"Carborundum Universal Limited"

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Moderator: Ladies and gentlemen, good morning and welcome to the Carborundum Universal Q3 FY'13 results conference call, hosted by Batlivala & Karani Securities. As a reminder, for the duration of the conference, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during the conference call, you may signal for an operator by pressing "*" and then "0" on your touchtone telephone. Please note this conference is being recorded. I would now like to hand the conference over to Ms. Renu Baid of B&K Securities. Thank you and over to you Madam.

Renu Baid: Good morning everyone. On behalf of B&K Securities, we welcome everyone to the Q3 FY'13 earnings conference call of Carborundum Universal. Today, we have with us the senior management represented by Mr. K. Srinivasan, Managing Director, Mr. Sridharan Rangarajan, CFO, and Mr. Raja Mukherjee, DGM Internal Audit & Strategy. We understand the current environment is very challenging and hence now we would request the management, Mr. Srinivasan to kindly takeover and start the call with opening remark after which we will start with the Q&A session. Over to you Sir.

K. Srinivasan: Good morning and thank you all for taking this call first thing in the morning. I know it has not been a great quarter and we thought we should give as enough time to sort of chat with all of you and see what the thing that has happened is and how we are looking at the things going forward.

First I must say that sorry we disappointed you with the kind of results that we have put out. It was a difficult quarter so I am not going to jump into a lot of numbers but I am going to give you an overall reason of genesis of what we are doing and what we think is going to be the way forward.

To give you all a rough idea broadly we have been running our business on a consolidated basis about 520–530 Crores a quarter, approximately delivering about 50 Crores on profits. Now what really happened is two fundamental things have been changing and this is something, which is a little bit coming from the market itself. Fundamentally there is a serious pressure in the market in terms of both sales as well as cost. I will touch the sales part. Across the board almost all industries are not doing well particularly impacted our projects, which are related to power, mining almost all major projects have been on a slow and we have to take a very careful decision in terms of how we want to address this slowdown.

We realize that there is a significant amount of let us say potential losses in these projects and consequently we were very careful on not delivering to projects where people are not putting out the money. We were not willing to take orders or we were not willing to make supplies unless there was cash either as an advance, inspection and payment. This is a strategic decision so the first thing, which does not show up as much on the results, but sits in the balance sheet as you will will see that we actually generated about 58 Crores of cash in Q3, which allowed us to repay 44 Crores of long and short-term loans. So we have deliberately decided to manage this downturn being more careful with cash rather than trying to run out a good P&L number. So that is the first submission I would like to make and want you to take that into consideration.

The second most important thing is that we had was this continuing downturn was there is a corresponding increase in energy cost. On a consolidated basis our energy requirement is of the order of roughly about more than 900 million units of power across and the big consumption is really Russia with 515 million units of power. Across the board without an exception almost in all the geographies India, Russia, South Africa the energy cost over a period of time in the last one-year has gone up 16%.. Both the energy cost going up and then the Southern part of India running diesel generators for more than 8 to 12 hours in several locations was another major impact.

On a full year basis the energy impact on Carborundum and also on any other company in this space is going to be of the order of about 20 Crores on a standalone and almost about 50 plus Crores on a consolidated basis. This is a major number that we are looking at and this has started kicking in, in significant numbers in Q3. This is something which is what we are not able to pass on to the market particularly in a downturn since most of the places we were running plants at around 50% capacity. So these are the couple of things I want to leave with you as a thought.

So normally as quarter was about 520 – 530 Crores were about 50 odd Crores of profit. On lower capacity utilization we would have done about 28 to 30 Crores. The big fall from there to what you are seeing on a consolidated basis is largely a 20 Crores which has come out of South Africa. This 20 Crores fall in South Africa largely comes out of two businesses, one is Foskor Zirconia, and the other one is Thukela Refractory. I will take Thukela first. In Thukela, we bought this company, which has no external customers entirely dependent on its parent, which was RHI, which is the world's largest refractory company. We had a written agreement that they would buy quantities on a continuing basis from this plant to give us some kind of a transition so that we can look at external customers.

For various reasons they were not able to honor this commitment in the first five months. They picked up only 300 tonnes out of a total commitment of 9000 tonnes that they had made for a two-year period. So there was a significant gap in what they had committed in an agreement and what they could honor. We have not taken it very aggressively simply because we still have a good relationship and we believe that there is a good intent to make good this lapse or make good this shortfall going forward. So there was a loss of about a million dollars coming out of this but we believe that this is not going to last and this will come back and we are working with them to see how they could compensate or come back on this as quickly as they can.

In Foskor the problems have been far more deeper. We have been going through a rollercoaster in terms of the sand prices, which is our basic raw material. The Zircon Sand when we took this company about 3.5 – 4 years back with $860 a tonne. It went up to as high as $2550 a tonne and we were restricted in terms of the quantity that the sand companies will offer us. We had in fact taken them to the Competition Commission in South Africa and we had protested about their restricting supplies to us even at this high price. In about two quarters the sand price fell from from $2550 and is now at about $1300 around per tonne. This steep fall meant that we have to sell products that we made with higher value input at lower and lower prices because the market was continuously asking for lower prices because they were aware that the sand price is falling. So we had a double whammy, market was going down and sand price also went down and the customers were insisting that we correct for the lower sand prices in every order that we could deliver.

We cut that production aggressively. We almost used only about a 150 tonnes in a quarter whereas we normally tend to fuse about a 1000 tonnes a quarter. So this added to our loss and this is a huge one-time loss. We believe it will come back and may not be completely in the next quarter but it will come back. In terms of the market itself I think India is soft. Projects are still being deferred. Projects are not taking off though we are seeing some green shoots, most of our plants in India is still running significantly below capacity, which means our contribution actually tend to show up poorly simply because it does not reflect clearly the real contribution because you tend to run your continuous process furnaces at what we call as a miser mode that means you cannot cool it down completely. You continue to run them at a miser mode and do not run full production through them. So the costs were actually higher so this trend is probably going to be there for some more time we would not see things getting better very soon.

On the international side the only good thing I can say is the volumes are coming back. We are already seeing this happening simply because the more inefficient capacities have gradually started going out. So I am clearly seeing volumes are coming back but prices are not coming, margins are not coming back in a hurry but it will take at least one or two quarters before the margins come back but volumes are coming back particularly in the silicon carbide we see that we are now gradually coming back to running the plant flat. So overall I would say it was an exceptionally challenging quarter.

We were affected by cost, we were affected by volumes, we were affected by falling import prices and the good thing I can say is we managed it without panicking, without getting into burning a lot of cash, we were very conservative in terms of not producing for customers who did not have the money not delivering for projects which we are not willing to put up money upfront. Our balance sheet is very clean. We collected like I said 58 Crores of cash. We paid back loans. So we managed the business for cash. We believe when the good time comes back, which we believe, will probably take two quarters we will be out of the block much faster than the others. We will come back to a more realistic profit levels in Q4, which is to say that this exceptional things in Foskor may would all go away. So do we reasonably expect that we should come back from 8 towards 30 and then onwards see depending on the upturn how we can go forward from there?

So that broadly is opening comment. I would like Sridhar to take you through the details of the number. My only caveat is to the people there is do not go too much into the contributions, and margins, and numbers because these are extraordinary things in a sense that when your plants are running at 50% - 55% capacity the EBIT margin is really not a trend it is really a one off situation. So I would largely request you to look at the overall trend of how things are moving rather than the exact numbers. Sridhar.

Sridharan Rangarajan: Thank you and good morning to all of you. I know I think this is one of the tough quarters and we have the numbers going in a big swing. So I would like to first start to address certain big concerns. First is that biggest concern to all of you would be the segment results of Electro Minerals going to negative and I would like to start with the Electro Minerals first and we will take one-by-one segment. If you see that the Electro Minerals, we have a drop of about 38 Crores, there is a swing that has happened sequentially and we see that the sequential drop is about 28 Crores in terms of Electro Minerals division. Now this is largely coming on three counts One is that what Mr. Srinivasan talked about is about Foskor. Foskor we had sold a very little tonne, I would say from the normal level we would have sold about 40% of what we normally we sell and that to on a either very less or no margin because the sand price fell and the expectation on the price of final product also fell down and hence what we sold is either at less or no profit at all.

However, coupled with the lower capacity utilization in Foskor, which is additionally low at about say 10% to 15% and a lot of that was consciously decided by us. We wanted to make sure that we do not build up inventory at this point in time so these two together stood at close to about 11 to 12 Crores of loss. The swing has happened in Foskor. But few good things in Foskor is that we have our inventory probably at the lowest level so which means that whatever we need to take hit in terms of the profitability we have taken quite a bit and but I expect at least the trend would continue probably for a quarter more and we would be able to clean up all the inventory that we have.

The second good thing happening in Foskor is that our Bubble Zirconia project trial production is on. As we speak three days back we had completed the first trial production. The Bubble came well and that is one of the world-class plants what we can say that we have with us. Those productions will give us capability to serve markets which we are currently not serving so that will start kicking in two quarters as we start stabilizing those operations.

The second biggest reason for the swing is that our volumes were down and due to that there is a swing close to about 11 Crores of profit coming down in VAW I would like to point out is that though the volumes are down in this quarter on a full year basis compared to 2012 versus 2011, since VAW works on a calendar year basis, VAWs volume did not come down probably it came down less than 1.5% so which is I would say that we have managed the VAWs capacity utilization, volumes well throughout the year. So what it means is that there is a seasonality the three quarters what we have seen is at higher volumes than the prior period and in the October to December happens to have that hit and you should note that the this quarter is generally a softer month, it is 2.5 months since it has lot of vacations, Christmas etc., so generally tends to be on the lower side. So that is the second piece.

And the third piece is that the local, that our Domestic Electro Mineral business also had the profitability going down. I would say broadly I attribute the profitability fall to the two broad reasons. One is we have a captive power generation plant and due to the lower rainfall, I think probably this is the lowest rainfall, I would say we had our lower power generation to the extent of about 2 Crores and as far as the micro grit volumes are concerned, what we were selling is probably is at the lowest level again. That again contributed to close to about 6 Crores so that is about 8 Crores. So the swing of what we have seen about 28 Crores happening is due to three broad reasons I would say.

I would like to touch upon the year-on-year on Electro Minerals. I think what you see on Electro Minerals the swing is close to about 89 Crores. That 89 Crores again falls into four broad categories and I think Foskor is again comes into picture. The Foskor volumes are down on a YTD basis as well and due to the market conditions what Mr. Srinivasan touched upon etc., definitely the Foskor profitability dropped at least to the extent of about 25 plus Crores. As far as VAW is concerned, I think on YTD basis they had managed the volumes well. I think they just down by about 1% – 1.5% at this point in time but they have a fuel cost increase to the extent of about 6 Crores energy cost and they had a lower exchange gain in other income of about 3 Crores and on an India basis I think again Micro Grid and the hydel power generation is lower put together contributed to close to about 28 Crores. Then we have TRI, which is the new acquisition that we had and we just are managing this for the past I would say five months and we have just hand holding it. We believe that it would take another six more months for us to stabilize that. That is the fourth area that why we have the swing in the electro mineral business.

Now besides this I think the other area that I would like to probably point out is that the volumes drop in Ceramics and Refractory's in India, which is I would say again to the tune of about 17 – 18 Crores largely coming out of project delays that is happening in refractory and one of the key customers trying to change the design and hence trying to postpone certain orders and however those design changes were complete and we will start supplying to them and so I would say that quite a bit of project delays to the extend of about 15 to 17 Crores on the topline hence you would see that the first time the ceramic margin also is falling but I think we would get back and we see signs of that in refractory's in this quarter but again broadly I would say that will take about one or two quarters more for us to get back.

On the capex spend I would like to tell that on YTD basis, we have spent close to about 139 Crores so far and this largely consisted of about 40 odd Crores standalone and the rest is from the rest of the regions and all other programs are intact except we said that we were not going ahead with our plants in Gujarat and there is a delay in postponement of the SIC large project. Other than that I think we are all going ahead with all our capex programs. I think we our Alumina Zirconia project is very much on stream. The Bubble Zirconia project is very much on stream. These projects are well on their way and these results will start kicking in the next year or so.

As far as the debt equity ratio is concerned, I think we have managed very well the cash. I think the working capital is well managed at this point in time. We have generated cash and we were able to payback more than 44 Crores of loans and on a standalone basis our debt equity ratio has gone down to as low as about 0.24 compared to what use to be about 0.3 in the last quarter. On a consolidated basis our debt equity ratio has come down to the level of about 0.45. So I would say overall the capex spend is on line and in terms of the cash flow is well managed we have paid the loan I would say. The balance sheet is I would say pretty much clean and once the volumes come I think probably we will have better results to share and to discuss.

So broadly if I have to summarize a few things that one has to keep it in mind is that the challenges that we have could be summarized in few buckets. One is volumes down relating to market and either relative challenge that we have like for example abrasives market, ceramics and refractory's what we face those challenges that what we are seeing. Probably once we were coming back it would help us in terms of the top-line. The other challenge is on the cost increases particularly the input cost increases because of the imports into India and because of the impact of that and the power cost increases and therefore structural changes, challenges that we continue to face that is particularly on micro grit micronization capacity what we have. The fourth element would be I think the rest of the challenge is how to integrate and stabilize the new acquisition that we have.

So those are the four broad categories of challenges that we have and I think we have a game plan of how to integrate Thukela. We bought it at very attractive price and I think we will be able to integrate well shortly. The challenges in terms of the structural issues will take sometime we are working on it and we have been continuously communicating to all of you in this forum. So with that I think I will close this remark and probably open up for the questions.

Moderator: Thank you very much Sir. Participants', we will begin the question and answer session. Our first question is from the line of Mr. Kashyap Pujara from Axis Capital. Please go ahead.

Kashyap Pujara: Good morning to Mr. Srinivasan and Mr. Sridharan. I wanted to ask you a couple of things on while I understood what you were to say but on the SIC front in VAW could you just explain how competitive we would be going forward in this considering that power cost have gone up and that is basically been one of the USP that we had in that geography for SIC and in the backdrop that even China possibly would have at some point in time an increase in export quota on SIC. So how competitive would we be from going forward and other chance is that the stability in VAW can be disturbed do you expect this to be stable going forward?

K. Srinivasan: I have to take two minutes on the silicon carbide story. The first thing is we produced for the full year roughly about 63000 tonnes of silicon carbide very similar to what we did in the previous calendar year of 2011. So we probably were one of the the few companies, which did the full tonnage including Chinese companies I am saying. There are very few companies who did the same tonnage. I could go even to the extent of saying that there is no company, which would have done this same tonnage in 2012 as in 2011 calendar year. So that is the first submission I would like to make. I must say why. The reason is we have the huge flexibility. We are the only one of the two companies that can do rail car fusion which means I can do metallurgical, I can do crystalline. Roughly about a 10,000 tonnes of silicon carbide business that was going into photovoltaic disappears in one year.Almost every silicon carbide producer in the world was mortally impacted. We continue to produce almost the same tonnage. We could switch between crystalline to metallurgical. We had almost an average price realization erosion of about 9% to 10% but we could keep the volumes going and that is the first step in terms of the competitiveness. The power cost has gone up for us on the second half of the year by roughly 16%. On an average it is not there because the first half of the year happened here we had good power.. power in Russia is going up but on an average the power in Russia is still significantly cheaper than the power even in China. The cheapest power in China is in the Southern Mongolia Manchuria area and even there the power is at least about 25% or 30% more expensive than the power in Russia. So the competitiveness of being in Russia remains unaltered. Added to that we had another advantage, which we did not talk too much about because it was something which was not so big compared to the other advantages we got was the pet coke price softening tremendously during the last year because the aluminum industry, which also uses pet coke was not doing well. Since aluminum was not doing well abundant availability of pet coke meant that pet coke price softened tremendously. Almost we had a 25% reduction in pet coke. So in a way it helped. Overall a downturn where a very major high value consuming industry disappears we could manage it; run production flat out meant that we are still having one of the most competitive locations in the world.

We believe that we will go ahead with the big furnace giving us that much more flexibility that much more competitiveness, we are delaying it a little bit because we also wanted to see how the Chinese competition will play out particularly since export quota has been removed. China no longer have an export quota. They are still yet to decide on an export charge they they call it either it is a VAT or an export tax, which can be roughly about 17%. They are still not decided on it. The availability of silicon carbide however from China is fairly low. We will know how it plays out only after the spring festival when they all come back to production. At the moment like we have said what has happened in the silicon carbide business globally is the other producers in CIS which is Zaporizhia in Ukraine has gone out of production because he does not want to produce silicon carbide at these prices. So the volumes have come back the only thing I can say is volumes are back maybe two quarters that if the volumes will hold then prices will climb. We will have to see how China reacts after they come back from spring festival. If they do not react very aggressively then prices will come up, if they react very aggressively the state supports etc., then prices may not come back but volumes will hold. So that is the story as well as silicon carbide globally. Very competitive we are still the best. We still can sell what we produce. We can still make margins and in an industry, which is almost brutalized, I think we are the only people who are well above water and doing reasonably well.

Sridharan Rangarajan: I just like to add that even when the export quota of the last year went unutilized and probably whatever China could export nothing came into Europe or probably came less than 10000 tonnes, predominantly it goes to either Asia, Japan and Korea and probably US.

K. Srinivasan: Does it answer your question Kashyap?

Kashyap Pujara: I will get back to you on it periodically but anyway sir if you can also give an explanation on the abrasive side in Russia if you see sequentially you have topline is there of close to 50 Crores which is Y-O-Y sequential but the margins are virtually zero now this quarter which last year you were at close to 11% even in last quarter you were at close to 5% so it looks like you are not generating any money there and if you can give some light as to what is really happening on the abrasive side in Russia?

K. Srinivasan: Abrasive story in Russia is a bit of a disappointment for us as well. We went into buying a plant five years back when it had a huge installed capacity for abrasives but they were making products, which the old Soviet Union was consuming and since the first downturn in 2008-09 onwards the volumes simply kept going down. Clearly what is happening is the mass manufacturing activity in Russia is declining, which means abrasive requirement of what we make has also been declining dramatically since the addressable market for us continues to remain Russia, we have a peculiar situation of volume falling, our market share growing year-on-year. The reported statistics in the Russian Abrasive Association is our market share in the last five years in abrasives has actually moved up 5% as a volume keeps declining, which gives you an idea how the Russian market is shrinking dramatically in terms of core manufacturing. This means that we have to readjust what we can make there to address other markets. Other markets would invariably Europe and others where their requirement of products and the kind of products they use are going to be very different. We have been retooling out. We have been building machines. We have been changing capabilities, which means their margins are falling because it is all different kind of manufacturing we have to do. I think even for the next one or two years I do not see abrasives out of Russia has a big gain. It is going to remain a marginal gain. It is going to be in fact we have taken a plan that we should actually plan for a reduction in volume if required and see whether we can become more retooled for Europe and to sort of make it more profitable but make it more future oriented. So I would really go to the extent of saying abrasives is a non-important role in the next couple of years at least for the next couple of quarters in Russia you should sort of take it as it is going to be work in progress for at least another year or two.

Sridharan Rangarajan: This is Sridhar. I think what I would also say is that we are trying to reposition to manufacture high value niche applications in abrasives which gets into let us say manufacturing needs in Europe and I would say the same goes to refractory. We are a marginal player probably again I would say our concentration in Russia would be more on silicon carbide expanding it and probably that is where our focus would be going forward.

K. Srinivasan: Maybe I should close out on refractory's industry as well. The refractory business what we are doing in Russia is primarily addressing the aluminum industry and the reason we are structured that way is the raw material for that refractory is silicon carbide and we have competitive advantage being a local silicon carbide producer. What we make predominantly in refractory in Russia is what is called nitrite-bonded silicon carbide. We have actually put in a new furnace we have expanded capacity, we have almost gone up from what we potentially could make up to about 3000 tonnes a year which is roughly about 250 tonnes a month the aluminum industry is in absolute bad shape, in the last year in spite of the refractory volumes came up marginally but then the industry came back we run it flat you will see refractory is a local game addressing the aluminum industry but it will be a very profitable game. But this is going to be contingent on the aluminum industries coming back, since they were in very bad shape during the year 2012.

Kashyap Pujara: Okay, thanks I will get back in the queue for further questions sir.

Moderator: Thank you. Our next question Ram Hegde is from Primus Investments. Please go ahead.

Ram Hegde: Morning Sir. My question was really on power cost, which you indicated in a significant bump up in that. Given the current environment how long would it take for you to really pass on this cost and is this scope in any other place where you can really cut cost?

K. Srinivasan: Ram I would not say a million dollar question. It is multimillion dollar question and this is really I said we are talking of a 900 million units of power a year. We are a big, big power consumer across consolidated Carborundum. We are working on many things. Basically I do not think the price advantage we are going to have till the volumes come back. I think the upturn would be first the volumes to come back and then we get the flexibility to put up prices. So we will continue to hurt till the volumes all go up to about 85% utilization. Today in many cases we are running much lower than that. So pricing is going to be something, which is going to take at least one, or two quarters before it can absorb this higher energy cost.

Now coming back to what we are doing I think we are doing is it is also putting tremendous pressure on our efficiencies and productivity. I will give two quick examples. One is we were producing and we continue to produce in Cochin most of the fuse minerals primarily because we have the cheapest power in India at Cochin and this is also supported by a hydroelectric station that we have. It is another story that we had a lowest power generation in the hydroelectric stations ever and we also had a situation where the power cost in Kerala so we had double whammy in Kerala within one year. Anyway we took that. But what did we do because of this pressure we said look let us look at the new way of doing this fusion and one of the advantages when we bought together was the same. If I do a brown fuse out of my current facilities in Cochin I consume roughly about 2500 unites per tonne. If I do the same thing the way we do it at Thukela we will consume less than 2000 units per tonne, which means there can be 20% more efficiency in terms of our utilization. So this is the kind of thing we are trying to do seeing how we can become more efficient by technically changing the way we are doing our work to see whether we can win back this 16% increase cost by way of efficiencies.

It is a technical challenge we are working on it if at all somebody can make those big changes it is going to be Carborundum with its huge bandwidth in terms of technology is working on a quite a few activities are going on. We are looking at the big furnace operation in Russia to give us at least another 8% to 10% competitiveness in terms efficiencies of lower power utilization. So I think these are things that will gradually start getting and it is not going to happen like a switch on kind of a thing. Two three quarters we would start seeing this kicking in, two things putting up prices then making up things more efficient than other so that we make more money when the upturn comes those are the two activities we working on.

Sridharan Rangarajan: Ram, I think one more thing also we have to understand the new reality is that prices of energy will keep on rising. I think globally it is happening. It is happening in India. It will happen everywhere so that is something I think people will get used to that and get probably adjusted to that but the time to adjust is probably the phase we are going through at this point.

Ram Hegde: Sure other thing was on utilization can you give a sense on each of the segments where are utilizations both domestic and overseas?

K. Srinivasan: Let me start with the big one Russia silicon carbide almost capacity. I do not even want to talk about capacity utilization of abrasives it makes no sense because that is the marginal business in Russia. In the refractory it is 50%. In terms of abrasives in India, I would say on an average about 65% to 70%.. Ceramic I have a peculiar situation. The big fall you are seeing in Ceramic is because in Q3 the lowest capacity utilization actually happened in refractories in ceramics. I have completely cooled out one tunnel. I am running one tunnel on miser mode in ceramic. That means I am running about 50% capacity in ceramics. I probably ran Q3 at about 50% in refractories. Thukela if I look at it on the mineral side capacity utilization was zero almost. In Foskor capacity utilization is less than 20% so Q3 capacity utilizations were one of the lowest ever.

Ram Hegde: Okay and last question from my side in Foskor I just wanted to get a sense on the inventory that you have right now on your books?

Sridharan Rangarajan: It is less than about 500 tonnes roughly.

Ram Hegde: Thanks. That is all from my side.

Moderator: Thank you. Our next question is from the line of Jasdeep Walia from Kotak. Please go ahead.

Jasdeep Walia: Good morning Sir. Sir also could your prices of the inventory situation as far as silicon carbide, microgrit is concerned and how that will impact our coming quarter?

K. Srinivasan: See silicon carbide, microgrit business is almost completely linked to the photovoltaic business and I think you people are also reading as much. In Europe, I think most of the companies have decided to close down their operation. Bosch recently announced $1.4 billion charge that they took etc., so this is an industry, which is mauled. The biggest producer is China. China most of the PV companies have had an erosion in value or something like between 95% and 98%. So to give you an idea that is the kind of brutality this industry has been mauled in one year. I do not think we can make any kind of a good forecast on PV related microgrit or silicon carbide business. We are working on a quite a few other things, which will allow us to use up this capacity. If there is a marginal sale in the PV grit related to silicon carbide we are continuing to do it because there are only two guys left now because all others are practically packed up. So we have one of ourselves and one other European company, which also buys the raw material from Volzhsky. There are only two were now practically operating in this business, but other than that we are looking at many other things that will allow us to use this photovoltaic related micronising capacity there are several things we are working on significant amount of approval processes have been completed but it will all start kicking in one-by-one. So at the moment if you ask me micronising facilities less than 15% - 20% utilization in one quarter Q3, we gradually think we will build it up.

Sridharan Rangarajan: Inventories are very just say probably we have unwound in the last about four, five quarters quite a bit and that is why we have been seeing this probably our inventory levels are lowest at this point in time.

Jasdeep Walia: But how much time will you take to clear this silicon microgrit inventory all together.

Sridharan Rangarajan: Maybe another one or two quarters are best.

Jasdeep Walia: How are you valuing these inventories? These are valued as per your old product profile?

Sridharan Rangarajan: Cost or market, value whichever is less.

Jasdeep Walia: Market value as per the old product profile or the new product profile?

Sridharan Rangarajan: Net realizable value as recently as we have.

K. Srinivasan: See what is happening is there is no PV related sales that we can do. We are able to sell it either for abrasives or for refractory all these are lower value applications. So consequently like I keep saying balance sheet is clean, we are writing it down, writing it down so if eventually the prices falls another 10 bucks we write down that as well so that is what is hurting all our businesses.

Jasdeep Walia: So in terms of realization of whatever small quantities of microgrid that you are selling realization but down quarter-on-quarter?

K. Srinivasan: Yes, realization even there is small quantity is also down tremendously.

Jasdeep Walia: You took an incremental hit over this quarter?

K. Srinivasan: Correct.

Jasdeep Walia: Also could you please give me your absolute debt in cash numbers?

K. Srinivasan: Sridhar.

Sridharan Rangarajan: It is about 450 Crores consolidated one both short and long term combined.

Jasdeep Walia: Cash?

Sridharan Rangarajan: Cash would be close to 100 Crores.

Jasdeep Walia: That is all from my side. Thank you.

Moderator: Thank you. Our next question is from the line of Achint Bhagat from Ambit Capital. Please go ahead.

Achint Bhagat: Hello sir good morning. Sir you have mentioned earlier that your Electro Minerals suffered this time because of Foskor. So I was just trying to understand what is happening in VAW. Like last quarter you said that the exports to North America and European geographies have stopped and you are primarily serving the CIS markets. So is it that it is only metallurgical sales that is happening now I mean how was your mix change in the last two three quarters?

K. Srinivasan: I do not know whether we got it right because we export very little actually to North America from Russia. We do a small quantity but it is very little. Let me clarify what is happening. In Q3 and Q4 of their calendar year there has been a gradual decline in margins coming out of two things. One is energy cost going up two is product mix shifting towards metallurgical and the third is actual price also falling. So the combined effect of these three has been erosion in margin all the three have impacted the margin.

Achint Bhagat: Okay, and sir your electro minerals business in India like what is happening there what are the kind of pressure that you are facing in the Electro Minerals business in India.

K. Srinivasan: The Electro Mineral business in India itself has got two components. One is the fused component and the second one is the processed component where we bring the crude from other places we reprocess it and sell. The reprocessing part is primarily microgrit, which is deeply impacted because of the photovoltaic industry being in the shape it is. But in other things where we fuse and sell it in India we continue to do what we are doing all along. We largely do brown, white, semi-friable, and this has been going on because it is primarily addresses the Indian market it is a marginal business it is quite a bit of it is to internal customers and it was not a business which is usually profitable in any case it is sort of a business which goes on.

Achint Bhagat: Okay and Sir one question on your backward integration do you import any silicon carbide to India for your abrasive business or it is completely catered by your Indian production itself?

K. Srinivasan: We import silicon carbide from Russia for our internal requirement and for processing. We also offer silicon carbide from Russia to other processes in India including competition.

Achint Bhagat: So when you say that you are facing cost pressures in the abrasive business it is basically the cost of manufacturing silicon carbide or power cost or what is it? I mean is it the bauxite cost that is going up because the pet coke price I believe is come down this year?

K. Srinivasan: The abrasive industry consumes silicon carbide for coated and bonded in a limited manner. The single largest requirement as raw material is actually brown fused. Brown fused is made by Cochin but like I said what you make is a small quantity and we cannot get the grits split that the abrasives would require. See even when you are a manufacturer when you crush and grade the material you will get a good distribution. What the abrasive industry needs is only one or two kinds of grids so we will always tend to import as well as to use local material we continue to import significant quantities from China for our abrasive requirement. We also sell to competition what we make in India, which we do not use internally. So it will always be something, which you cannot use if everything you make, but you cannot also make everything you need.

Achint Bhagat: So does that mean that after the acquisition of VAW there is not a major change in your backward integration because I mean especially in the Indian operations.

K. Srinivasan: I do not know whether I explained it well. See VAW makes silicon carbide for our reprocessing for our Cochin plant. There is integration in that sense as long as we were doing photovoltaic grains we were importing about almost average 500 tonnes a month and we were processing it in India and shipping it to Europe and other places. That business is come down to that extent this intense integration has become less intensive.

Achint Bhagat: Sir last question will be on your Foskor capacity almost all the fused Zirconia that you manufactured in Foskor is sold in and around Africa right?

K. Srinivasan: Almost entirely sold in Europe and some quantity in Asia like in Korea and Japan.

Achint Bhagat: You are saying that, that capacity is running at very low utilizations?

K. Srinivasan: Last quarter it ran in terms of fusion below 20%.

Achint Bhagat: Sir can you give a timeline and your expectation when the capacity utilization is expected to move up because given that the cost pressures you said that the cost of the sand has become $1300 so when do we start making money like when do we get?

K. Srinivasan: I wish I could give you an honest answer on this because I think we have to give an estimate only. I am expecting that we should get better in Q4. Hopefully we should try and be as near to our breakeven as possible in Q4 and going forward. Foskor never lost money till two quarters back. They were always reasonably good it is only in the last two three quarters that the business has been under huge stress. Otherwise they were always a profitable company. So we hope that we would not have to have the situation long. I am hoping to be as near a breakeven as possible in Q4 and going forward, we should be profitable as usual because it also have the advantage now that we have that much more dealers, our bubble plant is commissioned, it is producing one of the best bubbles in the world as I see it in terms of silicon content. It is a golden bubble I wish I could show some of you this plant. It is a brilliant plant. So hopefully those good things should start kicking in and if it kicks in and the market also kicks up together then we are on a take off. Let us see how soon it happens. I do not want to give a projection, which is too rosy at this stage.

Achint Bhagat: Thanks a lot.

Moderator: Thank you. Our next question is from the line of Bhumika Nair from IDFC. Please go ahead.

Bhumika Nair: Good morning Sir. Sir my question is again on Foskor itself you have mentioned sometime back that we are likely to see some bounce back in the fourth quarter. Now in this current quarter the third quarter we have actually seen utilization levels have being up, it is up 20% so where are you seeing the demand coming back that gives you confidence that utilization levels will actually pick up out here because as I understand it is more of a demand issue than the cost issue I mean per se?

K. Srinivasan: There is both, because the cost issue comes from the fact that we had material that we had brought when sand prices were higher, fused some material when sand were higher and we are trying to sell when the sand prices started falling and customers were expecting the correction immediately because they were also not doing well. Having said that I will see that the key, key issue is getting volumes back, because that is fundamental otherwise we are in trouble. Now two things are happening. One is I think as the market started coming back from January there is a small pickup in Europe. I would not say it is dramatic, but there is some small pickup. That is one. Two is a huge amount of conversion that happened when the stabilized Zirconia prices started hitting $6500 plus there is a certain amount of back conversion that is happening. People, who are using it for low-end application for opacifiers on tiles etc., actually went out of using Zirconia products simply because it is becoming too expensive. They started using cheaper alternates, but as you start pushing down the price again, some of those back conversions will come back and give us some volumes. So that is point number two. Point numbers three and which is what I believe would be the biggest improvement for me really is our internal requirement. As we commission our plant and we just commissioned in December, 12/12/2012 our tilt furnace for producing alumina Zirconia at Cochin, the raw material for that could come from Foskor.

Bhumika Nair: So, the internal requirement?

K. Srinivasan: Exactly, there I have a little more handle on it compared to others and the alumina Zirconia's customers are basically refractory's, abrasives as well as metal infiltrantSo, that is another big opportunity in India. So, that is the reason we put up this tilt and as this starts consuming more materials my internal customers will start picking up, so I believe a combination of things will allow me to be a little more robust in Foskor compared to earlier plus the most important thing which we have been saying, but it has taken us almost 18 months to implement is to give the bubble project on ground, which means I am no longer running with the refractory cycle, the refractory cycle is run with the steel cycle whereas the color in pigment industry is relatively more cycle proved, so it will give me some base load within new capacities. So, I am looking at all these combined to derisk Foskor going forward and make it a more robust business like Volzhsky and not go up and down with the market.

Bhumika Nair: So, what would be our breakeven level in terms of utilization levels if they move in line with the increased or with the better capacity now that is getting commissioned?

K. Srinivasan: We should do a 1000 tonnes a quarter to be reasonably good there

Sridharan Rangarajan: About 800 to 1200.

K. Srinivasan: 1000 tonne would be a comfortable number I would look at for the quarter.

Bhumika Nair: How much of this could be potentially utilized internally with the new plant?

K. Srinivasan: New plant can at best take 1000 tonnes in a year.

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Bhumika Nair: So, still there will be a good amount internal capacity to kind of pick up?

K. Srinivasan: Yes.

Bhumika Nair: Sir, also you mentioned in ceramics and refractories in the domestic business there are lot of project delays, which is resulting in the low volumes, so how are we working on that to kind of improve volumes out there as well?

K. Srinivasan: The project is a bit of a worry for us. We believe that most of the projects execution in India is still under stress because I think a lot of them signed off fixed price contracts, the EPC contract is another so they are struggling to execute orders because they are all running anywhere between one to three years delay for various clearances and approval reasons, so there is a significant amount of problems stuck on it. So, we do not want to get stuck with big project orders where we will end up carrying the can. So, we are careful, we are only taking orders where people are willing to pay us for the shipment that we make and that is the reason we are going slow on it, we are not trying to jump on orders. Still having said it I know that there are new orders that are getting finalized, R&Ms are getting finalized as projects are getting delayed. So to that extent I see some green shoots in terms of volumes marginally picking up in Q4. Nothing dramatic is going to happen. It is going to take some more time.

Bhumika Nair: If I look at it across most of the segments, it looks like the volume pickup will be much slower and we will be in a much more gradual manner, so then should not and you know cost pressures remain quite strong, so does that mean that fourth quarter pickup in terms of profitability will also be relatively much slower than what we are talking about?

K. Srinivasan: Except for this one-time related issues like in Foskor, and Thukela, which will get corrected much faster, so to expect let us say I gave the first opening comments saying that 500 plus 50 plus kind of numbers are not going to happen in Q4. It is going to take some time.

Bhumika Nair: But even the 30 Crores number that you mentioned will take a lot of time, right?

K. Srinivasan: I hope that is more nearer. I would like to see it if not they're at least towards that.

Bhumika Nair: Sir, the last question, which I missed, was on Thukela. You mentioned that there was a written agreement to buy volume?

K. Srinivasan: There is still written agreement and there I hope that they will make good the agreement and start taking up quantities. We have already seen that they have taken January and they are trying to clear in February and March, so hopefully they should honor it and I believe that a very large company and I do not think they will go back on an agreement. They will come back.

Bhumika Nair: Great Sir. Thank you so much.

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

Piyush Mittal: Thanks for taking my question Sir. You mentioned about structural shift in energy and I was just wondering given that your outlook for higher prices and energy does it mean any changes to your long-term guidance on margins for your specific sectors?

K. Srinivasan: In Electro Minerals?

Piyush Mittal: I actually mean it across the board, Abrasives, Ceramics or Electro Minerals?

K. Srinivasan: I think we must give two quarters before we can give any kind of a long-term guidance on margin because I still believe that what we are seeing is a very interim step because if energy is very locational specific issues or if the cost is very location specific then there could be a structural shift in terms of somebody becoming noncompetitive. We are still among the lowest energy cost countries in the world. Even there the energy price is going up, but the fact is that we still would be more competitive. So I think the margins would have to come back once the volumes come because the market would accept the price correction, which is more realistic or in keeping with the cost position.

Piyush Mittal: I suppose the question is more to do with relatively. Are you expecting your prices of energy given your footprint to move faster than the footprint of some of your bigger competitors?

K. Srinivasan: I understand your question, but if you look at our competitors are putting in even higher energy cost countries. So, I think in relative terms our competitiveness is not impacted. So, what has happened really is that let us say, I mentioned a name saying that one of the Ukrainian companies has shutdown production, because the energy cost there would be higher than the energy cost in Russia. But they also quote a price, Russia also quote prices, but they put up on a much larger base in Ukraine compared to the price in Russia. So, to that extent energy price overall almost in all countries, be it China, be it South Africa, be it in Russia, be it in India, it is all going up and we still are at some of the lowest energy cost countries. They have an intrinsic advantage of being lower energy cost simply because they have their raw material there, be it Russia or South Africa.

Piyush Mittal: On the last conference call there was also some suggestion a vague suggestion that you might consider some captive power plants?

K. Srinivasan: Maybe there is a clarification. We have a captive power plant at SEDCO, which is a subsidiary. We own 85%. We generate about 5.5 megawatts of power. We have a gas connection from ONGC. We modernized it. When we said that the capex that we put this year about 25 Crores, we put two brand new engines, which will give us more efficiency and slightly higher production because this can take us, if I have a higher gas availability from 5.5 it can actually go up and generate up to 6 megawatts. That is all we talked in terms of additional power generation, but not a complete Greenfield.

Piyush Mittal: So, there is nothing that you are considering at this point in time?

K. Srinivasan: Not really.

Piyush Mittal: Second question is related to SIC. I am just wondering if you can shed some light on what you are seeing in terms of the supply and demand in the market overall. You mentioned this Ukrainian company, which has shut production, but I suppose it is more of a price sensitive shutdown, if the prices rebound, so what I was really trying to get to is if you can on supply and demand, and if there is a deficit in the current prices, what you see happening?

K. Srinivasan: Big users of silicon carbide are largely abrasives, refractory's, metallurgical and one of the largest high value user was the photovoltaic industry. So the photovoltaic practically has collapsed and consequently about 100000 tonnes of silicon carbide requirement almost disappeared within one year, which meant a lot of capacities had to be taken out. Till 2011 and even first quarter of 2012 there was shortage of silicon carbide in the global market. Anybody at any price could produce, it was being sold. It changed dramatically in about nine to 12 months that from a huge shortage situation to practically, I would say between 30% and 40% of the capacities have gone offline. You can look at I had mentioned Ukraine, the same is true with South Africa and South Africa has got only one producer of silicon carbide. I think, he is running it and 50% production, significant amount of European producers are either off completely the grit or they are producing very small quantity. So, what normally happens when there is a shortage, even the so-called inefficient high value capacity come back to stream. Initially, prices fall, then these guys out of productions then volumes fall then the efficient guys all fill up capacities and then the prices start going up. So that is the cycle that it goes. What we are now seeing is we were actually not even running volumes in Q3 of our year and Q4 of Russian year, and now Q4 of our year which is the first quarter for them, the volumes are coming back. So I always believe the rebound starts with the efficient capacity running flat and then the prices start going up and then all the inefficient capacities also start up because the prices should be high enough for them to come on stream. This is probably the cycle. At the moment we are at a cycle beginning of the upturn as I see because we are coming to a stage where we will run this quarter at least most of it flat out.

Piyush Mittal: Would you have a sense what is the marginal cost supply and what is the marginal cost?

K. Srinivasan: Very big price. This is almost impossible because it is such a huge spread in different countries and different locations, different products that would be too much.

Piyush Mittal: Could you give some sense of what the pricing is currently on the silicon carbide market?

K. Srinivasan: Metallurgical is running at about $850 to $1000 a tonne depending on location. Crystalline is running between $1000 and $1200 depending on their location. That is about it broadly. Green is running probably at $1200 to $1300.

Piyush Mittal: My last question is related to Foskor. You mentioned Bubble Zirconia. I was just wondering if you can share some light on what is the difference in terms of realization if it is directed towards maybe paint and pigment as against refractory's for steel?

K. Srinivasan: Realization itself is looking a little scary because of the kind of yo-yo prices that it is going through. We went on stabilized Zirconia good times up to $7000 delivered in Europe, it is probably now down to about $5000 plus or $5500. So, I think that itself has moved up and down. The Bubble price crash rate seed etc., can be anywhere between depending on the classification and purity between $5000 and $8000.

Piyush Mittal: Roughly the same kind of pricing between the two?

K. Srinivasan: Around the same.

Piyush Mittal: I am trying to get the relative.

K. Srinivasan: You will not see any realization difference between the two.

Sridharan Rangarajan: But the demand will be different.

K. Srinivasan: It is less cyclic kind of an industry. I think people in good times paying them at bad times, they are paying metalized paint that you call the metal kind of finish that you get on the cars and other things is always very interesting for people, but it is still a good business.

Piyush Mittal: That is it from me. Thanks a lot guys.

Moderator: Thank you. We will take our last question from the line of Bharat Seth from Quest Investment. Please go ahead.

Bharat Seth: Good morning Sir. I have just two questions. One is you said that in demand side, I mean things are improving in Europe side for silicon carbide, am I right?

K. Srinivasan: Bharat Bhai, what I really mentioned was that since some of the inefficient capacities has gone out the volumes is coming back for the efficient capacities. For example, I said an example of an Ukrainian company who does about 12000 tonnes a year, when he goes out somebody takes let us say the unit is doing half capacity, that volume is also available for the efficient guys.

Bharat Seth: I want a sense of demand side, what are the things now, what you started seeing in June onwards and last six months and now how do you see in the last two three months the demand side in global as well as domestic side, since we cater to almost all the industries, so various industries in various stage. So just can you elaborate on demand side how well you are looking for some improvement or still things are going bad?

K. Srinivasan: As far as Q4, we have been supplying and our demands were stable. probably with this capacities going out, we will be able to fill up this and we are seeing at least signs of it in January, etc. So that is how we are saying that it is not the new fresh demands are piling up etc. Bharat bhai are you asking silicon carbide or are you asking on various other things?

Bharat Seth: Various others, because since we are catering on Abrasive, we are catering to almost all?

K. Srinivasan: In terms of Abrasives, I think predominantly our market is India, the Indian market continues to be muted. I think the consumption of abrasives in terms of volume would probably be down this year about 5% to 10% compared to last year, which is really reflecting in terms of lower industrial activity, lower project activity, lower economic activity. Carborundum is a little more impacted than competition, because the markets traditionally are more dominated in the southern area where we have a very dominant position. South this time is more effected than the rest of the countries because almost all the states are suffering from unbelievable power situation. So to that extent we are probably losing a few percentage point more compared to the others as far as abrasives are concerned. Abrasive market globally, there is massive consolidation going on. There are still people who are going out of production etc., so again in this market if I look at Europe and America, in Russia, etc., consumption of abrasives is definitely not on the upswing this year. There has been a slowdown and consequently again in abrasives with consolidation some of the more inefficient capacities will go out, but it is not happening as dramatically in the mineral business. Now if I come into Refractories, Refractory is largely dependent with 70% of the refractory's are dependent on steel production. Steel if you see the global numbers, they have been relatively flat. There has not been any major increase. So consequently refractory's though there has not been a growth there has not been a dramatic fall either. One area where the refractory consumption fell dramatically or two areas I must say is one is in terms of glass. Glass is a business which was booming for two years because it comes when the furnaces are being set up. Both bottle glass and sheet glass most of the projects were down. No new plants are coming up, so refractory's related to glass globally including China came down dramatically. That impacted Carborundum because we are big player in glass. Another area where refractory consumption came down dramatically in the carbon black industry. Carbon black is essentially used in the tyre manufacture. No new capacities came out because everybody was running it either low capacity or had shut down because it is also very energy intensive. So consequently refractory's for carbon black was low. Overall refractory's no major growth, marginal decline, muted, major transactions took place because the companies there was consolidation, the Indian operations also you have heard about a refractory company being bought over by RHI, etc., so there is a consolidation from inefficient capacities will go out and no great growth, but in India we did reasonably well overall for the year thought the quarter was very bad. In terms of the Electro Mineral business I have already touched silicon carbide. Sridhar clarified in the other businesses againNo major improvement, but as the inefficient capacities go up, I think volumes will pick up as a first step. Volumes will have to pickup one or two quarters before the prices come back. So, my general trend is we probably have crossed the bottom because most of the inefficient capacities are going out as they go out volumes will start coming. Not new demand driven volume but volume for the efficient guys will come back and that is the first step we hope to see in Q4. If it holds for two quarters then we will start seeing prices going up. Then of course newer guys will all start putting up capacities or less efficient guys will all come back into stream because there is still some margin left for them. This is broadly the way I look at things going forward.

Bharat Seth: Now on energy side you mentioned that price is on upward side, energy prices, so how do you see now going ahead now the kind of and since we are operating you said around 8-12 hours on diesel so substantial increase in the bulk diesel price which will impact us. So how do you see that for us?

K. Srinivasan: I said in the beginning the energy impact is huge for Carborundum standalone and Carborundum consolidated. We cannot wish it away. Today, if I run diesel generators, it is 3.5 units per liter of diesel, if it is Rs.61 and then you add the maintenance there and the capital costs, which is almost Rs.21 to Rs.22 per unit of power if we generate. You cannot do any industrial activity at that price of power. So, couple of things, manage efficiently, reduce energy intensity and try and relook at positioning more energy intensive businesses and energy is less expensive. So it is a complex activity. Short-term hurting margins longer-term it will mean movement structurally from location to location.

Bharat Seth: Particularly now after January this increase in bulk diesel price, how is this going to impact us?

Sridharan Rangarajan: Bulk diesel price of Rs.11 will have a quarterly impact of 1 to 1.5 Crores.

Bharat Seth: Thank you very much.

Moderator: Thank you. I would now like to hand the conference over to Mr. Bhalchandra Shinde for closing comments.

Bhalchandra Shinde: Thank you very much Sir. On behalf of Batlivala and Karani Securities we thank the management of Carborundum for giving us the opportunity to host the 3Q FY'13 earnings call. Thank you everyone and have a good day. Thank you very much.

Moderator: Thank you Sir. Participants' with that we conclude the conference. Thank you for joining us and you may now disconnect your lines. Thank you.

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