Management Discussion

Hiral Kenia - Analyst, EY LLP
Thank you, Ranju. Good afternoon, everyone. On behalf of Electrosteel Castings Limited, I welcome you all to the company's Q2 and H1 FY27 earnings conference call. To discuss the performance of the company, we have with us from the management team Mr. Madhav Kejriwal, Whole Time Director, Mr. Sunil Katiyal, Whole Time Director and CEO, Mr. Rajesh Daga, CFO, and Mr. Gaurav Samani, General Manager Finance. Before we proceed with this call, I would like to draw your attention to the fact that today's discussion may contain some forward-looking statements that are subject to various risks, uncertainties, and other factors, which which would be beyond management's control.

We kindly request to bear in mind that there might be some uncertainties while interpreting such statements. 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 will now hand over the conference call to Madhav ji for his opening remarks. Thank you, and over to you, sir.

Madhav Kejriwal - Whole Time Director, Electrosteel Castings Limited
Thank you, thank you, Ira. A very good evening everyone and thank you for joining us for the Q2 and H1 FY27 earnings conference call. I would like to thank all of our stakeholders for their continued trust and support. The DI pipe industry has continued to face a challenging demand environment primarily due to the slower government spending and project execution. We have remained focused on cost optimization Across our units, we have engaged in an AI-driven energy intelligence platform with ZeroWatt, an Indian industrial AI company, and we are also addressing our overheads including our manpower costs, our inventory carrying costs, etc.

These measures should support profitability as volumes recover.

Hiral Kenia - Analyst, EY LLP
Jal

Madhav Kejriwal - Whole Time Director, Electrosteel Castings Limited
Jeevan Mission 2 remains the key near-term demand driver for the industry and has been extended until December 2028. The FY27 budget estimates for JGM is approximately Rs 67,670 crores. Based on the latest figures available to us, central sanction orders stood at Rs 16,487 crores compared with Rs 10,344 crores at the time of our previous call. As fund flows improve and more of the tender pipelines convert into awarded and executable projects we expect the recovery to accelerate. The pace of implementation continues to vary across states.

Fund releases, state-level approvals, contractor payments, and project readiness will determine how quickly the program translates into actual demand for all our water infrastructure products, namely pipes, fittings, and valves. AMRUT 2 also provides an additional opportunity through urban water supply, sewage, and other related infrastructure projects. The FY27 budget estimate for the program is Rs 8,000 crores. Irrigation is another high potential source of demand. Most states are adopting piped irrigation systems while the PM [Foreign Speech] with an allocation of around Rs 7,137 crores for this financial year supports major and medium irrigation projects.

The modernization of Command Area Development and Water Management Scheme with an initial outlay of Rs 1,600 crores is also expected to support the modernization of irrigation water distribution through pressurized pipeline networks. Over the medium term, the Urban Challenge

Fund could provide further opportunities for all our water infrastructure products. The Rs 1 lakh crore fund is intended to catalyze approximately Rs 4 lakh crores of urban investments over 5 years, including projects relating to water supply, sewerage, and sanitation.

As projects move through financing, approvals, and tendering, they could create additional opportunities for us. River linking and major water infrastructure projects represent another long-term opportunity. The Ken-Betwa Link Project with a total projection of Rs 44,000 crores and proposed initiatives such as the PKC Link Project could create opportunities in select water transmission and distribution packages. Our overseas subsidiaries continue to perform better than our plans amidst the global conditions.

This is by focusing on more high-premium markets as reflected in our consolidated results. Our performance is supported by strong customer engagement and effective order executions. Geopolitical tensions, however, in the Gulf region resulted in higher ocean freights, but as the tension eases now, we are hopeful that situations shall improve. We have continued to explore also the opening up of new market opportunities. On the front of our acquisition of TIS Service SPA, During Q2, TIS achieved an EBITDA margin of 14%, an improvement of around 160 basis points over Q1.

The construction of the valve factory in India is also underway, and we expect it to commence operations by the end of this financial year. Our stated objective remains to double revenue from valves over the next 4 years, and we remain on track to achieve it. For our industrial paints and protective coating projects, basic and detailed engineering is in progress and is expected to be completed by November 2020. 2026, after which construction will commence. The first phase is expected to be commissioned by March 2027 with an annual production capacity of 1,000 KL and 4,000 KL by September 2027.

We are targeting to reach an annual revenue of around Rs 800 to Rs 1,000 crores over the next 5 years, supported by phased capital expenditure of approximately Rs 300 crores. Our balance sheet remains strong and provides us with financial flexibility to pursue growth opportunities while maintaining a prudent capital structure. I will now hand over the call to Mr. Rajesh Daga, our CFO, who will take you through the operational and financial performance for the quarter in greater detail.

Rajesh Daga - Chief Financial Officer, Electrosteel Castings Limited
Thank you, Madhav ji. Good evening everyone and thank you for joining us. Today, I will now take you through the operational and financial performance for Q2 FY27. Sales volume of DI pipe, fitting, and CI pipes during Q2 stood at 1.21 lakhs ton compared to 1.20 lakhs ton in Q1 FY27. At the consolidated level, gross debt and net debt as at 30th September 2026 stood at Rs 1,625 crore and Rs 750 crore respectively. I will not take you through the consolidated results for Q2 of FY26-27. Total income stood at Rs 1,558 crore, registering a growth of 6.4% quarter on quarter.

Higher sales of pig iron, sponge iron, and coke contributes to the growth. EBITDA including other income stood at Rs 139 crore with an EBITDA margin of 8.9%. PAT stood at Rs 51 crore with a PAT margin of 3.3%. For H1 FY27, consolidated total income stood at Rs 3,023 crore and EBITDA at Rs 278 crore. EBITDA margin was 9.2%, while PAT stood at Rs 99 crore with PAT margin of 3.3%. The domestic demand environment has remained soft over the past few quarters. Nevertheless, we believe that government continued focus on drinking water and irrigation together with essential nature of water infrastructure, support the sector long-term outlook.

As mentioned earlier, the FY27 Union Budget provides for an allocation of Rs 67,670 crore to this

JJM. Central sanction orders stood at approximately Rs 16,487 crore as per the latest figures available to us. Compared to Rs 10,344 crore at the time of our previous call. Going forward, our priorities remain operational efficiency, a strong balance sheet, and financial discipline. These will help us remain well positioned to benefit as domestic demand recovers. With this, I would now like to open the floor for the question and answer session.

Thank you.

Questions & Answers

Operator
Thank you. We will now begin the question and answer session. Anyone who wishes to ask a question may press star and 1 on the touchtone telephone. If you wish to remove yourself from the question queue, you may press star and 2. Participants are requested to use handsets while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question comes from the line of Vikas Singh with ICICI Securities. Please go ahead.

Saket Kapoor - Analyst, Kapoor and Co
Good afternoon, sir. Thank you for the opportunity. So my first question pertains to JJM Mission Fund release. It seems to be higher than the first half of the both of the last 2 years. However, if we look at the performance-wise, not much of the improvement has been visible. So are we expecting the second half to be better? And the second part of the question is, uh, by when we expect to reach that 700 KT plus kind of the normalized run rate? Uh, these are the first question. I'll come up.

Madhav Kejriwal - Whole Time Director, Electrosteel Castings Limited
So sir, the, uh, although the capital allocation has substantially increased over the last 2 quarters. This has gone towards the long overdues that have been there at the end of the contractors. This will of course have a rippling effect, and we will hopefully see some improvement in the second half of this year, as we have been mentioning. But the real impact and the real positive movement and momentum will come in the next year. So this will be a progressive improvement. We have maintained our operations over the last 2 quarters quarters, and you would have seen an improvement of our performance in the last 2 quarters as opposed to the H2 of the previous financial year.

And, uh, the next half should be slightly better, and flowing into the next financial year, things should improve dramatically.

Saket Kapoor - Analyst, Kapoor and Co
Noted, sir. After we were the largest exporters of DI pipe from India So even after Saudi ban basically, uh, on the imports, uh, as we have- did we started experiencing that problem in our numbers basically, or we have been able to identify the other markets, uh, in order to circumvent, or rather I would say to push the volumes in other markets to maintain our export proportion? So how should we look at it?

Madhav Kejriwal - Whole Time Director, Electrosteel Castings Limited
So the anti-dumping in Saudi Arabia has been a mild pushback for us, I would say, because as opposed to other manufacturers from India, we've had a much smaller, uh, percentage of dumping duty. So we can still survive in the market, number one. Number two, as you rightfully suggested, we have been in anticipation of this issue, and due to which we have worked towards opening up other

markets which were not in its entirety, but partially take care of the volume problem. So I don't see really the impact on export as a whole being impacted too much because I don't see us completely coming out of the Saudi market.

We will still have some presence there, and a large degree of the delta that will be created can be made up from other markets.

Saket Kapoor - Analyst, Kapoor and Co
So my third question pertains to now that in the last 5-6 months we are into a buying spree. We bought this, we went into paint business as well. Uh, so next year, FY28, how should we look at the contribution of these business in the top line? Uh, basically, and, uh, you also said in, I think, previous remarks that there is a 13 to 14% growth rate, uh, potential. So would that be available for 2-3 years on a CAGR basis, or just 1 year given the capacities with this

Madhav Kejriwal - Whole Time Director, Electrosteel Castings Limited
Uh, no, the 14-15% growth rate for TIS should play out at a CAGR level. Uh, as for paints, since we will start getting into a sizable production halfway through next year, I feel that the contribution to the top line will be to the extent of around 100 crores, 80 to 100 crores. So In the paint front, maybe a year, the next to next financial year, FY29, is when the real impact will come on the books. Whereas for TIS and the valve business overall, they should start contributing well next year onwards.

Saket Kapoor - Analyst, Kapoor and Co
So TIS, given the current top line, uh, 13-14% of the growth we can build in, right, with 13% kind of the margin for the next year.

Madhav Kejriwal - Whole Time Director, Electrosteel Castings Limited
So this is for the valve business. Not all of it might be through TIS because whatever valve business we do in India will be under the Electrosteel name and not through TIS. So it might not reflect on the books of TIS specifically, but it will reflect in the books of the company as a whole.

Saket Kapoor - Analyst, Kapoor and Co
Noted. Okay. And just one last question, basically, has the impact of higher coking coal cost is purely baked into 2Q or some portion is- would be visible in the 3Q as well, and then the margin improvement would be expected from 4Q. And lastly, what kind of price increase we have experienced in the DI pipe orders on an average last quarter versus, uh, spot basis?

Madhav Kejriwal - Whole Time Director, Electrosteel Castings Limited
So, so, sir, in regard to the cost impact of, uh, coking coal, the main impact is only going to be coming in Q3 and Q4. For us since we carry some inventory. Owing to that, Q3 margins might be slightly suppressed as opposed to earlier, but very marginally. We are working on passing on the additional cost to the customer, and we've seen some success. I would say that around 60 to 70% of our increase has been able to be passed on, and it will take full effect from end of

Saket Kapoor - Analyst, Kapoor and Co
Q4 Noted Madhavji, thank you for answering my question, all the best and happy Diwali to you and your

Madhav Kejriwal - Whole Time Director, Electrosteel Castings Limited
Team very happy Diwali sir thank

Operator
You thank you reminder to all the participants that you may press star and one to ask a question next question come

Unidentified Participant - Analyst
Hello sir sir what is current order book and what is tendering for JJM project and river linking

Madhav Kejriwal - Whole Time Director, Electrosteel Castings Limited
I am sorry tendering for

Unidentified Participant - Analyst
Tendering for JJM project and for the river linking project

Madhav Kejriwal - Whole Time Director, Electrosteel Castings Limited
So sir our current total order book stands at approximately 3 lakh tons

Unidentified Participant - Analyst
Okay,

Madhav Kejriwal - Whole Time Director, Electrosteel Castings Limited
Of this we can say that, uh, JJM is approximately 60,000 to 70,000

Unidentified Participant - Analyst
Tons.

Madhav Kejriwal - Whole Time Director, Electrosteel Castings Limited
Okay. And Riverlink, sir, is going to start impacting our- is going to start coming on to our demand maybe by next financial year. Some smaller projects are there which are linked to the Riverlink project, but they are supplementary to it. They are not directly involved in

Unidentified Participant - Analyst
That. Okay. And what is the tendering outlook, sir, for the JGM projects now?

Madhav Kejriwal - Whole Time Director, Electrosteel Castings Limited
Can you elaborate what you mean by that,

Unidentified Participant - Analyst
Please? The tendering outlook of the new projects, new orders pipeline.

Madhav Kejriwal - Whole Time Director, Electrosteel Castings Limited
So, so the way we see it, there is approximately 2.5 million tons of order book that is either on the books or is to be tendered freshly under JGM, which has not yet been, uh, It's not come, it's not materialized into dispatches. So I suppose it will start opening up Q4 next financial year, and from then FY28 plus the first half of FY29 is when most of the orders will play out.

Unidentified Participant - Analyst
And so, uh, so '27-'28 can be a good year. We can, uh, We can do seven to eight lakhs ton.

Madhav Kejriwal - Whole Time Director, Electrosteel Castings Limited
Sorry, seven to eight?

Unidentified Participant - Analyst
It's like ton we can do seven to eight lakhs. Sir, dear,

Madhav Kejriwal - Whole Time Director, Electrosteel Castings Limited
I can't exactly tell the figure per se. I mean, seven to eight does sound realistic, but definitely it will improve. I think seven lakh tons is something we should be hitting.

Unidentified Participant - Analyst
And we can come back to the old EBITDA margins of 12%?

Madhav Kejriwal - Whole Time Director, Electrosteel Castings Limited
Yes, sir. I think with the support of our diversification and the improvement in the markets, we should be looking at, uh, that, that level.

Unidentified Participant - Analyst
And how's the export order book, export outlook?

Madhav Kejriwal - Whole Time Director, Electrosteel Castings Limited
So, sir, there has been a slight slowdown, although the margins have, as you can see, improved a reasonable amount because we've been concentrating more on the high-value high volume destinations rather than the high value volume destinations. So this we will see this financial year. Unfortunately, Europe, which is a very big market for us, is also under slowdown, and now they are having their own issues, as you must be knowing.

Unidentified Participant - Analyst
Ah, right.

Madhav Kejriwal - Whole Time Director, Electrosteel Castings Limited
So there is a temporary slowdown, although I am quite hopeful that moving forward these markets will, uh, For a medium term, give us good good returns.

Unidentified Participant - Analyst
Okay. Thank you, sir. These are my questions.

Operator
Thank you. Thank you. A reminder to all the participants that you may press star and one to ask a question. Next question comes from the line of Abhishek Jain with Arihant Capital. Please come in.

Abhishek Jain - Analyst, Arihant Capital
Thank you for taking my question. sir what percentage of overall order book is locked into pick price and government contract versus pricing clause contract and if iron and imported coal price coking coal prices are now spiking so how much is going to be exposed your margins in the second half

Madhav Kejriwal - Whole Time Director, Electrosteel Castings Limited
Smaller quantity of government orders, which probably are 5-7% of our total order- domestic order book. Um, the others orders are such where if there is a dramatic change in the cost structure, we have an understanding that we can sit across the table and discuss how to meet halfway or come to

a place where at least we don't have to take the entire hit of the cost increase. And if you see the total manufacturing capacity that we have, against that we have approximately 6 months of order, 6 to 6.5 months of order.

So this will play out over- the orders will actually go over, say, 9 months. So there is some scope for new orders to come in which will be at new rates. Increase rates considering the increased raw material, so it will moderate. I would say we will take a hit. We I mean we can make up for at least half of the increased cost with our dispatches of quarter three and four.

Unidentified Participant - Analyst
Sir, there is question on that industry supply.

Operator
Sorry for interrupting, Mr. Chen. We cannot hear you. Can you speak a little louder?

Unidentified Participant - Analyst
Hello?

Operator
Yes, please go ahead.

Abhishek Jain - Analyst, Arihant Capital
Hello? Hello?

Nachiket Kale - Investor, Individual Investor
Yes, please.

Operator
Yes, please go ahead.

Abhishek Jain - Analyst, Arihant Capital
Yeah, I have a question on the- now most of the players in the industry on the DI side are increasing their capacity with Jindal Saw, Jay Balaji, Wilson Corp. Electrotherm, all these players. And the utilization we have seen dropping the most, up 60% in most of the cases. So whenever, as you were talking about, JGM 10.0 tenders are going to be resumed, uh, how- what do you- what do you see, sir, the bidding level, uh, on the aggressive in the L1 bidding intensity? And can industry utilization recover to 80% without triggering, uh, price undercutting?

Madhav Kejriwal - Whole Time Director, Electrosteel Castings Limited
So based on the demand outlay of JJM plus the other, uh, government, central government plus state-level government expenditures over the next 2 years, I think an industry capacity utilization of between 75 to 80% is very much doable without being in a situation of Over the top price cutting for the sake of capacity use. Hello. Yes, please.

Abhishek Jain - Analyst, Arihant Capital
Yes, sir. One of the earlier participants while replying, you said we aspire to reach 12% margin, back to 12%. When do you see that we are going to back to those kind of margins? In which financial year?

Madhav Kejriwal - Whole Time Director, Electrosteel Castings Limited
We are hoping that the next financial year we'll be able to touch those numbers again.

Abhishek Jain - Analyst, Arihant Capital
Okay, thank you very much, sir. Thank you. Thank

Madhav Kejriwal - Whole Time Director, Electrosteel Castings Limited
You.

Operator
Thank you. A reminder to all the participants that you may press star and 1 to ask a question. Next question comes from the line of Saket Kapoor with Kapoor and Co. Please go ahead.

Saket Kapoor - Analyst, Kapoor and Co
[Foreign Speech] sir hope I model

Madhav Kejriwal - Whole Time Director, Electrosteel Castings Limited
Very well sir please

Saket Kapoor - Analyst, Kapoor and Co
Sir asking to the timeline of achieving this 12 to 13 percent EBITDA margin sir we were optimistic during our quarter one concall also that Q3 onwards we will be we will be aspiring to exhibit those numbers so What should one read now that we are now looking for the same, uh, to be delivered in the next financial year? I think so your order booking and all are the reasons why, or what, what were the- what were in our mind when we spoke about reaching the double-digit number from Q3 earlier? If you could just elaborate on this.

Madhav Kejriwal - Whole Time Director, Electrosteel Castings Limited
So sir, the fund flow that we are seeing under JJM playing out this particular quarter that we are sitting in right now, Q3, is what we were expecting to have in Q2, but because the central government wanted to put in place certain, uh, processes and certain systems, there was a delay. So that implementation delay is what is causing us to expect the, uh, the increased demand to get pushed by around 3 to 6 months. Alongside that, a slight abbreviation in the coal cost, which will have us a small push back towards our margins, are the combined reason why we feel that we will take around, uh, 4 to 6 months to achieve those numbers, more than what we had committed in Q1.

Saket Kapoor - Analyst, Kapoor and Co
Right, sir. And, uh, so the deliverables for the remaining- H2 is also in the vicinity. Of, uh, what we have done for the first half? I mean, taking into account our pipes and the fittings, I think the 120 and 121 are the numbers for Q1 and Q2. So how should the deliverables be?

Madhav Kejriwal - Whole Time Director, Electrosteel Castings Limited
So sir, uh, I think H2 will be marginally better than H1. It won't exactly play out as H1, but you can you can say that it will be somewhat, uh, similar to the first half.

Saket Kapoor - Analyst, Kapoor and Co
Okay. And, and margins, I think you were lower to 9%. There was a dent of 0.550 basis points. Correct me there. So what should be the margin trajectory, taking into account the inflationary aspect also, which we just alluded to?

Madhav Kejriwal - Whole Time Director, Electrosteel Castings Limited
As I mentioned, sir, I think you can target similar margin levels, if not slightly better, for H2.

Saket Kapoor - Analyst, Kapoor and Co
Okay, sir. And so we have worked out with our investor presentation. I think the entire thing has been revamped and very exhaustive and answers many of the questions. So my wishes to the team for exhibiting a very strong display of the investor presentation. So one, in another announcement, we have mentioned about introduction of VRS scheme, uh, at our plant at Khardah unit. So if you could just explain the rationale, uh, of, uh, going ahead with the same.

Sunil Katial - Chief Executive Officer, Electrosteel Castings Limited
Yeah, in fact, we are exploring all possible conditions because we are trying to look into how to, how to, uh, reduce our fixed cost. So in that, one of the options which we are trying to figure out is rationalization of our workforce. So we have not finalized the scheme as such, but then we are working on that.

Saket Kapoor - Analyst, Kapoor and Co
Okay, in terms of we anticipating the better execution and better deliverables for the next year, uh, next coming ahead of the next financial year, we are coming, coming with cutting down of staff. So how are these 2 things, uh, linked, or if you could just explain, are we coming looking to some automation there and investing and then leading? Yeah, yeah,

Sunil Katial - Chief Executive Officer, Electrosteel Castings Limited
I'll explain, I'll explain. See, there are many reasons. One is, uh, as already explained, that we are getting into AI, we are looking into more of automation, and at the same time, during this difficult time, our focus is more on improving our efficiencies and reducing our gaps in different areas. So a lot of effort is going on. In fact, I want to share that possibly around more than 400 initiatives are on for the improvement of the processes. So we are also thinking that that will also reduce our dependability on manpower.

Saket Kapoor - Analyst, Kapoor and Co
Correct, sir. When we look at in your presentation, you have mentioned about Indian valve market at Rs 2,000 crore, and we are eyeing, say, Rs 800-Rs 2,000 crore by 2030. So if you could just explain to us currently who are the major players and at what CAGR are we expecting the, the valve market to grow to 2030 when we would be closer to this Rs 800-Rs 2,000 crore? Mark,

Madhav Kejriwal - Whole Time Director, Electrosteel Castings Limited
Sir, the Rs 800 crore mark that we have mentioned is not entirely from the Indian market. The Rs 2,000 crore is purely the Indian market. In fact, our target is to have more than 50% of this revenue coming in from overseas. As you know that our current, uh, business itself, which is largely overseas, is already at a Rs 400 crore crore level, and in fact out of this 800 crore India will probably be somewhere between 250 to 300 crore, so the remainder 60-65 percent will be coming in from

Saket Kapoor - Analyst, Kapoor and Co
From other geographies. okay and sir, but what have been the contribution from the at least companies for the first half the, uh, the bottom line. And so any peer comparison you can give in the, in the wall space where, to whom, with whom we are competing in the domestic market?

Madhav Kejriwal - Whole Time Director, Electrosteel Castings Limited
So the domestic market, as I've mentioned, the, the plant is going to be commenced by the end of this financial year. So the real impact in the domestic market will only start from then. If you want a peer comparison, there are some international players that are operating in India called AVK, Havle, VAG, and a couple of Indian players would be IDC and Jupiter Valves. These are all private players,

Saket Kapoor - Analyst, Kapoor and Co
Right? Right, sir. And 2 more points are first, and then continuing to the industrial paint paint business part also, sir. I think so. In your presentation, you have mentioned that currently we are, uh, actively using existing capacity of 4,200 KL, and, uh, going ahead, uh, our external sales will, uh, will be to the tune of 1,000 KL for the next financial year. Or we have mentioned about CapEx of 250 to 300 and phase 1 to have 1,000 KL by March '27 and 4,000 by September 27th. So if you could just elaborate, what kind of revenue contribution are we expecting from the same?

Sunil Katial - Chief Executive Officer, Electrosteel Castings Limited
Uh, no, in fact, the paint business, as we have mentioned, that, that 4,000-odd, uh, capacity which we have also caters to our captive requirement. So the 1,000 KL which is going to be commissioned in the March, uh, '27, that is likely to add to our top line to the tune of maybe 80 to 100 crores in the next financial year. But then thereafter, in the, uh, I mean, next financial year, that is '27-'28, or rather '28-'29, then that will be substantial because by that time, I mean, our capacity of the first phase, date is around 4,000 kel, will be commissioned.

So that possibly around 250 to 300 crore will come from there.

Operator
Thank you. Mister Kapoor, please rejoin the queue for more questions. next question comes from the line of Chetan Palke with Tirtan capital

Saket Kapoor - Analyst, Kapoor and Co
Yeah, hello sir, thank you for the opportunity. Uh, I hope I'm audible, right? Yeah, very much so, sir. Please. Yeah, so I wanted to have, I mean, some idea on what's happening in the exports market because I think, uh, on Q4 call we mentioned almost 50% of our exports are going to Middle Eastern markets. And now, as you just mentioned, there is some slowdown in Europe Plus I think we are facing some import duty pressures in Middle East markets, or and about this war is happening and all. So just what's, what's the update on the export markets in terms of volumes?

I mean, we were targeting around 20% of our revenue share or volume share to be continued from export market. Is that changing? How is it evolving in this current environment?

Madhav Kejriwal - Whole Time Director, Electrosteel Castings Limited
So I, to be very honest, don't remember mentioning 50% from the Middle East market. I remember mentioning that 50% is UK and Europe, and the remainder 50% is between the Middle East, Africa, and the US, so, and Southeast Asia. So when we speak about the impact of the Middle East, I mean, up till now our total contribution of exports has in fact been north of 20%. So we are maintaining that even with the challenges that we are facing, and we don't really really see any problem, uh, moving forward in maintaining this.

There are challenges, sir, but the advantage that we have is our network, which is old, established, and we have a very reputable brand. Customers trust us. So it's a matter of making the effort of

trying to open new geographies, which we had anticipated and we've been doing for some time now.

Nachiket Kale - Investor, Individual Investor
Any new geographies that are opening up for us?

Madhav Kejriwal - Whole Time Director, Electrosteel Castings Limited
Absolutely, sir. With the, with the investment into Singado last financial year, we opened up the Southeast Asian market for ourselves. We have recently invested into an Oman-based trading company called Arabian Water Tech. So all these open up opportunities in those specific geographies. We're seeing good scope over there.

Saket Kapoor - Analyst, Kapoor and Co
Okay, but how is the export market different from the Indian market, let's say in terms of diameters, products, or fittings, or valves, or any other, uh, the packages that we are giving there versus in India? Just trying to understand the realizations and the overall, uh, you know, segmentation.

Madhav Kejriwal - Whole Time Director, Electrosteel Castings Limited
Sir, every market has its unique nature, so it will be difficult to answer that in, in, in a one-liner, but I can tell you that It provides us with more opportunities for capacity utilization in certain markets, and in certain markets it provides us with better margins.

Saket Kapoor - Analyst, Kapoor and Co
Okay, okay. And lastly, sir, I think in our AGM we mentioned, uh, there are some import duty, uh, pressures from the Middle East markets and other markets. So just to understand, what is the difference between our cost of production and the other competitors? cost of production in the in the overseas market.

Madhav Kejriwal - Whole Time Director, Electrosteel Castings Limited
Sir, even after the duty has come in in Saudi Arabia and that time we see we saw some duty increase in Europe, we are still being able to sell products. this a small hit on the total volume that we are selling. so I would assume that the cost d

Saket Kapoor - Analyst, Kapoor and Co
In absolute volume terms, we will grow over FY26 base for exports.

Madhav Kejriwal - Whole Time Director, Electrosteel Castings Limited
Yes, please.

Saket Kapoor - Analyst, Kapoor and Co
Okay, that's it for my

Unidentified Participant - Analyst
Answer. Thank you. Thank you very much.

Operator
Thank you. Next question comes on the line of Mihir Desai with Desai Investments. Please go ahead.

Mihir Desai - Analyst, Desai Investments
Thank you for the opportunity. So my first question is related to the JGM allocation. So, uh, how do

you see the demand, sir? Do you expect, uh, FY27 will see a good allocation?

Madhav Kejriwal - Whole Time Director, Electrosteel Castings Limited
So they don't have much of an option. They've spent this year in implementing certain systems and processes which were very much required also for a more effective implementation of the plan. So next year they will have to start utilizing their funds because they have up till December 2028. That leaves us- leaves them with the entirety of the next financial year and the first 9 months of the year after, using which they will have to utilize all the funds.

Mihir Desai - Analyst, Desai Investments
Okay. And, uh, so one question on river linking projects. So, uh, Which river linking projects, you know, offer near-term addressable orders? If you see, rather than long-term, if you can, uh, speak about some near-term opportunities.

Madhav Kejriwal - Whole Time Director, Electrosteel Castings Limited
The, the one between UP and MP that is seeing, uh, real-time, uh, work happening on the ground. Although the pipe demand hasn't materialized yet, but the preliminary work to that, such as building of dams and Uh, open- the larger open canals, all that is underway. So work is happening on that front.

Mihir Desai - Analyst, Desai Investments
And, uh, do you see that the shift towards utility operations and maintenance would change the demand mix, uh, for us, or the pipe fittings and valves, etc.?

Madhav Kejriwal - Whole Time Director, Electrosteel Castings Limited
Um, well, you see, this, this shift towards, uh, operational maintenance is something that is applicable when you're I mean, you see a substantial change in the demand portfolio once you are at a much more mature stage of infrastructure. We are not yet there. It will take us some time before we reach that level. In fact, if anything, the focus towards a longer-term operation and maintenance by the implementing and EPC companies will only push them to buy products which are more durable, which are more sustainable.

And that puts us at a very good, uh, place in competition with the likes of, say, plastic pipes, which might be cheaper but it has a lesser life and is more prone to, uh, going bad.

Mihir Desai - Analyst, Desai Investments
Okay. And so lastly, one thing on the fundamentals. So if I say like, uh, if I don't compare anything on the quarterly basis or even though on an annual basis, I want to know your vision of, you know, how do you see yourself growing, say, uh, 5 years down the line. So as a company, if you want to see Electrosteel, so how it- how we should look at it, what is your vision? If you can throw some light on this, it will be very much helpful, sir.

Madhav Kejriwal - Whole Time Director, Electrosteel Castings Limited
So as you can see, we've taken up diversification plans within the industrial paints and protective coatings, uh, industry, along with getting into a high-value, high-precision product like water valves, which has a good adjacency to our existing business. So these 2 are going to be high growth potential businesses for us. We are concentrating more and more on trying to create a, a business where we are not entirely dependent to the swings of demand of pipes. Today, pipes and fittings as a business total contribute to around 75-80% of our revenue, which by diversification we want to

bring down to 50%.

So we can say that we are expecting a growth in our diversified products to the extent where we can see them contributing together as much as DI Pipes is.

Mihir Desai - Analyst, Desai Investments
Okay, sure. That's all from my end, sir. If I have any follow-ups, I'll join back.

Madhav Kejriwal - Whole Time Director, Electrosteel Castings Limited
Thank you.

Operator
Thank you. Next question comes on the line of Nachiket Kale with an individual investor. Please go ahead.

Nachiket Kale - Investor, Individual Investor
Yes, hi, good evening, sir.

Madhav Kejriwal - Whole Time Director, Electrosteel Castings Limited
Good evening. Yes, please.

Nachiket Kale - Investor, Individual Investor
Yeah, thank you for the opportunity. Uh, I wanted to check, like, uh, sorry I joined a bit late, so what is the sales volume guidance for H2 of this year and FY28?

Madhav Kejriwal - Whole Time Director, Electrosteel Castings Limited
So, sir, the, the sales volume for the second half will somewhat be similar to the first, maybe a little more. So for H1, we've hit close to 2.5 lakh tons.

Mihir Desai - Analyst, Desai Investments
That is

Madhav Kejriwal - Whole Time Director, Electrosteel Castings Limited
The volume that we're hoping to hit in the next half. And for the next financial year, we're looking at a 7 lakh tons dispatch.

Nachiket Kale - Investor, Individual Investor
Okay, alsi.

Madhav Kejriwal - Whole Time Director, Electrosteel Castings Limited
And fittings.

Nachiket Kale - Investor, Individual Investor
And coated. and we hard increasing things on the industrial coating front. I just wanted to understand what would be are competitive advantage on that front and you know right to win which will help us do good margin.

Madhav Kejriwal - Whole Time Director, Electrosteel Castings Limited
So, um, when we talk about competitive edge, sir, the, the differential between the markets that we are trying to tap versus something where the bigger players are is that we are going hyper-focused towards industrial paints and protective coatings. We are going hyper-focused towards a more

niche market as opposed to a retail and a volume-based market that the likes of Venetian Paints or Berger and those people are there. Um, in terms of exposure, you see, we've been making in-house paints and coatings which are being used for pipes in high-sensitive- high-sensitivity markets like France and Germany, and we're seeing success there.

So that gives us evidence that we have the internal capability to manufacture these, uh, these, uh, technical and, uh, niche paints, right? That existing base is being capitalized over here by trying to increase volume. Plus we have network, financial and physical and administrative, across the, across the globe. So that is something we can utilize to increase our exports of, of the paints.

Nachiket Kale - Investor, Individual Investor
Absolutely. And sir, uh, since this will be a new foray and we'll be taking the first steps in this, how will this impact our cash flow and how are we planning the working capital on this front?

Madhav Kejriwal - Whole Time Director, Electrosteel Castings Limited
So sir, uh, on the capital expenditure part, we see that it can be done entirely from internal accruals.

Nachiket Kale - Investor, Individual Investor
Right, and I'm asking on the working capital.

Madhav Kejriwal - Whole Time Director, Electrosteel Castings Limited
So working capital at the moment, our existing lines are there, which are- because we have optimized on inventory, we've optimized on our overdues, our trade receivables rather, there is adequate space in the existing lines to support us at least for the next 2 to 3 years. And once we see the business become formidable and we go into the phase of expansion.

Nachiket Kale - Investor, Individual Investor
At

Madhav Kejriwal - Whole Time Director, Electrosteel Castings Limited
That stage, I'm sure our financial partners and our existing business will support for the same.

Nachiket Kale - Investor, Individual Investor
Correct. Got it. That's great, sir. That's very encouraging. Thank you, sir. Thank you for you.

Operator
Thank you. Next question comes from the line of Ankit Puri, an individual investor. Please go ahead.

Ankit Puri - Investor, Individual Investor
Hi, good evening everyone. Uh, thanks for taking my questions. Uh, my first question is on the utilization or the pricing bit. Its utilization across the industry is still low. Are you still- are you seeing any competitors discount to fill capacity? Also, how has your realization per ton moved over the last 2 or 3 quarters, domestic and export, if you can share that figures separately? And do you see any pricing discipline amongst the larger players? My first question.

Madhav Kejriwal - Whole Time Director, Electrosteel Castings Limited
So, sir, that phase of dumping for capacity utilization we faced up till the first quarter of this year, where everybody was trying to push for certain capacity utilization hoping that the volumes would come in. But, uh, as we make ductile iron pipes from liquid metal we can also utilize that for other products, which a lot of our competitors have done, including ourselves. Um, so now it's a game of

which product earns you more money. So I don't see a, a kind of bloodbath on the pricing front taking place for the quest of capacity utilization.

We've already gone through that phase. That phase was there. For the second half of the last financial year, and it, uh, overspilled a little bit into the first quarter. But now I see that the industry is kind of made peace with this sort of utilization, and we figured out how to maintain some semblance of profitability at lower production levels.

Ankit Puri - Investor, Individual Investor
All right, so that's quite helpful. Uh, secondly, uh, you've indicated the recovery expected, of course, from Q4 FY27 as the JGM funds flows come in. What factors do you think could delay that recovery in your view?

Madhav Kejriwal - Whole Time Director, Electrosteel Castings Limited
Um, I think the only thing that comes to mind is if any of the wars accelerate tremendously and that has an impact on our, uh, our balance of payments as a, as a, as a country. You know, that would push the government to probably keep stockpile of money towards essentials. Apart from that, I don't really see any reason that there were- there's already been a lot of slowdown because they've been wanting to implement a more efficient, a more transparent system of what is happening on the ground, which has led to them to take a lot of time, go around educating all the state-level operators of what they want.

And they're holding meetings now and then, and we are seeing- you can- it's evidenced by the fact that more and more capital is flowing out now. If you see the capital outlay over the last 3 months, last 1.5 years- so that's because everybody is somewhat settling into figuring out how to operate within this new new framework.

Ankit Puri - Investor, Individual Investor
Capital

Madhav Kejriwal - Whole Time Director, Electrosteel Castings Limited
Outlay should not be slow unless there is a major balance of payments problem that our economy faces as a whole.

Ankit Puri - Investor, Individual Investor
All right, sir. Um, lastly, do you see any industrial and data center water supply as a meaningful new demand segment, particularly in the industrial and the data center clusters that are coming up in the country? And

Madhav Kejriwal - Whole Time Director, Electrosteel Castings Limited
Sorry, please. And

Ankit Puri - Investor, Individual Investor
Have you received any orders or inquiries yet, uh, with regards to the same, sir?

Madhav Kejriwal - Whole Time Director, Electrosteel Castings Limited
So the implementation of these data centers, the approvals, the land acquisition, and everything is at a relatively premature stage right now. Uh, Andhra has seen some movement in terms of a kind of Pre- uh, I would say not a pretender, but at least we are aware that there's something happening on the ground. Apart from that, everything is very, very, uh, very, very nascent.

Ankit Puri - Investor, Individual Investor
Uh, because, uh, with regards to the data center, at least these clusters, like you rightly mentioned, in Andhra as well as Gujarat and Bombay, they're coming up and construction activity is going up quite well. So I don't know whether with regards to the piping per se, with regards to the water requirements, are you seeing any action there as such?

Madhav Kejriwal - Whole Time Director, Electrosteel Castings Limited
It's- well, you see, the thing is that although the volumes of water are high, the, the, the lines don't require to be that long. So I don't see it to be a very big demand driver.

Unidentified Participant - Analyst
All right,

Madhav Kejriwal - Whole Time Director, Electrosteel Castings Limited
For us it will be a momentary upward blip. Um, you're right in mentioning that Maharashtra- and for us, Maharashtra and Andhra are bigger markets. Gujarat, we have our other industry mates sitting over there, so we don't get to enjoy that demand so much. But in Maharashtra, there is some inquiries, and as I mentioned, Andhra was also things are looking up. Andhra is a mainstay market, so over there we see some potential.

Ankit Puri - Investor, Individual Investor
All right, sir, that'll be all from my side. All the best. Thank you very much.

Madhav Kejriwal - Whole Time Director, Electrosteel Castings Limited
Thank you.

Operator
Thank you. Next question comes from the line of Kaushik Shekhar with Vermilion Value Advisors LLP. Please go ahead.

Saket Kapoor - Analyst, Kapoor and Co
Yeah, good afternoon. Uh, my question was related- there's a lot of water distress coming about now in many parts of India. So has this triggered off any policy or actions in terms of projects or speeding up anything, especially in Maharashtra, Karnataka, in other areas?

Madhav Kejriwal - Whole Time Director, Electrosteel Castings Limited
Sir, the entire idea of Riverlink is to address the unequal water distribution that we face naturally on, on our huge topography that we have. So that is the biggest. Along with that, to address the growing needs of the urban cities, a big exercise has been taken up by the government. It's called the UCF, Urban Challenge Fund, wherein the central government and we put up- whether governments will put across around a lakh crore, and it they would require some private investments to come through, which should take the capital outlay up to almost 4 lakh crores.

Of course, this should run over 5-7 years, but a part of this will also be to address the growing requirement of water and wastewater treatment and discharge at our urban centers.

Saket Kapoor - Analyst, Kapoor and Co
My question, actually, you know, as you know, sometimes in India we see need a crisis for emergency to come in for policy to convert to action. So I am, I was just asking whether are you

seeing any of that, shades of that

Madhav Kejriwal - Whole Time Director, Electrosteel Castings Limited
[Foreign Speech]

Saket Kapoor - Analyst, Kapoor and Co
[Foreign Speech]

Madhav Kejriwal - Whole Time Director, Electrosteel Castings Limited
[Foreign Speech] That itself is a clear indicator. And I mean, we're looking at a huge outlay for Riverlink, you know. Riverlink should, uh, if, if even 50% of what they're saying comes to light, we're

Nachiket Kale - Investor, Individual Investor
Looking

Madhav Kejriwal - Whole Time Director, Electrosteel Castings Limited
At more than a lakh crore of expenditure. So there is some urgency in specific areas, although there is some urgency on account of implementation of some sort of dramatic water project to ensure that the desperate requirements that are there are at least met.

Saket Kapoor - Analyst, Kapoor and Co
One other question I had is that while, while the, you know, the pauses come in the rollout of JJM and other projects, which is not controllable within the- by the company, it has also given opportunity in terms of a very low share price. And now the- I had asked in June also, the window for open market buyback has also changed. The rules have changed. The taxation also has become quite favorable for open market buybacks. So I mean, I had asked in the listing, you said you'll kind of inform. So has there been any thought process on this, on the open market buyback or any form of buyback?

Madhav Kejriwal - Whole Time Director, Electrosteel Castings Limited
So sir, the, the opportunities that are in front of us by way of diversification and opportunities to increase shareholder value, uh, by way of getting into the diversification as well as maybe doing a buyback. I mean, these are all things that are under active consideration. We are constantly measuring to see what will allow us to create maximum shareholder value.

Saket Kapoor - Analyst, Kapoor and Co
The reason why I was asking is that actually already almost bought 4%, so you are just near the limit for that. Annual creeping. So I mean, it may be, uh, this is not controllable. The volume is not going to go up, as you said, above 5 lakh this year. So you still have a 1 year 6 months, a very good window. So my suggestion would be to consider it, because sometimes, you know, sometimes the bad news itself contains the good news. And we should be- if you be mentally flexible enough, we can see that, and you can use even that opportunity.

So that's my humble suggestion. Because sometimes when the window passes, we realize, oh, it was there and it just went away. I can

Madhav Kejriwal - Whole Time Director, Electrosteel Castings Limited
Assure you that that is something that we have under active consideration. But also, since we have ambitions, uh, aggressive ambitions, I would say, in our other expansions, we are constantly

deliberating between where to use the cash flow.

Saket Kapoor - Analyst, Kapoor and Co
Just to, just to say this thing, I'm not talking about a very large one, just, you know, maybe 3%, 2%. You know, 3% of the equity and something like that. We don't have to do a very large one. It, it is more to, you know, just kind of- you're- it's opportunity, you're just taking it. It's like, I

Madhav Kejriwal - Whole Time Director, Electrosteel Castings Limited
Will, I will, I will definitely, uh, re-emphasize on this with the, with the management team. We can- we will definitely table this again as a discussion point.

Saket Kapoor - Analyst, Kapoor and Co
And just, just last thing, I just- I'm just flagging this because, you know, there is a muscle memory in the management because the buybacks law change very unfavorably in the last 3-4 years

Madhav Kejriwal - Whole Time Director, Electrosteel Castings Limited
And then

Saket Kapoor - Analyst, Kapoor and Co
Finally it has gone back to being somewhat sensible but we are

Madhav Kejriwal - Whole Time Director, Electrosteel Castings Limited
Aware of that, sir, that's why we are reopening that topic also, so right, right, but

Saket Kapoor - Analyst, Kapoor and Co
There is a lag, there is a lag in generally the market memory so it's This window may not last too long, that's my feeling. So for most, many companies, so I think that, uh, you know,

Madhav Kejriwal - Whole Time Director, Electrosteel Castings Limited
Appreciate it again 100%. It's something I will, I will, I will table that again with the entire management team and we will, uh, take a decision. Our objective remains to create maximum value for shareholders, sir. So you can rest assured that this should be taken up as an active consideration.

Saket Kapoor - Analyst, Kapoor and Co
Right, that's all from my side. Thank you. Thank

Madhav Kejriwal - Whole Time Director, Electrosteel Castings Limited
You.

Operator
Thank you, ladies and gentlemen. That was the last question for today. We have reached the end of question and answer session. I now hand the conference over to the management for closing comments.

Madhav Kejriwal - Whole Time Director, Electrosteel Castings Limited
Thank you everybody for joining us today. Despite the near-term challenges in the demand environment, we remain focused on strengthening our business and creating a sustainable and a long-term value for all our stakeholders. We very much appreciate your continued support, and we look forward to interacting with you after our next quarter's results. Thank you. Have a very good

evening and a very happy Diwali to all. Thank you.

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