# "Carborundum Universal Limited Q3 FY16 Earnings Conference Call"

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**MODERATOR:** **MR. ADITYA MONGIA - INSTITUTIONAL EQUITIES, KOTAK SECURITIES LIMITED**

**Moderator:** Ladies and gentlemen, good day and welcome to the Carborundum Universal Q3 FY16 Earnings Conference Call hosted by Kotak Securities 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. I would now like to hand the conference over to Mr. Aditya Mongia from Kotak Securities Limited. Thank you and over to you, Sir!

**Aditya Mongia:** Thanks, Karuna. Hello, everyone and a warm welcome to the Carborundum Universal for the quarter gone by. From the management today we have Mr. K. Srinivasan - the Managing Director; Mr. Sridharan Rangarajan - Chief Financial Officer; and Mr. Raja Mukherjee - GM - Internal Audit and Strategy.

I would now like to hand over the call to the management to start the discussion on recent results. Over to you, Sir!

**K. Srinivasan:** Good morning, to all of you, this is the first call of the year so let me start by wishing you all a very Happy New Year. May this year be a year of a lot excitement and also some happiness Carborundum had a good quarter Q3, the sales grew to 526 crores on a consolidated basis, this is a 6% growth on a quarter-on-quarter basis.

As you all know that generally there is Z-curve, the first quarter is low, the second is higher and the third always tends to be lower so, sequential growth is actually a very good sign, so we got happy with the sequential growth of 2.4%. We delivered 53 crores PBT for the current quarter which is higher by 35% from the similar quarter last year. Sequential profits were down by 13 crores about 20% and this is quite normal because we normally have a smaller Q3.

Abrasives on a consolidated level the sales of Q3 were about 229 crores which is 8% higher than the similar period last year, strong performance on the standalone basis particularly in India, it was pretty good. On a sequential basis the consolidated sales were lower by 3% largely again on the back of smaller sale in the standalone part of the business.

CUMI India had 10% quarter-on-quarter sales growth and a 2% drop in profits. Typically, Q3 like I said is always a lower quarter compare to Q2 since the number of days are much smaller we have all pooja holidays Diwali and Christmas in the other parts of the world. Overall significant improvement is just to happen in terms of the economic indicators so that is actually a bit of dampener, most of the growth has actually come from taking market share.

EMD consolidated level sales at Q3 were 193 crores versus 172 crores of last year, the higher sales were across geographies both domestic as well as the big piece in Volzhsky Abrasive in Russia. Volzhsky had a Ruble growth of 31% and INR growth of 6% that is also coming out of the fact of depreciating Ruble. EMD consolidated sales grew by 8% and this is also to be expected since we had a good growth in the Mineral business overall.

Ceramics suffer still from lack of project executions, consequently the consolidated level, net sales at Q3 were 119 crores which is 124 crores for the corresponding period last year a 4% drop. CAPL which is our Australian piece also had a lower quarter compare to the corresponding period last year.

On sequential basis however, we grew by 5% so this is really a shift to more of consumable and engineered products rather than from the project orders, R&M and others have given us the advantage. Industrial Ceramics largely this comes from engineered products that we have been selling.

If you look at the CAPEX we have committed a 135 crores of CAPEX so far on a consolidated basis. A lot of it is going to be in WIP still has to be completed and about 60 odd crores is being commissioned already in the first nine months. That is broadly on the overall performance of the company. Good quarter, things are looking better, geographies' wise very quickly India continues to be at where it was, it is no major projects no major CAPEX, so it is largely R&M and general economic growth, nothing significant.

The Russian business for us is doing extremely well, the depreciating Ruble makes it very competitive we are running flat. The depreciating Rand has also made our Foskor business in South Africa business do well. So overall the Mineral business are benefitting from the the depreciating currencies in the two geographies, we are running our plants reasonably well and the market in Europe and in the U.S. helping us to pick, sell the quantities.

So overall, I would say it is a good quarter things are not terribly good outside in the world but for us it seems to be good.

So I am going to hand it over to Sridhar to talk about the numbers in detail.

**Sridharan Rangarajan:** Thank you, sir. Good morning to all you and I will quickly go through the numbers both overall as well as by segment. At consolidated level we registered a sales gain of 30 crores which is 6% gain compared to the corresponding quarter last year and a PBT gain of 14 crores.

Standalone are up by 43 crores and profit went up by 7 crores, net of dividend. This is largely due to better sales and cost control over the last year. However JV and subsidiary sales dropped by 13 crores and PBT went up by 7 crores, this is largely due to closure of TRI operation which had an impact of 22 crores in sales but resulted in a gain of 5 crores which means the loss that we had last year is no more there current year. The sales drop was offset by better performance of other subsidiaries so all in all, we had a 30 crores gain both standalone and consolidated subsidiaries put together.

In Q3 of the last year Ruble to INR remained at about 1.31 while now we are converting at about almost 1, so there is 24% depreciation in currency. So as the exchange rate remained the same sales from VAW should have gone up by 30 crores instead of 5 crores what are currently seeing.

On sequential basis at a consolidated level, we registered a sales gain of 12 crores which is 2.4% gain and the PBT went down by 13 crores. So this constitutes standalone sales increase by 4 crores and JV and subsidiaries contributed to 8 crores largely coming from CAPL, Foskor, CUMI America and JVs.

On a sequential moment the operating PBT dropped by 13 crores. Standalone business remained same post adjustment of dividend. The drop largely reflects from VAW due to lower exchange gain and in this is their year end and this is normally a smaller quarter for them compared to the Q2 what we have.

On an YTD basis, net sales were lower by 26 crores however the PBT went up by 65 crores. So the standalone sales were higher by 79 crores and subsidiaries / JV sales were lower by 105 crores. TRI closure and Foskor bubble plant shut down resulted in lower sales of 55 crores, VAW reporting lower sales in INR about by 36 crores compared to the last year same period. The YTD rate last year, the average rate of Ruble to INR worked out to 1.53 while the average rate for this year is about 1.07, a depreciation of 31%, so VAW in Ruble terms did better by almost 30%, however, when you convert this into INR, it results in a 9% lower sales in INR, a drop of 36 crores. Had the exchange rate remained the same the consolidated sales should have gone up by about 164 crores, of this VAW alone would contribute about 150 crores.

For YTD movement the operating PBT increased by 65 crores, standalone contributed to 18 crores, I exclude the dividend from group companies. TRI business exit and Foskor bubble plant shut down gave a benefit of 37 crores, better performance in VAW resulted in 10 crores so all put together about 65 crores of gain.

Now if we go by segments; Abrasives, PBIT margin in Abrasives increased from 6.2% in Q3 last year to 8.6% - an increase of 7 crores. The entire margin came from standalone have improved on the back of higher sales in standalone business. Sequentially there was drop of 6 crores in margin, This was largely contributed by 2.5 crores drop in standalone on lower sales and the rest contributed by Sterling, Wendt**,** VAW and China. All the Abrasives business had adverse sequential movement.

As far as Electro-mineral, consolidated PBIT margin of EMD had an increase of 11 crores on a quarter-on-quarter basis. The increase came from better Electro-mineral business in India Rs. 6 crores contributed by the lower losses from TRI and Foskor. On a sequential basis the drop was 11 crores almost entirely came from VAW.

Ceramics, PBIT margin of Ceramics dropped by 3 crores on a quarter-on-quarter basis which mainly came from Australian business. On a sequential basis the profit grew by Rs.2 crores almost entirely came from standalone.

As far as the CAPEX, Mr. Srinivasan said we have spent about 135 crores this includes capital work in progress as well and our plan was about 175 crores plus on a full year basis. So as Mr.

Srinivasan said that we will spend close to that but the kind of capitalization will be in the range of about 70 crores to 80 crores and the balance could be in the capital work in progress.

As far as the debt-to-equity ratio on a standalone basis the debt-to-equity ratio decreased from 0.11 as of September 2015 to 0.12 as of December 2015. The total debt on a standalone basis increased from 97 crores to 117 crores as of December 2015. On a consolidated basis the debt-to-equity decreased from 0.3 as of September 2015 to 0.31 as of December 2015. The total debt on a consolidated basis is at 351 crores, this is both short and long put together without setting off the cash that we have as of December 2015. So this the by and large the loan position that we have and as far as the exchange impact we normally have is standard policy of hedging the net exposure, so that continues.

So if you look at the Forex and how it had played a role, translation gain in consolidated sales sequentially is about 6 crores, translation loss in consolidated sales quarter-on-quarter basis is about 30 crores, translation loss in consolidated sales on YTD basis is about 165 crores. Forex gain for this quarter is about 4 crores, Forex gain for the year is about 20 crores. So as far as the relocation of assets, I think all that relocations are underway the cost is under control, we are very much working on in terms of executing these relocation projects.

So just to summarize that, I think we have taken all the restructuring that was needed last year and necessary cost were considered and the stoppage of losses helps our results at this point in time, physical movement is happening as we speak. We feel another 12 months from now that these capacities will come in. We are pleased with the continued better performance of Abrasive business in India as well as the rest of the business. We continued to have a lower debt and a better balance sheet strength and as the market uptick happens we will be in a better position to make use of it.

So with that, thanks a lot for participating and looking forward to your questions.

**Moderator:** Thank you very much, sir. Ladies and gentlemen, we will now begin the question and answer session. First question is from the line of Madan Gopal from Sundaram Mutual Fund. Please go ahead.

**Madan Gopal:** First on the standalone sir, it is really encouraging to see the Abrasives business sort of growing. The only other player we can look at in the market has not shown such sort of growth and this has come with higher margin as well. So if you can explain, like you said you gained some market share if you can explain a little more it will be helpful.

**K. Srinivasan:** Yes, I think we had lost a bit of market share and I think some of you had been following us in the last couple of quarters, you will realize that we had a bit of blip we did lose some market share with our relocating of our thin wheel business to Uttaranchal and other things that has been done. We are getting back to market share that and once we do that both the top-line as well as the margins are both improving.

**Madan Gopal:** And this has come back from the international players, primarily like Bosch?

**K. Srinivasan:** We got the market share actually not from the companies that you are mentioning, it is from the other smaller players who had come in to the market and a large part of these players actually depend on imports. So they are not Made in India product, they are Packed in India product so to that extent I think the disadvantage as the rupee depreciate plus our quality has come back our pricing is more aggressive and we are taking volumes.

**Madan Gopal:** Okay. And this has happened despite margins have remained at entry level so fairly when the pricing, you have given on pricing but you have gained on the volume the overall leverage.

**K. Srinivasan:** We have not discounted heavily on any prices, we have newer range of products which can take on the entry businesses and the people who are importing and selling. And the operating price in the market also is literally stable and in fact getting better because the rupee has also depreciated by about 6% in the last one year so that is also in a way ensuring that the rupee price and the market is not falling too much.

**Madan Gopal:** Great. The standalone Electro-minerals is continuing to see good growth if you can tell us what is contributing towards that?

**K. Srinivasan:** See largely we were three product company White, Brown, Silicon Carbide, increasingly we are becoming a multi-product company in the Electro-mineral, the specialties as we call it Semi-friables, Solgel, Alumina Zirconia these are all hugely value added product, there are variance of these - three basic standard product and these volumes are picking up and we are getting more and more into these specialties and that allows us to not only get growth but also to get profitable growth.

**Madan Gopal:** And you have a sort of a good visibility of this continuing?

**K. Srinivasan:** This will continue because like I said in most of our businesses we are extremely competitively positioned, if you look at the Alumina Zirconia in terms of value chain integration we will make the Zirconia bubble at the moment we will have some bubble from South Africa we are using it now and later we will make it ourselves in Cochin and so it allows us to convert it and we have our own Alumina, we have our Zirconia, then we make Alumina Zirconia it is a value added product, so we will be extremely competitive in all these new businesses that we are putting together. The capacities like Sridhar mentioned are getting up step-by-step, the first part that we have shift from TRI will start fusing probably by June then we will have more Semi-friables coming, hopefully by September the bubble plant will start blowing bubbles. So every quarter you see improvement both in the availability of the specialties as well as the market that we take with it.

**Madan Gopal:** Great. Just last question Electro-minerals international you had a good quarter last year and last quarter sequentially I am referring to but this quarter it has come off in terms of margins what has contributed to this if you can highlight?

**K. Srinivasan:** Yes, I think Sridhar explained it, it is largely the Volzhsky thing. I will ask Sridhar to give you more details on this.

**Sridharan Rangarajan:** Actually if you look at the last call also, we said that the margin cannot be maintained at 22% it will come down, so it is in line with that it is coming normally the Q3 for us which is a Q4 for VAW that will have a lower volume, lower quarter et cetera and that is the result of it, so that is a broad reason for it.

**Madan Gopal:** But sequentially your revenues have been not so different.

**Sridharan Rangarajan:** There is an exchange gain which has happened in Q2 is not happening in Q3 it is translation of the re-statement of the receivables and payables so that with the Rouble moment is not that bad compare to the Q2 to Q3, so you will not be gaining that. So that is largely about close to about 7-8 crores of that difference is coming out of that.

**Moderator:** Thank you. Next question is from the line of Balchandra Shinde from Centrum Broking. Please go ahead.

**Balchandra Shinde:** Sir, regarding Volzhsky I would like to know what was the volume growth and have we seen any change in the sales mix like exports and are the sanctions been removed on the material?

**K. Srinivasan:** Yes, last question first, there is no sanctions on Silicon Carbide into Europe, there is however an import duty which has been there now for almost a year and half, it is roughly about 3.52%, it looks small but it is not something that we would like to have, so there is import duty that is out there. Volumes actually have grown, I mean we are continuing to fuse and sell around last year with record sales 78,400 tonnes for the calendar year 2015 which is the highest ever in Volzhsky. So we are fusing flat out, we are fusing as much as we can and it is about 6% higher in the previous year so fusion wise flat out. Product mix still not as favorable as it used to when we had the boom in photovoltaic because then we had something like 60% crystalline, it is nowhere near that level. But we are increasingly fighting back we are not selling everything into the metallurgical we are converting more into value added refractory grains and other specialties, it is a slow growth because this is completely new market for Volzhsky to do and all of it is being sold into Europe. It is an advantage like Shridhar mentioned we are having a significant Rouble growth partly because of price increase and also because of product mix. So I would say product mix getting favorable not the best that we would like it to be, volumes flat out 6% higher than the corresponding then 2014, I am talking in terms of calendar year and overall looking very good extremely competitive, simply because of the fact that the Rouble has depreciated and the global market is surplus on Silicon Carbide so many are not fusing. But we are still running flat out because we are extremely competitive.

**Balchandra Shinde:** Okay. And sir, about the power cost which as on standalone and even on consol level, as a percentage of sales has comparatively improved from 10.5% to around 8.4%. Any specific reason of improvement and will we be able to sustain the power cost at those levels?

**Sridharan Rangarajan:** See this power and fuel consist of both fuel which is oil, as well as the normal power so, it is largely a reflection of the oil price going down and corresponding benefit that we are getting, more towards that rather than the actual power cost itself. So we should see that we are at about on an average about Rs.38 per liter to Rs.39 per liter compared to Rs.52 per liter to Rs.54 per liter last same period at comparable period. So it depends on how this is going to further drop so that is how the power and fuel will start reflecting on it. Other than that I think, we have a similar performance from Maniyar compared to the last year so by and large it is a reflection of the fuel rather than the power.

**Balchandra Shinde:** Okay. And sir, about the bubble Zirconia facility which we were planning to shift it to India and start the production, are we on track by when we expect to start the production of bubble Zirconia?

**K. Srinivasan:** Yes, a quick word on that, I think decommissioning is over, everything is being removed containerized, moved, most of the containers already move to Cochin they are all at site, the site has been cleared, it is in SEZ zone within our current complex it is our own SEZ, four large flatbeds which are supersized containers which cannot be put on normal shifts they are coming through. We have to do some road clearance et cetera to get it into a site that work is going on hopefully, we should have it inside our factory before March then starts commissioning work. We are at the moment in line to commission it commercial by September. I would like to take a month or so but so far things are looking pretty good and we hope to start the production by the last quarter of calendar year mean third quarter of this year.

**Moderator:** Thank you. We have next question is from the line of Utkarsh Maheshwari from Reliance General Insurance. Please go ahead.

**Utkarsh Maheshwari:** I just want to understand this time I believe you not commented on the guidance for the full year something if you can just throw up some light on that?

**K. Srinivasan:** I do not think we ever give guidance; we generally give….

**Utkarsh Maheshwari:** No, sir as a range kind of thing what you share.

**K. Srinivasan:** Sridhar.

**Sridharan Rangarajan:** Yes, I think we still maintain whatever we said in the last call there is no big difference to that roughly about 2,100 crores top-line is what we are looking at.

**Utkarsh Maheshwari:** At the margin levels I think you have given a range.

**Sridharan Rangarajan:** Margin I think all the same range holds good, it is we still feel 10 to 11 in Abrasives 14 to 16 in Ceramics around 16 to 18 in EMD are on the same range.

**Utkarsh Maheshwari:** Yes. And probably one more thing, if you can just throw up on some light, I mean what should be the capacity utilization at this juncture I mean across facility, across segments if you can share out?

**Sridharan Rangarajan:** See the capacity utilization varies some packets we are as high as about 85% to 95%.

**Utkarsh Maheshwari:** You are that much in the Russia portion.

**Sridharan Rangarajan:** Even in India in some of the business. In some area however we are in the range of about 60% to 70% so broadly it is in and around that range.

**Utkarsh Maheshwari:** Okay. One more thing I mean just want to understand there has been a little bit increase in drop in the gross margins this time in this Q3 as such.

**Sridharan Rangarajan:** In the consolidated or standalone?

**Utkarsh Maheshwari:** Consolidated, so it is more because of the translation impact or something some other cost from levers actually moved it?

**Sridharan Rangarajan:** See if you look at the consolidated operating results, before exchange gain, etc., we are at about 10.8% move to 9.9% that is largely as I said that there is a slight increase in cost happening in all the location but for that I think we are very much in line and also the product mix change. If you go down below that then you have a exchange gain or loss which is lower compare to the last quarter so that is not a comparable one, but operation wise pretty much in line and there is no big difference.

**Utkarsh Maheshwari:** So probably the current range of EBITDA what is reported for this nine months may be like sustainable number going forward if the utilization at these level probably the gain can happen when the utilization is rising,

**Sridharan Rangarajan:** Yes, it is absolutely correct.

**Moderator:** Thank you. Next question is from the line of Ajay Nandanwar from Hornbill Capital Advisors. Please go ahead.

**Ajay Nandanwar:** Just wanted to ask a couple of questions on Volzhsky since you are doing flat-out in volumes are there any capacity additions for greater growth?

**Sridharan Rangarajan:** Ajay you are talking about Volzhsky running out on flat is that your question?

**K. Srinivasan:** Capacity addition in Volzhsky I think. See what we basically are doing is we are improving some capacity available on the refractory part of the business. We are refocusing on the Abrasives side a little more with conversion of coated Abrasives and thin wheels so to that extent yes, there will be new products lines that are being added. On the fusion itself there is a very little room to actually put a new furnaces in the same side but we will take an incremental growth we are commissioning one more line which should give us another probably 6,000 tonnes to 8,000 tonnes and that will come actually party during 2016 calendar year and partly in 2017 so really it is not going to be anything significant in terms of capacity additions.

**Ajay Nandanwar:** So then Volzhsky revenues were more or less flatten out at price levels?

**K. Srinivasan:** We expect Rouble terms growth because of one favorable product mix and as well as 4,000 tonnes to 5,000 tonnes extra material, like I mentioned on the Silicon Carbide side but of course on the refractory and Abrasives getting to utilize the plant in a much better way with all these conversion and value added facilities. So there will be growth, we are planning a Rouble growth, we did about 4.2 billion Rouble last calendar year we are planning that material growth of more than 15% for the next year is in Rouble terms.

**Ajay Nandanwar:** Okay. And on the incremental side you motioned that there is raising share specialty in Electro-mineral products that we are creating. So wanted to know the market size for such products current players in that business and what kind of scale could we achieve in respect for us?

**K. Srinivasan:** Specialties is a very wide range of product, there is no one to one comparison on the size of the company that are in this space. To give you an idea globally three are people like Imerys Washington Mills, 3M and Saint Gobain, so all of them are multibillion dollar in this area. So there is a huge opportunity out there and from the names that I mentioned you realize that most of them are in high economies and in mature markets opportunity to scale up and grow for us is significant. Yes, we gave a comparison that it is very large market all of them are multibillion dollar companies, you heard the names that I have mentioned-

**Ajay Nandanwar:** Washington Mills there is the last thing that I heard.

**K. Srinivasan:** Yes, Washington Mills, Saint Gobain, 3M, some of these names and there are others as well. So all of them are mature markets, all are multibillion dollar in this so there is a huge market out there. The Mineral business –to meet this market size because it is a very changing ever growing market, it could be anywhere between $15 billion to $20 billion so it is a huge market out there.

**Ajay Nandanwar:** Okay. And overall for the company do you have a corporate plan in terms of broadly doubling revenue profits over the x numbers of years or something like that overall vision for the company over the next four years - five years something that you could share?

**K. Srinivasan:** Yes, see there was in a couple of years back we had our vision 2020 statement which we had put out saying that we would like to continue to grow and be a respected company in the technical abrasives ceramics space and to try and achieve scale, we said at 2020 we should look at being a billion dollar plus size company. It will have significant growth for five years to six years. The last two years to three years were periods of consolidation, periods of very slow growth. We have been revisiting our vision saying that what would be the realistic number that that we are going to look at but the overall vision or direction which we want to travel still remains strongly the same to be a valued technical ceramic company and we are really working to do this.

**Ajay Nandanwar:** Sir, may I request you to give a sense of what could be the numbers in the current economic position

**Sridharan Rangarajan:** We do not have the number at this stage Ajay, I think Mr. Srinivasan broadly explained the direction at which we are working on it.

**Moderator:** Thank you. Next question is from the line of Bharat Sheth from Quest Investments. Please go ahead.

**Bharat Sheth:** Sir, I mean earlier we were saying that this year is an improvement in profitability and next year would be consolidation and some growth but some dip in the profitability and then from FY18 we were looking much better and since we are bringing a lot of I mean new product in specialty on EMD as well as Ceramic. So just can you run through again where do see this from this stage I mean now for next two years - three years onward?

**K. Srinivasan:** You have already seen that the profitability is improving already quarter-on-quarter we have gone through a period of flat sales and this is not just because of the relocation of plant but also some of all the markets were not really doing well. I mean the domestic market which represent (+70%) of our Abrasives 25% to 30% of our Mineral business and almost half of our Ceramics business is not doing as well as it should. So really we must look at these numbers in terms of top-line growth in a market environment which is not very conducive at this stage for any great growth. The top-line of most mineral companies have actually significant declined due to a fall in the mineral prices. So in that context if you look at our numbers Sridhar mentioned we will try and do something like 2,100 crores and that is not going to be a very bad number to look at in this context because this is happening primarily because a lot of good things has come in, individual business are hugely competitive even in this current environment and our business per se are extremely competitive and we are able to run plans reasonably well in the mineral business. Going forward like I said as the advantage of scale and as the advantage of new businesses and the relocation kicks-in, you will see not only top-line growth but also continuing improvement in profitability. We did give some broad number saying that we have invested and what we are investing during this year alone should take us through about 3,000 crores. Now how soon we get there depends really on a lot of external things as well that is why we do not want to put out a number. We have our roadmap and we are working on multiple things, but we are reasonably confident that we have the product bandwidth and the investments lined up to get us to about this number as soon as the market helps as well.

**Bharat Sheth:** Sir, can you run through how do we see the Ceramics business which particularly goes through many energy company energy product or mineral producing or metal producing company where the prices are down so, how do we see really for ceramics what will drive our Ceramics business?

**K. Srinivasan:** See the Ceramics business for us is at the moment only about 10% to 12% our total consolidation it is not a very big deal but it is a very important profitable piece, I am talking about the industrial Ceramics part alone not the refractoriness included. The industrial Ceramics like you know is two parts the Wear Ceramic this is what is impacted by lower coal prices, mineral prices, etc., and no projects as well no power plants no new things happening. At the same time the Engineered Ceramics is one of the fastest growing activity today for the company. Anything that is new that is coming up uses significant amount of Ceramic and composites. So to give you an example the new electric car that is being put out in America has got a part called the High Voltage DC Switches which has got a IC product in it , the Industrial Ceramic product in which is a metalized part so significant of new technology businesses would have Ceramic in it. So that is our growth area that is an important it takes some time to establish but it is a good product line to be in. So increasingly this business would also have to focus more on the Engineered Ceramic rather than just the Wear Ceramic this is what we are doing now.

**Bharat Sheth:** And sir, on this EMD as you have said that in India, I mean domestically we have now a lot of more product then what earlier we were, I mean so that may be also it is reflected for VAW also or VAW purely do…

**K. Srinivasan:** VAW will only do Silicon Carbide product but within Silicon Carbide they are trying to get into more value added products. They do not want to stay into a pure vanilla either crystalline or metallurgical they are trying to make in the crystalline itself other ranges which will work specifically for refractory and other applications, this is largely to de-risk the business.

**Bharat Sheth:** So how do you see I mean there also we see some room for improvement in profitability?

**K. Srinivasan:** Profitability in Volzhsky is already pretty high, we have to improve to get our volumes up there and we will have to improve to see that our product mix becomes more favorable.

**Bharat Sheth:** And domestic I mean anything some earlier you were seeing some brighter side of the solar?

**K. Srinivasan:** Solar overall situation in terms of panel has improved, wafering is not happening outside of China and some Asian countries, no wafering in India and very little wafering in Europe. The Silicon Carbide sale in this business is still very small and it has marginally pick-up compared to the earlier numbers.

**Bharat Sheth:** Are you hopeful of it coming in next two years - three years that should again will be back?

**K. Srinivasan:** We are not putting too much of our effort into that, we are focusing on other things.

**Bharat Sheth:** Okay. And on sir, EMD side also we were working on a product which is related to this emission norms, so how do we see that -which a lot of diesel vehicle are facing?

**K. Srinivasan:** We have what is called as a diesel particulate filter product that is not getting established, our volumes are gradually picking up. I do not want to talk about the volumes and with whom we are working but that is gradually picking-up.

**Moderator:** Thank you. Next question is from the line of Bhoomika Nair from IDFC Securities. Please go ahead.

**Bhoomika Nair:** Sir, my first question is on Abrasives, you gained back your market share out there and that is obviously driving good volume growth as well as margin expansion now what is the thought process going forward in terms of how if you could just give some color on how market is actually behaving in terms of growth, is there more scope of gaining further market share?

**K. Srinivasan:** We hope to gain more market share. The elements that go to win market share are all in place and we should continue to grow market share. We hope to grow along with the market. The market per se is not growing anything remarkably. Most of what we had talked of good things' to happen are still yet to happen, so really this is in a fairly anaemic market condition and we do not expect any magic to happen really. So it is going to be this way for a couple of quarters at least. But we will continue to improve market share as well as the margin along with that.

**Bhoomika Nair:** And that would be as you have saying in the past from the unorganized smaller players?

**K. Srinivasan:** Yes, as you start doing it you will also get to the others as well, yes.

**Bhoomika Nair:** Okay. Sir, in EMD obviously VAW you spoke about that favorable product mix is what is going to drive growth in VAW from here on. So if you could just delve a little deeper give us some flavor in terms of what are the end users and how will you be able to get a much more favorable product mix in terms of penetration et cetera?

**K. Srinivasan:** Yes, for Silicon carbide, the single largest end users whom we are targeting is refractories. Refractory is again in two parts the refractory that we made in Russia predominately going against steel and aluminum industry. In spite of a depressed market Russia still produce about 40 million tonnes plus of steel and a very significant player in aluminum they are probably the second largest in world. So they still consume a lot of refractories and for them buying locally in Rouble is a huge advantage so, that is the market for which we are targeting products and for us it is a value add product rather than selling metallurgical. We also try and make refractories for the Europe industry again they are dependent largely on other suppliers and for us that is again a very profitable business. Product mix largely it is looking at the refractory industry.

Then the Abrasives, like I said, it is targeted to local Russian market. For refractory business alone for the refractory that we produce ourselves, we have more conversion being set up in refractory, our own refractory is what we make in Volzhsky again we are adding some balancing capacity to make special refractories for the aluminum industries so all this would mean value-added products for the Russian and the European market.

**Bhoomika Nair:** Okay, fair enough. Sir, in domestic EMD obviously can you please through some light on the relocation bit that it should be largely operational in by 2Q or 3Q in that sense. Once these plants are relocated and we start off production, till this time scale up in terms of utilization, would we initially see some dip in margins in the standalone EMD because of that?

**K. Srinivasan:** See, I will answer in two parts - the commissioning is not going to happen in one go, we are going to commission one pot somewhere between June that is going to be on semi-friable - this came from Thukela refractory, we are going to commission another pot somewhere by August September again that came out of Thukela then we will have the bubble commissioning after September / October so they are going to happen in phases. And like you said as you start commissioning you will have initially sales but the margins are not going to be big because there is going to be some scaling in et cetera.

But we are reasonably confident that we will be able to get it running and get it to commercial production faster than what we could have done before because one we are running plants there and second we know so how exactly we have to get it run. The market is being already serviced in most of these businesses at our existing capacities so to that extent we know the market. There also some internal consumption, Hopefully we should be okay,

**Bhoomika Nair:** Okay. So basically we are not really introducing a new product by this relocation on the plant, it is just about expansion of the current product categories and that will help drive our volumes as well as profitability?

**K. Srinivasan:** Right, except the bubble, we are going to sell volumes, bubble we did make in South Africa and sell for sometime but here we are talking about completely different scale we are talking of something like 500 tonnes a month which we never did in South Africa so, that is a new product in terms of that kind of volume.

**Bhoomika Nair:** And that will be sold within India or will we be actually looking to export?

**K. Srinivasan:** It will be consumed in our own internal conversion to Alumina Zirconia and more than 2/3rd being exported.

**Bhoomika Nair:** Okay. And there is enough market and we are actually already in talks with a lot of…

**K. Srinivasan:** Yes, we had supplies from South Africa and our products are being qualified with most of these customer they would expect us to re-establish because it is new location, etc., but hopefully that period should be much shorter then what it has been otherwise.

**Moderator:** Thank you. We have next question is from the line of Kashyap Pujara from Axis Capital. Please go ahead.

**Kashyap Pujara:** I just missed the initial part because I joined in late so, apologies if my question might sound repetitive. Firstly, could you just articulate on the VAW margins because one is about product mix which you mentioned but my understanding was that you could still price up the product for what it is considering that you would have seen a good amount of Rouble depreciation making the product more competitive then what your competitors are at. So do you have room to actually price up the product on a like-to-like basis which would end up giving you growth going ahead in profitability?

**K. Srinivasan:** Kashyap, in Rouble what we sell we are putting up Rouble price as you know the inflation in Russia is running at about, they talk of 11 it is almost about 15%, so Ruble prices we will correct it, we are correcting, we will continue to correct till it is stabilizes that is there so that will but you must also take it that it is not going to grow on the margin because the Rouble power cost, the Rouble pet coke cost all of them are also suffering inflation. So in Rouble terms it would at least allow us to somewhat improve on the margin but it not going to be hugely different. But the Euro and Dollars export to deliver better margin but there is price pressure on both the Euro and Dollars export so, it is going to be a combination of a lot of plus and minus.

**Kashyap Pujara:** Okay. So not essentially that if you convert it to the Euro considering that Rouble has depreciated you end up becoming more competitive than other when you have room to increase prices?

**K. Srinivasan:** We are more competitive than others but we have to see like to give you an idea is we are talking of everybody running at less than 50% capacity utilization, China running at 35% capacity utilization, Silicon Carbide capacity is huge and it is un-used so we are running our plant flat so, we will have to adjust prices

**Kashyap Pujara:** Fair enough. Lastly, just to get a sense on growth like while we understand that this year is more a margin reset because of inefficiencies getting evened out due to plant shifting, etc., but going ahead I mean are you seeing any pockets of growth in the Indian economy where we can actually look at double-digit growth on the core business?

**K. Srinivasan:** Difficult to say anything on the Indian economy, I think overall I think we must accept that as it happens we will take it, at the moment there are no big bright spots, we are not seeing anything if you look all the metal prices all the metal businesses they are all stressed they are big consumers, all the Capex coming into power projects are stressed, and all the Capex coming into other general business. There is no great bright spot at this moment to talk about.

**Kashyap Pujara:** Yes. But I was just implying more that auto is seemingly doing fine so far and you do see some green shoots at least from the highway also from the railway. Do you see any of these aspects actually contributing to more growth and if you can look forward to?

**K. Srinivasan:** I hope so, that is all, at the moment we do not see anything.

**Kashyap Pujara:** Fair enough. And last question is at post this relocation and assuming that the commissioning sales and it is intermittent dip in margins, etc., once that is behind us. What is the sense of, what are we looking at in terms of sustainable margin from segments if you could just,

**K. Srinivasan:** I will leave it to you Sridhar.

**Sridharan Rangarajan:** See by in large a lot of work needs to happen. Currently I would say Abrasives we are in the range of 10 to 11, Ceramics 14 to 15, EMD about 16 to 17. Now, I think the EMD would continue to be in this range until stabilization happens so Ceramics would also be in the range of kind of in that range probably more towards going to the upper limit. Abrasives would also be similar in the range of about 10% to 11% in the next two years. So as the capacity starts happening and the utilization starts picking-up we should see at least these margins going up probably we should look at it something like 17 - 18 these number should start going up. But we do not have a particular number to that at this point.

**Kashyap Pujara:** Yes. Because from a perspective of raw material prices most of the raw material side of the cycle has been a bit deflationary and we do have some amount of pricing power to that extent in Abrasives and other segments because the products are more consumable driven and yes, the utilization level is not full so the structurally the profit pie is intact so, going forward I am just trying to understand is that the margin inflation will typically happen with more of utilization that is about it and that is based on economic growth.

**K. Srinivasan:** Absolutely.

**Moderator:** Thank you. As there are no further questions from the participants, I would now like to hand the floor over to the management for their closing remarks. Over to you, Sir!

**K. Srinivasan:** Yes, okay, I think the clear visibility is we are on the mend, we are getting better top-line, will start growing and bottom-line is growing probably faster like I said. Top-line growth is going to dependent on two things – one is the external environment which we have marginal control or less control and the internal things in terms of changing product mix getting, the new products in place. I think we are working very hard on the second first and hopefully as the market picks-up you will see a faster growth on the top-line. Key commitments have already been made so, to get to 3,000 crores we know what we have to do. How soon we get there and how profitable it is when we get there is going to be something that we are working on. But otherwise, we are reasonably pleased with what has happened so far and we are looking forward to a good quarter in Q4.

**Moderator:** Thank you very much, sir. Ladies and gentlemen, on behalf of Kotak Securities, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.