

Electrosteel Castings Limited
Earnings Conference Call
February 13, 2024

Moderator: Ladies and gentlemen, Good day and welcome to the Q3 and 9M FY24 Earnings Conference Call of Electrosteel Castings Limited.

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

I now hand the conference over to Mr. Vikash Verma from E&Y LLP. Please go ahead.

Vikas Verma: Thank you Tushar. Good afternoon, everyone. Welcome to the Q3 and 9 MFY24 Earnings call for Electrosteel Castings Limited.

On behalf of the Company, I would like to express our gratitude to each of you joining the call today.

To discuss the performance of the Company and to answer the questions we have with us from the Company, Mr. Uddhav Kejriwal – Whole Time Director, Mr. Madhav Kejriwal – Whole Time Director, Mr. Ashutosh Agarwal – Whole Time Director and CFO and Mr. Gaurav Somani – General Manager Finance.

Before we begin, I would like to draw your attention to the fact that today's discussion may contain forward-looking statements that are subject to various risks, uncertainties and other factors which will be beyond management control. We kindly request that you bear in mind there may be uncertainties when interpreting such statements.

Please note that this conference is being recorded. We will now start the session with opening remarks from the management team. Afterwards, we will open the floor for an interactive Q&A session.

I would now like to invite Mr. Madhav Kejriwal to make his opening remarks. Thank you and over to your, Madhav.

Madhav Kejriwal: Thank you. A very good afternoon to all and a warm welcome.

Highlighting the Company's Q3 FY24 Operational Performance:

It gives me great pleasure to share with you that we have registered our highest ever quarterly EBITDA and PAT of INR 429 crores and INR 263 crores respectively. This was on the back of an income that stood at INR 1892 crores led by a strong demand from the domestic markets owing to the governments Jal Jeevan Mission, AMRUT and irrigation scheme.

Additionally on the margin front the Company registered its highest ever EBITDA margin and PAT margin of 22.7% and 13.9%. We saw our blast furnace in the Khardah unit go under repair and maintenance this quarter owing to which we will be able to see some benefits in the aforesaid coming quarters. Our balance sheet is stronger now backed by robust performance. We are confident that with support of all the stakeholders continued performance improvement and focus on the government to provide for India's water requirements the balance sheet will grow to be much stronger in the coming times.

This will be by a combination of various factors such as a strong order book, economies of scale and operational efficiencies. This quarter we were able to sustain our growth momentum with better volumes at our South Unit. During the quarter, our pipe volumes stood at 1,95,000 tons, the export share of this was 16%. The government's ambitious JJM project which was launched for connecting every rural household with tap water connections has achieved a 74.1% of which national target till dates over 14.3 crore rural households now have safe access to drinking water from India's total 19 crore rural households.

We opened this quarter with an order book of 6,00,000 tons which provides visibility to us for 9 months to 10 months. The ongoing CAPEX is progressing as planned thereby maintaining the Company's leadership stance. The interim budget of 2024-25 vision of Viksit Bharat by 2047 is poised to spur infrastructure spending benefiting Electrosteel for varied product applications like continuous safe drinking water, sewage irrigation and others which will lead to an increased demand for ductile iron pipes.

Additionally, the rise in global water infrastructure spending adds visibility to our order book, making us a preferred partner for key water infrastructure projects both in the domestic and export markets. Nearly 5 crores households are yet to be connected with drinking tap water under the Jal Jeevan Scheme.

Additionally, AMRUT 2.0 will continue to drive demand for ductile iron pipes and fitting products in the coming years. There is a growing need for better water infrastructure products in the global market for securing drinking water as well. Owing to this, we are pretty confident about the future of the organization.

I would now like to hand over the floor to Mr. Ashutosh Agarwal – Whole Time Director and CFO for taking you through the Electrosteel Castings Q3 FY24 financial highlights.

Ashutosh Agarwal:

Thank you, Madhav ji. Good afternoon and a warm welcome to all the investors present in this conference.

I would like to first start with the Q3 “Consolidated Performance” of the Company:

The total income stood to INR 1,892 crores in this quarter EBITDA surged by 112% to INR 429 crores in this quarter. EBITDA margin expanded by 1,183 bps year-on-year basis to 22.7%. PAT grew to 236% to INR 263 crores in this quarter. The PAT margin expanded by 972 bps year-on-year basis to 13.9%.

Now moving to Standalone Performance of the Company:

The Company sold 195,253 tons of DI pipe during this quarter. The Company’s total income was at INR 1,814 crores. EBITDA grew by 124% YoY basis to INR 412 crores in Q3 FY24. EBITDA margin expanded 1,223 bps YoY to 22.7%. PAT grew by 286% YoY to INR 252 crores in this quarter. The PAT margin expanded by 1,016 bps YoY to 13.9% during this quarter.

Moving to Consolidated Performance of 9M FY24:

From the total income was INR 5,542 crores during 9M FY24, EBITDA surged by 58% YoY to INR 935 crores with an EBITDA margin of 16.9%. PAT grew by 126% YoY to INR 513 crores with PAT margin of 9.3%. EPS during the 9 M FY24 was at INR 8.59.

Moving to Standalone Performance up to 9 MFY24:

The Company sold 5,50,886 tons of pipe during the period. The Company’s total income was INR 5,232 crores during this period. EBITDA surged by 58% YoY to INR 927 crores with EBITDA margin of 17.7%, PAT grew by 122% YoY to PAT to INR 517 crores with a PAT margin of 9.9%. EPS was 8.67.

Now I am talking about CAPEX plan:

The Company has spent INR 340 crores till date for the expansion plan which is INR 650 crores. The ongoing CAPEX is in progress as per the plan, new capacity is expected to be started by September/ October FY 2025 which will take the Company to the overall capacity of 9 lakh tons per annum.

As on 31st December 2023, the gross debt of the Company came down to INR 2,100 crores and net debt stands to INR 1,680 crores. The Company’s net debt-to-equity ratio stands to 0.36: 1 as on 31st December 2023. ECL adjusted ROCE and ROE annualized after adjusting coal mine compensation which is due to received and appearing in the books of accounts stands to 20.2% and 20% respectively as on 31 December 2023.

Now, I'm opening the floor for the question and answer session. Thank you everybody.

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

Vikas Singh: Sir my first question is regarding our profitability it is far higher or probably the best ever EBITDA per ton how much is basically sustainable in this and what factors contributed to such a significantly high profitability if you could give us some info on that?

Madhav Kejriwal: So, I'll answer in two parts. I'll start off with what are the factors that have led to this. One of the major factors that have played a key role in this would be the economies of scale and the improvement in the operational efficiencies along with the little support from good hedging scenario that we saw for our raw material prices.

In terms of sustainability, we are seeing some strong tailwinds from the demand perspective as well, and even from our continuous efforts towards operational efficiencies. So, I would say that the outlook is strong for the foreseeable future.

Vikas Singh: But going forward, would we be able to maintain the similar kind of margins or it's a very tall expectation then we should take it as of 15,000 tons to 18,000 tons kind of the range. What would you like to guide to us?

Madhav Kejriwal: Sir, I think barring minor fluctuation of a few percentage points here and there I don't think I feel that foreseeable future it seems pretty good. I was saying that we have also been planning our raw materials, hedging it according to our order book as I mentioned we have a very strong order book of 6,00,000 tons against 4.5 lakh tons last year. So, to accommodate for our increased order book and also our expansion in terms of volumes we are working on efficient utilization of working capital and keeping our raw material inventory at a certain level to maintain margins. So, that is an exercise which will help us sustain these sort of profitability and EBITDA margins.

Vikas Singh: So, my second question regarding this blast furnace realigning. So, what kind of the production loss we could experience in the next year or there is a possibility that in the later part of the year we would be able to cope up with this? So, if you would give us some idea about that?

Madhav Kejriwal: So, the loss of production that we have seen due to this would be around 25,000 tons, but we managed to make up for a good percentage of it through an improved performance by our South team. Due to the realigning, we are expecting to increase the capacity of our East unit by around 50,000 tons. So, that is the advantage that we are seeing of this for the next, for this quarter the remaining 2 months and for the next financial year.

Vikas Singh: And since we are already running that kind of 8 lakh ton an annualized run rate. So, by when we would be able to reach that 9 plus kind of the annualized run rate?

Madhav Kejriwal: So, pro rata basis I think mid next financial year we will hit that target maybe starting Quarter 3 next year latest, but so far everything is going as per the timeline. So, you can say somewhere around mid-Quarter 2 of the next financial year.

Vikas Singh: And just one last question more as sir everybody is increasing their capacities tremendously. I know you have kept telling us that the market is very buoyant, but do you expect that since these capacities are all coming within a stipulated timeframe and usually demand increases linear curve over the longer time. So, we can face any problem in next year or thereafter for a short period of time?

Madhav Kejriwal: Foreseeable future to give you a very frank answer I was not being able to understand how so much material will be able to be supplied by the ductile iron industry, but I think with the capacity is coming and it's only a support to the industry to maintain its stature as the most preferred product to be used in water pipelines. So, I look at it more as a support factor than a problem for some time at least.

Moderator: Thank you. The next question is from the line of Radha from B&K Securities. Please go ahead.

Radha: Sir, my first question was that, so we are the largest exporters of DI pipe from India and for us Europe remains a key market. So, considering this we wanted to understand what are the key projects for DI pipes in Europe plus UK region and what kind of opportunities do those projects create for us. Additionally, are there any capacity expansions announced by existing players in these regions and third considering the anti-dumping duty how competitive are our products as compared to local players like St. Gobain or other local players or even considering the Chinese players?

Madhav Kejriwal: So, ma'am a lot of the projects that we are envisaging in the European territory will be a repercussion of the EU funding that has been put in place post the COVID pandemic and there is robust demand in a lot of Eastern European countries and also in France and Italy.

In regard to the capacity expansion of our competitors there is no indication of any sort of capacity expansion by the local players in Europe and we see that there is enough place for both them and us to coexist considering the focus of the governments to improve and upgrade their waters infrastructure.

In regard to the dumping, we do envisage this to affect our margins marginally not a lot very insignificant amount because the overall pricing situation over there is such where we have comfortable cushioning against that.

Radha: Sir, any highlights on what is the kind of anti-dumping duty on us versus the Chinese or other countries as well?

Madhav Kejriwal: Ma'am against China we are still at a lower dumping duty than them. There is still a differential of 7% to 8% between our and their dumping duty.

Radha: Sir you mentioned that our products are quite competitive as compared to the local players. So, what gives us that edge considering that we are exporting from here and they are manufacturing there. So, considering all the logistics cost involved what gives us this competitive edge over others?

Madhav Kejriwal: Ma'am energy cost is a big aspect of it, economies of scale is another part of it labor costs and also we tend to operate our plants a little more efficiently because we are running at full capacity. They have fluctuating issues due to labor problems, fluctuating energy and also I think overall slightly less invested in their manufacturing and I would say we are continuously upgrading our machinery and our processes which they don't partake in as aggressively as we do.

Radha: And secondly on the Middle East front, so they're given to understand that Middle East is investing a lot in their water project. So, could you explain the demand supply scenario of the entire region of the Middle East countries as a whole and given these investments by government in the Middle East region what kind of opportunity is that expected to create for the DI pipes particularly in the coming 3 to 5 years?

Madhav Kejriwal: Ma'am, the major market in the Middle East would be Saudi Arabia at the moment we are seeing some good pull also coming in from Kuwait and Oman, UAE and Qatar remain to be stable markets, but they are very niche markets requiring specialized production.

Fortunately, we are one of the only manufacturers from India who is able to cater to that need. We are quite optimistic regarding Saudi Arabia at this point. I think we can add a bit of I would say approximately another improvement of 5% to 7% in our overall volumes to Saudi Arabia going forward progressively.

Although that market does have players in it as well, but there is a lot and enough for everybody and going to the fact that we've been established players we've been there for many years once we are the we are the first choice beyond the indigenous manufacturers.

Radha: But in our previous PPTs one of their presentations we had mentioned that we are expecting that Indian market is expected to grow at 11% to 13% CAGR for DI Pipe. So, given that we are seeing a lot of push in the Middle East region. So, in the near-to-medium term is it such that the Middle East is expected to grow at a higher rate as compared to the growth rate expected in India or would it be in a similar range?

Madhav Kejriwal: I think it will be slightly lesser, ma'am. It's a geographically smaller country and even in terms of population distribution, it's not as it is in India. So, owing to that the growth will be slightly slower, but yes at the same time it will probably be at number two in terms of growth rate close to India, but slightly lower.

Radha: So, 11% to 13% for India would be correct and maybe 9% to 10% for Middle East?

Madhav Kejriwal: Yes, 8% to 10% for Middle East.

Radha: Sir you mentioned that we are one of the only players exporting there, so could you also explain how competitive are we as compared to local players in the Middle East and are key USP in that market?

Madhav Kejriwal: Well, ma'am, I'll answer the other way around. Our USP is that we have a pretty high functioning warehouse in Bahrain with also fabrication facilities which helps us give confidence to the customers of effective delivery. In terms of quality since we've been an established player for many years there is no issue with the customer on that front.

So, these are our these are two main USP. In terms of preference over local manufacturers and they are a bit of a protectionist nation so I wouldn't say that there is a preference over local manufacturers, but I would say there's an equal footing with local manufacturers that we are allowed.

Radha: Sir, preference actually giving the raw material dynamics of India iron ore and cooking coal considering that dynamics of India versus the Middle East. So, do we have any advantage over the cost of production of players in DI pipes of Middle East?

Madhav Kejriwal: Ma'am, taking into consideration the small import duty that is available and the slight protection measures that some tenders come out with wherein a price differential is allowed to the local manufacturers we somewhat end up at the same level. There is no real price advantage per say for not the entirety of the Middle East for Saudi Arabia when we talk about UAE, Qatar, Kuwait, Oman over there we have a reasonable advantage on pricing because they don't have these said duties.

Radha: Sir, recently Middle East has announced an 80 billion actually Saudi Arabia has announced this \$80 billion project for water infrastructure desalination project. So, wanted to understand that how much of this would be allocated to DI so in India if a project is announced usually we assume around 20% of the project calls to be allocated to DI. Could we take a similar number for Middle East region?

Madhav Kejriwal: This is an exercise that our team is doing it. I don't want to give you the wrong number. I think maybe offline once we have that number we can communicate the same to you.

Moderator: Thank you. The next question is from the line of Sailesh Raja from B&K Securities. Please go ahead.

Sailesh Raja: Sir, this question you have already answered, but I still need more clarity. So, historically DI pipes used to make say INR 9 to INR 10 EBITDA. Now industry or Electrosteel we are doing INR 16 to 18 gains. So, in this incremental rupees, can you give me the breakup of this incremental benefit that we are keeping? How much is because of scale?

How much is because of the process improvement? How much is because of raw material benefit and because of favorable dynamics benefit how much we are getting because in the industry say one year time they're adding 1 million tons of capacity actually. So, do you still think this kind of EBITDA is sustainable I need to understand sir?

Madhav Kejriwal: I'm sorry just one correction I would like to make historically DI has seen around INR 11 to INR 12.00 of EBITDA. At bad year yes, you are correct it was around INR 9 to INR 10, but we have wait at a long-term average it's around INR 12,000 rather per ton and I think in terms of raw material that probably contributes to 2% to 3% of the entire improvement portion of the EBITDA margins, big chunk of it is to do with the better economies of scale and the demand pull that is there.

Sailesh Raja: Could you please talk about today's rejection rate in DI pipe for us 2 years, 3 years back what was the rejection rate and how much it is now and what are the initiatives that we are taking to reduce the rejection rates?

Madhav Kejriwal: Rejection rates you mean in terms of manufacturing.

Sailesh Raja: Yeah correct sir.

Madhav Kejriwal: Sir that is a very fluctuating situation. As you know, we make pipes for all sorts of markets. So, it varies over time depending on what material we are making on dia, etc. So, this is a complicated answer to really give you a single number, but it's in the lower single digits.

Sailesh Raja: Any improvement you are seeing Sir in 2 years back, how much it was now, how much it is, any improvement you are seeing?

Madhav Kejriwal: Yes, definitely. I think there is a substantial improvement from what it was earlier because there's better machinery, more advanced machinery that we have put in and as you pick up on certain tonnages and the machine picks up on certain places and your manpower also gets more skilled. So, those factors are leading to improved rejection rates by a good margin.

Sailesh Raja: So, could you please talk about this rubber gasket project and how much you are investing, what will we pay back that we are expecting?

Uddhav Kejriwal: So, for the rubber gasket project, I don't think it would be prudent to say anything much beyond the fact that at present we have only envisaged to produce enough for substituting the gasket purchasing that we are doing for supplies along with our orders.

In addition to that, yes, we are at an advanced stage of contemplating how we can utilize this opportunity to do more or better or different and do other value-added products also, but since that has not yet been crystallized 100% as it would not be right to speak about that.

But yes, this gasket project will definitely take care of the entire buying that we are doing, and it will be now our own gaskets that will be used in totality after this comes into production.

Moderator: Thank you. And the next question is from the line of Pinaki Banerjee from AUM Capital Private Limited. Please go ahead.

Pinaki Banerjee: Sir, actually in this quarter actually the top line actually was absolutely flat given the fact that yes there was a plant shut down at Khardah plant and we had primarily got the advantages of low raw material cost and the low finance cost. So, considering how much top line numbers are you expecting to report for FY24 and just now you mentioned that you have about got an order book of 6,00,000 tons. So, what was the growth we are expecting in FY25?

Uddhav Kejriwal: As you are already aware from whatever details we have shared in public domain and also in clarifications on this call, we did have a shutdown for maintenance and improvement in our Khardah plant in the third quarter. In spite of that, we are expecting that we will be closing this financial year with definitely in EBITDA margin of around 18% if not better.

Pinaki Banerjee: And sir how much in sales how much top line you're expecting?

Uddhav Kejriwal: Going forward, the growth percentage that you are talking about, I'm sure next financial year that is 24-25 we will see additional capacity coming upstream with our capacity increase going through in the Southern side of the operations also the Eastern side will be performing to full and improved efficiency after the activities that we have undertaken during the shutdown. So, in terms of EBITDA margin, I feel that we should be showing an improvement of a couple of percentage points over the EBITDA margin at which we closed this year.

Keeping in mind the vagaries and the cyclical fluctuations in raw material, I think it would be more prudent to say on a conservative basis that if we close this financial year around 18%, if not better marginally then definitely another 2% to 2.5% we should be seeing improvement in the next financial year if not more keeping in mind the other uncertainties in this business.

Pinaki Banerjee: My next question is let's see the general elections are coming and most probably if you see by the time it gets over half of Q1 FY25 will already be gone. So, are you expecting any slowdown in the intake of new orders are in execution?

Madhav Kejriwal: Not at all, sir. I think unfortunately due to the COVID-19 situation and also major fluctuations last year beginning of raw material prices there was a slight slowdown in the overall progress of Jal Jeevan Mission also since it's a state plus center initiative there were certain states which were not able to back up the requirements from capital perspective. I think there is enough pending for them to really push through the entire election period as well.

Pinaki Banerjee: So, just another years just can you break up the revenue into four regions what percentage comes from Eastern, Northern or Western and Southern region if possible?

Madhav Kejriwal: This thing you will get different in every month. This I will not be able to tell you because as you know project order which has already been booked, which requirement it will come in that basis it gets changing, but the main market I can say North, East and South are our main markets in terms of our overall revenue we are slightly lower on the Western market.

Moderator: Thank you. The next question is from the line of Rajesh Bhandari from Nakoda Engineers. Please go ahead.

Rajesh Bhandari: Sir this results are we going to continue in the same way?

Madhav Kejriwal: Sir as my brother was mentioning we are very optimistic about the future in terms of both demand and improvements from our end on volume terms or efficiencies, which will help on the cost front. So, the raw material support that we have gotten which I mentioned is probably to the effect of 3% or 4% that should be able to be overcome by the higher margins and economies of scale. So, in that certain uncertainties are difficult to predict on a long-term basis. So, I would say that I would maybe discount by a few percentage points and say that that would be pretty sustainable for the foreseeable future.

Rajesh Bhandari: Means 2 quarters, 3 quarters back the results which are coming nobody can even imagine that such a good result it can be congratulations your efficiency has got improved. Secondly, 7 lakh to 9 lakh capacity expansion I am little confused in FY25, or it is coming in FY26?

Madhav Kejriwal: The pro rata production would kick in FY 25 in the sense that monthly production capable of going up to 9 lakh tons you will see in FY25 mid, but of course since it is coming mid year, we will not be able to take advantage of it for the entire financial year. So, we would see that kick in FY26 as a whole.

Rajesh Bhandari: In one of the last investors meet, we were told that March quarter generally is far better than the other quarters. So, this year also we can expect it will be better than the third quarter?

Madhav Kejriwal: Sir, because of the robust demand that phenomena of March quarter being better is kind of now omnipresent throughout the financial year. So, I don't see there will be that jump?

Rajesh Bhandari: No, all quarters are like March quarter.

Moderator: Thank you. The next question is from the line of Ajay Sharma from MayBank. Please go ahead.

Ajay Sharma: Actually, I wanted to ask I mean the coking coal prices have been going up recently, so I mean how do you expect that to impact your profitability going forward and how much inventory do you carry normally?

Uddhav Kejriwal: So, on the coking coal front there are some points that we need to look into. For the quarter that has gone by that is the October to December period we have seen drastic fluctuations in the prices of the coals which is very reflective in the fluctuation in the dominating index number one.

Number two, all the categories of coal that are purchased are largely determinant or a or a percentage factor of this prime main index. Now keeping this in mind we also have to balance in terms of the inventory management and also of how invested we are in the inventory on one side and also on the other side we have to take pragmatic decisions keeping in mind the way the market is behaving and largely so because quite a few times the market the way it behaves there is complete absence of any logic or rational to what is happening also at times.

So, what we have tried to do this time is we take conscious, calculated and smaller calls at different stages whenever we have felt that there is some sort of a correction or a dip keeping in mind our ultimate selling price and our working if we feel that this has kind of worked for us in this quarter it may not necessarily work always, but yes this time in this quarter and also the lingering effect of this would continue in the last quarter of the financial year. So, yeah to that extent I think we have been able to kind of ride this curve of very, very drastic fluctuations.

Ajay Sharma: And typically, how much inventory would you keep for the raw material?

Uddhav Kejriwal: So, we try to work on the basis of across all categories on an average of about 100 to 120 days of inventory. However, between each category it may slightly fluctuate depending upon how sure we are of the next parcel and also how we see the market behaving.

Ajay Sharma: And other question on the production, so your volumes you said was hit by about 25,000 tons because of the relining maintenance?

Uddhav Kejriwal: So, just add another angle to it.

Ajay Sharma: So, I was wondering in Q4 should you be able to do 20,000 tons I mean just add the 25,000 tons which you lost in terms of production and volumes?

Madhav Kejriwal: So, sir bit of the capital shutdown came into the first month of the quarter as well, but saying that we are going to be coming out of the shutdown with higher production due to the improvements that we have made and of course in the South unit we are seeing it getting

better and better. So, it will be difficult to give you an exact number, but the tonnage will be close to what you're mentioning.

Uddhav Kejriwal: Also, just to add that we have not exactly lost so much production because before we went into shutdown, we were operating at a higher efficiency level because of which before going to shutdown we were able to actually do a little bit more than what we would have been done in ordinary course.

So, keeping that in mind maybe the loss of production would be lesser than 20K and I think that already we could say is more than made-up in totality with higher output from the other units. So, in totality the loss of production would be very negligible when we close the year also.

Ajay Sharma: I mean you said 50,000 tons increase in capacity, is it after the relining from the Eastern unit?

Madhav Kejriwal: Annually, yes please.

Ajay Sharma: So, your overall capacity doesn't become 9,50,000 then after the expansion or would you say still 9,00,000?

Madhav Kejriwal: As I said in the past conferences as well it will the rated installed capacity will be around 9,00,000 tons and with debottlenecking we will fall somewhere between 9 to 9.5 tons something in the middle of that.

Ajay Sharma: So, it's fair to assume for the new capacity you can do like 70% utilization or what in the next year the coming years?

Madhav Kejriwal: The next coming year sir if the past is of any use of example, I would say that we will probably end up with close to 100% if not at least 95%.

Moderator: Thank you. The next question is from the line of Koushik Sekhar from Vermilion Value Advisors LLP. Please go ahead.

Koushik Sekhar: What is the amount of sales you're getting from the irrigation segment currently or for the 9 months and whether the government is going slow on irrigation because the projects on the drinking water are going on and whether this is affecting their plans for improving the irrigation using piping?

Madhav Kejriwal: Sir, could you repeat the last part of the question please?

Koushik Sekhar: Whether the government is going slow on using DI pipes for irrigation because the market is already tight for drinking water usage, the CAPEX projects for drinking water are themselves running quite tight. So, are they slowing down on the irrigation?

Management: Sir, the overall percentage of irrigation in the demand scenario today would be 15% and the government is I don't see the government really wanting to substitute ductile iron pipes owing to its superior performance.

As mentioned, there was a bit of an over demand scenario which was momentary going forward also there is a slight gap between demand and supply, but I think the quality of the product is such that things are getting a little delayed, but the preference is still ductile iron and with the industry capacity growing we are able to meet customer requirements. This is the reason why I was mentioning earlier in the conference call that I look at this as a support rather than a problem.

Koushik Sekhar: So, actually my question is that because this supply situation is tight and they want to complete the drinking water on a timely basis, are they just pushing the irrigation projects little out in time that was the question?

Madhav Kejriwal: So, there is a bit of a balancing act going on yes, you see the capital available with irrigation is largely a state subject there's not a lot of center support on that front. There's a lot of outside agency supports like the ADB and KfW etcetera, but since the first thing to be met is drinking water states are wanting to flow their funds towards that first as priority and then into irrigation.

There are some exceptions to this of course, but that nitty-gritty varies from state to state, but largely there is a preference towards drinking water over irrigation, yes.

Koushik Sekhar: So, would it be right to say that their potential for irrigation would be much more improved if it will possible to supply more pipes to that sector in the coming years not now, but over 3 to 5 years?

Madhav Kejriwal: Most definitely Sir, I think as we are moving toward the situation of fluctuating climate and India being a very disproportionate country in terms of water availability, pipe irrigation will become more and more the need. Right now, we're looking at new pipelines, but we haven't even scratched the surface on converting the existing canal based irrigation pipelines to pipe. So, this is the reason why there is such a positive outlook because there are so many avenues which are yet to even start getting explored in the demand scenario that the slowdown of one over the next 2 years, 3 years will see a bring up of the other.

Koushik Sekhar: Also, are you seeing any projects where repurposing wastewater for industry by moving them around? Are there any projects in which you have Company has participated to supply?

Madhav Kejriwal: Repurposing water our South plant to the water that is used there is a repurposed water as well. So, I think the best example to give would be for that we are using the wastewater from Tirupati in our Srikalahasthi plant. So, one example is that. There are a lot of these projects now

being envisaged, a few of them have come up in states like Odisha. But AMRUT is seeing the use of this logic a lot more. So, although there is not an abundant use case for what you are mentioning going forward I'm quite optimistic on the us being a more circular economy from the water perspective.

Moderator: Thank you. The next question is from the line of Saloni Hemnani from Molecule Ventures PMS.

Saloni Hemnani: Sir my first question is regarding the realization of DI pipes. What sort of realization trend are we seeing that is shaping up for the future?

Madhav Kejriwal: Ma'am, keeping in mind that both the demand scenario and the supply scenario seems to be progressively growing. I think stability is the right word to be used for the foreseeable future in terms of realization.

Saloni Hemnani: Sir, regarding the volumes for the next upcoming quarter, I had a question because in the last call when I asked sir we were basically saying that we would be targeting around 7.15 lakh of volumes in this year, but if you see despite the shutdown that we took in quarter 1 and Quarter 3 we have been able to do phenomenally well in production numbers. So, any particular quarterly run rate that are we looking at?

Madhav Kejriwal: So, the reason behind this is see we kind of worked out internally and realized that even with the shutdown because of the shutdown say in quarter 1 and now that we've taken this shutdown right now the overall gain will be far greater than the short term loss. So, we are seeing better results than what we are personally envisaged, our team is performing very well, the advantages of operational efficiencies are kicking in even greater than what we expected.

With regard to a run rate ma'am, I think for the first two quarters we will be running at a pro rata of what would be close to say just a second I will help you out with the exact number. We will be seeing around a rate of close to say 8,00,000 tons per annum for the first two quarters. This is a pro rata I'm saying it will be for that and subsequently it will be a pro rata run rate of annualized 9,00,000 tons.

Saloni Hemnani: Sir a follow up on this would be because given the realizations and the RM softening, there has been a huge jump in our margins, with the operating leverage kicking and as well as the realizations being in our favor?

Madhav Kejriwal: Your voice is very muffled could you please repeat the last question please.

Saloni Hemnani: Sir my question was regarding the operating leverage kicking in and giving us around more than 20% margins. What would be sustainable because we have already mentioned that a sustainable level will look at 15% to 17% margin. So, going forward do we stick to the same number or are we revising it?

Madhav Kejriwal: This is a long-term number. I think in the short to medium term we should see slightly better margins.

Saloni Hemnani: And the ballpark figure?

Madhav Kejriwal: It won't be right for me to give you an exact number. I'm positive that it will remain on the higher end little now for the long term.

Saloni Hemnani: Just one last question from my side as I know we are limited to two to three questions. So, the CAPEX done on the Srikalahasthi unit as we have planned around INR 260 crore was spent and INR 200 crores was planned to be spent in H2. So, how much have we spent in that and is the timeline are we sticking to the timeline, will we be able to achieve that?

Madhav Kejriwal: We've spent around INR 340 crores as on Quarter 3 end. So, we are pretty much on track.

Moderator: Thank you. The next question is from the line of Bharat Sheth from Quest Investment Advisors Private Limited. Please go ahead.

Bharat Sheth: I have only one question, the kind of demand that we are envisaging not only India so even Middle East and some of the European market that we have given the commentary. So, what is our long term I mean say 5 years kind of growth plan because once I believe we'll be able reaching full capacity utilization somewhere in mid FY26. So, beyond that, what exactly are we doing to grow ourselves?

Madhav Kejriwal: Sir, there is a good amount of attention being drawn towards our value-added profile. One of the products that we have seen substantial growth in is our fittings and castings unit that is a high value product. In fact, we are envisaging almost 20% growth in that in the next financial year that is one area of concentration for us.

We are looking at increasing our product basket on the value-added front as well by starting to get into other products within the water infrastructure gambit. So, yes, this is our once we establish ourselves at a certain level and ductile iron pipes we will then work on getting to even better position on our fittings and other value-added product portfolio. Apart from that keeping our ears close to the ground for any opportunities that come our way.

Bharat Sheth: So, currently value-added is how much as a percentage of our top line and where do you like to over next 3 years to see that?

Gaurav Somani: The value added products is contributing around 10% of our total revenue right now. For the immediate future it will be in this range only.

Bharat Sheth: I mean I wanted to understand our 3 year to 5-year kind of growth plan?

Madhav Kejriwal: So, Sir because of the increase in ductile iron pipes total capacity the percentage contribution of value-added will remain similar, but on absolute term as I mentioned there is an immediate impact of growth of 20% in the next financial year itself. After that we are expecting to grow that at a rate of 7% to 10% and take it forward beyond that looking at the market scenario.

In regard to new products, I think it won't be correct for me to really give you anything right now because there's nothing concrete, but there are things that we are planning.

Moderator: Thank you. The next question is from the line of Subhash from Value Investments. Please go ahead.

Subhash: I just have one question on your CAPEX plan. So, I see that the total CAPEX plan that you have planned is INR 650 crores and out of that INR 340 crores has already been spent. I assume this is for phase 1 and I'm sorry if I missed this in the earlier calls. So, could you tell us if this phase 1 plan is already executed and if it is contributing to the top line?

Madhav Kejriwal: This is the Phase-2 now that we've entered in terms of our CAPEX spending. Phase-1 has already come into effect in terms of volumes, and we've reached 100% utilization for the same.

Subhash: Because in the presentation I see that the total capacity is 6,80,000 even for FY24 estimated. So, is it still 6,80,000 or has it gone up more than that?

Madhav Kejriwal: So, we are expecting to close the year at around 7.4 lakh tons.

Subhash: And my last question is after Phase-2 is completed you said it would come into effect starting of FY26? So, would it have completed 100% utilization or will it take some 6 months' time to get 100% utilization?

Madhav Kejriwal: I am quite optimistic seeing our trend is of the past that we will get to 100% capacity utilization very quickly.

Subhash: I mean since it gets closed in FY25 mid so you said it would come into effect by FY26. So, we can expect it to be 100% utilized by FY26?

Madhav Kejriwal: Yes, sir maybe even slightly earlier.

Moderator: Thank you. Due to time constraints, this will be the last question. Now I hand the conference to the management for closing remarks.

Madhav Kejriwal: I would like to thank everybody for taking their valuable time out for attending the call and listening to us patiently and for your continued interest in our Company. With the support of all our stakeholders, we have been growing consistently and at the same time strengthening our balance sheet.

We're well-positioned to be benefiting from the growing water infra spending in the domestic and export markets. If we have any other further queries, please feel free to reach out to our E&Y IR team. Thank you very much.

Moderator:

On behalf of Electrosteel Castings Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.