# "Carborundum Universal Limited Q3 FY2020 Earnings Conference Call"

January 31, 2020

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**Moderator**: Ladies and gentlemen, good day and welcome to Q3 FY2020 Earnings Conference Call of Carborundum Universal Limited hosted by IDFC 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. 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.

**Bhoomika Nair**: Thanks Inba. Good morning everyone. On behalf of IDFC Securities, I would like to welcome you to the Q3 FY2020 earning call of Carborundum Universal Limited. The management today on the call is Mr. Ananthaseshan, Managing Director, Mr. Padmanabhan, Chief Accounts officer and Mr. Chandramouli, Senior GM Strategy. I will now hand over the call to Mr. Ananthaseshan for the initial remarks post which we will open the floor for Q&A. Over to you Sir!

**Ananthaseshan:** Good morning and thank you Bhoomika and I know you have a little trouble in pronouncing the name it is Ananthaseshan, but Anant is fine. So before I start let me wish all of you on the call a very, very Happy New Year. I know that the past few quarters has not been great for the economy in general and going forward, we are also on the cusp of what I would believe is a challenging year for the country as such especially since that we have a budget coming up tomorrow, we are also looking forward to the government coming up with definite solutions in terms of recharging this economy.

I always believe in this kind of VUCA world and this is something which is very, very VUCA and what we around us, not only on the political front on the economic front and suddenly now on the health front as such so we have this coronavirus and what it means to us as a country, as people, as economies we will see in the weeks coming forward.

**Ananthaseshan**: Now having that behind us, for CUMI it has been a challenging quarter, what we also saw in this quarter was that the domestic slowdown has not only continued, but also turned a little sharper. For CUMI, the consolidated sales for the quarter came in at Rs.642 Crores, which represents 6% degrowth over last year. Now this fall was predominantly on account of the decline in standalone sales, which came in at Rs.409 Crores representing 11% degrowth over last year. Broadly at the standalone level, the degrowth has continued in abrasives and the electro minerals segments. This also continue to be a consequent to the auto decline over the last few quarters, though I must say that abrasives standalone grew by 3% on sequential terms in this quarter so that was some positive and possibly due to the good monsoons that we had in some parts of the country and the festive season, but overall abrasives had a good sequential quarter. The standalone ceramic segment, which has been shoring up the standalone growth until H1 also saw a decline falling by about 4% on Q-o-Q terms.

This has two parts, one is what we call the thermal management materials part and the wear solutions engineered ceramics part. The low demand has been from core industries whether it is from steel, cement, mining, power and also some other auto-construction dependent industries. The engineered ceramics and wear ceramics part, which are as you know, highly export oriented saw a decline and this is usual seasonal lulls as we would call it because we are export driven and but due to the good performance of this segment in H1 the YTD growth is still in the double digits at 11% so at the consolidated level, the ceramics segment grew by around 2% in Y-o-Y terms. Overall at YTD level standalone sales has degrown by 3%.

CUMI subsidiaries continued to perform well. Collectively their growth has been offsetting some of the standalone decline thus far however, the incremental growth has reduced compared to Q1 and Q2 and while they are indeed growing, the growth has slowed down this quarter. The downturn in the domestic business has been particularly steep and the subs have not been able to entirely compensate for this degrowth. So in summary, at YTD level consolidated sales came in at Rs.1983 Crores, which represents a 1% growth over the last year and when it comes to subsidiaries some of the slowdown in growth rates seen in this quarter is also seasonal.

VAW Russia for example has done reasonably well in terms of volumes, but due to the product mix realization came in lower and topline grew only by about 2%. At the YTD level growth is 5%. CUMI America and CUMI Middle East, they have performed well and they clocked 34% growth and 12% growth on a Q-o-Q basis so this also means that CUMI America is fast turning profitable so those are the positives on the subs

On a segment wise performance on abrasives, at a consolidated level abrasives degrew by 12% on Q-o-Q terms again impacted by these slowdown in auto industry and in the both direct and indirect businesses there. As I said earlier, the segment grew by 2% in sequential terms. While the Q3 festive season has been slower than previous year in the domestic market, this has definitely come as a respite to the overall CUMI business. Amongst these abrasive segments, coated products have done well and the precision business, which feeds largely into auto and some of the bonded product groups, which feeds into construction continue to be impacted. In terms of exports, the segment has seen encouraging traction especially in America and in some parts of Europe as well.

Electro mineral division within the electro mineral segment Russia, which is the VAW Russia has been supporting the growth and continued to do that. It continues to perform well, but the rate of growth has come down as I mentioned earlier, with a greater share of the products flowing into refractories and metallurgical grade Silicon Carbide and I am sure you would remember that in the first two quarters of this year, they had to do a product mix change due to the fact that the diesel particulate filter business suddenly dropped out, so this realization has had an impact on the topline so at a consolidated level the sales in the segment degrew by 8% in quarter-on-quarter terms and at the YTD level growth has come in at about 3%. So with the abrasives industry performing poorly, our standalone electro mineral business has been impacted sharply. While also some segments of the refractory markets have also slowed down so contributing to the impact in the electro minerals. So this has resulted in a Q-on-Q degrowth of about 20% and a sequential degrowth of 10% and last year, though the Q-o-Q degrowth of 20% looks big, it also should be remembered that we had a good Q3, for EMD last year.

At the YTD level the standalone degrowth has been 9%, but as in abrasives on the upside, the segment has seen a better traction in exports. Foskor Zirconia, which has been adding to the topline growth until H1 saw a sharp decline this quarter and the sales fell by about 36% quarter-on-quarter. Availability of quality raw materials was an issue this quarter and losses have been consequent due to the poor yields.

In case of ceramics, at the consolidated level, ceramics growth came in at 2% in quarter-on-quarter terms and in standalone business the demand for wear ceramics has dropped on account of lower utilization and some stress among key end-users mining, cement, power and steel, which have impacted the decline in this segment. CAPL - CUMI Australia business grew by 5% on Q-on-Q terms and the YTD level growth is 8%. It must be noted Australia’s growth is also on a relatively higher base as Q3 of last year was very good. To sum up, the ceramic segment is still at 12% growth at YTD level and a portion of the export demand, which is affected by the December festive season in overseas market will return over Q4.

Coming to margins, consolidated PAT for the quarter recorded Rs.63 Crores, which represents 9.8% margin and 8% growth over the last year. At the standalone level PAT recorded Rs.40 Crores grew by about 15% in Q-o-Q terms through lower tax rates and also via operational efficiencies so FZL made losses of Rs.9.6 Crores this quarter of which our share is close to Rs.5 Crores. Our joint venture Wendt and Sterling abrasives also recorded a PAT level degrowth due to the topline impact. Both these companies have an exposure to the auto industry. Despite the consolidated level degrowth impact we believe the margins story has been a lot more positive. In our standalone businesses, margins have held better despite competitors going after small pies in tough market conditions so while the commodity input prices have largely been benign and has helped, we have also driven cost control initiatives across the board. Many of the operational margin improvement is definitely therefore sustainable and can be maintained despite commodity prices and another market conditions. The focus has also been on ensuring that we have good control on working capital and thus the focus on healthy balance sheet have meant that we trained our focus on collections, quality of sales and inventories and as you would have noticed our cash flows are very healthy. At this point I also say that one big positive that we have this year is the successful completion of the coated maker, which will come online from Q1 next year. The project has been completed and hot commissioning is in progress.

While we are in the last leg of the year, we will most likely close this year with a flat growth, but with a very good and strong balance sheet. Our outlook for the next year remains cautious and I would say very cautious optimism and this is because some of the segments in our market segments in our various divisions though while on a broad-base looks gloomy has definitely opportunities that we can leverage. Things like hopefully the government would spend more on a infrastructure and that coupled with auto revival, if it happens and this is anybody guess will contribute to this performance, but we are not going to focus on this going to happen, but on areas of non-auto and increasing share in this segment is our key, especially in abrasives.

On capex, on a YTD level capex spend is about Rs.107 Crores and standalone capex is about Rs.58 Crores, of which major spend has been towards the new coated maker which has been as I said earlier successfully completed. R&D continues to be the focus areas across segments and this should help support growth in the coming quarters.

Now I will request our Chief Accounts Officer, Mr. Padmanabhan to take you through the financial aspects of the performance.

**Padmanabhan:** Thank you Ananth. Good morning everyone. Wishing you all a great 2020. Let me summarize the financial performance for the quarter ended December 31, 2019. The consolidated sales for the quarter has decreased by Rs.41 Crores which denotes 6% degrowth over the corresponding quarter of the last year. Out of this, the standalone drop was Rs.49 Crores, which was partly compensated by an increase in the American subsidiary CUMI USA and Russian subsidiary Volzhsky Abrasive and the Domestic subsidiary Southern Energy. The consolidated segmental PBIT was down by Rs.9.7 Crores it is about 10% drop on the quarter-on-quarter basis. The major drop in the segmental PBIT was from the standalone and with around Rs.7 Crores. On a consolidated basis profit after tax and non-controlling interest for the quarter was at Rs.63 Crores as compared to Rs.58 Crores in the corresponding period of last year. At the standalone level the PAT increased to Rs.40 Crores from Rs.35 Crores. At consolidated level the PAT margin was 9.8% as against 8.5% during Q3 of last year and at the standalone level it has increased from 7.72% to 9.9%, which had been largely due to the change in the domestic tax rates.

Now we will move onto the segment wise results. On abrasives consolidated sales for the quarter decreased to Rs.263 Crores from Rs.299 Crores in the corresponding period of last year. Standalone sales decreased to Rs.217 Crores from Rs.247 Crores in Q3 of last year. At the consolidated level, the PBIT reduced by 18% from Rs.38 Crores to Rs.31 Crores, of this drop of Rs.7 Crores, a drop of Rs.5

Crores came from standalone abrasive segment. Sterling our domestic subsidiary also experienced a slight decline in the topline as well as in the margins. CUMI America our US subsidiary has performed well in the sales as well in the profitability. Electro minerals division consolidated sales for the quarter decreased to Rs.245 Crores from Rs.264 Crores in the corresponding quarter of last year, at the standalone level sales degrew to Rs.97 Crores from Rs.121 Crores in Q3 of last year. The consolidated electro minerals business recorded a PBIT of Rs.20 Crores against Rs.28 Crores in the same quarter of previous year. This is mainly due to the increase in losses from our South African subsidiary Foskor and reduction of profits from the standalone business.

CUMI Standalone PBIT saw a decline of Rs.3 Crores signifying a 36% degrowth over Q3 of previous year. The net sales of our Russian subsidiary Volzhsky grew by 3% and on the ceramics part, the consolidated sales for the quarter increased to Rs.152 Crores from Rs.149 Crores in the corresponding quarter of last year and at the standalone level sales degrew to Rs.119 Crores from Rs.124 Crores in Q3 of last year. Consolidated ceramic segments recorded Rs.2 Crores increase in PBIT representing a growth of 7% from Rs.28 Crores in Q3 of previous year to Rs.30 Corers in the current quarter. CUMI standalone contributed Rs.2 Crores to the gain owing to better margins from both industrial ceramics division and super refractories business. CUMI America our American subsidiary has moved from the losses in the previous year Q3 to the current year Q3 profit. Australian subsidiary CAPL is also showing growth in profitability despite the condition in domestic environment. Debt equity on a standalone basis, debt equity ratio is almost nil 0.001% as of December 2019, there was no change in the debt equity ratio as compared to September 2019 position. The total debt on standalone was at Rs.0.74 Crores as of December 2019. The entire borrowings were in nature of finance lease borrowings. On a consolidated basis debt equity ratio was at 0.04 as of December 2019. There was no change in the debt equity ratio position, which was reported last quarter. Total debt on consolidated basis was at Rs.75 Crores mainly the long-term borrowing including the current maturities at Rs.13 Crores and short-term at Rs.62 Crores in December 2019 in comparison to the position as of last quarter wherein it was Rs.76 Crores. On the movement of the loan position, we had been repaying all the loans and no significant increase is seen. In respect of the Forex cover CUMI, as you know, is typically a net importer in dollars and net exporter in Euro and we take appropriate hedging in line with our Forex policy. This concludes my update on finance.

**Moderator**: Thank you. Ladies and gentlemen we will now begin the question and answer session. The first question is from the line of Bhavin Vitlani from SBI Mutual Fund. Please go ahead.

**Bhavin Vitlani**: Just one question intrigued by your comments on the margins in the abrasives segment, which have held up vis-à-vis when we look at past cycles when it has fallen into single digit levels, it will be interesting if you could help us what has the actually changed over the last downturn in terms of mix of the business? Have we actually seen a share of more custom-made and specialized business increase on the abrasives side and how do you see the margin profile of abrasives over the one to three your timeframe as we will see new coated abrasive facility commissioning in the next couple of quarters?

**Ananthaseshan:** In abrasives business, the broad segment as we have is the precision abrasives and mass market abrasives and traditionally the precision abrasives is a better margin business because most of it is custom-built and that feeds largely into the auto, steel, bearing these industries. But over the last three to four quarters this part of the business has been impacted by the slowdown and hence the margins from this segment has not contributed as much as it normally would. On the other hand, the mass market products driven by the coated abrasives business has always traditionally be seen as a little lower margin business. What we have done the last few quarters has been cautiously working on operation efficiencies in the coated abrasives, which has significantly moved up and also in some part helped by the benign commodity raw materials prices. So I would put in two things, one as while we worked on operational efficiencies in coated looking at also reducing fixed cost in across units and also supported by better raw material prices. The operational efficiencies and the fixed cost reduction is a sustainable initiative and going forward that would continue that has been largely the reason for abrasives holding up their margins.

**Bhavin Vitlani**: So like we have seen in the past cycle where the margins actually dropped to 4% or 5% in 2014-2015, would you believe that if in case downturn accentuates we could see the same level or what I was actually looking is has something changed more fundamentally structurally that? Do you believe the current level of margins are sustainable?

**Ananthaseshan:** I think that is a very good question because compared to the previous downturn to this downturn over the last six, seven years as a company we have been pursuing the TPM methodology in terms of driving operational efficiencies so what we are looking at is the fundamental change in the way we do things and that has supported us very well in consistently and sustainably increasing or improving our yields throughputs and hence the cost structures so what we are looking at is I would call as it is structural fundamental change and hence we are very confident that we would not go back to those very low single-digit margins what you mentioned.

**Bhavin Vitlani**: Second question is we have seen the drop-off in the margins on the standalone electro minerals division while the subs level held up reasonably well if you could take us actually through what actually changed where we saw a sudden drop, is it like this sudden drop in the SIC prices the reason why we saw margins going down?

**Ananthaseshan:** The electro minerals business is again broadly two parts, one is what we call the commodity part or the regulars businesses which is the fused alumina silicon carbide etc., and specialty parts driven by the fine powders and also what we call the alumina zirconia and ceramics grain parts of the business. Now as I mentioned earlier, beginning of this year, we saw one of the better profitable part of the businesses which is the diesel particulate fine powders kind of dropping out so with diesel cars or diesel particulate filters not being favored. We saw a significant drop in that market and hence no market for our fine powders so that has in one way impacted profitability. On the other side, we also have on the mass market or the regulars what we called it the alumina and silicon carbide impacted by the drop in the abrasives and refractory market. So on both sides, we have had this impact and hence this margins. We do see even in the regulars now going forward the demand for some of those product groups and hence we would hopefully see an improvement in the margins in the coming quarter.

**Bhavin Vitlani**: Thank you so much for taking my questions.

**Moderator**: Thank you. We will take the next question from the line of Ravi Swaminathan from Spark Capital. Please go ahead.

**Ravi Swaminathan**: Sir we had seen roughly around 12% revenue decline in the abrasive segment, was it that the end market alone had seen a decline or was it because of down trading and some market share loss also that we might have seen? So how was it?

**Ananthaseshan:** The standalone impact has been largely because of the higher realization, higher margins, precision abrasives business, as you know the precision side is not only better margins, but also better in terms of the realization per unit tonne so that definitely contributed, what has also happened is not only the supplies and direct auto industry, but as a kind of domino effect we are also seeing that some of the peripheral industries or adjacent industries what you call the nondirect auto industries like fiddling, snagging, foundry so they also have been impacted so that has been the reason for the sharp fall, but having said that the coated abrasives has kind of compensated for this slowdown in the bonded abrasives and hence we have this numbers.

**Ravi Swaminathan**: In terms of ceramics and refractory business, we had seen 2% growth I understand that wear ceramics had been impacted because of impact from core business, but you had mentioned that export one including metalized cylinders etc., had also been impacted due to seasonal weakness, can you explain a bit because last year also same quarter there would been a holiday season etc., is it like the metalized cylinders business sees a slowdown in terms of growth?

**Ananthaseshan:** I mean metalized cylinders business has continued to do well, we believe that this particular year has been dull in exports because of this December festive season, but otherwise our order books are pretty healthy on this segment.

**Ravi Swaminathan**: And what capacity utilization will be running at within the metalized cylinders business and is there any capex likely to happen in the near term?

**Ananthaseshan:** High 80s in terms of capacity utilization. We do have this expansion going on, which is your another 0.5 million cylinders which would come up by Q1 of next year?

**Ravi Swaminathan**: Q1 of FY2021?

**Ananthaseshan:** Yes.

**Ravi Swaminathan**: And that will take to 2.3 million. Okay and in electro minerals in Russia, are we running at full capacity? How is it?

**Ananthaseshan:** Russia in terms of capacity utilization is pretty well, it is 95% plus, again capacities are determined by the product mix, whether this year it has been largely metallurgical, crystalline grade and which goes to the refractory segment they are going very well, they going stronger running flat of this.

**Ravi Swaminathan**: Got it, but from the growth perspective next one, two years what will drive growth then so debottlenecking?

**Ananthaseshan:** There is amount of capex which has been planned and been executed this year for improving the silicon carbide volumes by about 10% to 15% there and also what will happen in SIC based refractories is one segment which we are looking at investing and growing.

**Ravi Swaminathan**: Okay we will manufacture it there as well?

**Ananthaseshan:** Yes we will do manufacture now. The nitride bonded refractories so that segment will definitely grow.

**Ravi Swaminathan**: Got it and my last question is with respect to Foskor losses during this quarter? how much was it for third quarter and for nine months if you can give it?

**Padmanabhan:** Our share will be around over Rs. 4 Crores

**Ravi Swaminathan**: Nine month how much was it roughly?

**Ananthaseshan:** Roughly our side is around Rs.9 Crores.

**Ravi Swaminathan**: Okay Sir thanks.

**Moderator**: Thank you. The next question is from the line of Harshit Patel from Equirus Securities. Please go ahead.

**Harshit Patel**: I had just one question so we have posted a 2% Y-o-Y growth in the ceramic segment this year, so could you bifurcate this growth between super refractories and industrial ceramics part?

**Ananthaseshan:** We normally do not give out this numbers because as you would appreciate this is business sensitive, but I can tell you that the engineered ceramics part of the business has done very well. The thermal part of the ceramics business consequent to its exposure to the steel, cement and some auto has not done as well as expected in Q3.

**Harshit Patel:** So Sir what would be our capacity utilization in the thermal part and do we have any plans to increase the capacity over there?

**Ananthaseshan**: See the thermal business is a very specialized kind of a business in terms of addressing design specific requirements of customers so what we call the fired ceramics part and currently we are running in about 70% capacity, as I said earlier the investments in this area would be in silicon carbide and nitride bonded silicon carbide based refractories in Russia and some in India.

**Harshit Patel:** Sure Sir. Thank you very much that was all from my side.

**Moderator:** Thank you. The next question is from the line of Ujwal Shah from Quest Invest Advisor. Please go ahead.

**Ujwal Shah:** Thank you for my question Sir. On the abrasive side considering a lot imports from China was also impacting the business, now considering this virus issues are on and the trade would be impacted are we going to see benefit out of it considering imports from China might go down and on the abrasive side Sir, how confident are we on maintaining our margins going forward?

**Ananthaseshan:** I would answer your second one first, because I did give a detailed explanation on why we believe that our margins will hold and it is again combination of strong operational efficiencies in the plant deep rooted by our TPM practices and also supported by in some measure by the soft input prices we saw last year. On the imports, I must say first it is a situation none of us want in terms of being a health scare and people reportedly dying, that is something which none of us want, but is there going to be impact on the supply chain and both for raw material and finished goods? there could be. On the raw material side while we do import some raw materials for our abrasives we should also remember that we are pretty strong in terms of our own production of abrasives of grains in India so that will give us definitely a stronger edge so we are prepared for that. On the imports of the abrasives from China, it will be largely the mass market imports which should be the coated abrasives and thin wheels. Now we do not know for sure how long this virus outbreak will last, but we definitely know for at least in a short term there would be some supply disruptions and yes that would give us some advantage in terms of leveraging our volumes, especially in coated now.

**Ujwal Shah:** Sure Sir, coming to ceramic business we saw very strong growth, in the last few quarters are we seeing sales now peaking out considering of those strong numbers that we have posted, base effect coming in or you are confident on engineered ceramics still driving growth there and we can see a double digit growth in coming quarters?

**Ananthaseshan:** Definitely on the engineered ceramics and mixed ceramics we should continue with the growth momentum what we have and that is the indication that we have had from our customers as well so both these products are pretty strong, the demand drivers for these requirements are strong so we will see a good performance in the segment. On the wear products we have wear products both for the domestic and international market and what we see as from the exports as engineered lined equipment and in both these cases, definitely in the export markets with our presence in Australia we would definitely see demand going up there and the domestic market if the infra picks up and we have the cement, steel, power coming into play, we would definitely be there because if we look at wear, wear products is something which is required in every industry which is into processing and experiencing damage to wear, so these are something which is a global business and can be a good growth driver for the company.

**Ujwal Shah:** Also on the margins we have been maintaining very healthy margins on the ceramics side, as you indicated on the abrasives, can you share some light on the ceramic margins, how sustainable are these margins going forward as well?

**Ananthaseshan:** The ceramic business unlike other parts of CUMI is largely dependent on raw materials which are imported because these are high purity raw materials, but what creates a value is in terms of, be the strength in design and offering solutions to customers. So on the industrial ceramic side on what we wear and engineered ceramics part, the fact that it is mostly custom built gives us the confidence that our margins will hold, on the refractory side again in terms of the product mix, the more and more into the designed products, the product mix will definitely support us.

**Ujwal Shah:** Lastly on the electro mineral division, not one of the great year that we have seen for this division be it in terms of sales or in margins, so any outlook, how we are seeing business shaping out especially for FY2021 considering this year is almost gone by? Where do we see our growth coming in from for EMD considering that DPFs would be totally off for a one year now considering by next year and which products will basically drive and when do we see those double digit margins coming for EMD again?

**Ananthaseshan:** The EMD business as I again mentioned has two parts, one is the mass market regular parts which is cost and efficiency driven and in this space we are positioned well both in Russia and in part in India because for example the while fuse alumina business is a large volume business and supported by good sourcing strategies that we have put in place now and supply chain, we believe that we can be very cost effective. On the work we have to do on the specials, in terms of building volumes and gaining applications to compensate for the drop in DPF so that is some work for which we are doing. In EMD it is a case of our product mix. While on the regulars we drive efficiencies and build volumes, on the specials we will build these businesses back and there are opportunities emerging, not only in the current what we call the conventional specials but also in emerging specials like in the battery segment in the EV segment so it is not going to happen next quarter or two quarters, but that is going to be the focus for building back these double digit margins.

**Ujwal Shah:** Okay Sir and in terms of Russia what was the volume….

**Ananthaseshan:** We also should remember that the EMD margins have been impacted by the Foskor losses, if that is off then we would see a better margins coming up.

**Ujwal Shah:** So we are planning to move out of Foskor so where is that placed as of now?

**Ananthaseshan:** We are in discussion with potential buyer, we hope to close it out by end of this year.

**Ujwal Shah:** Lastly Sir in terms of VAW what is the capacity currently and by next year what would be the capacity ramp up and what was the volume growth we saw in Q3?

**Ananthaseshan:** In VAW on the silicon carbide segment we are running flat out, we are about 95% capacity utilization, this has been the case for the last couple of years. The team there has been working on operational efficiencies and on debottlenecking, which would improve our volumes by about another 6 odd percent plus we have investment in capex to improve the volumes by about 10%.

**Ujwal Shah:** Okay Sir and in Q3 what was the volume growth that we saw?

**Ananthaseshan:** Volume growth was almost I would flat because they were running year-on-year it is full capacity so flat out.

**Ujwal Shah:** Okay fine Sir. Thank you.

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

**Kirthi Jain:** Sir, going to earlier question like you highlighted Sir the Foskor will be closed by Q4 and you will not see any losses Sir, am I clear Sir?

**Ananthaseshan:** That is what we are working towards.

**Kirthi Jain:** Sir coming to next year what sort of growth we should expect broadly at a corporate level?

**Ananthaseshan:** We are in the process of finalizing and discussing our business plans for the next year so we would be sharing with you possibly more details when you have the call in April. We are also looking at some of these growth will be consequent to what is going to happen possibly in the budget and also how do things can pan out in the next few quarters to come, but all of us know that the consumption story has to restart because these are industrial consumable so that has a big impact, but we are positive in the sense that there are opportunities as a company and being present in various segment because is what gives us resilience and the capability to absorb shocks.

**Kirthi Jain:** Sir in the graphene side any progress we have made in terms of the business, how is the response for our product and new customers are they asking more supply from us?

**Ananthaseshan:** Graphene is a pilot plant. We have commissioned the plant. Currently the focus is on working on developing applications for this material so it is still not commercialized in that sense, we have to first get the applications where we can establish and scale up. We are working with a few customers, special customers and that is what our first priority is to get the application going.

**Kirthi Jain:** Okay, thanks Sir.

**Moderator:** Thank you. The next question is from the line of Manish Goyal from Enam Holdings. Please go ahead.

**Manish Goyal:** Sir few questions, first on the VAW Russian, what is the current capacity, did we take some expansion or are we looking to further expand if you can clarify the number please?

**Ananthaseshan:** See the Russia business is largely into three parts, which is silicon carbide, abrasives and refractories part. On the silicon carbide our current capacity is about 85000 tonnes and we are running at about 90% plus capacity utilization there. So as I said earlier there is definitely debottlenecking investments and some capacity increase which has come up this year to the tune of about 10% additional. The capacities what we have put out increase is in the refractory space and there we would see further investments, because this is definitely a growing part of that business.

**Manish Goyal:** Okay so what kind of capacity increase we are looking at refractories?

**Ananthaseshan:** The refractories, we are planning to add another 1000 to 1500 tonnes of refractories.

**Manish Goyal:** The abrasive business seems to be incurring losses in Russia so can you probably quantify in terms of what kind of revenue and losses we see in abrasives in Russia?

**Ananthaseshan:** The abrasives in Russia is largely limited to the Russian market and it is a small part of the business so there we are looking at maintaining the current volumes.

**Manish Goyal:** Okay but do you expect that we should be able to kind of grow volumes and probably turnaround the business?

**Ananthaseshan:** That would kind of grow along with the growth in the Russian market because the products what we produce in Russia, is for the local market and it is not export driven so it would grow in line with local market there.

**Manish Goyal:** So what are the volumes we are selling currently in abrasives on an annual run rate basis?

**Ananthaseshan:** It is a mix of both coated and bonded so I would not be able to give you tonnage numbers.

**Manish Goyal:** Okay, but we are not seeing volume growth.

**Ananthaseshan:** Our focus there in Russia is on leveraging the silicon carbide and the refractories base.

**Manish Goyal:** Okay on silicon carbide capacity expansion will be operational by when Russia?

**Ananthaseshan:** During the course of the year.

**Manish Goyal:** In the current calendar year?

**Ananthaseshan:** Yes, in the current calendar year.

**Manish Goyal:** Sir on the METz cylinder I believe we were looking to enhance product range like probably start selling metalized devices as well so any progress on that Sir?

**Ananthaseshan:** We have some progress in terms of devices, in getting approvals from some customers both in the electronics and space industries but these are long gestation projects so we have been over the last year building up capabilities in this area so we hope to see further growth and speed in the next couple of years.

**Manish Goyal:** Okay and on METz cylinders with increasing capacity are we having fair bit of visibility in terms of utilization say probably over a period of next six to 12 months?

**Ananthaseshan:** In METz cylinders definitely yes, METz cylinders there is something which is we have been one in terms of the capacity ramp up that we are progressing with and also in terms of the customer base, yes we do have reasonable visibility there.

**Manish Goyal:** So is that we are probably gaining market share or is it that the market itself is growing and it is a function of both market share gains and...

**Ananthaseshan:** I would think it is a function of both the nature of the products and it is application as such so we would see increasing requirements for these kind of cylinders across both be the power transformation, power generation and power distribution sectors.

**Manish Goyal:** Okay and Sir last thing on the overall margins basically if we see the nine month numbers, what we probably sees is that material cost has somewhat declined as well as power and fuel cost has also been a bit lower, while on other side we have a fixed cost like employee cost going up and other expenses as well going up. So if you can probably give us a sense going forward that probably overall margin front how do you see that because in nine months EBITDA margins have declined by 130 bps, so and largely driven by the increase or may be loss of operating leverage, if you can give us a sense going forward?

**Ananthaseshan:** See when we plan for the year, we plan the sales numbers, we plan the costs including both the variable cost and fixed cost, so while we progress and then we see that the sales numbers are not in line with our plans because of what we call the market conditions today, we have been extremely hard in terms of improving efficiencies. Yes, the raw material prices have definitely helped, the power and fuel prices have stayed kind of a flat, but the significant improvement in internal efficiencies as I said across divisions has definitely helped in maintaining or improving the margins. You should also appreciate that the fixed cost, while we have taken steps to reduce fixed cost, fixed cost cannot be flexed so quickly to the drop in sales and that is the reason for the EBITDA not improving as much as we would like to.

**Manish Goyal:** Yes, so exactly I was probably looking forward in terms of that entering into FY2021 probably we may see a flattish scenario on the fixed cost base and then probably with growth in top line we should probably see the operative leverage benefits.

**Ananthaseshan:** Absolutely, so because across all our plants, we are looking at fixed cost growth coming down. The growth rates have been coming down so that is our focus area so while we look at opportunities to increase sales even in this market ensuring that the fixed costs are in control and in a sustainable way is going to be focus.

**Manish Goyal:** If I may squeeze in a couple of more questions, we were looking at from opportunity from BS-VI norms coming in for two wheelers so there were some products we were planning to launch, if you can give us outlook on that?

**Ananthaseshan:** The product which you would be mentioning is the oxygen sensors for the two wheelers but again this is under qualification with few customers so that is kind of progressing so as the volumes and BS-VI goes up hopefully this part of the business also will grow.

**Manish Goyal:** Okay so when do you think we should be able to, we will be through with this approvals?

**Ananthaseshan:** It is an ongoing thing because it depends on customer to customer how they would want to use this product and to what extent they are looking at.

**Manish Goyal:** But how big is the market Sir? in terms of opportunities like once we enter into?

**Ananthaseshan:** Honestly I cannot tell you right now.

**Manish Goyal:** Last question in abrasives how is the mixed change in terms of revenues for coated and bonded?

**Ananthaseshan:** Traditionally is about 60:40, 60 for bonded abrasives and 40 for coated abrasives and I believe that over the period going forward the coated abrasives will kind catch up with the bonded.

**Manish Goyal:** So would it be 50:50 today because bonded is declining and coated is growing?

**Ananthaseshan:** If you looking at it, it is a very narrow window yes, possibly very close to 45:55 and that is because of the fact of the drop in the auto industries.

**Manish Goyal:** Okay but with now doubling of capacity at coated ideally it should be then probably hovering in this range?

**Ananthaseshan:** It will be closer but again you should realize that though the capacities have gone up on the ground by almost double, the capacity utilization to come to the current levels of capacity utilization, it could be anywhere between four to five years.

**Manish Goyal:** Fair point. Thank you so much.

**Moderator:** Thank you. The next question is from the line of Jasdeep Walia from Infina Finance. Please go ahead.

**Jasdeep Walia:** Good afternoon Sir. Thanks for taking my question, Sir what has been the growth in North America in the nine months of this year and how do you see that going forward?

**Ananthaseshan:** North America, our business in North America is largely driven by the abrasive segment and what we see here is that the requirements for precision abrasives have significantly improved, because we have been in North America for the last 10 years plus and we have established a good base for precision abrasives and the acceptance now is better so we are seeing better business in the abrasive segment and it has moved over the last year by about Rs.4.5 Crores, Q-o-Q. On a YTD basis about Rs.5 Crores.

**Jasdeep Walia:** So it has not grown much in this year?

**Ananthaseshan:** We have grown about Rs.5 Crores.

**Jasdeep Walia:** What is that in percentage Sir, this Rs.5 Crores number?

**Ananthaseshan:** 11%.

**Jasdeep Walia:** How do you see this growth going forward?

**Ananthaseshan:** So as I said we are quite positive about this because one is the product range and the fact that we are competitive in the American market so we have some good customer acceptance there so we hope that this level of growth should maintain.

**Jasdeep Walia:** What all countries include North America Sir?

**Ananthaseshan:** Largely the US and Mexico.

**Jasdeep Walia:** And Canada also right?

**Ananthaseshan:** No Canada is very small.

**Jasdeep Walia:** Okay got it and what was the turnover last year in terms of million dollars?

**Ananthaseshan:** Broadly is about $8 million I would guess.

**Jasdeep Walia:** $8 million?

**Ananthaseshan:** For full year.

**Jasdeep Walia:** Right got it Sir. Thanks. That is all.

**Moderator:** Thank you. The next question is from the line of Aditya Mongia from Kotak Securities. Please go ahead.

**Aditya Mongia:** Hi sir. My question was also on the North America business, so the question essentially was that this business while we have been there and we have grown this business over time to $8 to $9 million, it is a loss making business for us at this point of time. What would your thought process on contribution actually coming from the America business over time?

**Ananthaseshan:** First of all yes we have been there for a long time but I must correct you that it is not longer loss making, the last three quarters has been a positive.

**Aditya Mongia:** Can these profits grow, nonlinearly as your revenue line grows by 25-30% in a meaningful time or would there be a more patient wait over here?

**Ananthaseshan:** The nature of the business is that it is a customer business where you know we need to establish our part of customer, gain their confidence and the fact that we are at a distance also kind of hampers the kind of speed at which we can do things or get a customer confidence and that is largely the reason why we have taken sometime in establishing our presence. Hopefully with this speed or the rate at which our acceptance levels have gone up for the last two years we should be able to grow faster here and that will also impact positively our profitability.

**Aditya Mongia:** Got that Sir. Those were my questions.

**Moderator:** Thank you. The next question is from the line of Lokesh Manik from Vallum Capital. Please go ahead.

**Lokesh Manik:** Thank you for the opportunity Sir. My question was regarding your capex in Russia, one is what would be the capex we are looking at for the incremental capacity like 10%?

**Ananthaseshan**: We would be finalizing it over the next couple of months then we would be able to share it with you.

**Lokesh Manik:** The setting of capex in refractory spaces, if I am not mistaken in the past this business has not been too huge and we are going for a capacity addition there as well so you are seeing demand coming in from Russia or from Europe?

**Ananthaseshan:** The demand is largely for these nitrite bonded silicon carbide abrasives or what we would call the businesses which like in the aluminum industry, copper industry, etc. which is not only in Russia but also global in nature. So while we have established our products in Russia and some part of the world so this gives us a good opportunity to grow and this is one of our focused areas going forward.

**Lokesh Manik:** Sir this Capex should be in abrasives and not refractories?

**Ananthaseshan:** This is in refractories

**Lokesh Manik:** That is from my side. Thank you.

**Moderator:** Thank you. The next question is from Riya Mehta from Anand Rathi. Please go ahead.

**Riya Mehta:** For FY2020 as a whole?

**Padmanabhan:** FY2020 is at the 110 levels and it is in the planning stage, marginal increase will be there.

**Riya Mehta:** Okay. Thank you.

**Moderator:** Thank you. Ladies and gentlemen, that was the last question I would now like to hand the floor back to Ms. Boomika Nair for closing comments. Over to you Mam!

**Boomika Nair**: On behalf of IDFC securities I would like to thank everyone for being on the call and particularly the management for giving us an opportunity to host the call and answering all our queries, so Thank you very much Sir.

**Ananthaseshan:** Thank you so much again and I am definitely sincerely hoping and wishing that all of us do well in the year to come and that will be from our side. Though we had a tough couple of quarters, we are looking at many positives and that is what we are backing on.

**Moderator:** Thank you members of the management. Ladies and gentlemen, on behalf of IDFC Securities, that concludes this conference. Thank you for joining us and you may now disconnect your lines.

***Disclaimer:*** *During this call, we may make certain statements, which reflects our outlook for the future or which could be construed as a forward-looking statement. These statements are based on management's current expectations and are associated with uncertainties and risks more fully detailed in our annual report, which may cause the actual result to defer. Hence, these statements must be reviewed in conjunction with the risks that the company faces."*