"Carborundum Universal Limited Q1 FY 2016 Post-Results Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Carborundum Universal Limited Q1 FY 2016 post-results conference call, hosted by Ambit Capital. As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Nitin Bhasin, Head of Research, from Ambit Capital. Thank you and over to you, Mr. Bhasin!

Nitin Bhasin: Thanks, Karuna. Good morning, folks. Today, we have with us the Managing Director and CFO from Carborundum to discuss the recent performance and how do they see the operating environment across the regions, across the business categories. Sir, we start with a brief comment from you and then we will open the call quickly for questions and answers.

K. Srinivasan: Thank you, Nitin and good morning to all of you. I am happy to present the first quarter results of Carborundum, and many of you would have had a chance to take a look at it, as it was out yesterday evening. We are more pleased than what you probably would expect because we have seen the benefits of all the difficult things that we had to do in the last 3-4 quarters.

The topline sales at Rs.487 Crores compared to the Rs.496 Crores looks lower, but you might be mindful of the fact that almost 25% of our business comes out of Russia and in the first quarter of last year, the Russian Rouble was about Re.1.78 as against Re.1.15 in the first quarter this year. So you have to be mindful of that, otherwise it is not a fall in the real sense. Strong topline sequentially, the difference is not so high because the Rouble is already down there at that level, and so sequentially there is a growth of about 5%.

In terms of profits, I would say before exceptional we delivered Rs.57 Crores, which was higher than the sequential by about Rs.5 Crores. On a quarter-on-quarter, we were up by Rs.15 Crores.

If I look at in terms of geographies, I think you would be aware that for us the Indian market is now about 55% of our total business. Russia and Europe is about 25%. The Americas is about 10 and Asia Pacific, Australia is about 10, so that is broadly a breakup.

The Indian market remains literally flattish. Moods and expectations are positive, but actually on the ground we are yet to see the effect. The European, Russian market combined, is actually in terms of business for us is pretty good basically because Europe is doing well on the back of the lower Euro; they had record car sales and the abrasive business for everybody there is doing reasonably well.

In the Russian market, though the Russian economy itself is suffering, we have done well. Our plant is running flat out. We are running at full capacity and in Rouble terms we are growing both topline and very significantly on the bottom line; the margins have improved because we have significant amount of the Russian business selling into Europe in Euro. So that has been a good area for us.

The Americas it has been patchy. Some improvements with the home improvement market and new home businesses, but it is not as much as we expected. The Australia, South East Asia Market was impacted by the fall in commodity prices as you all know that we sell extensively to coal washeries and coal shops, etc. In the Australian market and there they are into a huge amount of cutting back in investments particularly in the new plants as well as in the upkeep of the existing plant; so there is a significant cost pressure out there in the Australian market, but we have done reasonably well there as well, taking market share even slightly lower margins. So that is as far as the geography is concerned.

I will quickly jump to the three verticals. The abrasive vertical like you know is almost 75% India-dependent. We grew by about 5%. Topline was about Rs.201 Crores, the rest of them are pretty small markets. The electro mineral business is again the exact opposite, more than 70% is outside of India. There our growth has been higher. We grew Rs.179 Crores vs 157 in spite of the fact that the Russian business in rupee terms did not grow. The growth on 14% was largely coming out of higher volume sales across geographies.

In terms of the ceramic business, there are two parts to us. Both the ceramic businesses, the refractory business is predominantly India-centric, selling more into projects, steel plants and new investments and this is not growing as much as we would expect. The other ceramic, which is alumina ceramic like I mentioned sales into the coal washeries, power plants, etc., there again we impacted significantly because of the lower investments and projects. So overall Q1 there was only Rs.112 Crores vs 115 of the corresponding quarter last year, there is a 3% sequential drop.

Capex we have to be modest in our capex in the first quarter; we did about Rs.25 Crores. We expect to still complete our budgeted capex of about Rs.150 Crore largely including to resizing of plants out of South Africa, but overall I think we are positive; the profits are coming back faster than we expected. The sales will come back and you will see the quarter's progress, it will improve further. I will request Sridhar to take you through the details of our numbers. Sridhar.

Sridharan Rangarajan: Good morning to all of you. We will just go through the financials. At the consolidated level, we registered a drop in sales of Rs.29 Crores, which is 5.5% drop compared to the corresponding quarter last year. I think one is the big component here, which I will cover that in a minute is largely because of the Rouble translation impact.

Quarter-on-quarter, we have an improvement in sales in Rouble; however, when it gets translated into Indian rupees at least to the extent of 50, 55 Crores we have an impact purely coming out of that. The operating PBT increased by Rs.15 Crores on a quarter-on-quarter basis so we have a drop in sales that operating profit going up by Rs.15 Crores, so we will cover that.

Standalone sales were up by Rs.15 Crores and profit went up by Rs.14 Crores owing to largely on cost, lower finance cost, higher other income and exchange gain that means the subsidiaries and JVs put together had a sales drop of Rs.44 Crores almost with a nil drop in PBT. This happened due to the following reasons. One is TRI, which is our Thukela refractories was loss-making and the sales did not happen this time, but the losses were also not there, to that extent we gained in the PBT level.

Similarly Foskor Zirconia, there was a marginal drop due to no bubble sales, but the reduction in loss resulted in a favorable gain. In VAW, due to Rouble exchange as I was telling, the sales growth in Rouble resulted in lower INR sales and a marginal lower profit before tax.

For sequential movement at a consolidated level we registered a sales gain of Rs.22 Crores, which is about a 4.8% gain. The operating PBT increased by Rs.5 Crores; standalone sales dropped by Rs.9 Crores, leading to a drop in PBT of around Rs.2 Crores.

JVs and subsidiaries went up by Rs.31 Crores, leading to a profit gain of Rs.7 Crores; again sequential growth in Russia is a result of the gain in translation because Rouble in Q4 versus Q1, it has gained to that extent in Indian rupees.

Now going to abrasives, PBIT margin in abrasives moved from 5.8% in Q1 to 8.9% in Q1 of 2015-2016, so gain of Rs.7 Crores, largely came from CUMI standalone which gave a similar gain on higher sales with price realisation. So there are three broad reasons for that why standalone abrasive is doing well. One is price realisation, low input cost and the third one is productivity. These are the three reasons. Low input cost includes low fuel cost as well.

On a sequential basis, the margin expanded by Rs.1.6 Crores led by increase in standalone abrasive margin of Rs.1.4 Crores. On EMD, consolidated PBIT margin of EMD had an increase of Rs.5.6 Crores on a quarter-on-quarter basis. The increase came from both the Electro Mineral business in India at Rs.2.7 Crores and lower losses in Thukela Refractory is Rs.2.5 Crores and Foskor losses not being there to the extent of Rs.2.7 Crores.

On a sequential basis, sales growth of Rs.22 Crores, the gain was at about Rs.31 lakhs, gain from India, Russia, Foskor were offset by TRI. If you remember in Q4, we had re-class largely the operating expenses, which was reported until Q3 were moved to exceptional income, so we had gain at the operating PBT level and hence we will not have the similar one coming at this point in Q1.

As far as ceramics goes, the PBIT margin of ceramics dropped by Rs.0.6 Crores on quarter-on-quarter basis due to lower sales. On a sequential basis, the profit movement went up by Rs.1.5 Crores almost entirely coming from standalone. The Refractory business came back from the lows registered in last year.

Capex as Mr. Srinivasan said that we have done Rs.25 Crores of capex for the first quarter. In the last call, we shared that we will be doing somewhere around Rs.175 Crores of capex. I think we will be in the range of about Rs.150 Crores including the relocation cost on a full-year basis.

Coming to debt:equity ratio on a standalone basis, the debt:equity ratio as of June was 0.07, came down from 0.1. I think this is probably the lowest. The total debt in standalone was about Rs.84 Crores. At the consolidated level, the debt:equity ratio improved basically from 0.31 to 0.29 and total debt came down to Rs.328 Crores.

Just to quantify the exchange impact, we had a translation gain in consolidated sales sequentially to the extent of Rs.38 Crores; however, translation loss in consolidation level on quarter-on-quarter basis was about Rs.57 Crores and the foreign exchange gain was reported at Rs.3 Crores.

So just to summarise that, I would say the operating PBIT was rising sequentially for the last five quarters and probably was the highest in the last 11 quarters that we have achieved.

Practically most of the restructuring initiatives are in place. Physical activities are happening at this point in time, and so we will be completing all activities relating to that.

Debt: equity is the lowest level and the balance sheet is fairly very robust at this point in time. So by and large what we are seeing is that pretty much the numbers are reflecting the direction in which we would like to see and we feel that from here we would like to see the margins improve.

Topline continues to be flattish, because we expected that overall we will be in the range of about Rs.2150 Crores to Rs.2200 Crores of topline which represents somewhere in the range of 8-10 percentage of topline growth. So once the relocation gets completed and the whole activity stabilizes, we expect the growth to pick up the year after and onwards. So that is the broad summary of what so far we have for Q1. We will be glad to take up your questions.

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

Balachandran Shinde: Good set of numbers, on the profitability front. Sir, apologies I actually missed the first part, initial few minutes. If you can repeat the outlook on the segment-wise briefly about each segment abrasives, electromineral and ceramics?

Sridharan Rangarajan: You mean to say in terms of the profitability or you are talking about…?

Balachandran Shinde: In terms of sales and profitability both?

Sridharan Rangarajan: I think what just at the beginning of the call, we were talking about how various geographies are performing, how CUMI is performing, etc., this is what we just said that, but overall what we said is that Rs.2150 Crores to Rs.2200 Crores is what we can look at as broad topline numbers. Abrasives could be somewhere in the range of about Rs.1000 Crores, ceramics by and large would be in the range of about Rs.450 Crores to Rs.550 Crores, Electromineral could be in the range of about Rs.800 Crores type of thing. That is what by and large we are looking at and this is a broad number that we are looking at. As far as the PBIT margin, I think we shared last time, I think we continued to keep the same PBIT margin at this point in time. We would like to see one more quarter of how the performance and probably we will revise it. We were talking about abrasives roughly in the range of 9 to 9.5, ceramics 12 to 14, EMD and 12 to 14. So most likely this is going to be at the top end of whatever the numbers that we are looking at.

Balachandran Shinde: In Volzhsky, if you can tell us in Rouble terms how was the sales growth and profitability improvement and from Volzhsky export front, last time as you specified it was around 40%. Has it improved or what is the current status?

Sridharan Rangarajan: In Rouble terms, we grew sequentially about 16.5%, quarter-on-quarter by about 25%, but when it gets translated into Indian rupees, the scenario is different particularly quarter-on-quarter it is 12.1% down and sequentially it about 65% up.

Balachandran Shinde: That is largely because our realisations are currently much better than any other suppliers in Europe or what was the specific reason why we have actually seen and jump in the volume?

Sridharan Rangarajan: This is a combination of volume, price realisation and exchange rate, volume benefits, we are almost peaking out at about 90%-plus; so definitely all three fronts are helping.

Balachandran Shinde: As means like one or two quarters back as we were saying that we will try to improve on the export from the VAW facility in European markets. So where we are placed in that strategy and how exactly we see, are we targeting any benchmarks to achieve that kind of exports through that facility?

K. Srinivasan: We have marketing setup now at CUMI Czech. This is largely to focus on high value-added exports we are working on it, but that still a very initial investment and it is small business at this stage. But what is happening is the Russian business, we still have to meet Russian internal requirement which is still very robust which is largely going to the metallurgical industries and with the kind of Rouble prices they are not able to import at all; so they are completely dependent on what we can supply to the Russian markets. So we cannot sort of leave that and it is sort of almost state requirement that we will deliver first to the Russian customer, so that broadly takes away about 50% of our capacity, more than 50% of our capacity. The other 40-odd percent actually gets sent out of Russia, a significant part in the Europe and into other parts of the world including India, because we still need quite a bit of material for our processing here into micro grits and so that continues to come into India.

Balachandran Shinde: Thank you Sir. I will come back with further questions.

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

Kashyap Pujara: Congrats for a reasonable set of numbers. I think while topline, the growth is yet missing on that front, but we are seeing margin improvement across each and every segment so far. So my question is more related to the growth in topline. While you have given a broader guidance about this year that you will grow in 8% to 10% kind of range. If you were to basically just give out some more details on the abrasive front and ceramics front at least where we have poised in each segment like say in ceramics we have metalized cylinder and we have ware Ceramics products, so in where we are facing a challenge? Are we seeing some of the other products make up for some of the growth also in abrasives how are we poised in terms of coated and where are we seeing growth coming from and if you can just give some more elaboration there?

K. Srinivasan: Let me start with abrasives. Abrasives like almost 75% in India, the big projects or big investment are still not happening, so largely we are seeing more growth in coated than bonded. We have also not sort of pushed too hard to dump material in the market. We have not been trying to get aggressive in pricing or push market. We have been fairly cautious in terms of overselling in the market, because we still think that there is a certain amount of let us say lack of liquidity in the market and overselling at this stage can end up with bad debts, so we are very careful with that, we are mindful of that process, because unless secondary starts moving aggressively we do not want to push sales, so that is the first thing as far as abrasives are concerned.

We expect it to get better. We are probably going to start seeing between 8% and 10% growth onwards as we go forward in abrasives and that is going to be largely India. The Russian market is absolutely in bad shape like I mentioned earlier the Russian economy itself is not doing well, so the abrasive business which is predominantly selling into Russia is just not doing well. We will probably be fighting to keep it profitable and about the same level as last year. We will not do anything different than that.

The China business, we have restructured, it is becoming more and more targeting the Chinese market; so that process is fairly evolved even the losses in China will come down once we complete the sale of the properties and other thing. So in terms of Chinese sales, it is going to be about the same level as last year or higher primarily because it is not going to be anymore selling out of China, but selling into China, so that is all you will see in the first transition level, but losses will start coming down as soon as property is completed. The rest of the geographies are pretty small for us for abrasives- US, Europe, etc. The sales are getting better than last year, but nothing very dramatic, so abrasives I would say would stay between around 9-10% kind of sales growth predominantly happening out of improvement in India. We are not seeing any huge traction or anything, but we will start seeing some improvements hopefully from Q2 and Q3, then we will be better placed to talk about any dramatic improvement.

We are still running a fairly low capacity utilization so that means we still have the headroom to sell quickly. Margins are improving simply like Sridhar said for three reasons. Our TPM initiative, our productivity improvement and efficiency improvements are kicking in. The lower energy price is also helping us, so overall margins are improving. If I go to Electro Mineral, Electro Minerals is going to be an unusual story for us, though everybody talks of the commodity down cycle etc., ours really is proving the point that we are not so much in the commoditized part of the Electro Mineral business. We are more specialized; we are more targeted towards co-creating products for our key markets and customers.

Russia is running flat out and is sold out till end of December. I cannot give any deliveries in 2015, good prices and completely sold out. Capacity utilization is significantly improving in India as well. The newer capacity is being shifted will all come in to play only from the next year, it will start probably coming into say little bit in the last quarter, but most of it is going to happen really in the next year. So by the time if our capacity utilization of the existing capacities goes up, the new ones getting installed here would help. Minerals we are reasonably positive, you will see clear double-digit growth 15%-plus and this will start opening up higher and higher, quarter on-quarter, that is going to start kicking in. It is going to be across geographies, because in minerals we are only 25% India, a lot of it goes out.

Then coming to the ceramic part, I will split it into two. The refractory predominantly India-market-specific poor traction in projects, steel plants, aluminum, everybody is going slow, nobody wants to spend money if they can avoid it. Having said it we are focussing on some new segments which I would not like to elaborate too much about which is single use refractories, high alloy castings etc; there we are seeing some traction because that is a little more recession-proof requirement and so there we are selling like Sridhar mentioned, the volumes in refractories are coming back with some effort that we have put in the earlier years of making it little more consumable-based selling rather than capital-based selling business, so there is just some improvements happening on that.

In the alumina ceramic business, the way ceramic is impacted simply because there are no projects, power plants are all going slow; the Australian market is under tremendous pressure for costs, though the actual coal mining itself has not dropped off far too significantly, the spends that goes into maintenance and doing all that is being really clamped down, they do not want to spend if they can avoid and they would be willing to take risk using cheaper products if they have to, so that means margins are under pressure, we are fighting to hold market share there, but that will stay on that level. Base ceramic would be under pressure the whole of this year that is impacted clearly by the commodity down cycle but the engineered ceramic part where we have made significant investment and significant effort creating a lot of our own patents and IP actually kicking in with better results.

The Metz cylinder business is running well. We are selling across geographies, we have gone ahead and taken over the manufacturing assets of the second largest player out of Japan, so that is being in the process of dismantled and being shifted to India. Since the capacity utilization in metallized cylinders is running well, hopefully when this plant gets recommissioned we will also get higher output from this, this is going to happen probably only in the last quarter of this year and more into the next year. So lot of these things are happening which will ensure that you may not see a big growth in the ceramic segment but we are ensuring that in spite of what is happening there is no real fall, but margins will definitely improve. The newer businesses are all higher margin businesses. That is broadly all the three segments I covered.

Kashyap Pujara: Broadly just from perspective of volumes, do you see that in case of abrasives or any other segment if you increased prices per se are we able to hold onto volumes or are you still facing the situation where incremental increase in pricing is resulting into you losing out on volumes?

K. Srinivasan: Kashyap, at this stage, we just cannot increase prices, I think in all our businesses I think the customers know that the energy prices are not up, the commodity cycle is there, they are under pressure, I do not think there is any mood for a price increase in the market. On the contrary, I think the Europeans are pretty aggressive in the Indian market with lower Euro coming and trying to sell here and open new channels etc., so I think this is very inopportune to go out for a price increase.

Kashyap Pujara: There are no further losses, how much further losses rather would there be from South Africa and China etc. We just still on the books which can be further improved going forward in the next one or two years?

Sridharan Rangarajan: All the losses have been provided as I said in earlier call also we have considered that. We have been very conservative in that, so I do not see any further losses coming out of this.

Kashyap Pujara: Finally, my last question is some input, output perspective if I were to take a view on the total capital employed in the company and obviously we have significant headroom of capacities already available what is the ideal revenue that you can hit at and what is the normalized margin that you believe you can because over the last few years if I were to see the previous cycle, we were at reasonably high of EBITDA, PBIT margins or PAT margins. Where do you see internally when you are looking at the company?

Sridharan Rangarajan: I think for the kind of assets that we are looking at somewhere in the range of 3500 around at we could get for this, but it may take few years, depends on that and the PAT margin can get into the range of I am just giving a very, very broad number, somewhere in the range of 8.5-10%, depending on what kind of sales and product mix and input cost, it is too difficult to pull a number, but I think that could be the broad thing.

Kashyap Pujara: That would be the broad thing, fair enough. Okay, I will get back in the queue if I have more questions. Thank you.

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

Kashyap Pujara: Thanks for taking up my question. More at a macro level from a company perspective I think what I would like to ask is that over the last so many years we have basically made acquisitions, moved into international territories, now Russia has been a phenomenal acquisition that we did back then and obviously the last one Thukela did not go down as well as envisaged. Could you just as management just elaborate what are some of the key learnings that you had and would you see acquisition as a strategy going forward?

K. Srinivasan: We are not a compulsive acquirer in that sense you will see that very soon cash flows are pretty strong that we will have money available for acquisitions if we have to, but we are not a compulsive kind of acquirer for the sake of growth. It has to have an overall strategic fit, if you look at cases like Russia, we needed silicon carbide for micronizing and growth in the mineral business and we were looking for a sizeable capacity, Russia happened to have the capacity and the deal was going forward. The South African business, if you look at though we did have severe issues in both the bubble plant and Foskor as well as the Thukela capacities, we have actually not sold it or closed it. We have repositioned the same assets into India, so the basic business architecture of needing those materials or requiring that basic input for our business still remains very strongly valid. The location and the way we could run it did not just work out and so we had to move it, we had to move to a different location where we would still be able to operate and make something out of it.

In that sense, I would say that though the reason for what we did and did not work out, the core reason of having that asset is still valid, we are still moving it and we are going to run it in India, because we need those capacities; Zirconia is an important part of our abrasive business, it is a hugely important part of the refractory business, it is also coming an important part of the ceramic business, it is a strategic material and is still very keen to keep it with us. We will go not so much in terms of acquisition as much as what are those products that fit our strategic architecture. What is that we need to have with us? If we can build it efficiently, we will build it ourselves, if we can acquire it efficiently, we will acquire it, so that is what we are doing. What are those gaps, where I would like to play and how do we get to play that. Is it cheaper to build it ourselves, the assets, or will it be cheaper to buy it from somewhere. That is still a very strong and valid way of doing it. For example, I can give you in the metallized cylinder, we built our business, we grew to a scale and we became a serious player in the world market, so the number two player thought it no longer viable to run it out of Japan and he sold his assets to us. So that is the way we are going to look at it. We will build and buy, but it is going to be within the framework of where we want to play.

Kashyap Pujara: Lastly I mean if I were to look at the kind of ample capacities that you have and obviously this year's capex is around Rs.150-odd Crores because of the shifting of the plant that is already there, but if I were to basically look at a normalised range because from next year onwards you would not have a plant shift. So what would that capex be in a normalised level? Would not that be significantly lower?

K. Srinivasan: We normally say it is overall on a consolidated basis less than Rs.75 Crores. So that is what it is and that is nearly to sort of renew the organization, it is a fairly large set of 30 factories, etc., so we keep a basic thing going to keep the organization fit.

Kashyap Pujara: One final point was to touch upon on the market share expect on the market share aspect on the abrasive side, so could you give us some sense as to are you seeing any new player who are getting more aggressive in this space, how are you seeing the industry dynamics at the current point?

K. Srinivasan: There are a couple of things that is happening and it is very interesting that you asked this question. We have been conservative in terms of fighting for market share. We have been more conservative in terms of ensuring that our receivables are in order and the money comes back and our channel does not lose money. There has been in the last couple of quarters, I said it is not the major player, but a couple of others who have been very aggressive in the market and probably did take market share from us and I see that they are paying the price for what they have done I mean there have been cases of severe amount of bad debts, write-offs, etc., happening and there have been major changes for them, which does not help us in any sense because the overall market operating price is destroyed, anybody loses money all the market loses money. So I think the market has reorganized itself in the last couple of quarters, there is no seriousness now. The two major players continue to maintain a level of discipline in terms of pricing in market. I think core market share has not moved up or down by too much. There was a blip **of** 2-3 quarters I think we went down and lost the market share, but I can clearly see it coming back and I can see not only that coming back, there is more credibility for what we did. We did not allow any of our channel partners to lose money in the market.

Moderator: Thank you. We have next question from the line of Bhoomika Nair from IDFC. Please go ahead.

Bhoomika Nair: Good afternoon, Sir. On the EMD segment, you gave a guidance of almost 12-14% kind of margins for the year and if I look at the current quarter, there has not been any losses from Thukela or Foskor, so this is pretty much steady-state margins that one should look at which are much more closer to about 18%, so any reason why we are looking at a lower margin profile over the next couple of quarters? Has there been something different that has happened in the current quarter?

Sridharan Rangarajan: One you are right, the losses are not there is one reason, the other one is the seasonality like for example electro mineral business in India largely first two quarters are high, but the next two quarters are low; so normally it is in that range, so I am giving a full-year perspective, similarly also the same thing goes for the Volzhky and also as we go through the exchange rate changes over the year in the next two quarters if suppose the same trend continues that is how we have looked at it and I am giving a perspective looking at that these two aspects of it.

Bhoomika Nair: I know about India being little seasonal in nature, but even in Volzhky there would be some amount of seasonality between quarters.

Sridharan Rangarajan: Volzhky also seasonality is there, clearly in our Q3, their Q4 typically the volumes go down and that happens that is quarter-ending December that happens and second is that we had Q2 of last year converted somewhere in the range of 1.45 to 1.5, we are going to look at it somewhere closer to 1.15 in this Q2 if suppose the same trend continues. All that needs to be considered.

Bhoomika Nair: Sir coming to abrasives you talked about some amount of recouping in market share etc., so far there has not really been a major pickup in revenues and FY 2015 was a kind of flattish year and Q1 has also not seen improvement, but we are talking about 8%, 10% growth for the full year. So given that project demand still remains slightly weak, there has not been much movement on the ground what gives the confidence that growth will really come back within the current year itself?

K. Srinivasan: Q2 numbers we probably have seen one month of it and we can see the Q2 tends to be for us the best quarter in abrasives and I can already see what is happening July and hopefully if it holds August, September I think we should see some improvement, like I said today is too early, Sridhar has been saying that as well in terms of real pickup on the ground we are not seeing, but I mentioned earlier that couple of people who did some hard selling last year or so have all been impacted and they have really backed off. The channel is more responsive, so whatever the 2%, 3% we lost in market share at least should come back, which should give us back the 8%-plus growth.

Bhoomika Nair: This would be entirely volume because there would be no hardly any rise in it…

K. Srinivasan: Practically it could be volumes.

Bhoomika Nair: Also in the EMD in the domestic segment if you could give some color on the micro grit facility, how is that progressing in terms of new customer acquisitions?

K. Srinivasan: The micro grit business really is targeting the photovoltaic as well as they target the semiconductor industry. So I would not like to specify which industry has picked up, but there have been a quiet pickup in this industry and in the first quarter we had some volumes and that is also one of the reasons you saw a little better margin. We want to wait and watch how this holds. So there has been a pickup.

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

Bhalchandra Shinde: Regarding the refractories, I am not able to recollect, but there was one competition clause with some competitor that we were not able to sell those kinds of refractories into the market, so has that competition clause got over and are we planning to introduce those kinds of products?

K. Srinivasan: This was actually with the company to whom we sold our unit at Vizag in 2002, so that expired in 2012, which actually forbid us from selling into the steel refractories. We are already into that business. We had a small acquisition in Jabalpur and now we are scaling it up further with whatever we are bringing in from Thukela and so that plant was doing reasonably well and that the Jabalpur complex will become even bigger once the Thukela plants all get commissioned there. We are addressing this market.

Bhalchandra Shinde: It will be more likely dependent on the steel products and activities. How is the margin front, are they better as compared to other refractories material or almost similar?

K. Srinivasan: There are less margins in the refractory business comparatively.

Bhalchandra Shinde: But our competitors like Orient Refractories and the other players….

K. Srinivasan: These are very normal businesses with high margin pressures. The product in these cases what we bring out of Thukela would have some advantage compared to what is available in the Indian market at this stage because this comes with the old traditional RHI technology and we expect that it would be comparative.

Moderator: Thank you. Mr. Nitin Bhasin, you may go ahead with your question, Sir.

Nitin Bhasin: There are only brief questions, in terms of competitive intensity in the Indian market, are you seeing some rising incidence of whether India or any other market from Chinese guys, a lot more coming in and a lot more is increasing competitive intensity?

K. Srinivasan: Not any increasing competitive intensity because the abrasive industry and ceramic refractories all of them always have Chinese players, so we are not seeing anything new or different happening in the last quarters. It seems to be at the same level as earlier, nothing very different.

Nitin Bhasin: Because over there the investments are holding back and their refractory is also possibly their end user market is declining, not growing anymore, so possibly they are looking at India a lot more?

K. Srinivasan: They have always been significant, refractory is not as much, they do export refractories along with the projects whenever the Chinese capex happens along with the projects they bring in their refractories but not the regular consumable ones. They have been selling into segments of ceramics. They have been selling to the ware ceramic area around Morbi and others for the tile industry, they have been selling the low end abrasives which is what sells on the industrial hardware counters the cheap and dirty products which are really cheap, so those markets always have a huge number of Chinese players selling into those markets. That continues to be there, but there is no new additional intensity of these products out here.

Nitin Bhasin: Sir in the abrasives in the Indian market when you are mentioning that volumes are growing marginally here, any specific industry which is actually standing out as growing pretty much very strong let us say in the tile industry or anything, any industry that you service?

K. Srinivasan: I think the abrasive growth is very secular, it comes out right from home improvements to rice and wheat polishing to everything, I mean there is absolutely no one bright spot that is really pulling anything across.

Nitin Bhasin: Sir any comments from you and then we will close it.

Sridharan Rangarajan: I think what we have summarized is that I see that sequentially for five quarters, we are getting better every quarter and operating PBIT is on the higher side after 11 quarters. We are on the right track as far as our programmes on restructuring are concerned and we feel that we will tread this path, so this year is going to be more a flattish top line, but margins picking up and then once the restructuring programme is complete and we will see the growth will come on to CUMI, so that is how I would like at it at this point in time. Thanks a lot for your time and participation in the call.

Nitin Bhasin: Thanks a lot folks. Thanks a lot for giving us an opportunity to host.

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