"Carborundum Universal Limited

Q4 FY '23 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day, and welcome to the Carborundum Universal Q4 FY '23 Earnings Conference Call, hosted by DAM Capital Advisors Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star, then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Ms. Bhoomika Nair from DAM Capital Advisors Limited. Thank you, and over to you.

Bhoomika Nair: Yes. Good morning, everyone, and welcome to the Q4 FY '23 Earnings Call of Carborundum Universal Limited. We have the management today being represented by Mr. Sridharan Rangarajan, Director of Finance and Strategy, Mr. N. Ananthaseshan, Managing Director, Mr. P. Padmanabhan, CFO, Mr. G. Chandramouli, Advisor- Investor Relations, and Mr. Denesh Kumar, Senior Manager- Strategic Planning.

I'll now hand over the floor to the management for their opening remarks, post which we'll open up the floor for Q&A. Over to you, sir.

N. Ananthaseshan: Good morning, everyone. Before we begin, as a practice, we will have Mr. Chandramouli readout our disclaimer, and then I will take the call.

G. Chandramouli: Good morning. During this call, we may make certain statements which reflect our outlook for the future, or which could be construed as a forward-looking statement. These statements are based on management's current expectations and are associated with uncertainties and risks are more fully detailed in our annual report, which may cause the actual results to differ. Hence, these statements must be reviewed in conjunction with this risk that company faces. Thank you.

N. Ananthaseshan: Yes. Thank you, Mouli, and thank you all again, for joining us on this call. Welcome to our fourth quarter FY '23 earnings call. Today, we are joined on the call by my colleagues, Mr. Sridharan Rangarajan, Director of Finance and Strategy, Mr. Padmanabhan, our CFO, Mr. Chandramouli, Investor Relations, and Mr. Denesh Kumar, Strategic Planning.

I will start by providing an overview of the company performance for the quarter and for the full year, followed by a commentary on the outlook and Mr. Padmanabhan will cover financial performance, after which Mr. Sridharan will take you through the performance of the subsidiaries, especially the Russian one and the newly acquired ones in Germany.

All of us are aware that the year started with the Russia-Ukraine war and its attendant consequences, inflation, raw materials availability, supply chain disruptions, currency fluctuations, interest costs, etcetera. Many economies across the world, including India, faced inflationary pressures. Now despite these challenges, the company's performance has been robust, and it again speaks about its resilience. As Sridharan will share later, the most impacted subsidiary to the face of the reluctance of customers, from Western customers, especially, has been the VAW, and the team there has managed the situation very well.

They are focused more on serving the domestic market and increase the share which used to be about 45% to now 58%. So in addition, during the first half of the financial year, we also had some COVID cases, especially in Germany. But thanks to the vaccination drives and the COVID protocols, we have full confidence of the workforce and not too much of a production or productivity loss. Towards the second half of the year, we saw a sustained recovery in domestic demand. We also saw government impetus to infrastructure, export growth, some softening in commodity prices and all of which led to a strong rebound in business performance.

Some segments also witnessed a higher share of exports with incremental growth coming in from customers wanting to de-risk their supply chains. All 3 businesses also registered a high double-digit growth on top line and in the Abrasives segment, the growth also included additional sales from RHODIUS and AWUKO. The Ceramic business continue to perform better in terms of top line and margins due to a strong demand of value-added products, better realization, and favourable product mix.

I'm pleased to inform you that in the recent Q4 quarter and for the full year '23, the company has performed well despite the many challenges which I just spoke about. The revenue has grown for the full year by 40% to INR 4,601 crores at a consolidated level and by 13% to INR 2,473 crores at a standalone level. For the year, at a consolidated level, profit after tax and non-controlling interest grew by 24% to INR 414 crores and INR 333 crores, respectively. At the standalone level, the PAT increased by 30% to INR 331 crores from INR 254 crores during the last year. So this was possible by the higher capacity utilization, better product mix, growth in volumes and realization.

PAT margins improved from 11.6% to 13.4% at a standalone level and at a consolidated level, it dropped down from 10.1% to 9%, mainly due to the integration costs and re-establishment of the businesses at AWUKO.

I would have Sridharan describing you in much more detail regarding the overseas subsidiaries. But what I can tell you is that all of them did well except the small ones in Middle East and China, where we took conscious decision to de-grow our operations there. The sales from the subsidiaries, which we acquired last year, was INR 673 crores compared to INR 29 crores in the last financial year.

So on the other hand, all the domestic subsidiaries have grown significantly except the SEDCO, which is energy generation-company, which was impacted significantly due to the rise in gas prices. The external environment for the year 2022, grew by about 3.5% and is expected to grow at 2.5% and we saw that this was primarily due to the global monetary policies, which were implemented to contain inflation along with geopolitical tensions.

So India performed much better in FY '23 on the back of a sustained recovery in domestic demand and hopefully, the infrastructure push by the government and private players also adding to the momentum. So as we become the world's fifth largest economy, in real terms, the economy is expected to grow at 7% for the year ending March '23 and the fundamentals, we believe, are sound and this outlook gives us a cautiously optimistic position for many of the sectors that we cater to. In terms of capex at a consolidated level, we spent about INR 294 crores during FY '23.

I now request Mr. Padmanabhan, our CFO, to walk us through the financials.

P. Padmanabhan: Thank you, Ananth. Good morning, everyone. Let me summarize the financial performance for the quarter and the year ended March '23. At the consolidated level, sales for the quarter increased by 38% to INR 1,183 crores from INR 859 crores in the corresponding quarter of last year, mainly driven by strong performance by all the segments, including the sale of INR 176 crores from AWUKO, RHODIUS, which was INR 10 crores during the Q4 of the last financial year.

For the full year, sales has grown 40% to INR 4,601 crores from INR 3,290 crores in FY '22, which include sales of INR 673 crores from AWUKO, RHODIUS and plus in FY '23 compared to INR29 crores in FY '22. On a consolidated basis, profitability for the quarter recorded a strong growth across Minerals and Ceramic segments. Profit after tax and non-controlling interest for the quarter grew by 26% to INR 137 crores against INR 109 crores in Q3 of the current financial year and grew by 141% compared to Q4 of last year.

On a full year basis, profit after tax and non-controlling interest increased by 24% to INR 414 crores from INR 333 crores and the PAT margin dropped 9% from 10.1% because of the cost inflation and the acquisition costs related to the recent acquisitions.

Coming to the standalone performance, sales increased by 8% to INR 628 crores from INR 580 crores on a quarter-on-quarter basis and was almost flat sequentially. For the quarter, PAT grew 84% to INR 114 crores from INR 62 crores on a quarter-on-quarter basis, an increase by 58% sequentially and profit margin, and the PAT margin has increased to 18.2% from 10.7% quarter-on-quarter and better sequentially also from 11.4%. On a full year basis, sales grew 13% to INR 2,473 crores from INR 2,192 crores, and PAT increased by 30% to INR 331 crores from INR 254 crores during last year. PAT margins improved from 11.6% to 13.4% year-on-year.

Coming to the segmental performance. Abrasives consolidated revenue for the quarter grew by 53% to INR 525 crores compared to INR 344 crores in Q4 of last year and grew 2% sequentially. Standalone Abrasives was almost flat sequentially as well as quarter-on-quarter at INR 280 crores. The sales from RHODIUS and AWUKO for the quarter was better by INR 31 crores compared to Q3. There has been significant growth from subsidiaries in Russia and America. On a full year basis, consolidated sales grew by 59% to INR 2,035 crores and for standalone, it grew by 5% to INR 1,107 crores.

The sales from AWUKO and RHODIUS for the year was INR619 crores compared to a mere INR10 crores in FY '22. For the quarter, profit before finance costs and tax at consolidated level was better at INR 38 crores against INR 27 crores in Q4 of last year and INR 21 crores in Q3 of current financial year and at the standalone level, it improved sequentially by 10% to INR 44 crores after some easing on the input cost and was almost flat quarter-on-quarter. On YTD basis, consolidated PBIT de-grew by 33% to INR 105 crores; and for standalone, it de-grew by 7% to INR 151 crores. The lower profit is due to higher input costs and due to integration costs related to RHODIUS and the reestablishment costs relating to AWUKO.

In respect of the Electrominerals division, Electrominerals consolidated revenue for the quarter was at INR 405 crores versus INR 340 crores in Q4 of last year, resulting in an increase of 19%. Standalone Electrominerals grew 6% quarter-on-quarter to INR 178 crores from INR 168 crores in Q4 of last year and grew by 3% sequentially. Russian subsidy, Volzhsky Abrasive Works and the South African subsidiary, Foskor Zirconia, registered significant growth for the quarter-on-quarter. On a full year basis, consolidated sales grew by 25% to INR 1,634 crores and for standalone, it grew 13% to INR 702 crores.

For the quarter, profit before finance costs and tax at consolidated level was at INR 65 crores as against INR 44 crores in Q4 last year and INR 82 crores in Q3 of current financial year and at standalone level, it grew significantly by 236% to INR 14 crores quarter-on-quarter, and de-grew 46% sequentially after easing in commodity prices impacting realization of our products, low generation from Maniyar hydel power plant, increase in power tariffs from KSEB.

On a full year basis, consolidated PBIT grew by 42% to INR 275 crores and for standalone, it grew significantly by 61% to INR99 crores. The profitability growth was due to strong performance at standalone as well as overseas subsidiaries on account of higher realization with increasing demand of minerals.

In respect of the Ceramics, the consolidated revenue for the quarter were higher 31 percentage at INR 265 crores as against INR 202 crores in Q4 of last year and sequentially, it was almost flat. Standalone Ceramics grew by 24% to INR 211 crores on a quarter on basis on account of strong demand across end user industries and geographies, but de-grew by 4% sequentially.

Subsidiary in Australia registered a significant growth. On a full year basis, consolidated sales grew by 29% to INR 1,027 crores, and for standalone, it grew by 26% to INR 834 crores. Profit before finance costs and tax at the consolidated level grew by 75% to INR 62 crores from INR 35 crores on a quarter-on-quarter basis, and de-grew by 7% sequentially and at standalone level, it grew significantly by 65% to INR 51 crores quarter-on-quarter. This is majorly on account of growth in volume, realization, and product mix. On a full year basis, consolidated PBIT grew by 57% to INR 251 crores; and for standalone, it grew significantly by 56% to INR 205 crores.

On the finance side, there was a debt of INR 104 crores in the standalone books, and the total debt on a consolidated basis was at INR 230 crores as of March 31, 2023, as compared to INR 384 crores as of December 2022. The debt-to-equity ratio was at 0.08 for consolidated and 0.05 for standalone. On the forex cover CUMI typically a net importer in dollar terms and a net exporter in euro terms. We cover the net exposure as appropriate and in accordance with the forex policy.

On the cash flow front, our strong balance sheet is evidenced by the net cash flow position and the low debt-to-equity ratio. The cash and cash equivalents, including deposits with tenure not exceeding three months, net of borrowings was at a surplus of INR 166 crores.

This concludes my update on finance. I'll now request Mr. Sridharan, our Director of Finance and Strategy, to walk us through the performance of the overseas subsidiaries, mainly covering VAW and the recent acquisitions.

Sridharan Rangarajan: Good afternoon to all. I think it's a pleasure meeting you once again on our earnings call. I would cover quite a few key subsidiaries and also would provide a broad summary.

First, to start with VAW. As you all know that we started the year in February 2022 with a conflict between Russia and Ukraine and economic sanctions were imposed on large parts of Russian economy, businesses, banks, and individuals. This disturbed the entire world in terms of increasing inflation, higher energy and food prices, geopolitics, uncertainty, supply shocks and many more.

Thankfully, the impact of war was not as much on our Russian subsidiary. The team at VAW managed risk well and took suitable actions to mitigate them. Just to update the products of VAW are not under any sanction, neither Volzhsky Abrasive Works as an entity nor its directors or its employees are under any sanctions. VAW is having a timely collection from its customers with no challenge. Suitable logistics arrangements to Europe, India, and other geographies, complying with all regulations were made. There has been no impact on the operation and the installed capacities are being utilized at the same level as it was before the war.

On a full year basis FY '23, we did about RUB 8.1 billion compared to RUB 7.3 billion last year and the profit after tax was about RUB 1.2 billion compared to last year at RUB1.1 billion. Both top line and the PAT grew in double digits. These were converted in FY '22 at an average rate of RUB 1 is equal to INR 0.97. This resulted in a sale of INR704 crores of top line and PAT of INR 106 crores in FY '22. In FY '23, these were converted at an average rate of RUB1 to INR 1.23. This resulted in a sale of INR 990 crores and a PAT of INR 152 crores. They continue to be debt free and having enough liquidity to manage their business as well. The volume share in Russia, which was normally around 45%, moved up to 58%.

The overall performance of VAW in FY '23 was very good. The outlook remains positive as demands are on increasing trend, but there will be pressure on maintaining realization at current levels, considering softening of the commodity price globally. The team in Russia will continue to explore all possible options to maximize opportunities. However, we are cautiously optimistic, and we plan the next year accordingly.

Now coming to RHODIUS, we acquired RHODIUS and in control of the company since April '22. We have put in place a leadership team. We have also in-sourced accounting, human resources, and IT services, which was provided by the erstwhile holding company. So I would say that practically, the organization is in good shape.

RHODIUS in Q4 achieved a net sale of EUR 17 million compared to EUR 15 million in Q3. On a full year basis, we have told earlier that they will be doing around EUR 68 million to EUR 70 million. They managed to achieve 95% of the plant and did about EUR 65 million. Russia-Ukraine conflict did have a lot of impact on the RHODIUS operation. There were shortages in production volume also delayed deliveries back of transportation capacities and energy costs going up.

Coming to the bottom line, the performance, we expected the full year loss to be about EUR 3.5 million to EUR 4 million as commented during our last earnings call. We ended up at a loss of

EUR 3.7 million. On an operational side, the business was impacted due to material cost push, freight cost increase and energy cost increase in Q4. Energy cost increases only in Q4. We could not fully recover, offset this cost increase by higher realization. This impact was roughly about EUR3 million. There is difference between realization and cost portion. Other than that, the losses include integration costs of EUR 1.5 million. Most of this is a onetime and will drop off. Then intangible and goodwill write-off of about EUR 2.8 million, this will continue for about seven years to eight years. Major portion of it will be written-off in five years.

Besides this, they also need to pay a compensation to employees as recommended by the government to offset the inflation that was about EUR 0.5 million. So in all, the normal profit would have been EUR 3.8 million to EUR 4 million, which is very much comparable to pre-acquisition profit. So I would say the business is fine. We are doing all efforts to bring leadership team in place. All that is all going fine. Cost push versus price is a challenge, and I think this is where we are taking a lot of effort.

FY '24, RHODIUS is planning an 8% to 9% growth. Major portion of the one-off costs will drop. However, the energy cost increase which we faced only in Q4 FY '23 will be there for full year FY '24. This could be in the range of about EUR 2.2 million to EUR 2.5 million, but our team is trying their best to offset these. Level of market is facing a headwind. They're cautious of these facts. They're taking every effort to bring back profit. As we told earlier, we expect FY '24 a small profit after setting off of the intangible depreciation and from there on, we will progress towards PBIT margin up 12% by '27 as communicated in the earlier calls. The plans are in place accordingly.

And in summary, the RHODIUS is in good shape. Leadership team is in place. Top line is coming through. There are some unexpected cost push largely come out of the Ukraine crisis. We will progress from here well towards achieving the profitability broadly in line with our expectation.

AWUKO, this quarter, they achieved EUR 2.6 million sales against EUR 2.2 million in Q3. The full year was about EUR9.4 million against EUR 10 million that's what we communicated to you earlier. Losses at full year, it was EUR 3.7 million against EUR 4 million that we communicated to you earlier. Given the fact it is taking time to re-establish the business, we feel in FY '24, the loss could come down to EUR 2 million to EUR 2.5 million. We will be break-even in FY '25 only. We earlier said, we will be break-even in '24 that we are revising to FY '25. However, we are taking a lot of effort to accelerate better performance, so hope we do better than what we are communicating to you.

As far as PLUSS, on a full year basis, we crossed INR 50 crores as communicated during our last call. We registered INR 53 crores and we told earlier that PLUSS will break even in FY '23 but ended up with a minor loss. The last year focus was on business development and establishing strong customer base. We feel that I think they will make profit in FY '24 and I think they are going strength-to-strength. We need to give some time to re-establish the whole thing as far as AWUKO and PLUSS is concerned.

So just to summarize, I think we finished FY '23 with INR 4,600 crores-plus top line. We grew at 40% in comparison to FY '22. Roughly, 50% of the growth came from acquisition, the balance came from our existing business. We acquired three companies, RHODIUS, AWUKO and PLUSS. These were funded from internal accruals. At the end of the year, we are having net cash question. RHODIUS is a strong brand with high-end quality product. Our reason for acquisitions are good stead, we will be realizing these benefits in the next three years to five years.

In India, we feel we have a good market opportunity for CUMI. We will make use of it. AWUKO will take a year more to stabilize. Our Russian team has managed the situation well. Ceramics business have done well at standalone, and they have given an ROCE of 48%. Electrominerals business as standalone have done an exceptional job of improving their top line margin and ROCE. You would note that they are having an ROCE of about 39%.

Our Abrasive business at standalone could have done better. They had a small growth. ROCE is at 41%. Overseas Russia is doing fine. Foskor has done well. They have kind of become debt-free at this point in time. Our American operations are doing well. We are moving out of China. Recent acquisitions will take a couple of years to stabilize. Our standalone free cash flow is at 57%, if you exclude some of the capex that we did over and above the depreciation, largely the land acquisition at about INR48 crores. Our free cash flow conversion is about 80%. Obviously, we can do better. Now that we can -- what we can expect for FY '24.

Domestic abrasives will go strong this year. We have put in place the right plans. There will be a moderation in growth of ceramics. Overall, we aim to grow 15% to 18% in domestic business. Standalone, we had an EBIT margin of 18.1%. in FY '23, this should improve in FY '24. At consolidated level, we aim to grow 12% to 14% and at a consolidated level, we had an EBIT margin of 11.2%. This should improve in FY '24. At consolidated level, the ROCE of Abrasive went down to 7.8%. This should improve in FY '24.

At consolidated level, ROCE of Ceramic business was at 42%. We should be able to maintain in FY '24. At consolidated level, ROCE of Electrominerals business was at 30%, which should also be stable around that. So overall, we are cautiously optimistic about FY '24 and we have done our best in '23 and consolidate our position in '24, that's what we will do in this year.

And thanks a lot for all your patient hearing. We will now open up for question-and-answers.

Moderator: Thank you. Our first question comes from the line of Bhavin Vithlani from SBI Mutual Funds. Please go ahead.

Bhavin Vithlani: Thank you. Good afternoon, gentlemen and congratulations for great performance, especially amidst the uncertain environment. So two questions. One is on the Abrasives side, we've seen a slowdown in the revenue growth rate, especially on the standalone front, if you could help us understand, is it the slowdown in the market? Because we are seeing the similar trend in Grindwell as well. How do you see the trend next year?

The second question is on the Electrominerals business, where we saw volatility in the EBIT margins in the current quarter, standalone Electrominerals business. What has driven this? And what do we see as a sustainable margin going forward? These are my two questions.

N. Ananthaseshan: Yes. Thank you, Mr. Vithlani. I would take the first question in Abrasives. As all of you know that we have three broad segments in Abrasives, which is precision, the industrial consumables, and the retail segment. What you saw over the last year is a strong and continued demand for the precision business, not only in India, but also in other markets as well, especially in the North American markets. So we believe that, that segment would continue to do better.

In the segment, which we don't address in the domestic market -- I mean in the standalone business, but we addressed one of our subsidiaries is also the agro processing and which has done extremely well. So while the overall, I would say, the precision business in agro processing and auto, auto OE, non-auto segment, steel industry, has contributed very well to growing that part of the business.

The industrial consumables business, which addresses largely the SMEs, MSMEs, the foundry segment has been a little muted and obviously, the cost pressures and the raw material cost pressures, with some captive abrasives and which we were not able to pass on to this segment also impacted, I guess, some of their offtake.

The retail segment, which is the largest one, which is the fastest growing one. I also saw quite a bit of competition from lower-priced imports, and that has been one area where we can definitely focus on and we have been taking some corrective actions in terms of like from a product development for that particular segment, the channels, and the organization structure, which would address that specific segment. So we do, we are hopeful that we would see a good turnaround in the Abrasives going forward.

Sridharan Rangarajan: So as far as the EMD business, I think you then have a right observation, I would like to gauge you as follows: FY '22, we did 9.9% and in FY '23, we did 14%. But then there is a margin in quarter. There's a movement, which is what you are asking and also where we would be stabilized?

First point is the 9.9% of FY '22 should be read as 14.7% on a normalized basis because we have written-off certain legal expenses relating to our Maniyar business. So that needs to be normalized and we also feel that FY '23 should be read as -- 14% should be read as 15.6% or 15.5% in and around that. So and the last two years is where we have done significant changes in the operation and productivity improvement and also conversion from a traditional way of manufacturing brown fused alumina to our renewal way of grand manufacturing brown fused alumina, which is what caused the whole change in the performance.

Now if you look at it is going forward, we expect it should be in the range of 14.5% to 15% EBIT margin going forward and there could be some because of mix changes, etcetera, there could be quarterly ups and downs, but I think broadly, it should be in that line.

Bhavin Vithlani: Just one more question, if I may. So in the last year's annual report, there was a target set of 2x revenues and 3x profits, which is roughly INR1,000 crores by 2025. Do we believe we are on track or the certain higher losses in the AWUKO and Abrasives as you outlined can push that some bit?

N. Ananthaseshan: I must tell you a background of this because this was set out in 2019 as part of our long-term five-year LTS strategy and every five years, we do drop LTS. So this was set out then and subsequently, we also had the COVID hitting us and that also impacted. But I'm glad to say that from that time on, what we had set out to do, both on our consol basis and a standalone basis, we are there.

Sridharan Rangarajan: Yes. But I think just to make it clear that the INR1,000 crores that you are talking about as a number, I don't know where you are getting, but I think that will not be the case.

Bhavin Vithlani: Okay. Got it. Thank you so much.

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

Ravi Swaminathan: Hi, sir. Congrats on good set of numbers. I have two questions. One is on the Ceramics and Refractories segment. If you can give the breakup between Ceramics, Refractories, metallic cylinders for the full year, that will be great? And which are the tough segments in which you are most positive in terms of growth? That's the first question.

Second question with respect to the Electrominerals business. In the Russian entity, we have seen good growth, is it because of the currency depreciation? I mean I'm just wanting to know what was the kind of volume growth that we have seen in FY '23 vis-à-vis '22? And if you can give the growth outlook for Russia going forward, that will also be great? Thanks.

N. Ananthaseshan: Okay. On the Ceramic segment, I can tell you broadly, I mean, we don't give the split between refractories and ceramics. But I can tell you broadly these two, the thermal management part of it and the EMD, wear and engineering part of the Ceramic segment, addresses customers, large customers and the product orders coming in from the end-user industries, whether it is the mining, steel, power generation, the solid oxide fuel cells, that continued to be robust.

What's also happened in the West Ceramics business is that while we manufacture ceramic parts in India, the value addition happens in the America and in Australia where we address all the mining industry so that has grown pretty strongly in both these geographies, and that has been another reason why kind of ceramics has done pretty well.

The customers like in steel, carbon black, glass, ceramics, both in India and in North America, wherever exports go on the thermal side also has done quite well, and we see that demand continuing.

On the Russia side, the capacities and the production volumes have remained very close to the 90%-odd despite the blip what we saw in the beginning of the year because of the war. Subsequent to that, the volumes, what we've been producing also being helped by a better realization for the silicon carbide and also, product mix for -- when I say product mix, it is basically market mix and that has also helped the Russian operations. Did I miss any?

Sridharan Rangarajan: I think the exchange is a reason and I think we initially told that the rate at which we converted last year versus this year, that is FY '22 versus '23, which is INR0.97 versus INR1.23. So obviously, that is helping, plus there is a depreciation that happened in between the year suddenly, the rouble became very strong and then again, the end of the year, it started beginning. So these fluctuations also helped sometimes it, sometimes did not help, but I think. Overall, there is a net gain, and that's also contributing to the top line.

N. Ananthaseshan: The promising thing is that we stayed with now the volumes. So volumes did not -- and capacity utilization was strong.

Ravi Swaminathan: Got it and the outlook for growth for these two segments at a consol level, both Ceramics, Refractories and Electrominerals? I mean last year; Ceramics has seen 30% growth. Should we estimate similar growth, or we have kind of -- I mean that's a very bumper year and we need to tone down the growth. Is it something like that?

Sridharan Rangarajan: As I told you, we should expect a moderation and I think that's what broadly commented in terms of concluding remarks. So we should see the moderation in growth.

Ravi Swaminathan: And same is case with the Electrominerals. So high single-digit growth is something that we should expect?

Sridharan Rangarajan: So I think Electrominerals also you should see, because as I said that the domestic Electromineral grew substantially well in the last two years. But I think we should see there's going to be a competition because there's a softening of input material, more material could come from China and Russia is already fully optimized, and there is nothing much can grow at that point. There could be some marginal growth, but I think that will be the stay in Electromineral. Foskor can grow, so overall, we should expect a moderation.

Ravi Swaminathan: Okay and the broad breakup, sir. Percentage breakup Ceramics, Refractories, met cylinder, will you be able to share?

Sridharan Rangarajan: I'm sorry, Ravi.

Ravi Swaminathan: Okay. Thanks.

Moderator: Thank you. Our next question comes from the line of Nitin Arora from Axis Mutual Fund. Please go ahead.

Nitin Arora: Hi, sir. Thanks for taking my question. Just on the Ceramics part, is it possible to quantify the growth you are getting from your new businesses, I'm talking about the EV, the alternative energy and you said moderation here in the business. But can you throw some light over the next two years to three years because now Ceramics is almost like 20%, 21% of our overall sales on the consol basis.

In the next two years to three years, where do you see this proportion going up? And also, if you can help us in terms of profitability? Because I'm assuming if it's 20%, 22% of sales, it is closer to 30% for the -- on the PAT. You can correct me if I'm wrong. So nothing number specific, if you can quantify where do you see the direction of Ceramics going in the next two years to three years? And how the new business is growing on the Ceramics side? These are the two questions.

Sridharan Rangarajan: So Ceramics, I think, when I say moderation is that, see, we have been -- last year, we grew at about 26%. From that moderation would happen. That's what my comment is largely coming from the refractory portion of it, where we feel that standalone, we expect both these businesses would grow well, and we feel that it should be high teens, they should do that. But I think there will be some headwinds in other parts of the business.

So overall, we should be able to grow these two businesses, that is Refractory, and Ceramics put together as well as our overseas business in Australia and America, which are also going very strong. We should see a trajectory of at least kind of a 20% CAGR going forward. You are talking a three-year window. So I'm just giving you a broad number here.

Moderator: Thank you. Our next question comes from the line of Rahul Gajare from Haitong Securities. Please go ahead.

Rahul Gajare: Yes. Good afternoon, sir. Sir, given you've had very strong performance from your Russian operation. Can you talk about your ability to transfer money from Russian subsidiaries to Indian parent given the sanctions and all those issues which are there?

Sridharan Rangarajan: No. So I think, we don't have any issues on all the purchases that we make. We also have no issues in terms of the sale that we make to Russia, we are able to collect as well as pay not only from India from other geographies, and that is not an issue.

Now as far as the dividend outflow from Russia, there are restrictions purely by imposed by the Russian government. So we are going as per the policies of the Russian government, which we are able to transfer, but unable to transfer fully because there is a cap in terms of what they can transfer.

So we are trying to make use of that money more in the local capex programs and develop the business as much as possible. But I think we should expect some stability forthcoming, and I think that should come forth soon.

Rahul Gajare: Okay. Sir, my second question is on the capex. You've spent nearly INR 300 crores in this year. Over the next couple of years, you touch upon your capex plans and where specifically would you want to spend money, including M&A activity?

Sridharan Rangarajan: Well, let's divide this year capex, though we spent about INR 300 crores. Of that, close to INR 50 crores is a purchase of a land in Hosur, which we did in December and so these are one-offs. I mean, we can't expect this to continue and then the capex at this point in time. If you exclude that standalone would be about INR 100 crores. But I think a lot of this is probably debottlenecking of certain capacities that we have, and certain process improvement related capex is what we have spent.

So I feel that we can't expect that this kind of a repeated capex program going forward. Is this a broad gate line, I would say? If you look at that, we have broadly about INR 180 crores of depreciation at consol level, right? So somewhere in that range, INR 180 crores to INR 200 crores of capex is normally one can expect and there are some extraordinaries, as I told this time, there we had INR 50 crores of land that we bought. So if you exclude that, I think we are still very much in line with the broad depreciation that we have incurred. Now as far as the acquisition, we don't have a number in mind. But as we progress, as we get something good, we will continue to look at it.

N. Ananthaseshan: Just to add-on, over the last couple of years, we have invested in Minerals business in terms of increasing capacities, and that continues in terms of modernizing the plants there. You know that Minerals business needs a lot of emissions. That's also something which we are very clear about that we need to have very clean processes, so we'll spend money on that as well. We would focus our investments, obviously, in the Ceramics part of the business and also in Abrasives in the domestic market.

Rahul Gajare: Sure, sir. Thank you very much.

Moderator: Thank you. Our next question comes from the line of Deepesh Agarwal from UTI AMC. Please go ahead.

Deepesh Agarwal: Yes. Good afternoon, gentlemen and congrats on good numbers. My first question is, in one of the comments you mentioned that Abrasive is likely to see a strong growth in FY '24, can you throw some more light what drives this confidence?

Sridharan Rangarajan: Abrasive growth in '24.

N. Ananthaseshan: Abrasive growth in '24. Yes. I mean looking at a combination of the end-user markets. So what is the growth in end user markets that we address, whether it's in the auto or auto OE, auto comp, the agro processing and also the infrastructure retail segments. So that's something which we are looking at and I believe that infrastructure, housing, and growth in India, especially in the Tier 2, Tier 3 cities, will be addressing the retail part of the business.

And we also see the growth in SME sector in the industrial clusters largely driven by the exports led growth for -- in general engineering and in the precision, both in the auto or when I say auto, I'm talking about ICE and non-ICE -- and in the mobility, which I call out gear grindings and steel, aerospace, etcetera, both in the domestic and in the international business segments. So I would broadly club everything together and would expect a growth of about 10% overall.

Deepesh Agarwal: Understood. The second question is when do we expect to go into commercial production stage of some of the key materials, we are working on like high quality silicon carbide, synthetic graphite huge?

Sridharan Rangarajan: I think, it would take some more time because there are multiple qualification process plus our capability to meet certain standards that the industry would want. These are currently being on at this time. So there is a progress, and I think as and when we make sure to go to the next step, definitely, we will be more than glad to share with you.

N. Ananthaseshan: And some of the future capex obviously will be in this area.

Deepesh Agarwal: Okay and lastly, book-keeping question. If I see the standalone financial in the fourth quarter, there seems to be a sequentially a significant decline in employee cost and other expenses from your usual run rate. What is driving this?

P. Padmanabhan: Well, it is mainly arising out of the actuarial assumptions because the interest rates are going up, therefore the shift between the P&L and the OCI will always be there. That is why it is giving a drop.

Deepesh Agarwal: And for other expenses?

P. Padmanabhan: Other costs. See, in the earlier quarters, there were repairs and maintenance. So the maintenance were not there in the latter part. That is why the reduction in there.

Deepesh Agarwal: So this is a sustainable number or?

Sridharan Rangarajan: You should always look at our full year and be guided from that. That could be some small changes in the fourth quarter.

N. Ananthaseshan: Yes.

Deepesh Agarwal: Understood. Thank you.

Moderator: Thank you. Our next question comes from the line of from Saif Sohrab Gujar from ICICI Prudential AMC. Please go ahead.

Saif Gujar: Thanks for the opportunity. So my question is regarding the retail segment. So you talked about retail segment and imports, which have been influxing an impact on pricing. So what proportion of our appraiser sale would be retail, if you can break it down, retail segment for us?

N. Ananthaseshan: Broadly, I would say, currently about 30%, 35% is what we do.

Saif Gujar: Okay and you talked about imports, which are on the rise. So if you can quantify what impact it has done to our pricing? And so if we are talking about flat growth year-on-year as well as Q-o-Q, would that mean that it is only attributable to volume growth, and we have taken some price cuts or something?

N. Ananthaseshan: So the imports on the retail side has always been there. So the question as at what prices are they coming in and how they get distributed, etcetera. So what we have been focusing on is not on the entire breadth of the retail product portfolio. But in segments where we don't have, what I would call, or rather we have a strength, which is basically in terms of making much more safer products and those products obviously are a little more expensive than what is available in the market. The focus now is to see how do we improve our processes to ensure that we stay with our quality and safety part of the products but make it more productive and thus more competitive going forward. As I said earlier, it is not just a product. We also are looking at a retail organization, which would increase our reach and presence for these segments.

Saif Gujar: Okay and so the imports have now stabilized –and we can gain market share from them now?

N. Ananthaseshan: That's what we aim to.

Saif Gujar: Okay. But no influx as such, right? It remains stable now, at least?

N. Ananthaseshan: Yes.

Saif Gujar: Yes. Thanks, sir.

Moderator: Thank you. Our next question comes from the line of Alok Ranjan from IIFL AMC. Please go ahead.

Alok Ranjan: Thank you for this opportunity. Sir, just 1 question. How should we read opening of China in conjunction with the lower PMI, which is being reported there in terms of global supply and aggressiveness in the market, is the China plus One very strong to mitigate that? What we are seeing in other sectors, not in the cap goods, but other sectors, a lot of dumping especially in the commodity has started to happen from China. So could you give some sense like whether their production or capacity have come back to normal in China, but if the domestic demand in China is lower, whether they are coming into the global market and coming at lower prices and how we are getting impacted by that?

N. Ananthaseshan: So the China plus One strategy gained strength or gained currency just after the COVID. I think it continues to be there because, especially in global markets. Customers are looking at a reliable and stable source of supply, and they want to have robust supply chains and we are seeing that happen in our industry. All of us know that China is still the largest manufacturer of minerals in the world and abrasives in the world. But despite that, we are seeing many customers wanting to source from us, and that's also one of the reasons why we are positive about the EMD business.

Costs in China is also going up. It is not that they will continue to be a very low-cost layer. Employee costs, labour costs, energy costs are going up and it will have to be seen how competitive they can be in the long run. The company in this gap, I would say, is coming down significantly.

Alok Ranjan: Sir, just a question associated to that, can we rate competitiveness of India versus like CUMI versus for China manufactured product, if the difference is like 5% to 7%, China plus One works, but if it is obviously till higher than 10% then the customers -- the season making can be very different. So can we say that since our cost of production may be somewhere in the range of around, let's say, 5% to 7%, maybe higher than China, and that's why we can be competitive and China plus One works, but if it will be higher than 10% or something, then obviously, the preference can be different.

N. Ananthaseshan: Yes, I would -- if you look at the entry barrier is about 5%, 6%, depending on -- 7%, depending on product groups and some you don't have. Broadly, I think we have kind of narrowed the gap and our cost of production compared to that of China should be in the range of about 10%, 12%. What also helps in our favour is that many of the Western customers want to show some companies who are compliant to their energy, I mean, their environmental standards, not only the quality standards. So now that has become also a major driving force for companies to choose their partners in the value chain. So there is a small premium that they're willing to pay and if we have stable quality, supplies and quantity, we definitely have an opportunity here.

Alok Ranjan: Got it, sir. Okay. Thank you, sir. That's all from me. Thank you.

Moderator: Thank you. Our next question comes from the line of Harshit Patel from Equirus Securities. Please go ahead.

Harshit Patel: Thank you very much for the opportunity, sir. Sir, my first question is on the standalone Electrominerals business. We used to do annual sales of close to INR400 crores in the pre-COVID period. Now we have closed FY '23 at almost INR700 crores. So that's a growth of almost 70% which means pre-COVID era. So how much of the 70% would have come from better pricing versus volumes in your opinion?

N. Ananthaseshan: Harshit, I was mentioning earlier, we have significant work in terms of, one, modernization of our factories. When I say modernization, consequent to the process changes that we have made to bring about a new product, which is the synthetic alumina. Now that has been able to we are able to produce more volume from the same assets and also much lower energy costs, which is very-very competitive. In addition to that, we have modernized our furnaces to make them continuous furnaces, which means that the downtimes are much lower, and productivity is much higher, yields are much better.

And supporting that is the investments we have made in all the grain processing facilities, which is able to handle the volumes and also the flexible nature of the product mix. So it's a combination of all this, which has given us possibly a capacity increase from about 35,000-odd tons to 70,000-odd tons. So that is definitely reflecting in the numbers of this year.

Harshit Patel: Understood. Sir, just a follow-up to that. You previously mentioned that overall standalone EMD margins for FY '23 should be read as 15.5% vis-à-vis 14% reported. I believe there has to be some one-off in the fourth quarter margin because margins were very low at only around 9%. So could explain what was the number?

N. Ananthaseshan: We said that. We mentioned that.

Sridharan Rangarajan: We mentioned that. Yes.

Harshit Patel: So what was the one-off over there? I mean what exactly happened in the fourth quarter?

Sridharan Rangarajan: Yes. We have taken some look at some of the inventories relating to the -- in Electrominerals, and that's what we have done that.

Harshit Patel: Okay. Understood. Sure. Sir, second question is on our capex. While we have done almost INR 300 crores of capex at the consolidated level, the standalone capex, including land purchases stood at around INR 150 crores, INR 160 crores. So that means we have incurred almost INR140 crores at subsidiary level. So could you explain where we have invested the money? Is this mainly pertaining to Russia or something else as well what we would have done?

Sridharan Rangarajan: It includes Russia, Sterling Abrasives and a few other subsidiaries put together.

Harshit Patel: Okay. Anything that we would have done in the German front? I mean any money we would have put to probably...

Sridharan Rangarajan: Normal capex.

Harshit Patel: Okay, sir. Understood. That would be from my side. Thank you very much for answering my question.

Sridharan Rangarajan: Thank you.

N. Ananthaseshan: Thank you.

Moderator: Thank you. Our next question comes from the line of Mihir from Carnelian Capital. Please go ahead.

Mihir Manohar: Yes. Hi. Thanks for giving the opportunity and congratulations on a good set of numbers. Sir, I wanted to understand the ceramics part of the business. I mean we have seen margins improving ceramics, particularly this financial year for both our parent business as well as at the consolidated level also from the 21% to 22%, we have reported 21% to 25% margins.

But now -- I mean the business is going to be a slightly muted next year, the growth rate coming down. So I just wanted to understand what led to the improvement in margins this financial year? Are there any process improvements or are there any specific structural changes, or would it largely be volume related? So how should we see the margins over there?

And the second question was on the silica carbide. I mean the application that we are looking for high purity silica carbide, so when should one expect commercialization on this front? And would this be material for us at the starting initial years or it won't be that case. So just wanted to get an understanding around that?

N. Ananthaseshan: Okay. On the Ceramics, we do have, what I would call, as I said earlier, the revised ceramics part of it and technical -- were in technical ceramics and also the thermal ceramics part and as I said, the project orders for the thermal part, which is into glass, ceramics, carbon black, chemical process industries, all of them had a pretty robust demand.

And these are designed made-to-order, made to design and hence, has better margins than a commodity refractory. Same is the case for the tech ceramics, where we supply to the renewable -- I mean, new energy businesses like solid oxide fuel cells, some part of mobility business and also the value-added portion, which is the line ceramics, which goes out again, it's a designed for customers, specifically in markets like in Australia and in America. So a combination of going up the value chain, addressing opportunities in design and installation and addressing the markets which are better capacities or better volumes of ceramics from India has contributed to all this.

On the outlook front, I think broadly, these are directions which we should sustain and while there will be a little bit of an ups and downs, but this is a good growing segment.

Mihir Manohar: Sure and just on the silica carbide side, on that question?

N. Ananthaseshan: Silica carbide, we are in the process of qualification, as Mr. Sridharan said and while we are making smaller investments in terms of the, what I would call balancing processes. It would take about a few quarters to get into a commercial scale.

Mihir Manohar: Sure. I mean as investors, should we see this as a material portion for us in the initial part of year for that one typically?

Sridharan Rangarajan: Sorry. You are not audible at all. We find it difficult to listen to you.

Mihir Manohar: Yes, sure. So just wanted to understand that the initial part of the year, I mean, should we see this business as material or that not being the case?

N. Ananthaseshan: You're talking about the high purity silicon carbide?

Mihir Manohar: Yes.

N. Ananthaseshan: Yes. So we are not considering that in the sales at all now.

Mihir Manohar: Sorry. That’s it from my side. Thank you very much.

Moderator: Thank you. Our next question comes from the line of Bhavin Vithlani from SBI Mutual Funds. Please go ahead.

Bhavin Vithlani: Sir, thank you for the follow-up. Could you -- I mean this is a follow-up to the earlier question. If you could help us on the progress during the year on your initiatives on high-purity silicon carbide and high purity graphite and graphene, which will be going towards the battery operations. I mean where are we in that journey? What's the progress during the year? That's one.

And second is on the SOFC part, we understand the next version of the SOFC has a significant higher percentage of ceramic. So we historically have been highlighting about not arithmetic but geometric growth. So what part of that business is driving our 20% CAGR guidance on the Ceramics front? These are the two questions.

Sridharan Rangarajan: So I think see, HPSIC, as we said that we have established the product. It meets the standard. We are going through various testing process. As I said that it's a very lengthy process, and we are very much on it and we would share more details as we really get into a commercial scale, which is what we communicated. The progress has been good, satisfactory. We would be more than glad to share as and when we commercially get into that. As far as the solid oxide fuel cells, where you said that the next range of products, definitely, we are very much working with our customer and the progress there also is very interesting, and it is also gives a lot of hope that we will -- as and when that program gets complete also, we should get a good share of business and again, I think we will be more than glad to share as and when we have more firm details coming out of that program.

Bhavin Vithlani: Sure and the progress on the high purity graphite and graphene that we are working on for the battery operation?

Sridharan Rangarajan: Yes. So as far as graphene is concerned, I think it's definitely good progress. Product is established. We are trying to work on multiple fronts and I think -- so graphene is a product where it's not going to be sold in scale, but I think it's going to be sold in niche applications. So we have to work in multiple areas, which is what we are doing. I think 2 broad themes is that how graphene can improve our own products that is theme 1, which is basically better productivity, better performance in all our products that we currently manufacture.

The second theme is using graphene for various other applications, which is like battery, tyre manufacturing, cement, various applications that we can use that, which is what we are going through at this point in time. It's a very, very lengthy time-consuming process, but the progress has been good. As far as the high purity graphite is concerned, it's still on a very test level basis at this point. We will take more time to get to the next step.

Bhavin Vithlani: Sure. Just a follow-up on the high purity SiC. Recently, Bosch announced that for the semicon investments in the U.S., we are opting for high purity SiC rather than the other products. So are we -- I mean, would our application also be considered and are we working with them?

Sridharan Rangarajan: See, what Bosch did is that they went ahead and acquired SiC fab which manufacture using silicon carbide the chips that go into various applications, rather than a silicon-based wafers, which I think we all know that SiC-based wafer has got an edge over silicon-based wafer in certain application for specific reasons and I think this is very much acknowledged worldwide and that's why not only Bosch, many people are getting into this. Infineon has made a significant investment. Similarly, many companies have made a substantial investment in these areas. So where we come is that in that value chain, obviously, we will be suppliers to these manufacturers, and that is how we will link into the value chain program that creates a chip based out of silicon carbide.

Bhavin Vithlani: Appreciate. Your answers. Thank you so much.

Moderator: Thank you. Ladies and gentlemen, we have reached the end of the question-and-answer session. I now hand the conference over to Bhoomika Nair from DAM Capital Advisors Limited. Please go ahead.

Bhoomika Nair: I thank you the management for giving us an opportunity to host the call. Wishing you all the very best, sir, and thank you to all the participants.

N. Ananthaseshan: Thank you all so much for logging in and looking forward to seeing you again in the next quarter.

Sridharan Rangarajan: Thank you.

Moderator: On behalf of DAM Capital Advisors Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.