



“Carborundum Universal Limited 3QFY18 Earnings Conference Call”

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**MANAGEMENT: MR. K. SRINIVASAN – MANAGING DIRECTOR
AND TEAM**

MODERATOR: MR. AADESH MEHTA – AMBIT CAPITAL

Moderator: Good morning, Ladies and Gentlemen. Welcome to the Carborundum Universal Limited 3QFY18 Earnings Conference Call, hosted by Ambit Capital. As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing ‘*’ then ‘0’ on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Aadesh Mehta from Ambit Capital. Thank you and over to you, sir.

Aadesh Mehta: Thank you, Lizann. Good morning, everybody. Welcome to Carborundum Universal's Earnings Call. To discuss the results, we have the senior management team of the company, led by the Managing Director Mr. K. Srinivasan. May I request Mr. Srinivasan to take us through the financial highlights, subsequent to which we can open the floor for a Q&A session. Over to you, sir.

K. Srinivasan: Good morning to all of you. Since this is the first call of the year, let me start by wishing you all a very happy new year. May this be a year of growth, success and less of excitement that we had yesterday. I also take this opportunity to congratulate on all your behalf our CFO Mr. Sridharan Rangarajan who would move over to a group leadership role as a group CFO. But since he was a CFO of Carborundum for the last quarter I have invited him to be a part of this call and he will take all the financial questions.

As far as the performance is concerned, we had a good quarter. 3Q was good both in terms of volumes as well as in terms of operating leverage. The continuing impact of high inflationary pressure both in input material as well as on energy continues and this ongoing battle of trying to pass on this high inflationary price cost into prices is on, and you will see that getting better as we go forward.

On a consolidated basis 3Q was over Rs. 600 crores, which is about 9.3% higher than the last year. Obviously, this quarter was without the excise duty. Last year excise duty was there. On a like-to-like comparison the sales grew by 15.4% compared to the last year, sequentially we grew by about 4% which is very good, considering the fact that 3Q always for us is a smaller quarter compared to 2Q because it is almost like a two-and-a-half month quarter.

We delivered Rs. 54 crores PAT in the current quarter against Rs. 44 crores last year, and Rs. 55 crores in the Q2 of this year. So it is almost flattish in terms of PAT. But on a quarter-on-quarter it grew by 24%. For nine months' period sales at Rs. 1,692 crores was 10.4% higher than last year. We expect this to get better and hopefully the year would be on a 10 plus percentage growth for the full year.

If we go segment-wise, abrasives at a consolidated level on a comparative basis, sales for 3Q was Rs. 270 crores, 15% higher than the corresponding period last year, sequentially basis too it grew by 4% like I said it is a strong growth considering the shorter quarter period. Year-to-year basis it has grown by about 7.5%, the strong growth is actually lead by Carborundum Abrasive's standalone performance being very strong, the 17% growth on a year-to-year basis and 4%

sequentially. For a nine-month period sales at Rs. 616 crores were about 7% higher than the last year. Business has really picked up, the GST is behind and hopefully we should see 4Q being even better. Growth in abrasives in Volzhsky is also stabilizing and getting better.

On the electro-minerals, we saw the highest volume growth. Consolidated level net sales grew to Rs. 229 crores against Rs. 195 crores and compared to 2Q it grew by 5%, on a YTD basis the growth would be 15%. The strongest growth in volume actually came from standalone, CUMI standalone was Rs. 108 crores for the quarter which was 45% higher than the corresponding quarter last year and 11% higher even sequentially. The growth has been a bit of a struggle in terms of contribution but you will see that improving as we go by and get our prices corrected in the market.

Volzhsky grew by 6% in the quarter compared to the last year. A strengthening Rouble, Rouble is today RUB58 to a Dollar, meant that price that we make in Rouble terms where export was lower, but overall the growth was 16% on Rouble terms. In INR terms for the quarter and for nine months, the growth was 12% and 24% respectively. Again, strong growth by Volzhsky, largely by higher volume in silicon carbide.

Ceramics, at a consolidated level net sales 3Q was Rs. 124 crores compared to Rs. 103 crores for the corresponding quarter last year, 18% growth. Sequentially it was near flattish about 1% growth. YTD basis consolidated grew by 9% in ceramic, again strong growth coming in from all segments.

First nine months capex, we have spent about Rs. 50 crores on standalone and about Rs. 76 crores on consolidated. We expect to complete all the capex as planned, we will do about Rs. 100 crores for the year. Overall, very strong performance in 3Q, but we expect it to be even better in 4Q.

The key thing that we have taken as an initiative in the last nine months in terms of driving R&D effort across the company is getting stronger. We have now all the six DSIR certified labs working well, filed over 6 IPs, some of them are international patents and we expect all this to come into play as we go forward in the next two to three quarters.

I will now ask Sridhar to take you forward to the numbers.

Sridharan Rangarajan:

Good morning to all of you. We will broadly cover the numbers by quarter and by segments. The first, we will take about quarter-over-quarter. At a consolidated level we registered a net sales growth after eliminating excise of Rs. 80 crores with operating PBT growing about Rs. 20 crores. PBT growth came largely on the back of higher volumes and lower interest costs and other operating income.

Let us understand the results by entity. Standalone PBT were up by Rs. 12 crores and this is largely because of the higher sales of Rs. 76 crores. Subsidiaries PBT increased by Rs. 8 crores, largely contributed from Volzhsky abrasive works. Sequentially, at a consolidated level we registered a sales gain of Rs. 21 crores and our profit dropped by Rs. 3 crores. This is largely coming because of the power and fuel cost surged in Volzhsky abrasive works.

Entity-wise, the standalone PBT was up by Rs. 1 crores, subsidiaries PBT were lower by Rs. 3 crores, again largely coming from Volzhsky abrasive works. On a YTD basis, at a consolidated level, we registered a sales gain of Rs. 160 crores which is 10.4% gain and a PBT gain of Rs. 38 crores. The entire gain came from volume and better cost leverages.

Entity-wise, CUMI India had a profit pick-up of Rs. 5 crores on the back of Rs. 100 crores sales increase. Subsidiaries gained Rs. 33 crores, coming from better performance of Sterling, CUMI America, China and VAW. You would remember last year during the second half around 5,000 tons of production were lower owing to power supply disruption in Volzhsky abrasives, so that is not there, and they could pick up higher volumes.

Now let us see by segments. Abrasives, PBIT margins in abrasives increased from 12.2% in 3Q last year to 13.5% in the current quarter. The margins improved on the back of higher sales in standalone business. On a sequential basis, the margin dropped from 14.1% in 2Q to 13.5% in 3Q, largely due to the lower profits in sterling abrasives. On a YTD basis, profit were higher by about Rs. 9 crores, margin expanded from 12.3% to 12.7%. The entire gain came from CUMI standalone.

On EMD, consolidated PBIT margin of EMD went up from 11% in 3Q last year to 14.8% in the current quarter. The increase in PBIT of Rs. 12 crores was contributed both by higher volumes in VAW and standalone EMD business. Sequentially, consolidated profits were lower mainly due to VAW as the power cost went up to RUB 2.56 per unit. Consolidated PBIT on a YoY basis was higher by about Rs. 29 crores, the entire gain came from Volzhsky Abrasives and the standalone business.

Ceramics, PBIT margin of ceramic was at 16.6% compared to 13.9% in 2Q and 15.8% in 3Q last year. Indian industrial ceramic had a good quarter on the back of better volumes in tiles, metalized cylinders, engineered ceramic products. Refractive business sales were also higher due to comparative higher execution of order. YTD level profits were higher by about Rs. 3 crores owing to higher sales in standalone business.

As far as capex, Rs. 76 crores we have done for YTD December. As communicated earlier, we will be in the range of around in and around Rs. 100 crores capex for the full year. Debt-equity ratio, on a standalone basis, was at 0.01 as of December against 0.02 as of September 2017. The total debt was about Rs. 9 crores and on a consolidated basis the debt-to-equity ratio improved from 0.1 of September to 0.09 December, the total debt on consolidated basis both long and short put together is about Rs. 125 crores. On a consolidated basis cash and cash equivalent would be in the range of about close to Rs. 145 crores, so which means net of cash and cash equivalence the debt were, the cash and cash equivalence is higher than debt that we carry at this point in time.

So, with that I would like to sum up saying that I think broad trajectory that whatever we have been communicating we are tracking that path. All the capex is in place, metalized cylinder lines have also come in place in the last quarter, in the coming year we will start seeing the capacity utilization going up which will result into better results. And the challenges of how to pass on the cost increase, as Mr. Srinivasan was explaining, the team is working on that.

I think with that broadly the balance sheet is strong, it is more and zero debt at this point in time. And the capacity utilization as it starts going up, as it starts having better cash and we will start looking at opportunities to utilize them well. So, with that we will open up for your questions. Thank you.

Moderator: Thank you. Ladies and Gentlemen, we will now begin with the question-and-answer session. We have the first question from the line of Balchandra Shinde from Anand Rathi. Please go ahead.

Balchandra Shinde: Sir, regarding results, power cost has increased both in subsidiaries and standalone levels also. I guess in subsidiaries, it is largely because of the pet coke prices, but why it has increased on a standalone basis also?

K. Srinivasan: See, if you look, just to set the context, power cost as a percentage of consolidated sales if you see that it is really coming down, no absolute number is going which is what is your observation. If you see that power cost on a YTD basis is about 14.1%, so it is really on a good wicket. But what is happening is there is a high volume pick-up in the domestic volumes that we are generating out of electro-mineral business, which means higher power cost naturally because the volume is going up. Second reason is that, the fuel cost almost about close to 10% has gone up, the rate of fuel has gone up. And the third reason is the VAW's power cost has gone up largely because seasonally it always goes up, almost we have reached RUB2.56 at this point in time. So these are the broad reasons why our power cost in absolute terms is going up.

Balchandra Shinde: And sir in electro-minerals what I have heard is like silicon carbide prices are shooting up, so are we seeing any, means in our recent growth in this quarter have we seen any price increases and how much percentage it was due to the price increase?

K. Srinivasan: See, we are putting up prices of all products, not only silicon carbide, actually in silicon carbide domestic we are hardly getting on an average of about 3% to 5% price increase, but all prices are being put up, brown fuse to white fuse, zirconia, everything is going up simply on the back of all the input materials. You mentioned pet coke, pet coke has gone up but even larger increase has happened in graphite electrodes, seven times, zircon sand, bauxite, everything has gone up. So we are correcting prices. In this quarter the net impact of price alone would have been probably around 5% for the electro-mineral, but we need to continuously assess the impact, because like we have contracts ahead for quarters, so we have to deliver at certain prices. Similarly, we also have contracts for the raw material that we buy from alumina's and others, but these spot prices are all going up much more rapidly, the next three to fourth quarters would be both input costs going up and prices going up.

Balchandra Shinde: Okay. So how much is the tenure of our contract?

K. Srinivasan: Depends on businesses and customers, the longest we agree is for six months on price, volumes could be up for up to a year, the same both ways, both for inward and outward. We take let's say alumina contracts, major supplies in India is a one-year price and quantity fixed which is what we buy, which is nice. But our contracts with customers generally tend to be for six months,

exceptional for some special customers like DPF we have to agree on a two-year contract with agreements of review of prices after everyone year.

Balchandra Shinde: Okay. And sir my last question on the synthetic graphite which we said in our last quarter, have we advanced on the planning stage or we are still...

K. Srinivasan: We will come back with some announcements hopefully during the next three to four months, we have done quite a bit of work, it has crossed alpha, we will do something, and we will get back to you.

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

Ravi Swaminathan: Sir, just wanted to know what would have been the volume and value growth in abrasives, what would have been the industry growth would we have won market share during this quarter or at least over the past couple of quarters?

K. Srinivasan: Abrasive sales growth has been 7.5%, I would believe about half and half would be the volume and price growth, that is I am talking about YTD kind of growth in abrasives. Most of the growth would have happened in India, so that is to give you an idea on the sales growth. Would we have won market share, I believe we would both be around the same in terms of market share because our margins have probably improved a little better than the others on two grounds, one is we probably are far more efficient; two, we are also being more aggressive on pushing up prices. So, that is broadly what it is. Generally, what is also happening in the market is expectation of a big boom after GST has really not happened as yet, we hope to see it happening. The demand is still largely muted and we have to see how it pans out in the next two to three quarters.

Ravi Swaminathan: And the growth which we are currently seeing was absent last year, that is because of which sector?

K. Srinivasan: Across the board, if you are looking at abrasives it is largely on the customer accounts, which is really the auto components, they seem to be doing significantly better than the previous year. The actual retail counter sale which is really the hardware, counters, home improvement, very muted, practically at the last year's level. No big traction there which is what is really expected after GST, that is really still to happen. On the electro-mineral side, I think it is a global demand coming up largely with declining output coming out of China, practically a shortage situation in most of the minerals and the inputs that go into the minerals. Ceramic side, most of the growth that we are seeing is on the engineered special ceramics which go towards high value products and customers. So, overall global growth of almost everything that we are doing is very robust and our expectation in the next two or three quarters is also very robust, we expect very strong demand for all that we make across the globe.

Ravi Swaminathan: What would have been the growth in metz cylinders and what would be the quantum out of the overall segment in that?

- K. Srinivasan:** See, the metz cylinder, it is very difficult to see what the international growth in this is because this is largely related to transmission lines, etc. All that we know is that the NGK plant has been transferred, commissioned, we will hit full capacity in the next two quarters by which we should come to about 1.5 million to 1.8 million cylinders. At that time, we expect that we would represent a significant part of the global production.
- Ravi Swaminathan:** And when this grows, I believe this carries better margins than the other sub-segment in the ceramic, can you see further improvement in ceramics and refractory's margins, substantial improvement?
- Sridharan Rangarajan:** I think broadly what we communicated earlier we will continue to be tracking that. So, one is that there is a growth that will happen in the cylinder sales and because of that margin will go up. We also expect cost push and price pressure on the tiles business. So on a combination of all these factors, we will definitely have an improvement in the PBIT margin.
- Moderator:** Thank you. We have the next question from the line of Kashyap Pujara from Axis Capital. Please go ahead.
- Kashyap Pujara:** Just a couple of questions. Firstly, on the price increases front, in abrasives what is the kind of price increases that we have taken in the last three months, and is it fair to assume that the full impact of the price increase is not reflected in this quarter and it would be more starkly visible in the quarter ahead?
- K. Srinivasan:** I think that is a fair estimate. We have asked for a price increase anyway about 6%, but what we probably would have realized in the last quarter would be significantly lower than that. We should see price increase playing out in the next two, three quarters, but I must also warn that there is also a parallel cost that is also hitting us. So this is a moving target, as we are putting up prices and we are winning in the counters we are also seeing that the input costs are also going up. So, like I keep saying we are going to play out a role in the next three, four quarters of very inflationary market where all input costs are going up and a battle to get corresponding price corrections in the market. So this is how it is going to be for the next three to four quarters.
- Kashyap Pujara:** Sure. And my next question pertains to growth, is growth getting broad based now, I mean given that the economy is seemingly on a uptake, at least the companies have started reporting decent number. So per say are we seeing benefit of growth getting more broad based, that is one. And the second question pertains to Sic, we have seen a very strong performance there but I just wanted to understand what is the kind of impact because of Sic pricing driving profits versus volumes driving profit, given that with commodity prices on an uptick are we seeing Sic moving up and that is driving the profits there?
- K. Srinivasan:** On the electro minerals, I will answer your last question first, on the electro minerals side, again the input cost increase has been horrendous, everything has gone up, pet coke has gone up, the single largest producer of Sic we have in Volzhsky where from RUB2.15 to RUB2.56, 20% increase in energy price in one year. So the input cost is probably growing faster than the price

correction that we are getting. But we seem to have done better primarily because we have picked up another 3,5000 tons of Sic volume. In South Africa the improvement has happened not in spite of all the negative things, we have a seven time growth in the graphite electrode price, the zircon sand price is up by near 40%, but a technological breakthrough, we have made a new product called Z450 which is a first of its kind which allows us to produce very superior zirconia product with far less impact on price because you have less graphite and less power, and this product has been launched and has been very successful so far, but we have to see the volumes picking up. So that is a technological breakthrough surmounting the cost pressure that is coming up. So the electro-mineral vertical as a whole, very strong demand growth, very strong requirement, simply because the Chinese production is going down, the economy globally is picking up. So demand is strong, requirement is strong, huge pressure on prices simply because the input cost is also going up. So it is going to be a battle for next four quarters.

And you asked a question, sorry, on terms of overall robust demand? Absolutely right, all segments, all sectors have shown strong pickup in demand. We did not see a big boom in the abrasives distribution that we expected after GST, but other than that every other segment is showing robust growth.

Moderator: Thank you. We have the next question from the line of Bharat from Quest Investments. Please go ahead.

Bharat: Sir, as you said, in abrasive , distribution side we are not seeing traction ,where the profitability is little higher than the other side, is my understanding correct? And once that picks up then also profitability overall of the abrasive can improve.

K. Srinivasan: Absolutely right.

Bharat: So when do we expect on product sales overall demand is improving, so when distribution is likely to expect that?

K. Srinivasan: Very difficult to answer this. Like I said the distribution based abrasive production is roughly about 60% to 70%. Retail counter sales, we are yet to see the positive impact that we anticipated after GST coming up. The regular sales continues, but we are not seeing huge traction that we expected that once GST is rolled out everything will get more organized and we will see a big boom, this actually has not happened. So it is anybody's guess whether it is going to happen at all. If it does not happen it means that people have found a way to work around all the positions that we thought off.

Bharat: Sir one more thing, you said that our demand is also improving, we are able to pass on the price, simultaneously raw material prices are also going on. So in what timeframe really we can catch up with the increase in raw material and passing on? And second thing, you said some of our IP product that will start kicking in next three four quarters, so what kind of that opportunity can you elaborate a little more?

- K. Srinivasan:** I will answer your last question first, I openly said about the Z450, this is clearly a technological winner, uses far less power, far less graphite electrodes and this could be an absolute revolution. First trial production is over, we have put it in the market, we have launched it, once it gets traction you will see complete different set of numbers coming out of South Africa. So that is first of the IP kicking in the market, we will see how it picks up. Many of them are happening and we will announce it as and when they really become a commercial story. As far as the inflationary environment, I said it in the beginning, I will say it again, we are now running a battle for the next at least three to four quarters of a continuous increasing input cost, driven by continuously increasing pricing demand that we are putting up and there is always going to be a catch up in these two, but I think this will continue at least for three to four quarters, we do not see a respite in this unless we see some dramatic change in the way China is going to organize itself. We do not see this happening at least for the next three for quarters, it is going to be an ongoing battle.
- Moderator:** Thank you. We have the next question from the line of Vineet Maloo from Birla Sun Life Mutual Fund. Please go ahead.
- Vineet Maloo:** Sir, just want to understand within ceramic division if you could highlight what is the source of growth that you are seeing? I know there are various sub-segments into it, if you could just elaborate a little bit on that?
- Sridharan Rangarajan:** Ceramic, I think we will talk of two parts, the industrial ceramics the biggest growth like we said is going to be to get the capacity utilization up of the metalized cylinder plant, and that is going to be the big driver. Rest of them are also seeing growth but the single biggest driver is going to be the higher capacity utilization of the metz cylinder business. On the refractory piece of the ceramic, overall improvement in demand situation and you will see volumes picking up.
- Vineet Maloo:** So refractory would be related to which segment?
- K. Srinivasan:** Refractory is the primarily target and volume pickup largely is going to be around glass, carbon black industry and other non-ferrous. We are excluding steel because we are not a big player in steel refractory's.
- Vineet Maloo:** Okay. And another question was about again these raw material prices, it seems that you are hinting that there will be margin compression going ahead. So could you confirm that or are you ahead in terms of price increases?
- K. Srinivasan:** So let me once again reiterate, we do not expect margin compression, we expect margins to hold or improve. But I do not want to put out a number that we will have so much of pricing power that we will improve margin aggressively, because it is the demand that is going out on customers for a price increase on a regular basis. The input costs are going up, we will continue to correct prices and we hope to at least hold or improve margins as we go forward.

- Vineet Maloo:** I am sorry, just to clarify a little bit more on that, when you say margins will at least hold, you mean gross margins right, it is not that we might lose on gross margins which should be compensated by operating leverage?
- K. Srinivasan:** I think it is a combination of both; I would have to be careful on what I talk to you because we also have to work with customers to get prices.
- Sridharan Rangarajan:** It is largely what we are talking is the PBIT margin which is after both the effects of volume and cost versus price. So it is a continuous moving target because there is no supplier giving a large period contract, it is a short period contract. So obviously you have to expect what kind of cost push is likely to come and then you have to also work with the customers. So it is always a catch up game, so you will find challenge continuing and we are expecting this challenge to continue at least for the next three quarters.
- Vineet Maloo:** And are you see lot of competition in terms of when you want to take pricing action in the market? So what I am trying to understand is, on trade side is it much easier to pass-on pricing or industrial side, how does it work for you?
- K. Srinivasan:** See, we are driving price, the competition is not driving prices, we are driving prices and we have to do it across all our geographies. And the challenge is not getting the price increase, the challenge is continuously getting price increase on an ongoing basis. Neither is the customer used to nor is the salesforce used to getting prices every six months and every three months, and this is a battle that is going on. As a leader in most businesses, it is our responsibility to drive prices and we are doing it.
- Moderator:** Thank you. We have the next question from the line of Nirav Vasa from B&K Securities. Please go ahead.
- Nirav Vasa:** Sir, based on this exciting scenario would it be possible for you to share some kinds of guidelines in terms of growth which is possible for FY19? And now that demand is also very strong and we have capacities also in place and everything now seems to be on a positive side, earlier we had stated that the maximum earning potential on the existing asset base is of around Rs. 3,200 crores, do you think that number can be revised upwards?
- Sridharan Rangarajan:** Yes, so just to reiterate, I want to make a statement here that we make certain statements which reflect our future outlook or which could be construed as a forward-looking statements, these statements are based on management's current expectation and are associated with uncertainties and risks more fully detailed in our annual report which may cause the actual results to differ. Hence the statement must be reviewed in conjunction with the risk that the company faces. So just a cautionary statement that we would like to state. So, by and large as we earlier communicated, we are driving to a trajectory that is really communicated, Rs. 3,300 crores is doable in two years' time, this is what we have been communicating. Now is it going to be higher than that because of price increase that we are putting, etc, is your question? I think it is too early to judge this call because the next three quarters is very critical for us to track because once the Chinese industries

comes after the new year season and what they are going to do, how is cost going to be there, all that needs to be really looked at. But by and large we feel that the trajectory that earlier we communicated is possible to do that.

- Nirav Vasa:** And sir guidance for FY19, any number that you would like to place?
- Sridharan Rangarajan:** We will get into the climbing mode, we are just working on it. So as and when we complete that process we will probably get back to you. But as I said, right now this year we are looking at about Rs. 2,300 crores to Rs. 2,350 crores by and large top-line in that range. And then from there we can go up by about Rs. 1,000 crores in two years' time, so that is a broad indication that we can look at, at this point in time.
- Moderator:** Thank you. We have the next question from the line of Rajesh Kothari from Alf Accurate Advisors. Please go ahead.
- Rajesh Kothari:** First question is, do you have kind of a raw material price index business wise, particularly in ceramics, electro minerals? And if yes, can you tell us what is the actual cost increase what you are facing on weighted average basis? That is question number one. Question number two is, what is your current capacity utilization? And by next year how much do you see the ramp-up in capacity utilization? And question number three, you just mentioned something on guidance for FY18, then you said Rs. 1,000 crores additional. If you can little bit clarify on it, I missed that sentence.
- Sridharan Rangarajan:** The last one first, I said by and large we can get Rs. 1,000 crores of sales increase in the next two years, that is what I mentioned.
- Rajesh Kothari:** You mean to say that by FY20 you can add Rs. 1,000 crores revenue compared to what we are going to see in FY18, am I right?
- Sridharan Rangarajan:** That is correct.
- Rajesh Kothari:** And FY18 you are saying by and large you are on track of whatever we are doing on run rate basis?
- Sridharan Rangarajan:** Yes, correct. Then your question is on capacity utilization, so since we have very varied product range I will give a broad indication. As far as industrial ceramics is concerned, on metalized part we will operate above 85% and on the tiles we will be operating about 70% plus. Refractories overall about 70% we will be operating. Abrasives, on the coated side we will operate above 85% plus and bonded we would be operating about 70% plus. Electro mineral, most of the product we will operate above 85% plus, newer capacities we would operate less than 20% as we just commissioned and started working on it. On the first question on the cost versus price, it is too difficult to work and come up with a number. But as we said our price increases are all towards addressing the cost push, and that is the whole objective that we are working. Wherever we are not able to absorb this by virtue of our productivity and other benefits that we would like to get, we

are in the process of passing it on to the customer. So that is the whole objective with which we are working on it.

Moderator: Thank you. We have the next question from the line of Aditya Mongia from Kotak Securities. Please go ahead.

Aditya Mongia: Sir, the focus from my side would be more on margins. Now, I understand that today the environment is inflationary and good demand is helping us right through price increases. I just want to get a sense based on your past experience that let's say in times of this turning around and environment becoming deflationary, is it fair to assume that you would be able to hold on to prices or would the declining prices also be very sharp?

K. Srinivasan: So far our experience has always been that in our business the deflationary cycles are smaller than the inflationary cycle, so you tend to give away some part of the margins when everything goes down, but that is less than what you took it up. So the general trend seems to be upwards, and that is also true with the cost situation, because the operating cost also start climbing up as you start working upwards and that is the way it has always been. So let us say you take a price correction of 5% to 8%, eventually if there is a deflationary cycle, we may probably end up giving about 2%.

Aditya Mongia: Sir the second question which I had was that the capex run-rate that you are talking about right now which is Rs. 100 crores and thereabout in annual basis, one you would be reaching the Rs. 3,200 crores - Rs. 3,300 crores mark, what kind of numbers would you then be thinking through in terms of capex over the next two, three years?

Sridharan Rangarajan: See, our capex is never anything very large, it always tends to be around Rs. 100 crores in a year. And I think we would stay around that because our business is not so much on a big one-time capex, it is ongoing incremental of plants, specific projects, etc. So we are not looking at any dramatic capex but there could be an M&A opportunity or something that it may evolve. But in the next two to three years our annual capex is all going to be around the range Rs. 100 crores to Rs. 120 crores, not more than that.

Aditya Mongia: Sir, I was just trying to get a sense of beyond the time that you hit your peak capacity.

K. Srinivasan: We will continue to look at it, as Sridhar mentioned we are on a business plan cycle, just going ahead planning for the next test beyond 3,000. I think there are quite a few exciting new things that are happening around IPs that we are creating, I mentioned one because that is out in the public and we expect to have more happening and we will come up with better numbers as we go forward.

Moderator: Thank you. Our next question is from the line of Vipul Shah from Sumangal Investments. Please go ahead.

Vipul Shah: Sir, you alluded to a new technological breakthrough in electro minerals side, so would you elaborate more about the demand potential, end use of that particular product?

- K. Srinivasan:** The zirconia product that we make in Foskor as well as the bubble that we make in Cochin from the electro mineral division, largely what is called as monoclinic zirconia is used in many applications right from refractories, converted into alumina zirconia for abrasives, used as fine ceramic for various applications like pouring cups, etc for pigments, nuclear rods, whole lot of things, that is the basic raw material used by many industries. In many new requirements they would like to have the radiation content on it, what we call as a U+Th, there are special applications for that. The way that we now make it as a new product Z450 guarantees that U+Th will be below the 450 mark , we will be at most times below 350, that is why the name Z450. But also more importantly in today's context of high cost of graphite electrodes and high cost of power, the way that we make it allows us to use less of graphite, less of power, so not only in this process we get a superior product but it is also a very competitive product. And this is a breakthrough and around this is what we are trying to build new range of products and business. I think that is the largest technical explanation we have put out in public so far.
- Vipul Shah:** What is the demand potential if you can put it in any number, opportunity size?
- K. Srinivasan:** See, mono-clinic zirconia's demand is in excess of 25,000 tons to 30,000 tons, special zirconia, so let us see how much we can take out of that.
- Moderator:** Thank you. Our next question is from the line of Jasdeep Walia from Infina Finance. Please go ahead.
- Jasdeep Walia:** Sir, your volume growth in electro mineral business has been pretty good, so I would imply that the capacity utilization levels are running pretty high in that business. So what are your thoughts on capex going forward in that business and what would be the nature of that capex, would it be brownfield, Greenfield or would it be on value added products or basic raw material?
- K. Srinivasan:** Jasdeep, it is like this, the capacity utilization of Sic in Russia is near flat, we are trying to get an incremental capacity, we said we are about 80, we will move towards 90. On the Foskor Zirconia business we have the new range that has come in, Z450, our capacity there can be at least about 8,000 tons a year in both the products together now because we have a new process and there is not going to be too much of a capex around it, we will do some incremental things there but we are going to scale up there. As far as Cochin is concerned, I will give you an overall number, we are roughly doing about 2,700 tons to 2,900 tons a month today. But if we run all our investments flat out we can go to about 3,500 tons to 3,800 tons even what we have put on ground. There would be incremental improvement and changes required, power supplies, processing, etc. but these are all much smaller. So when we talked of these 3,200 crores to Rs. 3,400 crores, most of what is required for it as the major capex is already there. Now what more we are going to do, there are a lot of IP related activities going on, I could put out in public the Z450 story, similar things we are working on would have to come up to drive new capex. We have to look at the new capex to be technically different to consume lower power, lower of the critical material like graphite and to address newer markets. So we will have to talk about it as we go forward.
- Jasdeep Walia:** And sir, what are your thoughts on increasing capacity in Russia?

- K. Srinivasan:** As I said, we are working on moving 80 to 90, work is in progress. We will take it up in two years. Beyond 90 we have not thought through, we are not talking of a Greenfield or a big project, and I explained it much earlier as well, Russia is still with sanctions from all major countries, we have to look for a major another let's say 50,000 tons or a 100,000 tons is a big call and that we are not going to take it now.
- Jasdeep Walia:** You are not looking at any other geography for this silicon carbide project apart from Russia?
- K. Srinivasan:** There are some few looks but that is all WIP.
- Moderator:** Thank you. Our next question is from the line of Bhumika Nair from IDFC Securities. Please go ahead.
- Bhumika Nair:** Sir, two questions, I think most of them have been answered but two questions from my side. One is, given the pickup in EMD that we have seen how is the new capacity scaling up? And question number two is, with the improvement in demand that we are seeing how the microgrit facility is scaling up, the shift towards diesel particulate filters, etc, that we were looking at?
- K. Srinivasan:** To answer last question first, after a long time we have a nine months contract for the DPF, so we are going to see some good volumes coming up from the micro grit plant. The micro grit plant is actually now since last couple of months running well; we will see volumes coming up. I would like to be quite about the margins, let it evolve because there are practically only few customers in this business. Coming to your first question, Sridhar mentioned it, our capacity utilization of the Bubble plant is still about 20% or lower, we can do much more there. On the semi-friable and the others, so one of the two plants is running flat out, the other one is still less than 25%, so there is still significant capacity available.
- Bhumika Nair:** And on the micro grit, let me put it that way, within the EMD segment what would be our specialized revenues now contributing to?
- K. Srinivasan:** The specialized is not just micro grit, we have alumina zirconia, we have bubble zirconia, we have azure s, we have semi-friable, I think we have still capacities, this is a battle for input price and selling price, so I would leave the margins out but this business is yet to pick up fully.
- Moderator:** Thank you. Our next question is from the line of Priti Jain from Sundaram Mutual Fund. Please go ahead.
- Priti Jain:** Sir, what would be the volume growth in abrasives for the current quarter?
- Sridharan Rangarajan:** See, by and large I think earlier Mr. Srinivasan was explaining that we are about on a full year basis about 6.4% growth. It is predominantly volume and mix growth that is what we are looking at at this point in time.

- Priti Jain:** How is your volume growth over next say six to nine months how are you seeing volume growth? Post GST any curb in imports have been happening, are we seeing that in the wholesale channel any curb in imports have been happening, any inventory destocking has been happening?
- K. Srinivasan:** See, I mentioned we all expected a significantly traction in the counter sales post GST, this is still WIP, or to put it very bluntly, we have not seen it actually. So it is still business as usual. We have to wait and watch how it pans out in the next couple of quarters. If it still does not happen it means people have found their own work around to handle it. So there is a big boom that we all expected after GST implemented, it is still WIP.
- Priti Jain:** Sir, e-Way Bill, can it be a game changer?
- K. Srinivasan:** We really do not know, see after the GST thing none of us can guess anything because all our original thoughts do not seem to work because finally on the ground eventually people are far clever than anybody else, you do not know how they find the work around. But let us put it like this, it is still work-in-progress, we do not know how it is panning out.
- Moderator:** Thank you. We have the next question from the line of Ujwal Shah from Quest Investment. Please go ahead.
- Ujwal Shah:** Sir, just wanted your outlook on, can you throw some light on the performance of our Australian subsidiary, Chinese subsidiary and how are we going about our US abrasives business?
- K. Srinivasan:** The Australian business has had an unusually muted 3Q, but if you look at it on a full year basis they have done very well, they will continue to do well, they have good project orders, particularly power stations in Southeast Asia, they even are doing a power project along with a large Japanese consortium in Morocco. So a good movement from just being coal processing plant driven to working more on supplying more to the power stations, etc. So Australia is doing well, outlook is strong, no issue. China, the new model is working. We have now changed to almost about 85% of all that we sell there is now into China and not out of China, which is a big change, marginal business at the moment because it is not a huge business at the moment. We will see how the whole model works and then we will look at how to scale it up and how to support it going forward. As far as the US business, again, we do two parts, one is what CUMI USA does and the second is what we sell from here directly to major customers. Sale of Carborundum products into the US would be anywhere between \$15 million to \$20 million, it is a big size, but the US operation per say handles only about \$7 million - \$8 million of that. Marginal business is still not less than breakeven, we lose a little money there. This is again work-in-progress, how we want to restructure it, how we want to change it to address the US market is something that we will play out in the next couple of quarters.
- Ujwal Shah:** And sir on the second question, sir other expenses were unusually high during this quarter, was it due to some exchange?

- Sridharan Rangarajan:** Other expenses, what I suggest is please taking a look at it as a percentage of sales, it would drop, and in fact what we are looking at is it is going down. Last year same period we were at 24.9%, right now we are at about 22.9%. So it is a reflection of volume, etc, I do not think being abnormal is there.
- Moderator:** Thank you. We have the next question from the line of Kashyap Pujara from Axis Capital. Please go ahead.
- Kashyap Pujara:** Thank you. All my questions have been answered. All the best.
- Moderator:** Thank you. Our next question is from the line of Balchandra Shinde from Anand Rathi. Please go ahead.
- Balchandra Shinde:** Sir, regarding Z450 would like to ask, last time when we introduced Bubble Zirconia we faced problem to scale up the volumes in Foskor Zirconia and we were not able to actually create that opportunity as a profitable proposition. So, how confident we are on this Z450 because again there will be a technological barrier I think, then wouldn't it be possible to introduce that product actually in India and then start the operations?
- K. Srinivasan:** The Z450 is a quasi-fusion process, as I explained. The Bubble Zirconia as a product and as a technology was a huge success, that is the reason we brought it and recommissioned it in India. The challenge we had was operating skill or operating a fairly complex plant in South Africa. Now we are operating in India, we have now new challenges, the graphite electrodes have gone through the roof and sand availability is a challenge. So we are struggling with that plant in India as well as only 20% utilization is happening. The market demand is good but we are yet to get prices for that. Now for the Z450 story, everything is in place in South Africa, the raw materials, the way we process it, the way we do a quasi-fusion and treatment, since we are able to do it efficiently there and it is an existing used plant we are able to run it well, there is no technical challenge that the people are not able to handle. Here the challenge is going to be quick scale up and winning customers in the world. We will have to give it three quarters to see how soon and how fast we can do it. Once we hit a peak we may decide to do some part of it also in India, but that is a call that we will take after three to four quarters.
- Balchandra Shinde:** But as per your analysis by usage of Z450, as you said, how much graphite electrode usage will get reduced?
- K. Srinivasan:** It can come down to about a third of what we use on the regular fusion, one-third, that is a big change.
- Balchandra Shinde:** Okay. So from means like 1.7 kg per ton it will come down to around 0.6 kg per ton?
- K. Srinivasan:** I do not want to get into the numbers but I think it will come down to one-third.

- Moderator:** Thank you. We have the next question from the line of Aditya Mongia from Kotak Securities. Please go ahead.
- Aditya Mongia:** Sir, I recall Mr. Sridharan talking about 6.4% volume growth number which I could not understand, it would be great if you could give the volume growth numbers for the third quarter across segments so that we can decide...
- Sridharan Rangarajan:** What I said is abrasives YTD base is 6.4% growth.
- Aditya Mongia:** Can you also give the number for the other two segments in a similar manner?
- K. Srinivasan:** I will give you sales growth for YTD, EMD 24%, most of it you can take it as volume growth, because there is also down-trading that is why I said most of it volume growth. Then in terms of ceramics it is 5%. So I am giving you sales growth YTD all three segments standalone, and you can take it by and large this would represent a volume growth. Why I say this, there is a price correct but there is also a downtrading, so it is a combination which really negates the price correction effect. So there is a volume growth almost at the same level as the sales growth.
- Aditya Mongia:** Got it. The second question was more on this metz cylinder capacity, at full capacity how much would be the revenues that you would be able to generate?
- K. Srinivasan:** I would leave the revenue part for the time being, the volume we will hit is about 1.8 million cylinders. I am being careful here because you also have to understand that if I tell you the numbers you can calculate the average realization of cylinder is so much, then how do I work with my customers.
- Aditya Mongia:** But sir ballpark numbers, I am just trying to get ballpark numbers over here.
- K. Srinivasan:** Let us leave it out, please.
- Moderator:** Thank you. Ladies and Gentlemen, that was the last question. I now hand the conference over to Aadesh Mehta for his closing comments.
- Aadesh Mehta:** Thanks everyone. On behalf of Ambit Capital, I would like to thank Mr. Srinivasan and all the participants for joining us on the call today. Thank you and good bye.
- K. Srinivasan:** Thank you.
- Moderator:** Thank you. Ladies and Gentlemen, with that we conclude today conference. Thank you for joining us. And you may now disconnect your lines. Thank you.