you this Earnings Conference Call of the second quarter of financial year 2023.

Let me first take you through the financial performance for the second quarter and then half year of our Company on a standalone basis. The total income for the quarter stood at Rs. 1,725 crores, an increase of about 59% year on year. EBITDA reported was Rs. 177 crores and increment of about 32% year on year, with the EBITDA margin at 10.24%. Net Profit After Tax reported was with Rs. 64 crores, an increase of approximately 18% year-on-year basis while the PAT margin stood at about 4%. The revenue in H1 FY23 stood Rs. 3476 crores, an increase of 65% year on year. EBITDA reported was Rs. 402 crores, an increment of about 41% year-on-year basis while EBITDA margin stood at 11.57%. Net profit after tax for H1 FY23 stood at Rs. 168 crores which grew about 56% year-on-year basis. PAT margins stood at 4.84%. On the operational front, the Company has achieved nearly 100% of its capacity utilization in Ductile Iron Pipes in the second quarter Ductile Iron Pipes sales volume have increased by 34% to 1,66,875 tons year-on-year, while it grew 28% to 3,24,793 tons year-on-year in the first half of 2023. The Company's Board of Directors has approved raising about Rs. 115 crores through preferential issue of warrants or any other instruments.

With this, we can now open the floor for the question-and-answer session.

Moderator:

Thank you very much. Ladies and gentlemen. We will now begin the question and answer session.

Anyone who wishes to ask a question may press "*" and "1" on your touchtone telephone. If you wish to remove yourself from the question queue you may press "*" and "2". Participants are requested to use handsets while asking a question. Ladies and Gentlemen we will wait for a moment while the question queue assembles, thank you.

The first question is from the line of Kamlesh Bagmar from Lotus Asset Managers. Please go ahead.

Kamlesh Bagmar:

Okay, so one question on the part of your increase in Inter Corporate Deposits, like say it's around Rs. 172 crores in this particular quarter or first half, why such a sharp increase in the Inter-Corporate Deposits despite the fact that we have huge borrowing on the balance sheet and based on our annual report for the last year, we are just getting 7% interest rate on that, other than that, we can easily repay the debt or upon the working capital.

Management:

Yeah, hi, thank you for your great query. So, we have total ICD investment of around Rs. 225 crores as on date, and this is out of the cash surplus that the Company has. On the debt front, the borrowing are in two parts one is long-term and short term. So, all the short -term borrowings is more towards working capital, and if you see from FY 22, that is March 22, and as on September 22, you will notice that the overall borrowing has not increased in spite of working capital investment has gone up. So, we have also used our internal accrual funds towards working capital and have not taken additional borrowing for that. Our interest rates have gone up to some extent, from March because of the interest rate movements, and these

investments that we have in ICDs are very temporary in nature, this is a short term parking that we did in the first half, and we can withdraw at any moment.

Kamlesh Bagmar: Yeah. I appreciate that. But, that can anyways be like saying... but I would suggest that that can be brought back to the investor because they are only really yielding any return and you can expand on the expansion because the way the capacities in DI are coming, like say all the players are adding capacity, you can rather invest on those...

Management: Sorry, we have expansion already going on...

Management: As actually pointed out by Gaurav Somani, given in short term, and as the rates are going up, we did good return in ICD and these are all payable on demand. Tomorrow I require the money, I demand it, I get it. So, there is nothing... these are temporary parking. So, it is not that, you know, I take this money and repay the debt, it is not possible like that sir, that is the reason and you know, we have to have a match of all that, ICD, fixed deposits with Mutual Funds everything, so that the overall return is good, that is a process.

Management: Just to add, we have around 400 crores of CAPEX, which has already begun in our Southern unit. We are at Tirupati that is Srikalahasthi, where we are increasing the capacity of the DI pipes and we are also increasing the capacity of ancillary backward requirements. So, there we will have the CAPEX requirements coming up, and the funding requirements coming up in next couple of quarters. The expansion work has already begun, we have already placed the orders for equipment, so and it will be primarily funded out of internal accruals and the cash generation. So, once the fund requirement comes up there, we will start using these funds.

Kamlesh Bagmar: We will be more happy if that money is parked into the Mutual Funds, that's just as suggestion.

Management: Now we have a mix of all the investments, we have some money parked in fixed deposit, some in Mutual Funds also and some in ICD. So, we have a basket of all the investments

Kamlesh Bagmar: Thanks a lot.

Moderator: Thank you. The next question is from the line of Saket Kapoor from Kapoor and Company. Please go ahead.

Saket Kapoor: Greetings sir. Firstly, if you could share the H1 production and Sales number?

Management: So, our H1... DI Pipe production was around 3,44,000 tons.

Saket Kapoor: Okay.

Management: Sales was around 3,25,000 tons.

Saket Kapoor: Instead, what should we look forward for H2 in terms of... we were informed that we are running at 100%.

Management: Yeah, so the capacity of utilization is 100%, and in our industry H2 is generally better than H1, we definitely expect sales volume to go up in H2 compared to H1. This has been the past trend and we have delivered better in terms of volumes in H2.

Saket Kapoor: Do you have the last year H2 volume numbers?

Management: Last year H2 volume... just a second... so last year in terms of sales, we did around 3,42,000 tons.

Saket Kapoor: 342, so we are looking forward for anywhere not what for 342 for H2...?

Management: Yes, our target is that only.

Saket Kapoor: Okay, so when we look at the cash flow part, we find these two line items of fair valuation of derivative instrument to PNL of 29.34 crores, and unrealized foreign exchange fluctuation and transaction of 29.32 crores. If you could explain to us what is the nature of the same, since they have impacted the profitability too and I think Re.1 EPS have been gained out of these two transitions only.

Management: Let me clarify that there is a formula error here, the one is a positive figure and one would be a negative figure, so impact would be NIL. So, the first figure is 29.34 crores, it is the Forex MTM gain that we have, and second one is the realignment loss. So, ultimately, if you do the mathematics, it will be zero. So, the profit is not getting impacted of this numbers. Because in the cash flow part we have mentioned both these items... and there is a formula error, so the correction that what I have told you would be neutral.

Saket Kapoor: Then we should revise it and then publish a separate Release as this giving the wrong message, if that is the case.

Management: Will take this matter with the team

Saket Kapoor: This is wrong. This is wrong restatement of account also; investors will find it very difficult. If there is a mistake, one should revisit and the revised statement provision should be there.

Management: Sure, we will take this up.

Saket Kapoor: Looking at the order booking part sir, how is our order book currently?

Management: We have a healthy order book in terms of months, we have our we are sitting on our order book of around six months. In the past, in the sense, till the previous quarter, our order book was around four months, now we have gone up to six months.

Saket Kapoor: Okay, and sir if you could give some more color on... in terms of the EBITDA margins, which we may expect or the trajectory likelihood for H2.

Management: As mentioned in my earlier calls also, EBITDA margins is a difficult parameter. As you would understand that when the raw material prices start going up, the realization also starts moving up, and our contribution for EBITDA per ton is more or less what we try is to maintain the EBITDA per ton. So, if you go for margins, you will find dip when the prices are high, and when the prices are low, you will find that the EBITDA margins are on an upward direction. If you look from the EBITDA per ton purview, you will find that Q2 EBITDA per ton is in line with what we did in previous year. Compared to Q1, the EBITDA per ton was lower, but it was well within what we had estimated. Going forward, our target would be to maintain this EBITDA per ton, and we are very confident that we will be able to maintain because raw metal prices have started coming down. Coking coal prices, which was very volatile, somewhere around May-June, has kind of stabilized in Q2, and it is around \$300. Iron Ore prices are also kind of stable only, and since we have a healthy order book, we feel that Q3-Q4 would be definitely better for us.

Saket Kapoor: On the coal composition front, any update or near term date, you have anything to share on that sir?

Management: No sir, there's not much update on it. What I mentioned in the earlier quarter, the status is the same.

Saket Kapoor: Correct sir, and when we look forward for this Press Release part so kindly look into our request for Press Release and investor presentation also that will suffice a lot of our questions and queries going ahead. Kindly look into...

Management: Yes, this time we have uploaded the investor presentation, and the Press Release as well I will take it up again.

Saket Kapoor: Lastly as the earlier participant also mentioned, this ICD part also we know that the management is credible, you are taking the due diligence everything is in perfect shape, but ICD are not looked in the right eye by investing community. So, give or take of a percent or 1% gain, we are falling... it is a red tick that happens whenever ICD comes into play that is my understanding of how we look at companies going for this ICD part, so if the management thinks that they can avoid this ICD issue altogether, just for the understanding from the investor point of view, please look into the same where avoiding these exposures in terms of ICD...

Management: We are actually generalizing the concept. We have been facing ICDs in previous years also in Srikalahasthi also you have been seeing it, and these are to names, we know it's not a very significant portion... as I said, we are maintaining our investments in a basket, and these are temporary funds, short term funds, majorly you will find that this funds will get used towards our CAPEX, which we are doing, and in the past also we have used the funds in our CAPEX, so, this is just a temporary parking of funds, nothing more than that.

Saket Kapoor: Lastly, what is the combined capacity currently, and how much it will go up going ahead?

Management: Combined capacity is 7 lakh tons.

Saket Kapoor: Will it go up by 1 lac?

Management: 1 to 1.5, because we are having some debottlenecking exercise going on in our eastern unit also. So, once completed, we should be at around 8.5 approximately.

Saket Kapoor: Okay, and what is the CAPEX involved in this, for 1.5 lakhs?

Management: It would be around 450 to 500 crores approximately.

Saket Kapoor: 500 crores, and current cost of fund for us?

Management: Current cost of fund... see it has gone up now. So, because of the increase in the repo rates, our current costs would be around 8.5%

Saket Kapoor: 8.5% and the breakups are long term and short-term borrowing.

Management: Long-term and short-term borrowing... Long term would be around Rs.1,050 crores, and short term would be around Rs. 1,700 crores, this is the gross debt...

Saket Kapoor: The total debt is... this a gross debt number, and the net debt number?

Management: The net debt would be around 2,350 crores.

Saket Kapoor: 2350?

Management: Correct.

Saket Kapoor: For March, what should we look for the target, March 23?

Management: March 23, I think it will be lower than this

Saket Kapoor: Below 2350.

Management: Right.

Saket Kapoor: Sir we will look forward for this explanation of this formula, but do well address so that investor get the right correct figures, and thank you for the answer. Thank you.

Management: Thank you.

Moderator: Thank you. Reminder to all the participants to ask a question you may please press "*" and "1" on your touchtone telephone.

The next question is from the line of Ankit Puri, Retail Investor. Please go ahead.

Ankit Puri: Hi, thank you for taking my question. I wanted to ask what impact do we see with the starting and ramping up of the 400,000 Welspun Corporate DI plant, and also if you can throw some light on the overall market size and opportunity going forward? Thank you.

Management: Yes Welspun has recently started its plant, I think June or July, and I think they are situated in the western part of the country. So, we are catering more towards the eastern part, the northern part, the southern part and the central part, and we are also present in export market. So, for most of the players, the areas of service are segmented because DI pipes are bulky in nature. So, it is not feasible to transport from one end of the country to another part of the country. As far as demand is concerned, we have been witnessing robust demand, because the industry that we are present into fortunately the demand has been growing, because most of the households, they don't have a proper connection of tap water and the schemes which have been launched by government that is Jal Jeevan Mission to connect each and every household by 2024 has been progressing well. A lot of demand has been generated. This is a new demand which has been coming in. We have not seen the replacement demand as of now, and going forward, this is expected to continue for three to four years more, then you have the regular demand also. This is a specific scheme, which has been launched by central government, then you have state-wise schemes as well, and in future you will also see demand coming in from the irrigation sector. So, as far as demand is concerned, there is good demand and there are few recognized players. It's not a fragmented industry. So, we don't foresee new competition as a threat.

Management: Here to add what Gaurav said, see what is happening is as he rightly said, we are only talking about the Jal Jeevan, but we will also appreciate the cities are extending, I mean towns are extending, villages are extending. So, you know, the demand apart from this Jal Jeevan also will be there, and we don't generally foresee any problem as far as the demand or the pipes are concerned, and as he rightly said, the multiple uses of the pipes. Earlier, it was for sewage and water, and now it is also used for irrigation and something else will also come up. So, we don't foresee any problem in meeting of whatever produced, we are selling it that has been our experience. Thank you.

Ankit Puri: Thanks for that, and what about the export markets as well, if you can throw some light on that as well, especially with regards to the war situation? How is it affecting our sales, and are we planning to ramp up our exports as discussed earlier?

Management: We have been present in the export since long for almost two decades, and we are servicing almost all the countries across the globe, majorly towards Europe and the Middle East. Now, this year, we have significantly grown into US. We had entered into US, around maybe six, seven years back, but this year, we are encashing the benefits. For us, the markets are doing good, it's stable and we have been getting good business. We have not seen any significant impact because of the war in Europe, but it will be difficult to give any comment going forward. Since this is an essential commodity, and you know for very primary use, we feel that this will not see any slowdown in the demand. This is a basic necessity. So, I mean, we are seeing stable kind of demand coming in from exports.

Ankit Puri: Alright, thank you for that, and lastly, do you have any plans to come up with the rights issue for raising funds as well for minority shareholders?

Management: Ankit, difficult to comment on that it is a management decision. So, will not be possible for us to comment on that.

Ankit Puri: Appreciate if you can share the same with the management, if they have any plans to do that then that would be well-appreciated amongst everyone.

Management: Sure, we will place your remarks. Thank you.

Ankit Puri: Thank you so much all the best to you.

Management: Thank you.

Moderator: Thank you.

The next question is from the line of Anurag Patil from Roha Assest Managers. Please go ahead.

Anurag Patil: Thank you for the opportunity. Sir in the current condition, both iron ore and coking coal costs are stabilizing for us, and the volumes are also expected to interim increase. So, ideally your margin should be improving, while you are saying the current quarter margin should be maintained. So, am I missing here something?

Management: No. See, what I said is to summarize the coking coal prices and iron ore prices have started stabilizing from end of Q2 and Q3 onwards, and our focus is more towards maintaining the EBITDA per ton, not the margins. margins will give the wrong picture in times when the prices are volatile. When the raw material prices are volatile, so if the raw material prices moves up from 100 to 150, simultaneously the realizations will also move up, and effectively the margins

will appear to be down, but in absolute terms we will be able to maintain our profitability. So, my idea is that even our focus is to maintain our absolute EBITDA that we have been generating and improve it, basis the volume that is increasing. I hope I have been able to convey.

Anurag Patil: Yes sir, so the question is your EBITDA pattern was somewhere around 9,000 Plus Q2, and it was higher in the Q1, so can we say this 9,000 Plus will be maintained or you are referring to 12,000 number or average of both. Can you clarify?

Management: So, I think it will be better than this, we did around 10,000 in Q2. Q3 and Q4 will be better than this.

Management: Sir you would appreciate as we rightly said, our endeavor needs maintain the same EBITDA, but there are so many forces so beyond the level forward looking statements also, I am afraid we do not have but our intention is our target, our goal is to maintain EBITDA are itself branded. I think I have explained you.

Anurag Patil: Okay understood and sir on the coking coal cost... Can you specify what was our coking coal cost in Q2 on an average and what would it be currently? Any ballpark numbers will be fine.

Management: In Q2, average rate was around \$450, and at present the average coking coal price is around \$300.

Anurag Patil: Okay, so, these are the numbers at which we are buying or these are the market numbers which you are specifying sir?

Management: We are importing coking coal. So, these are basically the market numbers, and our buying is close to this level only, because these are index numbers.

Anurag Patil: Close to these numbers only, okay.. Sir what was the sales volume in the ferroalloy segment for us in Q2?

Management: In Q2 we did around 6500 tons.

Anurag Patil: Okay, and Q1 should be in the similar number or Plus Minus?

Management: Yes, Q1 also around 6500 tons.

Anurag Patil: Okay sir, so that's it for my side. Thank you very much.

Management: Thank you.

Moderator: Thank you. Reminder to the participants to ask the question you will have to press "*" and "1".

The next question is from the line of Aman Sonthalia from MUGI Constructions Private Limited.
Please go ahead.

Aman Sonthalia: Yeah sir, so my question is what is the percentage of our sales that comes from Europe?

Management: Percentage of sales from Europe would be around 7% to 8% of total sales.

Aman Sonthalia: What is the percentage of sales from Export?

Management: Export would be around 25%.

Aman Sonthalia: 25%, and sir the margin is better in domestic market or is in the export market?

Management: It is better in export market.

Aman Sonthalia: The export market?

Management: Yes.

Aman Sonthalia: Okay sir, so Is there any impact on exports in Europe because of the recession?

Management: Not as of now sir. Till the first half, we have not seen any significant impact. The business has been stable only.

Aman Sonthalia: In the second half, sir? Whether we will see some negative sales growth in the European market?

Management: Sir very difficult to comment because all this is new for everyone. So, will not be able to give you any clear picture on it. As far as our business is concerned and orders are concerned, we have stable orders, we are doing regular supplies. So, as of now, the business I think is ok

Aman Sonthalia: Sir we are expanding our capacity by 1.5 lakh ton, so since the outlook looks very robust. So, whether we can expect to expand more after this expansion?

Management: Sir we are also very optimistic and that is why if you see previous four to five years, you will notice that we have done significant expansions, and we were around maybe 5 lakh ton around four to five years back, and today we are sitting at around 7 lakh tons and we are looking at 8-1/2 lakh tons... Once this is completed, then definitely the management would look for further expansion once this expansion stabilizes.

Aman Sonthalia: Sir when we can expect this expansion to get completed.

Management: This is expected to be completed by next calendar year.

Aman Sonthalia: Next calendar year. Okay sir, thanks a lot.

Management: Thank you.

Moderator: Thank you. The next question is from the line of Saket Kapoor from Kapoor and Company. Please go ahead.

Saket Kapoor: Just a small point to understand you mentioned about this cashflow part, the formula being incorrect is that the right understanding Sir?

Management: According to the figure, which is 2932.68, which is a positive figure, it should have been a negative figure.

Saket Kapoor: **Okay,** If you do that that on back calculation basis then the total figure of 9031.64 total should also be then incorrect, and then the operating profit before working capital should also be not be 359 crores, is that understanding correct sir, because the entire... every line item will change.

Management: Not every line item, two-to-three-line items would change, your cash generated from operations would come down to minus 3864.

Saket Kapoor: It will come down to minus 3864.

Management: Cash generated from operations.

Saket Kapoor: No, I was just looking for the operating profit before working capital came in, if that was positive 359 crores?

Management: Therefore, the operating profit before working capital changes would be 398 crores.

Saket Kapoor: It will increase Sir?

Management: Yes, it has increased, it is 398 crores.

Saket Kapoor: Okay Sir, I will take it this answer offline although that I could not understand, I am unable to figure out, how will this happen, but anyway if you file the revised one, I will get a better understanding and Sir also on the outlook for this raw material prices I missed your comment on the same that you are commenting that raw material prices have now corrected and the benefit of the same will be felt in the coming quarter.

Management: I am giving you the present status, the prices have stabilized. Coal prices are around \$300.

Saket Kapoor: No Sir, the consumption rate was higher for Q2 and now going into Q3, we are going to see a dip in the same?

Management: Correct.

Saket Kapoor: Okay and on the DI pipe realization front has there been a dip in the realization also or we will get some lag effects benefit if we have booked ordered earlier at higher prices?

Management: Sir realizations have been stable, we expect Q3 to be better.

Saket Kapoor: Q3 to be better, right Sir, because very small point was that Sir on a Q-on-Q basis, there was a dent of 50 crores, from June to September. So, how much was attributable only to the raw material part to the higher raw material prices? Because I think the volumes were similar, more or less for Q1 and Q2?

Management: No Q2 volumes have been better than Q1. But infact...

Saket Kapoor: Better than Q1, then also Sir we have seen this big delta of 50 crores.

Management: Correct, so it's primarily on account of the raw material prices, and which is because of coking coal prices. Coking coal prices were very, very volatile during the month of May and June, it went up to \$650. So, that was a very abnormal situation because of which you know the profitability got impacted, inspite of that if you see year-on-year, the numbers have grown.

Saket Kapoor: Yeah Sir, year-on-year the number are good, but quarter-on-quarter only wanted to understand see this quarterly dent, how much will be reversed going ahead and will return to the normal profitability rate. I think so last year, our H2 was much stronger, and we did I think around above 260 to 270 crores EBITDA number, so that was only my understanding just to shape up how the EBITDA would be shaping up if depending upon the current RM basket.

Management: Our initial feeling is that H2, this H2 should be in line with previous H2.

Saket Kapoor: Okay Sir, I take the clarification offline, so and thank you for all the candida. Greetings.

Management: Thank you.

Moderator: Thank you. The next question is from the line of Chetan Phalke from Alpha Invesco. Please go ahead.

Chetan Phalke: Yeah. Thank you for the opportunity, sir. Sir, what are the export realization in Q2 and first half of the year and any indicative EBITDA per ton in our export markets?

Management: Sir I will not be able to give you specific numbers, but our export realizations were significantly higher than the domestic realizations.

Chetan Phalke: In percentage terms, can you indicate how higher it is?

Management: In percentage terms, basically it would be higher by around 15% to 20%, maybe 15% not 20% but 15%, but that does not completely flow down to the bottom line because in the case of exports, the cost is also higher than the domestic cost.

Chetan Phalke: Okay, and when we say let's say if you have to compare EBITDA per ton of domestic versus exports... any similar impact if you can quantify it in percentage terms 10%, 15%, higher compared to domestic.

Management: Compared to domestic, it would be higher by around Rs. 3000 to Rs. 4000 per ton.

Chetan Phalke: Okay, so this gap is being maintained despite the volatility in the prices. So, these Rs. 3000 to Rs. 4000 per tons incremental EBITDA button is being maintained right.

Management: Yes. We continue to generate that.

Chetan Phalke: Okay. Now outlook remains similar, because I think in earlier comment you just mentioned that our exports to US... they are finally seeing some traction. So, just wanted to understand if we export more to the US markets will it be margin accretive? Is it a higher margin market per se?

Management: The challenge for us is we also have to maintain the domestic you know, market share. So, we cannot push you know, certain extent to exports so what we are doing is we are compromising on some other regions, we are compromising on some other low-cost orders and fulfilling the better price orders. So, US this time we had a better opportunity, so, we focused more there and we compromised in some other regions.

Chetan Phalke: Okay, so in absolute terms, let's say compared to FY 22, will we see our exports going up or exports will remain flat and only we are just rerouting our exports from one market to another market, and net export amounts... the volume will remain flat, is that the correct understanding then?

Management: No, the volume would more or less be flat, but in absolute terms, the value will increase because of higher realizations and the currency also, because the currency has depreciated. So, we will have... in absolute term it will increase.

Chetan Phalke: Okay, but the volumes will be flat?

Management: More or less similar to what we did.

Chetan Phalke: Okay, but going forward Sir, the next year, next to next year, when the new capacities come up, do we plan to export more or we will stick to the same strategies where we will retain our domestic market share and exports...?

Management: No. Gradually we will try to increase our exports by around 25% to 30%.

Chetan Phalke: Okay, 25% to 30% of the overall volumes, that's what we intend to export?

Management: Correct.

Chetan Phalke: Okay, and also from what we understand most of our revenues are coming from these 700-millimeter diameter pipes. So, is the market moving towards large diameter pipes in India? Because I think that's what has happened in China and other countries as well, and is it margin accretive if we move towards large diameter pipes in the longer run?

Management: See, I would not like to comment on this specifically, because we are producing of all sizes, of all diameters ranging from 100mm to 1200mm, and the demand is going in for all the pipes, it depends more towards where the pipe is intended to be used. If it is more towards the end use, the diameter would be lower and if it is more towards the supply zone, the diameters would be higher. So, the demand that is coming in is a mix of all the diameters.

Chetan Phalke: Okay, but incrementally What do you see, trend wise is the...

Moderator: Chetan Phalke request you to please join the queue for follow up question.

Chetan Phalke: Sure. Thank you ma'am.

Moderator: In order to ensure that the management is able to address questions from all the participants in the queue, we request to please limit the questions after two.

We move to the next question from the line of Anurag Patil from Roha Assest Managers. Please go ahead.

Anurag Patil: Thank you for the follow up. Sir this 115 crores fundraising you are planning will it be entirely from promoters?

Management: Yes, sir.

Anurag Patil: Okay, that's it from my side. Thank you very much.

Moderator: Thank you. The next question is from the line of Nikhil Goel from Shivansh Overseas. Please go ahead.

Nikhil Goel: Good evening Sir. My question is, I just want to ask maybe some petition is filed by your Company in the High Court, can you just put some light on that? Like, how much, after how much time that amount will be refunded and this update on the case?

Management: Sir I think you are talking about the coking coal mine compensation. So, see, this mine was deallocated in 2015, and we are still waiting for the compensation to come in, matter is in Delhi

High Court. Delhi High Court has already given the order in sometime in March 2017 and had directed the Ministry of Coal to expedite and clear the dues. But we don't have a significant update on it. We have been pursuing with the Ministry for releasing our compensation and have been submitting all the required information that they have been demanding from us. All we understand is that our claim is a genuine one, and we should get paid what we have claimed when it would come we also don't have answer to that.

Nikhil Goel: Sir what is the amount that you had claimed?

Management: Our claim is around 15,00 crores.

Nikhil Goel: Okay, and secondly sir, I just want to ask you what's your trade receivables?

Management: Our trade receivables, as on 30th September, were around 1,250 crores.

Nikhil Goel: Has that has been increased from the previous quarter?

Management: Yes, it has increased from the previous quarter, it is because of higher sales, the sales have gone up.

Nikhil Goel: Thank you Sir..

Management: Thank you.

Moderator: Thank you. The next question is from the line of Aman Sonthalia from MUGI Constructions Private Limited. Please go ahead.

Aman Sonthalia: What is the reason for a certain jump in the interest costs?

Management: Interest costs have increased globally if you see RBI, the Central Bank has increased the repo rate by around 2% this year. So, in line with that, the banks have also increased the rates and we have been trying to use the low-cost funds as far as possible. So, for us the interest cost, interest rate has not gone up to that extent, but the interest rates are on the higher side

Aman Sonthalia: No, it has increased substantially compared to last year

Management: Correct sir, because the interest cost has gone up, interest rate has gone up.

Aman Sonthalia: So, our loan funds remain the same just because of the higher rate of interest, our interest cost has gone up.

Management: Yes.

Aman Sonthalia: Okay. Thank you Sir.

Management: Thank you.

Moderator: Thank you. The next question is from the line of Chetan Phalke from Alpha Invesco. Please go ahead.

Chetan Phalke: Yeah. Thank you for the opportunity again. Since raw material prices have come down, what will be the impact on our working capital? How much working capital will get released in the second half? Can we quantify the expected release of the working capital?

Management: When we see a cooling off, the working capital should reduce but it will happen only towards the end of Q4. Not immediately

Chetan Phalke: Okay, but any expected quantum let say assuming iron ore prices and coking coal prices that remain at the current level.

Management: So, we will definitely see a drop in the working capital, but how much I will not able to give you a clear figure on that, but definitely it will come down.

Chetan Phalke: Sir, a few quarters back, one of our competitors have given a commentary on their call that they think that the pricing power and DI pipes industry can eventually come back because the demand is very strong and the pipeline looks robust. So, do we see any signs of pricing coming back or is it still highly intense or bidding driven market and the realizations are under pressure or how are... if you can just give us some color on the current scenario and the pricing?

Management: Sir in our industry see there are many factors which are driving the margins. So, from the demand side, the demand has been robust over the last many years, and going forward also we see a very robust demand because DI pipes is the best suited pipe for transportation of drinking water then the profitability also depends on the raw material prices. So, raw material prices, generally, they were volatile for a couple of months, now they are stabilizing. In terms of our operations, in terms of our production capabilities, we have been operating at nearly 100%, and we have been doing expansions from time to time. Along with that we have also done backward integrations from time to time to improve our margins. So, all in all, I don't know about the pricing power and I would not like to comment on that, but we foresee a very good future for our business and for our Company. Our balance sheet has also strengthened and we are seeing good demand.

Chetan Phalke: Okay. Basically, I just wanted to understand if there is some sense on let us say the pricing discipline which is coming back in the industry or the competence continues to remain high that's it.

Management: Yeah, sorry, I didn't get you...

Chetan Phalke: Yeah, so sir, just one last question from my end. Do we see a market for...can DI pipes be used in gas transportation as well, and I think in one of your comments during the call you mentioned that in agri and sewerage the demand will come up eventually. So, is it already play out or will it play out like few years down the line, do we see some traction in agri and sewerage as well already year over year or quarter over quarter?

Management: Sewerage it is already there, but the new demand is coming in from the irrigation channel. So, irrigation is a new avenue for the demands. Because till now in India irrigation has been happening through open canals. So, gradually states are moving to pipes. For gas, I am not sure, but to the best of my knowledge maybe my other colleagues will be able to add, to the best of my knowledge for gas I think these pipes are not very suitable. Its MS pipes or maybe steel pipes are more suitable for gas.

Management: Yeah, I mean as of now it is used for water and sewage only.

Chetan Phalke: Okay, can we quantify what percentage of our volumes are going into agri and sewerage, any indicative number, is it still in low single digits or already in double digits?

Management: No, it is in very nascent stages. Irrigation is a very new demand and very few states, two to three states have started placing orders for pipes for irrigation.

Chetan Phalke: Okay, any particular state, which states have started usage of DI pipe for agri?

Management: Orissa, MP mainly.

Chetan Phalke: Do you see any other states opening up very soon this year or next year?

Management: I will not be able to specify names not possible but going forward definitely all the states will start placing orders for irrigation for DI Pipes.

Chetan Phalke: Okay, okay. All right. That's it from my end. Thank you very much.

Management: Thank you.

Moderator: Thank you. Ladies and gentlemen, this was the last question for today. I now hand the conference over to the management for the closing comments, over to you sir.

Management: Thank you all for actively participating in this conference call. I take this opportunity to thank the Valorem team and Chorus team for conducting this conference very effectively. Thank you all once again. Thank you all.

Moderator: Thank you members of the management. On behalf of Electrosteel Castings Limited that conclude this conference call. Thank you for joining us and you may now disconnect your lines.