



**“Carborundum Universal Limited Q2 FY 2019
Earnings Conference Call”**

October 30, 2018



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MODERATOR: MR. ADITYA MONGIA -- KOTAK SECURITIES LIMITED

Moderator: Ladies and Gentlemen, Good Day and Welcome to the Carborundum Universal Limited Q2 FY 2019 Earnings Conference Call hosted by Kotak 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 telephone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Aditya Mongia from Kotak Securities. Thank you and over to you, Sir.

Aditya Mongia: Thank you, Karuna. And welcome all for joining into the 2Q FY 2019 Results Conference call of Carborundum Universal. From the management team today, we have Mr. K. Srinivasan -- Managing Director; Mr. Jagannathan Chakravarthi – Executive Vice President and Chief Financial Officer; and Mr. Raja Mukherjee—Senior GM (Internal Audit and Strategy).

I would now want to hand over the call to the management for their initial remarks for the quarter gone by. Over to you team.

K. Srinivasan: Good Morning to all of you. It was a good quarter. Overall, we had a sale of consolidated Rs 655 crores which is about 12% higher than the corresponding quarter last year, we also grew sequentially.

We delivered Rs. 65 crores on PAT which is better than the Rs. 55 crores of last year. The PAT grew by 17% over the quarter-on-quarter. I would rather look at the first-half here because, in last year’s comparison in the first quarter, we had GST, the second quarter was post-GST. So, if you look at on a half-year basis which probably gives a better sense of what is likely to be for the year. We had a sale of Rs. 1,278 crores which is 17% higher than the corresponding period last year and the PAT grew by Rs. 34 crores to Rs. 128 crores. This is a sense is a better guidance of what is likely to be for the full year.

Abrasives, at the consolidated level Q2 sale Rs. 283 crores were 9% higher than the corresponding period last year sequentially also we are 8% higher. On a half-year basis, the growth is 14%, the growth is led by a strong performance on CUMI standalone. We ensured that margins were high. Abrasive margins at 13.4% is better than the 12.1% of last year last quarter. Margins are better. Growth was driven primarily by volume and product mix, the prices effect has to kick in. Abrasives in the other geographies, U. S. Sterling Abrasives, Wendt, all did well.

Electro Mineral is a space where we had some challenges largely coming out of the floods in Kerala. Our Hydroelectric Power Station as we speak is still down from the 15th of August, it should be operational only by about mid-December so that had an impact.

Q2 net sales at Rs. 245 crores versus Rs. 217 Cr; It is 13% growth, it was also better than Q1 but not as much as we would have liked it to have been for the reasons I mentioned before. On a half-year basis, the growth is 16%. Standalone for the quarter was Rs. 113 crores which is 16%

higher than the sequential quarter. Price increase were being pushed through because of the significant impact on cost. But we have to see the real effect of it coming through in Q3 and Q4.

Volzhsky continued to have its growth momentum, 17% growth in the quarter compared to the corresponding period last year. On half-year basis the growth was 13% in Rouble terms and in INR terms the growth was 16%.

Ceramic had a very good quarter, we continue to grow top-line as well as hold on to the margins at 19%. Q2 result at Rs. 144 crores versus Rs. 121 crores is largely driven on the back of Industrial Ceramic doing exceptionally well particularly in exports. The volumes have also been high, and the product mix is helping us with more of the high-value items coming in. Super Refractories did register a strong growth through the margins are lower than the Industrial Ceramic margins.

CAPEX for the consolidated was about Rs. 38 crores, we are in line to do the 100 plus we said for the full year. Overall, I would say a good quarter. 2 areas which we know had issues, one is 3% fall in the Electro Minerals margins largely coming out of the Kerala Flood situation, we still have challenges in Foskor Zirconia which we expect to clear up in Q3 and Q4. Otherwise, a good quarter and we believe we have better things ahead in Q3 and Q4.

I am going to request Jagan to take you through the numbers.

Jagannathan Chakravarthi: Thank you, sir. Good Morning to all. Let me summarize the financials. Quarter-on-quarter at the consolidated level we registered sales of growth Rs. 71 crores, with operating PBT growth of Rs. 9 crores. The entire PBT growth of Rs. 9 crores came by way of higher volumes.

Now let us understand the results by the entity. Standalone PBT was up by Rs. 12 crores due to higher sales of Rs. 51 crores. Subs and JV's profits are lower by Rs. 3 crore. On a sequential basis on a consolidated level, we registered a sale gain of 25 crores, however, dropped by Rs. 1 crore. Kerala flood losses and Foskor resulted in the drop.

Entity wise, while the standalone gave us Rs. 6 crores PBT gain, losses in Foskor Zirconia resulted in a drop in PBT by Rs. 1 crore. On YTD basis at a consolidated level, we registered a sales gain of Rs. 189 crores, which is 17% gain and PBT gain of Rs. 44 crores. The entire gain came by way of volume increase. The standalone gave around Rs. 42 crores additional profits for us. The JVs and subsidiary gave another Rs. 2 crores.

Let us go to the segments now.

PBIT margin in Abrasives increased from 12.1% in Q1 last year to 13.4% in the current year quarter two. The margins have improved on the back of higher sales in standalone business. The majority of the profit growth came from standalone business. The margins were, however, lower compared to last year Q2 where we reached at 14.1% margin. The higher cost of grain prices coupled with dollar strengthening led to this.

Consolidated PBIT margins of PMD was at 11.6 percentage against 17.2%. Drop in PBIT of Rs. 9 crores was due to Kerala Floods and losses in Foskor Zirconia. Sequentially, the trends mirror the same as had been mentioned for quarter on quarter. On the YTD basis, the profits were lower by Rs. 2 crores due to lower profits by Foskor Zirconia offsetted by gains from CUMI India and VAW.

PBIT margin of Ceramics was 18.9% compared to 13.9% in Q2 last year and 20 percentage in a Q1 current year. Indian Industrial Ceramics had a good quarter on the back of better volumes in Metalized and Engineered Ceramic product.

Refractories business profitability improved significantly on the back of pick up in volume on higher project orders.

CAPEX, till H1 we did around Rs. 38 crores of CAPEX. As communicated earlier, we expect to do around Rs. 100 crores plus capex for this year.

Coming to Debt-to-equity ratio, On a standalone basis debt-to-equity ratio, was 0.001 in September 2018 as compared to 0.002 as of 30th June, 2018. The total debt on standalone basis decreased Rs. 3 crores as of June 30th, 2018 to Rs. 1.81 crores as of September 30th, 2018. The entire borrowings were of the nature of finance leased borrowing.

On a consolidated basis, the debt-to-equity ratio decreased to 0.28 as of June 2018; 0.06 as of September 2018. The total debt on a consolidated basis was Rs. 103.5 crores, which included Long-term debt of Rs. 6 crores, current maturities of Rs. 5 crores and short-term at Rs. 92.5 crores in September 2018. In comparison, June 2018 had Rs. 135 crores of debt.

With this, I conclude my financial update for this quarter. Handing over back to the...

K. Srinivasan: Aditya

Jagannathan Chakravarthi: Aditya

Moderator: Thank you very much. Ladies and Gentlemen, we will now begin the Question-and-Answer Session. The first question is from the line of Bhalchandra Shinde from Anand Rathi Research. Please go ahead.

Bhalchandra Shinde: Sir, regarding Electro Minerals as you said that Foskor Zircon because of the losses in Foskor Zirconia our Electro Mineral margins have fallen. Is the issue more strategic or it is because of the Zirconia prices? What is exactly the issue? Because most of the commodities are actually relatively giving out better profitability and this is the only part which we are facing losses right now.

K. Srinivasan: Yes. See, what is happening in Foskor Zirconia is we have the two historic products which is Monoclinic Zirconia and Calcia stabilized. These are hugely impacted by input cost primarily coming from the raw material and graphite electrode. As you know we are moving now to the

new Z-450, so what really happened is in the last quarter we have sold out on all these Z and ZCs, so that the shift to Z-450 happens from Q3. So, we expect from Q3 onwards that the Z-450 starts scaling up these losses will disappear. So, it will be probably something like a transition quarter.

Bhalchandra Shinde: So, by when we will be able to recover the margins because on subsidiaries level our margins have fallen by almost 900 bps something like that?

K. Srinivasan: Almost all of it is coming from Foskor Zirconia. So, we expect Q3 onwards that we will be profitable. Last quarter was the practically very little sales of Z-450, we expect to do at least 400 to 450 tonnes in this quarter. So, we would see profitable numbers from Q3 in Foskor Zirconia and then onwards I think, we would have got over this problem of moving out of the high input cost material to low input cost material, primarily getting out of the graphite electrodes consumption.

Bhalchandra Shinde: And sir, in Ceramics and Refractories, regarding as you said Super Refractories did really well and Refractories business is picking up in demand. So, in which applications, our relatively volume growth is improving?

K. Srinivasan: All the segments of Refractories are doing well. We primarily supply to Steel, Petrochemicals, Carbon Black, all of them are doing well. So, projects orders as well as exports are all doing well.

Bhalchandra Shinde: And sir, any price increase on that front?

K. Srinivasan: There has been a marginal price increase in Refractories, in Abrasives. But the significant cost-push is yet to be passed on fully to the market. The margins that you are seeing which is reasonably high at 19% is not coming from good pricing, it is really coming from a good product mix and exports of the Industrial Ceramic product.

Bhalchandra Shinde: Okay. And in sir, Abrasives, relatively which applications is the Coated Abrasives improving or Bonded Abrasives and which industry is relatively showing good growth?

K. Srinivasan: Abrasives, like you see actually, are margins that have moved up, we are now at 13.4 compared to 12.1, largely because of the fact that there has been a good increase in higher value products primarily into the auto component. The trade products are still struggling in terms of both volume and margins.

Moderator: Thank you. The next question is from the line of Kirti Jain from Sundaram Mutual Fund. Please go ahead.

Kirti Jain: Sir, you had earlier highlighted about the floods impact. Sir, can you quantify that how much would have been the impact due to the flood? That is the first question. And secondly, I wish to understand, how has been the ramp-up trajectory in the metalized cylinder? And third is, what

are the new product initiative which we are going to see over next 12 months to 18 months. These are the 3 questions from my side.

K. Srinivasan: So, flood roughly we have taken a hit of about Rs. 5 crores in the quarter Q2. We have not plugged in any kind of claims yet to be made and settled, etc. So, on an average we have taken about Rs. 5 crores hit in the second quarter from the floods. We expect that Q3, we should be able to get to a better number. As far as the second question on metalized cylinders, we are doing about 1.2 lakh cylinders to 1.3 lakh cylinders a month, as per the capacity like you know we can go upto about 1.5 lakh cylinders to 1.7 lakh cylinders depending on the product mix. The third question you asked is really on the new product. I think last quarter, we continue to file another 18 IP's, product IP's design registrations and trademarks. We expect the new product revenues to go up to about 15% of sale in the next year and a half.

Kirti Jain: What are the areas, sir, those products will be within the existing Abrasives and EMD or whether there will be a new application addition to these products?

K. Srinivasan: I will give you a couple of examples. There are several of them like I said more than 18 or 19. So, we should have a separate call on that. So, let me give you an example of one product, the one that will be in the market probably from January - February would be the graphene products. Graphene like you know it is strongest, it is a magic material and we would have it available for 6 to 8 applications, starting from January and this would be a new product line.

Moderator: Thank you. The next question is from the line of Ravi Swaminathan from Spark Capital. Please go ahead.

Ravi Swaminathan: Sir, just wanted to know how the recent rupee depreciation is affecting the business dynamics I mean impacting both in the positive and negative way especially in the Abrasives segment? I mean given the rupee depreciation from a demand perspective there are a large share of imported Abrasives which are there, will we be able to gain market share from those players, is it happening on the ground? And also in terms of cost, so basically fuel cost and other things are they moving up? Can you explain that?

K. Srinivasan: Yes, it is a complex question, in terms of the Abrasives industry, part of this is impacted by imports. Now, to the problem in hand, basically a falling rupee means the imports of expenses, so the operating price in the market should go up which will allow us all to put up prices those who manufacture domestically. So, that is the first positive thing. The negative impact for the Abrasives industry is, the inputs which is also dollar index in terms of the grains, etc. so some of it we make it internally, would also all go up. So, the net impact for Abrasives is relatively neutral, the operating prices will go up, the import cost will go up. But as far as the exports is concerned, Carborundum as a whole we are net export. So, we would actually benefit from a depreciating rupee. Some of the verticals like Ceramics, Electro Minerals, etc. would make better margin with the depreciating rupee.

- Ravi Swaminathan:** Okay. So, in certain products like a metallized cylinder, etc. can we expect further margin expansion because of the rupee depreciation?
- K. Srinivasan:** Yes. You have seen the Ceramic margins are strong as it is and it will continue to get better.
- Ravi Swaminathan:** Okay. And in terms of the Electro Mineral segment, so basically what are the numbers for Russian, entities were there a margin expansion there? How was the margin expansion? If you can give some numbers?
- K. Srinivasan:** See, Russia does in rupee terms approximately about Rs. 150 crore a quarter and they make about a 17% post-tax.
- Ravi Swaminathan:** And was there a margin improvement? What I wanted to understand is at the segment level margins have compressed, so is it only because of the Foskor Zirconia that the margins have compressed and is it that Russian margins are intact?
- K. Srinivasan:** Russian margin has very-very marginally gone down. I will give you the exact rupee numbers for you to have the comparison. The first quarter sale was Rs. 155 crores top-line; the second quarter is Rs. 158 crores. so there is a small growth in top-line. The bottom-line post-tax is Rs. 25.49 crores identical in both the year quarters. So, early for a small let us say Rs. 3 crores growth in top-line there has not been a corresponding increase in post-tax. Practically flat.
- Ravi Swaminathan:** Okay.
- K. Srinivasan:** There are a couple of things playing out in the Russian business, it is all over the world. The energy cost are going up, petcoke cost have gone up. Pet Coke cost has gone up by 50% globally. The energy cost in Russia from Rouble 2.51 is now in this quarter running at Rouble 2.64 per unit of power. This is seasonal like you know as we go to the next quarter where we hit winter it will again come down. So, this is a small thing. So, I would really say margin deflation is largely only Foskor Zirconia.
- Ravi Swaminathan:** Okay. And in terms of incremental capacity in the Electro Mineral segment from China, etc. are they further shutting down plants or is it status quo there or is there a possibility of them opening up of new plants?
- K. Srinivasan:** See, there are a couple of things playing out. There is already a 10% duty on fused mineral import into the U. S. which means the material going into U. S. is more expensive. So, the U. S. is looking at alternative suppliers. We have started making our first shipment to the U. S. which is very unlikely because of the distance but we have started already. But if this 10% goes to 25% then there will be a greater demand for a shipment going to U. S. That is as far as India is concerned. Now, the Chinese are not opening up any new plants or not going slack on their environmental push. In fact, we had a big team out there we realized that whole country have being covered with geotextile, etc., to reduce dust in the environment. There is lot of wetting of the atmosphere being done with huge turbofans, moisturizing to get on the dust. So, they are very very strict on what they are doing, they are not going to flatten up and they do not need to

because the U. S. market will also for them for them become less attractive with all these duties coming up. There is a general shortage of material and the prices are likely to go up because all the raw material costs have gone up. Pet Coke has gone up, sand has gone up, quartz has gone up. So, I think you will see prices going up and the situation in terms of supply remaining tight for some more time.

Ravi Swaminathan: Okay. And my last question is on a blended basis how much amount of price increase we have taken segment wise and how much we are likely to take over the next second-half, first half?

K. Srinivasan: EM, Electro Mineral we expect to put our prices in the next two quarters to three quarters by at least 20%. This is going to be the biggest push, above 20% is what we have to push and that is in rupee terms particularly coming out of India, this is going to be the single largest push that we have to make in the next 2 quarters to 3 quarters and this has to eventually flow through the other verticals, Abrasives, and Refractories to the end consumer. This kind of push going through the system is not going to be easy but the cost is really driving us to make this big correction.

Ravi Swaminathan: Got it, sir. We expect a similar number also in Abrasives and Ceramics?

K. Srinivasan: We hope to make a price increase but as you know Abrasives the end consumer or small ticket buyers, generally when you push up prices there is down trading, they try to buy something cheaper. Let us see how well it gets through. The Electro Mineral cost push will necessitate a 20% increase over the next 3 quarters and we are going ahead and doing it.

Moderator: The next question is from the line of Nirav Vasa from B&K Securities. Please go ahead.

Nirav Vasa: My first question pertains to the Kerala Flood. As you have just informed that the impact is of around Rs. 5 crores as per your estimations. But do you think there could be some one-time cost pertaining to these floods which we might be incurring in the third quarter to speeden up the production and to get the capacities streamlined once again?

K. Srinivasan: Actually, what really happened was at our Hydroelectric Power Station at Maniyar was inundated and all the 3 turbines went under water. So, there are 2 parts of it. One is that the turbines are being reset and we have taken the hit and we have booked the cost, we have still not netted off the insurance claim as and we make. There has not been any damage to the operating or the fusion plants. There were some inventories which have all been affected by the rains and the flooding, etc. which also we have lodged the claims and taken the hit. We do not believe that there will be further losses to take, maybe we will get some insurance claim in the next quarter which will actually reduce the impact in the Q3.

Nirav Vasa: Sir, get your point. So, sir, the second question pertains to the broad strategy. As you had informed in the earlier call that based on the existing asset base that we have created, we can generate revenues up to Rs. 3,200 crores. So, after this massive price hikes that you are trying to pass on to the trade channel and all your customers, do you think that number can be achieved

much earlier? And if you can throw some more light on the vision beyond Rs. 3,200 crores of revenues?

K. Srinivasan: Let me start by saying that we have been giving a guidance that we will do at least Rs. 2,700 crores this year with an Rs. 270 crores PAT and I think we are tracking for that. Going forward we said we will do with the capex in place at least Rs. 3,200 and that is on track. I would refrain from making a big comment at this stage beyond that because there are several new projects that we are working on to take us beyond the Rs. 3,200 crores as well. I have been saying since morning that there are good times ahead. That is all I have been saying at the moment. Let us see how Q3 and Q4 goes.

Moderator: Thank you. The next question is from the line of Rajesh Kothari from AlfAccurate Advisors. Please go ahead.

Rajesh Kothari: My first question is with reference to Zirconia subsidiary. Can you give us the revenue in PBIT loss?

K. Srinivasan: See, the Zirconia business does roughly about Rs. 20 crores, in good times it is Rs. 25 crores, this quarter it came down. I am giving you in rupee equivalent. It did about Rs. 20 crores and it actually did a loss of Rs. 11 crores.

Rajesh Kothari: The loss is at PBIT level or at net level?

K. Srinivasan: At PBIT level. At PAT level half of it will go away.

Rajesh Kothari: Understood. And so, basically in the third quarter as your product mix changes to Z-450, do you see this loss to become kind of a zero?

K. Srinivasan: That is what we expect. We actually think that it should go to zero and by Q4 we should actually start getting contributions out of this business.

Jagannathan Chakravarthi: This is Jagan here, this all depends on the volume what we are able to get it in the third quarter for Z-450.

Rajesh Kothari: So, at 400 tonnage sales volume the loss can become zero?

K. Srinivasan: That is what is going to happen in Q3.

Rajesh Kothari: Understood. And at 400 tonnages, what is the revenue?

K. Srinivasan: Approximately... Around Rs. 30 crores.

Rajesh Kothari: I see. So, let me put in this way. Next year let us assume that things go as per your plan than in FY 2020, how do you see this subsidiary in terms of revenue and profitability?

- K. Srinivasan:** Give us one more quarter let us deliver and then I will give you the numbers. Because potentially this Z-450 like we have been saying for the last 3 quarters can make a big difference but we have struggled for 3 quarters, let us have 1 good quarter and then I will make a much firmer commitment.
- Rajesh Kothari:** Understood. And any reason for the struggle? As you are saying this we are expecting the potential is big but you are struggling, so the reason for the struggle is, what are the major reasons for it?
- K. Srinivasan:** See, each customer for him to change from an existing model let us say he is buying Calcia Stabilized Zirconia or a Monoclinic Zirconia, for him to change to a new input, the process of testing, local launch, scaling up, we expected the whole thing to be taken within about 1 quarter or 2 quarters, it has taken almost 1 year. Only a few major customers are still converted and that itself I am targeting at 400 tonnes, one of it would, of course, is internal Carborundum. But two other major customers are converted. If I get 5 conversions then the whole story changes.
- Rajesh Kothari:** So, it works like more like an order book kind of thing . where you know pre-hand that how much you are going to supply over the next 6 months to 9 months?
- K. Srinivasan:** Absolutely. See, a major conversion a customer who buys about 2,000 tonnes to 3,000 tonnes, it could be in Electronic part, it could be a Nuclear Fuel Rod. For him to covert, it has taken more than 1 years' time because they do not scale up a new product very clearly but once they convert the volume starts coming.
- Rajesh Kothari:** I see. So, basically, as we progress in the third quarter, you will get visibility for FY 2020 first-half kind of thing that kind of order booking.
- K. Srinivasan:** That is true.
- Rajesh Kothari:** My second question is with reference to the overall industrial economy improvement. Do you see it is improving on overall terms or you think it is becoming again like stagnating?
- K. Srinivasan:** I will again say that there are two parts, half of Carborundum revenue is outside of India, so I will start with that. All the geographies we are selling are doing extremely well. U. S., Europe, Australia, Eastern Europe including Russia, all are doing exceptionally well. There are absolutely no dark clouds at all, they are all doing well and we are selling as we plan. In India too the extent what we are delivering, we are quite happy. I mean we are not seeing any big negative thing. One big indicator for us is Abrasives which sells to smaller counter, etc. is always we watch out on the receivables. Our DSOs, receivable days is actually equal or lower than what it was planned and so there is no stress in the market. We are quite happy with the numbers and we expect a good Q3 and Q4.
- Rajesh Kothari:** I see. And the last question on Electro Mineral side. You said that from Q3 onwards your Kerala plant will come on-stream by mid Q3. So, again Q3 will be more or a Q2 plus no impact of Rs. 5 crores something like that? And then Q4 actually will be the more operational?

- K. Srinivasan:** Maniyar Power Plant is going to fully operational only by mid-December so practically the Maniyar part of it we are not going to have any extra power, etc. but whatever compensation we will get from insurance should compensate for whatever we lost this Rs. 5 crores in Q2. So, Q3 should be without any major impact and we expect to do well.
- Rajesh Kothari:** So, Maniyar plant is what revenue?
- K. Srinivasan:** Maniyar plant does roughly a good time about Rs. 40 lakh units a month during the season, it does about 380 lakh units to 400 lakh units in a year.
- Rajesh Kothari:** So, that is how much revenue in terms of?
- K. Srinivasan:** Because we consume it internally, we don't show it as a separate revenue because it only reduces our power cost internally. This is for internal consumption.
- Rajesh Kothari:** So, that basically once it starts your per quarter cost can come down by about what about Rs. 5 crores - Rs. 7 crores like that?
- K. Srinivasan:** No, no. see, you will have to take it like the Maniyar Power project is a captive power station. So, if it delivers about to let us say a good season about 25 lakh units to 30 lakh units a month to that many units you will save about Rs. 2.30 per unit.
- Rajesh Kothari:** Rs. 2.30 per unit, okay. So, to that extent, there can be savings in the fourth quarter?
- K. Srinivasan:** Yes, to that extent, it will come only in the fourth quarter but fourth quarter is not the season, right? Our season ends by November - December. So, the fourth quarter is zero power generation quarter.
- Rajesh Kothari:** Correct.
- Moderator:** Thank you. The next question is from the line of Aditya Mongia from Kotak Securities Limited. Please go ahead.
- Aditya Mongia:** Sir, there were 2 questions from my side. The first question was on this opportunity which is opening up after let us say the relation between China and U. S. deteriorating. So, if you could comment more on how much does it mean for us in terms of new business and how can that change incrementally? That will be the first question.
- K. Srinivasan:** We have to see how it pans. We have started making exports of minerals into the U. S. because there is a 10% duty. But if it goes to 25 then the opportunities can be far bigger. But at the moment its baby steps because they have now started looking at alternate supply sources and people have started ordering and we have been delivering small quantity. We have just shipped a few 100 odd tons and few containers have gone. But big shipments will start going in Q3 and

let us see how it goes from here. Also, that will give you a good visibility because at 25% significant amount of imports have to shift out of China. How is China going to react to it, is there going to be exported through Vietnam and another thing. So, we will have to wait and watch how this plays out because almost all the material that is required fused materials had to go into the U. S., there is very little that is being fused there.

Aditya Mongia: Got that, sir. So, essentially, it is a wait and watch thing right now. Sir, moving to the second question, this is more on the capacity in Russia. Just wanted to get a sense that while we are thinking of small capacity additions, for now, has there been more thought given to increasing capacities more than that because or would you wait for the market to absorb the 20% increase that you are suggesting and then move on from there?

K. Srinivasan: We are in the midst of major discussion; this is the post Rs. 3,200 crores discussion which involves a major capacity addition. We have not announced formally where and when, but we will come back and announce maybe in the next two quarters. But we are in the verge of making a call.

Aditya Mongia: Got that. So, again, we will wait for that response from your side. Sir, just a last question from my side, on the domestic front, the last discussion that we had you were still suggesting that the demand is more consumption based. Any early signs of it moving beyond consumption?

K. Srinivasan: It is still largely consumption based, we are still not seeing any major projects, consumption is pretty strong, it is not weakening in spite of all these energy costs going up, fuel cost going up, consumption remained strong and liquidity does exist at the level of let us say a buyer of an Abrasive product or Ceramic or Refractories. There is a liquidity, we are getting paid like our receivable days are under check. So, we are quite happy with the situation, we are not unhappy.

J.C. Narasimhan: This is Jagan here. Aditya, we are working on how much now we will be able to increase the price and push up the cost impact in the market, we are continuously working on it.

Moderator: Thank you. The next question is from the line of Ujwal Shah from Quest Investments. Please go ahead.

Ujwal Shah: Yes, thank you for taking my question, sir. Sir, just wanted to understand broadly in terms of market scenario. We have seen raw material prices and key ingredients being on an inflationary trend for quite some time now. But somehow, we have not been able to pass on the price increase to the end customers. At the same time, we are also seeing demand across the globe including India being high. Where and when can we actually expect this thing to match up? And what is your sense getting when is the time when we will actually see the price increase which we have been targeting since quite some time now?

K. Srinivasan: It is a million-dollar question. The airline industry is also asking the same question, okay. But seriously I think, it is multiple things playing out. If I look at the Abrasive industries the reason why the operating prices remain low is largely coming out of let us say the unorganized sector,

the imports, still leaking through the system at lower prices, the GST operation not being effective, consequently there is a certain amount of lower prices, depressed market operating prices is the real keyword. Now, I think it is also coming to an end. The key things that are the major thing that are changing really is the transport cost are really going up. So, moving of goods is not going to be so simple and easy across the country without GST and all the stuff. So, I really believe Q3 and Q4 will see prices going up and then I think once this whole thing starts then it will go back to a realistic level. It is not all good news because the prices go up, inflation goes up then the demand can also come down. So, we will have to be careful on how hard we push and how quickly we get the operating prices up. But my general sense is you will see Q3 - Q4 definitely having price impact on the market.

Ujwal Shah: Right, sir. And sir, on a few new programs that we have been working and we have already introduced it like that Z-450 Graphene even the diesel particulate filter BS-VI getting through. All these products seem to be on very high margin businesses. What kind of margin scenario do we see for our business going forward, sir? Do we stick to those 16% - 17% for EMD or do you see the type of product and actually take it at much higher level?

J.C. Narasimhan: We are actually seeing now the margin in EMD will improve in the next couple of quarters for us. However, IC is anyway doing well and they will continue to do well at this level of margin and they may continuously improve it also. But when Abrasives is coming, we are working hard in the market to continue to improve the price, their margins have improved compared to Q1, we are seeing a good traction in the market as sir was telling. The price increases are a continuous process for us we are working in the market for that. So, that should help us to remain at this level or little improve on the Abrasives also. So, in the coming quarters, we are expecting margins to improve from the current levels.

Ujwal Shah: Any numbers that you can share sir?

K. Srinivasan: See, I think I will give you PBIT number that you have for the quarter is 13.8% on the consolidated which actually came down from 14.4% and that is largely coming out the Electro Mineral going down from 14.6% to 11.6%. I expect that by Q4, we should be somewhere 15.5% to 16%. So, it will be positive and depending on how strong the inflation is going to be then it goes beyond 16%.

J.C. Narasimhan: This is quarterly number what he has quoted. So, the whole year number may be different from that.

Ujwal Shah: Sir, so that the run rate of 4Q can be maintained in FY 2020 as well and can inch higher is what you are trying to say if I am not wrong?

K. Srinivasan: That is right, so we are looking at an improvement quarter-on-quarter, right? So, the full year number would have an effect on the first two quarters. But then from the next year onwards, the quarter-on-quarter numbers would be much high level.

- Moderator:** Thank you. The next question is from the line of Bhoomika Nair from IDFC. Please go ahead.
- Bhoomika Nair:** Sir, on Foskor there has been a decent amount of discussion around it. But if I look at more structurally over the last couple of quarters, we have really not made too much money out there and even in the current year, it is kind of bleeding. So, in this Z-450 that we have spoken about, would it be fair once this is sorted out in the next 2 quarters in terms of capacity moving upwards to about 400 - 450 kind of production, does that help us breakeven structurally or do we need to keep on doing something out there to ensure that there is not really too much pressure endorses out there. What is our long-term thought process on this subsidiary in effect?
- K. Srinivasan:** Bhoomika, I can tell you what is in the public domain at the moment, we will go to 400 tonnes - 450 tonnes a quarter and get it profitable. I agree with you, there has to be a structural change from there onwards to take it forward which at the moment I cannot share but we will do something about it.
- Bhoomika Nair:** Okay. The other thing is if you can connect about how the domestic EMD segment is performing with the Bubble plant, the new plant that we have shifted out here and what are the capacity utilization out there?
- K. Srinivasan:** The domestic white, brown, a lot of the traditional products are all running flat out but they are running full. Bubble still have challenges on raw material which is both the zircon sand as well as graphite electrodes. We are still running at less than 30% capacity. We may do some of white because there is a huge demand coming up in the U. S. like I said. I have some capacity available in the fusion facilities from Q3 - Q4. But we will take a call on how to move the product mix to max out on the capacities. There is a demand, at the moment demand is not the issue in the Electro Mineral side it is really to get the raw material and the process fixed.
- Bhoomika Nair:** Okay. And also, on the microgrit how is that moving with the DPF, how the volumes scaling up out there?
- K. Srinivasan:** The volumes on DPF, microgrit is practically finished. I think in the solar panel they all have shifted to diamond there is no more solar business anywhere anymore. Almost all the microgrit runs on 2 major products, it runs primarily on diesel particulate filter, it is now increasingly running on what is called as specialized ceramic material. We have not made any major announcements and I will keep it for the Q3.
- Bhoomika Nair:** Okay. Sure. And sir, I mean in terms of Abrasives, you spoke about that there is decent momentum I mean how are we looking at revenue growth for this segment for the full year?
- K. Srinivasan:** See, if you look at H1 we have done 14% growth and we have been saying 15% is doable and I stay with that and it can be better than that in case we are able to get the price increase running and the depreciating rupee makes imports also expensive then this will be walk. Otherwise, we have to really push hard to get at 15 plus or otherwise it will run like that. The demand is strong

there is a price pressure largely coming out of low-cost imports and if that goes away there will definitely a 15% plus growth.

- Bhoomika Nair:** Okay. So, we are sticking by a 15% revenue growth trajectory for the full year for Abrasives.
- K. Srinivasan:** Sure.
- Moderator:** Thank you. The next question is from the line of Kapil Joshi from Stewart & Mackertich. Please go ahead.
- Kapil Joshi:** Sir, my question is, is it possible to quantify your sales volume wise?
- K. Srinivasan:** On which product?
- Kapil Joshi:** Segment wise, sir if you can...
- K. Srinivasan:** That is tough because we have got different measures. Abrasive has got Bonded, Coated, so it is difficult to say. Let me say capacity utilization wise Abrasive overall is running between 65% to 80% depending on the product. Minerals their specialties are running like I said at 15% but the standards are running flat.
- J.C. Narasimhan:** The Brown and White we are running flat.
- K. Srinivasan:** All the standards are flat; the specialties are running at about 50%.
- Kapil Joshi:** Okay, sir. Got it. And sir, my other question like how much this quarter has been affected by the Steel price hikes and do you enjoy the pass on?
- K. Srinivasan:** Sorry. Steel price increase?
- Kapil Joshi:** Yes.
- K. Srinivasan:** We are a very small consumer of steel, we probably consume about a few hundred tonnes of steel in the lined equipment manufacturer in Industrial Ceramic otherwise we do not consume too much of steel.
- Kapil Joshi:** Okay, so nothing much important let us say.
- K. Srinivasan:** No, we supplied Refractories to the steel industries and they are as difficult as earlier in terms of giving a price increase, etc. But though the payments are coming through much quicker nowadays.
- J.C. Narasimhan:** More traction is there in the market also from the steel industry.

- Moderator:** Thank you. The next question is from the line of Bharat Seth from Quest Investments. Please go ahead.
- Bharat Seth:** Sir, this Industrial Ceramics which had pushed up our Ceramic business substantially this quarter, so how do we see in long-term I mean medium-term I mean the sustainability of this type of I mean push and improvement in EBITDA?
- K. Srinivasan:** The Ceramic vertical includes Refractories in the Industrial Ceramic and this year so far both are doing very well. In terms of top-line growth, both the Refractories as well as Industrial Ceramic are doing very well. The higher margin that is existing is primarily because of the premium products which are exported whether it is metalized cylinder, engineered product, green energy products, lined equipment for Australia. All these are becoming more let us say comparatively better because of depreciating rupee. So, that is also pushing up the margins.
- Bharat Seth:** Do we see I mean rupee remaining at this level we will be able to sustain this kind of...
- K. Srinivasan:** Should no.
- Bharat Seth:** Correct. And sir, on this graphene, can you just give a little more color what kind of opportunity we have or what could be the size of the market over the next 2 years - 3 years and we must be doing a lot of I mean validation with the client. So, various stage I mean how many clients are there application wise?
- K. Srinivasan:** Graphene is a material which is very new it seriously was found only in 2014 onwards, so it is a very-very new product for applications. The material by itself is very difficult to be put to any use, it is the lightest, thinnest material available, 1 gram of it can fill, if you relate as 1 layer, it can fill a football ground. So, it is a very-very thin light material. So, the challenge is how you customize it for various application, so that is why I said we have to co-create applications along with end users. We have taken up 6 specific applications that we are going to do from January, 3 of them would be for Carborundum internal which can create differentiated products, 3 of it is with large external uses like energy storage devices, etc. there is some scale of over a period of time. The exciting thing about it is for Carborundum to be at the cutting edge of the material design but the numbers will start coming only after these things get bigger. At the moment we have planned and we will do only 10 kilos a day, it is very small quantities, so it has to get to a significant level after we start scaling up with various applications.
- Bharat Seth:** Okay. Sir and this Z-450 what is the capacity that we have in Africa?
- K. Srinivasan:** Like I mentioned to Bhoomika, let us stay with the current quarter saying that we will try and do about 400 tonnes to 450 tonnes a quarter to start with then we will make a formal announcement of any major strategic change.
- Bharat Seth:** So, at this moment how much we can manufacture with existing capacity?
- K. Srinivasan:** About 400 tonnes to 450 tonnes a quarter.

Bharat Seth: Okay, great. Sir, on this previous question you said, these our microgrit we are largely using for diesel particulate matter. So, with BS-VI norms coming and earlier, we have got it validated from the various automobile manufacturer. So, how do we see the potential of that business?

K. Srinivasan: At the moment all the DPF that we make, and deliver is for customers outside of India because they make the assembly and deliver it into. In India so far, there is no uses of silicon carbide honeycombed based DPF. So, we are not so much worried about the Bharat-VI coming in. We are more to the European and Japanese customers who are buying it from us.

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

Charanjeet Singh: Sir, thanks for the opportunity. Sir, you have talked about some 20% hike in the EM segment in the coming quarters. Sir, if you can highlight you know historically have you been taken such a kind of price hike, the competition in this segment and you know industry wide what the kind of price hikes are being talked about is it like to similar level or if you can give more color from the customer perspective also?

K. Srinivasan: The Electro Mineral business has no competitors in India. I mean there is only one other company is sort of fusing some parts of it. Not most of what we make. So, it is a bit of global industry. Globally people have taken this kind of prices and if you take this 20% and put it back in dollar terms, we are talking of 6% or so. The rupee has gone down some 14% in this 1 year, right? So, we are really talking about 6% - 7% dollar term increase which is already being done in most parts of the world. So, my sense is 20% is going to be an absolute minimum that I am talking of, we have to try and get prices at even higher depending on how much is going to be the one cost-push effect. Second is there is a demand and supply shortage issue as well. So, it is an opportunity for this business also to make some money once in a while.

Charanjeet Singh: Okay, sir. And sir, you have also talked about you know 15% off revenue coming from the new products. Sir, if you can give us some more color in terms of how long it would have taken us to develop these products and reach this kind of sizeable number and in these new products what is the kind of growth that you can see on a sustainable basis and does this Rs. 3,200 crores of guidance include this revenue potential from the new products?

K. Srinivasan: I will answer the last part first, this Rs. 3,200 is all proven products established capacities. These new products that we are working on are over and above this and like I say the new product establishment does go through its challenges in terms of scalability and how soon the applications get established and how soon the volumes can be caught. So, I would take it quarter-by-quarter. Target is to get to 15%. We have announced a few products, I will stay with it. There are several new things that is all in testing procedures, small trials, patents have been filed. We are working on it. I would rather announce then as we go forward rather than jumping the gun.

Moderator: Thank you. The next question is from the line of Ritvik Sheth from Deep Finance. Please go ahead.

- Ritvik Sheth:** Sir, just a couple of questions, first you said that 15% of new sales are a target by FY 2020, what is it currently?
- K. Srinivasan:** What we say as a new product I have to define it. Anything that we do it for the year and 3 subsequent year it stays as new and then it becomes an established product. So, let us say the Z-450 will be a new product only for 2 more years after that it will stop being a new product. So, this is an ongoing thing of getting something, the year of introduction and 3 years after that it stops being a new product. We at the moment would be anywhere between 8% to 12% because I do not know the exact number for the month. But I think it will be somewhere between 8% to 12%. One major product is removed then it will come down but we are at about 8% to 12%.
- Ritvik Sheth:** Right. Okay. And sir, earlier in the call you mentioned that price hike taken in the first half has not fully reflected, so that will reflect in Q3 and Q4 and plus the price hike that we will put up for Electro Minerals is that understanding, right?
- K. Srinivasan:** Yes. So, we will have push through the system. The rest being a small price to increase in Electro Mineral even in Q1 and Q2 but that has still not gone into the market, it has to go to Abrasives, Refractories and then into the market. We will continue to put up. That is why I said it is a 3 quarter effort of putting it up by at least 20%.
- Moderator:** Thank you. The next question is from the line of Bharat Seth from Quest Investments. Please go ahead.
- Bharat Seth:** Sir, on Electro Mineral, when we say that with U. S. putting 25% kind of duty on Chinese product, so do we see maybe if China diverts their market from instead of U. S. to Europe and that it may affect our Volzhsky business?
- K. Srinivasan:** 2 things. One is at the moment the import is 10%, there is a threat to take it up to 25, at the moment it is 10. The European have also got other restrictions. For example, there is something called Reach registration, there is SIGMA registration. Europe has got a tremendous amount of non-tariff barriers to jump before we can get in. It is not easy, it is not quick, we have to go through several approvals before we are qualified and approved. Like I said for the Z-450 what was stopping us also stops others any raw material input change is a 2 quarters to 3 quarters battle. Customers do not scale up and immediately shift. So, there are certain things. The short answer to the question is Volzhsky is still the lowest cost producer of silicon carbide in the world. We do not see a threat for Volzhsky as far as Chinese material coming into Europe is concerned.
- Bharat Seth:** And the second thing you said this in Electro Mineral we have to push for a 20% price, so ultimately it may affect I mean Abrasives pricing and everything, we need to push. So, how we are placed being an integrated player I mean vis-à-vis another player like import threat as well as domestic another competitor?

K. Srinivasan: See, in the Electro Mineral business we say that we supply let us say more than 85% of the Electro Mineral to outsiders. Only 15% is internally consumed. So, as far as Electro Mineral business is concerned, it is ring-fenced or there is Chinese wall around then we do not differentiate whether it is Carborundum or my competitors who buy the material. They all get the same products, same competitive prices. So, we cannot distinguish or differentiate between them. We are fair from the mineral side because all the so-called competitors for Abrasives are also great customers for me at the Electro Mineral side. Everybody would have to give a price increase.

Moderator: Thank you. Ladies and Gentlemen, this was the last question for today. I now hand the conference over to the management for their closing comments. Over to you, Sir!

K. Srinivasan: We had a decent quarter. Let me say that good times ahead, Q3 - Q4 should be good times really after all these things fall in place. I take this opportunity to wish you all in advance a very happy Diwali. May this year start for all of you with happiness, good health, and all success.

J.C. Narasimhan: Thank you, all. Wish you all a Happy Diwali and have a great year ahead.

Moderator: Thank you very much, sir. Ladies and Gentlemen, on behalf of Kotak Securities Limited, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.