Electrosteel Castings Limited
Earnings Conference Call
May 12, 2022

Moderator: Ladies and gentlemen, good day and welcome to Q4 and FY22 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 the 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. Anuj Sonpal from Valorem Advisors. Thank you and over to you, Mr. Sonpal.

Anuj Sonpal: Thank you. Good morning everyone and a very warm welcome to you all. My name is Anuj Sonpal 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 fourth quarter and financial year ended 2022. Before we begin, let me mention a short cautionary statement. Some of the statements made in today's earnings concall maybe forward looking in nature. Such forward looking statements are subject to risks and uncertainties which could cause actual results to differ from those anticipated. Such statements are based on management belief as well as assumptions made by an 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. I hand it over to them for opening remarks. We have 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 request Mr. Senthilnathan to give his opening remarks. Thank you and over to you, Sir.

Management: Thank you Anuj. Good morning everybody. It is pleasure to welcome you to the earnings conference call for the fourth quarter and financial year ended 2022. Firstly, I hope that everyone is keeping safe and well. Let me first take you through the financial performance on a standalone basis of our company for Q4 financial year 22. The total income for the quarter increased by 35% year-on-year to Rs. 1,584 crores, EBITDA increased by 37% year-on-year to Rs. 233 crores representing EBITDA margins of 14.68%. Net profit grew by about 103% year-on-year to Rs. 723 crores and the PAT margin percentage were 7.74%.

For the financial year ending 2022 the total income grew by 63% year-on-year to Rs. 5,095 crores, EBITDA grew by 60% due to this 717 crores representing EBITDA margin of 14.06%. Net profit grew by 148% to Rs. 323 crores by PAT margin improved to 6.39%. On the operational front, the production for the Ductile Iron Pipes for the fourth quarter of financial year 2022 was 1,77,889 tons against the production of 1,64,173 tons during the previous quarter and 1,42,570 in the corresponding quarter in the previous year. For the financial year 2022 the company reported the highest ever Ductile Iron Pipes production of 6,03,751 tons. We increased the capacity of Ductile Iron Pipes plan to 4 lakh tons per annum during the year at our unit in South India.

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

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Saket Kapoor from Kapoor and Company. Please go ahead.

Saket Kapoor: Sir firstly for this current capacity which has been enhanced to 4 lakh tons of Kalahasthi, have we got the benefit of entire 1 lakh ton factored in for this year or if you could explain?

Management: Yes we have gone to 4 lakh ton capacity in August 2021. So, since then gradually we have received the 100% capacity so we are running at 100% capacity now.

Saket Kapoor: Firstly sir taking into account the macro environment especially in terms of the fluctuations which we are seeing in the raw material prices, how confident is the company of maintaining this margins and what steps are we taking of further improving the same and also point about the pig iron sales last quarter it was mentioned that we did sold a good quantity of pig iron and currently I think with Russia and Ukraine crisis still continuing, what have been our pig iron sale for this quarter and what is the outlook going forward?

Management: During this quarter also our pig iron sales were in line with what we did in Q3 so we have sold higher quantity of pig iron. As far as the cost pressures are concerned yes the coking coal prices have moved up and we have been able to pass it on in our realizations and we have been trying our best to get the better realizations and pass on the higher cost.

Saket Kapoor: Can we say that if there is a complete pass on or our order book do have old backlog wherein we have booked orders earlier and that have to be now executed at lower margins?

Management: Saket ji that phenomena will always remain, but as a cautious decision the management is trying to keep order book at a lower level. We are not focusing on higher duration orders and we are not focusing on long orders and long period orders. So, to just protect ourselves from the cost inflations.

Saket Kapoor: Can you give some more color on the order book sir?

Management: So, we are having a order book of around 4 months to 5 months which is at a comfortable level and if you see our productions we have been operating at around 95% capacity.

Saket Kapoor: Because sir our inventory level on an annual basis have gone up by about 1,000 crores if you could explain to us the reason for the same and I think it is the raw material procurement only that has significantly contributed, so just the thought process and also the net debt level since the finance cost remain somewhat in the similar level, but we have improved our business also, so if you could give some more color on their debt level and the way forward what steps are we taking to bring down the debt going forward?

Management: First of all on your inventory query so you are right inventory has gone up it is primarily on account of the higher raw material prices coking coal prices have gone up sharply which has led to increase in the raw material prices as well as the finished goods price. So, in case of inventory both the raw material prices are up and the finished good prices are up because of which our inventory position is higher by around 900 crores and because of this particular reason, because of higher working capital requirement the working capital debt has also gone up and our net debt as on 31st March would be around say 1,800 to 1,900 crores approximately which is at a comfortable level. The movement in debt is purely because on account of working capital debt because of higher working capital requirements.

Saket Kapoor: Sir that will be at a lower cost the cost of funding would be lower because of lower working capital if you could breakup of the cost of funds?

Management: Cost of funds would be around 8%.

Saket Kapoor: Booking keeping questions I will take from you later on that would be better in the paucity of time, but sir on maintaining of this margin part if you could throw some more light what steps are there and are these EBITDA margins sustainable and for the next year are we looking for this 95% utilization that was to continue and also that 1 lakh ton more additional capacity when are we trying to augment and what kind of CAPEX is there for FY23.

Management: So, see as far as EBITDA margin goes you have seen our past performance, you have seen the performance of every quarter during the year. We have been able to maintain our margins in spite of the rising raw material cost, but the guidance cannot be given on the future quarters. It is not easy for us to give that kind of indications, but of course yes the company will always try to maintain the margins and the capacity expansion we are already now at 4 lakh tons in our kalahasti unit and both the units are operating at around 95% to 100% capacity utilization. In fact in Q4 the Srikalahasti unit was at 100% nearly. So, the benefit of higher capacity will come in this full financial year because in last financial year it was for half year so of course that is there and yes we are trying our best to maintain the profitability.

Saket Kapoor: And for that expansion of 1 lakh ton additional waiver planning to make it to 5 lakh tons?

Management: Yes so that is definitely on the cards and we are working towards it, but because most of the equipments will be coming from China and China is into kind of lockdown situation so we are not able to move in the pace that we had thought so, so it is taking little time.

Saket Kapoor: So, it will be a delay?

Management: Somewhat yes.

Saket Kapoor: Any timeline sir you want to set for that capacity to come in this year?

Management: The capacity build up will take around you can say 21 months to 24 months time and once the China reopens we will be able to start.

Saket Kapoor: Sir I will come in the queue for my follow up only for the EBITDA margin part if you could have dwell more you would have got some more color taking into account the increase in inventories and all, are we insulated from the vagaries of this fluctuations in the coking coal prices since we are carrying a lot of inventory both at the raw material front and also for the finished part?

Management: Saket ji I addressed this query earlier I said we are keeping our order book in a narrow range we are not going overboard just to take care of the raw material cost the inventory that we have. So, yes we are trying to pass on the higher cost, but yes the coking coal prices have gone up sharply in last quarter.

Moderator: Thank you. The next question is from the line of Sanjay Dam from Old Bridge Capital. Please go ahead.

Sanjay Dam: Just wanted to get a sense of how much revenues we booked on pig iron sales for the entire FY22?

Management: We did around 330 crores of pig iron sales.

Sanjay Dam: And any sense of how you want to so the good part is that most of the debt is because of working capital, so as and when things normalize I guess the requirement of the business will come off, but can we say that broadly speaking the debt has round about peaked around this level because the business is also throwing up reasonably good amount of cash?

Management: The revenue is a factor of the raw material in the input cost if input prices remain here. So, we can say the debtors will peak out here because now we are at almost peak prices of coking coal, iron ore prices have kind of stabilized. So, it would be fair to assume that we are at the peak.

Sanjay Dam: Till the time we move from 4 to 5 lakh tons of DI pipe it would be fair to assume that the pig iron sales would continue around current levels?

Management: Sanjay ji this is depending on the prices of the DI pipes what realizations we are getting there. At points it is advantageous to sell more of pig iron because this is basically on cash basis and for last couple of months the contribution was also very good. So, the management decision was to sell more of pig iron I mean increase the quantity of pig iron. So, it will depend on the factors, the situations prevails.

Moderator: Thank you. The next question is from the line of Deepak Poddar from Sapphire Capital. Please go ahead.

Deepak Poddar: Sir firstly I wanted to understand on the volume front now I think 6 lakh odd DI pipe volume we did in last year FY22, so how do we see volume growth over FY23 and maybe next two to three years some outlook on that would be helpful?

Management: So, you are right this year we did around 6 lakh tons of DI pipes. When we have stepped in this financial year we will be operating our plants at full capacity the 1 lakh ton expansion that had happened in our Southern unit will be available for the entire full year so that will come into play. There we have a capacity of 4 lakh tons and in the Eastern unit we have a capacity of around 3 lakh tons. So, we hope that we will be able to do around 7 lakh tons in FY23 or maybe plus minus 5%.

Deepak Poddar: And then what would drive the growth in coming years maybe in FY24-25 because we will be almost 100% utilization level right?

Management: So, if you see the past track record we have done expansions at various stages. As we mentioned earlier the Phase-2 of another 1 to 1.5 lakh tons of DI pipe expansion is there on the boards. We are just waiting for China to open up which will take around two years time. So, that will come into production after two years and during this time we have also done backward integrations in terms of we have set up Ferrosilicon plants, Silico Manganese plant. We have increased our power capacity. So, these are also adding to both top line and the bottom line.

Deepak Poddar: And that is the capacity you mentioned this Phase-2 which is coming after two years?

Management: So, we are aiming for something around 1.5 lakh tons.

Deepak Poddar: So, that is likely to come by May 24 that is what you are saying right?

Management: Hopefully yes.

Deepak Poddar: And how do we see EBITDA per ton I think currently we are in the range of 11,000 to 12,000 right?

Management: So, EBITDA per ton is around 10,000 to 11,000 tons this is blended EBITDA for all the products and the focus is to maintain this EBITDA minimum in this range.

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

Chetan Phalke: Sir do we procure any pig iron from outside for our West Bengal plant and as well as our Chennai Plant the cast iron plant and what are the volumes?

Management: The plants that we have are backward integrated so we have our own blast furnace in both the units. So, we do not need to buy pig iron from outside sources.

Chetan Phalke: So, there is no external purchase wholesaler of pig iron?

Management: No.

Chetan Phalke: And sir what was our export volume for FY21 and FY22?

Management: FY21-22 DI pipes exports was around 22% to 23% of the total DI pipe volumes.

Chetan Phalke: For both the years 22% to 23%?

Management: Yes.

Chetan Phalke: And going forward can you throw some color on the export opportunity going forward as a given fact that US is planning to replace their lead pipes also Electrosteel as a firm we have a big global presence I mean we have sizable operation overseas, so can you just throw some light on how are we poised to grow our volumes in export markets, what percentage of global trade we are controlling right now etcetera?

Management: So, there are tremendous opportunities available in the overseas market and Electrosteel Castings has been into overseas markets since last two decades and we have been catering to almost all the major countries like Europe, UK, US, Singapore, Middle East. So, we are basically present in this areas in this geographies since last two decades and from Electrosteel when we were exporting we were exporting around 50% of the total products. Now with Kalahasthi merged into castings, we have bigger opportunities available at our hands and we are focusing to increase our export share. We also want to be present in the domestic market where we are leader here and also want to capitalize on the opportunities available in the overseas market. So, we have a big set up, big team which are into export markets we have around 10 subsidiaries in each of the countries to establish our position there as a long term player and yes we have the major approvals in place in Europe, US market which are required to sell pipes. So, we have plans to increase our exports going forward where the margins are also high superior to domestic margins and slowly and gradually we will increase our export share I hope I have addressed your query.

Chetan Phalke: What is the realization and let us say EBITDA per ton for import exports?

Management: So, compared to domestic the realization would be higher by around say Rs. 3,000 to Rs. 4,000 per ton. This is not the realization which I am saying it is the Rs. 3,000 ton around the margins the EBITDA margins.

Chetan Phalke: The margins are higher by Rs. 3,000 per ton?

Management: Yes.

Chetan Phalke: Post once we merge Electrosteel and Srikala is it possible let us say we are exporting from our Srikala as well under the brand of Electrosteel is it possible or we have to take a plan based approval?

Management: So, Srikalahasthi is already merged with Electrosteel effective 31st December and yes plant based some approvals would be required for which we are already working on it.

Chetan Phalke: So, we can say that incrementally because still now we are not exporting anything from Srikalahasthi going forward that situation can be used?

Management: Very nominal export is there.

Management: To add what Gaurav said we are already exporting to Singapore and other countries from Kalahasthi as he said now our endeavor is to increase the exports from Kalahasthi also. So, we will gradually increase it now we are doing whatever we are doing we will increase it may be 10% of our capacity we plan to increase from the Kalahasthi unit.

Chetan Phalke: Can we say that our incremental volumes of 2 lakh tons half of it can go to export, half of it can go to domestic going forward can that happen let us say over the course of this three, four years?

Management: That will definitely be our objective that is a vision so let us see how it plans out.

Chetan Phalke: So, just one last question sir if you look at the capacity additions by the industry so Tata MetLife, Welspun Corp they are also giving some 6 lakh tons of CAPEX combined together at the same time Vedanta, CIO, Sangrur Manganese they also got some environmental clearance, so how do you see this supply side dynamics playing out over the next three, four years given that almost million tons of capacity is proposed and how much of it is do you think is viable?

Management: Chetan ji in last 15 years there has been capacity addition Tata Metaliks came into picture, Jindal Saw also came into picture in the last 15 years and the capacity enhancement had started happening in last three, four years and last three, four or five years where Kalahasthi had also increased the capacity, Tata Metaliks is also increasing the capacity, Kalahasthi is again increasing the capacity. It is all because there is lot of demand the government push to supply of drinking water to each and every household this creates lot of demand for the DI pipes and DI pipes is one of the most suitable pipe for transportation of water because of its characteristics. So, the expansions and the capacity coming up we do not see any concern in fact it is good for the market and I think and this is also not a fragmented industry there are very limited and renowned players. So, I mean we appreciate this expansion happening.

Chetan Phalke: We just wanted to understand the sustainability of this demand let us say what happens once 'Nal Se Jal' is fully implemented then what happens to these capacities I mean can the industry absorb incremental capacity of let us say another million ton on a sustainable basis going forward in fact that is what I was trying to understand and how big is this opportunity going forward?

Management: Water is very important for each and everyone. Now you are seeing cities not only in India but everywhere all over the world. So, the market is growing and you will see both I mean in Electrosteel both the units have been increasing the capacities gradually. Whenever we do the capacity increase our production is fully sold there is no question of not selling and the capacity utilization is 100%. So, we do not foresee any gap between production and sales.

Chetan Phalke: So, even after this 'Nal Se Jal' vision is complete we see a sustainable demand North of 2 million tons going forward at a country level, is that the correct understand from what you said?

Management: Yes right.

Moderator: Thank you. The next question is from the line of Malluchuru from First Water Capital. Please go ahead.

Malluchuru: I have three questions one is in continuation with the previous queries that in terms of the new capacities which are coming up, do we see any challenge in terms of margins been squeeze because of the competition and secondly how many out of the total orders how much is the government related orders and do we see any issue in terms of allocation from the budget I mean there is a budget announced it is a huge budget towards 'Nal Se Jal', but how much is already allocated and how slow it would be your how can we expect it going forward and lastly the captive power currently account for how much of the power consumption and going forward any plans with regards to captive power and the savings from the same?

Management: So, most of the orders or per se the entire order has come from government bodies only. Ultimately the buyers of the DI pipes are government bodies so they come out with tenders and either they procure the pipes directly or they do it through the EPC contractors. So, for us the end customers are government bodies only. In terms of margins when the competition comes in see the competition is already there it is just that the capacity is going up slightly maybe by around 10%, 15%. Right now we have a industry capacity of around 2.5 million tons which is expected to go to around 3 million tons and there is ample demand for pipes. So, we do not see any concern on the EBITDA because this is the kind of minimum EBITDA which every player needs to maintain.

Malluchuru: It was with that to captive power?

Management: So, captive power we have around 40 megawatt of capacities which is fully operational and we are procuring around you can say Mr. Sridharan if you can confirm I think we are procuring 25% to 30% of power from outside rest is being captively consumed.

Malluchuru: Just one more clarification as you mentioned that predominantly the client remains government tenders and orders, so do we see any challenge in terms of how what will be the pace of these orders coming through because I think in past we have seen some challenge in that regard in terms of allocation of the budget?

Management: I would like to add only one thing to what Mr. Gaurav said the usage of the DI pipe which was hitherto for water and sewage is not extend to even irrigation. So, whatever irrigation projects that are coming up also DI pipes will be used. So, that allocation will come. Now realizing that the water is very important the central government has started a separate department 'Nal Se Jal' and the supply of water from the source to the household which initially started in the state of Telangana is now extended to Orissa and is being extended to Andhra, Tamil Naidu like that every state will be doing this. So, we do not foresee any dearth for order of or demand for such a line pipe.

Moderator: Thank you very much. The next question is from the line of Sahil Sanghvi from Monarch Networth Capital. Please go ahead.

Sahil Sanghvi: I have three set of questions one as per what previous participant was asking on the export markets, could you throw some light on the demand that you are seeing I mean you explained a lot of the supply side how it is all placed, but what kind of demand would you be seeing from couple of these geographies like US and Europe etcetera?

Management: See we are present in the export since last two decades as I mentioned earlier and we have been a very consistent player. We have till now not been able to ramp up our export volumes much because we have limitations we also want to be servicing the domestic market. Till now we were exporting around 40% to 50% of our volumes to the entire global market and markets like US, Europe they have huge opportunities and with the merger of Kalahasthi we have now more opportunities available in terms of supplies because Kalahasthi is at a capacity of 4 lakh tons and that will give us room to push out more to overseas market. As far as demand goes there is ample demand because every place like similarly like India the DI pipes are the best suited pipes for transportation of water and as in the city grows it becomes important to connect all the areas with underground pipelines. So, because of that reason the demand is continuously growing as other participants were also mentioning about the schemes that are coming into play. So, what I would like to add is see this schemes have come into picture in four to five years so maybe 6 years, but the demand was there government was already focusing on transporting water. By bringing in these schemes the focus increases of the government, it adds on to further potential of DI pipes requirement. Going forward also this is not expected to come down because the old pipes or the earlier pipes because DI pipes is not a very old technology so kind of new technology which has come in India since last may be 20 years, 25 years, 30 years. So, the old pipes also needs to be replaced and because of that the demand will keep continuing.

Sahil Sanghvi: So, my second question is regarding to the cost now possible to tell us that what was your quarter-on-quarter increase in the coking coal cost that we procure Q4 versus Q3?

Management: Q4 versus Q3 the cost has gone up and it has gone up by around I think Rs. 5,000 a ton.

Sahil Sanghvi: Q1 23 is still not yet complete, but till now what kind of surge are you seeing again Q1 versus Q4 on the coking coal sir?

Management: The coking coal prices have been very erratic. It came down recently from $670 to $380 then again it went up and is right now hovering at around $500. So, it is very difficult to give you exact number what will happen in Q1 because we have some inventory of earlier bookings and some now fresh stock is also coming in so average cost will definitely go up, but yes the prices are up from what it used to be.

Sahil Sanghvi: And Q4 versus Q3 is it Rs.5,000?

Management: Increase of 5,000 in the consumptions.

Sahil Sanghvi: I request if you can provide a split on the revenue since we have couple of segments what we would like to also understand is how the realizations for DI pipes are moving, so possible to give the breakup of revenues for say at least DI pipe revenue for Q4 and full year?

Management: DI pipe revenue we can help you with so for the full year DI pipe revenue was around 3,500 crores.

Sahil Sanghvi: And what was the sum of Q4?

Management: Q4 it was around 1,150 crores.

Sahil Sanghvi: When we comes to this pricing of DI pipes are you seeing an exponential surge because one of your competitors was very heavily commenting on the deficit market scenario which is like pricing going high and the new contracts coming in very high prices almost 25%, 30% higher, so are you seeing a similar phenomenon?

Management: So, prices are going up and the new orders which are coming in and are coming at higher prices. Though it is a bit of challenge to pass on the entire increase cost to the end customer, but definitely the maximum increase in cost is getting passed on. So, the new orders are coming at higher prices.

Moderator: Thank you. The next question is from the line of Kaushik from Vermilion Family Office. Please go ahead.

Kaushik: I would like to know what is the cost leadership of Electrosteel globally if you do the cost curves in which quadrant would Electrosteel operations fall both the production sides and also what is your global market share and how competitive are you vis-a-vis large Chinese companies?

Management: Very tough query Mr. Kaushik so in terms of cost I will not be able to give you where we stand globally it is difficult for us. There are many players . So, we have not done that kind of comparisons we neither have those data also with us. So, I am sorry I will not be able to answer your queries.

Kaushik: What about your global market share?

Management: We have not done such studies. From India see I think only two players are into exports one is Electrosteel and other I think is Jindal Saw and the overseas market is big enough so I am not sure what is our share, but we are fairly placed.

Kaushik: And one more question what is the current status of Parbatpur do you see any action in the next year?

Management: See the matter is stuck since long and we are yet to receive the compensation amount, it is kind of going very slow to be honest. Whenever the compensation comes in it will be a huge gain for us, but since the request is now with the government that is with the ministry of coal to clear the file, to give a timeline is also a big challenge for us.

Kaushik: One question is just related to global market share so would it right to say that India produces around 25%, 30% of the total DI pipe production in the world that we are quite a large producer?

Management: I do not have those kind of data with me so I am sorry I will not be able to answer you maybe my colleagues can answer Mr. Sridharan if you have the data.

Management: No, because as you rightly said we have not done that maybe we will come back to you sir I think you excuse me.

Kaushik: Just this would be actually a small point actually the size and scale and the leadership of the company are not that much appreciated in the market. I think this data is placed in the right frame of reference will help the company that is my humble request to you.

Management: So, if you see the India market we are the leader of Indian market we have around 32% market share. So, I mean if you see in the India market we are the largest.

Kaushik: One more thing is that in the future would the company be open to buyback now that balance sheet are in a very strong footing and that cash flow is also very strong?

Management: So, we cannot answer that. Depends on the management and the board of directors, we do not have any answer to that.

Kaushik: Also any thoughts on a dividend policy are you trying to announce one mutual kind of give us some guidance how we would be providing dividend over next four, five years?

Management: So, there is no dividend policy as such, but if you see the dividend history the company has been dividend paying company throughout the tenure and we have been paying dividend depending on the profits that we are generating. Since the profit was good we have paid healthy dividend this time. We have declared healthy dividend subject to approval of shareholders.

Management: To add what Mr. Gaurav said is we have to take a holistic decision or the directors will be taking a holistic decision as to how much funds are required for expansion and all other requirement and accordingly the amount is being recommended for.

Kaushik: In November call of Kalahasthi you had mentioned that there could be some opportunities and people ask that what would be the usage of cash you had mentioned that there would be some potential opportunities for acquiring distressed assets, are they still on the horizon sir?

Management: The one which we thought may not be there, but we are also looking for various option. We have not closed out this one we are looking for something.

Kaushik: So, would it be right to say that you do have an inorganic growth policy?

Management: Sir I cannot comment anything right now.

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

Chetan Phalke: Sir you are talking about opportunity emerging from irrigation sector so are these like large diameter pipes and what is the margin profile diameter as in we make more margins?

Management: These are higher diameter pipes, but then margins will be same whatever margin we get maybe it is a bit more, but domestic market the margins will be almost similar. The usage of the product will work so the demand will go up.

Chetan Phalke: Diameter profile would not change anything that s what you are saying?

Management: No it will be a bigger diameter.

Chetan Phalke: No but that would not impact our margins is that understanding correct?

Management: Yes.

Chetan Phalke: And sir just going back to exports I mean we are exporting almost $100 million worth of DI pipes since last 5 years, 7 years on a consistent basis, so what percentage of our exports are going to US market the European market because I think our US market share is very small in US they are barely selling some 50 crores, 60 crores worth of DI pipes rest of it is going to Europe and Middle East, so do we see US market becoming a larger buy of our export or do we see Europe itself going forward?

Management: So, you are right Europe is contributing to our exports to the maximum extent. Of late in last three, four years US market has also gone up. Earlier we were around 3%, 4% of our export turnover from US which has now gone up to around 6% to 7%. Europe is contributing around 45% to 50%. Middle East markets have also gone up Middle East is also contributing around 25% and we are still focusing and trying to increase our share in US market. So, for us primarily the main export countries are Europe, Middle East and then US and rest of the parts of Asia.

Chetan Phalke: Sir can you throw some light on the size of our global operations as in how many employees we have overseas and what is the fixed cost that we incur every year on a global operations?

Management: Most of the subsidiaries in fact all of the subsidiaries that we have are more of marketing arms of the company with the operating stock and sale method there is not much of value addition happening there. The complete finished products are being shipped out from India. So, we have a very small base of employees who are mainly the marketing profile and the presence is required in all the areas just to ensure that we have a long term presence and we get repeat orders. So, it is not that we have a very high fixed cost setup.

Chetan Phalke: But roughly what would be the fixed cost North of 50, 70 odd crores per year?

Management: We will come back to you on that we have to check because we have 10 subsidiaries. So, we do not have numbers handy for each of them.

Chetan Phalke: Just one last question how are the payment terms in export market I mean the working capital days are lesser in exports and more in domestic I mean written on capital employed wise which operation is better on payment terms?

Management: So, in terms of working capital cycle it is the other way round. The working capital involvement in case of exports is higher compared to domestic. It is because the shipping time is higher to regions like Europe and US. So, you can say if in domestic market we are getting receivable in x days then in export market that would be around say 1.75 to 2 x. So, working capital cycle is elongated in the export regions and it is getting compensated by higher contribution, higher profitability.

Chetan Phalke: Just one last question I mean are there any limitations to let us say for example can we cater to Southern market or central market from our West Bengal plants is there any limitation because of the higher transportation cost or what is the barrier for us, let us say we can do business in maximum 500 kilometer or periphery from a plant, is there something like that just like for cement company?

Management: Freight plays a major role, but there is no problem in Southern and Western markets are being catered by our Kalahasthi plant and Eastern market and Northern market catered by our Calcutta plant. So, we do not find the disadvantage of the higher freight effect.

Moderator: Thank you. The next question is from the line of Ravi Retail Investor. Please go ahead.

Ravi: My question is related to vision about the management, can you share some insights on the vision for this company for the next 5 years or 10 years where will we see this company in the next 5 years or what is the vision of the management?

Management: See Electrosteel Castings Limited has been a dominant player in Ductile iron and pipe industry since maybe last three decades. We are very focused on the DI pipe segment, This is our main product which is bread and butter and we have been trying to integrate our operations to the best extent possible. Over the last many years we have done backward integration in terms of enhancing our power plant capacity, setting up Ferrosilicon, Silico Manganese plant, setting up our own paint plant, increasing the capacities by debottlenecking, forward integration also we have done. So, we are leaders and the management has expertise in this field and so in

Kalahasthi unit also we have increased the capacities which used to be around 50,000 tons around 15 years back now which has gone up to 4 lakh tons and which will further go up to 5.5 lakh tons. So, clearly the vision is to focus on this segment which is a growing segment and since we are the leaders so we have established brand and we are looking to cater to this segment more fruitful and beneficial.

Ravi: In terms of target do you have any target how to do tracking for next 5 years or 10 years where do we see the revenues in the next certain years?

Management: The plan is to be the largest producer of Ductile Iron pipe in India. So, now we are planning 1.5 lakh tons capacity expansion in Kalahasthi and about 50,000 in our Kolkata plant so it will add up to our capacity at least in the next five years we will add up our capacity and we will be fully forward and backward integrated plant in terms of all the materials and other things so that is our vision and we also want to be lowest cost producer of Ductile Iron pipe in India and also in the world.

Ravi: If you can add the vision in the presentation it will be helpful sir going forward?

Management: Sure we will do that and your point is well taken.

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

Nikhil Goel: My question is sir like as you said earlier that the raw material cost is increasing will it affect the profit margins in near future?

Management: yes the raw material prices are rising and has been rising since last four quarters and till now we have been able to successfully pass it on to the end consumers and we have also tried our best to reduce our cost levels. Going forward see we cannot give any concrete reply how it will work out, but yes we are trying to maintain the margins.

Nikhil Goel: Secondly sir can you just tell me like what is your trade receivable?

Management: We have around 1,000 crores of trade receivable as on 31st March.

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

Saket Kapoor: As mentioned by Gaurav ji that the EBITDA margins are higher in case of exports, but sir can you please explain then why our consolidated numbers PBT are lower by around 10 crores I am talking about the standalone PBT at 153 crores and the consolidated at 143 crores?

Management: Saket ji will have to take some time out and go through the numbers and come back to your query please allow us to come back to you.

Saket Kapoor: Sir in the DI fitting part we have this 15,000, 16,000 capacity for a long time are we augmenting any capacity addition here also sir and how are the margins I think margin for the fitting segment is higher so are we contemplating anything in this direction?

Management: Saket ji I will correct you here in fittings our capacity used to be around 5,000 tons to 6,000 tons around three to four years back. We have again done CAPEX here and we have increased the capacity to around 16,000, 17,000 tons at the moment. So, last year we were able to produce around 20,000 tons. So, if you compare in three, four years we have already done 4x of what we used to do earlier.

Moderator: Thank you. The next question is from the line of Koushik Sekhar from Vermillion Family Office. Please go ahead.

Koushik Sekhar: Could you just tell us what is the plans for our Chennai plant what is the current status and how you propose to use the SCI plant in Chennai and also one more thing is that whether it is legally possible for you also to be a participant in case Parbatpur comes up for bidding and whether you have any interest in that because I understand that you have been to tremendous expertise in this mining and it does seem to be a good standalone business?

Management: CI pipe is the old technology and DI pipe is a newer technology. We are producing a very nominal quantity of cast iron pipes to cater to the demand which is available in that region nothing more than that. It is not contributing significantly to our overall EBITDA. So, we are producing around say 30,000 tons and it is a self sustainable plant. There is no kind of very broader vision on that particular plant. As far as mines goes it is very difficult to comment because as you know this our compensation is in litigation or you can say we have been requesting the government to clear our compensation for last 7 years and as of now we have no clarity. Management will take the call as and when it comes.

Moderator: Thank you. The next question is from the line of Sudarshan Mall from Dhunseri Investments. Please go ahead.

Sudarshan Mall: I just want the book keeping number what is our gross debt and net debt at present?

Management: Gross debt as on 31st March was around 2,700 crores and net debt would be around 1,900 crores.

Sudarshan Mall: Do you say 27 and 19?

Management: Yes 2,700 and 1,900.

Sudarshan Mall: Of this 27 how much is working capital?

Management: Working capital is around 1,700 crores.

Moderator: Thank you very much. Ladies and gentlemen due to time constraint that will be the last question for today. I now hand the conference over to the management from Electrosteel Castings for closing comments.

Management: Thank all for the active participation in this conference call. I thank Valorem team and team for supporting to have this conference call successfully. I wish you all to keep safe. Thank you all.

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