



## “Carborundum Universal Ltd Q3FY17 Earnings Conference Call”

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### **MANAGEMENT:**

**K Srinivasan:** Managing Director, Carborundum Universal Ltd.

**Mr. Sridharan Rangarajan:** Chief Financial Officer, Carborundum Universal Ltd.

**Mr. Raja Mukherjee:** Senior GM, Internal Audit & Strategy, Carborundum Universal Ltd.

### **HOST:**

**Ms. Bhoomika Nair** - IDFC Securities Ltd.

**Moderator:** Ladies and Gentlemen, Good day, and Welcome to the Carborundum Universal Limited Q3 FY17 Earnings Conference Call hosted by IDFC Securities 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 Ms. Bhoomika Nair from IDFC Securities Limited. Thank you and over to you, ma'am.

**Bhoomika Nair:** Good Morning, Everyone. Welcome to the Q3 FY'17 Earnings Call of Carborundum Universal. Today we have the management being represented by Mr. K. Srinivasan – Managing Director; Mr. Sridharan Rangarajan – CFO; and Mr. Raja Mukherjee – Senior GM, Internal Audit and Strategy. I will now hand over the call to Mr. Srinivasan for his opening remarks post which we will open up the floor for Q&A. Over to you, sir.

**K. Srinivasan:** Good Morning. Dobroye Utro. Greetings from Volzhsky, Russia. We had a good quarter in spite of several unplanned events that we had little control over. Let me first give you a broad outline and then I will request Sridhar to take it forward.

We handled the demonetization impact reasonably well. Only the abrasives tended to have a little bit of transactional impact whereas the other businesses, the business impact were mild. We did have this Vardha cyclone which affected a couple of days of our production because we were right in the middle of it. But overall I would say it was a good quarter; consolidated sales at Rs.549 crores, an income of Rs.557 crores, 6.2% higher than the corresponding quarter last year. Sequentially also we grew. Normally Q3 for us is a relatively weaker quarter, but we grew. PAT was Rs.44 crores compared to Rs.30 crores in similar period last year and sequentially it was marginally lower.

Abrasives had a decent quarter. This is the one where we had transactional impact coming out of the demonetization on a standalone basis. However, at consolidated level, Q3 sales were Rs.254 crores, about 9% higher than the corresponding period last year. The growth was really driven by strong performance. We could have done even better but for this little bit of disruption, otherwise, we probably would have done even better. Sales in the quarter at Rs.210 crores, grew by 6% QoQ. The team did navigate the demonetization extremely well; We did a lot of proactive thing where we ensured that not only the sales was not very much impacted but also more importantly the collections were pretty good. Volzhsky actually picked up after quite a few quarters in terms of strong growth in Abrasives sales. Overall YTD sales for Abrasives was at Rs.753 crores, which was an increase of 10%. We have been saying always Abrasives will grow double digit, it was growing even better in the first two quarters, but hopefully we should try and start getting back in Q4. That is as far as the Abrasives is concerned.

EMD is a bit of patchy thing. We could have done better in EMD, we had multiple issues in terms of pricing, mix etc., Consolidated level sales for Q3 was Rs.200 crores which was higher by Rs.3 crores and Rs.15 crores compared to Q3 and Q2 of last year respectively.

Standalone sales crores was lower by around Rs.10 crores, this largely came due to product mix, we were a little bit disrupted in terms of getting the new plants in and we had to move a couple of the older equipments, etc., But I think this will get better. As far as Volzhsky is concerned, we were mentioning that we have had some transformer issues, we lost about 5,000 tons in the last calendar year. This year as we sit here and make our plans, we are hoping not only to get back this 5,000 tons but hopefully get a few thousand tons more so that FY18 should be a very-very good year.

Q3 sales was normalized in Russia which meant that sequentially we grew 22% and year-on-year we grew 5%; however, the first half of the year we had a drop, so around 4,000-odd tons will impact the whole year.

Ceramics was flattish in Q3; we did Rs.108 crores Vs Rs.103 crores in the corresponding period, largely owing to the Refractory part of the Ceramics having lower sales in the steel and other areas which was impacted. This had a growth of 5% over the last Q3, but on sequential basis, we de-grew by 11%.

Industrial Ceramics registered good growth; we continue to have good order backlog both in terms of the engineered ceramics, metz ceramics, etc., and with the new plant coming in, we expect to do very well in this business going forward.

Capex, we spent about Rs.80 crores so far. We gave guidance of about Rs.140-150 crores , but we will likely to close at about Rs.120 crores. There could be some carry over or postponement, but the key projects which we talked of in terms of getting the pot and tilt from Thukela has been installed, we have started taking trial production in Q3. The most important big move that we have done is to move the Bubble to the SEZ, this has been done, we have started blowing the first set of Bubble to get the commercial things settled. Hopefully in Q4, both these plants should get into at least a basic beginning of commercial sales. So with that, you will have all the major EMD projects running and next year Q1 should be a year when we will have most of these plants running reasonably well. So that is broadly as far as the activities of Q3 are concerned.

During this period, we also won several awards; we had Golden Peacock for CSR, we had Golden Peacock Award for Ethics. So there was lot of recognition and rewards during this quarter in terms of the way we handle the business. Hopefully, the number should get stronger in Q4 and from Q1 next year. FY18 seems to be a good year.

Can I ask Sridhar to take the financials please?

**Sridharan Rangarajan:**

Yes, sir. Good Morning to all of you. We have had a reasonably good quarter and so far we are trading in terms of whatever broadly we said the full year that we aim for. So pretty much we are in line.

So with that I will summarize the financials for this quarter as well as the full year: At a consolidated level, we registered sales growth of Rs.31 crores with PBT growth at Rs.12 crores.

Volume coupled with efficiency and lower cost gave us Rs.17 crores. Interest were lower by Rs.2 crores due to reduction in overall borrowing and interest rate. Other income gave us favorable swing of Rs.5 crores. This was offset by an adverse movement of Rs.12 crores on exchange. Exchange loss for the quarter were at Rs.8 crores against the exchange gain of Rs.4 crores in the similar period last year. This caused adverse variants of Rs.12 crores, mainly it is attributable to VAW. US Dollar versus Rouble, the rate was on a reverse trend, basically appreciating from 67.6 Rouble to Dollar on 31<sup>st</sup> March 2016 to 61.8 on 31<sup>st</sup> December 2016 was showing an appreciation trend. But if you look at the same set of data, the last year, the exchange rate of Rouble to Dollar was 57.9 on 31<sup>st</sup> March 2015 and moved to 73.3 on 31<sup>st</sup> December 2015. So that resulted in depreciation of 26% versus an appreciation of same period this year by 9%. So obviously the restatement of receivables, payables resulted in a gain versus loss this time. This you would see it in all the time periods of this year.

Quarter-over-quarter, let us understand the results by entity; standalone were up by Rs.4 crores and profits were up by Rs.2.4 crores. Subsidiary sales increased by Rs.26 crores resulting in PBT increase of Rs.9 crores. On a sequential basis, at consolidated level, we registered sales gain of Rs.5 crores which is 1% gain; however, PBT was down by Rs.3 crores mainly coming out of the exchange adverse movement. On an YTD basis, at consolidated level, we registered sales gain of Rs.119 crores, which is 8% gain converting to PBT gain of Rs.21 crores. Operationally, we delivered Rs.54 crores higher which was offset by Rs.33 crores of adverse exchange movement which I explained earlier about 26% depreciation last year versus 9% appreciation current year. Entity wise standalone sales increased by Rs.87 crores and profit grew up by Rs.15 crores, (eliminating intercompany dividends). Subsidiary sales increased by Rs.32 crores and PBT gained by Rs.6 crores.

Now, if we cover these results by segment, in Abrasives, PBIT margin increased from 8% in Q3 last year to 11.3% in current quarter. The margins have improved on the back of higher sales in standalone business. Out of the Rs.10 crores profit expansion for quarter-over-quarter, Indian entities contributed to Rs.4 crores and the balance came from overseas entities. Sequentially, the profit dropped by Rs.1 crore owing to lower sales in standalone arising out of demonetization and other related challenges that we earlier described. At YoY level, PBIT grew up by Rs.26 crores - Rs.11 crores improvement in PBIT came from Indian entities, lower losses in China and better performance in other entities contributed to the rest.

Electro Minerals: Consolidated PBIT of EMD came down from Rs.29 crores in Q3 of the last year to Rs.21 crores in the current year. The Rs.7 crores drop was attributable entirely to CUMI standalone due to lower volume and lower rainfall in Maniyar. We had almost 35% lower rainfall in Maniyar. One of the lowest rainfalls in several years we have witnessed. So, consequently, the power generation from Maniyar is affected and consequently the profit is also affected. The sequential drop of Rs.3 crores again came entirely from standalone. At YoY level, the PBIT dropped by Rs.30 crores, standalone contributed Rs.11 crores and the balance predominantly came from Rs.19 crores. That Rs.19 crores pretty much one can attribute to the exchange swing that happened between these two periods. Drop of Rs.11 crores in standalone is predominantly coming from Maniyar generation and volume impact. As Mr. Srinivasan just said that movement

of the new plants contributed to some disturbance in the production as well as the product mix that we are selling.

As far as the Ceramics is concerned, PBIT margin of Ceramics increased by Rs.4 crores for the quarter over the last year facilitated by all entities, Australia, Indian Ceramic entities as well as Russia. Industrial Ceramics continued registering good sales on the back of higher volumes in Engineered Ceramics business. Super Refractories continues to have a few challenges on the back of weak order books. Sequentially, the profits were lower by Rs.1 crore, entire drop came from Cumi Refractories. YTD level, the profits were higher by Rs.16 crores. CUMI Ceramics business contributed to Rs.9 crores and the balance came from VAW and Australia.

Capex we did about Rs.80 crores so far and we expect that we will close the year by about Rs.120-130 crores at best. Debt-equity ratio on a standalone basis improved from 0.14 in September 2016 to 0.10 in December 2016. At consolidated level, the ratio decreased from 0.25 to 0.21. The total debt at consolidated level stood at about Rs.279 crores, this is both long and short without netting off of the cash at hand. So if one does the netting off, the net debt could be in the range of about Rs.65-70 crores at best. So it is practically at this point debt-free.

With that, I would summarize that so far we are very much on trajectory to top line of Rs.2,200 crores and PAT of about Rs.175-180 crores at the end of the year. All the major projects which we are relocating from South Africa is very much on and the commissioning or powering is already done, we are on the trial production, perfecting both manufacturing as well as few technical related issues. I think end of this month or early March we should be done with that. So practically the capacity should come end of this year and ready for production and sale starting from the next year.

With that I think with the strong balance sheet, all the capacities and the programs whatever we said we will do, we will be completing end of this year and set the solid background for us to progress for the next year and we look forward to a better next year.

With that, we will open up for Questions.

**Moderator:** Thank you. We will now begin the Question-and-Answer Session. We have the first question from the line of Nirav Vasa from B&K Securities. Please go ahead.

**Nirav Vasa:** Sir, my first question pertains to your outlook for FY'18. Now that our South African relocation Capex is almost on track. Would you like to give any comment on the guidance for FY'18 and if you can break up that in terms of your standalone and subsidiary performance, it would be of great help?

**Sridharan Rangarajan:** We are in the process of compiling our business plan at this point in time. So in the next three weeks or so, we will complete that exercise. Perhaps when we meet in Q4 call, we will share those ideas to all of you.

- Nirav Vasa:** Sir, you informed about your South African relocation Capex. Any update on the integration in the plant?
- Sridharan Rangarajan:** I think Mr. Srinivasan also touched upon that, metallized cylinder plant is very much also on target in terms of completion, it is very much on target, there are one or two equipments which are in the process of getting imported. So we expect end of March we should be in a position to complete the basic commissioning and probably the trial production would start say in April. So there could be a delay of a month as far as that program is concerned. The rest of the other two programs we should very much complete it by March.
- Nirav Vasa:** Regarding Volzhsky, can you share the numbers for the nine months?
- Sridharan Rangarajan:** By and large, Volzhsky was doing fine except that 4,000 tons which Mr. Srinivasan said that it is largely coming out of the electricity, power issues. On nine months period, they were doing about Rs.340 crores of top line and about Rs.48 crores of PAT.
- Moderator:** Thank you. The next question is from the line of Kashyap Pujara from Axis Capital. Please go ahead.
- Kashyap Pujara:** Just a couple of questions; firstly, how would you share data on Abrasives specifically while the margins have been reasonable in terms of normalization of margins, but the growth has been a bit tepid especially given the competition which has actually reported double digit growth, so could you elaborate -is there any market share loss or how would you like to put that across in terms of how the Abrasives revenue growth performance has been?
- Sridharan Rangarajan:** At YTD Q2 level, if you really see, we were growing at about 12.9% and the competition was growing at about 11.7%. Now, on YTD Q3 level, we are growing at about 10.4%. There is about let us say 2.5% generally Q3 is lower but coupled on top of that with a few demonetization challenges, I would say about Rs.10-15 crores of that would have contributed to the top line on that. Other than that, I would say we are pretty much on target with whatever we are looking at.
- Kashyap Pujara:** Essentially the cyclone which was there during the last quarter, so how much would that have contributed to the softness?
- Sridharan Rangarajan:** Cyclone is more a production challenge, but lot of the effort has been put to catch up the sales, I think Srinivasan summarized that lot of effort in terms of not only sales but also the collections, so it has really helped us in terms of catching up on this.
- K. Srinivasan:** In terms of the difference between the competition and us in the market share, is that we sell a larger percentage to the counters compared to competition which have little more institutional sales. Two big areas where we were impacted and the competition was not during the demonetization comes out of one, the institutional sales continued for them which is predominantly I would say the difference would be in the non woven and two, the counter sales was more impacted because that is where the transactional effect of demonetization come in. So

that is why the Q3 between us and the competition was different. So we understand this 2% and we expect to catch up in Q4.

- Kashyap Pujara:** Are we seeing signs of improvement post the demonetization as we speak month-over-month?
- K. Srinivasan:** The Chinese import prices have went up by almost about 15-30% but this was some kind of a knee-jerk reaction by the traders and others as soon as the demonetization announced simply because the value chain there is a huge amount of cash. We have to wait and watch how things move after the spring festival is over and the Chinese comes back to business. At the moment, we expect the organized sector would continue to sell more whereas the unorganized sector which depends more on cash transaction would be more impacted even if there is a general slowdown of about 1-2% in the GDP.
- Kashyap Pujara:** Just especially on the India EMD side, those numbers were pretty lackluster in that sense. So what would that be pertaining to if you can just highlight?
- Sridharan Rangarajan:** EMD is I would say power cost is one of the significant reasons as I said about Rs.4-5 crores on YTD basis, we have the impact due to that plus while we ramp up the setting up, we had additional manpower and all that contributed to that as well. So these are the predominantly two factors and then the third one is the small products mix as well.
- Kashyap Pujara:** But majorly would be the increased cost due to the new plants that have been set up and the power related issue?
- Sridharan Rangarajan:** Yes.
- Kashyap Pujara:** If I were to look at FY'16 annual report, I discussed this with you earlier also, there were certain losses which were there in last year from international entities in some of the subsidiaries. Now this year what would be the total losses which would have come off and what is the remainder improvement which one can look at in the coming year?
- Sridharan Rangarajan:** I would say that losses particularly from Thukela, China, all these definitely would have come down and going forward little bit on the American losses would have come down the year after. So that is how I would view it.
- Kashyap Pujara:** So the American losses are still around Rs.5 crores. So that would get better next year?
- Sridharan Rangarajan:** Yes.
- Kashyap Pujara:** The entire I am sure Thukela would have been covered up but at least the losses would have stopped. But has China also covered up?
- Sridharan Rangarajan:** I think end of this year the entire China would have covered up but predominantly as we speak now I would say 90-95% is done, so it is probably some small things would come in Q4 but predominantly it is done.

- Kashyap Pujara:** So it is mainly CUMI International and America which can actually end up getting better next year in addition to whatever organic growth that we have which rise operating leverage?
- Sridharan Rangarajan:** CUMI International is a holding company. So that would not have any impact as far as the numbers are concerned, but America will definitely happen.
- Moderator:** Thank you. The next question is from the line of Ujwal Shah from Quest Investment Advisors. Please go ahead.
- Ujwal Shah:** Sir, just wanted to understand in terms of increasing production at VAW, because you said that we would try and recover more than 4,000 tons or 5,000 tons as we lost last year, so considering that we were running at full capacity at VAW, how do we intend to increase the production over there and cover more than what we had lost in CY'17?
- K. Srinivasan:** As far as this 4,000 tons like you mentioned rightly, this is only to sort of run the plant once we do not have this 55-odd days of lower power supply this 4,000 tons can come back. What we plan to do also is there is potential to put in probably one extra furnace here which should give us another 3,000-odd tons. But that is something we can do in the interim without trying to change too many things on the ground. The big project is still not clear, we have to take a call on it as we go forward. But putting an additional 3,000 tons is possible within the existing facilities.
- Ujwal Shah:** Sir, in terms of the Ceramics growth, which was growing at double digit during the first half, is 3Q a seasonally weak quarter for Ceramics business and we can again see growth coming back from 4Q and what is the guidance for Ceramics business ahead?
- K. Srinivasan:** The Ceramics business as we report in the segment has got two parts; one is the Industrial Ceramics and the other is Refractory. The Industrial Ceramics actually continue to grow (+20%). So it is not that industrial ceramics that slowed down. The Refractories had a poor quarter. A significant part of the Refractories go into the castable business largely owes into the cement and some part of it for us into the steel as well. This actually saw significant impact coming out of the demonetization. We expect Q4 to be significantly better and so the whole vertical would get better.
- Ujwal Shah:** In our previous calls, you had mentioned about the company targeting revenues of over Rs.3000-3500 crores around in the next three-odd years. How does the visibility stand as of now in terms of our revenue potential considering the current asset backlog and the margin improvement?
- K. Srinivasan:** I will answer the growth of revenue part as well. Sridhar mentioned that our key assets, relocation, installation, starting up or energizing has been done. We have even got some first reports of the specs and quality which is really satisfying. So the revenue visibility is very-very strong and clear. Margins I am going to request Sridhar.

- Sridharan Rangarajan:** No change since we talked last time, we are pretty much in line whatever we have been communicating, so the top line Rs.3000-3500 crores in two to three years the margins so far no change since we shared last time.
- Moderator:** Thank you. The next question is from the line of Rajesh Kotari from Alfaccurate Advisors. Please go ahead.
- Rajesh Kotari:** If you have given in terms of outlook for each of the segment in terms of our profitability and the growth driver?
- Sridharan Rangarajan:** Of course, we have been covering this in the earlier calls broadly about our trajectory. So we expect this year we will be ending broadly about Rs.2200 crores by and large, that is what we have been communicating and PAT of about Rs.175-180 crores. Just broadly in terms of the segments that you were just talking about, we could be about Rs.1100 crores in that range in terms of Abrasives, Ceramics could be in the range of say Rs.470-475 crores, Electro Minerals could be in the range of about Rs.750-800 crores, broadly in that range. So that is what we have been communicating.
- Rajesh Kotari:** Earlier in the conference call, you were talking about Rs.3,000 crores plus revenue which is possible around FY'19. In the previous question you said in three years, are you saying FY'19 or FY'20?
- Sridharan Rangarajan:** We said Rs.3000-3500 crores in two to three years' time as a broad range.
- Rajesh Kotari:** Still not able to understand because you mentioned that in FY'19, so when you say two to three years you are saying by FY'19-20 one can assume that kind of a number, that is what you are trying to suggest?
- K. Srinivasan:** Let us see how the numbers of F'18 goes. We are commissioning some very major plants. As soon as these plants have the customers' acceptance, then we will have a much clearer path, that is why we are saying two to three years. If everything goes exceptionally well, I think two years. So it can be very different.
- Rajesh Kotari:** Last year I think margin was 15.4 on a consol basis. Do you think any scope for 150 bps margin improvement which you were mentioning last time, do you maintain that?
- Sridharan Rangarajan:** We shared broad margin guidance by segment, that I think no change since we shared last time, that is what I would say at this point. Too difficult to go exactly at this stage to project what kind of percentage growth year-over-year. We are in the process of rolling up our numbers. It will give us some sense and probably we will share this at a later point in time.
- Rajesh Kotari:** In terms of the global increase in commodity prices, how do you see the environment now – do you think it is going to work for you over next two to three quarters?

- K. Srinivasan:** We will have to wait and watch how this plays out. At the moment, the oil price increase means the pet coke price has started moving up, but we are yet to see the corresponding increase in the silicon carbide product that we sell in the market. So there seems to be some kind of a lag. We hope that corrects itself otherwise there will be margin pressures on silicon carbide. The user industries like steel and others have still not seen significant price increase globally. So we will have to wait and watch how it plays out. General demand for silicon carbide still remains very robust as far as we are concerned. Most of the other commodity driven prices like alumina etc., we have seen movement in the input cost, the output prices are still not correcting. So short-term this adjustment could actually put pressure on our margins and hopefully the volume pick up would compensate to some extent. But as soon as the end markets or end customers start taking up, we should then see an improvement as well. So it is going to be a transition phase. We will watch and see how it goes from here.
- Moderator:** Thank you. The next question is from the line of Bharat Sheth from Quest Investments. Please go ahead.
- Bharat Sheth:** You just said that impact of this demonetization on Chinese import, which largely goes in the channel market, so can you give us some sense how big is the channel market for our company and going ahead with this GST coming in place, so how we will be able to gain the market share from the unorganized players, that is particularly I understand it is on a lower end of the average three products?
- K. Srinivasan:** The commodity end has certain level of unorganized sale coming out of Chinese imports as well as local manufacture from the unorganized sector. This would be immediately impacted more than proportionately during the demonetization. Everybody would have to find a way to go forward. So we are seeing things change like I said we will have to wait and watch after this spring festival how the Chinese are responding. The initial response was that they put up prices aggressively. So they took a significant part of the lower sales in the counters. The counter sales dropped. A significant part of this drop actually happened for the unorganized sector and the Chinese imports. The organized sector did not ruffle so much simply because we were always let us say the buyer who bought our product paying money in a formal way. So to that extent, we were less impacted. We have to wait and watch how the whole thing would change. My sense is this unorganized business will decline. The GST would add to this. So it is not only going to be the demonetization. In the next phase if there is GST coming in, the whole grey market of buying, selling in cash in fact can decline dramatically which would mean more opportunity for the organized companies to do better.
- Bharat Sheth:** So can we get a sense of how big is that market in value wise and with that operational leverage will help us, will we be to gain market share, so how much is positive impact that we can have in the EBITDA side?
- K. Srinivasan:** That can be as high as 20% of the market, so we will have to wait and watch what percentage of that completely dies. Second is this market cannot be addressed simply by our current product, there would have to be a lower price product for this market as well. So that is something we are

trying to design and work with. So let us see how this moves. It definitely means that even if there is industrial slowdown of 1-2% in GDP, etc., the overall sales can go for us in F'18. We will have to wait and watch how this whole thing plays out. We will wait also for GST to roll out, then we will have a better idea of how things can happen.

**Bharat Sheth:** So can you give some sense on Indian operations, what level we are currently operating in bonded and coating?

**Sridharan Rangarajan:** Coated we should be operating in the range of (+90%), bonded should be 65-70%.

**Bharat Sheth:** This quarter itself in Ceramics if you look at standalone EBIT margin of Rs.10-11 crores, consol is Rs.16 crores, so Rs.5-6 crores is coming from on consol basis, whereas our sales is only Rs.17 crores. So there is a decline in the margin whereas if you remove this and we can look at other than the standalone, there is a substantial improvement in EBIT margin of Ceramics. So what is attributable to that?

**Sridharan Rangarajan:** PBIT pick up on the Ceramics side largely comes from Australia doing better as well as Russia doing better and also some basically our joint ventures doing better. So these are the three reasons for that.

**Bharat Sheth:** Australia which was some kind of drag last year because coal was on decline. Now with the coal demand and the prices are stable, so how do we see going ahead for Australian subsidiary as well as Russian?

**Sridharan Rangarajan:** Australian subsidiary actually compared to the last year they have done better, they are trying to go beyond coal and also getting into projects. So they are trying to mitigate the impact as much as possible. So I would say they are very much doing the right things to lessen the impact of coal, and as well as at this point in time coal is slowly starting to pick up. So we should see that they would be doing better in the next year as well.

**Bharat Sheth:** So same thing will happen to our US subsidiary?

**Sridharan Rangarajan:** US subsidiary, we are trying to build a similar model as what we are doing it in Australia, it is work-in progress. So we will have to wait and see how we will do that. It might take one or two years more before we can get to the same level like Australia.

**Bharat Sheth:** On Q4 standalone, what is your margin outlook for Electro Minerals? QoQ sales have declined in standalone.

**Sridharan Rangarajan:** I will talk overall broadly on the Electro Minerals, we should be in the range of 13-15% consolidated margin, which means the margins on standalone will continue to be on the lower side. As we speak, Q4 is always if you go back seasonality wise, will be lower because typically the rain should have been over by Q3 and obviously the Q4 normal profit itself will be lower.

So I would say the same trend would continue and that is why the overall PBIT margin would be in the range of 13-15% full year consol level.

**Moderator:** Thank you. The next question is from the line of Vineet Malu from Birla Sun Life. Please go ahead.

**Vineet Malu:** Just wanted to understand the plants that you have transferred now to India. How would the production likely to ramp up or how would let us say revenue is likely to ramp up from those facilities – is it going to take some time or how should we foresee this?

**Sridharan Rangarajan:** There are basically two plants getting relocated – one is getting to address semi-friable, the other one to use Bubble Zirconia. The third one is basically on the metalized cylinder plant. Now, probably the initial capacity utilization could be in the range of say 25-40% in the year one and then we will start ramping up from year two onwards beyond this. So that is how I would look at it these capacity utilizations.

**Vineet Malu:** So does that imply that these plants are initially going to impact our overall margins because we will have fixed cost starting from day one while utilization is slow, so revenues will be slow to trickle in?

**Sridharan Rangarajan:** One is that the margins are really good, in the sense because these are value added products, so to that extent, it will have positive impact. So that way there would be an upside to that, but unabsorbed cost could also have some pull-down to that. So I would say on the overall balance it would slightly go up.

**Vineet Malu:** The products that you spoke about, the ready market would be in India itself or it will be primarily exports, how would that work?

**K. Srinivasan:** The Zirconia product over 70% would be exports, about 30% would be largely internal customers, we would use it in our own alumina for Zirconia. As far as the semi-friable and the alumina products, it would be half and half; half would be domestic and half would be exports.

**Vineet Malu:** Sir, when there are exports, is it fair to assume that exports would ramp up faster than domestic because you might have a ready customer base out there?

**K. Srinivasan:** We have been little careful on this. There are a very few players in the world in this product. So everybody is watching as much as we are about our quality, our pricing, etc., We need only a few contracts to fill up our capacities.

**Vineet Malu:** Any major product addition to your basket this year which we can look forward to?

**K. Srinivasan:** This year we have filed so far more than about 12-14 IPs I would say. We have quite a few new things in the pipeline. We will announce it as it goes forward. Interesting things ahead.

- Moderator:** Thank you. The next question is from the line of Balchandra Shinde from Anand Rathi. Please go ahead.
- Balchandra Shinde:** Regarding other income, we have shown some Forex loss. What it is exactly – it is just because of the translation loss or what?
- Sridharan Rangarajan:** If you really see the nine months movement of dollar to rouble, practically the entire last year there was depreciation of 26% so which means you had really gained versus the 9% appreciation of this year. So this is the real reason for the exchange loss.
- Balchandra Shinde:** In Volzhsky, we were earlier trying to increase our export content to European nations. So how we are on to that – it is like are we seeing any change in sales mix or it is at the similar around 35-40% level?
- Sridharan Rangarajan:** I would say similar range, no big change.
- Balchandra Shinde:** Regarding as you mentioned in Ceramics and Refractories also, overall I believe Australian business did well but Indian business had an impact. So over next one year, do you see improvement in that sales or it will be on the similar levels only?
- K. Srinivasan:** The segment has got two parts; Industrial Ceramic and the Refractory part. Industrial Ceramic part is continuing to do well, it will go even better with the new plant of NTK Ceramics being commissioned and coming into full production. That we expect to continue to grow strong double digit. Refractory part would be the surprised package. We expect that it will come back from FY18 with all these new projects that we have commissioned both Tap Hole Clay, reshifting of the Thukela plant, all this is now getting into production. You will see this vertical actually gets better next year.
- Balchandra Shinde:** Because of cyclone and other issues, was there any impact on power cost in the domestic side this time?
- Sridharan Rangarajan:** The power cost impact is largely coming from the Kerala side which is largely the lower rainfall in Kerala which affected the power generation in Maniyar. So obviously that is the reason the power cost going up.
- Balchandra Shinde:** So it is expected to stay on the similar levels over next at least 9-10 months?
- Sridharan Rangarajan:** Typically, the season where it picks up in Q2 and tappers to end of Q3. Q4 would not be any big rainfall. This year's rainfall is probably one of the lowest in 40-50-years and at least 35% lower than last year. So that is the broad outlook as far as the Maniyar power generation is concerned. We hope the next year could be a better year, we do not know, it is all natural one.

- Balchandra Shinde:** But sir, if we are installing Bubble Zirconia plant near Kochi I think, so will it add up to more power cost or will it be because of this lower rainfall and we are adding up a capacity of Bubble Zirconia will be again power intensive product?
- Sridharan Rangarajan:** Typically, Maniyar would supply somewhere between 25% to 30% of our requirement, rest we get it from the power source from Kerala Electricity Board. When these projects come online, we have already shared with you that we have started a new hydel project called Kirithode and that would take us about three years to complete it, which would definitely supplement the power requirement. But otherwise, there is no power shortage in Kerala, we are seeing that the power is fine, the supply is fine, etc., So I think we are taking the right steps of having additional hydel power cost which would offset to some extent the cost pressure which we shared it earlier as well.
- Moderator:** Thank you. The next question is from the line of Ruchir Khare from Kotak Securities. Please go ahead.
- Ruchir Khare:** Sir, in the Abrasives part of the business, in the particular quarter, you mentioned about the demonetization impact. So have you also taken some payment realizations to the dealers or some kind of realizations at the counters to deal with the impact of demonetization in the quarter?
- K. Srinivasan:** We have given 7-15-days deferment in receiving payment, but we have been careful to whom to give and that is one reason why the number of days went up by a few days, but that has since been also brought back to normal conditions.
- Ruchir Khare:** Sir, as of now like since we are already in Q4, are we seeing some kind of come back or things normalizing because it is happening for other companies, so do you also share the same view that like business is inching towards normal now?
- K. Srinivasan:** It is moving. We have to see where is it going to stay. Like I said, in our case to the customer product is different from what we sell to business, the counter products are still yet to see the impact fully. Business is case-by-case, some segments are doing well, some are yet to come back. But there is a general overall movement towards getting better.
- Ruchir Khare:** Last time you mentioned that in the Ceramics business projects related part was not doing great in the past or for the first six months. So any outlook on this like do you see some kind of improvement in the projects related part of the Ceramics business?
- K. Srinivasan:** There is no major projects happening, you would have seen as well, there are no new steel plants, no new power plants, nothing being announced. Like we mentioned last time, the repair and maintenance has gone up significantly. Even the so-called commissioned projects which we have done in the last couple of years, all are coming up for major amount of repairs and overhaul and this is adding to our business opportunity.

- Moderator:** Thank you. The next question is from the line of Bhoomika Nair from IDFC Securities. Please go ahead.
- Bhoomika Nair:** Earlier in the call, you mentioned that Pet Coke prices had actually moved up while end product prices have not yet moved up. So are we taking any price hikes in view of sharp price increases that we have seen in Pet Coke?
- K. Srinivasan:** We have not been able to put up prices in silicon carbide, on the contrary the silicon carbide prices like I said is remaining soft, we are selling all that we make, but it is not an opportune moment to put up prices, but we are waiting and watching because there is a pressure on cost, we have to see how this moves.
- Bhoomika Nair:** Ok. Sir, you also mentioned that Bubble plant would be partly used for internal production. What percentage would that be? I missed that earlier.
- K. Srinivasan:** Roughly about 30% of what we produce can be consumed internally and about 70% will go for exports.
- Bhoomika Nair:** So this would again be a market which we will need to get customer acceptances or there is already a ready market and it would be fairly easy to ramp up there?
- K. Srinivasan:** When we were running this plant in South Africa, we had supply trial production to launch to French customers and they were accepted. So there is a target acceptance report available in what we met and what was the price and what are the qualities at which they accepted. Our first trial production was even better. So we are still now commissioning the plant. If we get to that standard and quality, I think breaking into this market would be very quick. Like I said, capacities are pretty small, total plant can run about 5,000 tons and we need only two or three contracts to fill this capacity.
- Bhoomika Nair:** So to that extent, if you are able to get that customer acceptance from these two or three clients, it will not be a very difficult task to ramp up very quickly?
- K. Srinivasan:** That is right.
- Bhoomika Nair:** So how large can the revenues be from these plants?
- K. Srinivasan:** I am giving you a broad indication now; the Bubble prices can be around \$3000/ton. If it is \$5000/ton plant this can give \$15 million at full capacity.
- Bhoomika Nair:** The semi-friable?
- K. Srinivasan:** Semifriable prices range depending on the product, it can go to about \$800-1000/ton.
- Bhoomika Nair:** I would like to thank the management very much for taking time out and giving us the opportunity to host the call and all the participants for being on the call.

**K. Srinivasan:** Thank you, all.

**Sridharan Rangarajan:** Thank you.

**Moderator:** Thank you very much. On behalf of IDFC Securities, that concludes this conference. Thank you for joining us, ladies and gentlemen. You may now disconnect your lines.