



“Carborundum Universal Limited Q3 FY19 Results Conference Call”

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CARBORUNDUM UNIVERSAL MANAGEMENT:

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Moderator: Good morning, ladies and gentlemen. Welcome to the Carborundum Universal Limited Q3 FY'19 Earnings Conference Call hosted by IDFC Securities Limited. As a reminder, all participants' 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 Ms. Bhoomika Nair from IDFC Securities. Thank you and over to you, ma'am.

Bhoomika Nair: Good morning, everyone. On behalf of IDFC Securities, I would like to welcome you to the Carborundum Universal's Q3 FY'19 Earnings Call. The management today has been represented by Mr. K. Srinivasan -- Managing Director; Mr. Jagannathan Chakravarthi -- CFO and Mr. G. Chandramouli -- Senior GM, Strategy. I now hand over the call to Mr. K. Srinivasan for his initial remarks post which we will open up the floor for Q&A. Over to you sir.

K. Srinivasan: Thank you, Bhoomika and good morning to all of you. Let me start by Wishing You All A Great 2019. We have started the year as well as Carborundum goes with a good top line growth as you are all aware Q3 generally is 2.5-months quarter for most parts of the world and consequently or traditionally I will say Q3 is always low on the top line growth, but we had a good quarter in terms of top line. The margins have continued to be on pressure though we have had certain amount of advantage from the operating leverage.

I will explain business wise a little later, but let me run the overall number:

Consolidated sales at Rs.683 crores was 14% higher than the corresponding quarter last year, and it also grew sequential. This is important. Generally, our sales always follows Z-curve, but this time we also had a sequential growth of 5%. We delivered Rs.58 crores PAT which is subpar by our own measure, but I will explain why it is and how it will come back in Q4 a little later compared to Rs.54 crores corresponding period last year and Rs.65 crores of the second quarter of this year. The PAT grew by 7% compared to the same quarter last year. If you look at YTD sales at Rs.1960 crores was 16% higher than last year and we are tracking well to get to the target that we have been setting for ourselves.

In terms of the breakthroughs at the consolidated level, Q3 sales is Rs.299 crores, which is 11% higher than the corresponding period last year and sequentially also the 6% higher. Tracking overall YTD we are 13% higher and we should do better in Q4. Growth led by strong performance in CUMI standalone; Rs.247 crores was 10% higher than the corresponding period last year and 7% higher than Q2. So overall, we are 12% higher for YTD at Rs.690 crores. Growth is entirely driven by volumes I would say because whatever we could gain in terms of price increase has always been negated by certain level of product exchange. Volzhky also delivered 13% growth in the Abrasive business in Q3.

If I look at EMD, consolidated sales Q3 was higher at Rs.264 crores compared to the Rs.228 crores, which is a 16% growth and was also higher by 7% compared to the Q2 number. Nine months period growth is tracking at 16%. Standalone sales for the quarter at Rs.121 crores was 13% higher and 8% better than the sequential quarter. We did do price increase, but we have to be careful because there

were two significant global transactions in this space which did disturb the market and we would see how this plays out in Q4. Volzhsky continued its growth momentum with 17% growth in the quarter compared to the last year in ruble terms and they had price increases as well. So overall, they had a nine month growth of 15% in ruble terms and in INR they grew by 13% on quarter-on-quarter and 12% sequentially.

Ceramics consolidated level sales are strong at Rs.149 crores compared to Rs.122 crores, compared to the corresponding period last year the growth was 22% and YTD we are tracking at 24%. Out of the two, industrial ceramic seems to be doing even better though they had to contend with the 2.5-months quarter because most of their sales like is all in exports.

The Refractories business also continue to do well. Australia had 16% growth which is very good compared to again of Q3 sales.

We did CAPEX of about Rs.20 crores in Q3 and consolidated CAPEX overall for the first nine months is being at about Rs.71 crores. We probably will end the year at about Rs.120 crores.

Overall, I would say, it was a scrappy quarter in terms of strong top line growth, but margins were not as we would have liked it to be, but we expect that things are in place and we should end the year in a fairly strong note.

I would like now Jagan to take you through the financials before we take questions. Thank you.

Jagannathan C.:

Good morning all. This is Jagan here. I will update the current quarter financials now. At consolidated level, we registered a sale growth of Rs.83 crores with PBT growth of Rs.2 crores. The entire PBT growth of Rs.2 crores come by way of higher volumes. Now on the standalone basis standalone PBT for the current quarter was Rs.53 crores, Q2 was also 53 crores. JVs and associate profits were higher by 1 crore. The subsidiary PBT was lower by Rs.5 crores owing to losses in Foskor Zirconia and SEDCO. Sequentially, consolidated sales grew by Rs.32 crores which translate to 5% on sequential basis; however, PBT dropped by Rs.7 crores mainly due to Maniyar, SEDCO and continued loss in Foskor. Maniyar is being put back to operation in phase manner. We will be able to complete it in Q4 before the peak monsoon session in Q1 of next year.

YTD numbers: On YTD base at consolidated level we registered net sale gain of Rs.268 crores, which is about 16% upside and PBT gain of Rs.4 crores. The entire gain came by way of volume increase. Standalone PBT is up to Rs.48 crores. The JVs & associates registered an increase in profit by Rs.7 crores.

Let us now take an update on segments. Abrasives: PBIT margin decreased by 13.4% in Q2 to 12.9% in current quarter. The margins have come down due to lower contribution in standalone business. The margins were also lower compared to last year Q3 where we 13.5%. Continuous increase in cost of raw material coupled with dollar strengthening led to this.

Electro Minerals: Consolidated PBIT margins of Electro Minerals division is 10.6% against 14.8% of last year, drop in PBIT of Rs.6 crores was due to Foskor Zirconia. Indian business did have marginal

growth in PBT despite Maniyar shutdown. Sequentially that trend mirror is the same as quarter-on-quarter also. On year to-date basis the profits were lower by Rs.8 crores due to lower profit by Foskor Zirconia at Rs.13 crores offset by gain from CUMI India and walk to the extent of Rs.5 crores.

Ceramics: PBIT margin of Ceramics are at 18.6% compared to 16.6% in Q3 last year, 18.9% in Q2 of current year. Industrial Ceramics had a good quarter on the back of better volume. Refractories business profitability improved significantly on the back of significant pick up in the volumes on higher project orders.

Now to update the debt-equity ratio. The company's debt-equity ratio was 0.001% as on December 31, 2018. There is no change in the ratio compared to last quarter. The total debt outstanding at the consolidated level is Rs.99 crores with long-term loan of Rs.11 crores and short-term loan of Rs.88 crores. There is no major movement in the loan books compared to last quarter.

The other update is on the board meeting held on February 1st, 2019 the board declared a dividend of Rs.1.5 per share.

With this I conclude my financial update. Handing over back for the questions.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Bhalchandra Shinde from Anand Rathi Securities. Please go ahead.

Bhalchandra Shinde: Sir, regarding Ceramics, we have shown a strong growth. Is it largely because of the Australian demand improving or any specific reason where we are seeing really a good demand improvement?

K. Srinivasan: The biggest growth has actually come from the ceramic and the metalized cylinder. So I think they are all scaling up rather well and you would see a continuing growth in Q4 because like I mentioned also these are exports and we would have a longer period of sale during Q4.

Bhalchandra Shinde: So in metalized cylinder, actually where we actually showing the good demand growth because I think we have been really showing a strong growth in metalized cylinder for the last two years?

K. Srinivasan: Like we explained earlier, metalized cylinder is the housing in which the vacuum circuit breakup bottle is built. It is used by all switchgear manufacturers. The big people in the world who do it are ABB, Areva, Siemens, Eaton, Schneider, Tarvida, LG, everybody who make switchgear uses them. We are the second largest manufacturer of this in the world and we will continue to grow on this.

Bhalchandra Shinde: So, this is again export demand on which we are catering largely or domestic demand is improving in that?

K. Srinivasan: Significant part of it is export, but there are also domestic manufacturers who also buy from us.

Bhalchandra Shinde: Regarding Electro Minerals, as you said that the margins actually deteriorated, any specific reason, was it really only related to Foskor Zirconia or some higher power cost or some higher commodity cost?

K. Srinivasan: I will touch Electro numbers in a largely general way so that it answers questions that most of you may have. First is on a standalone basis, the power cost for the quarter was Rs.6 a unit compared to Rs.5.5 that we had in the previous quarter, so there was clearly almost 8% to 9% increase in energy cost and like you know energy is almost 35% to 40% of our cost. That was the big impact. The second that also made a difference and Jagan did just mention about it is our ability to continuously pass on the input cost increase to the market. It is an ongoing battle, but I think you will see some of the price increases catching up on cost increase in Q4. As far as the international business is concerned, we have two things -- Volzhsky is tracking well they did good tonnage, they also had better profit compared to Q3 of last year, but on a sequential basis they are at lower because generally the power cost tends to fall in Q4, because they also sell steel, but this time after many years we have had record power cost; we have gone to RUB2.74 to a unit which is the highest ever that we have paid. So, consequently, we did lose out a little bit on Volzhsky profits that would have otherwise been higher. But overall they are still doing much better than Q3 of last year. Foskor Zirconia in terms of the delta has changed between Q3 last year is significant. We continue to make a loss, though it is less loss than the Q2 numbers. We expect Q4 that we should be near breakeven. In Foskor it is a complex issue. Our new product Z450 has taken significantly longer time to find acceptance in market. Consequently, we are battling with the older products, we are still supporting the newer products, so, we have been battling for three quarters just trying to get the new market in the market. I hope Q4 would be one way or the other determining where we would go as far as Foskor Zirconia is concerned. We should either be able to turn around or we will take a call on it. So that broadly answers the questions on Electro Mineral. I will just add a few points more on the Electro Mineral side. There were also significant developments in the global industry as far as Electro Mineral is concerned and it would be out of place for me to mention names, but there were two major transactions and two major changes in the Electro Mineral space that happened in Q3 and consequently the market itself was hugely disturbed. We expect this to settle down and we should see more of normalizing of things by Q4 and I am quite hopeful that we will come back strongly both in margin and continue to grow in the top line sales. The good news and all this has been that the demand is still very-very strong, we have still had a strong top line growth, and it is only getting better hopefully in Q4.

Bhalchandra Shinde: Sir, as you mentioned in Foskor Zirconia, you probably will take a call after performance. So if we are thinking about relocating, which products exactly we will be able to relocate?

K. Srinivasan: If we relocate, we will locate everything. We will have to decide on which geographies we relocate, because we have choices. There are advantages of power in Russia, we have so many things. So it is too early and it will be very speculative for me to say what we will do at this stage.

Jagannathan C.: We have not taken a decision yet. We are reviewing it. We will see the performance and what is improvement that can be done to protect the business and then we will take a final call.

Bhalchandra Shinde: Regarding the Abrasives, the overall we had moderate growth. So I think it is mostly related to the products and activities. So are we seeing any revival on the demand front or we will continue this kind of growth only?

- K. Srinivasan:** Abrasives actually have a good quarter because you must remember that Q3 historically is always being soft and we will do very well, top lines are growing, margins have been continuing to be under pressure. I think Q4 you will see a big change.
- Bhalchandra Shinde:** Is it the margin pressure largely because of the sales mix or it is because of the competitive pressure?
- K. Srinivasan:** Both, I would really say the domestic market is still very strongly competitive pressures, we still have not seen GST settling down, so at the trade level, the competitive pressures are still pretty high.
- Bhalchandra Shinde:** Sir, regarding our plans on Graphene and other products which we were trying to introduce, where we are on the status front?
- K. Srinivasan:** Several new let us say IP-driven businesses are in commercialization. The Graphene plant has been putting out trial productions for testing. We will start seeing commercial production by end of Q1 of next year and it will scale up slowly. These are products where it is application-driven. I think we will go periods of growth and hopefully we should see something happening next year.
- Moderator:** Thank you. The next question is from the line of Rajesh Kothari from AlfAccurate Advisors. Please go ahead.
- Rajesh Kothari::** Sir, with little bit muted third quarter in terms of the net profit, how do you see overall guidance for FY'19 – do you think you will still be able to achieve the FY'19 original estimates?
- K. Srinivasan:** I believe we still have a good chance to do the estimates that we gave. Underpinning the results of Q3, we would like to put out couple of reasons which may probably give you the reason why we still think Q4 be good -- One is there was at least Rs.4 crores lower profit coming out of foreign exchange restatement of open position as far as export is concerned. There is also lower income coming out of sequencing of dividend. So I think there are chances or I would say there are good possibilities that we will still stay with the guidance that we have put out broadly for the year. To explain further, last year we had corresponding period of significant dividend from our joint venture Morgan Thermal Ceramics, this year we do not have that in this quarter.
- Rajesh Kothari::** So that gets reported into your other unallocable net of other income or it gets reported as a share of associate, if I look at your consolidated numbers, I am asking standalone, below PBIT you have less interest, less other unallocable expenditure, net of unallocable income. So are you trying to say that because if I see your December '18, which is 11.47, December '18 which is 11.32, so I do not see any decline in other income literally saying if I do segment wise table, so may I request you to kindly clarify?
- K. Srinivasan:** So you are right, that is only on the standalone and not on the consolidated, and on consolidated it will get knocked off.
- Rajesh Kothari::** So, you are saying basically one there is Rs.4 crores lower profit due to FOREX which is kind of one-off you are saying in third quarter, but if I am not wrong, in second quarter also you mentioned that there was a second quarter flood impact of Rs.5 crores and claim was yet to be made and settled. At

the time you were little bit hopeful that Q3 is going to be better. So, I am just trying to understand on the business conditions, what makes you positive on 4Q which is going to change the underlying business dynamic significantly for better profitability and better growth?

K. Srinivasan: Growth I think has been reasonably good in Q3 we continue to grow better in Q4 because normally Q4 are always good sales, the demand is like as I said pretty strong. We will get hopefully all the other things sorted out. So we should have the margins also in line what we have committed.

Rajesh Kothari:: What will be the revenues you are looking for full year now?

K. Srinivasan: We gave guidance that it will be around 2,700 and we said profit will be anywhere between Rs.260 to Rs.270 crores.

Rajesh Kothari: So that means about 22% kind of revenue growth in fourth quarter if I am not wrong because last year fourth quarter was 638?

K. Srinivasan: Yes, you are right.

Rajesh Kothari: So do you think it is still doable?

K. Srinivasan: We believe so.

Rajesh Kothari: I am just trying to further understand that what is giving you confidence of doing better, if we look at segment wise, which segment do you think can grow at significantly better in fourth quarter compared to what we have seen in last nine months or third quarter?

K. Srinivasan: So like as I said if you look at the YTD number itself so far, the YTD growth has been (+15%). We should continue to grow at about 15%. The last year the consolidated sales is Rs.2,367 crores

Jagannathan C.: This year Rs.2700 crores will be little slightly lower than that.

Rajesh Kothari: But fourth quarter asking rate is higher na? I am just trying to understand that which segments are going to ... or is it going to be across four segments?

Jagannathan C.: We report three segments, all across three segments will do well. Just to update you, every year if you compare Q3 to Q4 there will be a significant growth, last year also Q4 we had a very good growth. Coming back to the profitability front, our Maniyar plant is resuming back in Q4, so we are expecting some cost savings in terms of power cost, the raw material prices are stabilizing now, so weekly increase in cost is stabilizing at present. So, we expect the raw material cost also help us get better margin. Volume growth will definitely be better. Every year Q4 will be doing very well. You can go back and see last three years...

Rajesh Kothari: Q4 versus last 4Q, I am not comparing with 3Q. If I look at last year fourth quarter, you reported only 9.9% revenue growth. Forget last year fourth quarter, I am saying this year fourth quarter when I am

looking at growth of 20% this is compared to last year fourth quarter. I am not saying versus third quarter of current year? I am not looking QoQ, I am looking at YoY.

Jagannathan C.: All the four segments will do well. So we still believe that we will be able to achieve the revenue we have guided.

Moderator: Thank you. The next question is from the line of Keerti Jain from Sundaram Mutual Fund. Please go ahead.

Keerti Jain: Sir, you highlighted that in EMD there were certain disturbance due to transaction at Saint Gobain and all happened. Sir, what were the nature of the disturbance like buyers were not buying the material or is it the price-led distribution, what happened sir actually?

K. Srinivasan: Because it involves other companies, I think it is better that we be careful on what we say. I think there was a disturbance overall both in terms of the availability of material and the price.

Jagannathan C.: Just to explain to you a little better, because there are larger suppliers, in their supplies there were some challenges.

Keerti Jain: After this transaction, as large players are vacating, sir, will we be in the beneficiary of this value chain sir, what is your views on this issue?

K. Srinivasan: I think we will have to be careful till it all plays out. So I would rather wait for a couple of quarters before we talk because we are talking about transaction which are not really within our discussion. So let us wait for some time on this.

Keerti Jain: Sir, what is the CAPEX plan for next year?

K. Srinivasan: At the moment, we are yet to finalize. We tend to do about Rs.130 to 145 crores for next year, which will also involve certain amount of additional capacity creation across the three businesses.

Keerti Jain: Sir, this auto ancillary showing signs of slowdown. Any impact are you envisaging now?

K. Srinivasan: Our intensity of contact with the auto, auto component industry is pretty small. So we do not see any major impact coming out of this.

Moderator: Thank you. The next question is from the line of Neerav Vasa from B&K Securities. Please go ahead.

Neerav Vasa: My question pertains to the long-term CAPEX plan which I believe we are considering. Sir, we have shifted the manufacturing unit from South Africa to India which are now being commercialized. So, wanted to understand our CAPEX plan or the new growth levers which we intend to see it from next three to five years perspective if you can just give some more details on that?

K. Srinivasan: We are careful about the CAPEX, because some of the CAPEX are things that may not happen if we go through an acquisition. So we are looking at both inorganic opportunities to get additional capacities and correct location as well as organic CAPEX. So we are putting out CAPEX plan on a year-by-year

basis. Next year CAPEX plan is likely to be around Rs.145 crores. This would sort of take into consideration that there may not be any significant inorganic immediately happening, but we will take a call for a longer-term as we go forward.

Neerav Vasa: Sir, for the Maniyar plant, are we expecting any one-off that would be booked in 4Q for restarting the plant?

K. Srinivasan: We have put two turbines back to action. We have to put the third one hopefully by first week of April. We do not expect any one-off expenses further to come in.

Neerav Vasa: Sir, based on the demand trends and the way we are seeing the FY19 to pan out, any number that you would like to share with regard to guidance for FY'20?

K. Srinivasan: Longer term number we had already put out earlier is that we should do at least Rs.3,200 crores, we stay with that.

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

Kashyap Pujara: Just couple of questions: Firstly, given that you have been mentioning guidances of 27 million and 32 crores next year and largely your capacities can do close to 3500 crores. So just wanted to understand when is the point when we actually expand capacities for taking it forward, so what happens after next year and how do we ensure that we continue growing, so what are your plans on that front?

K. Srinivasan: Like you know there are couple of options -- One is we put capacities in the various locations, Second is to get an inorganic which would not only give you the capacities, but also give you access to newer markets. So we have been looking at both. We have not been successful in some of the bids that we did go through this year. We have to be careful because the better we were successful in the metalized cylinder thing where we bought a line from NTK Japan. So we have to look at both and that is why we are little careful about talking of how we are going to build the capacities. The organic part is very much in our control. We have gone ahead and announced a new maker. These are clearly visible because we do not see an opportunity of any of this coming in from an inorganic option. But the other things are still on the table. So we would have to take it quarter-by-quarter.

Kashyap Pujara: You will be able to give clarity by end of year I presume maybe...?

K. Srinivasan: I believe next year CAPEX what is being cleared by the board is Rs.145 crores, which would largely give us further capacities going from Rs.3,200 to 3,500 crores and beyond, but during the course of the next year or so we would also see other possibilities, which would give us a significant delta.

Kashyap Pujara: There has been a lot of discussion on the current margins. But just get your thought on what is the portion of margin which is transient, there have been definitely lower margins in this quarter while top line was there, so what is the transient nature of margin which will surely come back in Q4 and what is the structural issue which you do not see it coming through, so could you just break that up for us that would actually give us more clarity?

K. Srinivasan: I think Jagan mentioned, we consume about 120 million units of power in Kerala in a year and there we have had one quarter increase of 50 paise per unit and that I believe is transient, it may not stay on, but the other things are really something which is going little bit up and down, but the prices in the market of our finished products also is moving up. There has been a huge disturbance. I think difficult for people to comprehend the level of disturbance that has been happening. The Chinese material going into US in the last nearly four months have been record high, I mean, people would have to understand the Baltimore Port was choked up with the number of receiving they had to do, simply because everybody was trying to beat the 25% tariff. So there has been a significant change in the way material has been moving around. We believe there are certain strengths of balance that is coming back, there has also been a significant shut down or closure of Chinese operations around the spring festival. Q4 would be an acid test to tell us where these margins are all going to head towards. Whatever we have seen up to January gives us a feeling that our Q4 numbers would hit both top line and we will be very, very near the margins that we were targeting.

Kashyap Pujara: Foskor Zirconia issue has been ongoing, in that sense, it has been work-in progress for quite some time. There was one level of it which you sorted, Thukela side of the problem also you have sorted. But this traditional business was I presume flat top line and steady PBT margin kind of business which is also now unraveling itself. My question is that the capital allocation is it a call were taken now that okay we get out of these geographies, caused us lot of pain and it is not really very meaningful in terms of the overall profitability and let us focus on something else or do we still try to keep fixing this?

K. Srinivasan: I think we have gone beyond the stage of fixing it. You said the right words. If it does not fix already by this quarter, we will take a call.

Kashyap Pujara: When we look at margins on the Abrasives side, I am noticing one thing that while you are definitely showing up in volume growth but the margins are not sticking. So maybe the price increases in the markets are getting very difficult to pass on. So what is your thought there? And also, if you can just answer one another question related to that is auto which is definitely a sizeable chunk of an abrasive company business and given that the auto side of the business has been pretty muted, we have seen very dismal numbers from automotive front in the last couple of months, so what are your thoughts on growth in this business going forward and do you see that you will be able to push price hike given the kind of environment we are in?

K. Srinivasan: Couple of things -- One is about 70% of the abrasives sale is on the trade or non-auto sector, demands are pretty, pretty strong. So there is no issue on that. The challenge we are having in terms of putting up prices is really the trade is still not stable. GST is still not sort of had the effect of getting trade to have good pricing there. So I still largely WIP. So it has to settle down and only then can prices start going up unless there is stability in the market, pricing is very difficult for putting up prices. That is something I believe is not going to settle down quickly, it will take its time, it is getting better, but hopefully in the next couple of quarters that will settle down. So that is a big chunk of the whole market, but the demand is still very strong and that is a good news. Our dependence on the auto is pretty small, I mean, direct auto would be single digit, auto, auto component combined is a low double digit. So it is not something that is going to make a big difference to us. Yes, that is a very profitable part of the business and we continue to do well, but it is not so big for us to be impacted. Overall Abrasives, we

are hugely positive in the Indian geography, demand is strong, and on a global basis also this demand continues to be reasonably good; it grows at about GDP of 2% to 3% globally. So we are reasonably happy with it. No new capacities coming up, no great new players coming up. We seem to be doing okay in this business. Margins hopefully should come back after GST stabilizes.

- Kashyap Pujara:** Lastly, what would be year-to-date loss from Foskor Zirconia?
- Jagannathan C.:** Foskor loss is Rs.19 crores and our share will be half of that.
- Moderator:** Thank you. We take the next question from the line of Ujwal Shah from Quest Investment. Please go ahead.
- Ujwal Shah:** Sir, in the initial part of the call, you did mention that in 4Q we will see some good improvements on the Abrasives side, and at the very same time we also are seeing that the trade segment is impacted by GST and until that settles around, we do not see much of a pricing gain. So what really would drive 4Q Abrasives business that you are talking about?
- K. Srinivasan:** It is two parts to it. I said the demand is strong, the top line growth is happening. In terms of margins to put up prices means that the operating GST should stabilize. So the demand is good, so that means top line will go up, margins can go up only when we can put up prices and that can happen only there is stability in the market in terms of operating price which we are yet to see happening.
- Ujwal Shah:** Sir, in terms of the EMD margins, we are seeing Graphene prices from China and all declining, not much happening on the raw material side. So, with the price increase that we were looking on EMD side, what kind of margin profile would EMD see for the year-end and next year, what is your sense on that?
- K. Srinivasan:** There has been decline in the Graphene prices, you are right, but you must take it that what was ruling two-and-a-half years back at about \$2,000 is still even with all the decline at about \$8000, and 8000 new dollars compared to the 2,000 old dollars, so it is quite a bit of difference. So there has been cooling of the raw material price increase which also Jagan alluded to in the early part which would help us to sort of at least get back on our pricing. In terms of our margins going up, I will give you a broad indication of the kind of margins that we used to have. The EBIT margins on a consolidated used to be about 15.8. We have come down in this quarter to about 10.6. We were last year about 14.8. So really we are trying to get back to around this number in the next two quarters.
- Ujwal Shah:** A question to Jagan sir. Basically sir, on the standalone business, we are seeing unallocable expenses being very high this quarter. Any particular reason for the same as well as other income that we reported on the standalone side was negative if I am not wrong?
- Jagannathan C.:** Other income is because of around Rs.2.66 crores of FOREX loss was there at the standalone level. So that was the reason why other income is low. One more because of FOREX loss the other unallocable is also because of FOREX loss and mark-to-market in few of the investments we have kept.

- Ujwal Shah:** Lastly, on the Ceramics business sir, can the current growth rate and margin sustain for the next year as well?
- K. Srinivasan:** I believe so.
- Moderator:** Thank you. The next question is from the line of Kunal Sheth from B&K Securities. Please go ahead.
- Kunal Sheth:** We mentioned that we have been able to take price hike but it is difficult in the market. So just wanted to get a sense is what is the price hike that we would ideally require to take given the kind of raw material inflation we have seen in the market and how much have we been able to take till now?
- K. Srinivasan:** If you look at on a very average kind of number we still need to correct at least about 6% prices in the Abrasives side. We have had a net price impact of may be 1% or 2%, because like I always keep saying in Abrasives, as we put up prices, there is something called downtrading, people tend to move to the lower price product which tend to also have lower margins. So we have had series of things -- cost going up, we are putting our prices, but there is also parallely downtrading which changes the product mix unfavorably. We still need to get net price increase of at least about 6%.
- Kunal Sheth:** Sir, we also spoke about some unfavorable mix change in the quarter. It is the same thing that you just mentioned about downtrading because of the price impact?
- K. Srinivasan:** That is right.
- Moderator:** Thank you. The next question is from the line of Ritwik Sheth from Deep Finance. Please go ahead.
- Ritwik Sheth:** Just a couple of questions: Sir, you mentioned that CAPEX for next year is 130-145 crores. So what is the potential revenue from this and when should we expect -- in the next year itself which will start generating or from FY21?
- K. Srinivasan:** Part of this CAPEX would really go towards what we call as a regular routine or maintenance CAPEX. The significant part of this CAPEX is the second large size coated maker, which can potentially give us another 15 mn.sq.mtrs of cloth at full capacity and it will take about 18 months to be fully production running, and when it runs at full capacity it can add as about another Rs.250 crores of top line sales but this will take its time, so it is not going to happen overnight. So generally what we have said is next year's number we are looking at is Rs.3,200 crores and we will start putting out numbers beyond that as we go forward.
- Ritwik Sheth:** Around Rs.50-60 crores of CAPEX for this Rs.250 crores of top line will be coming in like 18-months from the time we start?
- K. Srinivasan:** That is right.
- Ritwik Sheth:** Sir, you mentioned about inorganic growth as well. So what is the ticket size that we are comfortable with while doing an acquisition?

- K. Srinivasan:** Generally, we will not do anything which is significant. I will go only with our history, our track record. Sizes of anywhere about 50 million or so is the number that we are comfortable with.
- Ritwik Sheth:** Just at the cost of repetition about the margin, so all this settling down, the pricing and the Foskor Zirconia and everything, so say FY'20 and beyond, ballpark what would be the average margin that we would be happy for the long-term? I know it is always an increasing target from your end.
- K. Srinivasan:** I will give you based on what we have done before. Abrasives we were at about 15% EBIT margin, that would be our target to get to. Ceramics is a business where we have gone right up to 21 and comfortable to be around 20. EMD during the peak time when we are doing Photovoltaic, etc., we were significantly about 20, again, we are comfortable around 17 to 18 here. Overall as a company our target is always to look at something between 16 to 18.
- Moderator:** Thank you. The next question is from the line of Sandeep Baid from Quest Investments. Please go ahead.
- Sandeep Baid:** Sir, on the Electro Minerals you mentioned that the supply disruption because of the mergers and acquisitions, that is happening in the sector. The supply of the companies which are involved in the M&A activity if the supply is getting disrupted, will that not benefit us, the larger competitors were not able to supply?
- K. Srinivasan:** They were supplying. On the contrary because they were going through whatever changes they were actually selling at whatever price they could get. So, exactly the opposite.
- Sandeep Baid:** Secondly, as you mentioned, Zirconia losses have been there for some time and in fact this quarter you reduced the loss. So does that mean the lower margin in Electro Minerals is primarily because of higher power cost and in terms of FOREX gain?
- K. Srinivasan:** Like I said, it had played everything, we had Foskor Zirconia story, we had a lower than what could have been as a profit from Volzhsky though the profit itself was pretty good, we had the power cost issue at the EMD plus overarching around. All this is also the fact that we still are not able to put our prices as fast as we would like to. I think all this will gradually come out in the next couple of quarters. You will see not only the volumes growing but you will continue to see margin improvements and hopefully things should get better. The overarching thing like I said I gave a longer talk in the beginning in terms of the mineral space, mineral space potentially is something which will clarify faster, because there is an excitement and anxiety for the larger players to clear us the space and move on which should mean the demand will stabilize, margins will start coming up and we will see some level of not only top line growing but also margin stabilizing and staying at a reasonably higher level going forward.
- Sandeep Baid:** Lastly, you mentioned that for Volzhsky the power cost went up to RUB2.74 per unit. Have you seen that coming back in January?
- K. Srinivasan:** No, it has not come, it is too early because their Christmas is on the 8th, and they work on the Gregorian calendar. So, we have to give it some more time.

- Moderator:** Thank you. The next question is from the line of Bharat Seth from Quest Investments. Please go ahead.
- Bharat Seth:** In previous concall we said that our 7-8% of revenue is coming from new product launch over last three years and which we expect to reach around 15% kind of in FY'20. So which are those products and which are the segments, can you give little more color on that and how do we see that playing out in overall our game of I mean the top line as well as profitability?
- K. Srinivasan:** The good story out of that is the ceramic size of it is doing well. Wherever we have done new things in ceramic, all of them are catching on and they are largely with co-created products with customers and they are doing well and that is what gives us confidence of maintaining the margin and continuing the growth. The Electro Minerals part of it water we are doing new for example the one which we spoke well about on the Z-450 has been clearly a battle for the last three, four quarters, I mean, we are hardly getting the volume that will defend the cost, etc., and that is something which is still to happen. There have been other products in the Electro Minerals and Abrasives space. You will see them hopefully coming into play in the next two quarters.
- Bharat Seth:** So Q4 itself or beginning?
- K. Srinivasan:** I am hoping that the turnaround of Foskor could be Z-450 peaking up. Let us see. Still got sometime.
- Bharat Seth:** Still lot of new products or can you give little more color on the pipeline also that we have?
- K. Srinivasan:** We mentioned so far about Grapheme, the Graphene plant is being put into commercial use hopefully from the first commercial billing should start by end of March of first quarter, it is a small plant but that could start commercial production, can be a breakthrough product in the next year or so. That is only thing that is so far out in the public. So let me do it step-by-step.
- Bharat Seth:** And Ceramics still do we have better pipeline or...?
- K. Srinivasan:** We have quite a few things, we have tied up with research institutes, we are doing a joint project with NAL and ISRO for take-cast products, world-class products, very high value. Let one-by-one pick up and then we will talk more about it.
- Bharat Seth:** Last question on Electro Minerals. We are expecting in Q4 things to improve but if I believe that standalone always Q4 is a weaker number. So how do on consol side do we expect?
- K. Srinivasan:** Overall Q4 will be good sir. I have said it in the beginning, said it again. We have so many things that is happening and you will see a strong Q4.
- Bharat Seth:** In opening remark we said that there is Electro Minerals, there was a loss on account of SEDCO, so how much is the loss on that account?

- K. Srinivasan:** To answer your question only Maniyar we said that the effective power cost in Kerala went up for us to Rs.6 a unit from almost Rs.5.50, so there is 0.50 paise increase. You did mention SEDCO, so I will clarify. SEDCO because of the storm they had there, the plant itself was down only for about three days but we are still battling for the last 2.5-months in terms of trying to get the power lines on for evacuating power. So SEDCO is also not being generating power for almost about two months now and this has also impacted our consolidation in terms of negative movement by about Rs.2.5 crores.
- Bharat Seth:** Maniyar, any insurance claim have we received or not yet?
- K. Srinivasan:** We have got some refund in terms of the generators, but a significant part of it is only going to be in Q4.
- Moderator:** Thank you. The next question is from the line of Bhalchandra Shinde from Anand Rathi Securities. Please go ahead.
- Bhalchandra Shinde:** Two-three quarters back, I think we were targeting around Rs.3,500 crores kind of revenue in next two years. So, with the delay in Z-450 and other products, are we seeing any revival in that target or will we be able to achieve that kind of?
- K. Srinivasan:** Like we said in the beginning, what we are talking of Rs.3,200 crores for next year is still on. What we can do more or better, we are working on. Some have not progressed as fast as we would have liked to like the Z 450. Many others in ceramic and other areas of progress much better than what we anticipated or expected. So overall I think we are still very confident of the Rs.3,200 crores number. Let us see if we can make it Rs.3,200 crores plus.
- Bhalchandra Shinde:** Sir, margin wise?
- K. Srinivasan:** Margin wise, I said, broad indicators, we are at about I am saying for the three quarters numbers, we are about 13.5-14% level in EMD but less we had for the last one year, 14.8, we will try and get better than that. Ceramics, we are around 18+. We will get better than that. Abrasives, we are around 13.5-14. We will get better than that. So overall as a company target is to move towards 16+.
- Moderator:** Thank you. The next question is from the line of Rajesh Kothari from Alfaccurate Advisors. Please go ahead.
- Rajesh Kothari:** Sir, you mentioned in between that because of the tariff, China supplying to US, can you little bit explain further?
- K. Srinivasan:** Like there are a significant number of products that go from China into the US. They were all targeted for 25% tariff coming in. So at the moment what is visible is market can go to 25%. For the 10%, some products had exemption, it included brown fuse, silicon carbon, but other products like Zirconia still are suffering 10, it can go to 25. Now, what is really happening is most of these products are no longer fused in North America. All the raw material or the fuse products go from various parts of the world, mostly from China and they only process in the US. So, there was a bit of panic of trying to get the reorganized supply chain of what gets from where and how they get it in. The demand is in North

American market for fuse mineral, is very-very large, and the most of it is coming from outside. So, there was a bit of panic, material started moving all over the place. Hopefully, things should clarify in the next month or so after the Chinese come back from the spring festival. As of today, people are sitting with material in the US because they took a lot of material in advance but there is already a shortage coming up in the next couple of months. Let us see how it moves.

Rajesh Kothari: So, one, you are saying there is a lot of pre-buying in anticipation of 25% duty which has already happened. You are saying this is shortage.

K. Srinivasan: Yes, because some things have moved into a place where they do not consume but what has to move to the other place is not there. The total fuse material made in the world is the same. If they are sitting in some other place then the others would not have the material.

Rajesh Kothari: So, whether all these things puts us to advantageous position or what is our strategy in entire thing and how much of our exports is to US?

K. Srinivasan: Our export to US is small but the shortages are not going to come in the US, the shortages are going to come from the markets that have been denied the supplies. What has been diverted to US is where the shortage will happen.

Rajesh Kothari: What is the total composition of exports of that segment right now?

K. Srinivasan: Look at it on the consolidated, our Electro Minerals sales outside of India is (+75%).

Rajesh Kothari: Of that, how much would be say US?

K. Srinivasan: Our sales in US is minimal. I have not given you a number and I do not want to give you a specific number but our sale in the US is minimal out of the 75%.

Rajesh Kothari: So, you are saying because of the lot of prebuying, it has happened that the other parts may face now shortage basically and that puts probably our company in a little bit advantageous position, that is what you are trying to...?

K. Srinivasan: I hope we will have better top line sale and better margin.

Rajesh Kothari: Does it anyway impact the overall competitive scenario in the long-term?

K. Srinivasan: Too early to say anything. Let us give two quarters.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to Ms. Bhoomika Nair for her closing comments.

Bhoomika Nair: Thank you, everyone and especially the management for giving us an opportunity to host the call and answering all the questions. Thank you very much, sir.

K. Srinivasan: Thank you, Bhoomika.

Moderator: Thank you. Ladies and gentlemen, on behalf of IDFC Securities Limited, that concludes today's conference. Thank you for joining us and you may now disconnect your lines.