



“Carborundum Universal Limited Q3 FY15 Results Conference Call”



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Moderator: Ladies and gentlemen, good day and welcome to the Carborundum Universal Q3 FY'15 results conference call hosted by Axis Capital Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Kashyap Pujara from Axis Capital. Thank you and over to you Mr. Pujara.

Kashyap Pujara: Thanks Margaret, good morning everyone and thanks for standing by. We have with us the management of Carborundum who are represented by Mr. Srinivasan, Managing Director, Mr. Sridharan, CFO and Mr. Raja Mukherjee, GM Internal Audit and Strategy. Without taking too much time I now hand over the floor to Mr. Srinivasan. Over to you Sir.

K. Srinivasan: Good morning to all of you. I think this is the first call during the New Year, so let me wish you all a very happy 2015. May the year be an exciting one. We already see a lot of excitement in terms of what is happening but let it also be a positive one for all of us. Let me start by saying that after many quarters we have for the first time a sale going below 500, we are 497 Crores on a consolidated basis but nothing really to worry because a significant part of it really comes from stating the rouble sales of Volzhky back in the rupees. We will explain it as we go forward, but overall I think we are reasonably satisfied with the quarter. Sales grew sequentially lower by about 8%, on a quarter-on-quarter also marginally lower by about 3.5% plus but if we look at the profits it went up significantly 32% higher and sequential was about 89-90% higher so profit at about roughly about 40 Crores was much better than the other quarters. I will quickly give an overall view of how the business is developing and then I would request Sridhar to take you through the numbers. Abrasives had a patchy quarter. We did about 213 Crores which is very similar to what we did last year in this quarter. Standalone was only about 6% growth. Now, our smaller units like Sterling Abrasives, Wendt did better, I must straight away accept that the Carborundum abrasive business could probably have done better than what it has actually delivered. We are mindful of what we need to do for it and we are working on it and you will see the effect of



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this coming as we go forward. The other piece of business was a conscious decision. The abrasive business in Russia sells nearly about 90% of what it produces through distribution and as soon as the crises happened we were very careful to see that the distribution actually does not have money to rotate anymore so we were almost keen to make it cash and carry saying that we don't want to put material in the market if we don't get paid and I think this has immediately impacted our sales but it has also kept us very liquid, we have not really put material on the ground and we don't have any bad debts, we don't have any receivable issues, we took a conscious decision that till the cash flow and distribution channel stabilizes we will not put material on the ground. We took the cost in terms of lower sales, so on abrasive going forward you will see several positive things happening, one is the Indian business will show much more positive traction than what you are seeing so far, we will start getting more active in the Russian market, things are quietening down, the shock of what happened is being digested to a large extent and people will come back, the Rouble at the price it is meant that a significant part of the import which was happening will all become almost unaffordable, so as a local manufacturer we will benefit, we will have better sales, we are careful about receivables and we will scale up businesses going forward in the abrasive space in Russia as well, so overall very positive going forward whatever negative we have to take we have taken and taken corrective steps. Electro mineral business, lower sales in Q3, both quarter-on-quarter and sequentially, if you look at on a consolidated basis. We have been talking about the two South African businesses that we need to restructure. We are well in to this process, we will soon come with formal announcements, practically we have stopped all commercial activities with this quarter in Thukela Refractories. Most of the inventories are being sold or has been sold. We have also sold some part of the plant and equipment. We will move the some of the plant in the next three to four months in to India and with that I think Thukela will go through an organized winddown going forward but we have still some work to do there to complete this process. Foskor is under restructuring. We still think that the bubble business is valuable. The Zirconia business per se still is a very valuable strategic business for us in Carborundum because it flows right through out abrasive business, refractory business and going forward to external customers like pigments and nuclear rods etc., so we will stay with it, we will have to see how we



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can secure and transfer the bubble business without it going down, so this is also under process, we will hopefully do this during this quarter, so really those two businesses are the ones which are being reshifted or relocated with some exits as well in some parts of the business. The big fall really what you are seeing is coming out of the translation of Volzhky, Volzhky I must spend a few minutes. The silicon carbide business because they work on calendar year in terms of absolute sale in tonnage of silicon carbide they did more than the previous year, they actually sold out of the factories 68,000 tonnes plus which is really more than what they did the previous year, two reasons, one is they produced almost the same but they internally consumed less since the production of refractories was lower they could sell more, so they actually sold more tonnage than the previous year, unfortunately the unfavorable product mix of more metallurgical, less crystalline continues. Overall in Rouble terms they did well, they did higher sale but the translation of putting it back in to rupee has made an significant impact with the effective Rouble to Rupee rate for the year last year going down to about 1.45 from the 1.85 that was there the previous year. We will see some more impact of it going forward in the next year as such but that is going to be in the future. There is also the advantage that we will get in and we will explain in detail more as we going forward. The Russian business per se we will do in Rouble terms better even going forward both in terms of the topline and bottomline and in terms of the profitability. The challenge is how big it would be when you translate it back and report it in rupees. The business itself is comparative, the business itself is valuable, the challenge is the reporting in rupee and we will explain it more when Sridhar takes it up.

The ceramic has good news to share both the metallized ceramic which we were running near flat and the refractories where the projects are all showing signs of recovery and sort of revival and deliveries have started, so I think you can see this getting better and better going forward, so we clearly have more orders than ever before both in refractories and ceramics and this is going to show up in the quarters ahead, the revival is already on.



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We spent about on a consolidated basis about 63 Crores in capex in the last nine months including some amount of moving of equipment from South Africa, I think we probably are going to end up with about 80 Crores of capex during the year.

Overall I think we will end the year in a very strong mode. We are also working on looking at what are the non-core real estate and others that we could probably exit during the last quarter which will also probably bring in some money, so overall it is going to be a positive and a strong quarter going forward reasonably good quarter as we finish; Q3 like you all know historically is a two-and-a-half months quarter. We have in Europe and other places the Christmas vacation and in India we take both the Dusshera and Diwali holidays, so it is a two-and-a-half month quarter, reasonably positive, most of the long term strategic actions already well under way, we will soft land most of it in Q4, long term decisions in terms of businesses are being taken and it is being implemented, clear focus on getting the efficiencies up and the plant utilization up, general traction in all markets in terms of sales being up, looks positive and I will now request Sridhar to take the numbers forward. Thank you.

R. Sridharan:

Good morning to all of you. Once again a very happy new year. I will straight away get in to the results. At the consolidated level on a sequential basis the profit from operations before other income, finance cost and exceptional items went up by 3 Crores despite sales drop of 44 Crores. I am consciously comparing the operational results because there are gains below that, so it would be appropriate to compare the operational results. CUMI standalone profit from operations before other income, finance costs and exceptional items went down by 5.4 Crores on the back of 18.5 Crores sales drop, so this is coming purely from the volume drop. The balance consolidated entities contributed to the drop in sales of 25.5 Crores but regained 8.4 Crores in that same period, so that consists of three broad areas, VAW; VAW had a 34 Crores sales drop and the drop in profit of 5.3 Crores, this is again as I said operating level profit, not considering the exchange gain or loss which comes below that line, so the drop in sales as well as the increase in costs as a result of the translation impact, Rouble to Rouble they have higher sales and higher profit but when it gets translated we have this impact. TRI sales were higher in this quarter as Mr. Srinivasan was explaining practically lot of inventory



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liquidation happened in this quarter, so sales were higher by about 16 Crores, we had lower provisions compared to the last quarter, lower fixed costs and higher sales the combination of all of that gave a lower loss by about 5.4 Crores, Foskor, the Foskor sales were lower by 9 Crores, however they had a lower loss to the extent of about 9 Crores. Sequential quarter of Foskor had an exchange loss, higher seasonal electricity cost and lower price realization etc., so almost this three explains the total variation, if you see that the sales drop if you add the three segments 34 Crores of VAW, 16 Crores gain in Thukela and a 9 Crores drop in Foskor put together about 27 Crores and rest of the entities swing is about 2 Crores. As far as profit is concerned again negative 5.3 Crores from VAW, positive 5.4 Crores from TRI which is basically the swing we are covering and a positive 8.9 Crores coming from Foskor put together about 9 Crores and rest of the entities about 0.6 Crores, so that is how the number adds up,

Now on a consolidated basis and quarter-on-quarter basis the net sales was lower by about 19 Crores but there was a profit from, I am talking about, I am talking again focusing on profit from operations before other income, finance cost, exceptional items, it went up by about 7 Crores. CUMI standalone profit from operations before other income, finance cost and exceptional item went up by 10 Crores on the back of 19 Crores increase in sales owing to higher volume, price increase and relatively lesser power and fuel cost despite higher volumes as the fuel rates came down. The balance consolidated entities contributed to the drop of 38 Crores and a drop in operating profit of 3 Crores, so again the three major entities that accounts for this is VAW which is about 49 Crores sales drop and a profit drop of 6 Crores, again this would be the impact largely coming from the translation impact. Thukela, sales were higher in this quarter, as I said because of liquidation of inventory and hence the losses were lower compared to the comparable quarter by 1 Crore. Foskor sales were lower by 9 Crores, however the loss movement was almost nil, so if you add up all the three parts to that sales drop of 49 Crores coming from VAW and 10 Crores coming from Thukela which is higher sales and the nine Crores drop from Foskor all added together is about 48 Crores plus the standalone explains the overall sales drop and similarly profit drop which is about 3 Crores coming from VAW and about 1 Crore coming from Thukela and Foskor about almost nil so all put together is about negative 2 Crores.



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Let us get in to the details by segment. As far as abrasive is concerned PBIT margin abrasives which had dropped to 4.2% in Q3 last year recovered to 6.2% in Q3 of this year, however it was lower compared to Q2 which was about 8.3%. On a sequential basis the margin dropped by 6 Crores largely on lower sales of 19 Crores. Around 3 Crores came from the lower volumes from India of Rs. 11 Crores as we explained earlier. VAW had around 3 Crores of drop owing to the exchange impact.

As far as Electro mineral is concerned consolidated PBIT margin of EMD improved by about 15 Crores and 2 Crores on a sequential basis and quarter-on-quarter basis respectively. Sequential gain of 15 Crores came from Foskor and Thukela as I was explaining, with lower provisions this quarter and lower fixed cost, TRI losses were also lower, hence we could see the profit go in the Electro mineral Division.

Ceramics: PBIT margin of ceramics improved significantly from Q3 last year by 7 Crores, sequentially there was a marginal drop, quarter-on-quarter last year similar quarter the volumes from CUMI India were low owing to the postponement of the projects. The situation has comparatively improved, almost 90% of the 70 Crores gain that came from ceramics in India. On a sequential basis the entire drop came from MMTCL where the profits were lower owing to the lower sales.

Coming to capex as far as capex is concerned the spend so far is 63 Crores in nine months and we expect the full year to be in the range of 80-85 Crores.

Debt equity on a standalone basis remained at about 0.11 almost same position as of September, the total debt on standalone basis from 85 Crores moved up to 90 Crores, but this is both long, short, all working capital all put together is about 90 Crores. On a consolidated basis the debt equity ratio from 0.44 it slightly increased to 0.42. The total debt on a consolidated basis remained at about 444 Crores.

That is to summarize all and just would like to quickly summarize the impact of VAW because that is something which is important to understand. On a year-to-date basis we have lower sales from VAW about 64 Crores despite the fact on a



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year-to-date basis we have higher sales in Roubles. Similarly the operating profits were also lower by about 6 Crores though we have a benefit in terms of the Rouble terms, so that is broadly to summarize the exchange impact as far as VAW is concerned. I do not want to get in to by quarter sequentially etc., because this is going to continue for some more time, so it would be appropriate to look on a year-on-year basis and we continue to monitor that, so that is the overall summary as far as financial results is concerned.

What we are summing up is that two broad actions is Thukela Refractories, by and large we will be able to close out all major actions by March. We have almost cleared all the inventories; there are few inventories left for which we are taking action. All the employees we have settled, almost all the open liabilities have been frozen and we know what and when to settle and now we are left with few assets, we are in the process of how to dispose, we are working up and we are fairly confident by March we should be out of the Thukela Refractories. As far as Foskor is concerned the bubble Zirconia plant we should be in a position to freeze out the modalities of how do we repatriate back in to India and working out the modalities and then come up with a restructuring program for the Foskor as a whole, the work is in progress. So with that we will definitely be in a position to address all the challenges that we have been facing from South African entities which in itself will give a huge boost to the profit. On a full year basis we could have about 51 Crores of loss coming from these two entities alone, so that could give you a sense as far as the pain which would not be there going forward so that is something positive and the Indian economy showing signs of improvement and sentiments being positive we look forward to better results going forward, so with that I think we will open up for question and answer and look forward to your questions.

Moderator:

Thank you very much. We will now begin the question and answer session. The first question is from the line of Madan Gopal from Sundaram Mutual Fund, please go ahead.

Madan Gopal:

Sir, first I would like to understand on the domestic front I just looked at your competitor number also, for the last four, five quarters I am seeing growth as well as on the margin front we are lagging behind, is it we are losing market share in any specific segments, if you explain that it will be really helpful and why is it



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margin also going down despite the sales growth not catching up, if you explain a bit that will be helpful Sir?

K. Srinivasan: I think there has been a loss of market share obviously because I think you will see that while we are pushing to keep market share and then in that process we are losing margins we are also losing market share because we are not able to take the market as well. We seem to have specific issues. We have identified where it is coming from and what are the corrective steps. You are right in what you pointed out and hopefully in the coming quarters you will see that it will get corrected.

Madan Gopal: Is it like some high, good margins, market segment that is where we lost the market share I can read it that way.

K. Srinivasan: To explain this actually we have not lost market share to the competitor you are mentioning. What we have lose market share is actually to two other companies who are not our main competitors whose numbers are out there and this comes from the fact that these two companies practically end up sharing the same channel through which we sell. There are historical reasons why this happened, how it happened and consequently these two new entrants who have been relatively new in the market seem to have taken more of our share than any other share and that is really what happens. The competitor per se has not taken our share, so it is not a question of market share shift; we have not lost our share to our competitor. We seemed to have lost a part of the market to two new entrants, relatively new entrants I must add and we are aware of what is happening, we know what has to be done, we are working on it and you will see the impact coming.

Madan Gopal: Some market sources suggest that this probably happening in the bonded side, am I right in that?

K. Srinivasan: Bonded side.

Madan Gopal: So you are taking corrective steps?

K. Srinivasan: We are aware of where it is coming from. We are aware of what is to be done and we have taken steps. You would see the benefit coming and going forward.



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Madan Gopal: In the process is it likely that we would be providing some support to the channel that is the way we will be able to get back?

K. Srinivasan: You would have seen the thing that we have tried to maintain market share and in the process margins have fallen, it would not be a question of trading of margins for market. You would see that our strategy is going to be quite different and we will get back both market and margin going forward.

Madan Gopal: Second is on the Russian operation VAW if you can explain a bit in Rouble terms, if you can give that number it would be helpful or if you want to take it offline I would do it?

R. Sridharan: You can take it offline because we don't have the exact Rouble numbers in front of us, we will share with you. It is not an issue.

Moderator: The next question is from the line of Kuldeep Khanapurkar Kotak Asset Management Company, please go ahead.

Kuldeep K.: Sir, just one question from me, in Russia what is our business which is linked to US Dollar, Euro and Rouble?

R. Sridharan: I think by and large our Rouble business is somewhere between 65-70%, the balance is between Euro and dollar, most in Euro.

Kuldeep K.: Our cost would be in Rouble right, most of the cost would be in Rouble and Euro has depreciated by 44% in the quarter against Rouble so we would have got a very strong benefit because of Rouble depreciation with respect to Euro, is that true?

R. Sridharan: Question is correct. What happens is that as Mr. Srinivasan was telling at this point we are trying to have volumes met and we are selling more in to Rouble markets and more in to metallurgical grade, hence the shift of the share in a way is not benefiting us in terms of the exchange impact that we would have got had we maintained the same percentage of sales between Rouble and Dollar or Euro.

K. Srinivasan: Between the quarters the amount of Euro sale has marginally declined and that has got converted to Rouble, only because the European market itself is also not doing



well, so the entire benefit of a depreciating Rouble against the Euro has not fully come through.

Kuldeep K.: So, at a net level when we consider the entire exchange benefits and losses at a net level would that be a positive or negative number for the quarter?

K. Srinivasan: In Rouble terms it would be hugely positive but again if you restate in rupees everything will become negative.

Moderator: The next question is from the line of Pritesh Chheda from Emkay Global, please go ahead.

Pritesh Chheda: Sir couple of questions, one in your opening remarks you gave out a slightly positive commentary on both abrasive and ceramics, just wanted to get a little bit deeper in that in terms of your positive commentary, why do you think so and both these places we have seen the business revolving around a certain number for the last many quarters, so extending that commentary can you peg some growth numbers on both of those sides of businesses sir?

K. Srinivasan: On abrasives you will see Q4 historically has also been stronger for us and I mentioned to another query as well that we know a couple of things that we need to do to get the market share and the margins back on the domestic in abrasive and I think quite a few actions have already been put in place and I sincerely expect that you will start seeing the impact sooner than expected, so that should give in. The market by itself is positive, it is not gone worse than it was, it is probably getting better, so you will definitely see traction in abrasives, there is no fundamental change that has happened to make it any less competitive than earlier, so clearly abrasive whatever little market share we lost we will get back and we will get back to a strong growth. Domestic market itself has only got better, it has not got worse. The Russian story is a very peculiar story of a potentially higher opportunity but with a very great risk of not getting paid for it, so consequently we took a prudent view saying that we will not put material in the trade till such time they take it as cash and carry unless we are very clear that the cash flow in the market is better. We have lost market share in the last two months. We have almost said we will not give unless somebody brings money and takes it because



the inflation in Russia is now running at about 15%, so it is a conscious decision. We have gone through this because there is no more material available in the market, imports are almost impossible at the current level of Rouble so the opportunity is much, much more than what it was earlier. We will see the traction coming up in the quarter, they have started the year only from the 15th or 18th of January I must say, so things are getting better, you will see things getting better, so overall these two big markets where we sell abrasive are clearly getting better.

Pritesh Chheda: What would be the market growth rate in India currently in abrasive?

K. Srinivasan: I think we should talk of double digit plus 10% is what is running.

Pritesh Chheda: And this is stable since the last couple of years?

K. Srinivasan: No, last two years were bad, actually for the first time in many years the last two years abrasive market actually came down a bit, it probably grew by less than inflation. It was only now because the significant part of abrasive market also addresses projects, large part of those abrasives go in to project sales and project sales were at a very, very low level in the last two years, so abrasive market is coming back from a low, it is coming back faster than what we expect but it is coming back strongly, the last two years were flat, otherwise it was growing before that.

Pritesh Chheda: And your comments on ceramic side?

K. Srinivasan: Ceramic is very much dependent on projects in India which is really power stations, cement plants etc., they are now moving on to whatever stalled is all moving in to execution, we are delivering 65% of our ceramic business is outside of India, part of it which is going in to Australian market yes there is pressure because the coal prices are down but I think there is a point where they also have to do the patch up what was original equipment buying is now changed to what they call as the R&M buying, repair and maintenance buying, so we are offering them another range of product which will allow them to do quick patch up and work, so there is a change in the product that is going in but market is picking up, we are seeing ceramic traction coming back and coming back strongly.



- Pritesh Chheda:** Do you want to peg a number in terms of growth that you see in the business over the next couple of years?
- K. Srinivasan:** Ceramic we have given a growth projection about double digit.
- R. Sridharan:** We don't want to give any growth projection, I think broadly we are able to give you these hints and we need to wait and watch.
- Pritesh Chheda:** Sir on the restructuring side and also pardon my ignorance, the two operations that is Thukela and Foskor post restructuring nothing then stays as an asset or an operation in Africa?
- R. Sridharan:** As far as Thukela is concerned assets wont stay in South Africa, part of the assets will move in to India. As far as Foskor is concerned a portion of the asset will move in to India and the balance will remain there.
- Pritesh Chheda:** In case of Thukela the expense related to restructuring whether it is assets or employees etc., have already been incurred and in case of Foskor it is yet to be incurred?
- R. Sridharan:** As far as Foskor we need not, the way we are looking at it, it may not look kind of that kind of restructuring need not be there but however it is too early to look at that at this stage.
- Pritesh Chheda:** I am just asking from the point that is that expense big a number that you don't see the 51 Crores loss which was there in these operations to be invisible?
- R. Sridharan:** Yes, that is what we expect, the swing, year expected profit before tax of 51 Crores we will have major portion of it will not be there going forward.
- K. Srinivasan:** See post restructuring the 51 will go, if there is an in between transition phase where we have to take some cause we don't expect, if it comes, it comes, we will then as it comes.
- Pritesh Chheda:** Is FY 2016 a clear year to view this nonoccurrence of 51 Crores?



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- K. Srinivasan:** Most of it.
- Pritesh Chheda:** If I want to know the utilization levels in abrasive units and ceramics?
- R. Sridharan:** Abrasive is by and large between 65-75% depending on the type of units, some cases we are at about 85%, ceramics somewhere in case of metallized we are operating above 85% on the tile side we would be operating about 70-75%. As far as electro mineral we are running flat out both in Russia as well as in India and the Thukela and Foskor I think we just explained you the kind of things that we are going through.
- Pritesh Chheda:** India and Russia electro mineral is how much?
- R. Sridharan:** We are running flat out.
- Moderator:** The next question is from the line of Manish Goyal from Enam Holdings, please go ahead.
- Manish Goyal:** Sir, on African operations to continue so at Foskor we will then remain with the Zirconia operations like the old plant which we had?
- K. Srinivasan:** The intention at the moment is to relocate the bubble plant and the tap plant will stay in South Africa, how we handle that we will have to wait and watch because the plant itself will stay in South Africa and we will have to see how we take it forward from there.
- Manish Goyal:** Currently that piece of the business is it making money or it is also losing out?
- K. Srinivasan:** The tap plant still makes money.
- Manish Goyal:** But you are still contemplating to move that also to India.
- K. Srinivasan:** No that we will not move. It will stay there.
- Manish Goyal:** If I am right we were also probably looking to set up a bubble facility in India also right?



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- K. Srinivasan:** We already have a refractory bubble plant what is called as CRIL, that is a very different product, the refractory bubble is a spongy bubble, the Zirconia bubble is a low-grain growth bubble which is blown as a bubble to ensure that the grain growth is low but we actually crush it down, we make it in to very fine grains, so very different reason, very different product, very different application.
- Manish Goyal:** At Thukela when we exit and wind down completely, is there a possibility to probably have some gains from sale of assets or land or like that?
- K. Srinivasan:** No I think it has all been factored in the closure cost etc.
- Manish Goyal:** So this quarter also we may see some more losses?
- K. Srinivasan:** Very small.
- R. Sridharan:** As far as Thukela is concerned there would there would be as we go through the final sale of assets etc., there could be something which we need to work up.
- Manish Goyal:** At Russia operations do you expect to probably looking to, the capacities I believe are 70,000 tonnes at Russia?
- R. Sridharan:** Yes, about 70-75,000 tonnes.
- Manish Goyal:** So going forward like how is the sales mix right now between crystalline and metallic and how do you see that going forward?
- K. Srinivasan:** At the moment we are running for more metallurgical than we want to nearly 60% nearly 60% and I think I would not hazard a guess, we have to probably, we are working because as you know we started CUMI Europe primarily to see how we can refocus on to crystalline niches, you cannot have any bulk buyer of crystalline anymore, we look at niches which will still consume more crystalline. It is a painful process of transferring them in to crystalline in a market in Europe when it is not growing as much, but there are also advantages, I must say that the Rouble being what it is, it also gives us an opportunity, intent is to see how we can get, convert back more and more to crystalline but at the moment reality is 60:40.



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Manish Goyal: But like earlier someone was asking in terms of the Rouble depreciation whatever exports you have from Russia do you see some benefit flowing in?

K. Srinivasan: Sure, sure there are benefits, the Russia business works like this, there is, I would not call hyper but there is huge inflation, everything is getting expensive by about at least 15% in Rouble terms, so you lose margin and the price of a product we are trying to put up but there is a challenge because we also have to sell out your capacity, so there could be pressure on Rouble margin in selling in Russia, two things, unfavorable product plus Rouble margin, you make definitely a better margin when you are selling it in Euro or in dollars out of Russia and also if you can convert more and more to crystalline, so there that advantage remains, so what you will see finally as Volzhky selling in final Rouble terms yes there will be a higher sale and higher profit in Rouble terms but you take that even if it 20-25% higher and report it back to us in rupees then everything changes completely because we were reporting let us say full year last year at 1.8 rupee to a rouble, next full year we will probably have to report at 0.95 Rupee to a Rouble, so that difference will remain.

Manish Goyal: If you can highlight on the micro grits, how are things shaping up and I believe the solar market is also picking up?

K. Srinivasan: Let me say that we were earlier seeing the tunnel and no light at the end of it, today we see the light and the light is not a train coming in front, it is really a light, so hopefully we should see better times ahead, so I don't want to say too much because we have made some supplies in this quarter, getting some orders but let it become bright light.

Manish Goyal: But in terms of volumes what is the kind of improvement you are seeing?

K. Srinivasan: Let it develop, we don't want to say anything too early because this is a very sensitive market only four players, I don't want to say anything on this.

Manish Goyal: Capex for next year Sir?



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- R. Sridharan:** It is too early; we will share that in the next call as we roll up our business plan also because we are in the process of that, so we will share that.
- Manish Goyal:** Do you believe some significant capex because of moving assets from Africa to India and probably integrating that?
- R. Sridharan:** Most of the capex is already incurred, of course the move will involve some or additional capex but nothing would be significant.
- Moderator:** The next question is from the line of Bharat Sheth from Quest Investment, please go ahead.
- Bharat Sheth:** Sir, all of my questions have been answered, only one, we were developing this micro grit for different applications, so is there any?
- K. Srinivasan:** There have been a couple of let us say beginnings of a success story, I don't want to say too much because most of these are three suppliers in the world, five buyers in the world that kind of business, so let me say good things are happening but let it develop.
- R. Sridharan:** I think we should give fairly at least a long term of two to three years, it will slowly progress but it is progressing in the right direction. We keep repeating this, so I think we need to give some more time to this area.
- Bharat Sheth:** Sir the abrasive in Russia side, with this depreciation that abrasive becomes very competitive, so is there any movement on that, are we seeing some traction to increase the capacity utilization?
- K. Srinivasan:** See there are two things happening, one is Russian business itself has become hugely competitive, they can sell their product anywhere, they make their products well etc., but unfortunately they were so far selling all their abrasives tools only in CIS, and that market because of its cash flow situation today is not paying up, so we are trying to be cautious on it, we will go through this one, we have already taken a couple of months, we will probably go through one more month and then we will start pushing because people have to consume this, this effort to try and put Russian products in our other markets around the world is in way. We took



some decision to do a lot of it in to Europe and US, we are slowing down that because see we are also going through a condition where people don't want to be seen as buying Russian products.

Bharat Sheth: Because of Sanctions?

K. Srinivasan: Whatever, so they don't want to be seen very visibly as buying Russian products, so we are doing it quietly, we will get this back, what you said broadly that Russia becomes more competitive we have capacities, we today are far more competitive that is a fact and we will continue to work on that.

Bharat Sheth: There also I understand that we were making some changes in product mix in Russia to cater to world market, is that product side over?

K. Srinivasan: That part has been done, unfortunately we are working all of that to address European market and that market today is going through a period where they are not very excited to buy or change production product but that is a temporary thing, we will handle this.

Bharat Sheth: Sir you said on Indian abrasive there are two new players, is it by way of manufacturing?

K. Srinivasan: One is a local manufacturer, the other is a trader.

Moderator: The next question is from the line of Bhalchandra Shinde from B&K Securities, please go ahead.

B. Shinde: Sir regarding Rouble depreciation because of that do we expect some interim losses due to depreciation in investment on the Volzhky front, in the fourth quarter do we expect to book interim losses on that?

R. Sridharan: What kind of loss are you talking about?

B. Shinde: As a percentage of investment since there is Rouble depreciation will it affect our percentage of investment in terms of impairment?



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- R. Sridharan:** It would not be there because kind of investment that we hold versus the balance sheet strength of the company it has zero debt and very strong balance sheet so we are fairly protected. If at all something is translation impact will be impacting the translation results which is basically sitting in the reserve side of the balance sheet consolidated level will happen. It would not impact as far as the impairment is concerned.
- K. Srinivasan:** There will be nothing on the P&L.
- B. Shinde:** What kind of scenario we see in the European economy, are we seeing more demand on that front or due to economic slowdown in European side also we are facing some volume pressure?
- K. Srinivasan:** The European demand is poor. The European Union has put a 5.2% import duty on import of these things from Russia and it is zero duty for import from Ukraine and other places. There are pressures not only on volumes but also on getting the Russian product and allowing it to retail customers, so we did not anticipate that it will be this far but we had anticipated some amount of pressure that is why we formed CUMI Europe, CUMI Europe becomes a selling face now, so it gives us that much of one step protection in terms of selling products in Europe. We have taken counter measures, we will see how to protect our customers and market share.
- B. Shinde:** Are the sentiment that way from the customer that they don't want to accept the Russian products or is it more due to trade sanctions?
- K. Srinivasan:** Like I said it becomes more expensive with additional duty and it is very difficult to say a customer would say that to you, but you can sense that if they have an option to buy it from somebody else they would buy it.
- B. Shinde:** Comparatively if you see Volzhky contributes around 40-45% PBT level on the consolidated, so what kind of scenario are you seeing in FY 2016 because of Rouble depreciation and maybe we will do that in Rouble front but will it compensate the cancellation loss which we may see in FY 2016?



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R. Sridharan:

What we feel is that it is too early to start projecting and looking at that, Rouble versus dollar also is kind of stabilizing, one set of people talk about somewhere between 1.4, the other set talks about can even go to 0.8, so I don't want to make a guess at this point how it will but as Mr. Srinivasan was earlier telling that we have a year where we had on an average we are converting 1.65 to 1.75 that compared to the current situation we are at about 0.95 to 1, now how this will fluctuate, where it will go etc., let us wait and watch in terms of the impact but as far as Rouble terms is concerned as a business in Rouble we are doing better and it will continue to be better but only question is that can we make use of this advantage thereby if we can shift more exports and make use of higher Rouble and it will offset some kind of exchange impact translation impact in to INR is what we are currently working on, so it is not just exchange impact how do we reposition etc., so let us wait and watch in terms of how this whole thing translates.

Moderator:

The next question is from the line of Kashyap Pujara from Axis Capital, please go ahead.

Kashyap Pujara:

Hi, I have just couple of questions first pertaining to the losses that we have incurred on the Foskor and Thukela front, if you could just give a highlight that on an annual basis what is the run rate that we are losing on say Thukela Refractories, your new bubble Zirconia plant at Foskor and probably if you can also give as to how much you are losing in say China that would give us some perspective because per se while your numbers have not grown or the profit level over the last few years but it is also getting suppressed because of these losses that are coming in because of the international entity, so if you can just give us some color there?

R. Sridharan:

I think I just covered a bit of the question as far as losses between Thukela and Foskor is concerned, there are some betterment in terms of Thukela as far as volume of business is concerned because we are cleaning up the inventory etc., but by and large when I look at it, these three entities put together it would be in the order of about somewhere between let us say kind of 50-55 Crores would be the overall loss one would look at it on an annual basis, now this could change here and there depending on a particular context like the one we are going through



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currently to by and large it would be right to assume in that range that I was mentioning.

Kashyap Pujara: So the point is that since you are restructuring you are winding down Thukela, restructuring the Zirconia front the bubble plant so by and large we can expect that since the revenue and cost will get eliminated say maybe in the next six months or so, is it fair to assume that this leakage will basically get clawed back.

R. Sridharan: As far as Thukela is concerned for sure it will get stopped, as far as Foskor is concerned the first phase will be like for example the portion of the loss will stop and the topline also would not come until we reestablish bubble in to India start working on that and then of course the work on China will have to start but by and large your assumption of these things will go away is correct.

Kashyap Pujara: Lastly just one question on the abrasive front that as Mr. Srinivasan is mentioning that we are seeing volumes coming back, growth can come back, so clearly are we right to assume that this market is now ready for price hikes?

K. Srinivasan: Essentially yes because we did take some price hike in selected products even last year but if you look at it from Carborundum priority point of view yes some price hike but margins can come up this time because of two other reasons you would have seen that 8% of our cost also comes from energy cost, there is some cushion coming up there because a large part of that energy is fuel energy, it is not electricity in the abrasive business so we have some headroom that will open up, priority would be to claw back market share without losing margin or improving margin that would be the priority, I don't want to specify what all we need to do, some price increase, selected product yes

Kashyap Pujara: And there is nothing disruptive as far as competitive intensity is concerned?

K. Srinivasan: There is no new technology, there is nothing dramatically somebody has brought that is making us, in fact I should say we have brought in quite a few things, today the fast cut range with the new premium semi friable grains of Carborundum is making a huge impact in the market, it is material change from what is being used in the market, so we have quite a few aces up our sleeves, my confidence is not out



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of, it is out of an information that we have things up there that can make a big difference, we know what has gone wrong, we know how to sort it out, we are working on it, we will hope to see the results faster than anybody expects.

Moderator: The next question is from the line of Shraddha Sheth from Edelweiss, please go ahead.

Shraddha Sheth: Sir just wanted to know this year what will be the annual profitability and VAW we will be closing at, we were roughly around PBT level used to be roughly 75-80 Crores in the last two, three years, so that should be closing at what rate this year?

R. Sridharan: I think we still have one more quarter. I don't know how the exchange rate would fluctuate but we should be about from the number you have mentioned about 10% lower range at best.

Shraddha Sheth: Second question is in the past two quarters back you had given some sort of a guidance and now with the currency fairly kind of stabilized the Rouble will it be possible and also with all the initiatives we are taking in abrasive to gain back the market share will it be possible to gauge how do we see the margins in abrasive over the next two years maybe?

R. Sridharan: As far as Rouble exchange rate is concerned I don't think it is stable, there are lots of fluctuation, we do not know how the petrol price will move up or move down etc., so it is not stable and I would not like to make any projection at this point in time based on that, so I think fairly let us say we are in the process of rolling up our plan and probably when we meet next time we will have better clarity and we would be able to share.

Shraddha Sheth: Sir because India also is like 70% of the business, so there we are seeing some green shoots, so do we see it could go to optimum utilization over the next?

R. Sridharan: The direction would be definitely upward, utilization will go up, we expect the market to pick this up, that is what overall direction is, to make exact what we are looking at etc., as we are in the roll of we will wait for a quarter more and then probably we will share.



Moderator: The next question is from the line of Vinay Rohit from ICICI Life Insurance, please go ahead.

Vinay Rohit: Sir, what is our capacity of abrasive in Russia and India?

K. Srinivasan: Russia we can probably go to between 15 to 20,000 tonnes, I am keeping it open a little bit because some part of it cannot be exported at also, let us say between 15 to 20,000 tonnes last year we did less than 7800 tonnes, so significant headroom available.

Moderator: The next question is from the line of Mansi Verma from Karma Capital, please go ahead.

Mansi Verma: Sir just trying to understand that of the three segments that you have where do you see the strongest growth coming in and what kind of visibility are you having in terms of demand be it geography wise or sector wise for Q4 or next year?

K. Srinivasan: I will take it as going forward rather than as being specific to Q4. Out of the four segments if I look at the ceramics, it has got two parts, the refractory and industrial ceramic. In industrial ceramic our visibility is relatively clear, we had quite a few long term orders that have just come in, so there we see the traction is strong, our executing capability is pretty good, like Sridhar mentioned except in the metallized cylinders where we are sort of peaking up little bit on the capacities all other place we have headroom, so probably the brightest performance would come up from ceramics going forward at least in the next two quarters. In terms of the fastest recovery from where it was, I would put it on the sales side would be on the refractories because they are stuck with lot of projects not getting done largely around power and cement, those are seeing traction, so the fastest growth in sales is likely to come up from the refractory part of the ceramics vertical, these two together is only 25% of Carborundum consolidated so the impact of these two may not be that big on the overall consolidated numbers but these two are bright spots in terms of both topline and in industrial ceramics also the bottomline, so those are the two things, abrasives is like some other person had also asked, 75% India specific, market is good, topline growth will come along with it will be the bottomline growth like I said we will take market share first, we will not lose



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margins but we will take market share, so topline growth is going to be the driver. Indian market is good, so you will see this coming up as well. The last one which is the mineral business here is where we are going through several changes. The South African story it has to play out, Russian business by itself in Roubles is getting more and more competitive, much more profitable all in Rouble terms but a lot of the good story gets lost in translation in to rupees when we eventually report it, that is something that has to play out, so all this combined how it will add up on the minerals side is a challenge that we are not able to hazard a guess at this stage. Overall each of those businesses by itself is very competitive, they will be able to sell all they can produce, they will make their profits but we will have to see how it adds up eventually when we report back, so that would probably be how I would sum up and in terms of the market very roughly 55% next year or going forward would be India for us, roughly 25 would be Europe, Russia combined, about 10% is Americas, about 6% Australia, 4% is Middle East Africa, now growth stories the Indian piece is strong, even if it is 6% GDP and above sounds very good to us, the Australian story also remains good, though the mineral prices are low, the 4% North Africa Middle East story is not very strong in a general basis with energy prices being low but it is a small piece for us. The Europe Russia story which is 25% is not a good story overall but we are extremely competitive in that market so that is where the advantage and disadvantage seem to cancel out each other. The 10% North America story is an extremely strong story, things are getting better and better, but we are small out there but we will see how we can get more competitive, so overall that is how it adds up, very positive on an overall basis.

Mansi Verma:

Sir, also a little bit on the margins you said you will be able to sell all the volumes all these businesses will be producing, so how is the margin going to look in the short term perhaps.

R. Sridharan:

As we were just explaining we feel that the margins will show an upward trend, we will have to wait and see as far as various impacts of currencies, geography impact, so we are in the process of looking in that, probably we will be able to share more as we go to the next call.



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Moderator: We will take the last question from the line of Neelesh Surana from Mirae Asset, please go ahead.

Neelesh Surana: Sir, there have been many questions on the Russia business, just to clarify few points, what is the capacity utilization there right now?

R. Sridharan: About 95 plus percentage on the electro mineral that is the silicon carbide.

Neelesh Surana: Total throughput what is the capacity utilization?

K. Srinivasan: We will have to take it in three parts, the refractories part of business we can do roughly between 3000 tonnes plus there this year we have done less than 700 tonnes, so there is a huge amount of headroom, in the abrasive I shared already our capacity could be anywhere between 15-20,000 depending on the market product, we have done 7000 + 7000 odd 500 something, so it is less than half so that is the capacity utilization. In the silicon carbide we are flat, 68,000 plus.

Neelesh Surana: You did explain the overall impact of currency, so the easy part for us is the translation thing, so suppose if you were doing 75-80 Crores cash flow pretax someone asked about VAW other things remaining same straight away comes down by 50% given that the exchange rate has moved from 1.7 to 0.9 on a runrate basis maybe not for the full year year-to-date because most of it happened in the recent months, and some part of it as you explained would be covered by better mix export profitability as well as more volumes in the Russian operations because the dollar competitiveness increases, so net-net as we stand now in current run rate basis how much of this 50% loss because of translation will be covered because somewhere you mentioned 10% and 20% I am not very clear on that, on a run rate basis not on the year-to-date basis if you could explain how is the profitability on year-on-year basis?

R. Sridharan: On a year-on-year basis what we are saying is that Rouble wise we have done better both in terms of the sales as well as in terms of the profitability.

Neelesh Surana: How much would that be let us say if 100 is the base then percentage Rouble?



- R. Sridharan:** Rouble we have done about 5% better and that is what in terms of the topline. As far as the bottomline is concerned yes we have done better profit, operating profit because we are not looking at the translation or exchange gain there because that is basically a local one, so if you look at that that is also about 6-7% we have done better but what happens is that when you get translated to rupee we are getting this impact and that is what we just explained the overall impact what we have.
- Neelesh Surana:** So if 6-7% cash flow has improved in Rouble terms and 50% is translation loss the impact should be -40% or plus, I mean more than -40, if your Rouble profitability has improved by say maximum 10%.
- R. Sridharan:** I don't want to have a dialogue at this point in time on percentages, we just shared that our sales went down on an year-to-date basis in INR by about 64 Crores and operating profit had an impact of about 6-8 Crores.
- Neelesh Surana:** But YTD will not give a correct picture because of things that happened in last few months?
- R. Sridharan:** That is why I don't want to also make a correct comparison because what happens because let us wait and watch how this whole thing progresses.
- Neelesh Surana:** You will like to see how it stabilizes.
- K. Srinivasan:** Exactly. It is too close to call at this stage, let us give it at least a quarter.
- Neelesh Surana:** But it would be fair to assume that there will be a decent translation loss as things stand now.
- K. Srinivasan:** Cannot be, give it some time because like we said there are positives and negatives both playing out, the positives we explained is we are becoming more competitive, the Euro dollar sales are bringing in larger money, the negatives obviously like I said is a translation story. We will have to see how the whole thing plays out. You have to give us two quarters before we can do it because it is not a simple mathematical thing it has now become half as valuable, I don't think it will end up there.



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Moderator: Ladies and gentlemen, due to time constraints that was the last question. I would now like to hand the floor over to Mr. Kashyap Pujara for closing comments.

Kashyap Pujara: Thank you everyone for standing by and hearing the call and thank you to the management of Carborundum for taking time out for this call.

K. Srinivasan: Thank you all. Thanks for your patience and thanks for listening to us.

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