Diffusion Engineers

Operator: Good morning, everyone. I am Bala from Arihant Capital, and today is the second day of the Bharat Connect Conference. I welcome everyone to the Diffusion Engineers Ltd. call. Today, we have with us Mr. Prashant Garg, Chairman and Managing Director of the company, and Mr. Abhishek Mehta, CFO of the company.

The session has two parts: an introduction and recent business updates by the management, followed by a Q&A session. Participants can raise their hands or post questions in the Q&A chat box. I now hand over the session to the management. Abhishek sir, Prashant sir, you can take it over.

Management: Thank you very much, Bala and Arihant Capital. Good morning, everyone. First, I would like to give a brief overview of Diffusion. We have already shared an investor deck with all the investors, and it has been uploaded on the website. I would like to take you through it. I am just sharing my screen so that we can present it.

I will take you through our plant site for a minute. It is a 2-3 minute video, and then I will take you through what we do and how we do it. As the video goes on, I will explain and guide you through the various activities and how they are carried out.

I hope the screen is visible to everyone. Balaji, can you please confirm?

Operator: Yes sir, it is visible.

Management: Just a moment. Please put it in full-screen mode.

In our product range, we have four product baskets. We begin with consumables. These are specialty low-heat-input electrodes used for wear protection and M&R in the industry. We manufacture a complete range of steel, stainless steel, cast iron, and all kinds of hardfacing electrodes.

The second product category is flux-cored wires. These are essentially continuous-form electrodes that are automation-friendly. Again, we have a very wide range for wear protection, buildup, reconditioning, maintenance, and repair. We are one of the largest flux-cored wire manufacturing companies in India. Using these flux-cored wires, we also manufacture wear plates.

A wear plate is essentially a combination plate with an economical base material and hardfacing on top of it. It is used as a liner material in heavy industries for wear protection. This is what a wear plate looks like. The wear plate is then cut, formed, fabricated, and bent to manufacture wear parts.

We also make coatings that are used for wear protection. In the engineering sector, there are many situations where heat cannot be applied to the base materials, especially when repairing cast iron or special types of stainless steel. In such cases, we use these chemical, epoxy-based products for wear protection.

Finally, to complete our product basket, we have welding and cutting equipment, which forms a small part of our product portfolio and revenue. This is done to complete the product offering to customers because when they buy consumables from us, they also ask us whether we can provide

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welding equipment.

In addition, we sometimes manufacture and provide automation solutions. Automation solutions are special-purpose machines provided to companies looking for hardfacing solutions. Rather than only supplying consumables for hardfacing, we also provide automation solutions that can be used for cladding their own parts. These are typically provided to parts manufacturers or engineering companies that supply their parts to end customers.

This is a view of our heavy engineering workshop, where we manufacture complete equipment for the cement, steel, power, mining, and railway sectors. This is essentially further forward integration of our product manufacturing capabilities. We are able not only to make these consumables or products, but also to carry out reconditioning services. We receive old, worn-out equipment from end customers, repair it, and return it to them.

We are supported by a very good quality-control system and an R&D laboratory for new alloy development. This work is carried out continuously to improve the service life of the wear-protection coatings and solutions that we provide to customers. As industrial demands continue to increase, customers are looking for more and more—

Operator: Sir, yes sir. Actually, your screen is not moving. It is still on the video page.

Management: Okay. I think we will stop the video because there is some buffering or a network issue. We will directly open the deck and quickly go through an introduction, after which we can answer any questions that participants may have.

We were talking about our products. We discussed specialty electrodes, flux-cored wires, wear plates, wear parts, and cold-repair compounds, and then we came to heavy engineering.

Heavy engineering is essentially further forward integration and a natural progression from consumables manufacturing to wear plates and wear parts manufacturing, and then to manufacturing complete equipment. When we started manufacturing wear parts for our customers, we began working with many OEMs. OEMs are typically engineering companies that set up complete cement, steel, and power plants for end customers. These OEMs would buy wear parts from us and then sell them to an equipment manufacturer, who would assemble and supply the complete equipment.

The OEMs motivated and encouraged us to manufacture large equipment because, in some cases, wear parts constituted 40-50% of the total equipment weight. They told us that if we could have a larger facility with greater lifting capacity and the same manufacturing capabilities, we could manufacture complete equipment, fit the wear parts that we manufacture, and become a one-stop shop for them.

We started doing this in 2009-2010, and since then we have been manufacturing large industrial equipment. Some examples are shown in this picture. For example, the bottom right is a tandem tippler, which is used in the mining and cement sectors for unloading railway wagons carrying minerals. The top right is a material hopper for a blast furnace, which was supplied to Tata Kalinganagar. There are also some other examples, such as a rotor used in cement classifier

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equipment and rotary air feeders.

Finally, the other product categories we have include services and reconditioning, as I mentioned. We carry out services within our plant as well as on-site. We have a team of around 60 technicians who go on-site and carry out repair and reconditioning services for the industrial sector, specifically in mining, cement, and steel.

The last part of our product portfolio is industrial services, where we provide specialty services such as kiln consultancy and fabrication. We provide turnkey solutions for erecting and supplying kilns, as well as carrying out in-situ maintenance of kilns while they are in operation.

The advantage our customers have with us is that we follow an integrated approach. We manufacture our own alloys and consumables through our in-house manufacturing capabilities. We believe in having in-house capabilities rather than buying from other companies because, first, it enables us to control quality; second, it enables us to deliver faster; and third, it enables us to keep costs under control.

We have closed-loop integration. We use our own products for equipment reconditioning and life-extension services. We have in-house heavy engineering and fabrication capabilities, and we also supply ready-to-use wear plates. We also have a complementary trading portfolio. We do not manufacture some of these items, such as welding equipment, ourselves. However, this acts as a very good complementary subset of our offerings and enables us to become a one-stop shop for our customers.

Because of this, we are able to maintain lower production costs, achieve higher quality, control delivery times, and provide faster turnaround.

We have five manufacturing units. Unit 1 is where we started, and this is where we manufacture electrodes. Unit 2 is our smaller unit, where we started manufacturing flux-cored wires and wear plates in 2000. Unit 4 is where the majority of the expansion is taking place. It is our heavy engineering equipment unit, where we manufacture flux-cored wires and wear plates for in-house consumption and make large industrial parts.

Unit 4 covers approximately 30 acres of land, of which around 32,000 square meters is covered or manufacturing area. Unit 3 is a smaller unit for epoxy-based products, which are the coating products we discussed. Unit 5 is a recent development where we manufacture strips required for manufacturing flux-cored wires, and we have also expanded our electrode manufacturing capabilities there.

Our R&D facilities are DSIR-approved. DSIR stands for the Department of Scientific and Industrial Research of India. A significant amount of R&D is undertaken to develop new solutions and products to address new or more aggressive types of wear and tear occurring in the industry because of the use of alternative fuels.

The increased use of waste as fuel in the core industrial sector has significantly increased wear and tear, which requires the development of new products to address this wear.

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Plant sizes have also increased significantly. Fifteen to 20 years ago, a typical cement plant used to produce 5,000 tons per day, whereas now the average or typical cement plant produces around 10,000 to 12,000 tons per day. Therefore, one day of production loss for a cement plant represents a significantly larger loss of revenue and profit for the customer. Consequently, the demand for higher-performance products has increased, which is why continuous spending on R&D is very important.

These are some of the customers we work with. As you can see, there are marquee names from the cement, steel, power, mining, and engineering sectors. A large portion of these customers are repeat customers, so we constantly supply to them.

We supply to more than 50 countries and continue to supply to them. Within India, we are predominantly present with companies in the cement, steel, mining, and power sectors. We have more than 95 distributors in India and around 9 global agents who help us with international sales.

We are happy to answer any questions that you may have.

Operator: Yes sir. We will begin the Q&A session. Participants can raise their hands or post questions in the Q&A chat box. Sir, we will take our first question from Pratik.

Operator: Sir, you are unmuted.

Operator: Pratik sir, you are unmuted.

Management: No, I think Mr. Pratik is still on mute.

Operator: Okay sir, we will take the next question from—I think you have to unmute Mr. Pratik; he is still on mute. Okay, we will take the next question from Harsh. Sir, you are unmuted.

Management: He is also still on mute. I think we will have to unmute them.

Operator: Harsh sir, you are unmuted.

Management: He is still showing as muted.

Operator: Harsh sir, please unmute yourself and ask your questions. Let us try Mukesh. Mukesh sir, please unmute yourself.

Mukesh: Okay, I have unmuted myself. Can you hear me, sir?

Management: Yes.

Mukesh: Good morning, sir. I have a couple of questions. First of all, the order book we had in June was around 209 crores. Can you guide us on what it is now?

Management: Sorry sir, we missed the last part of your question.

Mukesh: I am talking about the order book, sir.

Management: Yes sir. We had an order book of around 209 crores in June. And now, sir, what is it?

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Management: It is around the same range.

Mukesh: It is around the same range.

Management: Yes.

Mukesh: You also spoke about the 100 crore expansion. I think this is to increase the capacity of Heavy Engineering from 9,000 to 18,000. Am I right, sir?

Management: Yes, absolutely.

Mukesh: With this capacity, I think you indicated that we can achieve up to 800 crores of turnover. When do we expect that to be achieved?

Management: It will take at least 2-3 years to ramp up the capacity. After that, I think we will be able to double our top line.

Mukesh: So around 28-29 or 29-30 would be the—

Management: 28-29 or 29-30 would be a good estimate for that.

Mukesh: How are exports currently performing because of the war situation? Where are we now?

Management: Freight and logistics costs have increased significantly. As a result, customers are somewhat reluctant or are delaying the pickup of some items. However, I think this is temporary because this has become the normal scenario. Customers wait for some time, but if things do not settle down, they continue with the business. Therefore, we do not foresee a major problem for us. Of course, there is some volatility, but eventually it settles down.

Mukesh: For FY26-27 and FY27-28, you have guided for around 20% growth with an EBITDA margin of 13%. Are we on track, sir?

Management: Yes, we are on track to grow at 20% year-on-year in FY26-27. We expect EBITDA to remain the same or increase slightly.

Mukesh: My last question is about other income. Last time, there was a dividend from a subsidiary, I suppose. This constitutes a reasonable part of our income. Can you throw some light on what the other income consists of apart from the dividend we received?

Management: Other income includes investments or the sale of mutual funds, as well as interest income received from the fixed deposits related to the IPO proceeds, which are still yet to be utilized.

Mukesh: That will remain for this year, I think, and from next year it will reduce, right?

Management: Correct. We expect that income to transition into operational income because the capacity will be coming on stream.

Mukesh: Understood. That is all from my side. Thank you very much, and all the best, sir.

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Management: Thank you very much, sir.

Operator: Thank you, sir. We will take the next question from Vaibhav Mishra. Sir, you are unmuted.

Vaibhav Mishra: Hello sir, good morning. My question is in continuation of the previous participant's question as well as the last call. In the last 2 quarters, I think we have been growing at more than 35%. In the last earnings call, we were expecting Q2 to deliver results similar to Q1. Are we being more conservative? Are we comfortable growing at 30% this year with EBITDA margins of around 14.5-15%? Are we on track for that, or are we expecting lower growth in Q3 and Q4?

Management: We do not expect lower growth in Q4. However, Q3 and Q1 are always subdued in our business. We will maintain the seasonality, with Q2 and Q4 always being good quarters for us. We expect the same pattern to continue this year as well.

In terms of your question about conservatism, we are not being conservative, but we believe in committing less and delivering more. That is our mantra. Therefore, 30-35% would be too much of a stretch, but we expect to grow in the range of 20-25%.

To add to that, Q2 will obviously be better than Q2 of last year and similar to the Q1 that we had this year. However, 30-35% would be too much of a stretch because there is an order-execution cycle that needs to be completed in order to convert an order into revenue.

We do not have a partial-revenue or stage-wise-revenue system. We recognize revenue after the work or the entire project is completed and we deliver the project. Therefore, the order-intake cycle has to remain continuously high so that all 4 quarters perform at their maximum possible capacities.

Q4 last year was exceptionally good compared with the other quarters of the previous year. We have already been growing at a 21% CAGR for the last 5 years. Therefore, the estimate we have given is reasonable.

Vaibhav Mishra: So, practically, we can expect a number of around 25%.

Management: 20-25%, yes.

Vaibhav Mishra: As we still have IPO proceeds left and the capex is ongoing, what kind of debt numbers can we see by the end of FY27 and the end of FY28? Will they remain at the same levels or go down?

Management: Which number are you referring to—the PAT or—

Vaibhav Mishra: Debt. Debt number.

Management: We are still a debt-free company. We do not have any debt as of now. We only have working capital, but we do not have any long-term debt, and we do not foresee taking on any debt in the near future.

Vaibhav Mishra: Other income was discussed earlier, including fixed-deposit interest and the subsidiary contribution from last year. What kind of other-income number can we expect in FY27, if

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you can provide any guidance?

Management: We will still have interest income, income from our mutual funds, and these are the 2 major components that should continue to be present in other income.

Vaibhav Mishra: Thank you very much, sir, and all the best for the future quarters.

Management: Thank you very much, sir.

Operator: Thank you, sir. We will take the next question from Uttam Purohit. Sir, you are unmuted.

Uttam Purohit: Thank you for the opportunity. I am new to the company and want to understand more about the long-term philosophy of the company. We are in different businesses, including welding consumables, wear parts, engineering fabrication, and coatings. These are very different businesses and require very different types of clients.

Unlike our peers, such as Ador or ESAB, which are highly focused on one area and have created a niche or dominance in that particular sector, I want to understand our long-term aim. Where do we want to be positioned in this value chain, and what kind of market share are we aiming to achieve?

Management: Even though the product portfolio you mentioned is diverse, the overall strategy or philosophy of delivering a complete wear solution to the customer is the same. All these different products are aimed at solving one problem for the customer, which is increasing equipment lifetime.

You correctly mentioned that there is a difference between us and our peers in the way they focus primarily on the welding-products business. They are mostly focused on welding products, whereas we are not restricting ourselves to being only a welding-product supplier.

The difference between us and them is that we work more closely with the end customer and the industry in which the end customer operates. We have developed special solutions for the cement sector to solve its wear-related problems. We have developed solutions for iron and steel and for the power sector. We are getting more involved in the end use and in the industries to which we supply our products.

We are not restricting ourselves to the view that wear problems faced by customers can only be solved using welding products. Solving these problems may require the development of a new design or modification of the customer's existing design to control material flow and reduce the impact on areas of the equipment that are wearing out faster.

By combining that engineering or design change with the metallurgical solutions we provide, we are able to create a greater impact. In some cases, we have also developed water-cooling solutions for customers because equipment lifetime was not increasing without reducing the temperature.

We do not restrict ourselves to being only a welding-products company. That is why we have progressed from being merely a consumables supplier or welding-products supplier to becoming a wear-parts supplier and a complete-equipment supplier.

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The end target and goal remain the same: to achieve a higher equipment lifetime for the customer. That is how these different products are united.

It is also important to bear in mind that the industry is moving away from simply buying products. Typically, Tata Steel or UltraTech Cement will not want to buy electrodes in the same quantities as they used to. I am not saying that they will never buy electrodes. Electrodes and wires are still a significant expense for them at their plants.

However, they prefer to buy ready-to-fit solutions that they can change from shutdown to shutdown rather than buying consumables and hiring specialist welders to carry out maintenance and repair at the site.

First, it is risky. Second, they do not get skilled manpower easily. By risky, I mean in terms of health and safety norms. Third, there is the question of accountability. If they buy consumables and hire people to carry out welding or hardfacing themselves, who will be accountable if the product does not perform? Will it be the product supplier or the person who carried out the welding?

The industry is also moving in that direction. We are moving in the direction that the industry wants us to take. That is the reason why we have moved in this direction. I hope I was able to answer your question.

Uttam Purohit: Yes sir.

Operator: Thank you, sir. Participants are requested to limit themselves to 2 questions each. We will take the next question from Praneet. Praneet sir, you are unmuted.

Operator: Husnur sir, you are unmuted.

Operator: The line is not audible. Am I audible now?

Management: Yes.

Operator: Yes.

Husnur: Thanks, and sorry about the delay. I wanted to ask: since we have many facets in terms of how we finally reach the end customer, where do we see the most growth and the highest margins?

I see that we have built most of our relationships around consumables, and consumables are also growing at a very fast pace. I understand that the other segments are more value-added, but this seems like a much simpler business because we have already built our distribution network.

Where do we see faster growth: in consumables or in value-added products? Also, how do the margins compare between the two? In terms of a standalone value-added business, what margin is it likely to have compared with the consumables business?

Management: We currently have 4 products and 4 product baskets: consumables, wear plates, wear parts, heavy engineering, and industrial services. All 4 are growing. As you rightly mentioned, consumables are also growing at a good pace.

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However, as I answered the earlier participant, the industry is moving away from buying only pure consumables. It is no longer a pure-consumables market. It is moving towards complete solutions, where the customer can buy an entire ready-to-fit spare part rather than carrying out hardfacing and maintenance at the site.

Therefore, we expect the consumables market to continue growing, but not at the same pace as the wear-parts and heavy-engineering-equipment markets.

Let me give you a short example. If I am only a consumables player, the size of the market and the total addressable market I can capture are limited. There is also very little differentiation between me and other consumables manufacturers. Quality, delivery, and brand are basic requirements. The main factor on which one can compete is price, and we do not want to be in that situation.

When I become a wear-parts supplier or a total-solution provider, there are fewer players, and my addressable market becomes much larger. I will give you a small example. The steel industry requires thousands of rollers for casting and rolling steel plates and steel slabs.

If I am only a consumables supplier, I will sell my wires for cladding these rollers. However, if I am a wear-parts supplier, I can supply the entire roller, along with the bearing housing and assemblies, as a spare part to the customer.

A customer would prefer to buy a complete wear part rather than buy a wire, which the customer would then have to weld and carry out all the other activities on its own. That is why we believe the wear-parts and heavy-engineering businesses will grow faster. However, there is growth potential in all 4 sectors or parts of our business.

Husnur: Understood, sir. Could you explain how profitability margins differ? I presume consumables are likely to be a lower-margin business, while the value-added—

Management: This is somewhat counterintuitive and very interesting. For the consumables that we manufacture and sell in the industry, we do not disclose the composition, or in 7 out of 10 cases the customer does not tell us that they want a consumable with a particular composition.

There are, of course, businesses and customers that tell us they want a particular consumable specification. However, in most cases, the customer says, “I have this wear problem. Please suggest the right consumable and take responsibility for its performance so that I can extend the life of my equipment.”

Because we do not disclose the composition, or because the customer is not buying it based on a specific composition requirement, it is difficult for the customer to determine the material cost. Therefore, consumables margins are typically higher. We are selling it as a pill, or a magic pill, where the customer does not know exactly what they are buying.

Ultimately, the customer is concerned about the equipment lifetime achieved using our consumable. Currently, the gross margins for consumables are anywhere between 35% and 45%. In comparison, the gross margins for wear parts and heavy engineering would be anywhere between 25% and 30%.

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Industrial services have similar gross margins, but industrial services account for only 10% of our revenue. There is limited growth potential if we remain only a pure consumables supplier. That is why we need these other sectors to continue growing the business.

Husnur: Understood. Consumables have the highest margin, but the other businesses are not far behind in comparison.

Management: Yes. As a company, we are progressively entering opportunities that will enable us to achieve these margins by manufacturing increasingly sophisticated and larger industrial parts, where there are fewer players and entry barriers.

We are adding to our machining capabilities and our heat-treatment capabilities. This will enable us to push gross margins higher in the other sectors as well.

Husnur: Do we intend to enter large castings products, or would we continue with fabrication for the final products?

Management: I am sorry, can you please repeat your question?

Husnur: We mentioned that we manufacture fabricated products as wear parts. I was asking whether we intend to enter cast products as parts as well.

Management: Casting products?

Husnur: Cast products, yes.

Management: We buy castings and forgings as raw materials, and then carry out hardfacing, cladding, or machining, followed by assembly, and supply the complete wear parts. We already do that.

Husnur: Do we intend to backward-integrate? I understand that we buy the parts, but is it possible to—

Management: No, because casting requires specialization, is highly energy-intensive, and requires completely different infrastructure. We would prefer to buy it because there are many foundries that can supply the items we need, rather than manufacturing them in-house.

Husnur: Understood, sir. I will come back in the queue for further questions. Thank you.

Operator: We will take the next question from Bhavya Kanti. Sir, you are unmuted.

Bhavya Kanti: Hello. Can you hear me?

Management: Yes, yes, Bhavya.

Bhavya Kanti: My first question is regarding the benefit we would have received from steel prices over the last few years and how much of our business is linked to steel prices.

Can you share the volume growth over the last few years, at least over the last 3-5 years? How sensitive is our business to steel prices? For example, if steel prices fall, will our revenue also be

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impacted to that extent? I believe we work on a cost-plus-margin model, so our percentage margin may remain constant. Will our absolute EBITDA also be impacted? That is my first question.

Management: Steel prices have certainly been quite volatile since the COVID period. Before COVID, there was not as much volatility. One major period of volatility occurred immediately after COVID, and the second occurred after the Russia-Ukraine war. Since then, we have not experienced that level of volatility.

We have seen volatility where steel prices can move up or down by a maximum of around 20%, but during those 2 periods the volatility was much higher.

For contracts with a short duration or shorter lead times, we work with fixed-price contracts with our customers. For longer-duration contracts with staggered deliveries, we have price-variation clauses built into the system.

To answer the first part of your question, if steel prices rise, does our revenue rise, and if steel prices fall, does our revenue fall? To some extent, yes, but I do not think that this accounts for the 20% growth we have achieved over the past 5 years, including the 21% CAGR growth we have achieved.

The impact should be less than 5% in terms of revenue in either direction. Even that would happen only when steel prices rise or fall significantly. A movement of around 20% in either direction would not make a significant difference to our revenue.

Management: There is no clear impact on margins.

Management: Unless steel prices rise to around 80-90 rupees or 80-85 rupees, as happened after the Russia-Ukraine war, I do not see an impact on revenue.

Bhavya Kanti: Understood. My second question is regarding capex. I believe that over the last 4 decades you were closer to 100 crores of gross block, and suddenly you have doubled your gross block through another 100 crores of capex.

Given your experience, you may be seeing some tailwinds. Where exactly are these tailwinds coming from? Doubling the entire gross block in such a short period would imply that you have some demand visibility. Where exactly are you seeing it?

Management: The biggest tailwind comes from the sectors in which we operate. The industrial policy is also changing, and that is contributing to these tailwinds. We believe these tailwinds are sustainable.

The sectors in which we operate include cement, steel, power, mining, engineering, sugar, and railways. These sectors account for approximately 90-95% of our business, with defence also contributing to some extent.

There is massive expansion taking place in all these sectors, especially steel, cement, power, and mining. The mining sector was almost inactive until a few years ago, approximately 4-5 years ago. However, since private contractors began taking over, or since mines started subcontracting their

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core mining activities to private contractors, there has been massive demand for high-performance products that last longer rather than the cheapest products that mines used to buy earlier.

It was very difficult to compete effectively with some of the unorganized players on pricing. This has opened up new opportunities.

Even with the new expansion we have undertaken in our heavy engineering business and the industrial shed we have constructed, we believe we will be able to ramp up to a higher capacity utilization of around 80-85% within a shorter period than we originally expected.

We believe we did the right thing by expanding this quickly and together rather than doing it in phases because we believe the demand is sustainable.

Also, because we are increasing our capabilities to manufacture heavy engineering equipment, this has opened up a new market for us. When our existing customers visit our workshops and see that we are setting up a new workshop, they want to give us more business.

Therefore, it is not only business from our existing portfolio. It is also business from the new portfolio we have developed over the last 5-7 years.

Bhavya Kanti: I have a follow-up regarding the incremental depreciation charge that will come onto the books from the incremental capex we have undertaken. What will be the normalized other income in FY28? Once the IPO proceeds are utilized, I believe other income will disappear from the books. How much would that number be, if you can provide some clarity?

Management: Normalized other income would be approximately what we had at the pre-IPO level, perhaps plus or minus 20-30%. It would be plus 20-30%, not minus; I would rather say plus. That would be the normalized other income.

Regarding depreciation, I think depreciation will increase by around 9-10 crores in the initial years. However, that is a non-cash expenditure that will be recorded in the books.

Bhavya Kanti: Thank you, sir.

Operator: We will take the next question from Anchal Maheshwari. Sir, you are unmuted.

Anchal Maheshwari: I wanted to understand what mix we are looking at from our heavy engineering business and our other businesses in 2 years' time.

Management: Sorry, what mix are we looking at over the next 2 years? I think our mix will remain more or less the same as it is now. Approximately 30% each is in our 3 major businesses, namely welding consumables, wear plates and wear parts, and heavy engineering. It may skew to some extent towards heavy engineering, but we believe it will remain more or less the same.

Anchal Maheshwari: We are undertaking heavier capex on the heavy engineering side. Should the mix not be more skewed towards heavy engineering, rather than only slightly?

Management: I will add to that. If I divide our existing business into 4 segments—consumables, wear plates, wear parts, heavy engineering, and industrial services—we are currently at 30%, 30%, 30%,

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and 10%. This means 30% in consumables, 30% in wear plates and wear parts, 30% in heavy engineering, and 10% in industrial services.

We believe the combined share of wear plates, wear parts, and heavy engineering, which is currently 60%, may increase over the next 3 years to 75%.

Industrial services, on an increased turnover, will remain at 10%, but on an 800 crore business it will not exceed 80 crores. Therefore, the share would be around 75-85%, and the remaining share would be around 15-20% over the next 3 years. I think the consumables business will become around 15-20%.

Anchal Maheshwari: Does that answer the question?

Management: Yes, thank you very much.

Operator: Thank you, madam. Due to time constraints, we will take a final question from Rahul Agarwal. Rahul sir, you are unmuted.

Rahul Agarwal: Thank you for the opportunity. Abhishek, what sort of market share do you have in each of the segments in which you operate, and who are your key competitors?

Abhishek: If you look at market share, I will first answer the second question regarding the key competitors. We have 3 different segments here: welding consumables, wear plates and wear parts, and heavy engineering. Each of these segments has different types of competitors.

In welding consumables, our competitors include Ador Fontech, ESAB, Wear Resist, and others. In wear plates, ESAB, Wear Resist, and others are again our competitors. In wear parts and heavy engineering, we compete with companies such as ISEC, AIA, and others. There are also other small players with whom we compete.

In terms of market share, in welding consumables we have more than 25-30% of the market share—20-25%, 20-25% of the market share. In wear parts, our market share would also be approximately 40-45%. In heavy engineering, I think our market share would be in the single digits, perhaps at the decimal level. The heavy engineering market is very large, and the opportunity is substantial. I would say that our market share in heavy engineering may be less than 1%.

Rahul Agarwal: You said 25-30% in consumables and 40-45% in wear parts—

Abhishek: No, let me rephrase that. We have a 20-25% market share in consumables. These are specialty consumables. We are not well known for, or identified with, commodity consumables. In specialty consumables, or MRO consumables as they are called, we have a 20-25% market share.

In the wear plates and wear parts business, we would be similarly placed at a 20-25% market share. I would say 25% there for sure, or rather 25-30%. In heavy engineering, I am saying that we would be at the decimal-point level because the market is very large and we are still a small player in this business.

Rahul Agarwal: What growth outlook do you see for the overall business over the next 3-5 years? You mentioned that wear plates and heavy engineering will grow much faster, but what sort of

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growth do you expect for the overall business?

Abhishek: We expect to grow at a CAGR of anywhere between 20% and 25% over the next 3 years.

Rahul Agarwal: From a margin-profile perspective?

Abhishek: We believe our EBITDA can increase by 100-200 basis points.

Rahul Agarwal: Thank you.

Operator: Thank you, sir. Mr. Abhishek, we have many participants. We have more than 30 questions in the Q&A chat box, but we have limited time. We have seen significant investor interest in this call, and I would like—

Abhishek: Is it possible to get the list of questions so that we can reach out to them?

Operator: Definitely, sir. We will email the list.

Abhishek: We would be happy to receive the list of questions from all the interested participants, and we will provide answers to these questions, perhaps in the form of a combined write-up, so that it addresses most of the questions that everyone is asking.

Operator: Certainly, sir. Thank you. I would like to thank the management of Diffusion Engineers Ltd. and all the participants for participating in the Bharat Connect Conference. Sir, do you have any final closing remarks?

Abhishek: We are happy, and we thank you for this opportunity to speak about the company. We will be happy to answer any remaining questions. Thank you very much.

Operator: Thank you, sir. Thank you, everyone. We are closing the session.

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