



Carborundum Universal Limited
Q4 FY13 Earnings Conference Call

April 30, 2013



MANAGEMENT:

Mr. K. Srinivasan

- *Managing Director*

Mr. Sridharan Rangarajan

- *CFO*

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- *Analyst*



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Moderator: Ladies and gentlemen, good day and welcome to the Q4 FY'13 earnings conference call of Carborundum Universal, hosted by IDFC Securities. As a reminder, for the duration of this conference, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during this conference, please signal an operator by pressing "*" and then "0" on your touchtone phone. Please note this conference is being recorded. I would now like to hand the conference over to Ms. Bhoomika Nair from IDFC Securities. Thank you and over to you.

Bhoomika Nair: Thanks Mohsin. Good afternoon everyone. Welcome to the Q4 FY13 earnings call of Carborundum Universal. We have today the management of Carborundum Universal being represented by Mr. K Srinivasan, Managing Director; Mr. Sridharan Rangarajan, CFO and Mr. Raja Mukherjee, DGM Internal Audit and Strategy. I will now hand over the call to Mr. K Srinivasan for his initial remarks post, which we can open up the forum for Q&A. Over to you Sir.

K. Srinivasan: Good afternoon to all of you. Thanks for all joining for this earnings call. FY'13 has been a tough year. So, let me take a few words about FY'13 before I jump to Q4. FY'13 has been a year when we came in last year we thought that look we have taken two quarters Q3 and Q4 of last year that were relatively going down and hopefully we thought that FY'13 was not looking so bad. We said that we should still be doing at least 10% plus in the topline and hopefully try and keep the profit going plus minus 10% - 15%, but it ended up significantly poorer than what we anticipated. Many, many things had gone wrong compared to the way we expected.

Quarter-on-quarter things actually got more difficult than before. So the first thing I must say is the good thing about FY'13 I can now think out is that it is finally over and that is really a big relief. We ended the year with the consolidated sale on a gross income base about the same as last year on a pure sale basis about 1.3% lower than last year, but the profit itself significantly dropped out by almost about 50%. So that is a big, big fall and it fell by 58%.

Let me go now to Q4 that will give a better idea as to what is happening, because you already know up to Q3. The good news about Q4 is that it clearly shows that things have bottomed out and are coming back. Sequentially the sales were up by about 7% on topline and the profits came back by about 60% plus on the bottomline. So clearly we can definitely see that it is bottomed out. We would have expected things to come back more



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sharply than what it did, but we will answer some of these questions particularly in terms of taxation and what we have done etc., as we go forward. But to give you a quick idea on Q4 itself, I think the key thing is that all the segments actually have and are literally stable or are having better sales compared to Q3. This is a good sign particularly.

Now if I have to go segment wise, abrasives had a year when our sales overall going down by about 20 odd Crores. All our key markets India, Russia, to a lesser extent China all had muted sales. The going forward indications also remain that it will remain at about last year's level but the good news is the EBIT margin in the last quarter actually started coming back to what we wanted it to be. So to that extent I would say sales volume remained muted, but the margins seem to be coming back. On segmental sales the actual numbers I will get it out for you quickly. Abrasives actually the sales went up by about literally flat about 1% up overall, but the margin went up fairly well.

The big change of course came from the Electro Mineral division. Q4 in Electro Mineral was one division, which is actually lower than the Q3 in terms of profitability though the sales actually were better. The profitability had a couple of impact. With the closure of all the photovoltaic businesses clearly being announced, Bosch announcing a formal closure, we decided to sell all what we had for photovoltaic into the refractory business, which meant that we sold of significantly below our holding cost, but we went ahead and did it. We did the same as well in Foskor in terms of selling similarly almost all the inventory out of what we were holding. These are all like with a higher price stand. So we went ahead and did both of it so in a way that came back in terms of helping our working capital but it meant this is the first time we had actually made a loss in the Electro Mineral division both in India and continue to make it in South Africa. Now these are the two things, which really affected the Electro Mineral business.

As far as the ceramic business clearly the uptrend is visible. The overall sales for the year is 9% higher, quarter-on-quarter things are coming back, margins are coming back so clearly ceramic we are seeing things coming back. Now I must be careful and saying where it is coming back when the overall economy is muted, the large part of the growth that we are seeing in ceramic is coming out of businesses we are getting in first time like we are getting more on more on the steel refractory business so though the refractory in steel is not going up we are taking market share. In Alumina Ceramic, the business overall was not going up and is still under pressure with all the projects being deferred, operations in US still being very slow with all the Shale Gas production going up but where we have taken share is really in the new energy businesses etc.



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So really what we have done in ceramic is traditional business is still very muted, still no major activity but new initiatives are kicking in both the topline and bottomline and this is really helping to the extent that we have not had these two play in Abrasives and then in the Minerals business, it has sort of also meant that both our topline and bottomline have been impacted significantly there.

That is broadly on the overall Q4 numbers. Margins are up, sales are up, general indications as of now, I will go back on three subjects, Abrasives is going to be muted going to remain tight, topline is going to be difficult to go, but margins will hold. I think the pressures on margins will gradually ease.

In terms Electro Mineral business, I already have the numbers coming out for April. The volumes are coming back in Russia. We went down to as slow as about 5000 tonnes a month there. Normally it is about 6000. So, the volumes are really coming back in Russia. Order positioning is coming back, which only means not in spite of a muted market, our volumes coming back means that some of the more inefficient capacities have really gone out, inventories have gone out. So volume is clearly coming up, but margins will take at least one more quarter before it starts climbing back.

In terms of Foskor Zirconia, our order book is now ok. We have orders. We have taken out a price correction issues, the test production of Bubble has really proven very good. The value chain integration of getting the Bubble into the SEZ at Cochin to process it and further supply to the customer has been established, trial productions have been done, trial supplies have been done, product acceptance is over, which is all a very major stress in a quarter, and we now have ongoing orders coming in.

The challenge we are going to have to overcome in Foskor is clearly to get the local management on running into a new business, which has got value chain integration into India, because this is a new technology in terms of Bubble, productionizing what is now at a trial production level into firm ongoing regular efficient production. So these are the two things we have to solve there on an improvement basis, not as a problem basis, but as an improvement basis in the next two quarters, which will mean that both the micronising capacity utilization as well as the Foskor business will both get resolved in one go. TRI is getting better though the objective for which we bought this company in terms of giving us a fusion capacity, which will take the pressure of using in India because effective cost of power for the company in India is going well above Rs.8 with the averaged out cost of both the internal generation and other power from the grid. So, it is just impossible to make an fusion material now anymore here. In South Africa it is still less than Rs.3.50 paise. So,



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clearly we are looking at some kind of a power advantage and this is still there very much, but the challenge really is that we are impacted to the extent that our initial contracts, which we have from the seller from whom we bought has not been fully honored. They are under a little bit of a pressure, but they have now started giving orders, we hope that in the next quarters even TRI will start coming out of the low capability utilization. It is still running at less than 20% capacity utilization of the fusion site, but other business on the refractory side is running well above 58% to 60%. So that is really okay.

So, ceramic looks okay, which improves the refractories and alumina ceramics. Electro Minerals clearly on the way back, and way back in a very clear path. We do not have bad stories as of last quarter. So, to that extent I see the business is going forward seem to be with no surprises or no bad stories in the pipeline. Things are looking strong and good. This also reflects in the way the quarter has panned out. We have reduced our debt equity. We have gone below 0.2 on a standalone and somewhat marginally above 0.4 on a consolidated basis. It is one of the lowest ever in long, long time. So, our cash generation is very strong.

Capex, we went ahead and did all our projects. The basic robustness of our business model is still very unshakably well in place. We spent almost about 220 Crores on Carborundum consolidated. Roughly about 70 Crores we spent on the standalone part of it. We spent almost about 70 Crores in the Bubble project, the Foskor, and then of course, we have other expenses in Russia, in SEDCO for the gas-based power station, 25 Crores. So overall we spent about 220 Crores, which is one of the highest capex spends in many years in Carborundum, probably the highest ever. So to that extent business looks strong. Results do not look the same as of now, but we are clearly saying that going forward things can get better, but I would like to add a word of caution that the environment has not fundamentally changed. The industrial environment, the economic environment and almost all the major markets that we are operating in Russia, Europe to a lesser extent China, and South Africa none of them have become dramatically better. All that we are saying that we are seeing our internal processes being better in place, we seem to be now in a better position than we started almost at the same time in Q3 of last year in terms of having our act together. Probably, we will face this continuing what I call is a new reality. It will continue in our sense for at least another six quarters, we will probably face it better. So it is going to be a shallow slow climb back to the margins, but we think it is a very sure climb back. That is what we feel.

I will request Sridhar to take the numbers, please.



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Sridharan Rangarajan: Thank you. Thanks Srini and good afternoon to all of you. We have gone through one of the challenging years and let me start with the standalone alone first. The profit before exceptional items and cash for the full year basis on a standalone level fell by almost 67 Crores. So, this is a huge drop. I will cover what happened in the 67 Crores. Roughly about 24 Crores came from Abrasives business, profit of Abrasives business suffered due to the increase in cost of sourcing of traded products, adverse movement in foreign exchange because of imported cranes, put together about 13 Crores. Power and fuel resulted in another about 6 Crores drop also this is after netting of the price gain that we could get. Ceramics profit dropped by about 12 Crores. Volume erosion in refractory and ceramic business led about 8 Crores, and power and fuel about 4 Crores, Electro Mineral, which is the biggest one about 31 Crores. The power cost alone gave about 5 Crores. This is not only the rate increase but also lower electricity production in our Maniyar plant. Volume reduction primarily in lower SIC business led to a drop of 15 Crores. Lower selling price plus bringing the inventory to the market price, etc., that came about 11 Crores. So, that overall accounting for about 67 Crores of fall in profit.

Now if I move to the consolidated, the profit before exceptional item and tax for the full year at consolidated level fell by about 168 Crores, out of that 168 Crores, we talked about 67 Crores from the standalone, the balance about 101 Crores came from Thukela, which is in a new acquisition. Mr. Srinivasan covered that there were some delays in honoring the commitment from the earlier ones, plus also we are trying to establish a product range trying to establish a marketing team, trying to establish the entire finance and accounting team there, so this gave a loss of about 16 Crores. Foskor Zirconia volume dropped of about 1200 tonnes on a full year basis and coupled with whatever we sold we sold it at a very low margin because you know that the correction went so sharply so this gave us about 40 Crores of impact overall from Foskor Zirconia. VAW gave us another 35 Crores drop in profit compared to the last year largely on account of silicon carbide lower volume of about 5% and price drop compared to the last year of 10%. So this put together is about 35 Crores from VAH. So, these are, I would say the broad reasons for the numbers being so low.

Now I will move to capex spent. Capex spent was about 220 Crores. This consists of 65 Crores of standalone and 155 Crores from subsidiaries. Foskor which is the next big item about 75 Crores spent from Foskor, about 25 Crores from SEDCO and rest of the other companies added together accounts for the balance. Debt to equity ratio on a standalone basis we improved from 0.24 as of December 2012 to 0.19 as of March 2013. The total debt on a standalone basis decreased from 164 Crores to 132 Crores. Out of 132 Crores 55 Crores accounted for long-term and the balance 77 Crores for the short-term. On a consolidated basis debt to equity ratio improved from 0.47 as of December to 0.43 as of



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March 2013. Again, the total debt on a consolidated basis decreased from 483 Crores to 435 Crores as of March 2013.

I would say the decrease of 48 Crores is mainly on account of repayment in CUMI standalone, and also some of the repayments in Foskor Zirconia etc. I would like to comment on one more items, which is basically the tax rate. I am sure some of you will have questions around tax rate. So, on a standalone if you see Q4 tax rate worked to about 41%; however, if one looks at a full year basis the tax rate would have worked out to about 31%. Since the profit from the SEZ is lower than our earlier estimates, and we had to make a correction in Q4, which resulted in higher tax outgo in the Q4. Basically that is the broad reason for that. Also you would see that as at the full year, last year our tax rate was low at 23, now you are at half year is 31 again largely because of the lower profit coming from the silicon carbide business based out of the SEZ.

At consolidated level, you would notice that Q4 tax rate worked out at about 56% and as the full year the tax rate worked out to 41%. You will also observe that the full year tax rate of last year was 28%. The reason for higher tax rate was because we did not take tax credit for the losses in Thukela refractories on a conservative basis. However, please note that as and when we start making profit in Thukela we have enough carried forward losses from the past, which will enable us to have zero tax for at least for a few more years. So, I think, it is very much on a conservative notice that we have done. So, with that I would let me open up for the question and answers. We will take your questions.

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

Kashyap Pujara: Good afternoon to everyone. Couple of questions; one is related to the Electro Mineral division. If I look at the overall change over last year, the total consol profitability has come down by close to 116 Crores at the EBIT level in EMD of which 36 Crores is attributable to India, and 80 Crores is basically due to international operations. So, if you could give me let us say a breakup like from this 80 Crores, you mentioned 35 Crores was a hit because of lower profitability from Volzhsky, then Foskor Zirconia, you mentioned, I missed that number. What was that number?

K. Srinivasan: It was 40 Crores.

Kashyap Pujara: 40 Crores, so these two more or less make up for further discrepancy?

K. Srinivasan: Thukela also predominantly it is also Electro Minerals.



- Kashyap Pujara:** Thukela you classify in EMD because it is refractories?
- Sridharan Rangarajan:** It has both. The refractory portion made profit while Elector Mineral portion made losses.
- Kashyap Pujara:** Fair enough. You now have a sufficient tax shield for basically weighing out less tax going forward or no tax going forward?
- Sridharan Rangarajan:** No tax for few more years. Without worry we can consider it.
- Kashyap Pujara:** On the last call, you mentioned that you had a certain level of commitment from TRI for an offtake, you know when you bought this business and that offtake was not actually materializing. And you had your basically the term sheets and everything signed out. So, essentially how are you placed there and are we seeing any dialogue for taking that offtake?
- K. Srinivasan:** They had a commitment of 4500 tonnes in FY'13 and 4500 tonnes by FY'14. So out of this they have so far given us only about 1800 tonnes in FY'13. So that was one-third of the commitment that they have made. We are in discussion with them. They are willing to take more. It is the world's largest refractory company and so we are to handle them a little carefully because they also buy other things from us and we are in discussion to see what we can do to bring them back quickly to in conformance to agreed agreement. It is not even a term sheet. It is a signed agreement, which is legally binding. So they are obliged to do it. We really hope that what they missed out year. They will compensate and do it at least in this year. So it is a signed agreement and I think without going to legal process I believe both sides are keen to see we will comply with.
- Kashyap Pujara:** So, this year coming year are you confident of ramping this number up significantly?
- K. Srinivasan:** That means we should come back to the 4500 that has been committed.
- Kashyap Pujara:** In that situation, we will breakeven or will we make money? What is your sense?
- K. Srinivasan:** Target of TRI is to come as near as breakeven as possible. If we can come there, I think that is a good step forward. We are running like I said, very, very low on the capacities. So, we still have the time and the capacity. We hope to come very, very near breakeven. I am not saying 100% breakeven, but surely we will come very, very near.
- Sridharan Rangarajan:** Kashyap just to add one thing here is that the dependency of supplying to RHI was only to a portion of the capacity. It is not fully assumed that we depend only on the turnaround based on that. So we have to establish newer products, newer geographies and we also need to



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establish marketing team, etc. So those are our internal actions. We are working on that and that is what Mr. Srinivasan had said that our first aim is to make sure that we reach a breakeven point. Good thing is that whatever you make profit at PBT level, it flows down to your PAT at 100%.

Kashyap Pujara:

Just one more point was, while there is sequential improvement in both abrasives and ceramics on a standalone basis, the same thing on a consol basis is actually deteriorated because you actually slipped on both these counts when I look at the consol numbers. While absolute because of the level of improvement in standalone your absolute numbers still looks sequentially better, but you are still having an issue probably at some ends in ceramics on an international front and your Russian abrasives. So could you just give some light on that?

K. Srinivasan:

On the abrasives side, both China and Russia did not do well, and we are trying to do something to get this back to steam. China particularly we have new leadership. While FY' 13 was bad in many ways, I must add one thing, I will take this question as a reason to explain this. On the people in leadership, I think we did the best work after many years. We added more than 10 doctorates across different locations. We strengthened our new product development R&D process. We brought in a complete new line of leadership, which will take CUMI forward going ahead. China has a complete new leadership. It is all Chinese leaderships. They are settled down. They are doing a great job. In Russia, we have strengthened with younger people coming in both into development, manufacturing and in the CFO positions. In US, the North American operations as we are moving more and more to consolidated and make them stronger, there we are getting a complete new set of leadership, because US is one bright spot in the overall economy. We have an extremely competent person in the name of Ron Smith who has taken over and he has built a very good leadership team. The only people challenge we are still in process of cleaning up is Fokor issue, which is also we have gotten now two people on board and we will complete this process. So actually what we have done is the capex is in place. The leadership team is in place and I must say in all this downturn we actually did not lose or have any attrition in terms of senior management even in Indian operations. So the processes are in place, the people are in place, the resources in terms of capability and capacity with the capex is in place, I think the market is going to remain bad, the market is going to remain stressed, but I think we will come stronger than what we have had earlier. So that is the fundamental thing that I should have added in the opening comment. I thank you for giving me to chance to say this. To answer your question abrasives, we still have the team in place. China and Russia, we just are picking up. We will see that it improves in Q1.



- Kashyap Pujara:** On the ceramic front, there is deterioration on that front also?
- Sridharan Rangarajan:** Kashyap, the only thing is that I would say it is seasonality, because Q4 of Australia was lower compared to the Q3, but as a full year we were doing far better. So that just is more a seasonality than anything else.
- Kashyap Pujara:** I will just queue up in case if I have further questions.
- Moderator:** Thank you. The next question is from the line of Gautham Chhaochharia from UBS. Please go ahead.
- Gautham Chhaochharia:** Good afternoon. Quickly in terms of the business demand side and therefore the pressure on margins, so what has taken you all by surprise over the last couple of quarters, and what will be the pointers we should be looking at for margin recovery? When you say it will be a shallow and gradual recovery, but what are the pointers you will be looking at specific segments, specific market areas or competition from China etc., so what are the specific pointers you will be looking at?
- K. Srinivasan:** Pointers if you look at economic activity in India is the biggest for abrasives and it is going to remain shallow for some more time. Normal activity includes everything, execution of the projects, and the general cash flow under the trade, construction activities, fabrication activities, engineering, and automotives. So all this even Q4 and even as we speak in Q1 have this year are all still very, very muted. We have not seen any green shoots at all. So, I do not think this is going to happen quite a few more quarters. We are almost mentally getting prepared. This is how it is going to be for sometime. Russian situation is just as bad even worse. The manufacturing there is practically on the heavy equipment going down. So our market share in Russia now on the vitrified is going above 60% while the absolute volume is coming down year-on-year. Because there is less, manufacturing between grinding wheels, precision grinding of large components etc., so that is something where the indicators are not just to look at Russia, but to see what more we can do it in the other markets particularly nearer to Russia. We are looking at Europe, when you are looking at Europe, and Europe itself is not doing very well. The general indications of Europe is also continuing to be very poor. We are just having accounts with some of our major dealers and distributors; things are just not okay in Europe as well. The only bright spot on abrasive clearly is coming out of US. US is still seeming to be a good market. Our share is very low and US seems to be an opportunity that is really something we can work on. There are a few countries of pockets you can say let us say Turkey is looking good, these are one-off kind of a thing, so beyond that I would say clearly on the abrasives you have to look at what



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more we can do in, actually that we have not been in. This is on the traditional business for abrasives. On the Electro Minerals indicators of market recovery again is going to remain poor. The PV business is practically growing, but one major change that is happening and we have seen more and more indications of that is clearly capacities are going up and this is not just happening in Europe. It is happening now in China. If you are just getting a chance to go and look at bigger operations in China, clearly capacities are being let us say at least definitely shutdown, which means that availability is drying up, prices are coming back. So here you would not be get any lead indicators except to say that if energy prices remain where they are in most parts of China and you will clearly see a capacity shutdown happen in continuing basis, which means prices will come back, volumes will come back. Generally the sequence is reverse. Volumes come back first, price come back second. So we are seeing at least that coming to us. The big challenge that we saw, I think, the earlier question, Kashyap asked the big loss is in EMD. More than almost or most of that loss is actually coming from the silicon carbide micronising business. So we took everything, we closed it off, practically this year we will have only one big order, the last order for Bosch and after that it is over. Now we are going to use that capacity, that facility for micronising, not just silicon carbide anymore, but also Zirconia, and this has got much, much larger application. If you are looking at lead indicators in this, I can only say economic activity, pigments, again automotive productions, all these are relatively muted, but our share in this can give us some opportunity because we are new to this business and we have opportunity because just the way we make it and the quality we offer is quite different and improved compared to whatever is available in the market otherwise. So that is all I can say in terms of market indicators.

Gautham Chhaochharia: But adding to that what would be the range of pricing declines you would have seen in FY' 13?

K. Srinivasan: In silicon carbide, we have seen about a weighted average reduction. It is price cum product mix of 10%. It is around that in most of the mineral business. It is about 10% in the price. Sridhar, am I right?

Sridharan Rangarajan: Yes. Silicon carbide. I think by and large I would say that 10% you can take it.

Gautham Chhaochharia: Abrasives and ceramics?

Sridharan Rangarajan: Abrasives and ceramics I would say volumes are down, but prices are up. Volumes are down about say 7% to 8%, prices are up by about 5%.



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K. Srinivasan: You will have to take the price as a mix of product mix than the actual pricing. So that is the only thing I would particularly look at.

Gautham Chhaochharia: But in Electro Minerals what you are saying, broadly means that you have not seen a big dip in volumes for the year?

K. Srinivasan: 5% lower volume in Russia. We took 5% lower, but most people actually the larger guys just shut sharp, because they could not make anything. We shifted to what we normally would hate to do, which is really metallurgical grains and sold it locally.

Gautham Chhaochharia: In Foskor and India?

K. Srinivasan: In Foskor, we have major issues. I think we had explained. We had the raw material sand prices going up, and coming down in the whole year. It went as high as 2500, went to competition commission for getting restricted quantities removed and by the end of the last quarter, we were running at \$1300 and abundant material available running the finished product price. We had all these happening in nine months.

Gautham Chhaochharia: Any signs you have seen over last month or two in terms of the volumes actually bottoming out?

K. Srinivasan: Volumes have definitely bottomed out. Like I said in the opening comments, silicon carbide are nearly back to running flat out in Russia. I got enough orders in Foskor, but we have to now step up production. We have some technical challenges. We are addressing. So, volumes are definitely back as far as the Electro Minerals is concerned, but I am not able to link it back to an industrial pick up. That is the only word of caution. The volumes are back for us, because some others have backed off from the market, and the volume of stock and inventory has gone down. It is not reflective of a general industrial upturn. That is my only word of caution.

Gautham Chhaochharia: Thank you Sir.

Moderator: Thank you. The next question is from the line of Chirag Setalvad from HDFC Mutual Fund. Please go ahead.

Chirag Setalvad: Good afternoon Sir. Sir, in VAW could you breakup the difference in 35 Crores of profitability. How much would have come from volume? How much would have been because of realizations due to cost?



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- K. Srinivasan:** Sridhar mentioned, it is 5% lower from volume, 10% lower from price.
- Chirag Setalvad:** Sir, how do you see profitability for the business next year? Since you have mentioned that the volumes have now come back. How do you see the profitability would change?
- K. Srinivasan:** If you go back and look at Russia's profitability the year before this year, it was roughly about 48 to 50 Crores, the previous year was about 72 to 78 Crores plus in terms of post-tax profit. I think it would take us at least, I consider to estimate it that we should at least come between the two this year.
- Chirag Setalvad:** Similarly in the case of Foskor, you mentioned that you saw a 40 Crores change in profitability, so where would you see that this going forward, now that again volumes are coming back?
- K. Srinivasan:** Foskor, like I said the only place where we have not resolved our leadership issue going forward and we are working on it plus getting the new 70 Crores investment Bubble plant to run to capacity or at least to come to high level of efficient production as a challenge. I would take it within this constraint this time, Foskor in terms of profitability it would at least come back definitely. I do not want to give a bigger number in that. We will not at least make losses there definitely.
- Sridharan Rangarajan:** Just to give you a comfort, Q4 its loss is half of the Q3 loss.
- Chirag Setalvad:** Sir, what was the total loss in Foskor for the full year?
- K. Srinivasan:** 40 Crores.
- Chirag Setalvad:** Is that the change in profitability or is that the actual loss itself, because the previous year you would have had a profit of 5 to 6 Crores?
- K. Srinivasan:** Yes. See we made a 25 Crores post-tax loss
- Sridharan Rangarajan:** 40 Crores is the swing at PBT.
- Chirag Setalvad:** Sir, this 25 Crores loss you are saying will turn into a profit this year?
- K. Srinivasan:** Definitely.



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- Chirag Setalvad:** The last question was on the micronized facility in India, what would have been the loss this year?
- K. Srinivasan:** 14.5 Crores or 15 Crores is only on the micronized area. Sridhar, am I right?
- Sridharan Rangarajan:** That is right.
- K. Srinivasan:** About 14.5, 15 Crores.
- Chirag Setalvad:** Sir, that business since you have shutdown to a significant extent would that again be a breakeven business this year?
- K. Srinivasan:** These will more than breakeven because it is linked into the Foskor. The Bubble will get converted into micronized Zirconia from the Kakkanad plant and it an SEZ plant, and it will be for an export market, our tests are over, trial orders are in place, so we think Foskor will come back to strong. I do not want to give a number, but I will just give one or two quarters before I give you a number but definitely it will not make a loss, and the same is true with Kakkanad as well. We will not make loss in the micronized plant in Cochin as well.
- Sridharan Rangarajan:** One caution is that the micronization capability to utilize full and bring back to the level of the past will take minimum 18 to 24 months, I think that we have been telling that do not expect things to turn better in a matter of a year's time.
- Chirag Setalvad:** Sir, putting these three parts together, it would be fair to conclude that these three businesses put together itself should result in profit swinging by 50 Crores, because if you put 15 Crores additional in VAW 25 Crores additional in Foskor and another 10 to 15 Crores in the micronization facility that itself should contribute to a 50 Crores swing?
- K. Srinivasan:** By and large I would say.
- Sridharan Rangarajan:** We lost 160 Crores like Kashyap said compared to the last year profitability. Intention should be to try and see how much quickly we can win it back.
- Chirag Setalvad:** Thank you very much.
- Moderator:** Thank you. The next question is from the line of Mr. Jasdeep Walia from Kotak. Please go ahead.



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Jasdeep Walia: Good afternoon Sir. What are your capex spend going to be in FY'14 and on which projects do you intent to spend?

Sridharan Rangarajan: I think capex plan for this year will be I would say bit muted except for we will kick start the big furnace project, what we are left in VAW and few projects whatever we left here smaller ones remain completed that will be carried forward. My guess is that by and large it would be less than 100 Crores as a company as a whole.

Jasdeep Walia: Sir, could you give us an idea on the revenue potential from this Bubble Zirconia project of yours both as far as your plant in Foskor is concerned and micronising facility in India?

K. Srinivasan: I will give you an overall number. The capacity at the Bubble furnace is 6000 tonnes a year. The average prices of finished product for Zirconia today it is running at about 5500 to 6000 dollars a tonne. You can take 5500.

Jasdeep Walia: What kind of value addition you accomplish on micronising?

K. Srinivasan: It is just the same. I am giving you the finished products are about 5500 tonnes.

Jasdeep Walia: This is after micronising?

K. Srinivasan: Yes.

Jasdeep Walia: Sir, this entire capacity of 6000 tonnes will be micronized?

K. Srinivasan: Not necessarily. It will be put into a process, which will go further. That is Bubble will come into what is called as alumina Zirconia, which is also going to be done at Cochin. This is used in abrasives, it is also used in metal mattress manufacture, and this is a rare part. So that will also happen at Cochin, but significant part of it will go into Bubble micronized product out of Kakknad. Cochin product will be consumed within India. The micronized product would be exported.

Jasdeep Walia: So, the overall 6000 tonnes...

K. Srinivasan: Half of it would come to India.

Jasdeep Walia: So, the entire 6000 capacity \$5000 kind of realization can be assumed?

K. Srinivasan: About \$5000 to \$5500.



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- Jasdeep Walia:** That is all from my side. Thank you.
- Moderator:** Thank you. The next question is from the line of Bhalchandra Shinde of B&K Securities. Please go ahead.
- Bhalchandra Shinde:** Wanted to know how sequentially the energy consumption has improved? Has it improved or has it remained at the same levels at the 3Q levels?
- K. Srinivasan:** If we give a rough idea our energy consumption is in two parts. One is electricity and the second is fuel. Fuel could be SKO, it could be Furnace Oil and diesel, etc., about on a standalone 55 Crores comes out of electricity and 65 Crores out of fuel representing very roughly about 12% of our selling price. It is drawn on an average combined by about 20% compared to the last year.
- Bhalchandra Shinde:** It is down?
- K. Srinivasan:** Up. This is actual price stake but if you look at the unit of each of it, whether it is electricity or diesel consumed for tonne of production, because of efficiency we had actually improved it by almost about 8% to 10%. So effectively what I am saying is that I have a 20% cost, final cost increase even after our process improvements. So the impact has been even greater than the 20% in terms of the rate increase that has affected us.
- Bhalchandra Shinde:** Because of the efficiency our power and fuel cost is not increasing by that much?
- K. Srinivasan:** It has increased by 20%.
- Bhalchandra Shinde:** Sir, regarding the sand prices, as you said in the last quarter also, that it has went up and as you indicated in the concall today that does that decline taken place in fourth quarter only?
- K. Srinivasan:** We do not use much of the new sand at \$1300 or \$1250 per tonne, because we already have materials. You can see that our inventories today it is at all time low in terms off...
- Bhalchandra Shinde:** Do we get that benefit immediately?
- K. Srinivasan:** We will start getting at least less of that as a margin erosion in Q1 onwards, because we still have to sell at a price, which the customer is willing to pay, only based on \$1300 sand. But we had brought it at varying prices maximum going up to almost \$2500. The fact is that we have already taken.



- Bhalchandra Shinde:** How many quarters will take to actually clear up the inventory or whatever?
- K. Srinivasan:** We have done it. Q1 we will see the benefits coming in.
- Bhalchandra Shinde:** Q1 we will see the benefits coming in?
- K. Srinivasan:** Yes.
- Bhalchandra Shinde:** Sir, in Russia where abrasive volumes are disappointing, I know that there is some mass manufacturing activities where some developments are taking place or some kind of grinding wheels are ceased out or something like that, so, how exactly you see that kind of a business to pan out in the next one or two years?
- K. Srinivasan:** I think we must discount the abrasives as a major factor in Russia. We have a leading position there, but the kind of margins we make is not worth discussing too much about. So, I would really say that look we are there, we are a big player, we are sort of churning around the whole thing, but I do not see this as a business which is going to make a big difference to Carborundum's profitability. It makes a big difference to Carborundum's acceptability in the Russian market and the people there, so it does not make a huge difference to the Carborundum profitability in the current form. If you say why do not put up prices, that is the market which is going down 5% to 8% in terms of consumption year-on-year and we are putting up prices and losing less or even more of this thing getting converted back to full product getting imported from China. No more grinding in Russia kind of a thing. So, it is a market which is not worth spending too much of time around.
- Bhalchandra Shinde:** Sir, in India regarding ceramics and refractories as you had indicated in the last concall that some of the orders are not getting delivered, because the customers are not willing to pay, and that is why we are seeing a lower utilization. Is that a scenario you have seen improving or it is in the same way?
- K. Srinivasan:** There is no major order finalization that is happening. Only people are completing commitments that they have already made, very new projects are getting on stream. Whatever is committed is being executed, and that too with a lot of delays and pressures. So, we are under a huge pressure on project-related orders in ceramics, in refractories in India. We do not see this improving in the next at least few quarters. It is not going to change.
- Bhalchandra Shinde:** So, it means that we are not seeing any new orders taking place in one or two quarters actually?



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K. Srinivasan: Project orders are not going to be easy to get. What we are getting are R&M orders. What we are chasing down are the new entries like I said in refractories, which is all largely on existing production, for us it is a new business, and these are opportunities which is giving us the growth in ceramics. We have grown 7% in ceramics, we continue to see that we will grow not by increasing market presence really; we are taking market share in newer activities.

Bhalchandra Shinde: So you do not see a good growth on the capex side, but we will gain the market share on the other side?

K. Srinivasan: Because our capex is all in place. We do not need capacity. So, we will only get from the new opportunities that we have invested in from new markets.

Bhalchandra Shinde: Thank you very much Sir.

Moderator: Thank you. The next question is from the line of Piyush Mittal from Franklin Templeton. Please go ahead.

Piyush Mittal: Thanks for taking my question. Just one simple question, given all this talk in the world about lower commodity prices going forward, I was just wondering and assuming that scenario pans out, if you can kind of give me whether it will be a net benefit or a loss in your mind frame across your three businesses? How do you view that scenario for yourself?

K. Srinivasan: All the raw material that we buy has already hit rock bottom prices. We said about the Zirconia sand price, we have said about the normal sand price, for us a big chunk of our input is energy and that is not going down very quickly. That is the only thing that can make a big impact on our profitability is not going down. I believe in most of the cases, it is bottomed out, below this we cannot, and that is proven by two quarters of it is only getting plus and plus. So far whatever I have seen in Q1 also it is plus. So quickly put it in word this lowering commodity price is neutral to us. It does not make any impact on us neither in our buying nor in our selling.

Piyush Mittal: Coming to the previous participant's question regarding ceramics and refractories, would it be possible to share how much of this business in its current form and the current revenue levels is in R&M and how much is new products per se?

K. Srinivasan: We have added about 60% on R&M and 40% on projects in the last two quarters.

Piyush Mittal: Within the ceramics and refractories?



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- K. Srinivasan:** Yes or we may even go further and further towards R&M and less and less towards projects as we go during this year. Because as we complete all the pending orders etc., we are going to probably get used to 70:30 for some more time.
- Piyush Mittal:** Just one quick question, on the silicon carbide, can you just give me what is the rough pricing in the market today?
- K. Srinivasan:** Refractories are selling crystalline at about \$1100 FOC Russia. So that is the price that is going, \$1100 refractories. To give you a comparison, because it would mean nothing to you unless I tell you what is it. We went as low as \$860 to \$900. I am happy.
- Piyush Mittal:** I appreciate. That is all. I have.
- Moderator:** Thank you. The next question is from the line of Preeti Trivedi from Vantage. Please go ahead.
- Preeti Trivedi:** Thanks for the opportunity. First of all congrats on your improved performance. My questions.
- K. Srinivasan:** You are so kind. I must thank you for that. I think I have been battered, bruised, beaten up by everybody right from our internal committee, to boards to everybody, you are the first person who said improved performance.
- Preeti Trivedi:** I really appreciate that. Sir, my questions, I want the current capacity across all segments?
- K. Srinivasan:** It is very, very low. We will give you.
- Sridharan Rangarajan:** I did not get the question, Preeti?
- Preeti Trivedi:** What is the current capacity in terms of number, volume for VAW, Foskor?
- Sridharan Rangarajan:** It is broadly about 60 to 65, broadly in the range about 60 to 75% in various segments one can look at it, not beyond that.
- Preeti Trivedi:** 60% to 70%. What are your expectations for the next year looking at the current scenario and what are the inventories you are holding up? So what is that you think is going to improve or it should be stable or flat kind?



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Sridharan Rangarajan: In terms of inventory I would say that we are in a very good shape, because we have cleaned most of the inventories vulnerable to price, etc., you know that almost bare minimum we hold. Be it Zirconia or silicon carbide, but rest of them are all normal inventory and I do not think those are any challenges. As far as the growth that we are looking at is that I think we would go quarter at a time, and we expect that there would be a slow but sustained growth that we will have.

Preeti Trivedi: Sir, I was listening to all the conversation regarding the VAW and Foskor. You said that on the remaining tonnes you should be able to do at least what we did in FY'12 for VAW at least for 500 Crores and for Foskor at least 100+ Crores kind of revenue? Is it fair to assume that?

K. Srinivas: Revenue side I think you are reasonably fair, plus minus I think we will be there only. Foskor should be actually revenue wise better in fact.

Preeti Trivedi: Sir, for India we have some improved performance on abrasive side, I believe?

K. Srinivasan: We are really fighting for this because this is really the challenge. Capacity is not an issue. There are not too many products or new activities that have already hit the market. It is like the market share, simply because the economic activity is just not picking up and that is the reality that we accept and that is how it is going to be for some more time. So, really we are all contesting for the same or reduced market and to that extent I would say that to keep this year on improving on it is our challenge.

Preeti Trivedi: Got it. Just lastly on the tax rate that you mentioned that on current year for FY'13 we have had tax rate. So probably for FY'14 or FY'15 we should assume the same 28% or 29% tax rate. Is it fair?

Sridharan Rangarajan: I think I would say it depends on, these tax rate what we have is current tax rate is perhaps the highest one. As we start having profitability coming from Thukela etc., the tax rate will be falling.

Preeti Trivedi: But can you give some kind of numbers for that, what kind of numbers should be approximately?

Sridharan Rangarajan: I would say longish term basis, I would say it is about 40% to 42% as a number.

K. Srinivasan: On a consolidated, he is talking about.



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- Preeti Trivedi:** Thanks a lot for answering my questions. That is all from my side.
- Moderator:** Thank you.
- Bhoomika Nair:** Sir, just I had a couple of questions on the EMD segment. You have already discussed some part, but just wanted to understand a little better. You said that at Thukela in the current year the commitment from RHI did not really materialize, which resulted in this 15 Crores kind of a loss, so if they actually pickup the 4500 tonnes, then you would be breakeven out there?
- K. Srinivasan:** The 15 Crores is not all operational. When we brought in as we bought this company in because they had historical valuation. As soon as we took it over we corrected everything, and this has actually factored in our buying price. So I think you must take away roughly about 4 to 5 Crores out of it. So operationally we could have come back to near breakeven if we had got this 4500 tonnes. That is the way we work the whole thing in the transaction. It should have been minus of the transition cost that we would have anyway taken and we had already adjusted in the buying price. Because you know we told already that we bought it at about one-fifth of the book value. We knew that we were buying it and there had to be a transition cost as well. But if they had given us, it would have been a significantly lower loss, but more interestingly that they keep running it gives me that much time to get my other customers in. This plant can produce on an average at least about minimum 1500 tonnes a month and we have been producing 200 and 300 tonnes that is where the problem is and once I get this base load then I can ramp up the other thing. I have done a lot of other works. Those will all come back. So, it is going to come back. So so let us say that is why we suffered two quarters, we probably are going to suffer one more quarter before we start seeing things coming back and come back quickly.
- Bhoomika Nair:** Also in Foskor we had a 25 crores loss, as you mentioned in the current year. Now a part of it as I understand is obviously got to do with the inventory liquidation of the high sand prices. Now the sand prices are little low, do we see still a lot of volatility out there or do you pretty much see it settling around \$1300 per tonne?
- K. Srinivas:** I think it will go back over a period of time. \$1300 sand guys have all stopped mining. All the major names without mentioning them all of them have stopped mining because there would be almost violating radiation laws if they any more and hold inventory. So all have stopped mining, they are selling out of stock. It is not a sustainable price. The costs have already grown to a level that they would work very hard to get it up to about \$1600. How soon you go there is a challenge because how soon the offtake we will keep the inventories



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what will happen. So, let us say, we must reasonably expect this \$1200, \$1250 etc., would go towards a more stable \$1600, but it can take one year, one and a half years depending on how fast the pick up is. We are mentally prepared for it. The way we have engineering, the way we are planning it is that it will go back to a stable state for \$1600.

- Bhoomika Nair:** Basically, also the bubble facility would help it kind of come back to a profitability?
- K. Srinivasan:** The problem I am having at the old plant, it is not just the sand price, which killed us, and we had an issue that we were selling entirely into a refractory industry, which was in its worst days. They were just not lifting materials. We almost had a quarter where we had the lowest sale ever probably in the last I do not know how many odd years, and it was in this material so, it is a combination of not only sand price but also in case of poor offtake. So that is what really happened. The good news is with the Bubble the newer industries have started giving the order for us, the pigment industry, the ZOC, which, the metal injection (ph), so some of the other companies are giving back and Foskor gets more insulated from a direct market as soon as it gets Carborundum as its main customer picking up the significant part of Zirconia production.
- Bhoomika Nair:** Sir, what kind of volumes did we do in FY'13 and what we can possibly do the year ahead?
- K. Srinivasan:** Sridhar, the number is 3800, isn't it? We did about 3800 tonnes last year. We did about 1000 tonnes less than the previous year. Not just 1000 tonnes, it is about 20% or 24% lower than the previous year.
- Bhoomika Nair:** I am assuming that the bigger decline would have been in the second half of the year?
- K. Srinivasan:** Almost the entire decline was in the second half.
- Bhoomika Nair:** So, when we see these volumes coming back, it will help us?
- K. Srinivasan:** Absolutely. Foskor actually has a much bigger upside in many of my mineral business, so we have to wait till it comes through.
- Bhoomika Nair:** Just one last thing on the refractory business, you know, we touched upon a lot of things, and I was just wondering how is the metallized cylinder business doing?
- K. Srinivasan:** On the ceramic side, metallized cylinder business, in fact, I am sitting in all their plants today. We have done a lot of work internally to take our own capacity up to a million cylinders a year and we had broad-based it, we have more customers than earlier, but the



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market is still very, very tight. I am getting only suspension transmission from all my Indian customers, and I am struggling to sell my capacity as of today.

Bhoomika Nair: Sir, what kind of utilization level would we be at right now?

K. Srinivasan: What Sridhar had said it is 65%.

Bhoomika Nair: Thank you so much. Mohsin are there more questions?

Moderator: There are no questions at this time.

Bhoomika Nair: Thank you very much.

K. Srinivas: Thank you all of you. Hopefully we should come with something more interesting next time.

Bhoomika Nair: Thank you very much Sir.

Moderator: Thank you. On behalf of IDFC Securities that concludes this conference. Thank you for joining us. You may now disconnect your lines. Thank you.