Electrosteel Castings Limited
Q4 FY23 Earnings Conference Call
May 18, 2023

Moderator: Ladies and gentlemen, good day and welcome to the Q4 FY23 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 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. Diwakar Pingle from Ernst & Young LLP. Thank you and over to you Mr. Pingle. Diwakar sir please go ahead.

Diwakar Pingle: Good afternoon, everyone. Welcome to the earnings call of Electrosteel Castings Limited for Q4 and FY23. Today we have with us the management represented by Mr. Madhav Kejriwal, Whole Time Director; Mr. Ashutosh Agarwal, Whole Time Director and Chief Financial Officer; Mr. Pankaj Poddar, Executive Director and Chief Marketing Officer, and Mr. Gaurav Somani who is 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. I would now like to invite Madhav Kejriwal, the Whole Time Director of Electrosteel Castings to make his opening remarks. Over to you Madhav.

Madhav Kejriwal: Thank you. A very good afternoon to all and on behalf of the entire management team of Electrosteel Castings, a very warm welcome, to the company's Q4 and FY23 earnings concall. Before I get started, I'll take a quick minute to introduce myself. I am Madhav Kejriwal, I am part of the promoter group, and I am currently overlooking the sales and marketing functions of Electrosteel Castings. My journey with Electrosteel began in 2014 as a management trainee on the shop floors of the Jharkhand steel plant. After gaining some understanding of the production, I joined the sales and marketing team where I was a part of the team which was successful in penetrating the company's wire rod product reach in the domestic markets. As on 2019, I took over as the Executive Director of Srikalahasthi Pipes and since have gone on to look over the entire sales and marketing, both domestic and export.

Before we go into the company's performance and business opportunities, I'd like to introduce Electrosteel's business model for the benefit of the market participants who are listening in to us for the first time. Electrosteel has six decades of rich experience and is the pioneer of ductile iron pipes and fittings in India. We have a rated capacity of 6.8 lakh tonnes per annum, which makes us the industry leader. We also have a very strong brand recall in the export markets. Our DI pipes and fittings are laced with internationally acclaimed certificates, including international global certificates.

ECL has a presence in over 110 countries and 5 continents. And we have managed to make good deep inroads in the export market with presence in Western Europe, UK, USA, Middle East, Asia, and Africa. The company has a well-diversified product portfolio which includes ductile iron pipes, ductile iron fittings, ductile iron flange pipes and restraint joint pipes. Additionally, ECL manufactures cast iron pipes, metallurgical Coke, sponge iron, cement, ferro silicon, pig iron, and power. We have five technologically advanced integrated manufacturing units in Khardah, Bansberia, Haldia, Elavur and Srikalahasthi. The company continues to meet and win domestic and export customers trust owing to a strong R&D framework with its quality right at the first time and robust quality management system proposition.

We at Electrosteel command a leadership status both in the domestic market with a 25% market share and a 65% share of exports from India. With strong entry barriers to the industry, market dominance, promoter enterprise, one stop solution provisions for water infra needs, R&D focused back, huge industrial tailwinds in domestic as well as exports has made Electrosteel amongst the preferred partner for ductile iron and allied products. More than 20,000 water supply projects have already been implemented in India and abroad with DI pipes and fittings made by Electrosteel Castings.

Moving on to Electrosteel Castings FY23 performance, it gives me immense pleasure to share with all our stakeholders that the company has recorded its highest ever top line of 7013 crores, registering a 37.6% year-on-year growth in FY23. This has been fueled by a domestic business growth of 41% and an export growth of 29%. Our volumes stood at 710,000 tonnes, which is a 19.5% growth year-on-year. The flagship program of honorable Prime Minister, the Jal Jeevan Mission, which aims to connect every rural household with tap water connections has achieved up to 61% of his nationwide target. Around 8 crore rural households have received safe drinking water till FY23. Of India's total 19 crore rural households, nearly 11.6 Crore of them, now have a safe drinking water connection. ECL continues to be amongst the key beneficiaries of JJM scheduled due to accelerated spending by the government for meeting its Har Ghar Jal target in 2024. Additionally, ECL will continue to benefit from the government's increasing attention towards the country's water infrastructure needs, with initiatives such as Jal Jeevan Mission, Amrut 2.0.

ECL has also undertaken the capital expenditure in two phases to meet the growing demand of water infrastructure. Phase one got completed in August 2021 and is operating at 100% and phase two is on the progress. The ductile iron pipe industry is a sunrise sector as it is globally accepted and is best suited pipe for water transportation and sewage. DI Pipes has an inherent edge on other pipes as it has a long shelf life of 70 to 90 years. It has an easy installation process, low maintenance cost, greater tensile strength, along with the ability to handle both internal and external pressure. Keeping these things in mind the company is seemed to be in a sweet spot and is poised to benefit from the growing water infrastructure spent both in domestic and export markets. I would now like to hand over the floor to Mr. Ashutosh Agarwal, the Whole Time Director and CFO for taking us through the Electrosteel Castings FY23 financial highlights.

Ashutosh Agarwal: Thank you Madhav. Good evening and a warm welcome investor fraternity for joining Electrosteel Castings Q4 and FY23 result discussions. I would like to start our discussion in four parts. Part one is Q4 results and performance of the company. Company recorded its highest ever quarterly results and EBITDA. ECL total income grew by 13% YoY to INR 1,786 crores, owing to a strong and DI pipe volume growth of 8.4% during the quarter. The Company reported EBITDA of INR 233 crores, EBITDA margin stood to 13.1%, margin was slightly lower on account of higher prices of coking coal. PAT stood INR 101 crores, PAT was impacted due to higher interest cost during this quarter on account of increase in interest rate and higher utilization of funds due to steep rise in raw material prices.

Second portion of my statement is about the financials full year performance of the company. Company registered its highest ever revenue during the year and EBITDA and PAT also. ECL total income surged by 38% YoY to INR 7,013 crores due to strong DI pipe volume growth of 20% YoY. Additionally, both domestic and export grew by 41% and 29% YoY respectively. EBITDA grew by 14% YoY to 819 crores, EBITDA margin was 11.7%, PBT was 433 crores, PAT was 335 crores. About the balance sheet highlights, the net debt to equity was 0.43 times as on March 23. The Adjusted ROCE and ROE is 13.1% and 11.3% respectively as on 31st March 2023.

I would like to highlight something about the CAPEX plan also. Company plan to ramp up the existing capacity of 6.8 lakh tonnes to 9 lakh tonnes by the year 2025. In order to fuel our CAPEX plan, ECL will incurr a CAPEX of 610 crores out of which INR 170 crores already spent, and INR 440 crores is about to be spent in two years' time. Company is sitting on the cash balance of around INR 600 crores as on 31st March 2023. With this I would like to open the floor for the question answer session. Thank you very much.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Aashav Patel from Molecule Ventures. Please go ahead.

Aashav Patel: Sir, my question is regarding our ongoing dispute petition which was filed regarding one of the coal block investments done by us earlier. So, in the past we have never mentioned in notes to accounts about a specific conclusion coming through, but recently as you have mentioned that government has allotted that particular mine, Parbatpur mine to JSW Steel. So now, do you see some more visibility in terms of the dispute getting resolved? If yes, what would be the new timeline as per you for the same and what amount are we expecting?

Gaurav Somani: Good afternoon Mr. Aashav. So, first of all just to clarify this is not a dispute, the coking coal mine was de-allocated in 2015. And since then we have been waiting for the compensation to come in. So as rightly said, the mine was put for auction and JSW Steel was declared as the winner. So as per the rules, the new allottee should pay to prior allottee. So now things are moving well and as was briefed in the last call as well that the nominated authority had appointed a valuer to conduct the valuation of the mine. So, bills and everything has been verified. And now it's a matter of time and we are hopeful to get some positive response. So, once that comes in, we will definitely inform everyone.

Aashav Patel: Sure. So, before this compensation is cleared, JSW cannot go ahead and use that mine, right is that correct understanding?

Gaurav Somani: Yes, your understanding is correct.

Aashav Patel: Okay. And sir regarding I understand that independent valuation professional would be assigned, but what will be our expectation from the company side. How much are we expecting from the same?

Gaurav Somani: So, there is no point of expectation, because as per the rules, whatever CAPEX that we have incurred, and is appearing in the audited annual report is the amount which needs to be paid. So, if you go by that logic, whatever is coming in the annual report is supposed to be received by us.

Aashav Patel: Sure. But it won't be less than that even if the independent valuation professional assigns the value lower than that?

Gaurav Somani: Mr. Aashav we cannot jump on that because since this is a matter with Ministry of Coal, and the government is involved, you can understand that we will have to go by what decision is taken by them. Having said that, we will have to wait for some more time, when we have already waited for seven years, we will have to wait for some more time to get the clarity.

Aashav Patel: But do you feel sir in FY24 itself can we expect the proceeds in this financial year itself?

Gaurav Somani: Yes, we are hopeful that it should happen in this financial year.

Aashav Patel: Sure. Sir my last question is basically what sort of steel inventory do we generally maintain on our books, so just want to in order to understand more in terms of our gross margin bit?

Gaurav Somani: So, Mr. Aashav, last two years, our working capital requirement has gone up. And it's mainly on account of increase in capacity as Mr. Madhav had pointed out earlier that we had increased the capacity by 100,000 tonnes in August 2021. So, in last two years because of capacity the inventory position has gone up. The second point is that the commodity prices had gone up because of which the value of inventory had gone up. But if you see from FY22 to FY23 our inventory has come down by INR 150 crores despite volumes going up by one lakh tonne . And as far as the policy is concerned, we have two main raw materials, one is coking coal and one is iron ore. So coking coal we import from Australia, and we have to maintain a significant inventory just to ensure that there is no problem in production process. So we generally maintain four months of inventory of coking coal, and iron ore can vary from two to three months, but coking coal can come down to three months also gradually, we aim to bring it down to three months.

Aashav Patel: Sure. So, given the fact that coking coal has been correcting off late it is down from almost $400 to around $250 to $275. So can we expect assuming even if we hold one quarter of inventory, Q2 onwards our gross margin should be significantly better than at what point we are selling right now?

Gaurav Somani: See, as far as that is concerned, we are hopeful that margins will improve from here on, but how much we can't comment on that. And you are right that coking coal prices have corrected and have moderated in last one month, two months or so, and that is why there will be a dual effect – one, the margins would improve and second, the cash flows would also improve because inventory would also come down. But yes, from maybe second half, or maybe the remaining nine months would be in a much better shape.

Moderator: Thank you. The next question is from the line of Vikash Singh from Phillip Capital. Please go ahead.

Vikash Singh: Sir my first question is related to the competitive intensity, Sathavahana plant will most likely would start very soon, which is very closer to Srikalahasthi plant. So how do you see that this is impacting your margins or is there enough orders for both the players in the South India, to enjoy a good order book and margins. So just wanted some thought process on that?

Madhav Kejriwal: There is ample demand in the market at the moment and the same is applicable specifically for the Southern market. The coming up of the Sathavahana plant does not seem to pose any form of issue for us in terms of our margins and our market presence.

Vikash Singh: Understood sir. Sir my second question pertains to our margin. If I look at the quarter-on-quarter basis basically, it's still kind of a flattish. So just wanted to understand since the commodity price especially coking coal has fallen significantly, when do we expect that to reflect and our understanding was that since pipe was a fixed margin contract. So six months back when the coking coal prices high, you would have got a very high margin, that order if you execute now should have given you a very high margin. So just wanted to understand this lease lag effect when it would start reflecting, and when do we expect our margin to pull up?

Gaurav Somani: Mr. Vikash, the commodity prices were up and because of which the realizations, the higher cost was passed on and hence realizations were up. If you see we have been able to maintain our absolute numbers, we have been able to report higher EBITDA, in terms of margins it's very obvious that it will come down, it will soften a bit compared to the previous years when the denominator was lower. So this year, the denominator has increased because of this, the margins have got impacted. Going forward, since the coking coal prices have moderated, we feel that margin would start moving up again.

Vikash Singh: Understood. Sir does our order mix basically have a fixed price orders. Or we have also started shifting to a kind of a sum portion variable considering the last year had a very bitter experience. So just wanted that how we are booking the new orders now?

Madhav Kejriwal: The industry trend remains to be on fixed prices,

Moderator: Thank you. Next question is from the line of Karthik Muthuswamy from Trident Advisors. Please go ahead.

Karthik Muthuswamy: How do you look at this demand supply panning out over a longer period, a 10-year period, because if I look at your numbers in say 2009, you used to make around 2.5 lakh million tonnes of DI pipes now you are heading towards 9 lakh tonnes. And if I were to look at capacity addition being announced, multiple players wanting to enter the space. In Western region couple of new players have announced, couple of players in the East who wanted to put up new capacities. And if you look at programs like Jal Jeevan Mission, you guys say 61% is done. So, is there a structural overcapacity industry heading to not in the near term, but we take a 10-year view. And in that context, why are we also adding capacity or despite the completion of the Jal Jeevan Mission, you think there will be enough orders coming in, given particularly the state of state government finances, this kind of large capacity addition of the last 10 years and ongoing capacity addition can be sustained?

Madhav Kejriwal: Sir, the way we look at it is that India is at the cusp of an infrastructure boom. And if you see any past trend of countries or continents which have seen a similar trend, you will see that this sort of demand surge lasts for 10 to 15 years easily considering India's population and landmass, we don't see India moving towards any different way, in fact it will probably be a bit more exaggerated in the case of India. Considering this even with the capacity coming in and considering the market dominance and leadership that Electrosteel has, it seemed like a but-obvious decision for us to go ahead and increase capacity.

Moderator: Thank you. Next question is from the line of Rajesh Agarwal from Moneyore. Please go ahead.

Rajesh Agarwal: Sir, my first question is, why is there a difference in profitability between standalone and consolidated results, what is the major item for that?

Gaurav Somani: Mr. Rajesh see in consolidated results, we have around 10 overseas subsidiaries, whose numbers are getting added into our consolidation accounts and these subsidiaries are mainly trading arms. They are not the manufacturing arms but they are just the trading arms. So, most of the exports that is happening from Electrosteel Castings India is happening to subsidiary which is in turn being sold in the overseas markets.

Rajesh Agarwal: Okay. So, the subsidiary is making losses because net profit has come down in consol**?**

Gaurav Somani: So, subsidiaries are in fact profit making subsidiaries and it's just because of the accounting treatment that the profit in the consolidation part is appearing to be lower than the standalone numbers.

Rajesh Agarwal: Okay. So, it has always been like that only?

Ashutosh Agarwal: Yes, it is always like that only whatever contract we are having with subsidiary companies with the holding company it has to be cancelled. Now if subsidiary company giving dividends to the holding company that is getting cancelled that's why there is impact.

Rajesh Agarwal: Understood. For our purpose we always have to go by consolidated results.

Ashutosh Agarwal: Standalone numbers are better.

Rajesh Agarwal: Okay. But the market, or the valuations and everything will be on the consolidated results?

Ashutosh Agarwal: No, it will always be on standalone basis only. If you see and visit consolidated figure also but standalone is the better proposition.

Rajesh Agarwal: Okay. And sir what is outlook for the growth, will volumes grow by double digit this year?

Gaurav Somani: Mr. Rajesh, we have Mr. Pankaj Poddar with us. He is the Executive Director and Chief Marketing Officer, he has been with the company for 25 years and he has taken exports from almost zero to INR 1500 crores where we are now. So, he will be the best person to address this query, I will handover to him.

Pankaj Poddar: Well Mr. Rajesh the main issue here like when you say that, whether there will be growth, there absolutely will be growth because of two major reasons that is that the Indian market because of the JJM scheme and the Amrut scheme is booming. The export markets are also doing well and other than that our capacity is going up. So, because of these reasons, we will definitely be seeing strong growth numbers going forward.

Rajesh Agarwal: Are margin is better in export orders or local orders, domestic order?

Pankaj Poddar: The margins are significantly better in export than in domestic.

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

Saket Kapoor: Firstly, thanks to the representation from the promoter side, Mr. Madhav for joining the call and addressing the investor. So, this was a long pending request from the investing community and thank you for adhering to the same and we hope for the continuity of the same. My first question to you only sir is, to take into account the shareholder value creation path. If you could give us some understanding what are the tasks that are still left unturned, which are still pending for getting the right valuation for the company. Over a period of time investors have not been able to realize the right value for the investment that they have made both Electrosteel Castings as well as for Srikalahasthi Pipes. However, the investors have supported for the merger that has gone through two years ago, but the valuations have remained more or less the same over if we take a longer period of time. So, this is the first observation from the investing community that, the right valuation the market is not giving us the right valuation. So, I would request the team to look into the areas and the reason why we are not valued correctly if I may use the term so. And now coming to my question part, firstly on the capacity augmentation from seven to nine, if you could give how are the capacity is going to kick in from seven to nine which year, what would be the capacity addition sir?

Madhav Kejriwal: Sir the capacity enhancement for phase two is going on and we're hoping to see that come into play around the mid of the next financial year.

Saket Kapoor: For this financial year, there will be no capacity addition?

Madhav Kejriwal: No sir, this year we will be spending the money and its effects will come into play next financial year at least.

Saket Kapoor: Sir for this year there will be improvement on margins only on account of the efficiencies that will kick in no volume growth, because we are already running at above 100%?

Madhav Kejriwal: Yes sir.

Saket Kapoor: Okay. Now for the finance part, when we look at the finance cost line item that has gone up significantly. So, if you could give us the breakup on how much is on account of finance paid to loans due to banks and other cost also, and the key reasons for the same and the net debt number also?

Gaurav Somani: Saket, Gaurav here. So, total debt has come down since FY22 it has come down by around INR 300 crores and our net debt figure as on 31st March stands at INR 1,800 crores. Interest has gone up to INR 272 crores compared to INR 180 -185 crores in FY22. The major two reasons for this the rise in interest rates, which all the companies have faced, the repo rate had gone up by 2.5% and the International rates which are SOFR rates had gone up by around 4.5%. So, we had an impact of the rising rate. And number two is the working capital requirements had gone up because last year if you recall, coking coal prices had touch even $550, +$600. So, despite our total debt coming down from 31st March 22 to 31st March 23, in between the average utilization had gone up and because of these two factors, the interest burden for the year had gone up. And as I mentioned in my earlier call also based on what we are seeing on the market movement on the T-bill and the Gsec and RBIs decision to stay put on the repo rate, we feel that this has peaked out and so has our working capital requirement and going forward which should come down.

Saket Kapoor: Sir just a follow up sir, INR 1,800 crore is the net debt number for FY23?

Gaurav Somani: Right.

Saket Kapoor: And what would be our endeavor for the next year sir. And what are the current maturities, if you could give us some color?

Gaurav Somani: Next year FY24 we have around INR 160 crore of term loan repayments scheduled. And after that, following year we have around INR 250 crores of long-term repayment scheduled. So, these are scheduled details. And further movement in debt would depend on the working capital.

Saket Kapoor: Any numbers you can share what we are looking to end the next year or it is too early right now.

Gaurav Somani: Correct. So, no point of going that far. But obviously, since even this year we have reduced our debt by INR 300 crores despite so challenging times. So, you can understand that the idea is to bring down the debt.

Moderator: Next question is from the line of Jayesh Lad from Central Advisors. Please go ahead.

Jayesh Lad: My question was regarding CAPEX. So, the phase two CAPEX which has been going on, my question was exactly at which facility is it going on and also by what time can we expect the full capacity to come online?

Gaurav Somani: So, we are having expansion in both the locations, that is Srikalahasthi, which is in the South India, where the main CAPEX is happening, where we are increasing the capacity by around 150,000 tonnes. So right now, we are at 4 lakh tonnes which will go to 5,50,000 tonnes this will happen by mid of next financial year. And a small increase is happening in our Eastern unit. So, there will be at around 350,000 tonnes. So, all together in the next 18 months approximately we should be at close to nine lakh tonnes.

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

Chetan Phalke: Sir, my question is with respect to our exports. So, this year our exports have gone up, especially to US, our exports have gone up from under INR 50 crores to +INR 200 crores. So, what is the reason in this uptick and if you can just help us understand the dynamics of the US demand supply when it comes to DI pipes and who are we competing against in the US markets, because I understand the players in US markets, they are making the DI pipes via the scrap or the EF route. So, what is the differential in their cost of production versus our cost of production, if you can help us understand?

Pankaj Poddar: Well regarding the demand in the US market, the US is one of the biggest markets for ductile pipe and the US government has put a lot of focus on infrastructure development, which is needed by that country. And you will be happy to note that Electrosteel is the only manufacturer that exports into the US, no other manufacturer is selling into the US other than the local manufacturers. Regarding your question on the method of manufacturing, well, the method of manufacturing can be different. It depends on what is more in abundance, in what geography, it does not make a big difference. But of course, producing by the blast furnace route is not only efficient and cost effective, but it's also qualitatively better. So, we are positioned well in the US market and going forward we do expect to maintain similar numbers or improve.

Chetan Phalke: Okay. So what will be the difference in the cost of production of a US player versus us, tentatively 20%, 30% more than that?

Pankaj Poddar: So it's difficult to comment about the cost of production of other manufacturers and that to in a completely different geography in which there is a big difference in not only raw material, but labor and all sorts of things. So, it's better not to compare from that perspective.

Chetan Phalke: Okay. Because there is very little information available on the US consumption or Europe consumption, what is the opportunity size. So, if you can help us understanding what is the size of the US market and Europe market and how are they currently procuring their DI pipes from where are they procuring, etc.?

Pankaj Poddar: The US market as I said, is procuring most of its products domestically because they have traditionally a strong DI pipe industry, and we are the only company from which they are importing. The size of the market is almost eight to nine lakh tonnes. So it's a huge market as I said earlier. The European market is more of a replacement market. In the last few years, it has not really grown, but it has maintained in terms of the demand because it's more of a replacement market. But recently there has been a lot of funding coming in from the European Union through the European Commission, a lot of funding has come in because of which there is robust demand also in Europe. In Europe, we have a strong manufacturer and a couple of small manufacturers and again in the European market we are the second most preferred supplier and probably we are the only company of any significance that is supplying to the European market other than the local manufacturers.

Chetan Phalke: Okay. So, sir what gives us this advantage that we are the preferred suppliers and other players let's say Tata metallic or Welspun, despite having capacity, are not able to penetrate into Europe and US markets. Is it that we have set up subsidiaries since a very long time that gives us a head start, or it takes a lot of time for regulatory approvals, what is really making the difference over here?

Pankaj Poddar: There are a host of reasons, one is our focus into the export market. Secondly, we suit our products to local needs. Thirdly, there are certifications involved. Fourthly, as you rightly said, we are present in the market so, we have our ears close to the ground. So, there are a number of reasons, and it is difficult to attribute what percentage to what reason but yes, we are working hard to remain one of the preferred suppliers in both these premium markets.

Moderator: Thank you. Next question is from the line of Vikash Singh from Phillip Capital. Please go ahead.

Vikash Singh: Sir, regarding the CAPEX which you said INR 440 crore yet to be spent, can you bifurcate the FY24 and FY25 spending?

Ashutosh Agarwal: It is in the process of deciding how much money will be spent in FY24 and how much money will be paid in FY25, but you can presume 50:50.

Vikash Singh: Understood. And Sir just one bookkeeping question, can you give us the quarterly volumes for 4Q and 3Q?

Gaurav Somani: Quarterly volume of DI pipe for Q4 we sold around 193,000 tonnes.

Vikash Singh: Okay, that's for the sequential as well as Y-o-Y number?

Gaurav Somani: Y-o-Y it was, last financial year it was 178,000 tonnes.

Vikash Singh: Okay. And Q3 sir?

Gaurav Somani: Q3 it was 192,000 tonnes.

Moderator: Thank you. Next follow up question is from the line of Aashav Patel from Molecule Ventures. Please go ahead.

Aashav Patel: Two question, do we use pet coke in any of our process, the entire value chain?

Gaurav Somani: No, we don't use pet coke we require coking coal.

Aashav Patel: Only coking coal, okay. And sir the last question is regarding all the mine de-allocation which was done by the government, have you seen any instances where actually after the mine is re-allocated to someone else the payment actually flows into the company.

Madhav Kejriwal: Yes, please there have been precedence's of the same.

Aashav Patel: Sir, can you please name couple of them?

Madhav Kejriwal: I will have to revert to you on that sir, I have not equipped with the exact names.

Aashav Patel: Sure. And just to know it has been recent, it has been off late like over last six or 12 months or it's been like that for some time now?

Madhav Kejriwal: Sir, I do not have the exact answer to that question I will have to revert to you on that.

Moderator: Thank you. Next question is from the line of Shriram R, Individual Investor. Please go ahead.

Shriram R: My question is on the industry capacity utilization. What is the industry capacity utilization for FY23 and how much capacity is coming up for the next couple of years?

Gaurav Somani: Mr. Shriram, approximately total industry capacity should be close to 3 million tonnes. And this industry is not a fragmented industry there are very limited number of players and the renowned ones which are operating at near to 100% capacity. Recently, new plant has come up which is of Welspun, but I'm not sure at what utilization they are working, not 100% that is sure. And during the current financial year, only maybe one lakh tonnes or two lakh tonnes might come up, not more than that.

Shriram R: But you are saying the existing capacity is running at 100% for all the players, right?

Gaurav Somani: Not all the players, the renowned ones. The other ones, the smaller ones are not operating at 100%.

Shriram R: Okay, so, overall, I just want to get a sense like how much it will like 80%?

Gaurav Somani: Approximately 3 million tonnes. So you can say at around 80%.

Shriram R: Okay, thank you. So, just one more question on slide number #15 you have given the DI pipe is expected to grow at 11% to 13%. So, just wanted to know from where you got this data from?

Gaurav Somani: This is our estimation, and this is based on the past trends. If you see data of last say five years, 10 years, 15 years, you will find that industry has grown at a much more rate than that and with all the schemes which are being promoted by the government, both the central government and state government, we are hopeful and this is our internal estimation that this would be kind of growth that we would see in the coming years.

Moderator: Thank you. Next question is from the line of Vijay Agarwal from Federal Bank Limited. Please go ahead.

Vijay Agarwal: Just, I wanted to know that, the company has to incur capital expenditure of INR 440 crore, then how it will be funded, then what will be the debt mixture of this capital expenditure?

Gaurav Somani: Mr. Vijay, this would be mostly funded out of our internal sources. And if required, the debt is tied up if required we might go in for a small debt but mostly out of internal sources.

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

Saket Kapoor: Sir in your cash flow statement, we find the three-line items firstly, the sundry write off balances of INR 29 crore, provision for absolutions of inventories to the tune of INR 24 crore, and provision for regulated reserves and other risk to the tune of INR 18 crore. If you could explain the nature of the same so, regulated reserve is the line item that has appeared for this year, last year there was no comparative number?

Gaurav Somani: So Mr. Saket, INR 28 crore write off if you remember that had happened in the first quarter which was on account of one of our railway siding.

Saket Kapoor: The rest two points, provision for absolution of inventories, we have also absolute inventories to the tune of INR 24-25 crore. What is the nature of this absolution of INR 24 crore and also on the regulated reserve and other risk we have provided for INR 18.38 crores?

Gaurav Somani: You are talking about the standalone number?

Saket Kapoor: Sir, I am talking from the consolidated statement of cash flow?

Gaurav Somani: So, INR 18.38 crores is on account of the dividend part. As we told that, dividend has come in from the subsidiary to the standalone company, Electrosteel India. So, it has come out of the reserves, so that is why that number is reflecting there.

Saket Kapoor: Okay. And for the inventory acquisition absolution sir?

Ashutosh Agarwal: Whatever material pipes we are selling to the international market we are selling through subsidiary companies right. And whatever stock is lying on the year end, at the subsidiary level end, that profit component has to be knocked off in the consolidation level as per the account practice.

Saket Kapoor: Sir didn't get you, come again sir what you are trying to explain?

Ashutosh Agarwal: Mr. Saket. We are selling from India to international company right, international company is a buyer for us, but when we are consolidating the account of subsidiary company with the holding company, whatever unsold stock is lying in the subsidiary company has been knocked off with the holding company in the console figure. So, whatever unsold pipes that are lying in the subsidiary company level, the profit component has to be knocked off, there is no actual profit.

Saket Kapoor: No, sir here it is, here you are going for absolution of inventory, this means that these inventories are no longer needed. So, this is the explanation for it?

Management: That we will check and come back to you Mr. Saket.

Saket Kapoor: Okay, sir. And lastly about the share application pending, Madhav if you could give us some color, what is the timeline from the promoter end of putting up the balance 75%. And also one question to CFO sir about the ICD closing balance, what is the closing balance as on 31st March for the ICD that we generally used to give?

Ashutosh Agarwal: ICD balance as on today is nine crores only and we are hopeful that it will come on time, hopefully by June end, and all the money already came back.

Saket Kapoor: And we will discontinue also with this business of ICD?

Ashutosh Agarwal: Yes.

Saket Kapoor: Correct sir. And Madhav if you could give us some timeline on the spending amount on the share application money?

Madhav Kejriwal: The timeline for the remainder of the money for the share application is around 18 months from the date of issue. So, in that due of course of time we will be infusing the remainder of the capital.

Saket Kapoor: Okay, sir and for the value creation idea sir what is your thought process and what step should be taken going ahead so that investors value to be created you can understand from the market capitalization and the way the market perceives the company. So what is your thought processes sir and what steps are you taking to reward your shareholders who have been there through thick and thin, good and bad time with the company?

Management: So, there's two parts the answer to that question with the compensation of the coal mine coming in and with the capital expenditure that the company is undertaking this year and next year which will take us to nine lakh tonnes, there will be good value creation from both these exercises for the organization. And in regard to the shareholders, we have announced a dividend of 90% this year which is more by 10% from the last two years and we are hoping to continue with that going forward.

Moderator: Thank you. Next question is from the line of Miraj from Arihant Capital. Please go ahead.

Miraj: I just had one clarification in one of the answers to the earlier participants, you mentioned a figure of eight to nine lakh tonnes of market in US, if you could just explain I somehow missed or misunderstood something if you could just explain that again?

Pankaj Poddar: So, that is the size of the market in the US, the American market annually demand is approximately eight to nine lakh tonnes of DI pipes. So, that is what I said in terms of the demand in the American market.

Moderator: Thank you. Next question is from the line of Shriram R, Individual Investor. Please go ahead.

Shriram R: Sir, just continuing the question asked by the other participant on the shareholder value creation. If I look at your number, we are at 7% ROE and we are operating at +100% capacity. So, like what is your target ROE few years from here on, what are the steps that are going to be taken to improve it?

Gaurav Somani: Hi Shriram, so point one on ROE, see you have to look at adjusted ROE because our compensation which is yet to come in is also being used for calculation of ROE which is impacting the ratio. So, if you see adjusted ROE, it will be around 11% and with the expansions that are happening, in the coming years definitely the profitability would increase, and the return ratios would appear much better.

Shriram R: This is on account of you are seeing purely capacity increase?

Management: Right.

Moderator: Thank you. Next question is from the line of Kumar Keswani from Strategic Advisory. Please go ahead.

Kumar Keswani: There was a question made that we should be looking at standalone and not consolidated account. Given that all the export sales of the company are routed via the subsidiary, it's important for us to look at consolidated and not individual account number one. And number two, is that from a company's perspective the point about shareholder value creation has been made. We leave it to the company to look at it and this is one of the areas we should look at, because as investors we look at consolidated accounts given that there's a lot of intra company sales.

Gaurav Somani: Your point is correct, but point is that whatever the subsidiary company is getting the material, the pipes, which all are exported from India only. So, we have already considered the export in Indian balance sheet, Indian accounts. Same thing is getting sold domestically in the international market. That is why we were suggesting and all the bankers, all the investors are considering standalone balance sheet for the valuation purpose. If you want to consider consol, we have no objection to that you can consider but for better valuation it is advisable to consider standalone.

Gaurav Somani: Mr. Keswani the idea is, so ECL India is a manufacturing company. And so, you will have to do valuation for a manufacturing company based on the standalone numbers. And our subsidiaries are trading arms, they are nothing but marketing arms which are supporting for selling of our products. So if you take console, you are basically mixing a manufacturing company with a trading company, that is why we are suggesting you to consider standalone numbers because that will give you a better picture of the business.

Kumar Keswani: No, I completely understand the point that is being made, I'm just responding to the comments that, from a company perspective the moment you get into console numbers common entry gets adjusted, one of the people on the call went into great depth to explain why the raw material movement and prices had to be knocked down and as a result of which there was a line item in the balance sheet. The point I'm making is that as an investor, the moment you are doing sales from one entity to another, it's always better for the company as well to start looking at consolidated accounts, and try and work towards that picture because one is a manufacturing arm and another is a sales arm. You need to look at it together not individually.

Pankaj Poddar: Well, Mr. Keswani, I would like to as a matter of information tell you that the subsidiaries, the trading arms, that Gaurav was talking about have done record profits in this financial year. They have done much better than any of the earlier financial years. So now, considering the adjustments that have to be made, the numbers look a bit skewed. But once you have the detailed balance sheets going forward you will be able to see in whatever way you want.

Moderator: Thank you very much. Ladies and gentlemen that was the last question for today. I now hand the conference over to the management for closing comments.

Madhav Kejriwal: I would like to thank all the market participants and we look forward to a good year ahead. Demand is robust, we are well equipped in terms of market position. With that, I would like to conclude FY23 earnings concall. Thank you very much.

Moderator: Thank you very much. On behalf of Electrosteel Castings Limited that concludes this conference, thank you for joining us. And you may now disconnect your lines.