



# “Carborundum Universal Limited Q4 FY 2017 Earnings Conference Call”

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**MODERATOR:** **MR. KASHYAP PUJARA -- AXIS CAPITAL LIMITED**

**Management:** Ladies and Gentlemen, Good Day and Welcome to the Carborundum Universal Q4 FY 2017 Earnings Conference Call. 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 for an operator by pressing “\*” followed by “0” on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Kashyap Pujara from Axis Capital Limited. Thank you and over to you!

**Kashyap Pujara:** Good morning and thank you so much for standing by. It is a great pleasure to have with us the management of Carborundum to discuss the FY 2017 Result. From the management side, we are represented by Mr. Srinivasan -- who is the MD; and Mr. Sridharan -- who is the CFO.

Without taking too much time I hand over the floor to Mr. Srinivasan. Over to you, sir!

**K. Srinivasan:** Yes. Good morning, Kashyap and good morning to all of you. It is a good start to F 18 year. I should start by talking of last year's number.

Consolidated sales grew by 9% to Rs. 2,200 crores from Rs. 2,024 crores. It was an increase of about 9%. PAT grew to Rs. 175 crores from Rs. 144 crores which is about Rs. 31 crores growth. Standalone sales also grew by 9%. There was some concern in the middle of the year due to demonetization but standalone also grew by 9% to Rs. 1,496 crores.

Overall during this year, we did all the major strategic moves. We relocated our plants out of Thukela and Foskor and got them commissioned in Cochin. We got the refractory plant commissioned in Jabalpur. The NTK plant has been shifted to Industrial Ceramics division at Hosur. The Chinese land and building have been disposed. So, all the strategic move that we planned have all been completed.

Now, coming to segments:

Abrasives, it had a good year. Top-line grew 10% on a consolidated basis to Rs. 1,016 crores from Rs. 922 crores. Standalone also grew by 10% to Rs. 860 crores from Rs. 784 crores. All segments did well. Particularly, Coated did very well.

For the first time, we are seeing good profits from the overseas business at least we are no longer making losses. The repositioning of business in Russia has also helped, which is targeting the revival of manufacturing in Russia.

Sterling Abrasives which is our subsidiary did well in the agri input products. So, overall Abrasives posted strong performance.

The Electro Mineral division showed performance which does not speak as well as the kind of effort that went in. We had a 3% growth in top-line to Rs. 769 crores from Rs. 749 crores. The

profit actually went down a little bit and I will explain that later. Standalone EMD grew to Rs. 340 crores from Rs. 330 crores.

Overall on this division we have three major increases in input cost, increase in Pet Coke, increase in Alumina cost; and increase in Power which along with a 4,000 tonnes reduction in Silicon Carbide production in Russia impacted our profitability.

Foskor Zirconia with reduced capacity did less than about 3,000 tonnes. So, that was literally flat.

The Ceramic business had a good year, 16% growth at the consolidated level and 15% growth at the standalone. Consolidated sales were Rs. 472 crores and standalone sales was Rs. 390 crores. This business did well both in India and abroad. In India the Metalized Cylinder, the Engineered Ceramic, and Wear Ceramic all did very well. The NTK plant like I mentioned has been repositioned and we expect to start commercial production in this from Q1.

The growth in CAPL in Australia was also back again with the mineral prices bottoming out, so we are up by 6% during this year.

CAPEX spend on a standalone basis was Rs. 77 crores, largely coming from the repositioning of assets. The consolidated CAPEX spend was Rs. 127 crores, a big piece of the consolidation came from the spend that we did in Russia in terms of improving the Abrasives production with new Coated Conversion facility and the Thin Wheel facility.

So, this year was a good year. We have begun the quarter reasonably well. We are reasonably positive about how the things will go forward.

I will request now Sridhar to take you through the numbers.

**Sridharan Rangarajan:**

Thank you, sir. Good morning to all of you. It has been a very good year. Whatever we were planning, were well executed. All CAPEX projects got executed. Standalone the company has become debt free. At consolidated level the net debt, net of cash and cash equivalents is Rs. 30 crores, so practically again, debt free.

So, I will explain how the profitability of the company that we reported in 2016 – 2017 was and then we will cover other open questions.

For the full year, the consolidated level sales increase by Rs. 175 crores, which is 9% growth, our PBT grew by Rs. 22 crores out of the sales increase of Rs. 175 crores and Rs. 22 crores of PBT, standalone sales increase was Rs. 121 crores and the PBT gain of Rs. 3 crores. So, that means the JVs and subsidiaries put together we had a Rs. 54 crores increase in sales and Rs. 19 crores increase in PBT.

CUMI standalone operating PBT gave a gain of Rs. 3 crores. PBT percentage drop from 13.2% to 12.3% in this year. The growth in volume gave about Rs. 12 crores of profit which was reduced by lower other income which is predominantly dividend from subsidiaries and JVs, was lower by Rs. 4 crores. And we also had exceptionally high dividend coming from our holding company CIL International last year and also an adverse exchange moment of Rs. 5 crores.

As far as the consolidated numbers are concerned PBT increased by Rs. 22 crores. Volume increase of Rs. 175 crores, gave Rs. 43 crores of profit very good conversion, that is a profit increase. Other income was also higher by Rs. 8 crores. Lower interest owing to reduction in borrowing gave us about Rs. 5 crores. These benefits got reduced by adverse exchange moment impacting almost about Rs. 19 crores. Last year the exchange gain was Rs. 15 crores and this year we had an exchange loss of Rs. 19 crores. This is predominantly coming from Rouble moment against Dollar and Euro.

Just give you a broad glimpse of why this happened- In 2015 - 2016 financial year, we started that year with 57.93 as exchange rate, ended the year with 67.55 with an average of 64, but during that year, the highs and lows were violently changing like high was 83 and low was 49. So, there is a 17% swing in that year.

In 2016 - 2017, it exactly got reversal. We started with 67 ended with 56 again, the same 17% but it an appreciation. But the movements are not volatile, so resulting into exchange loss in Russia. So, that is a broad reason for that, operationally they are still doing fine, despite the volume going down by 4,000 tonnes, very reasonable performance.

If you look at the entity wise, the increase came from better performance in CUMI standalone Rs. 13 crores, which is after eliminating the inter-company dividend because at consol it does not count, Better performance from Sterling Abrasives, Australia, SEDCO gave about Rs. 9 crores.

We will go by now through segments. At consolidated abrasives level, the PBIT movement was Rs. 83 crores to Rs. 113 crores, increase of Rs. 30. So, again, the India Abrasives performance was really good both, reflecting standalone as well as the performance in Sterling. Russia performance was also good and lower losses in China and better performance in Middle East, all contributed to this better performance of Abrasives.

Electro Mineral, the consolidated Electro Mineral business recorded PBIT drop of Rs. 36 crores. Of that Rs. 12 crores came from CUMI India, largely reflecting lower rainfall in Maniyar which is about almost 30% lower compared to the year before and adverse product mix and also mainly building up the organization for positioning the newer investments that we are coming up with. So, this resulted into lower profit by at least Rs. 12 crores.

As far as VAW is concerned Rs. 21 crores drop of that as I explained earlier the predominant part is coming from exchange drop. The volume dropped as well as the cost increases in Power, Pet Coke also contributed to that but very effectively manage those impacts were really

effectively managed. So, Rs. 21 crores the predominant portion is coming from only on exchange movement.

Foskor also had a movement of Rs. 3 crores of loss. Again, a lot of that is an exchange moment in Foskor as well.

Ceramics had a Rs. 20 crores gain in operating profits. CUMI contributed Rs. 11 crores- again, better volumes both in Industrial Ceramic and Refractories. VAW Refractories had better profit as well as Australia - both put together contributed another Rs. 9 crores of better performance.

CAPEX as Mr. Srinivasan explained earlier, we have done at a consolidated level Rs. 127 crores of CAPEX which is in line with whatever we were really communicating.

On the debt to equity ratio on standalone basis, it is a debt free company. At consolidated, we are at about 0.1 and as I said earlier, the total debt what we have at this point in time at consolidated level is about Rs. 155 crores. Net of cash and cash equivalents, the net debt is about Rs. 30 crores.

So, the cash flow generation is really good. This year we had generated about Rs. 260 crores of operating cash flow and very judiciously invested most of that in our CAPEX programs and also loan repayment to the extent of about Rs. 165 crores or so.

So, in summary, what I would say is that, we are on the path that we set, cruising nicely. Results are satisfactory. Cash flows is really good. All the projects are executed and we will start seeing better performance year-over-year in the next year as well as the FY 19 as well.

With that, I will like to open up the Q&A session. Thanks.

**Moderator:** Thank you very much, sir. Ladies and gentlemen, we will now begin the Question-and-Answer Session. The first question is from the line of Keerti Jain from Sundaram Mutual Fund. Please go ahead.

**Madan Gopal:** Good morning, sir Madan Gopal from Sundaram. Sir, my first question is on the EMD division. On the standalone level, in full year the numbers have come pretty weak. So, in this quarter also it is reflecting. What is your outlook on this segment for next year?

**K. Srinivasan:** See, this segment actually would start getting traction from all the three new projects that have been installed. In fact, we already as we speak April has been reasonably good start and hopefully, from May onwards, we should see this traction coming in. So, we would see a strong performance during this year. Like Sridhar explained, we have three major reasons, one is the one is the profit going on was largely on account of the Maniyar Power not coming in there is already a 50 paisa increase in Power cost in Kerala. So, that is a profit related issue. On the business side of it, I would say the mineral price have bottomed out. There is a small movement already upward globally. So, the costs have already been digested. The Pet Coke price went up

by almost 25% during the year. The increased in Alumina prices in India almost about 14%, globally almost 30% all have been digested. So, I would say, we have seen the worst, prices of the finished product going up. Volumes are coming up with the three new plants coming up quarter-on-quarter, the worst is over as far as the Mineral business is concerned both in India and abroad.

**Madan Gopal:** Okay. Second on the Ceramics business, the performance here has been pretty good at the revenue level, I am referring to the full year numbers of the 15% growth with the margin improvement and can you elaborate a bit how would FY 2018 be in terms of new product additions and growth in the existing products?

**K. Srinivasan:** See, the Ceramic business has two parts like you know it has the Industrial Ceramic and the Refractory Ceramic. The Industrial Ceramic almost had a 20% plus growth last year and they continue to have strong traction in the market with a commissioning of the new Metz Cylinder project which will come into commercial production by end May. We would see that volume also going up. So, there is 20% plus growth rate should continue. The Refractory business is also seeing traction. We saw almost about 12% to 14% growth last year we expect it to be stronger this year. So, we would see at least equal or better than last year's growth coming up in the overall Ceramic vertical this year as well.

**Madan Gopal:** The margin expansion which happened this year should continue because of higher utilization?

**K. Srinivasan:** Yes.

**Moderator:** Thank you. The next question is from the line of Bhalchandra Shinde from Anand Rathi. Please go ahead.

**Bhalchandra Shinde:** Sir, regarding our Maniyar plant as you said Power issues are there. How much impact do you see on the margins, if you can tell us..

**Sridharan Rangarajan:** See, roughly in the range of about Rs. 5 crores to Rs. 6 crores impact is there out of that Rs. 12 crores.

**Bhalchandra Shinde:** Okay. And sir, I think now in Volzhsky, transformer issue has been resolved. So, there also we might see a improvement on the power cost?

**K. Srinivasan:** Power cost will not change. Power cost is now running at roughly about 2.1 Ruble per unit that is not changing in first quarter. The availability is which cost 4,000 tonne drop last year. We already seen from April onwards the volumes are back we are running flat. So, Power will be available, cost will not change. But overall, it will be a good year.

**Bhalchandra Shinde:** So, there will be a growth of around 4,000 tonnes on that Volzhsky volumes?

**K. Srinivasan:** Right.

- Bhalchandra Shinde:** Okay. And sir, are we adding any capacity in Volzhsky?
- K. Srinivasan:** Incrementally we will improve capacities, we are planning to see by way of a little of fusion capacity expansion in the existing transformers and furnaces. We should extract another about 3,000 tonnes during this year.
- Bhalchandra Shinde:** Means additional 3,000 tonnes we will be able to generate on the existing capacity?
- K. Srinivasan:** Right.
- Bhalchandra Shinde:** And sir, on the export side, we were improving because Rouble were depreciating. So, with the Rouble appreciation will it affect our exports revenue?
- K Srinivasan:** See, a couple of things are happening in the Silicon Carbide market. Our big market is really Europe and a lesser extent is Asia and America. One the Silicon Carbide prices are going up which is a good news for all of us who are in fusion business. So, the dollar prices of this product globally is going up which is a good news. The demand is picking up, which is also a good news for us. So, we expect that we will sell the higher volume that we are planning. The other nice thing developing is that the movement of volume is also towards the more favorable product mix, which means that we hope to sell more of a value-added product. So, overall inspite of the Rouble strengthening we expect that we will sell our volumes and we will probably make better margins.
- Sridharan Rangarajan:** Export mix will remain the same.
- Bhalchandra Shinde:** Export mix will remain the same, it was around 40% no sir?
- Sridharan Rangarajan:** 40% to 45%.
- K. Srinivasan:** About 40% - 45%.
- Bhalchandra Shinde:** And sir, on the domestic side, in the standalone business how our export content will change because we are introducing these three new projects. So, are we seeing addition of export businesses into that and how it will change our mix?
- K Srinivasan:** It should go up to about Rs. 300 crores plus. See, we were around Rs. 220 crores to Rs. 250 crores, we will go to about Rs. 300 crores plus this year. You rightly, said a significant part of the new capacity will be exported. So, that will give us Rs. 300 crores plus.
- Moderator:** Thank you. The next question is from the line of Rajesh Kothari from AlfAccurate Advisors. Please go ahead.
- Rajesh Kothari:** My questions have been answered. Just wanted to check over next two years to three years in terms of your vision, how do you see the business mix say for FY 19 particularly and any

particular business where do you see a again reduction in commodity prices, do you think it can again impact us or how do you see the situation?

**K Srinivasan:** I will take it segment wise, the Abrasive segment is about 75% India specific. We believe that the next few years should be strong India centric growth with all the new projects that are being talked off in construction, Make in India, etc., So the Abrasive segment India specific strong traction, strong growth. The pieces that are outside of India were all been cleaned up and well positioned to address their addressable market be it in Russia, China, or U.S., so they will also continue to grow. The second vertical, I would talk of is the Electro Mineral vertical. Commodity price have definitely bottomed out. The specialty product which is getting to be a larger percentage of our basket will keep growing faster. We expect to see significant traction coming from this segment in the next two years, this would be a faster growing segment compared to the rest of our business because most of the projects commissioned are in the space. So, we would see both top-line and margin growth in this. The third vertical of Ceramic I split into two: both the segments, both the Industrial Ceramic and the Refractory business will grow in high double-digit or even higher both top-line and bottom-line, so there are projects there and things are getting, there is capacity available. So, overall very positive about the next two years.

**Rajesh Kothari:** When you said in EMD, you think significant margin expansion is possible. Can you just quantify what can be the sustainable margin for this business?

**Sridharan Rangarajan:** See, if you look at the current margin this has got an impact largely coming from the exchange. If you really see operationally, we are still stronger and I feel that if you put back that and then with the growth that we are looking at we would be in the range of about 14% to 14.5% next year.

**Rajesh Kothari:** I see. So, you see that 14% to 15% can be the long-term sustainable margin in this business?

**Sridharan Rangarajan:** Long-term could be even higher. But let us say we are looking at next one year or two years in that range then it can get to the trajectory of about 17% like that.

**Rajesh Kothari:** Okay. And earlier you were saying in the quarter back when we were on conference call you were saying that additional Rs. 1,000 crores revenue can come in FY 19 once all capacity comes on stream. So, that remains intact?

**Sridharan Rangarajan:** Yes, absolutely. Currently we are at about 2,200 crores and I think with the capacities whatever we have repositioned and also added there, we are very much in line with reaching the 3,000 crores in the next two years.

**Rajesh Kothari:** And do you think the demand environment is supportive to cater to that kind of number?

**Sridharan Rangarajan:** Absolutely.

**K. Srinivasan:** Comfortably, Yes.

- Moderator:** Thank you very much. The next question is from the line of Vinit Maloo from Birla Sun Life. Please go ahead.
- Vinit Maloo:** Just wanted to understand the capacities that we moved to India and also that we are expanding, if you could throw slightly detailed overview on the kind of products that we are looking to throw out of these capacities? And you did highlight that primarily, it would be exports. So, just wanted to understand do we already have existing customer relationship or we will require some time to market these capacities hence, ramp-up might be slower.
- K Srinivasan:** There are two segments on which these capacities have been created - first is on the Electro Mineral side. The Electro Mineral side we have the Bubble Zirconia project, here there are some customers established, there are some more to be established. Like you rightly said, it will take a certain amount of time to scale up. The positive side about it is that we internally would consume at least about - to start with anywhere 20% - 25% of what we would fused. So, that would help us to stabilize faster. The other part of it is the Alumina which is really semi-friable, white fused, etc.. At the moment there is a global shortage in these materials. Coming largely out of some of the large fusion facility going out, so there is a global shortage, so that is the reason like I said we are having our international customer meet etc., going now primarily to get our customers to come and take a look at what we are doing. We expect, it is being a favorable time around to scale up these two businesses quickly. The piece that is in the Industrial Ceramic that we shifted from NTK Japan comes along with a customer data base with true customer relationship. So, there it would be faster. Having said that, these are liability product which have a life of 25 years, so consequently each customer though they are all approved by NTK and they know that the same plant that is being installed and commissioned here would have to come visit and certify. So, that is a pretty quick process. We do not have to actually go looking for customer, the customers are known but still it has to happen. Hopefully that should happen in one quarter. So, I believe the scale up would be faster than what we would otherwise expect. We would see improvement quarter-on-quarter.
- Vinit Maloo:** Okay. Sir, you spoke about high double-digit growth in Ceramics business both Industrial Ceramics as well as Refractories. So, what is driving this growth in Refractory segment and if you could also touch upon business in Wendt India?
- K Srinivasan:** Yes. See, just to clarify, the consolidation today actually Wendt is only now under the equity method.
- Sridharan Rangarajan:** We do not have the sales of Wendt getting consolidated.
- K Srinivasan:** At the moment, we are not in this current format but I will still touch Wendt. Let me jump quickly to the Ceramic and the Refractory growth. Ceramic growth like I said is driven largely by the Metz project and the Engineered Ceramic primarily it is all to the high-end customers, it is largely exports, it is Europe and America. As far as the Refractory business, predominantly still it is India but we have in the last two years established some very fine niche applications around Aerospace, Super Alloys, etc., and this industry is booming. So, I think, we are seeing

some significant traction coming from this space. We will continue to grow in this space. So, that is a confidence of doing, we did about 16% to 17% last year top-line. I expect to stay at that or even higher. Wendt India, okay you asked a question Wendt India. Wendt India grew by about 12% last year. They have plans to do better. The transaction of sale of 3M share to Carborundum is what we are looking at, not yet completed, we hope to complete it.

- Vinit Maloo:** Okay. And product pipeline out there is there some work going on out there or is it as it is?
- K Srinivasan:** They have made significant progress. They are no longer dependent because the technology agreement with Wendt has terminated almost three years - four years back now. So, they are completely independent, they develop their own recipes, their own formulation, they export under Carborundum brand. So, it is a very strong vibrant independent company with its own IP.
- Moderator:** Thank you. The next question is from the line of Bharat Sheth from Quest Investments. Please go ahead.
- Bharat Sheth:** Sir, I mean you said just now 3M has to decide I mean to sell. So, court case has been now finalized I mean in our favor or what is the status of that court case?
- K Srinivasan:** The court case which was at CLB now at NCLT is at a stage where the original thing of staying the transaction remains. So, the first transaction of transfer of Wendt India's share from Wendt Germany to 3M was stayed and that space will remain - nothing has changed. We are in discussion and we hope to settle it amicably.
- Bharat Sheth:** Okay. So, do we expect this in current year?
- K Srinivasan:** See, it is very difficult for any transaction to announce like this I will announce it as and when it happens we are in discussion we hope to settle it.
- Bharat Sheth:** Okay. Sir, on VAW we say that there is a Rs. 21 crores exchange gain loss largely I mean decline. It is translation loss or it is I mean say from Rouble to the market in which we are selling. Can you give little more detail?
- Sridharan Rangarajan:** Bharat bhai, when VAW sales to its customer, so it is denominated in Dollar or Euro in the respective currencies and then they will collect the money from the customers. So, the time you sell you will recognize a particular value as your receivable and at the time you collect you will have a different amount to be collected. So, this difference comes as exchange gain or loss. So, as you rightly said it is a translation of these receivables, and predominately it is receivable practically very low import.
- Bharat Sheth:** Yes. I mean talk of translating those Ruble to Rupee rate how much swing is there?

- Sridharan Rangarajan:** Practically between these two years in comparison 15 - 2016 and 16 - 2017 absolutely no impact, very-very marginal impact. If you see the average Rupee Ruble rate somewhere in the range of 1.0 to 1.04 in both the years, so it is not impacted us in any way.
- Bharat Sheth:** Okay. To reconfirm, this Rs. 20 crores decline is on VAW standalone profit, correct?
- Sridharan Rangarajan:** Correct.
- K. Srinivasan:** Absolutely, correct.
- Bharat Sheth:** Then how do we see this two divisions which I mean we will be starting which we have transform from Foskor. So, going ahead you said that it will be a more value-added product and Bubble Zirconia will be consuming in house. So, profitability wise, how do we see going ahead is it going to be higher than whatever we are talking?
- Sridharan Rangarajan:** Currently, what I feel is that the margin that we have at this point in time of- let us say kind of 11.8% consolidated Electro Mineral margin would go up to 14% - 14.5% on two accounts, one is the better performance in VAW and the second one is these higher value-added margins product slowly start coming. And the trajectory would be more towards moving about say 16% - 17%. So, that transition would happen in the next two years to three years as we start stabilizing these products in the various markets.
- Bharat Sheth:** So, 16 - 17 can we safely assume for FY 2019 are talking or FY 2020.
- Sridharan Rangarajan:** Yes, you can put a trajectory, it is very difficult to put a number.
- K. Srinivasan:** looking at quarter-on-quarter Bharat Bhai, if you go back and look at our number there were times we were already at 18% if you look at still 11-12 or even earlier 18% - 19%, so we are going towards what with but we will see how fast depending on how the market moves.
- Bharat Sheth:** And sir, you said that Ceramics two things is going to improve from this year onwards: one is because of Metalized Cylinder which is a substantially high margin business and second because of our subsidiary where we are losing I mean so that has also started performing well. So, how do we see the margin trajectory in Ceramics business?
- Sridharan Rangarajan:** See, as far as the Ceramic business is concerned, the performance is comforting one is domestic and the other one is predominate portion is Australia. We did not have any subsidiaries losing in those segments. So, I feel we should be getting it back to the right numbers there. So, I feel that overall, I mean at the consolidated level that currently we are in the range of about say 14.9% - 15%, this trajectory can get to the level of say 16.5% and going forward and then can start improving better. But at this stage at least the trajectory would be in that range.
- Bharat Sheth:** Okay. That is great, sir. And Abrasive side also sir, if you can throw how this Russian subsidiary of business is working on?

- Sridharan Rangarajan:** They have done well. I mean, really as we said that the product repositioning on certain things like introduction of Coated products, Thin Wheel those started yielding better results. It is limited market, it is not a very huge market like India. So, what I would say is that the losses have come down getting into that trajectory of profit but those are going to be smaller ones. So, to your question, we are currently at about 11.1 percentage in the PBIT margin. We would slowly get back to the level of say 11.5% - 11.8% - 12% like that we will slowly start improving year-over-year.
- Moderator:** Thank you. The next question is from the line of Pawan Parakh from HDFC Securities. Please go ahead.
- Pawan Parakh:** Sir, my question is on VAW. Can you share Rouble numbers for the full year, revenue and PBT?
- Sridharan Rangarajan:** Rouble number is about 4.3 billion Roubles.
- Pawan Parakh:** Okay. That is revenue and PBT?
- Sridharan Rangarajan:** PBT in the range of 738 million Ruble.
- Pawan Parakh:** 738 million Rouble?
- Sridharan Rangarajan:** Yes.
- Pawan Parakh:** Okay. And sir, secondly, in terms of Electro Mineral business we have seen cost inflation during the course of the year. So, generally in this business I mean whenever we face cost inflation, how soon do we actually transfer it to our customer I mean it happens with a two month - three month lag or how does it work actually?
- K Srinivasan:** See, the cost inflation is market specific. For example, the Alumina prices in India is very different from international prices. The Pet Coke prices in India and Russia are very different. So, same is to the Power. So, in the Electro Mineral business the cost is local and the selling price global. So, the selling price is based on what happens across by the global market. This is advantageous to us in places like in Russia because the cost inflation is relatively low. Pet Coke is still available at relatively low price, Power is cheap. But the cost inflation happens in India much faster because the local Power prices went up as well as Pet Coke and Alumina prices went up. So, we wait till the international prices start moving till we can put out prices.
- Pawan Parakh:** Okay. And is that the case for all the product lines in the Electro Mineral business?
- K Srinivasan:** Electro Mineral - there are two parts like I said, there is a commoditize product which is really the basic Alumina, Silicon Carbide, etc., then there are the specialties. Specialties are customer specific , application specific, they are agnostic to cost and international pressures, you work with customer, you co-create products and you can price it according to applications.

- Pawan Parakh:** Okay. So, sir, finally on guiding to this 14% - 14.5% margin on a consolidated basis, I mean what are the risks do we see to this number actually?
- K. Srinivasan:** The risks are the exchange moment between Rouble-Dollar is one element which is very difficult to predict. Also in terms of the market acceptance, getting the newer products that we are launching in the new projects, so those are the two things one can look at it.
- Pawan Parakh:** Okay. And lastly, you said we did Rs. 127 crores of CAPEX in FY 2017. What is the number we are looking now for next year?
- Sridharan Rangarajan:** About Rs. 75 crores to Rs. 100 crores.
- Pawan Parakh:** Rs. 75 crores to Rs. 100 crores and this includes the new Hydro plant that we have propose to...
- Sridharan Rangarajan:** Hydal project is a three-year program and this would spread over three years and in a year it could be Rs. 25 crores to Rs. 30 crores of impact on that. So, that is why I am giving a range, so it should be fine. Within that range, it will cover.
- Moderator:** Thank you. The next question is from the line of Bhoomika Nair from IDFC Securities. Please go ahead.
- Bhoomika Nair:** Sir, on the EMD segment in the standalone basis if we look at it, this quarter particularly has been fairly weak. Typically, this quarter does not see impact of the Maniyar. So what has resulted and this has been because new capacities have got in commissioned and there has been some cost associated to that?
- K. Srinivasan:** Absolutely, right. This is a quarter when actually the people have all come in, we have already gone ahead with most of the cost related to the growth and the growth has actually not yet started. So, you are seeing that impact added into the other parts in this quarter.
- Bhoomika Nair:** Okay. And there would not be any cost impact as such because of higher Pet Coke or something because that would have been already reflected in the second quarter and third quarter?
- K. Srinivasan:** That is already there from the third quarter onwards. So, fourth quarter predominantly is all the teams coming in and the projects all getting ready.
- Bhoomika Nair:** Okay. So, basically in FY 2018 on a standalone basis you would see one an improvement in the prices because globally prices have gone up. Stabilization in terms of cost, hopefully a better power in terms of Maniyar production being higher and thereby a lower Power cost and would that be a correct understanding?
- Sridharan Rangarajan:** Yes, reasonable understanding, Yes.

- Bhoomika Nair:** Okay. Sir, on the new capacities you have mentioned for the Bubble Zirconia plant the internal consumption would be about 20% - 25% what would be the kind of breakeven level that we would require here?
- K. Srinivasan:** See, this plant can potentially produce about 5,000 tonnes at least and we hope to take at least 800 tonnes internally. If you run this plant even at about 2,500 tonnes it will make money.
- Bhoomika Nair:** Okay. So, do we have visibility for the balance 1,000 tonnes - 1,200 tonnes to be ramped up?
- K. Srinivasan:** We have clear objectives for customers this year to do more than 3,500 tonnes but we will be able to crystallize it as we start moving and getting acceptance.
- Bhoomika Nair:** Okay. And you said in the Alumina which is the semi-friable, etc., there it is a favorable time because there is a global shortage. So, ramping up that plant should not be an issue.
- K. Srinivasan:** That could be faster though they do not make that kind of margin that would happen faster.
- Bhoomika Nair:** Okay. The understanding would be that in the first couple of quarters may be first-half of FY 2018, there could be some pressure of margins, as we have seen in the current quarter as these projects get ramped-up. But then by the end of the year they would kind of pick-up in terms of profitability as the volumes ramp-up.
- K. Srinivasan:** On a consolidated I would say that the Russian pieces are already running flat. Silicon Carbide price is already up. So, the consolidated numbers will start looking good even from Q1.
- Bhoomika Nair:** Okay. Fair enough. Sir, how much would be specialty as a proportion of total whether in terms of volumes or in terms of revenues, any percentage numbers you could give and what are we looking at it, going up over the next one year or two years?
- Sridharan Rangarajan:** We would not like to share at this point.
- K. Srinivasan:** Let it settle down Bhoomika, we will share with you because this is a key thing for us, we want to see that this becomes a big we piece and will talk to you as soon as we have this running flat.
- Bhoomika Nair:** Sure, sir. Just lastly sir, what is Wendt today contributing to our overall profitability in profit from associate line? How much is it coming from Wendt?
- Sridharan Rangarajan:** Rs. (+5) crores.
- K. Srinivasan:** Roughly 40%, so it is only about Rs. 5 odd crores.
- Bhoomika Nair:** Okay. Fair enough. And lastly, I think Foskor you said there was a Rs. 3 crores loss because of the exchange movement. How is the outlook now given if assuming that exchange rate were to remain stable, what kind of profitability would be there though it would be very small?

- K Srinivasan:** See, Foskor we must not plan too much around it. See, we are really going to keep that plan running to at about 3,000 tonnes to about 4,000 tonnes and not expected to make any great profit or loss that is the way it is going to be for this year. The focus is really going to be to run Zirconia and EMD to scale up and this as long as it runs and breakeven we are quite happy.
- Moderator:** Thank you. The next question is from the line of Ujwal Shah from Quest Investments. Please go ahead.
- Ujwal Shah:** Just wanted some outlook on our subsidiaries. Basically, what is happening in China or U.S. and their performances for FY 2017 and outlook for FY 2018?
- Sridharan Rangarajan:** I will give a broad number, the individual numbers you will get to know once our Annual Report is there. Broadly I would say that China we have completed all our clean up. So, the China losses have come down. On a relative basis it is very difficult to explain standalone. So, I am just saying last year we made a loss of about Rs. 10 crores, this year we would make a loss of about Rs. 2 crores - Rs. 2.5 crores so that is the swing that you can expect, we have got that benefit. As far as America we have moved from a loss of about Rs. 7 crores to Rs. 9 crores. The rest of the companies have improved performance far better. So, that is a broad outlook we can share.
- Ujwal Shah:** Okay, sir. And sir, in terms of this Bubble Zirconia's internal consumption what is it basically related to? Are we developing a new product or something ?
- K. Srinivasan:** See, we have a product called the Alumina Zirconia. Alumina Zirconia is basically the Alumina that we make along with the Zirconia. Earlier this Bubble use to come or the monoclinic use to come from Foskor. Today we would use our own Bubble.
- Ujwal Shah:** Fine, sir. And sir, lastly on our Abrasive business in terms of margin profile for the standalone business considering that we are expecting a strong ramp-up in terms of growth for next two years we are expecting good amount of growth. What kind of standalone margins we see for this business?
- Sridharan Rangarajan:** See, currently we are at about 12%. We should see about 12.5% to 13% movement in the next year.
- Moderator:** Thank you. The next question is from the line of Nirav Vasa from Batlivala & Karani Securities. Please go ahead.
- Nirav Vasa:** My question pertains to the CAPEX that we have incurred. Would it be possible for you to share the exact break-up or the CAPEX number that we have done for Foskor, Thukela, and NTK?
- K Srinivasan:** Sorry. You are talking of what we did here because we removed it and brought it here, right?
- Nirav Vasa:** Relocation CAPEX.

- K Srinivasan:** Yes, out of the Rs. 77 crores that we spent in standalone approximately about Rs. 45 crores to Rs. 50 crores has been for the relocating of the plants, all the three.
- Nirav Vasa:** That is what I was asking sir, can you give a break-up of this Rs. 45 crores - Rs. 50 crores because these separate entities?
- Sridharan Rangarajan:** This is a broad outlook Nirav, this is a broad number that we can share.
- Moderator:** Thank you. The next question is from the line of Aditya Mongia from Kotak Securities. Please go ahead.
- Aditya Mongia:** I have three questions from my side. So, the first question is on the Abrasives business. Now, it appears that in this quarter if one does a subtraction of consolidated and standalone segmental margins then there is a loss which has been reported. Just wanted to get more information over here?
- Sridharan Rangarajan:** It is transitory in nature. I do not think you should look at it that way because of our China closing out all that things are part of that. I would suggest you look at that full year number, which would be more representative.
- Aditya Mongia:** Sure, sir. So, the related question over here would be that essentially if I recall correctly on the call, the consolidated margin outlook is about 11% - 11.5% and the standalone outlook is about 12.5% to (+13%). Is there an expectation that losses would continue in the subsidiaries going forward.
- Sridharan Rangarajan:** Two things, one is the profitability margins on the other businesses could be lower than that, so that brings down the PBIT margin at consol level lower.
- Aditya Mongia:** Okay. The second question was more on VAW business and the fact that their capacity is running close to full utilization and I understand that as you are suggesting that pricing is improving over there. Then what are the other things that we are considering before essentially suggesting to investors of the next capacity expansion happening over there.
- K Srinivasan:** Yes, I think like you know that the Russia is still going through a bit of a difficult phase, unstable currency and of course they have the sanction still in place. So, there is now an import duty of 3.52% on Silicon Carbide from Russia in to EU and it was zero earlier. So, we are a little cautious about putting up the big capacity, we have approvals, we have projects, so we are only doing a small incremental improvement to get a 3,000 tonne extra during this year and even that full 3,000 tonnes though the capacity may come, we probably may sell about half of it because it will happen during the course of the year. We have to take a call during the year how to go for the next phase of growth and we will take that call.
- Aditya Mongia:** Sir, related question, what are the gestation time over here for capacities to come online?

- K Srinivasan:** See, if it is a major project of 35,000 tonnes 40,000 tonnes or something like that, it will take anywhere between 9 months to 12 months.
- Aditya Mongia:** Understood, sir. Sir, the last question which I had more on the overall business. Now, I as a pure analyst looking at numbers, would see that on the returns on this business were let us say past decade have average somewhere in the range of about 15% - 16% or so. As we look forward to the next five years and utilization eventually improving and past peak of let us say 20% - 22% returns. Do we envisage those past peaks getting surpassed because of the product addition which have happened to the portfolio recently?
- K Srinivasan:** We hope to, because really you said it right, we use to be around 24% - 25% and then we went through phases of investments and the capacity is not getting fully utilized. As we get to a phase of full utilization of capacity, we should get back to these kind of ROCEs.
- Aditya Mongia:** Sir, any specific additions which would alter the profile of returns going forward versus what has been historically?
- K Srinivasan:** The Capexes have all been committed and the projects all been put in place. So, we will have to just ramp-up and get the scale of all these, that are being commissioned to run. See, today on an average, except in a few pockets our capacity utilizations are all being 60% to 70%. So, once you start running them, ROCE would come.
- Moderator:** Thank you. The next question is a follow-up question from the line of Vinit Maloo from Birla Sun Life. Please go ahead.
- Vinit Maloo:** Sir, I just wanted to you mentioned that Alumina currently there is a shortage globally. So, just want to understand what has caused that, has there been a recent phenomenon, what exactly is going on in those markets?
- K. Srinivasan:** See, the couple of large Alumina producers, see the Calcined Alumina is raw material from which you get the Fused Aluminas, it would be white fused, it could be semi-friable, etc. One of the large Calcined Alumina producer has shut plant because the Alumina prices were pretty low and they were all losing money, so one of them has gone out of the market. So, consequently there is a bit of requirement going up. Calcined Alumina which is produced let us say what we call a metal grade Alumina which eventually gets converted to metal, the prices globally have moved from anywhere between \$280 a tonne to about a \$420 a tonne in about a period of six months to eight months. So, that is a kind of movement that has happened. Consequently, there is a certain amount of availability issues across the world in terms of where this would go and how you will make the white fused.
- Vinit Maloo:** And so, this player would be from Australia or these are Chinese players?
- K. Srinivasan:** Australia.

- Vinit Maloo:** Australia, understood, okay. And sir, you spoke about Abrasives market also having good growth within India because there are a lot of projects, etc. I just want to understand our growth is primarily driven by the market growth or market share gains as well?
- K. Srinivasan:** Both I mean we have in the last few years in pockets taken market share but it is has been largely growth that has been driving growth.
- Vinit Maloo:** Okay. And you would say same thing about Refractories?
- K. Srinivasan:** Refractories like I said, it is a very different kind of growth. We are getting into niches which we were not very strong in earlier and those niches are little bit let us say recession-proof. These are industries that continue to replace their high alloy turbines and blades, etc., after x number of hours of usage, they do not wait for anything else and so these are more safety related and that is a niche that we have got into which is giving us more traction.
- Vinit Maloo:** So, there you would be replacing existing players, right just imports?
- K. Srinivasan:** There it is not only for India it is also going out for exports. So, there we clearly compete with some of the global players.
- Moderator:** Thank you very much. The next question is from the line of Sandeep Patel from Hornbill Capital. Please go ahead.
- Sandeep Patel:** Sir, just wanted to check with you slightly futuristic question but we are reading a lot about 3D printing and other technologies coming to manufacturing. Just wanted to understand how they would impact our business whether do you something to counter these threats?
- K Srinivasan:** Yes. Now, 3D printing is coming a bit of normal used process in certain areas like mould making, pattern making, prototype making, etc., We do help in this industry by producing special powders for the industry. We do not see this as a threat. If this evolves into something significant, we would be a participant in this from our Electro Mineral division. We would probably also start using this to develop prototypes and patterns faster both for our Refractory and the Ceramic division. We are conversant to this, we work with people in this industry, so this is something which we look forward to as it develops. At the moment, it is not at a stage where it is a breakthrough that would take away a lot of things. But it is definitely more stable and it is growing. So, we do not see this as a big threat but as an opportunity.
- Moderator:** Thank you. The next question is from the line of Sayyam Jain from Edelweiss. Please go ahead.
- Manoj Bahety:** Hello, sir, this is Manoj Bahety from Edelweiss. Sir, I have a couple of questions. First is how GST migration is likely to impact your domestic business and how do you see competitive scenario changing post-GST migration?

- K Srinivasan:** Manoj, I was actually waiting for somebody to ask me this question. Now, I can give you what our take on GST and how it is going to impact. First is out of the three pieces – we do not see this as a big impact for the Electro Mineral or the Ceramic and Refractory business. GST's impact is likely to be significant on the Abrasive side of the business. Once it stabilizes we expect it to be positive. As far as Carborundum is concerned, we believe it would be positive for us. The challenge really is the transition. How are we going to play out from the present to fully GST implemented condition is a challenge. We really do not know how everybody is going to navigate this. We all have done so much of work and preparation but how it will eventually play out, how painful, or how slow this transition is going to be, or how easy it is going to be is something which we are all only guessing at this stage. We hope that with all our preparation with all the things that we have put in place that it would be a reasonably smooth transition but we can only guess at this stage. So, I would say, short answer, roughly about 65% of our business would be GST impacted, we expect the impact to be positive on a longer-term business once it is fully in place. Short-term transition pain unknown at this stage. All effort being made to mitigate this transition pain that if it is going to be there.
- Sridharan Rangarajan:** 60 percentage on standalone business.
- K Srinivasan:** Yes.
- Manoj Bahety:** Sir, if you can elaborate a little like what kind of positive you are seeing whether it will be shift from the marginal or small players unorganized players to you or in terms of getting better input credit. So, what kind of positive benefits you are seeing on account of GST migration?
- K Srinivasan:** See, again, we will have to do a bit of guessing. We believe that significant benefit out of the two really comes from the unorganized sector and the grey market having to be more compliant. So, I think that is a first expectation. Again, we will have to see how they navigate and what they do because as we keep thinking they are always finding new ways to come back. So, that is the first expectation that would give us additional addressable market. The second one is as this gets more and better implemented, we hope to see that we get better credits as well may be the taxation also declines over a period of time from the mean 80% that is now being putted.
- Manoj Bahety:** Okay. And how big is the unorganized market?
- K Srinivasan:** I would guess it is anywhere 20% to 30%.
- Manoj Bahety:** In Ceramics as well as in Abrasives.
- K Srinivasan:** No, only in Abrasives. I am not even talking of Ceramic and Refractories and Electro Minerals, only Abrasives.
- Manoj Bahety:** So, in Ceramics also you believe there is some presence of unorganized players there also?
- Sridharan Rangarajan:** That Ceramic is different. We are talking Industrial Ceramic, this is more an organized business.

- K Srinivasan:** See, our Ceramic business is high-end customer-to-customer probably you are taking it along with the sanitary wear and the other ceramic that is a huge unorganized business.
- Manoj Bahety:** So, mainly, you see a big positive impact coming on the Abrasive side, right?
- K Srinivasan:** Absolutely.
- Manoj Bahety:** Once GST initially settles down.
- K Srinivasan:** Absolutely.
- Manoj Bahety:** And do you see some kind of inventory liquidation also because of uncertainty on account of input credit which will transition from the current taxation system to the new taxation system?
- K Srinivasan:** Again you are absolutely, right, we are already seeing that in the market as some of disquiet all the channel is trying to get rid of what they would otherwise not be able to account. So, that is already happening as we talk I can see that in April. I expect it to probably play out in next month or so. So, we will have to navigate and this also gives you an idea how much of it will go eventually out of the system. So, this is all happening. Like I said the transition pain is still work-in-progress, everybody has to understand how this is going to play out. But you are very much right.
- Moderator:** Thank you. Ladies and gentlemen, that was the last question due to time constraints. I now hand the conference over to Mr. Pujara for closing comments. Over to you, sir!
- Kashyap Pujara:** Thank you so much everyone for patiently hearing all the questions and answers. And thank you to the management of Carborundum for taking time out for the call. It is a great pleasure.
- Sridharan Rangarajan:** Thank you.
- K. Srinivasan:** Thank you, all.
- Moderator:** Thank you very much. Ladies and gentlemen, on behalf of Axis Capital, that concludes today's conference call. Thank you all for joining us and you may now disconnect your lines.