“Carborundum Universal Limited
Q1 FY15 Earnings Conference Call”
Hosted by Ambit Capital
August 04, 2014

MANAGEMENT: **MR. K. SRINIVASAN - MANAGING DIRECTOR, CARBORUNDUM UNIVERSAL LIMITED**

MR. SRIDHARAN RANGARAJAN - CHIEF FINANCIAL OFFICER - CARBORUNDUM UNIVERSAL LIMITED

MR. RAJA MUKHERJEE, DGM INTERNAL AUDIT & STRATEGY

ANALYST: **MR. TANUJ MUKHIJA - AMBIT CAPITAL**

Moderator: Ladies and gentlemen, good day and welcome to the Carborundum Universal Q1FY15 earnings conference call, hosted by Ambit Capital. As a reminder, all participants' lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal an operator by pressing "*"then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Tanuj Mukhija of Ambit Capital. Thank you and over to you Sir!

Tanuj Mukhija: Thank you, good afternoon everyone. It is my great pleasure to introduce the Carborundum Universal management represented by Mr. K. Srinivasan, the Managing Director; Mr. Sridharan Rangarajan, the Chief Financial Officer; and Mr. Raja Mukherjee, DGM Internal Audit & Strategy. I will now hand over the mike to Mr. K. Srinivasan for opening remarks. Over to you Sir!

K. Srinivasan: I am actually happy this quarter to talk to you all for a couple of reasons. I think after a few quarters of let us say we are seeing slowing down of general uncertainty, I think we are seeing clearly improvement happening, clearly good things ahead, and so I thought I should first share with you broadly the context of our various business and then leave the numbers largely to Sridharan and take it forward. On a consolidated sale, you all know Q1 always for us is a slightly slower quarter compared to Q4, but in spite of it our consolidated sale at 516 Crores or an income of 522 crores was a good top-line. It was 3.1% growth QoQ, 1.7% lower sequentially. Overall, profit before tax on exceptional items was 42 Crores, which is higher than the sequential quarter, but it was lower than the corresponding period of last year. Let me touch on various verticals and then I will go to the geographies.

On abrasives, I think we not only had good sales in the first quarter, but most importantly the product mix started changing. We have now started seeing order inflow, though the orders have not become sales in the first quarter as much, but clear order inflow from the automotive and auto-component sides, you will see this improving margins in Q2. The margins have already turned better, but it will get better from the next quarter. Order flow is definitely improving, like you know 75% of our business comes out of India and clearly we are seeing improvement in the order flow on the abrasive side. We did 212 Crores versus 206, which is a small growth, but the bigger thing is the order flow that is coming in. On abrasives, I would say largely good times ahead, margins will come back, growth will come, and India particularly is showing positive signs.

On the electro-minerals, clearly the volumes went up, we did 202 Crores against 195, this is in spite of the fact that our brown fused, which is driven by certain amount of non-plant bauxite, etc., was lower, but in spite of it we did well. Our specialty is selling not only in India, but abroad. We had better sales out of Russia as well in spite of all what you have been reading of issues there. So overall the electro-mineral business actually started of on a strong note and again I must state order flows are looking good.

On the ceramic and refractories, this has been a bit of stress business because it is largely dependent on projects. Some amount of clearance of projects started happening. So to that extent I am seeing the ceramic business picking up faster. Our sale into Australia is getting better, our sale in ceramic projects to power plants are getting better. Refractories growth has been a little more slower, but hopefully it should start picking up once the execution of these projects start coming. So clearly the first quarter was a sign of things getting better, margins getting better, but most importantly what is not here and where I would like to add if order flow is getting better, which means really our Q2 should start looking better. We spent about 19 Crores on Capex, half of it on the standalone, half of it on the consolidated, most of it is in Russia, so we are continuing to keep that low-key Capex going to debottlenecking and increase capacities.

Now, I will just touch on the geographies in the key businesses. The Indian business clearly is getting better and I think that is first good sign I must say. Order flow, like I keep repeating, is getting better, which means that Q2 onwards things should get even better. All the three verticals, ceramic, refractories, electro-minerals, and abrasives the standalone will get better. On the other geographies, I think we have tried to get our act together in the US. We have closed down our operations in Canada, shifted everything into the US. We have a new warehouse in conversion there that is stabilizing, so the US market should start picking up and getting better in the next quarter onwards. We are still in the verge of trying to see how to reposition our ceramic in the US market, which will take us at least another quarter, so we will see much better things happening in the US from the third quarter.

The repositioning of Chinese business to address the domestic market rather than the international or export market is still on. It is work in progress, so China actually did not do well in the first quarter, but things are gradually turning around as we are now addressing more and more the Chinese market sales. Australia actually after a big slowdown in the coal washery business last quarter started getting better. Our order flow seems reasonably good, so I think there is a certain amount of maintenance orders in Australia which has to come back and it has started coming back. We have won a couple of projects through the Australian operation for power stations going into Middle East and into South East Asia and that is adding to our businesses. Better part of that will come in the second quarter. The Russian business produced record production of silicon carbide in the first quarter, but the refractories was affected because like you all know refractories in Russia is primarily into the aluminum industry and that is still not picking up, but the good news there is we have been approved by the largest aluminum producer of Russia, which is RUSAL as well as by a large producer in the Middle East.

Consequently, as this market keeps picking up, volumes will come back faster for us than others because we have been approved and we are getting our products in there. The big piece in Russia in terms of the electro-mineral while tonnages are being there we continue to sell predominantly into the CIS market in Europe. We are a little concerned with what is happening in Europe and consequently during this quarter we will try and see how we can address it by having a better marketing presence in Europe.

We are working on certain things to see how we can address the European market, better with some kind of a marketing initiative in Europe. This is work in progress; you will see it in Q2. The South African businesses both Thukela refractories and Foskor Zirconia, though they did better they are not really pulling as well as we would like it to. We have come to certain clear decisions on what we want to do in both these businesses and it is at the moment work in progress. As we start implementing it we will start making announcements. Clearly, both these businesses need certain structural changes and we are working on it and we will try and see how we can do this during the Q2 and Q3. With that I think we will try and see how to get these businesses on even. So to summarize I would say good start to Q1, clear change in direction in terms of both margins and growth, and you will see it happening better in Q2 onwards. Areas of concern that is being addressed is one is marketing of our products in the Europe and out of Russia and as well as the technology cum market issues in South Africa. All the three are work in progress, and as we start moving up we will make formal announcements, so now I will request Sridhar to take the numbers.

Sridharan Rangarajan: Good afternoon to all of you. I will first summarise the financials. At consolidated level, we registered a sales growth of 15.5 Crores, which is 3.1% growth compared to the corresponding quarter last year. The profit from operation before other income, interest, and exceptional item increased by 4.6 Crores for the same period, QoQ. Sequentially, the profit went up by 7.6 Crores, so operationally the profits are going up; this is the first thing I would like to highlight here. Standalone operating PBT percentage dropped from 9.6% in Q4 13-14 to 8.1% in Q1 14-15. This drop of 6 Crores came entirely from two items. We had lower volume of 24 Crores. Mr. Srinivasan was telling that Q1 is normally a lower quarter compared to the Q4 and higher depreciation to comply with the new Companies Act 2013. On a QoQ basis, margin dropped by Rs.10 Crores, which happened due to the following, higher depreciation of Rs.2 Crores, lower dividends/management fee is largely a timing issue of Rs.2.5 Crores, adverse impact due to exchange another Rs.2.5 Crores, increase in other costs, power and fuel, employee cost largely driven from the lower rainfall in Maniyar compared to last year, which is basically the power cost increase of Rs.3 Crores, so in all it is about Rs.10 Crores.

As far as the consolidated numbers are concerned, PBT drop of Rs.4.8 Crores on a Q-o-Q basis happened due to the following, standalone impact of Rs.6.8 Crores, which is basically net of dividend from subsidiaries and JVs, gain of Rs.2.5 Crores from JVs**,** all the three JVs did exceptionally well in this quarter, and subsidiaries giving almost the same result compared to the quarter before. On a sequential basis, there was a gain of Rs.2.8 Crores, which happened due to drop in standalone of Rs.6.6 Crores. Some our subsidiaries and JVs gave a gain of Rs.9.5 Crores, so resulting into Rs.2.8 Crores gain.

Coming to abrasives, PBIT margin in abrasives moved from 9.8% in Q1 of 2013-2014 to 5.8% in Q1 of 2014-2015, a drop of Rs.8 Crores, this is largely coming from the standalone, which consisted of 75% of the consolidated sales. CUMI abrasives margin dropped by Rs.5 Crores due to the depreciation impact of Rs.1.3 Crores and the rest due to the volumes. The balance drop of Rs.3 Crores came from CUMI China from lower volumes. On a sequential basis, the margin expanded by Rs.3.5 Crores led by the increase in standalone abrasives margin of Rs.1 Crore, which happened by way of lower cost. Going to electro-minerals, consolidated PBIT margin of EMD had an increase of Rs.9.8 Crores on a sequential basis and on Q-o-Q basis, it was flat. The increase of Rs.9.8 Crores came by way of Rs.2 Crores from standalone due to the product mix and lower cost and Rs.8 Crores coming from VAW which is due to the higher volumes. Q1 of ours, which is Q2 of VAW is always a higher quarter.

Ceramics, PBIT margin of ceramics improved by Rs.2 Crores on a Q-o-Q basis, which came entirely from standalone due to higher volumes and prices. On a sequential basis, the profit movement was flat. Capex, as Mr. Srinivasan explained that we spent so far Rs.19 Crores in the first quarter on a consolidated basis. We plan to spend somewhere in the range of about Rs.60 Crores to Rs.70 Crores on a full-year basis. On a standalone basis, the debt-equity ratio improved from 0.16 as of March 2014 to 0.10 as of June 2014, which is probably the lowest ever.

The total debt on a standalone basis decreased from Rs.119 Crores to Rs.75 Crores as of June 2014. On a consolidated basis, debt-equity ratio improved from 0.41 as of March 2014 to 0.38 as of June 2014. The total debt decreased from Rs.456 Crores to Rs.437 Crores. As far as the Forex policy, we continue to adopt the same what we used to do, which is basically covering the net of import versus export at minimum 50%, so the same policy continues. The three broad play as far as Forex is concerned, translation loss in consolidated sales QoQ is Rs.4.5 Crores, which is basically translating the currencies of respective countries to Indian rupee 4.5 Crores lower sales and sequentially the sales came down by Rs.5 Crores due to this translation effect. Total Forex loss is Rs.2.7 Crores, which you can see it in the profit and loss account itself. So with that, I think we will open up for the questions and we will answer your questions.

Moderator: Thank you very much Sir. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Balchandra Shinde from B&K Securities. Please go ahead.

Balchandra Shinde: Good afternoon Sir. Regarding business wise electro-minerals on the standalone basis it declined by 10%, any specific reason behind this one?

K. Srinivasan: Normally, we have some volume coming in from what we call as the bauxite-related business as well as from the alumina basically and this actually is a timing issue. We did not do it in the first quarter hopefully a bit of it, which we had significant one in the last year first quarter and now we expect a lot of it to come in the second quarter. The basic manufactured products have been relatively good. We have not gone down at all. So I think it is a bit of timing issue and we hopefully should get back in Q2.

Sridharan Rangarajan: As far as the drop, the profit that you are talking about Rs.2.4 Crores, squarely Rs.2 Crores of that comes from the higher power cost. Typically what happens is we had the best ever rainfall in the last year in Maniyar versus this year, so that is how the Rs.2.2 Crores of higher power cost in this quarter versus the corresponding quarter last year, which is the biggest driver for the profit.

Balchandra Shinde: Sir regarding the power and fuel cost in standalone, will it continue at the same range or you expect it to soften over a period of time?

Sridharan Rangarajan: Standalone what happens is that typically Q1 and Q2 you will have the benefit of Maniyar's rain largely in Q1 and some extent in Q2. As in Q3 and Q4, we will start seeing the power cost growing up because the set off of Maniyar comes down, so this trend would continue plus we are seeing some amount of let us say the power cuts in Tamil Nadu, the number of hours is going down. So to that extent we also see some benefit. So pretty much we see this trend continue for the rest of the three quarters.

Balchandra Shinde: On the subsidiaries level, we see power and fuel cost increasing by around 17% that is largely because of which…

Sridharan Rangarajan: We have three reasons for that, one is Russia, which is again the volumes of Q1 is far higher and second is Foskor and third is Thukela, because all of that the volumes are higher and we have been doing bubble plant production all that is higher compared to the prior period, so that is the reason for the power cost going up.

Balchandra Shinde: Sir as you said the electro-minerals business did well in Russia, volumes were very good, will there be stable volume growth or it is one-time volume growth?

K. Srinivasan: Russia is running at full production as far as the FIC fusion is concerned, we will continue to run it at approximately about 18,000 tonnes a quarter. We are running best ever, we will continue to run it at it, and like I said we may need to have and we are working on it to have some more marketing support in Europe to see that, we will continue to run the plant flat and deliver all the products to us.

Balchandra Shinde: Sir last question regarding Foskor Zirconia, we started supplying Bubble Zirconia, what kind of volumes we see for this full year?

K. Srinivasan: At the moment, we are able to run approximately about 200 tonnes a quarter out of the bubble plant. We should see that stabilising at that.. We are still continuing to face technical challenge in scaling up. This plant is capable of going up to at least 500 tonnes plus per month, but we seem to have technical challenges that we are trying to sort out. At the moment, I can only say reasonably I do not expect to cross this 200 at least for the next one or two quarters, 200 tonnes per month is what we expect to do in the next couple of quarters.

Moderator: Thank you. The next question is from the line of Ram Hegde from Primus Investment Advisors. Please go ahead.

Ram Hegde: Just on Foskor Zirconia part which we just talked of now, could you give some color, what is the sort of losses that we are incurring there?

K. Srinivasan: Foskor Zirconia first of all we did not make a loss.

Sridharan Rangarajan: Foskor capability to produce is higher thereby we will be able to have a higher volume and higher realisation coming. That we have challenge in terms of increasing the capacity utilisation to that level. So that is what is the current challenge that we are going through

Ram Hegde: If you are running at 150 versus capacity of 600, I am just curious, that you are still profitable.

K. Srinivasan: The other plant is running at optimal level, the price realisation is good. What you are saying is right, if you look at the bubble plant on its own, it will make a huge amount of drag on the business because it is not running to capacity and at this level your efficiency is in terms of power, electrodes, everything is very poor, so there is a technical challenge that we are still facing.

Ram Hegde: What is the path to profitability if you take by the end of this year, where should we be on Thukela plus Foskor really, the South African ventures.

K. Srinivasan: I think we should look at it as two separate pieces. The Thukela, I think we have gone ahead and initiated certain actions. We will formally start doing it step by step, but clearly we have to find a way to see how Thukela comes back to, I mean the whole business has to be brought to some shape. I think we will announce it as we go forward as far as Thukela is concerned. Thukela we are fairly clear on what we want to do there. As far as the Foskor Zirconia is concerned, it is still at a point, where there is a technical challenge on the bubble plant. The good news is the bubble that we have produced from there has been delivered to some of the largest uses of bubble Zirconia in the world. In nuclear industry, in color industry, in refactory industry and it has all been accepted and I am talking of world leading companies in Europe, in US and Asia. So the product that comes out of it is outstanding in terms of quality specification, etc. That is a positive. The negative is that we are running the plant this way, way below its rated capacity and we are technically challenged in terms of scaling up, which means it comes at far higher cost than it should because unless you run it flat your electricity cost, your electrode cost, your operational cost are way out, plus it is not running to capacity which means that we are also not making the kind of money that we should out of the top-line. So this is a challenge we need to address, we are looking at technical assistance, we are looking at help, and let us see how it goes, because we will have to take a call maybe at the Q2 or Q3. If we cannot solve as it is there, we may even relocate it, but that we will come to it only in Q2 or Q3.

Ram Hegde: On VAW, where are we in terms of the capacity expansion and what is the sort of utilisation there?

K. Srinivasan: We are running it flat. We are only debottlenecking. This plant cannot produce more than 75,000 tonnes. We were at 60 when we bought it, we have brought it to 75. We are stretching it to 80 this year. That is the maximum we can do in that location without any investment. We are not putting up a new project with all the changes that is happening in the ecosystem there, we are considering the fact that we must have a better frontline delivery process into Europe, with all these new challenges that we have in the political front and so we would focus more to see that we secure good market access for this, let us say 18,000 plus tonnes of quarter going forward before we think in terms of increasing capacity that is it.

Ram Hegde: Sir, last question from my side in terms of the aggressive margins, is it fair to assume that we are the bottom really?

K. Srinivasan: We actually started coming back, I think you will see that Q1 to Q4, we have come back and this is very incremental what you have seen. Like I said, I am happy because I know the order flow that has come in, I also know what we did in July which gives me that much more confident that not only we have bottomed out, but we will probably come back sharper than what you would expect.

Moderator: The next question is from the line of Farzan M. from Axis Capital. Please go ahead.

Farzan Madon: Good afternoon Sir. In terms of the subsidiaries I see that Russian subsidiary is making a slight loss, it is not breaking even?

Sridharan Rangarajan: No, who said it is making a loss.

Farzan Madon: If I subtract consolidated minus the standalone, in the subsidiary it is 6 million abrasive, this is in the abrasive division.

Sridharan Rangarajan: Abrasives in this quarter has improved, compared to the last quarter. So I think you are looking auditor statement where you are looking at the some of subsidiaries we are looking at. Loss is coming China, that is where it is coming. As far as VAW is concerned, they are slightly better than the last quarter.

K. Srinivasan: I think we explained it in the last earnings call; we did do a fundamental restructuring of our abrasive business in Russia in the last quarter. It is now, let us say bottomed out and you will actually start to see things getting better going forward even in Russia. The loss that is coming there is largely an increased loss in China, which I explained when we started saying that we are now clearly on the path of saying that the business must completely refocus its attention on the Chinese market rather than focus on exports. We have taken a couple of tough decisions and you will see that this loss also starts coming down from the next quarter.

Farzan Madon: So can we expect 10%, 12% margin going forward overall on a consolidated level for abrasives?

Sridharan Rangarajan: We said that currently if you really see, standalone we are seeing some slight improvement, we are reaching to 8.3 at this time and at consolidated we are at about 5.8%, which is moving from 4.1%, we have moved to 5.8 and we said first step, we will probably reach to the extent of 7% to 9% range, that is the first step, then in two years' time, we said we will have this margin going up. Once we have this, let us say, China issues addressed, plus the domestic margins going up, with these put together we will have better things. They are doing fine. It is largely the China and the Indian market that we need to address.

Moderator: Thank you. Ladies and gentlemen all are requested to limit your questions. If time permits, we will come back to you should you have any more questions. The next question is from the line of Jasdeep Walia from Kotak Securities. Please go ahead.

Jasdeep Walia: Good afternoon Sir. Sir what has been the capacity utilisation in the micro grit facility and can you elaborate on, have your initial efforts to increase capacity utilisation there borne fruit?

K. Srinivasan: It is running at about 20%, I would say even slightly lower than 20%. Several steps have been taken, trials have been given, some new applications we have tried to establish, and quite honestly we have not found the magic bullet which targets fully. We are working on it. It is going to be work in progress at least for another one or two quarter. I do not have one big answer that will clean it up. It is improving, but it is still very very slowly, 20 is very small and that is really something which is concerning us and we are doing something on it.

Sridharan Rangarajan: We took four different actions which we have briefed you earlier also, and we told that it would take about two to three years for us to get that fruit of that. If you look at the milestones under which we are progressing, we are reasonably progressing under the milestone. So I think this capacity utilization is not going to magically improve in the two to four quarters, saying 20 will go to 40 like that, but we are confident that at least in the next two to three years, it is this path that we pursue will take us to a better position.

Jasdeep Walia: Also could you comment on the mix in your Russian operations, and what are the trends that you are seeing there going forward?

K. Srinivasan: At the moment, it is almost 60% metallurgical. I think we have to expect that this will stay this way for at least the next one year or so. Reason being that we have to be aware that we have to sell more in CIS and less into Europe till we get our European marketing operations in better position. Only then we can start addressing refractories, abrasives, and other customers, and with all this new political situation I think this becomes a very important step going forward before we even starting putting up capacities. So short term 60% metallurgical and 40% others.

Jasdeep Walia: Got it Sir. Could you also elaborate on what are the reasons behind your problems in marketing Russian produce in Europe?

K. Srinivasan: There is no specific problem, but with all these changes that are happening you would realize that increasingly small retail customers if you have to go and approach a refractory customer, there would be a level of reluctance to buy material out of Russia. They may not be averse to buying a Russian origin material as long as it is delivered in Europe. But for them to order and take material from Russia with all these things happening, there is that level of reluctance and we are looking ahead, today it is not an issue, today we are making, selling, etc. But if we want to address more and more abrasive or refractory customers, not the metallurgical customers, these are smaller customers who will buy smaller tonnages, etc., they would find it more comfortable to transact with European companies in Europe.

Jasdeep Walia: So just opening up a front-end office in Europe would solve the problem?

K. Srinivasan: We have to find a better solution, because we may have to even deliver products in Europe, right. So, we will have to see how to do it and how to structure it. We are working on it; it is still work in progress. We have to come up with something which is reasonably good. Like you know in Europe delivering silicon carbide needs lot of approval, registrations, and a whole lot of other procedures to be followed. So we will comply with all that and come up with some good solutions.

Jasdeep Walia: In your ceramics segment, your top line is more or less flat YoY, but your margins have improved. The reason behind it I thought the only variable on which margin depend was improvement in sales which has not happened, but still margins have improved?

Sridharan Rangarajan: Largely if you really see, one is the mix of this one, because Ciria, our joint venture, has given a far better result and including MMTCL sale also. If you look at within industrial ceramics as well, again the higher product mix is giving us results. So, these are the reasons why we are seeing a better margin with almost flat sales.

Jasdeep Walia: Got it and that is all from my side Sir. Thank you.

Moderator: Thank you. The next question is from the line of Tanuj Mukhija from Ambit Capital. Please go ahead.

Tanuj Mukhija: Sir you have highlighted that the product mix is in your favor in abrasives and ceramics. Can you please highlight of what is it that you are seeing right now in the abrasive product mix and secondly what is the competition intensity, has that come off?

K. Srinivasan: The favourable product mix I talk of is higher sales to the automotive, auto component industry. The order flow in June, July, so far has been very good. This is also borne out by the fact that you have seen the auto sales are actually growing. So really we are getting better orders from these customers, so that is a favorable product mix. Auto, auto component companies tend to buy only from the good companies. They do not buy cheap imports and other things, so which means that the competition intensity here is also significantly lower. Because they do not just buy any products. They need specific approvals, etc., so they tend to buy more from Carborundum and reliable companies; consequently the competition intensity in these businesses is lower.

Tanuj Mukhija: Can u tell me what is the impact if at all any on the ongoing political crisis in Russia and Ukraine on your operations in Russia?

K. Srinivasan: As such the operations in Russia is not impacted, except that you must be aware that there are about 300,000 refugees of Russian origin, Ukrainians who are staying in Russia now, in each of the major factories have been asked to consider some number of people. We have inside our factory 30 families staying now. This is a small cost, but these are social costs that you might accept. So we are supporting them and they are sort of finding a way to keep them and to sort of put them somewhere. So at the moment, that is all the real disturbance, but it is a very difficult situation because the people getting displaced and coming into Russia, basically ethnic Russians and there is a level of disquiet in the border and you are reading like as much as all of us about all that is happening in terms of sanctions, etc. Operationally no major difficulty except these few families staying with us, which is very small, I mean as a cost it will be about less than a half a million Ruble for the whole year, but there is disquiet and we must plan the business based on that.

Tanuj Mukhija: My final question is, what are these sustainable EBIT margins in your overseas subsidiaries and JVs?

Sridharan Rangarajan: We just generally give broad guideline in terms of the total margin, we do not split it into domestic and overseas type of things, and so at a consolidated level currently we are running in abrasives somewhere in the range of about say 6%. In that we will be in the range of about let us say 7-9% to start with and then we will start moving up at this point in time. As far as the ceramics, we are running at about 14-15%. We expect this trend would continue and slightly go up in the next few quarters as we start getting volumes coming back in refractories. Electro-minerals, I think that this quarter we are at about 13%, last year we ran at about average of 10%, so we expect somewhere in the range of 12-13 is what we would continue for this year.

Moderator: Thank you. The next question is from the line of Ram Hegde from Primus Investment Advisors. Please go ahead.

Ram Hegde: Just one question pertaining to your annual report really and if I see page 83 which was relating to Thukela where you said that the losses you are showing up flat. Despite FY 2014, I thought was a full year of operation versus FY 2013?

Sridharan Rangarajan: FY 2013 was an eight-month operation.

Ram Hegde: Yes, but then by that logic the losses should have been higher, but you are showing losses actually have been marginally lower?

K. Srinivasan: Particularly if you look at the last quarter the volumes came back significantly, RHI started picking orders, etc. So actually the volumes came back and our losses actually came down, because the first eight months was almost a very low order flow and the losses actually came down, but having looked at the first quarter, etc. we have decided that we will have to take some quick steps and we are going ahead with it. We will make formal announcement,

Ram Hegde: But standing where we are today is do we see lots of….

Sridharan Rangarajan: Somewhere 3-5 crores of loss per quarter, depending on the volumes and depending on the product mix in that range.

Ram Hegde: On the abrasive domestic side, in terms of the competitive intensity you said there is not much change and you are seeing improvement, so the domestic abrasive margin should pickup going forward?

K. Srinivasan: Yes, because basically what happens is if the auto, auto component business picks up which has got a least competition intensity because it is almost entirely serviced by good companies, which give product, service, application engineering, etc. So practically it is almost a bipolar market there, and as that picks up, not only that the margins pick up, but also the competition intensity on an overall basis declines.

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

Balchandra Shinde: Regarding Thukela refractories, as you indicated last quarter that you are trying to utilize that facility for fused alumina production, so where are we on those lines?

K. Srinivasan: Basically we are running with a couple of issues there, one is it is dependent to an extent on orders to the refractory industry, almost all that we fuse there practically goes to the refractory manufactures, be it RHI or others, that is an industry which is still not doing very well globally, that is the first thing, so our capacity utilisation against a very rough estimate of 22,000 tonnes a year, we are at less than 30-40% in that, so that is a huge drag, so one is we will have to decide what else we can make, where to make, does it stay there, can it be moved elsewhere, so these are questions, we have taken a few calls and we will start implementing and then we will make formal announcements.

Balchandra Shinde: Okay, and Sir in Russia, there was good growth in this current quarter. If you can bifurcate how much sales was in Europe within Russia and other regions from Russian entity?

K. Srinivasan: The only thing that gets exported to Europe out of Volzhsky is really the electro-minerals. Both the abrasive products and to a large extent refractory products, some refractories are exported but not to Europe, mostly to Middle East. Most of it is all in the CIS countries, not Russia, but in CIS. So, if look at non-CIS Europe business out of the electro-minerals, 18,000 tonnes which we do in a quarter, I would say very roughly about 5,000-6,000 tonnes go to Europe.

Balchandra Shinde: Can one say that considering this geopolitical risk, these 5,000-6,000 tonnes can be a downside risk to the revenues from Russian entity?

K. Srinivasan: Short term we do not see it, because like you see, the worst of disaster so far was actually in Q1 and we ran the plan flat and we sold everything. We only see things quietening down, cooling down than what it was in Q1, but on a longer term if you have to grow the business, look at it long term, and to take up capacities further it is good to have some kind of front end in Europe, we are working on it to see how we can do this.

Balchandra Shinde: Can we compensate this, for example if by chance we are not able to sell this 5,000-6,000 tonnes in Europe, can we compensate the sales by selling it to the other regions?

K. Srinivasan: We can sell it even into Asia, India, other places, but it will be at a lower price. The money you make selling into Europe because the freight being cheaper, because you're next door, you would end up paying that more extra for freight, so consequently margins will come down. But you can sell everything, I mean if your question is will you run the production flat and sell everything, the answer is yes. We will still run it flat, we will still sell everything.

Moderator: Thank you. The next question is from the line of Vinay Rohit from ICICI Prudential Life Insurance. Please go ahead.

Vinay Rohit: Sir, just one question. If I look at your close competitor, they had pretty good abrasive sales and abrasive revenue growth in the first quarter, so what explains that difference?

K. Srinivasan: We also do not know this, because I am trying to analyse the sudden spurt in top-line both in Q4 and Q1 unusual and I do not have an answer. Let me answer this way, as far as we know from the market, the market did not change as dramatically so our performance in the market, relative to the market is probably in sink, what you ask is a question is really best answered not by me really in that sense because I do not know, it is not based on the market, unless there is a huge export or something else happened, I am not able to explain this.

Vinay Rohit: Sir, just one thing, when this year started our expectation was that revenue could grow closely 10% sort of for this year?

K. Srinivasan: At the moment, let us see, it looks positive.

Vinay Rohit: Okay, so we still retain the sort of expectation?

K. Srinivasan: Because last year if you at a consolidated revenue growth, we were almost at about 9%, so I think this year, 10 I think is definitely on at this stage.

Vinay Rohit: Okay, and the margin we expect improvement from this quarter?

K. Srinivasan: That is for sure.

Moderator: Thank you. Next followup question is from the line of Vinay Rohit from ICICI Prudential Life Insurance. Please go ahead.

Vinay Rohit: Sir, just one more thing, you said that Russia given that you have political risk you are still evaluating the Capex, so what is the outlook for Capex in India given that things are expected to improve?

K. Srinivasan: If you look at the year before last Carborundum consolidated did almost about 200 Crores of Capex. We did the highest in our history, and a lot of that Capex actually have still not got fully utilised because after that we had one year of 1.3% negative on consolidation, the other year is about 8% plus, so really we are running most plants not at the full potential except some pockets where we say is running flat etc., at most places we have at least about 30-35% capacity available to us. There could be small Capex for debottlenecking, special capability, etc., but across the locations we have significant Capex, so I think for at least as we see this year we would go slow on our Capex unless there are some extraordinary opportunities or something specific coming up, we do not even see that at this stage, so really in the next let us say three quarters to four quarters it should be to get our capacity utilisation up and that will really change the whole complexion because the money is invested, everything is in place, we run plants, plateaued, efficiencies go up, everything starts getting better, so that is going to be the game at least for the next three quarters.

Vinay Rohit: Okay, thank you Sir.

Moderator: Thank you. Next question is from the line of Jasdeep Walia from Kotak Securities. Please go ahead.

Jasdeep Walia: What would be the normalised run rate of depreciation expense for the consol operations?

Sridharan Rangarajan: This quarter we had about close to 1 Crore of that picked up for the standalone so that 1 Crore could range somewhere between 70 lakhs to 1 Crore per quarter higher depreciation depending on the shift, so you can say somewhere about 2.5 to 4 Crores range we will have.

Jasdeep Walia: Sir this quarter depreciation expense was 26 Crores?

Sridharan Rangarajan: Yes. I am telling the additional standalone, which we add because of the change in the Companies Act was about 1 Crore.

Jasdeep Walia: Okay, so that Crore is for prior period of one-time adjustment.

Sridharan Rangarajan: No, the 1 Crore is for the current that is for that particular quarter. Prior periods are adjusted in the results, so that is not affected in the P&L.

Jasdeep Walia: Would Thukela be profitable at the PBT level this year?

Sridharan Rangarajan: I think we need to wait and see, because as Mr. Srinivasan was explaining, currently the capacity utilisation versus what RHI is honoring or likely to honor, we need to strike a balance between the customers' interest and our own long-term objective versus what the local plant can offer. So that is the process under which we are currently looking on. So let us wait for a trial run and making a conclusion on what we will do or what could be the effect of it. So we will probably share as and when we know more on that and come back to you.

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

Bhoomika Nair: Sir you sounded quite upbeat on the domestic abrasive division led by the pickup in the auto segment, so we have already seen some uptake in margins, already in the first quarter, when do you think we will come back to, will this drive us coming back to historical level of margins of 12-13% at least on the standalone business?

K. Srinivasan: We are on the path, I do not want to see whether it will happen this year itself, but like Sridharan explained, clearly it is on demand is getting better, but again two parts, one is product make, second is the volumes coming in, because automotive alone will not drive volumes, we still have to get our projects in, we have to get our thin-wheel business running because that goes largely to construction fabrication sectors, etc. So it is on demand and if everything picks up it will happen, so it will be QoQ clearly improving.

Bhoomika Nair: What is the status of our Uttarakhand plant because I think last couple of quarters you had mentioned that there were some scale-up issues?

K. Srinivasan: In Uttarakhand we have put in significant capacities, we are still running the plant at less than about 60% capacity. So that is what I said, projects would have to drive use of thin wheels, such as construction, fabrication project is what drives the volume, we are behind as far as the technology related issues are concerned. So that is a good news, the new product that is coming out of it is all absolutely international standard, the best test for that is a significant part of it is also being exported today, so we are quite happy with what is coming out of the plant, we are positive about it. We need to get the volume to start getting the efficiencies and the profitability.

Bhoomika Nair: And my second question was on the India micro grit facility, as you said that is where we are getting hurt on the standalone basis at lower utilisation, now here we are trying to you know get a lot of certification and approvals from the higher value added products, so could you just elaborate on the status of the same?

K. Srinivasan: We said we will look at three or four major areas, where this could be used. One is the photovoltaic itself. There is a sign of revival, I have not even seen it yet, but there is a bit of a smell of revival in the photovoltaic, some small orders are coming in from customers, so that could be the easiest thing to scale up because we have all the approvals in place in that. I do not even want to say that at the moment that is why I said I can only smell it, I cannot even see it. That is something which is there. There is this approval that is going on, as tier-1 supplier for automotive component. This is what we call as the diesel particulate filter business. We have jumped several of the hurdles. We still have a couple of more hurdles to jump before we become a supplier. Again, it is a time scale dependent, depending on when that launch happens, so I do not want to again promise something overnight. Like Sridharan said, I think we will have to take it quarter by quarter. We are at about 20%, any one or two of this clicking we will jump to a 25, 30, 40 every quarter, and that would make big difference in terms of our profitability.

Bhoomika Nair: Okay, great Sir, thank you and all the very best.

Moderator: Thank you. The next question is from the line of Vinay Rohit from ICICI Prudential Life Insurance. Please go ahead.

Vinay Rohit: Sir we were planning to have some business I think in steel refractory side, so what is the update on that?

K. Srinivasan: We had two tie-ups, one was with Sheffield refractory largely to address the steel refractory business and what is called as taphole clay and another one called process called shock treating, both of them have actually started stabilizing, we have several acceptance, several customer trials and tests have been approved. It is getting scaled up. It was not really very fast because this industry itself was pretty slow in the last year, but it is gradually picking up and again QoQ it will see improvements and that will also take up the refractory production and volumes up. So clearly that is on and that is doing reasonably well.

Vinay Rohit: What is our capacity in this business?

Sridharan Rangarajan: As we said, there are two parts to that, one is the tap-hole clay. It is tough to define a capacity in that one. Currently our capacity utilization there could be in the range of about say 15-20%, but largely we need to win more orders, convince each steel refractory guys and then only we will be able to increase the capacity utilisation.

K. Srinivasan: It is a bit of a process plants, so depending on what orders we get we will be able to put it through, so it is very difficult to answer what is the tonneage, but what Sridharan says makes a lot of sense. I think 20% is our utilisation, we can significantly more on this as we get orders.

Vinay Rohit: Who are we tieing up with?

K. Srinivasan: This is Sheffield Refractories from UK.

Moderator: At this time, I now had the conference over to Mr. Tanuj Mukhija for his closing comments.

Tanuj Mukhija: On behalf of Ambit Capital, I would like to thank the management of Carborundum Universal for taking their precious time out for the conference call. Mr. K. Srinivasan, would you like to make any closing remarks.

K. Srinivasan: Thanks for organising it and to all the participants of participating and asking us very incisive questions. Let me say that, after long time we are feeling very positive about what is happening and I hope to have much better numbers to talk to you all in the next quarter. Thank you all for attending this.

Moderator: Thank you very much Sir. Ladies and gentlemen, on behalf of Ambit Capital that concludes this conference. Thank you for joining us and you may now disconnect your lines.