



“Carborundum Universal Conference Call Hosted by Axis Capital”

March 24, 2020



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Moderator: Ladies and gentlemen, good day and welcome the Carborundum Universal Conference Call hosted by Axis Capital Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing * then 0 on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Kashyap Pujara. Thank you and over to you sir.

Kashyap Pujara: Thank you Aisha and thank you everyone for standing by. It is a great pleasure to have with us the management of Carborundum Universal to discuss the impact of COVID-19. I hope everyone of you is safe and I will just take a moment to introduce the management. From the management side we have Mr. N. Ananthaseshan who is the MD, Mr. Padmanabhan who is the Chief Accounts Officer, and Mr. Chandramouli Senior GM, Strategy. I now hand over the floor to Mr. Ananth. Over to you sir.

N. Ananthaseshan: Good afternoon everybody and thank you Kashyap for organizing this call and thank you all for joining in on this call. It is, I would say, at unprecedented times that we are having this call. So these are very uncertain times and it is difficult not only for the country, but also for the rest of the world as such. At this point I would, before I start off, I would like you all to join me in thanking the efforts of everyone in the healthcare services, the police in various cities, states, the administration, the various governments and the decisive leadership of our Prime Minister and his colleagues. It is not easy to conceive a solution for an event of this magnitude. But they are all working overtime to ensure our safety and we can't thank them enough.

Now I would like to brief you on our business situation. The situation is so volatile and so uncertain that as of Saturday last, all our plants were running flat out. The orders for the month was very good and we were going towards a good close and subsequent to the developments over the weekend in many parts of the country and consequent to the decisions taken by the various state governments following central governments guidance, we decided to suspend operations in all our factories in India. This is as a measure of abundant caution and also the priority that we place on the welfare of our employees, their families, their communities and by this action we also believe that we will reduce the load on the governmental machinery to handle this huge epidemic which you are seeing in this lifetime. So as on that, across states whether it is in Tamil Nadu, where we have our abrasives units and the refractory manufacturing, in Kerala where we have our grain manufacturing or the raw material supplies, again in Tamil Nadu where we have Hosur, where we have the industrial ceramics units and super abrasives, in West Bengal for the coated abrasives, in Gujarat where we have the ceramic fiber units joint venture, and also the joint venture for the abrasives, and in Uttarakhand where we make thin wheels - every state where we have our plants has a total lockdown. So which means materials will not be able to move out of these plants and also many customers in all of these states - whether they are organized or unorganized - have also come down and they have closed down their units and stopped procuring materials. So our decision in terms of the units not being operational is definite till 31st of March and then we will take a call as the situation develops and abide by what the government recommends and the government directives are. That is as far as our operations

in India is concerned and as I said many of our customers also have closed their operations till 31st of March. In the case of our operations overseas, in Russia, as of now we are running our furnaces flat out and we had a good month in February. Most of the, I would say about 50% of the volumes from Russia goes into Europe and as of now it is not being disrupted. Things are moving. But with the increasing number of cases that is reported also in Russia we would take it again day by day. Australia was doing fine and there is no lockdown in the area where we are in, but today some news out flow is that they are also looking at implementing a shutdown. The operations in South Africa, are not as hit by the virus though there are cases which has been reported in South Africa as well.

China, the offices are back in operation. But we don't manufacture anything there. So, most of our teams or all of our teams are working from home. In America, it is also the same situation with many of the customers in America closing down their operations, and running on a skeletal staff. So the situation overall, over the next week definitely, is that in India we have a total shutdown. All our offices and people are working from home to take calls, to be in touch with the customers, and as soon as things are clearer we can be back in action. The good thing about CUMI and its operations is that we are very operational intensive, in the sense that that once the effect of the virus recedes and we are allowed to get back into operations we can begin operations quickly and the revenues can come back in quick time. So this is all also supported by the strong balance sheet that we have. So in terms of supporting our employees in terms of paying out wages, we always follow the high standards of the Murugappa group and here again as I said the employees come first.

So that is the status as of now. Ladies and gentlemen, now I can take questions.

Moderator: Thank you. We will now begin the question and answer session. The first question is from the line of Mr. Kashyap Pujara from Axis Capital. Please go ahead.

Kashyap Pujara: Just one question which I had regarding the Russian operations. Given that, you mentioned that there is no disruption so far in our Russian operations, but 50% of the business of Russia is actually supplied into Europe and Europe as we hear from the media is actually in a virtual lockdown kind of a situation. So are the borders from Russia to Europe and everywhere within still open that you are able to supply, I am surprised that there has been no impact. And second is that has the realization of SiC kind of changed while you are maintaining a flat out production run rate, but just trying to understand more from a profitability perspective that even if the run rate is on the sales and production continues to be intact has the kind of profitability taken a knock?

N. Ananthaseshan: The first thing is, see what happened in the beginning of the year when the virus scare came about in China was that the people saw their supply chain disrupted both from the minerals business, whether it is silicon carbide, aluminum oxide, took a big hit and understandably so because China is a largest producer of these minerals in the world. Consequent to that there was a lot of interest from especially from the western customers to look at alternative suppliers. And

definitely we are seeing that more and more enquiries and orders were coming into Russia especially for silicon carbide. That also is one of the reasons why we had a good month in January and February and continue to do that in March as well, in terms of the volumes. So we are prepared for running the silicon carbide operations and the ceramics which is the refractory operations in Russia flat out. The challenge as you rightly said was in terms of shipping out the material into Europe. See, it is not that Europe has closed its borders, it is doing so with lot more vigil and care that we need to take to ship materials out into the scandinavian regions or to Netherlands. The trucks of course had to take its care in terms of being hosed down, being sanitized, so that takes extra time and effort but the materials are getting through. In all these factories people are keeping a very safe distance and then because of the lean manpower they are able to maintain a very high level of safety standards. So we are taking precautions and running operations and that is one reason why we are also able to ship out from Russia into Europe.

As to your other question on profitability, we don't see a challenge. The prices have been holding firm while we have been focusing on ensuring deliveries as promised to our customers. And Kashyap, again as I said we are going to change this day by day depending on how the situation pans out in Russia as well.

Moderator: Thank you. The next question is from the line of Mr. Charanjeet Singh from DSP Mutual Fund. Please go ahead.

Charanjeet Singh: Sir, also if you can highlight because we have exports also from the domestic plants and Met cylinders which is generally 75% exports, so there how has been the volumes? Have you seen any impact on the Met cylinder or the ceramic side?

N. Ananthaseshan: So this is what I was mentioning earlier, volume wise we had order books full for definitely for March and we were in line in terms of producing and dispatching those volumes. But today the situation is, if there is no truck movement from the plant into the port, then we can't ship out. So once this gets cleared then the material is ready to ship out. So the orders are there, production was till on Saturday was going flat out and now because of these restrictions we can't ship the materials to the port.

Charanjeet Singh: Okay. And sir in terms of the raw material availability, what portion of our raw materials would be coming from China and how now that is getting sorted out in terms of the pricing, has there been any major movement in that?

N. Ananthaseshan: The raw materials from China were largely for the abrasives, I would say 95% of our imports requirement from China was for abrasives division and here since we are having our own units in Cochin we have been able to manage that over the last two months much better. So we don't have any issues in terms of availability of raw materials and those small percentage of raw materials where we don't produce but buying from China, we already have lined up alternative sources in India.

- Charanjeet Singh:** Okay. And from the abrasive segment perspective sir, like autos is what proportion and how are the other sectors doing in Jan-Feb-March till now and which segments you see that could get impacted more from the end market perspective going forward or could longer to rebound?
- N. Ananthaseshan:** It would be a guess to predict what can happen to this we know all of us see some visibility in how these factors been handled. But having said that I must say that in the months of this quarter has been better in terms of what I call the precision abrasives. We did have good order books from, when I say good order books in comparison to the last few quarters in the position of abrasives and auto component customers. So we are looking forward to a good closure to this quarter. Now things don't always work out the way we wanted.
- Charanjeet Singh:** Okay sir. If I can just ask a last question, in the South African entity you know which is doing maybe a 10 crores kind of a loss, we were planning to exit that. So what is the update on that and do you see losses going up in that?
- N. Ananthaseshan:** As I said we are in talks with prospective purchasers to close it out and sell our stake and that is in progress and we will keep you updated as soon as we have something material to report.
- Moderator:** Thank you. The next question is from the line of Bhavin Vithlani from SBI Mutual Fund. Please go ahead.
- Bhavin Vithlani:** My first question is on the abrasives, if you can give us a flavor on the likely demand and if you can take back your memory during the GST crisis, how did it behave? Just after the prices and if you can just also give us a color into the user industry, which are the user industries you saw that, the bounce back quickly and how did the imported competition behave, which impacted the margins?
- N. Ananthaseshan:** I think it is very unfair to compare the current situation with the GST crisis. Because in comparison GST is just a blip. What you have facing now is going to be of unprecedented scale. None of us have ever experienced this before. I don't want anybody to experience this after. So for me to predict how markets will behave, how industries will behave, post the virus scare and it is not even a scare, it's a reality, is going to be a very theoretical exercise. I am hoping that all of us get out of this safe and get back to what we were doing and definitely when the demand, when the things does settles down demand goes up. I am sure it will have a positive impact on all our operations. So as I said earlier we are prepared in terms of getting back to our revenues and to our volumes as quickly as we can because that is what we do best.
- Bhavin Vithlani:** Sure, I understand. If you can give us a flavor between the segment abrasives and ceramics, the user industry breakup, you had mentioned in earlier call, auto was 20%-25% of abrasives, a flavor into the other user industry will be able to help us gauge the impact?
- N. Ananthaseshan:** I mean, this is known, we have been talking about those in the last earnings call as well in terms of the various segments. 70% as I said is retail business, 13% is overall the precision business

and between the precision and we are looking at about 35% is the auto- direct and non-direct and we have about all industries whether it is construction, engineering, fabrication, infrastructure, woodworking, all of them in abrasives having broadly equal share.

Bhavin Vithlani: Just last question if you can give us color into the fixed cost given that you have two new facilities coming up, we have doubled the Met cylinders and we have a new coated maker facility. So how has the cost structure changed and if you can also talk about the liquidity situation in the company?

N. Ananthaseshan: The investment what we have made is just now it is commissioning and commercialization of those new maker. That was on time and on the budget. In the case of the Metz cylinders that will be commissioned in quarter one. So that is the status as of now. In terms of liquidity I think the biggest strength of CUMI is its good cash position, very strong balance sheet. Specifically, I would like to also mention that now in this situation today, we have employees who are from what you call non-formal sector. So we would ensure that the first thing is that they are all paid for the full month and as things goes we also see how to support them in the next month and that is all. We are hoping that things will be that normal. But in this month when we have taken a closure, at least about 7 to 8 days in advance, we will pay everybody even for the rest of the month. So no wage cuts, no people cuts at this moment in time. Our focus is to support this entire community of employees that we have. So there will definitely be an impact on fixed cost, but that is a challenge that we have in front of us.

Moderator: Thank you. The next question is from the line of Manish Goel from Enam Holding. Please go ahead.

Manish Goel: Just wanted to clarify on your comments regarding your export from Russia to European countries. So you said that fine, one is that there was some disruption from China and that resulted into higher business for you. But at the moment you are still like now facing any challenges on dispatches of the demand?

N. Ananthaseshan: As of now no challenges in terms of dispatches' out of Russia. So Russia is dispatching as we speak, till yesterday it was dispatching normally to customers in Europe, inside Russia and into Europe.

Manish Goel: Okay and you did mention that even in countries like Italy your clients are running the operation at the moment.

N. Ananthaseshan: Yes.

Manish Goel: Okay. Just one thing that if probably, there could be possibly do you see a lag effect coming in because finally if there has been such a long shut down there could be finally impact on the demand somewhere?

N. Ananthaseshan: See, it is too early to say again, it depends on what steps and government in each of these locations will take.

Manish Goel: Sure. So if we probably look in other way that now as China has been resuming gradually and supply starts from China, so that is risk you face going forward of maybe the competition intensity increasing?

N. Ananthaseshan: So the situation is, now China has got back that is what I hear. Some of our customers and some of our suppliers say that, yes. About 75%-80% back in operation. But if rest of the world is, if they shut down their borders, how will China sent out this material?

Manish Goel: Okay. And also on met cylinder in Q3 you had mentioned that there was some delay in dispatches or delay from the client side in taking the material and there will be some seasonal impact. So like till this shut down where we probably seeing a normalized operation in met cylinder in terms of a better demand and now with again some of the customers should be in places like Europe, do you see some disruption coming back?

N. Ananthaseshan: See, some of the customers, most of the customers in Europe are on a vendor managed inventory basis. So what is dispatched then would go into inventory there in their stocks, in their store houses, warehouses and then get consumed. So they are holding sufficient stocks for the next 3-4 weeks at least. So we don't see a major dip. So if this prolongs, yes maybe we have to think some other strategies. In the case of met cylinders especially what you also saw post the COVID impact in China and in South Korea we have more enquiries now from those markets indicating that people are looking at second sources of supply. So that could be a good thing going forward in the future when all these things come back to normal. So I am sure that people will even in the long term will not put all eggs in one basket and they would like to cover their supplies from at least these sources, unlike earlier cases.

Moderator: Thank you. The next question is from the line of Vishal Biraiya from Aviva Insurance. Please go ahead.

Vishal Biraiya: Sir, abrasives we would be what proportion of the total production in the world?

N. Ananthaseshan: In abrasives?

Vishal Biraiya: Yes, sir.

N. Ananthaseshan: Okay. We can put it this way. See, in abrasives CUMI is about \$150 million. And global market is depending on which support you need and whether it includes China, then we are talking about \$15-\$20 billion.

Vishal Biraiya: So just to get the numbers right, CUMI is \$150 million and the total market could be \$15-\$20 billion including China?

- N. Ananthaseshan:** Yes. \$150 million in abrasives. And definition of abrasives, I have to correct myself because that will include the grains as well, so I would say easily at least \$10 billion is a global market only for the finished abrasives.
- Vishal Biraiya:** Okay. And similarly sir could you tell us what is the size of the Met cylinder market globally and where do we stand there?
- N. Ananthaseshan:** See, we are number two in the global, I mean in the met cylinder in terms of after Korea. We would have, again outside of China I think possibly between about 30%-35% market share.
- Vishal Biraiya:** Okay. And how big this market could be in terms of million dollars if you can guide there?
- N. Ananthaseshan:** I don't have it right off my head now. Mouli, do you remember?
- Chandramouli:** No, sir.
- Moderator:** Thank you. The next question is from the line of Kirti Jain from Sundaram Mutual Fund. Please go ahead.
- Kirti Jain:** Sir, just the transaction with regard to Foskor has got concluded or I miss that in the call, sir?
- N. Ananthaseshan:** It is still in progress, it is work in progress.
- Kirti Jain:** Okay. Otherwise sir, do you see that once the business normalizes this currency will benefit as such, the currency depreciated, INR will benefit that?
- N. Ananthaseshan:** Well, today my 20% of our business is exports. And to some extent it is also negated by our imports. So overall I would still say it is positive on the exports.
- Kirti Jain:** Okay. Also we are import substitute at our, competition is in input, right sir, so they may become slightly exports, some would be at say lower grades, we would be competing with a player who would be importing or if the dollar pricing is same they would be expensive, right sir?
- N. Ananthaseshan:** Yes they would become expensive. So we have a better chance, yes.
- Kirti Jain:** Sir, you highlighted in European region also manufacturing is open sir, actually you are highlighting?
- N. Ananthaseshan:** Yes, there is some places it is open. Some places it is still open. But many of this again depends on the size of the company and the global nature of the company. For example in our case, the Madhya Pradesh government or among the states, so at least till this morning, Madhya Pradesh was not part of the states which went on a long term. But our operations are in Jabalpur. But it is very close to the Pune and Nashik belts. So we took a decision to ensure that our people were safe and they don't get into trouble now. So we seized the operation there as well. So it all

depends on the companies and the managements of each company to take a call depending on which country they are in.

Moderator: Thank you. The next question is from the line of Kashyap Pujara from Axis Capital. Please go ahead.

Kashyap Pujara: Sir, just couple of questions. One is, could you just elaborate on how is the abrasive channel looking like, because 70% of abrasives are sold through the distribution channel and what is the channel health at the current point in time given where we are and also a related part, a second question on the same one would be that I had heard about some pre buying happening from the companies also, whom you would be ending up supplying to. Before this COVID really struck so badly where everything is shutdown, lot of companies have kind of stocked up on some of the components to ensure that the production operations don't get disrupted. So just trying to understand that do we have that bump up of pre buying and would it also imply that whenever a situation turns normal we will have more inventory at the customers and the dealer then and we will not benefit immediately?

N. Ananthaseshan: Yes and no to it. See, what generally happens is that in this kind of situation, people may hold buying inventory, but here in terms of, essentially in case of BS-VI component manufacturing, I think people were starting to ramp up manufacturing of the parts and hence after this big lull of Q2 and Q3, we saw some accelerated buying, accelerated again is related to Q2 and Q3 in the precision component. I would have thought that if it were not for the COVID, we were seeing a similar momentum going forward into April as well. So this is a combination of BS VI and then this COVID happening almost the same time. So I would not be able to really tell you whether what you see is a bump. But I don't think we had seen a dip, in April if things are normal. So the channel partners normally would have a higher level of purchase in March that is normal. But due to this COVID I think many associations or trader associations in markets like Nagdevi or Kachra market in Calcutta or in Chawri Bazaar in Delhi, they had already indicated that they are going to shut down the business over the next 3-4 days and that is in some cases extended up to 31st of March because they were not wanting people in those crowded markets to be exposed to the virus. So which is also another reason for us to take a decision that whatever we produce is also not going to go into those market as well. So protect everybody all round. But I think once again, the dust settles is down, the retail part of the business will come on very fast and very strong. There will be little less stocking in the pipeline, so that will also hover well.

Moderator: Thank you. The next question is from the line of Charanjeet Singh from DSP Mutual Fund. Please go ahead.

Charanjeet Singh: On the electro minerals segment, with the China in the shutdown, do we see any kind of further volume ramp up for us from the customers who would have been looking to shift from China to India. And plus in the electro minerals, how much is the material which we are using in-house and how much we are supplying it to the external customers?

N. Ananthaseshan: See, to answer your second part of the question first, we consume about 25% of what the EMD manufacturers in terms of value terms. It is a combination of various products both what we call the regular products and the special products. We can take more but then EMD has its own set of customers. So the abrasives team has a choice between EMD and buying from China. It is a good healthy practice of pushing each other and also being ensuring that we are competitors. See, in the case of post COVID in China what we all saw was an increasing demand for the minerals business, both in the abrasive segment and in the refractory segment as well. So yes, this quarter was, at least the first two months was definitely much better for the EMD business.

Charanjeet Singh: And sir, did it also help us to improve our realizations in the electro mineral segment?

N. Ananthaseshan: To some extent, in the sense that while the demand and the realizations for the brown fused alumina were higher, the white fused alumina was more into refractory, so average realizations would be lower because volumes are higher in those segment.

Moderator: Thank you. The next question is from the line of Mr. Bhavin Vithlani from SPI Mutual Funds. Please go ahead.

Bhavin Vithlani: Sir, if you can just highlight, how is the impact of Russian currency on the Russian operations?

N. Ananthaseshan: Last quarter I think we had during the call I mentioned that we had a currency was not favorable to us. Obviously with the weakening of the Ruble what we see now, it augurs well for the exports what we do. So to that extent we would see definitely in Ruble terms an increase in earnings in the realizations. I think Ruble has depreciated by about 15%.

Bhavin Vithlani: Would that have any impact on the cost front?

N. Ananthaseshan: On the input cost?

Bhavin Vithlani: Yes.

N. Ananthaseshan: The input costs largely are Ruble denominated, so the power is Ruble denominated and the impact to some extent would possibly be in the petrol and coke.

Bhavin Vithlani: But in your view the profitability is not a factor?

N. Ananthaseshan: See, it could be better, definitely.

Bhavin Vithlani: Okay. And just last, we have been seeing over the last few years, sudden surge in the imports of abrasives. So just taking the data from the Ministry of Commerce website, because of this, I mean if I look at the data, 900 crores of imports in 2016 was about 1800 crores in FY19. Do you see that there has been a loss in market share and given the current situation there is a possibility for an import substitution to regain the lost market share?

N. Ananthaseshan: The imports has largely been in two areas, one in the thin wheels as we call it, it goes into construction, fabrication where China is a largest manufacturer today. The other major imports have been in the case of coated abrasives and that is also the reason why when we put up the new maker so that is a kind of a counter to the imports as well. So here we would definitely have to gain market share through utilization of second maker.

Moderator: Thank you. As there are no further questions, I would now like to hand the conference over to Mr. Kashyap Pujara for closing comments.

Kashyap Pujara: Thank you everyone for being there on the call and thank you to the management of CUMI for being here in such challenging times and answering all the questions and giving out the clear picture. Thank you sir.

N. Ananthaseshan: Thank you Kashyap and thank you everyone for joining in. And please stay home and be safe.

Moderator: Thank you. On behalf of Axis Capital, that concludes this conference. Thank you for joining us and you may now disconnect your lines.