"Carborundum Universal Limited"

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Moderator: Ladies and gentlemen, good day and welcome to the Carborundum Universal Q1 FY'14 results conference call hosted by Kotak Securities Limited. As a reminder, for the duration of this conference, all participants' lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during this conference call, please signal an operator by pressing "*" and then "0" on your touchtone phone. Please note that this conference is being recorded. At this time I would like to hand the conference over to Mr. Jasdeep Walia. Thank you and over to you Sir!

Jasdeep Walia: On behalf of Kotak Institutional Equities, I welcome management of Carborundum Universal and all the Participants on the call. We have with us from the company Mr. K. Srinivasan who is the Managing Director, Mr. Sridharan Rangarajan, the Chief Financial Officer, and Mr. Raja Mukherjee, DGM Internal Audit & Strategy. I will hand over the call to Mr. Srinivasan for his opening comments on the results. Over to you Sir.

K. Srinivasan: Thank you Jasdeep and good evening to all of you, thanks for joining the quarterly earnings call. It was a reasonable quarter considering the context in which we were all doing business. Our consolidated sales at 501 Crores and an income of 508 Crores. The top-line was strong in spite of a various things that happening in different geographies which I will touch later. It was a 5% sequential growth in top-line and a 0.5% growth in terms of sales in quarter on quarter basis, so that was a good start. Overall in terms of profit before tax in exceptional items we delivered 29 Crores, which is significantly higher than the sequential quarter of 9 Crores, but it was lower than the previous quarter. The good news is the sequential numbers are all getting better across all our businesses.

Let me quickly jump into the three verticals as well as the key geographies. In terms of abrasives, our Q1 sales at 206 Crores versus 202 Crores for the corresponding quarter last year was the growth; it was also higher than the sequential quarter. In abrasives our key business is in India, over 75% of our business is India specific and as you know the Indian market is relatively cool, most of the major user industries are not doing so well so it has to be taking market share and that is exactly what we are doing in terms of keeping ourselves going in this business.

In terms of the electro minerals business, clearly the big fall that we saw in Q3, Q4 of last year is actually sort of finally bottoming out and we are coming back. Top-line sales 195 Crores versus 184 Crores that was a 6% growth, sequential basis also there was a 16% growth. Overall, I think electro minerals business is coming back, I would not say this is at the top yet. Big improvement clearly is in Russia. We crossed 18,000 tons for the first time in any quarter and this is a big step forward. It means that in a downturn while others are still not running production we are running our production flat out and producing high volumes. I would also touch about it later how we probably would likely to fair in Q2 but it was a volume-driven growth and consequently our margins grew there. In Foskar Zirconia the good news is that our bubble plant is commissioned. The production has started and we are now started getting commercial production from this space. We did not have too much of sale out of it in this quarter, but you will start seeing it coming in Q2, but there is a significant shrink in terms of losses in Foskar Zirconia from Q4 to the first quarter. Sridharan will touch upon on the numbers. The only mineral business where we are still yet to find our feet is Thukela refractories. We continue to loose money there, our utilization of capacity still remains very poor. The only good news that I can share is that in July we have started seeing volumes coming. So really we hope to have the situation change from Q2.

The ceramic vertical we had Q1 sales of 111 Crores versus 118 Crores for the corresponding quarter last year. Sequentially also it was lower. As you know Q1 last year we had some of the best sales. We got a couple of power projects in India. We had good sales in the Australia, etc. Practically all these markets are very quiet now and consequently this is really showing up in terms of both top-line sales being moderate as well as margins being under pressure, because this vertical largely fell into power projects and other major projects. Sales of the metallized cylinders have picked up. We have more new customers, etc. and we hope that this will kick in, in terms of both top-line and then margins in a couple of quarters going forward.

In terms of CapEx, we went ahead and spent about 30 Crores in the first quarter. We are clearly in line to spend the 100 Crores what we committed. Key projects that we said in terms of expansion of the new big furnace project in Russia we are going ahead with that, as also the Thin Wheel project at Uttaranchal. Our plant in Uttaranchal was not affected in all the issues that we had, so we are in that sense very safe. So that is broadly what it is. I will quickly jump on to the geographies and the markets before I hand over to Sridharan for the numbers.

The Indian market continues to be soft. We are not seeing any traction in projects as well as in the consumable market for abrasives and others. There is a cash crunch out there so we are not pushing sales. We are careful about selling because of credit risk in the market. So we expect this to continue further a few more quarters so the sales is going to come and if it comes it is going to be taking market share and it is also going to be at a margin pressure. In terms of the other big markets, in Russia the market is again relatively soft, however the metallurgical, the steel making industry is still reasonably strong because of the lower energy prices. So they are reasonably strong on the steel making and consequently the silicon carbide sale into the steel industry is strong. However Q2, Volzhsky will have a lower volume compared to Q1 because of an announced maintenance shutdown of the major transformer of the energy supplying company in Volgograd, which means we are going to loose some production in August and that is going to impact our volumes in Q2 and consequently the sales and margins, but market condition in Russia is still very buoyant for the metallurgical industry. For the other engineering, it remains extremely soft just like in India. In Australia, which is a large market for us for the coal washeries and power stations. Coal price are at some kind of a record low in the last many years, it is running at about approximately $80 a ton, consequently coal washeries and power stations that are there are deferring their repair work and commissioning of new lines, etc. They are managing by way of R&M investment rather than new projects and so the kind of products that we sell for the repair work is different form the project sales that we tend to do. Consequently both the sales and margins in Australia will be soft this year, unless it picks up in the later half. The sweet spot as we see is clearly North America. North America we are seeing clear sales traction. The home improvement as well as new home markets are coming up which means more coated sales, though this is relatively small market for us we are seeing in terms of top-lines some improvement there. Our business in China is extremely small, but the fact is that we are now having a good team there and consequently we are benefiting from selling now for the first time into the Chinese market compared to what we are doing all along just exporting out of China. So that is something which will improve as we go forward during this year. Europe as a market for us remains muted, but our key products that we sell in terms of metallized cylinders continue, but all other products like silicon carbides and others remain muted in Europe. That is broadly what I can see in terms of market conditions as well as the broad outlooks and I would now request Sridharan to give you the numbers.

Sridharan Rangarajan: I will just quickly walk through the financial performance. At consolidated level we just had a sales growth of 0.5% that is 3 Crores compared to the corresponding quarter last year. On a sequential basis the growth was 22 Crores which is about 4.6% growth. The incremental sales of 22 Crores resulted in an increase in operating PBT at 21 Crores on a sequential basis. Out of the incremental sales of 22 Crores and increase of 21 Crores of operating PBT, CUMI standalone came down by 2 Crores in top-line, however the PBT contribution was positive by 3 Crores that means the subsidiaries and JVs contributed to 24 Crores of increase in sales and increase of 18 Crores in operating PBT.

QoQ basis the growth was 3 Crores which is 0.5%, the incremental sales of the quarter for 3 Crores resulted in a drop of operating PBT of 9.5 Crores. Out of the incremental sales of 3 Crores the drop of 9.5 Crores operating PBT, CUMI standalone came down by 1.5 Crores and the PBT came down by 3 Crores that means the subsidiaries and joint ventures contributed to 4.5 Crores increase in sales and decrease of 7 Crores in operating PBT, I would say largely because of Thukela, last year same time we did not have Thukela with us. CUMI standalone operating PBT percentage improved from 10.5% in Q4 12-13 to 11.8% in Q1 13-14. This improvement of 3 Crores came entirely by way of higher volumes. On a QoQ basis, margin drop amounting to 3 Crores happened entirely due to lower dividend received from CUMI subsidiary, it is a normal timing difference.

As far as consolidated numbers are concerned PBT margin mirrored a drop in standalone margin, the drop of 9.5 Crores on QoQ basis happened due to the following: Standalone impact of 3 Crores, loss from Thukela 6.5 Crores. As Mr. Srinivasan explained we have challenges in Thukela, we still have not come out of the challenges. RHI has not honored the contract, but with putting lot of pressure at this point in time there is a good response as we speak. In the last two days they have started giving orders so we see something positive will happen in Q2. On a sequential basis, there was a gain of 21 Crores which happened due to the combination of the following: One is the standalone improvement of 3 Crores and improvement in profitability at VAW 13 Crores coming by way of higher volumes, 20% higher volume coupled with 2% higher price realization, this is the real reason for the pickup in VAW's profitability. Lower loss in Foskar last year loss compared to this year loss, there is a swing of positive 9 Crores impact and I think largely due to we carried material at lower cost, the fall in end product price versus the fall in raw material sand cost price that gap really gave us this boost of 9 Crores swing. Of course these are all offsetted by some of the other JVs and subsidiaries loss of about 4 Crores.

Going to the individual segments, abrasives PBT margin moved from 10.5% in Q1 12-13 to 9.8% in Q1 13-14, largely coming out of the CUMI standalone, which is the biggest contributor of the abrasive sales. The abrasive margin dropped from 12.5% to 11.9%, basically a drop of about 0.5 Crores this is largely due to lower volume, at a consolidated level the margin drop of 1 Crore for the quarter is mainly due to CUMI abrasive standalone results. On a sequential basis, the margin expanded by about 0.7 Crores despite abrasive India margin drop by 3.5 Crores owing to higher cost of material and lower volumes. The higher margin in subsidiaries contributed to the improvement, for example China's loss has come down that has contributed about 2.5 Crores better results.

As far as EMD is concerned, PBIT margin of EMD moved from 11% in Q1 12-13 to 13.3% in 13-14. This was an increase of 6 Crores. Out of the 6 Crores around 4.4 Crores was given because of CUMI India performance due to higher volumes in aluminas, better realizations in silicon carbide, and higher captive generation in Maniyar. Foskar Zirconia had lower loss by about 2 Crores for the reasons mentioned earlier. VAW had higher profits of about 5.5 Crores due to significant increase in volumes which is about 20%. The entire gains of electro minerals in EMD, VAW, Foskar were somewhat offset the Thukela loss.

On a sequential basis, the margin was higher by about 1750 basis points. This was an increase of 33 Crores. Electro mineral in India contributed to 11 Crores, I would say this is largely about three broad reasons - better power generation in Maniyar due to higher rain fall contributed to 2 to 3 Crores and then aluminas better realization, and we did not have the write off that we had taken in Q4 for silicon carbide. VAW gave us about 13 Crores largely because of volume and price realization. Foskar had a positive swing of 9 Crores because of the lower loss and the loss of Thukela was kept at the same level as the sequential one so it did not have further impact.

As far as ceramics business is concerned, PBIT margin of ceramics moved from 20.9% in 12-13 to 13.7% in 13-14. On a sequential basis there was an improvement of 140 basis points. Australia is witnessing pricing pressure plus due to softening in coal production there was a challenge in terms of the volume as well. Margin in domestic business is under pressure owing to lower volumes in business because of the high dependency of the projects. As far as CapEx, we just covered that we have done so far 30 Crores of CapEx for the first quarter on a consolidated basis we plan to do about 100 Crores for the full year, we are still on target. On a debt equity, standalone debt equity ratio reduced from 0.19 as of March to 0.18 as of June. This is probably the lowest every debt equity ratio and the total debt on a standalone basis decreased from 132 Crores marginally to 131 Crores. On a consolidated basis, the debt equity ratio remained at 0.43. The total debt on a consolidated basis increased from 435 Crores to 466 Crores, a portion of that is basically a translation impact of higher exchange rate, basically the CIL loan needs to be restated in Indian Rupee that is some of the reason for the increase. Out of the increase of 31 Crores, there is a genuine increase in terms of China loan and Foskar loan, and as to some extent the restatement impact of CIL loan. Out of the debt of 336 Crores, the subsidiaries and JVs put together came to about 167 Crores and the short-term loan of 169 Crores.

Coming to ForEx, I would say the three basic impacts one is translation gain in consolidated sales QoQ, which is basically translating the impact of the respective currencies into INR is nil. Sequential basis, the translation impact, sales came down by about 2.9 Crores. ForEx gain is about 1.56 Crores which is readily readable in the P&L and ForEx gain in export sales, which is basically what we export out of India and getting better realizations because of the favorable exchange rate QoQ was about 3.1 Crores and sequentially it is about 2.5 Crores. So with that I think we will open up for the questions. Thank you.

Moderator: Thank you very much Sir. Ladies and gentlemen, we will now begin with the question and answer session. The first question is from the line of Kashyap Poojara from Axis Capital. Please go ahead.

Kashyap Poojara: Good evening Mr. Srinivasan, Sridhar, and Raja, how are you and congrats for a reasonable performance. Having said that I have a couple of questions predominantly related to the predictability of these numbers and how we can sustain the business going forward. I think the question is predominantly related to the electro mineral division. While the swing in margins is heartening what I am actually wanting to understand is how much of this is repeatable in nature or going forward in the coming quarters like the alumina business that you actually mentioned would it be sustainable at the current run rate that you have done or do you see deceleration there. You also mentioned about the plant shutdown in Volzhsky and also about the highest ever fusion that you did from there. So would this capacity utilization levels be maintained once the shutdowns go through. What is the level of predictability that we can actually see on the numbers in the electro mineral division?

K. Srinivasan: Yes, on the electro mineral division I think you touched three points. First one in terms of the aluminas, I think aluminas now is a mix of the traditional brown, while there are also newer aluminas in terms of the semi friable, Azure-S, and alumina Zirconia that are coming in. I believe as the volumes keep picking up due to the newer grains you will see that the aluminas become predictably good. Whatever we are hit in Q1 is a weighted mix of all these things. There are some advantages we got with the depreciating Rupee forcing more domestic customers to pickup local material, which was a volume gain that we got, and there was also some advantage we got in terms of the newer material being sold and I think this will continue. So aluminas I believe in India could be a very predictable thing and probably later in the year could improve. Now as far as Russia is concerned, Q2 clearly the volumes are not going to be 18,000 tons because I know the power is going to be shutoff for almost about a week to ten days. So we will not do 18,000 tonnes and consequently the margins will fall and sales will fall in Russia in Q2. This is completely unavoidable, we cannot do anything about it because it is the power supply area in that and they will take it down for maintenance. They are doing it once in four years or five years like this. Now Q3 onwards I think two things will happen, we will take up volumes but more interestingly there is clearly a price growth that is happening. There is clearly now a tapering off of the excess supply that was there in the system, the inefficient capacities have gone out so I believe I can already see that the new contracts we are taking up which is largely now only for Q4 and for next year, the prices are clearly stronger than what it is on the current contracts. So with the combination of these two I think Q3 onwards the prices as well as margins in Russia will only get better. You will not see any huge volume increase because the new project will not be ready during this year, it will probably we only at testing level at the end of the year. Now the other two important things that will happen is, Foskar still has not really come to the party. The new plant is held at a commercial testing level, just a few supplies are going up, but when the new plant starts kicking in with real volumes which we expect that at least a month and a half in Q2 and then full in Q3 and Q4, Foskar will start coming to the party and then not only sales but also margins in Foskar will go up. As far as Thukela is concerned, the best we can expect in Q2 is to see that the loss is significantly reduced. The loss what you see actually is the blend of a depreciation as well as cash loss. The depreciation part will remain, but hopefully we should stop making cash loss from Q2, Q3 onwards which means that the impact in terms of margin would be a significant improvement as well as in Thukela. The weighted average of all these is the minerals business overall would have to go back from its real bottom that it hit in Q4 to somewhere nearer to the better numbers that we had in the 10-11 year, I do not want to guarantee that we will come back to the 11-12 so quickly, but we will start going towards 10-11.

Kashyap Poojara: And if I want to just take a total of the South Africa losses including Thukela refractory, Thukela business and your FZL, then what would that loss be in this quarter.

Sridharan Rangarajan: This quarter loss would be about 11 Crores.

Kashyap Poojara: And that would be if I compare it to the sequential quarter just the preceding quarter?

Sridharan Rangarajan: That would have been about 19 to 20 Crores.

Kashyap Poojara: So basically this trend of improvement can actually come in, so if you slip somewhere you will still be able to maintain the EMD profitability over a full-year basis?

Sridharan Rangarajan: If you really see what Mr. Srinivasan summarized, there are broadly three components that resulted. One is VAW's better performance in terms of volume and price. Second is the India’s performance, which has got further three sub components and a better Foskar; these are the broad three reasons. Now as far as Foskar is concerned we think there is some more upside that can come which he says that it will start kicking in from Q3 and Q4 more, that is the first point and with the sustainability of VAW there could be question in Q2 but probably in Q3 and Q4 the volumes again will be there, there could be some slight betterment in the price also can happen. Now domestic what we are looking at is two things, one is better rainfall, Maniyar better power generation etc. it is a question of nature and it is hard to predict. The aluminas is coming with better product mix in terms of semi friable alumina Zirconia, etc. is probably more sustainable it will start kicking in as and when we start establishing newer products that is more sustainable, it will start coming in. As far as the Africa is concerned I think the losses will start going down so that probably we will be able to see better results in the future quarters.

Kashyap Poojara: Sure and just lastly I think yesterday in the AGM we did touch upon about some amount of CUMI Canada being basically merged into the North American operations and also some amount of contract labor that we are planning retrench so can you just touch upon that point as to what exactly we are doing?

Sridharan Rangarajan: See we announced that the North American operation would get consolidated, which means really all the business we are operating out of CUMI Canada have been shifted to CUMI America, and eventually the company itself will be wound out. This will happen during the year because there is a real estate that needs to be sold, the plant has to be sold there in Canada before we can wind it down completely, but this will happen during the year which will mean it will take out some amount of cost that are there because it will become one company. As far as the contractual employment in India what we have been saying for quite sometime is we have consistently been reducing the number of temporaries and contractual employment cross all our locations and this process is getting more and more accelerated with this downturn to see that how we can get productivity up and what we also mentioned yesterday the annual general board meeting is that we are having CUMI skill development center which is really developing in-house for our skilled people who are multi-skilled who can work on multiple applications and machines, etc. so they are flexible. Today you take a worker and if there is no load there, he still stays there but you cannot do anything because he is not capable of moving and working in different equipment and process. So this multi-skilled workman as they come in not only one but many skills, we will be able to get more productivity and efficiency but we will also be able to get rid of the lot of these temporaries and contractual jobs, which means that our overall employees cost which was at about 10.5 percent to sales last year, we are trying to see that in spite of the significant inflation that we are all hit with would remain in the range of 10 or better, so that is our objective and we are working very strongly on it. We are really using this downturn to do some of those longer-term corrections that will make the businesses more efficient.

Kashyap Poojara: Okay thanks so much. I will get back in the queue.

Moderator: Thank you. Next question is from the line of Ram Hegde from Primus Investments Advisors. Please go ahead.

Ram Hegde: Good evening gentlemen. I have two questions one is on the competition in the abrasive segment in India. You said that you have gained some market share, I just wanted some more color on that.

K. Srinivasan: Actually if you talk in terms of market share in India, the market share in India we are growing simply because that the market itself is not growing and we believe what we are taking shares may not be just from local manufacturers but also from imports with Rupee at around 60 per dollar we really see that some which used to happen are becoming less competitive and consequently we probably are taking away some of those shares from the market.

Ram Hegde: My second question really was on each of the three segments really, could you give some more color on how are you see the margins progressing through the year ex-currency factors?

K. Srinivasan: On a consolidated margin I will quickly jump just give me a minute. Your question is impact of currency in the margin?

Ram Hegde: It was excluding currency. I mean if you leave aside currency impact how does one see margins in EMD, abrasives, and ceramics as we progress though the year?

K. Srinivasan: Abrasives in consolidated margin we are at about 9.8, around 10ish and I think if you look at what we were in the last two years, we were around 10 to 11 on a consolidated, because this is the blended average we have some losses still sitting in the other operations. We think it has been around this range of 10ish and I think it will probably stay around this, this year because the market is soft. It is almost impossible to get a price increase. I am still impacted by imports being more expensive. We also still have this energy issue, the energy cost has actually grown by 20% in the last one year. Now the ceramic margin actually has moved up from 12.3 to 13.7. Our averages used to be around 18 to 20 in this. I think here you probably would have to expect this year that it will also stay around the 13 to 15 range. I don’t think you can see much of a improvement in this for three reasons, Australia is unusually soft because that is a high margin business, its unusually soft, projects are not happening consequently we are doing more of R&M which means there are margins always under pressure in this business. Volumes will be there but the margin is around 13.7 now, so 14 to 15 is what it is going to remain probably this year. The electro minerals margin, which is, now back at about 13.3 is going to be there and get better. We used to be around

18 during good time, I think its going to be 13.3 plus, its 13.3 and around that and get better, but I think this year we will have to accept that we have to get all our problems sorted out before we get back to the 18 level, so I would say for the rest of the year the Q1 is a fairly good indicator of where we are likely to be during this year with clear positive up trends in all the three, more so in electro minerals and less probably in abrasives and ceramics.

Ram Hegde: Sir last question from my side is really on the balance sheet side, given the constraints are we seeing sort of lengthening of debtors days or any of this sort?

Sridharan Rangarajan: Actually our DSO is about 61 days and I have seen about 3 to 5 days increase in the receivables that by and large, largely from the project etc., of course this is the general trend that we are seeing. There is some increase in DSO at least to the extent of 3 to 5 days.

Ram Hegde Okay sir thank you very much. I will join back in the queue.

Moderator: Thank you. Reminder to all the participants to ask a question please press "*" and "1" on your touch tone telephone. We have a question from the line of Preeti Trivedi from Vantage Securities. Please go ahead.

Preeti Trivedi: Congratulations and good set of number. Just want to know what are our current capacities in different geographies, in India separately for abrasives, ceramics, and EMD and for Volzhsky and utilization also?

K. Srinivasan: For abrasives, our total capacity in India would be roughly about because we are also expanding thin wheel capacity in Uttaranchal so its roughly about 25000. We have significant capacity available, I think our utilization would be currently at about 70%. In coated, we have a potential capacity of 18 million square. We are probably running at around 11 to 12 so there is significant capacity available. In terms of Russia, our useful capacities in bonded is roughly about 18,000 to 20,000 Tons, we hardly run about 8000 to 10,000 Tons so there is about a 50% capacity utilization there. As far as the abrasives are concerned you can clearly say capacity is not our issue, we are at a fairly low capacity utilization. The only upside on that is the variable cost benefit that you will get for running higher capacities in abrasives is not as significant as it would be in refractories of ceramics because there we run continuous process. There the tunnel kilns and others when you have lower utilization tend to become more expensive so abrasives can live with lower capacity utilization without becoming too much inefficient. As far as the refractory business is concerned in India we are running about 75% to 80% capacity utilization. We have still capacity both in India as well as in Russia, in both places our capacity utilization is around

70%. In the ceramic business, we still haven't started our fourth tunnel kiln, so we are running at less than 70% capacity utilization there as well, both in the metallized are as well as in the tile business and that is one reason why you see both in the ceramic vertical in particular I was answering Ram, the margins are lower than normal simply because our capacity utilization is running low. Unless you get it up to about 90% plus we will not be able to get back to the expected margins there. As far as the electro mineral business is concerned, aluminas, a lot of the capacities are coming up fresh. Sridhar explained each of these capacities need applications to be established to scale up. That is the process that is happening, so the aluminas would grow with more applications being established. We have capacities there, but on silicon carbide we are still running flat. We are running flat in Russia, which is roughly about 70,000 to 75,000 tonnes. We can do about 4000 tonnes in India, but we are running everything flat. Big capacity is available for aluminas in Thukela I can do about 22,000 tonnes by a blended product mix. We are hardly doing about 2000 tonnes to 3000 tonnes at this stage, so a significant capacity is available there. And same is to Foskor, Foskor with the new plant at full blast can go to about 10,000 tonnes, at a current level of doing there less than 3500-4000 tonnes, we hardly using 40% capacity. So there is big upside available both in Foskar and Thukela and that's what we hope to use up during the remaining part of the year.

Preeti Trivedi: Second is, this quarter the other income has jumped very sharply is there any specific reason for that?

Sridharan Rangarajan: Broadly two reasons one is scrap sales and an export benefits, these are the broad reasons for that.

Preeti Trivedi: Okay, in Q2, would it continue in second half also this kind of growth in other income?

Sridharan Rangarajan: Other income, you know these are subjectivity, like scrap sales and some of these are difficult to predict, but I think the business predictability is what we discussed earlier.

Preeti Trivedi: Tax rate for this quarter is higher 39%.

Sridharan Rangarajan: That is largely because of a few things one is the losses that we are incurring in terms of Thukela, in terms of Canada, in terms of US. We have not taken a tax credit, you know deferred tax credit normally one should take. On a conservative basis, we are not taking those credit and that is the reason you have a higher tax rate.

Preeti Trivedi: Yes sir got it. And lastly would you like to give any guidance for the top line for FY'14 on consolidated basis?

K. Srinivasan: We did 507 Crores on Income basis in Q1 and we do not expect the remaining quarters to be any less. On that basis I think to expect between 2100 to 2200 Crores top-line should be reasonable. I must say this with an element of caution because the kind of violent fluctuations we see happening in the last couple of months were a little scary, but it is reasonable to expect that the top line should be in the band of between 2100 to 2200 Crores at least, so that should give you an indication.

Preeti Trivedi: Thank you so much for answer my questions and all the best for the upcoming quarters. That is all from my side.

Moderator: Thank you. Jasdeep you may go ahead with your question please.

Jasdeep: Sir just wanted to understand how the depreciating Rupee impacting your business, is it creating opportunities for you?

K. Srinivasan: It is a complex thing Jasdeep. I think what is happening is there is this element of advantage because imports are becoming expensive for the competition because a lot of the competition depends on imports so to that extent being mostly manufactured locally in most major geographies for us we are at an advantage. The disadvantage is that the energy cost gets indexed to almost to the Dollar and consequently we are finding our energy cost in all geographies are growing. So it is a big challenge to handle both because we are a handling depreciating Rand in South Africa, we are handling a depreciating Rupee in India. The Ruble has not depreciated as much and it may be actually strengthened. So we are having a combination of currency movements. As Sridhar explained in the first quarter it was almost neutral to us, the combined impact, but the business impact of it I would say if I have to look at all the plus and minus it is also becoming a little neutral so we win in some because of it, we are losing in some because of it. So we almost come to accept to that this is not going to be a part to play in our business growth.

Jasdeep: Is it not making you competitive with respect to other companies who you compete with in global market?

K. Srinivasan: In India it makes us competitive, but what we make in India and export let us say if you are talking of a metallized cylinder etc., these are contracted things, yes the realization goes up, you see that the margin improves a little bit, but the actual volume is not growing up enough to help in those areas. Plus/minus I do not think it is a big impact because I also end up paying a higher price for my imported alumina even for my domestic usage and the projects being down it is not giving us any cost, we are not able to put a price in that sense neither are we able to compensate for the energy price increase.

Jasdeep: And how is the power situation in Tamilnadu right now?

K. Srinivasan: It was terrible last year, it is better this year.

Jasdeep: And expectation going forward?

K. Srinivasan: One thing you realize in power business is never to expect or only expect the worst.

Jasdeep: Okay Sir. That is all from my side.

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

Balchandra Shinde: Sir first of all regarding the Thukela Refractories. I just would like to know as you said still that requirement which RHI committed has not been taken away so when we exactly expect that commitment to be fulfilled, mean do we expect some of the requirement to get fulfilled in FY'14 and then in FY'15?

K. Srinivasan: Thukela Refractories was given a written commitment, legally binding contract from RHI that they have to lift an 'X' quantity, roughly about 4500 tonnes a year for two years as a transition arrangement because this is entirely making only for that customer, it did not have any other customer. Unfortunately this quantity was not broken up month wise quarter wise, so they would technically be right if they managed to give us another 4500 tonnes in the next three quarters and this is exactly what they are trying to do. They did not front end most of it, but now in Q2 we already started getting orders and I expect it will accelerate in Q3 and Q4, and we are talking of one of the world's largest refractory companies and I do not think they will be in violation of a contract and so we will end up getting most of what we anticipated throughout the contract period largely back-ended so we should see the volumes picking up. As I speak Q2 we have orders and we are going ahead and producing it.

Balchandra Shinde: As per our year third quarter will see a good growth in Thukela Refractories.

K. Srinivasan: Hopefully, we should come out of cash losses.

Balchandra Shinde: Are we trying for any outside customers?

K. Srinivasan: We are continuously working, unfortunately as we started scaling up and offering to external customer the downturn made all the trails go slow and customers are not willing to switch because it was a huge timing issue, but as we speak there are several trials being completed with very many other customers because Thukela is only a transitional arrangement so we have clearly a plan how we would like to take this forward and it is a combined plan of using raw material out of Foskar producing in Thukela as well as using it in our other refractory production units. It is part of value chain integration and this activity is taking routes. We only need a transition arrangement for a couple of quarters before the actual game plan falls into place. We are working very actively on it and this will kick in gradually.

Balchandra Shinde: Regarding Russia, you must have heard that core manufacturing activities are slightly down, there was very much subdued demand in that, has it started picking up, are you seeing structural changes over and things bottoming out and demand improving?

K. Srinivasan: The bonded abrasive production in Russia largely goes to the engineering industry. In this industry actually in the last four years from making 12,000-odd tonnes a year we have come down to about 9000 tonnes and actually our market share has grown by about 10% point which gives you an idea of a steep and continuing decline of manufacturing in Russia. This is something which is I think irreversible, it is not going to happen so the only way we going to get a volumes back in Russia is to refocus our attention not just to the Russian market but to the European market. Two challenges Europe does not use the same products which the Russian market uses, second is the European market is also is in a bit of a decline so this is a challenge we are facing as far as the utilization of bonded abrasive capacity in Russia is concerned.

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

Piyush Mittal: Thanks for taking the question, few questions I have, number one on the EMD side VAW crystalline product that you used to go into solar, last quarter there was some chatter of Europe imposing some tariffs on Chinese products. I was just wondering does it make any improvement on that portion?

K. Srinivasan: Crystalline sales did not go up for us. We have been selling the raw material to the people who make the micro powders to supply to the photovoltaic wafer manufacturer. That industry is almost practically dead now. What you have read is correct, EU imposed antidumping on Chinese supply of solar panels and China retaliated by imposing antidumping on the polycrystalline ingots, which is coming from Europe as well as wine from France and Italy and other places, so this is what they have settled. As we speak, couple of days back the EU commissioner has announced that this has been resolved and settled between the two, which is only good news for the wine producer as well as the ingot producers. Practically for Volzshky or Carborundum there is no impact by this. We continue not to produce too much of crystalline and almost no crystalline today is going to the microgrit industry which is really the photovoltaic business. This is almost gone. Crystalline is now being converted more and more to metallurgic grit which is used in abrasives, refractories, and other applications. We have strengthened our ability to produce a special grit which is high bulk density grit out of this crystalline material for refractory industry and that is growing for us because we are taking market share in this market in Europe.

Piyush Mittal: Second question on the abrasive side given that you know lot of your raw materials is imported, to what extent does the current exchange rate already reflected into your margins currently or is it something that is going to be more towards the later part of the year?

Sridharan Rangarajan: Currently about Rs.55-56 is already reflected, balance 56 to 60 I mean an average about 58 is yet to be reflected and will start coming up in the Q2 onwards, but we are also consciously reducing the import content, so it is a question of balance.

Piyush Mittal: How is it going to play out, is it going to affect margins you have taken pricing so it will be neutral what is the thinking?

K. Srinivasan: We have done a mix of both. One is we have taken some price increase. It is an extremely difficult condition in the market to take a big price increase. We have tried to take some price increase already. We are trying to take another price increase going forward, so we are hoping to still maintain margin, like I said we all at this level about 9.8 on the EBIT margin on the abrasive business and we are trying to stay there. Sridhar explained we are trying to do indigenous, that is the strategy we started right from the year beginning that the electro mineral division would supply most of the domestic requirement for us. We are seeing that as a margin both also in the aluminas. Because they also try to index their transfer price to the Chinese import for landed price so to that extent I think the aluminas make a little better margin and get a volume as well.

Piyush Mittal: You mentioned you know some of the imports may be not viable into the country, would you know what portion of the business in the abrasive side or of the overall market is import?

K. Srinivasan: I would suggest anywhere between 10% to 20% of the abrasives in the Indian market comes via imports, a very small percentage is the high end, a large part of it is actually the trade product which is the commodity, counter products which is imported out of China.

Piyush Mittal: Third question on Foskar and I hope I get the question right, the intention is to sell some of the fused product from Foskor directly to customer and there is other intent of may be bringing it to India, micronizing it and then selling it forward? The question I am trying to ask is on a steady-state basis say may be two years later at whatever point in time what do you think will be the mix of that 10,000 kind of capacity, how much will be in micronized and what will be the direct sales?

K. Srinivasan: It is a tough question at this moment, but I can tell you it is not only just micronizing. Some of it will also go into our own remelting into alumina Zirconia.. So, From Foskar Zirconia, there are three streams one will come to Cochin, Kakinad to get micronized and then get resold in Europe. The other would come in and it will get into the Alumina Zirconia melting in India and get used in India. The third would go partly to Thukela Refractories and get converted to Zircon mullite for domestic as well as exports, so there are three stream from Foskor to various other downstream businesses. At peak production, if we run 10,000 tonnes out of Foskar, we potentially expect 5000 tonnes would get consumed by internal next-line customers, all the three put together. As a whole, I think many times I have explained this we try and set up a value chain by which at good times we should consume 25% of what each unit produces within the system, at bad times try and consume up to 50% within the system so we conserve margins.

Piyush Mittal: So 50% would be still micronized and sold forward?

K. Srinivasan: Not only micronized all the three put together micronizing, alumina Zirconia as well as Thukela combined.

Piyush Mittal: And then the balance?

K. Srinivasan: The balance would be to regular customers, we have direct customers who are already buying our products.

Piyush Mittal: Would it be possible to rate it in terms of value added, micronizing would be at the top most or how would you see?

K. Srinivasan: In terms of margins, I think the best margin would be in micronized products, but it is very difficult now to give a break up between the three.

Piyush Mittal: If I can ask you know may be two more questions any US strategy acquisitions given that the market is strong?

K. Srinivasan: Market in US is strong, we are consolidating our operations in US to prepare ourselves to get into a size that we can do something bigger, so this year would really be to get to a size of at least a combined operation of around 10 Million Dollars before we start talking of what else we could do next. At the moment we are not announcing anything.

Piyush Mittal: Okay, last question on Thukela I think there was some discussion on maybe using it for fusion for internal purpose given the power cost in India?

K. Srinivasan: We are doing some amount already there, we are brining some fused material from there for our Indian requirement. Thukela the whole strategy is still WIP. You must give us a few quarters before we come up with a more stable kind of a thing. The vision like I said is, it is a value chain integration. It integrates value into the Foskar material it integrates well into the end use in India as well, but we will have to get our act right. You will have to give us a few quarters. Now the priority is to get into a cash break even we are going to work on that and to establish customers before we can formally announce. This is the way we going to take Thukela forward.

Piyush Mittal: Okay, thanks a lot.

Moderator: Thank you. Next question is a followup question from the line of Kashyap Poojara from Axis Capital. Please go ahead.

Kashyap Poojara: My question is pertaining to the ceramic segment. You were mentioning that broadly while margins could be in the range of 13% to 15%, you will still be able to maintain volumes, but another point which I wanted to take clarity on is that you did mentioned the coal washery segment in Australia is going through some amount of pressure and it seems that there would be only repairs rather than new projects and also you did mention about the power project related issues so your metz cylinder predominantly would be again export driven through that segment. Internally in domestic we are seeing a lull in terms of the broader industry is concerned, so would it be fair to assume that we would still be able to maintain the run rate of volumes there or do you see some amount of pressure panning out on top line also?

K. Srinivasan: Top line we will do Kashyap for two reasons, one is I think we had a very poor North American sales last year and our sale in the US is picking up. It is not at a great margin that is why I said margin would remain reasonably around the range. I said 15ish, but volumes will be there so there is some bright spot that we clearly see. All what you said I accept, but the only difference I would see is in the metallized part surprisingly even the domestic switch gear producers and others seem to have significant orders, and whatever little they were earlier importing that is almost gone to nil with the kind of Rupee rate that is running. So we are still having strong traction in our metallized for domestic. We are getting reasonable traction with establishment of new customers in Europe and in the US for exports. So metallized, we expect a Q2, Q3, Q4 to actually grow and with that overall our top line would be growing and we are reasonably confident. We touched ceramic but also the vertical includes refractory. In refractory the two new tie-ups actually pulling traction. We are definitely getting volumes both from shotcreting and others with the Sheffield tie up. Though steel itself is not doing well, cement itself is not doing well, since our market share in these segments are relatively low we seem to be winning orders. Same is true also with Andaman, which largely allows us to address the high end casting which is largely used in aerospace industry. This is an almost recession proof industry, the life-cycle product. You have to replace at a given number of hours so this again there is traction. So volumes are not going to be an issue in this business

Sridharan Rangarajan: And Ceramics will pick up because that is project based. We know certain projects will come up. I think by and enlarge in ceramic the volumes will pick up in the next few quarters.

Kashyap Poojara: Okay fair to assume that. And in the refractory side what you were mentioning about the tie-ups, have we now actually started the slide gate refractories and basically trying to address the iron and steel segment, have we actually started you know knocking on that on those doors or are we still catering the same traditional segments?

K. Srinivasan: On the iron and steel we are in, we are in a reasonable way we are not supplying slide gates in India. We are doing slide gates at Thukela and supplying into the South African market. We have not yet brought it into India, but we are doing other things. We are doing taphole clay and we are doing other products there, and this is a very good because this is more R&M. The slide gates get into R&m, but this is more project oriented so we are really getting into the steel industry that’s why I said the Sheffield tie-up is really helping us to get into steel.

Kashyap Poojara: Fair, and the last point was regarding the abrasive side, I wanted to ask you that is it competitive in India to be a producer of silicon carbide considering the current electricity rates that we have, or is it yet viable to basically import so if you were having grid power versus a choice of importing what would you end up doing?

K. Srinivasan: If we have to take grid power and produce silicon carbide in India nobody would produce. We are producing only because we have Maniyar there, otherwise we won't produce silicon carbide in Cochin.

Sridharan Rangarajan: And also our silicon carbide, what we produce is mostly internally used and its small quantity

K. Srinivasan: Even the other people they don't produce anymore they get it from outside and they are only doing processing in India. Practically using silicon carbide in India with grid power anywhere you can forget it, it makes no sense.

Kashayap Poojara: Fair enough, thanks.

Moderator: Thank you. We have a followup question from the line of Ram Hegde from Primus Investments Advisors. Please go ahead.

Ram Hegde: Could you just give some color on the metz cylinder, how is the state of sales of the customer out there and what is your utilization there?

K. Srinivasan: Ram in metz, we used to do good times about 65,000 cylinders a month saying that it's a 0.8 million piece capacity depending on the product mix, etc., but during this downturn we have done what is called as discover of factory within factory project which means that we have try to de-bottleneck and improve it. We believe a current plant can do up to 1.1 million cylinders, which means we still have a headroom. We are at the moment doing less than 50,000 cylinders a month. So I have significant capacity. About 50% of our sale is in India 50% is exported, almost all the export at the moment is going into Europe. Sale in India is to all the three big names, out of them one seems to have run into technical issues, others are doing reasonably well.

Ram Hegde: About your double Zirconia facility in Foskar which is just started, is it fair to assume that your one, the utilization would rate some like 40% to 50% at least?

K. Srinivasan: Utilization today is zero. We still have not commercially started it. We are just doing production running 20, 30, 40 tonnes and shipping.

Ram Hegde: No I am saying for the full FY'14?

K. Srinivasan: FY'14 lets say I am hoping at least we will have two quarters of full production which means running about 300-350 tonnes a month, on the bubble you are talking of and so that is the maximum. I think we would do about 2000 tonnes out of the bubble plant.

Ram Hegde: There was some talk that you all had lost some market share in the abrasive side is that right and any sense what is happening there?

K. Srinivasan: I do not know where it came from.

Ram Hegde: Okay, thanks.

Moderator: Thank you. Ladies and gentleman that was the last question. I would now like to hand the floor back to Mr. Jasdeep Walia. Thank you and over to you Sir.

Jasdeep Walia: On behalf of Kotak Securities I thank the management of Carborundum Universal and all the participants for taking time out to be in this call. Good day everybody.

Moderator: Thank you members of the management. On behalf of Kotak Securities Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines. Thank you.