"Carborundum Universal Limited
Q1 FY 2019 Results Conference Call"

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Moderator: Good morning ladies and gentlemen. Welcome to the Carborundum Universal Limited Q1 FY2019 Results Conference Call, hosted by Anand Rathi Shares & Stock Brokers. As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Bhalchandra Shinde from Anand Rathi Shares & Stock Brokers. Thank you and over to you Sir!

Bhalchandra Shinde: Thanks Lizaan. Good morning everyone. Welcome to the Q1 FY2019 earnings call of Carborundum Universal. The management today is being represented by Mr. K. Srinivasan – Managing Director, Mr. Jagannath Chakravarthy - Chief Financial Officer, Mr. Raja Mukherjee, Senior General Manager - Internal Audit & Strategy. I would like to take the opportunity to welcome new CFO, Mr. Jagannath for first earnings call. Best wishes from me. Hope the company will continue to achieve new pinnacle of success under your guidance. I will now hand over the call to Mr. Srinivasan for his opening remarks post, which we will open up the floor for Q&A. Over to you Sir!

K. Srinivasan: Good morning to all of you and thank you Bhala. We started FY2019 in a strong note. As you all know Q1 generally seems lower than the rest of the quarters, but it was almost seamlessly a continuation of Q4 I should say. Consolidated sales without exercise on a like-to-like basis are 626 Crores was higher by 22% compared to the last corresponding quarter last year. Sequentially, it was almost flat about 2% negative. Profit at 63 Crores, PAT compared to 40 Crores was 57% higher. It was slightly lower than the Q4 number. Abrasive segment actually on a comparable basis, consolidated sales were 262 Crores compared to the Q1 of last year of 218 Crores was a 21% higher, sequentially, 3% negative. Standalone mass product business picked up because the first of last year was implementation of GST, but I must add here that we have not seen the full benefit of GST role out yet, so the sales growth in abrasives was largely on an account of growth that we get from the consolidation from Volzhsky, from Sterling, etc. We expect better growth in abrasives to come in the ensuing quarter.

In Electro-Minerals, we had a very good quarter. I think the sales across all the geographies Russia, South Africa and India is very good. Q1 at 239 Crores versus 208 Crores of first quarter of last year was 18% up even sequentially we are higher marginally at 237 Crores compared to 237 Crores of last four quarters.

Indian business, I think did well though it was sequentially lower than Q4, but the margins picked up. Like I said the consolidation coming out of Russia and South Africa were both significantly better even though we could have done much more in Russia particularly we still had very high sales almost touching 20000 tonnes of silicon carbide.

On the ceramic business, we saw the best growth, 32% growth at 110 Crores to 145 Crores that was the best growth that we had. The margins also picked up significantly. On a standalone basis, we did 38% growth at 118 Crores both industrial ceramic and refractories did extremely well. The margin pickup largely comes out of both volume as well as the industrial ceramic commissioning the new Mets line as well growth in the engineered ceramic parts.

On the capex we were relatively slow because we could not go ahead with the power plant that we were talking in Russia. We will take a relook at it in the second and the third quarter. We did about 16 Crores capex in the first quarter, but we will be online to do at least about 120 Crores during the year because the coated meter project is being cleared. The graphene project is on the execution, so we would come to about a 120 Crores during the year.

Now, I take you through the financials. This time I am going to request Raja to do it and hopefully from next time we would have Mr. Jagan doing it. Raja, go ahead.

Raja Mukherjee: Thank you Sir. Let me summarize the financials. Quarter-on-quarter basically the variance between last year Q1 versus the current quarter at a consolidated level we registered net sales growth after eliminating excise from prior periods of Rs.113 Crores with operating PBT growth of 36 Crores. Majority of the PBT growth came by way of high volumes. If you look entity wise - JV and associates gave PBT of Rs.3 Crores, all subsidiaries put together gave another Rs.3 Crores, standalone business delivered Rs.30 Crores. On a sequential basis, that is variance between quarter four of last year and current quarter, at a consolidated level we had a lower sales of 13 Crores with the nil drop in PBT.

Volume drop gave lower operating profit to the extent of Rs.3 Crores; however, the same was offset due to the better performance in JV and associates. If you look entity wise standalone business delivered lower profit before tax of Rs.15 Crores the same was offset by gain from joint venture associated of about 3 Crores, lower losses in Foskor Zirconia around 8 Crores and gains in VAW and other entities of around 4 Crores.

Let us go to the segments now. If you look at abrasive segments, PBIT margin in abrasives increased from 10% in Q1 of last year to 12.1% in current quarter. The entire Rs.10 Crores increase came from standalone business; however, the margins were lower than Q4 margins of 13.9%. Higher cost of grain prices coupled with lower volumes in Q1 compared to Q4 gave as a lower margins.

In the Electro-Minerals division, the PBIT margins went up from 13.8% in Q1 of last year to 14.6% in the current quarter. Quarter-on-quarter growth in PBIT of around 7 Crores came entirely from the higher volumes in standalone business. Standalone electro-mineral division's PBIT was higher due to lower power cost on account of Maniyar because Maniyar had a good rainfall this quarter that contributed Rs.1 Crores and the balance Rs.7 Crores came by way of better volumes in the business. Sequential growth in PBIT of around 7 Crores entirely came from VAW and significantly lower losses in Foskor Zirconia.

Going to ceramic segments PBIT margin of ceramics was at 20% compared to 15.6% in Q4 of last year and 14.1% in Q1 of last year. Indian industrial ceramics had a good quarter on the back of better volumes in tiles, metalized and engineering ceramics products. Refractory also came back significantly from the lower base and significant pickup in volume on account of higher project orders.

Going to debt equity issues, on standalone basis the debt equity ratio was at 0.002 as at June 2018. There was no change in the debt equity ratio when compared with the March position. The total debt on a standalone basis increased from Rs.1.81 Crores as of March 2018 to Rs.3 Crores as of June 2018. Out of the total borrowings of Rs.3 Crores, financial lease borrowings accounted for 1.81 Crores and borrowings in the form of overdraft was around 1.19 Crores.

On a consolidated basis, debt equity ratio continued to remain at 0.08 in June 2018, as was the position in March 2018. The total debt on a consolidated basis was at 135 Crores, long-term was 6 Crores, current maturity was 4 Crores and short-term was 125 Crores. If one compares to the March position it was 129 Crores. Borrowings net of cash and cash equivalent was 79 Crores negative, which means the company is having surplus cash.

As a standard practice, we would like to make the statement that during the call we may make certain statements, which reflects our outlook for the future or which could be construed as a forward-looking statement. These statements are based on management, current expectations and are associated with uncertainties and risks, which may cause the actual results to change. Hence these statements must be reviewed in conjunction with the risks that the company faces. So we now open the floor to the questions.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Ravi Swaminathan from Spark Capital. Please go ahead.

Ravi Swaminathan: Sir, congrats on a good set of numbers. My first question is regarding the abrasives. Can you just give an outlook on how the volume and value growth had been during this quarter, how much amount of price increase has happened and it is likely to happen going forward to compensate for the raise in good cost?

K. Srinivasan: Thanks Ravi. I think abrasives should do better going forward. The margins actually for the Q1 at 12.1, I am giving you consolidated numbers is lower than the full year of 13, so really margins have not picked up. The abrasive input costs have all gone up, the electro-mineral price and a whole lot of energy cost have all gone up and the price is not being fully corrected to absorb these increases. We expect in the next couple of quarters we will be able to push up the prices. Now while the margins seemed good compared to the first quarter of last year there is actually 7% fall on a sequential basis. Generally, this is true in Q1 as compared to Q4, but what is worrying really is that the big delta that we expected from the implementation of GST is just not happening, so particularly on the trade products, we fell on counters, we had expected a far better traction compared to what we see now and this is a work-in-progress. I really would not be able to comment how this GST thing is really going to play out. The fact is that there has not been any great benefit so far from the implementation of GST as far as trade products at the counter both in terms of volumes and price are concerned.

Ravi Swaminathan: Is they still down trading is going on among the products the people are buying cheaper products vis-à-vis the more premium ones?

K. Srinivasan: We are still going through a very unusual period. We all expected with the E-way bill implementation of April 1, 2018, etc., the market operating prices would stabilize. It has not stabilized, so we have to see how and why this is happening, so it needs a couple of quarters before we are able to understand why we are not able to see this in the market.

Ravi Swaminathan: Coming to the ceramic segment, we had seen very good margin expansion there largely contributed by metalized cylinder or the other segments like refractories also have, you had mentioned that there also there is a traction, but is it like metalized cylinder could have contributed to a bulk of the market expansion?

K. Srinivasan: I think all the three have done well. I would put it in three buckets, the metalized cylinders volumes have picked, the margins gone sequentially higher, refractories from a very low base has started seeing traction. We are running reasonably full on the refractories particularly the fired refractories that goes into the carbon glass and ceramic industry, so again that is running full. The third one, like Raja mentioned even the wear ceramic, which we sell in India, we export it to the U.S., and Australia are all doing well. The mineral business in these countries have picked up. Coal based, the power stations are back running, so there is a demand for wire lining, etc., so that has also picked up. So it is a combination of all the three giving us both volume and margin increase in the ceramic business.

Ravi Swaminathan: Got it Sir, and my last one regarding the electro-mineral business, the prices still directionally upwards globally realizations are basically directionally upwards and do you see any risk of your Chinese players who had shutdown to open up anywhere in the near medium term or long-term?

K. Srinivasan: The input cost to our electro-mineral business, which is really Zircon sand, electricity, bauxite, electrodes, etc., the prices have already ran up and they are about stable there. It is at a very high level, but it is stable at that level at least for the last two quarters. It is not coming down; however, the price correction to compensate for this increase is still happening, so I expect the margins to improve in the next three quarters because we have still not been able to fully increase to the extent of cost increase that you are absorbed. We expect to put up prices even further in the next three quarters, so I believe the margin should go up. Coming to your question on demand, practically whatever the produce we had in Russia and in India have been sold out. We do not have any more capacities at the moment is a shortage.

Ravi Swaminathan: The Chinese player competitors are they still, whichever plants they have been shutdown is there a risk of them opening up again or do you see that or if you like that capacities in China would remain what it was last year or something?

K. Srinivasan: I think China story would remain where it was with all the other challenges that is also added to the problem. I think to expect newer capacities to open up quickly is very unlikely.

Ravi Swaminathan: Got it Sir. I will come back in the queue for more questions.

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

Fatema Pacha: Good morning Sir. How should we read into the abrasives volume growth of 11% basically just wanted to get your sense that the GST base has happened in Q1 and at the margin we are seeing the GDP recovering specifically in India and also the IIP growth is struggling along, what kind of volume growth should one build in for this division going forward the sustainable number, I am assuming your capacities are not constraint?

K. Srinivasan: There are three questions on this, so let me say the first one. I think the abrasives growth, I would largely say is at least one-and-a-half times GDP is the fair estimate that we give at least, so if we are really looking at a GDP growth of about 7% we would end at getting at least 10% to 12% growth in terms of abrasive sales. It is largely consumption driven and the only lead indicator you can look at is GDP.

What we are all expected is post implementation of GST a lot of a gray market and market that were not accessible to organized companies that all we expect for those consequently we expected to see a bigger growth in abrasive sales in India compared to what you would otherwise get by just a normal GDP growth and that delta coming from the gray market operations going away, etc. has not happened. To that extent, we are not seeing the additional growth that we all expect. The third question you asked is margins, margins I think would pickup as the volumes go up and as well as our need to put up prices coming largely from input cost going up.

Fatema Pacha: Sir, if I see your abrasives volume revenue growth is 11% over period of 4-5 years. The CAGR is even lower, so if see the two year CAGR is 3% to 4%, so that 10% to 12% number also we are not getting?

K. Srinivasan: No, abrasives has been growing in about GDP for the last two to three years, so if you look at on a year-on-year there has been a growth, previous year was about 8%, this year we expected to be at least about 10% to 12%, we are around GDP, GDP plus.

Fatema Pacha: Fair enough, we are not able to grow ahead of it just because of basically unorganized guys are not shrinking?

K. Srinivasan: I think there is a certain amount of downtrading, which is to be fair to the consumer that they try and buy cheaper things whether it is organized or not or unorganized plus I think the economy pickup has been better in the last three to four quarters. The consumption driven growth will come. We would see definitely growth better than the 10% to 12%, but the big growth that we all expected post GST has not happened.

Fatema Pacha: The economic recovery, are you seeing like QoQ or your ability to sell the growth trend being better?

K. Srinivasan: If you ask me on a global basis, I think we are seeing big traction in Europe and US, significant traction I would say, also traction in the other markets that we are like in Australia and Russia, etc. In India, it is consumption driven. We are still not seeing big project driven growth. There is a better utilization of existing capacity. There is a higher consumption so there is a growth. Again, we are not seeing some kind of a break out growth that we all expect.

Fatema Pacha: Thank you so much, Sir.

Moderator: Thank you. The next question is from the line of Harish Bihani from SBI Mutual Fund. Please go ahead.

Harish Bihani: Good afternoon. On the capacity utilization front you talked about certain capacity having very high utilization, so across the three segments if you can talk about the capacity utilization what it is right now and obviously along product lines and where do we need that capacity expansion to grow our volumes over the medium term?

Raja Mukherjee: In terms of the overall utilization both segment wise segment is abrasives, bonded is currently having a capacity utilization of around 65% to 70%, coated we are running at a capacity utilization of 85%, I mean north of 85%. Ceramics metalized we have already running at fully 95% plus of course we have increased the capacity last year. In terms of the other parts of the metalized ceramic that is tiles and alumina ceramics it is around less than 70%. In terms of the refractories, this year we have bounced back dramatically against the project orders, so the capacity utilization has gone up in refractories from say 45% to 60% this quarter and we expect this to continue also in the coming quarter as well. In terms of the electro-minerals, the Volzhsky had been running flat out. It continues to run flat out this quarter and it will be running flat out going forward also. In terms of the Foskor Zirconia we are running 40% levels of plant utilization. In terms of India chapter, India electro-mineral division based out at Kochi, there are many products that we are producing, but on a blended basis let us say the alumina we are going at a capacity utilization of around 80% plus, silicon carbide we are running at around 65% plus, the other projects that which has been transferred from Tukela, those are increasing of course in every passing quarter they are going up and this quarter there is an improvement from the earlier quarters. It should be around 35% range to 40% range depending on the products.

Harish Bihani: So, metz cylinder you talked about 95% plus, it is already after the expanded capacity you are talking about that number?

K. Srinivasan: I will add a few things there. On the Metz, I think we will by the fourth quarter we will be flat out, so we will be scaling up, but though we are running the plant, the sales will starting to hitting in because we have to still go to the market.

Harish Bihani: So, by fourth quarter we should have a high utilization.

K. Srinivasan: Yes.

Harish Bihani: Given this context how are we looking at expanding capacity across segments?

K. Srinivasan: We have a capex plan that we have announced. We are going ahead. We have coated capacitates, we may look for additional capacities in Metz as well, but Metz capacity it will take 18 months to build. We are reconfiguring our fusion capacities in Cochin so that we may convert one of our furnaces to make white fused because that is the where we compete within our capacities. We may take out some capacitates in Zirconia like where Raja mentioned we are running at least in 40% and so that we may convert. We will run a campaign, so we have enough to meet the market, but we will reconfigure to see that we have a higher capacity utilization. We will take both short and long-term steps to ensure that our capacity utilization goes up, also try and create capacities for the future growth.

Harish Bihani: Sir, so in EM for example we have high utilization, how is that for the industry per se and how easy then it is to pass on all the input cost increased to the customers and that would be true across segments as in wherever we are seeing a high utilization for us, how is for the industry per se so that the price hike increase that we are talking about , will be helpful to get some sense on that?

K. Srinivasan: The electromineral price increase we are continuously doing, but even though our capacity utilization let us say take the case of Russia it is running almost 100% we cannot produce more, but we have contracts, we have relationships, so it has to be a negotiated price increase, we cannot do something very aggressive saying that look this is the price take it leave it , that is very difficult to do in our kind of a business because businesses run for a long, long period of time, so the price increase have to be negotiated forward. It is happening, but it is happening in a more constructive manner rather than take it early with me.

Harish Bihani: Sure, thanks so much, I appreciate it.

Moderator: Thank you. The next question is from the line of Rajesh Kothari from Alfa Accurate Advisors Private Limited. Please go ahead.

Rajesh Kothari: Good morning Sir. Congratulations for strong set of numbers. My question is in considering the recent input price hike and our limited ability to do the price hike, do you think by at least December quarter we will able to pass on the full price increase?

K. Srinivasan: Honestly, we hope that we can do it every quarter like I said that we are putting up prices, the cost increase have relatively stabilized in the last two quarters. The costs are no longer going up at the pace it was, so the price increase will start biting, I mean we will see the increases happening the next three quarters gradually. We are not doing dramatic things, but we are putting up prices and it will happen.

Rajesh Kothari: And any revision in your guidance considering the strong first quarter for FY2019?

K. Srinivasan: Let us watch for a couple of quarters while all indicators are strong and growth capacity utilization is good, margin is picking up, input cost is stabilizing, we would still like to stay with our initial guidance though we are better in terms of margins beyond what we already committed, but let us stay with it for one more quarter before we starts up any correction.

Rajesh Kothari: So, 3200 something was your guidance I right for FY2019 your topline target?

K. Srinivasan: No, we said we will there in 18 months time in the next two years, I think we will be better than that or do that number little earlier, but this year's guidance was 3200.

Rajesh Kothari: Fine, perfectly alright. Thank you, Sir.

Moderator: Thank you. The next question is from the line of Abhishek Agrawal from Prithvi Finmart. Please go ahead.

Abhishek Agrawal: Sir, most of questions has been answered, only one thing like every year we are generating free cash flow by around 200 Crores to 250 Crores, so what is your plan to deploy this free cash flow?

K. Srinivasan: It is a good question and let me give you a perspective how this business is still evolving. Really, we believe the next phase of growth is largely material science driven, so the newer material that is all coming up would bring significant opportunities to Carborundum. In the last there years while our topline business has not grown as fast as we would like it to be, significant investment had gone into getting people, getting seven DSIR approvals, R&D centers running, filing over 250 IPs, which includes patents, design registrations, trade mark, etc., so lot of backend work has happened. You are seeing baby shoots of new projects coming in. The Z-450 is one step. This quarter we just are starting the work on the Graphene project hopefully in next two quarters that plant will be running. This is a small plant, but a very, very important material. Graphene is the strongest material in the world and it has infinite number of possibilities in applications coming up. So lot of work is happening, which is still not very visible. Gradually we will announce it and I think there will be good opportunities to invest and grow our business in the years to come, so this cash flow would be very valuable and useful for the growth of business.

Abhishek Agrawal: Thanks a lot.

Moderator: Thank you. The next question is from the line of Sandeep Baid from Quest Investment. Please go ahead.

Sandeep Baid: Good morning Mr. Srinivasan and congratulations on good set of numbers. Sir, you had mentioned last time that because of the World Cup in Russia, there may be some impact on the operation it seems there has not been any?

K. Srinivasan: No, we had, sorry to barge in. We lost almost about 400 tonnes that I could have fused more. We lost some base, but we managed really well. The team did an extremely good job of keeping the plant running, but I would have record production if I had not had that 400 tonnes out of 19000 tonnes, but still it is 400 tonnes.

Sandeep Baid: And you had mentioned that we looking at increasing the capacity there also by adding about 10000 tonnes, so what is the status on that and when do we expect to commission it?

K. Srinivasan: This year already we have started clearing up and getting the transformer and other things all ordered out like I said these take about 18 months, we have to add on in the same location in the running plant without disrupting the input power etc., so we will do in a gradual manner, any new line will give it about 3000 tonne, we will do 10000 tonne in the next 18 months in a continuous way.

Sandeep Baid: Right Sir and lastly you just talked about the work that you are doing on new products, new materials, when do we expect this to start really reflecting in the revenue line in a reasonable manner and would you say that the margins on these new products would be significantly better than what we are doing today?

K. Srinivasan: I think these are early days. I would put this way, lot of new businesses initially are what is called as a right to play kind of bet, they are small attractive, but they are not big fails or big margin, but if out of the five or 10 projects that we do one or two picks up in three to five years, they would all become very significant and a lot of them would give us leadership position so we have to work on it and we will announce as we go along the line, but there are traditional businesses that will keep us going and growing in the intervening period like we said we have clear visibility on what we have invested and what we have doing to get Rs.3200 Crores, we are also doing quite a few expansion, which will take us from there to the Rs.5000 Crores line and during that time you will see the benefits of all these new investments and new materials kicking in. If any few of them pick up then it can be a mega growth.

Sandeep Baid: Thank you Sir.

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

Aditya Mongia: Congratulations on a good set of numbers this time around. Sir wanted you to get more clarity on Foskor Zirconia as a business. Now as was initial remarks also there has been a clearly sharp swing in the profitability in fact, if I see last year numbers there was a big loss sitting over there so I think changing fundamentally over there or it is just a low base over which number of looking good right now?

K. Srinivasan: Foskor is still WIP. We have seen improvements kicking in from the Z-450 getting accepted in the market, first trial orders coming in, the volumes just picked up, we did about Rs.28 Crores, Rs.30 Crores in this quarter, which means that we did some good production, but we are still not out of woods. We are still making losses there. We do about Rs.2 Crores loss in that place in a quarter so we should see unless volumes goes to about, I am giving in rupee equivalent in terms unless we go to about Rs.50 Crores per quarter then you will see profits coming up. Now is there path to it? Yes, I think lot of work is happened, the capacity utilization is pretty low, we have the opportunity there, keeping that in mind we are taking a call to go down on Zirconia production in India and convert it to more of white fused, which will give us volumes of business, which is in short supply in the world at this moment. We have the advantages that the Zirconia can still come out of South African soil, so we are doing some quick changes to see that both the Carborundum Indian business as well as Foskor business benefits and we see an overall uptake in the next three quarters. Long answer for your short question but that is the way it is going to play out.

Aditya Mongia: I want you to provide you slight bit more over there, the Z-450 is this the key product that can help you reach that mark of 50 Crores per quarter and if so what is the kind of progress happening over there?

K. Srinivasan: It is an important product. The reason is a quasi fusion product. With the kind of price of graphite electrode and the Zircon sand, this allows us to be cost competitive and I think the key in mineral business is to be cost competitive. If you are lowest cost producer in the world, your plant runs full even if the world requirement falls by 30%. We have proven that in Russia, we are running that plant for 12 years flat out, it is except for internal issues, internal problem, market is not an issue. I think we have to come to point where whatever we make we had globally at least among the lowest cost if not the lowest cost producer and Z-450 allow us to be that. Another dimension, which is unique, it has got the lowest U+Th requirement, U+Th measures radioactivity. This is fairly stringent standard in Europe and US, even the earlier version was below 500, but this can take us below 300-350, we are calling it Z-450 because of the guaranteed number below which we can offer U+Th. It is a unique property as well so I think we are looking at two things, environmentally more friendly product and across competitive product, it could be breakthrough. The volumes have to pickup and that can make material difference to the operations of Foskor and Carborundum overall.

Aditya Mongia: Thanks for this response. Second question was more on the capex side now you giving us sense that incrementally the capex may be of different kind versus what was happening in the past some more towards material side and newer products, which are requirement for the future, wanted to get sense from you pay from quantum perspective would there be any material jump next year as you think see things towards versus Rs.120 Crores of number that you have shared for this year and the benefits of these two investments would it be more front ended or back ended just wanted to get better sense of returns for the business going forward?

K. Srinivasan: We have been fairly conservative in our capex. I think this year we would do about 120 and a predominant part of it is to running existing businesses except may be scaling up the Z-450 which again would be a proven business by then, all others would be on existing proven business, there is only few small right to play bet kind of businesses like we would invest about Rs.10 Crores to Rs.15 Crores in the graphene project and few other projects of this nature. We will scale up only after we do alpha and beta, that means the right to play businesses must demonstrate capability as well as profit margins only then we put money so I would not be too worried about big capex on unproven new material science projects.

Aditya Mongia: Just a bookkeeping question for the first quarter consolidated other income appears to be rather high at about Rs.10 Crores or so, is there any one of over there or is it just recurring income coming hand in hand cash balance?

Raja Mukherjee: No it is not one-off. I mean it is dividend income and it will get normalized over the next quarters

Aditya Mongia: Normal dividend income?

Raja Mukherjee: Normal dividend income that we will have.

Aditya Mongia: Sure Sir. Those are my questions thanks a lot for your response.

Moderator: Thank you. The next question is from the line of Pawan Parekh from Renaissance Investment. Please go ahead.

Pawan Parekh: Sir my question is first on that line by line capacity utilization that you had mentioned and some of our traditional products like coated and say VAW, and alumina we are running at like all 80%, 90% kind of or in fact more capacity utilization, I remember like two quarters back, you were saying that with our existing capacity we can do like about Rs.3300 Crores revenue, I think post that obviously different plants you would have taken 5% to 10% price hikes to counter the cost pressure, so from current levels to reaching that 3600 levels what are the key products in which you think build this gap because some of our traditional products already see that we are running like high capacity utilization?

K. Srinivasan: I would like I said in the beginning we will add capacity to our traditional businesses. These capacities; however, have to come up at places where we are cost competitive. If you look at the mineral business, we tend to run plants full capacity but if it has to be sustainable full capacity utilization, they also have to be locations where we are cost competitive. We are having a good run, but we will have to use this to ensure that the new capacities come up as a right position, right geography where the cost advantage exists. Alternately we have to come out with technological processes like Z-450, which is unique patentable process, which allows us to make it at a cost and is better than what the market offers so we will have to look at one of cost competitive to build capacities, we are doing both. To come to your question in terms of newer capacities being created for newer businesses like I said we will do that step by step, we will only start small right to play kind of bet, allow it to scale up, allow it to be commercially prove as viable and only then we will go to significant capacity. We will do it two steps. Overall we have been saying this year, we will grow at about 15% plus which should take us to about Rs.2700 Crores plus that is FY2019 guidance and we said we will do Rs.3200 Crores in 2018 and we will probably hit that kind of a number in FY2020. As we do this we will keep investing to take us from there to the next phase of growth, which will be largely on existing known business, but also investing into newer businesses which will take us for growth beyond that number, so that is the way we are looking at.

Pawan Parekh: With the kind of capex that you have mentioned adding more of coated capacity and additional reconfiguration your coaching plant, without that it is possible for you to touch Rs.3200 Crores of revenue in FY2020?

K. Srinivasan: The coated maker is a committed capacity. We will go ahead with it this year, so this Rs.3200 Crores, Rs.3300 Crores in a way also factors in a part of this new maker capacity coming in.

Pawan Parekh: Sir what is the capex plan for FY2019 and FY2020 consolidated?

K. Srinivasan: FY2019 we have committed already, we will do about Rs.120 Crores.

Pawan Parekh: Okay, FY2020?

K. Srinivasan: FY2020 we did not give.

Raja Mukherjee: FY2020, we have not given any numbers, but let us say a similar amount of capex whatever we have done for FY2019 can be anticipated for FY2020 as well. The coated maker capacity would take 18 months to get commercialized, so only six months of the coated maker capacity would possibly be available for Rs.3200 Crores or Rs.3300 Crores number that you have just said. only six months of the new incremental coated capacity would possibly be contributing to the achievement of the number.

Pawan Parekh: And lastly on Z-450 can you throw some more light exactly so is this product already been commercialized developed at our end and what are the typical customers we are looking at competition can you throw some light on this?

K. Srinivasan: Z-450 is a Monoclinic Zirconia. It is used in applications right from metallic colors, Zirconia in refractories, zirconium rod used in nuclear reactor tubes etc., it is a very versatile product. It replaces fused monoclinic Zirconia. The way it is made is it is by quasi fusion that means you partly fuse and partly chemically treat it. It is a purer way of doing it and it is a cleaner product.

Pawan Parekh: That has been commercially and does that there in already?

K. Srinivasan: It is commercially there. It has also been accepted by key customers, major changes and input material let us say somebody is going to do a nuclear fuel rod, it is not going to change just a cost of price or availability, it is going to change only if it passes a lot of testing, so it has taken almost a year of testing for us and this product has come through. We are now seeing first trial test orders, the testing part is over now we are getting what is called as small test order. This has been done over the last quarter itself. We will see significant scale as soon as we start seeing these orders getting through. It is a three to six quarters then it start hitting volumes.

Pawan Parekh: Okay, there are any other manufacturers in India for this?

K. Srinivasan: There is no other manufacture in the world for this.

Pawan Parekh: Okay and last thing what is Z-450, what to do with graphite?

K. Srinivasan: Fusion of Zirconia requires about 7500 units of power per tonne. It requires about a 155 kilos of graphite electrodes per tonne by the Z-450 is 165 kilos of graphite will be brought down to less than 50 kilos that means where the graphite requirement comes down more than a third, the power requirement comes down to less than half, plus it is also cleaner, purer thing, because we remove the monazite sand which means the U+TH which the radiation creating goes out of it. It is a better cleaner, safer product to make in use.

Pawan Parekh: I think that was really helpful. Thank you so much. All the best.

Moderator: Thank you. The next question is from the line of Bharat from Quest Investment. Please go ahead.

Bharat Sheth: Good morning Sir and congratulations for a good set of numbers. You have answered almost all questions, but I have just couple of questions. In opening remarks you said US and Europe as well as Australia is doing well, so we have one JV in the US where still we are not able to turn it around, but how do we really look at I mean the growth essential and when we will start really contributing to our bottomline?

K. Srinivasan: We have wholly owned subsidiary in US. It has got 2 parts of the business, the abrasive business and the ceramic business. To just answer your first part of the question is, in the month of June itself we actually made profit in that business, so it is getting better, the sales are picking up, the margins are picking up, so wholly owned subsidiary hopefully should be profitable significantly in the next couple of quarters that is one. In addition to that, we also do direct sales in the US with customer tie-ups, so here we make it for specific customers and directly sell to those business is also picking up, so whether it is going into the solid oxide fuel business, whether it is going into metallized cylinder business, whether it is going into grain business, this is directly with customer contracts direct from here and even that has picked up significantly. US is becoming attractive and it will grow. I think that is the short answer, but we will look at other opportunities to grow it faster.

Bharat Sheth: How do we see the potential of this US subsidiary in next two, three-year time whereas you say that US economy is doing very well and some of the key material also allows and we will be able to penetrate in US?

K. Srinivasan: $10 to $11 million we will definitely do this year and going forward, I think you will see this to go into about $20 million in the next two years at least, but this is not the only part, we are also looking at opportunities to add something to us so that this can grow faster. It is a profitable business and it will grow further.

Bharat Sheth: Question on joint venture with Ciria and Morgan, in opening remarks also you say that we have got some good contracts and projects for supply of refractory and they are largely engaged in the project business Ciria and Morgan, so how do we see the future of this joint ventures?

K. Srinivasan: The business is doing well, refactories are doing well, the joint ventures are doing well, we expect it to continue to do well and grow.

Bharat Sheth: Thank you. That is all from my side.

Moderator: Thank you. The next question is from the line of Bhoomika Nair from IDFC Securities. Please go ahead. As there is no response from the current participant we will move onto the next that is from the line of Ritwik Sheth from Deep Finance. Please go ahead.

Ritwik Sheth: Good morning Sir and congratulations on a great set of numbers. Sir firstly you were talking about Z-450 what do you think five years down the line is the potential for this product?

K. Srinivasan: Very, very difficult question. I think we must give in a couple of quarters before we can answer this.

Ritwik Sheth: Okay, sure and you mentioned that next three quarters you are looking to pass on the price increase, so what is the kind of price increase that we need to take over three quarters? Can you throw some light on that?

K. Srinivasan: I think the effective increase in different verticals would be different. In the electron mineral, we would have to get at least about 8% to 10% at least, in the abrasives I would say on an average of 6%. Refractories will also be about 6% to 8%, ceramic we are okay, but we still probably would get another few percent more.

Ritwik Sheth: Okay, so approximately on a consolidated basis, it would be somewhere around 4% to 5%?

K. Srinivasan: Give it at least two quarters before you do the numbers, because we always have this challenge as we start putting up prices particularly in trade product like abrasives immediately customers do downtrading. You put up price by 8%, he will buy the next version of the product which is cheaper. so give us some time, I think in next two, three quarters you will see the impact gradually flowing and I expect during the year, we should get about 5% to 6% overall correction in prices.

Ritwik Sheth: Fair enough and Sir you mentioned that downtrading in abrasives is pretty common, so what is the kind of premium we are at apart from the big three, so what is the kind of premium we are at if you can throw some light on that?

K. Srinivasan: Even on the so-called big two, I thought it was big two, even in the big two, I think we are higher than the others, we are price leaders clearly, we set market prices and we would continue to be that.

Ritwik Sheth: Others like the non-organized grey market and imports?

K. Srinivasan: There are two categories in that. There are people who are formally selling and they would be about 15% cheaper, but those who are on an informal trade they could be up to 25% 35% cheaper.

Ritwik Sheth: Sir in one of the questions one you said that after this Rs.3200 Crores, Rs.3300 Crores of revenue if we achieve in FY2020, you are looking your next benchmark is around Rs.5000 Crores, so over say next three years, what is the kind of capex we require to reach that and this Rs.5000 Crores, is there any timeline that we have set internally?

K. Srinivasan: No, I think we will have to evolve, we do not even give capex for the next year, so I think we had given capex for FY2019, we will do more work and get back to you with a better capex for FY2020 itself. Strategy map is clear. We are trying to prioritize what would be the areas we will work on, there would also be a bigger mix of existing business and adjacencies and then of course the breakthroughs or the right to play kind of businesses, so we will come with a clearer capex by FY2020.

Ritwik Sheth: Okay, sure and just one final question like this Z-450s are patented product, so do we have any kind of products, which we have introduced in the market in the last five years have come, what kind of revenue would they be contributing?

K. Srinivasan: I think we have significant number of new products in the last four to five years, if you look at the Azures, which is the special ceramic grain, it is a product with a patent, global patent and it is scaling up. The alumina Zirconia that we deliver both for the metal ceramic composite and abrasives, it is again with a patent and that is scaling up, so there are a lot of products, which we have launched in the last three to four years and all of them are scaling up well.

Ritwik Sheth: Okay, they would be contributing less than 10%, is there any number to it because I assume that?

K. Srinivasan: No, we do not put a specific numbers on product or group wise, but they are all scaling up and they would be within a vertical because I do not want to give specific product wise margin then I have limited customers and that takes away my ability to work on these businesses.

Ritwik Sheth: Sure, okay Sir. Thank you and all the best.

Moderator: Thank you. The next question is from the line of Bhalchandra Shinde from Anand Rathi Shares & Stock Brokers. Please go ahead.

Bhalchandra Shinde: Sir regarding abrasives volume growth, was it largely because of the new product additions or it was specific applications pitching up in demand?

K. Srinivasan: I think the biggest volume growth is coming from auto, auto components, the auto is on fire! I think the auto, auto component business is at least growing 15% to 25% and that has given the biggest growth. The trade consumption seems to be growing, but the kind of growth that we are seeing is not in proportion to the kind of growth in consumption that is happening, so that is an area of concern.

Bhalchandra Shinde: In electro-minerals also was it largely because of the like price increase in silicon carbide, which we reflected in growth or it was more like a volume growth only?

K. Srinivasan: It is a tonnage growth. I think we have fused in Indian part of the business we are fusing more than ever before, we have sort of in a quarter we are now at a stage of consuming almost about 50 million units of power. To give you an idea of the kind of fusion and capacity we are all running, so fusion is running flat, so most of the major product lines the volumes have gone up significantly.

Bhalchandra Shinde: Regarding power cost how you see this year in the Indian operations power cost to pan out and even in the Russian operations?

K. Srinivasan: The power cost is marginally lower, we expect it to stay lower because of the good rainfall in Kerala, Maniyar, our hydroelectric station is running well, so the average power cost I do not want to give a number, but it is lower than last year. The Russian power cost again in the first two quarters is lower than that we had last year, but this is also partly seasonal, but we expect it to be equal or lower than last year's power cost, so that is the good news also in Russia, that is the reason why we are little bit hesitant about committing our gas based power station in Russian in this stage. We have taken a call how to progress, if we are going to end in a situation where is the power surplus, operating power cost are relatively low, the capex can be better utilized for other things.

Bhalchandra Shinde: Okay. Thank you Sir.

Moderator: Thank you. The next question is from the line of Bhoomika Nair from IDFC Securities. Please go ahead.

Bhoomika Nair: Congratulations on a great set of numbers. Most of my questions have been answered, but just on this EMD segment, if we go back for the last couple of years we have kind of consolidated a lot of the capacities, we have seen improvement in utilizations, we are seeing movement towards more of value added products and costs are kind of stabilized over the last one or two quarters, so when do we start seeing the sharp improvement in EMD segment?

K. Srinivasan: Sharp improvement in volumes or margins?

Bhoomika Nair: Margins Sir.

K. Srinivasan: Yes, so the margin now is running at about 14.6 this quarter and I think it will improve, but it is not going to be dramatic, I think what we will see is sustained margin going up, but also the value going up because the volume of production for Foskor goes up, the volume of production further in the converted bubble plant goes up, I think you will see a larger growth in sales number with a marginal growth in the margin is there.

Bhoomika Nair: Okay and as we take price hikes as you mentioned in the EMD segment would the pressure because abrasives would see the counter effect, would that restrict to be margin expansion in the abrasive segment?

K. Srinivasan: Each of these businesses are run relatively arms length because we sell internally less than 25% of our total electro-minerals 75% goes to our so-called competitors in abrasives and refractories, so the pricing of electro-mineral is quite independent of our issues of whatever at the abrasives, but what happens to everybody is if electro-mineral price goes up the margin pressure would first come on to abrasive till they are able to pass it on to the end consumer, so that is the process, I mean you have to squeeze it through the system.

Bhoomika Nair: Okay, so there could be some delays in kind of seeing an improvement in the abrasive segment?

K. Srinivasan: This is what the abrasives is going through and not only us all the abrasive industries are going through the same thing that they initially go through the pain of having to take the price increase from the electro-mineral people and try and push it through the end consumer, this is happening to all the industry for the last two quarters, probably they would see better corrections in the next two quarters, they would be able to get it through to the customer.

Bhoomika Nair: Okay. Great Sir. Wish you all the very best and thank you so much.

Moderator: Thank you. The next question is from the line of Ruchir Khare from Kotak Securities. Please go ahead. The line for the current participant seems to have dropped off, we will move on to the next that is from the line of Manish Goel from Enam Holdings. Please go ahead.

Manish Goel: Very good afternoon Sir. Just question on our revenue target of Rs.3200 Crores, Sir this number was probably expected a couple of years back when we had enough capacity, but now seeing the cost inflation and we are taking the price hikes do not you think that ideally this number could be achieved much before and probably based on current capacity, we could have a much higher turnover?

K. Srinivasan: Tough question to answer. Let me say this way this FY2020 Rs.3200 Crores looks definitely possible, many other things could be done, but I think we will go step by step, I think we have to be mindful that we are talking at a time when there are two imponderables, which I think I would rather leave it on the table. One is the big delta that everybody expected on GST to the trade has not come, so we do not know where it is, when it will come, if at all will it come. The second one, which is not often talked about, but that is lurking in the background is we see a fairly steep fall in diesel engine production and consumption across the world. We see it in Europe. We are seeing it also beginning in India may be for different reasons. One could be environmental and other could be cost, but these diesel engine dropping off and dropping off quickly could also change requirements for many of our products, so I think there are quite a few imponderables out there. We would have to take it step by step. We will take it that FY2020, 3200 is a good number to predict, but beyond that I think we will watch out.

Manish Goel: Sure and overall margins front Sir would you probably like to guide or may be segment wise if you can probably guide for FY2019 what is the range we can see in all the three segments?

Raja Mukherjee: FY2019 we had already given guidance in the last call, so I will just repeat the guidance once again. We have had guided I think 2017-2018 on a full year basis we had delivered EBIT margin for abrasives at 13%. We have a guidance of 13% to 14% for this FY2019 as far as abrasives segment is concerned and as far as ceramics is concerned something 15% to 16%.

Manish Goel: EBIT margins right?

Raja Mukherjee: Yes EBIT margins at overall level. As far as electro-mineral is concerned, it was 14.4% in 2017-2018 for the full year basis. I think let us say we will try to deliver around 16% so on a blended basis at a full overall basis, 13.5% was the overall PBT margins that we had delivered in 2017-2018. FY2019 let us say we will strive to reach 14% on an overall basis, consolidated levels.

K. Srinivasan: Just to add I think the Q1 we have delivered 14.4% as of now.

Raja Mukherjee: Q1 we have delivered more than what we have guided for the full year.

Manish Goel: That is what. It probably look quite conservative Sir and because you are going to take price hikes over a period of the next two quarters so ideally your margins should also inch up because you probably have some volume growth as well?

K. Srinivasan: We are reserving this for the new CFO Mr. Jagannathan to announce in the next quarter.

Manish Goel: Last question Sir on the capex Rs.120 Crores again sorry on harping; so this capex would probably entail, you said some of the capacity expansion but the benefit will come only beyond FY2020 am I right? The Rs.120 Crores capex what we are planning to do the benefit of which in terms of growth will be reflected later on in FY2020?

K. Srinivasan: Lot of it would come in FY2020 because like Raja explained some of these capacities take almost 18 months to play, so only we will get a benefit of half working year in FY2020. Some of them would also start giving benefit earlier, so I would take it that half and half. There is a mix of what is for the using business, which is almost 80% and there is a 20%, which goes for future oriented business, which takes longer to happen.

Manish Goel: Fine Sir. Thank you so much Sir.

Moderator: Thank you. The next question is from the line of Sandeep Baid from Quest Investments. Please go ahead.

Sandeep Baid: 16% margin in the ceramics business while we have delivered 20% in the Q1, so just wanted to understand was there a one-off in the first quarter or are we being too conservative in the terms of guiding for the full year?

K. Srinivasan: The answer is in the second part of your question Sir.

Sandeep Baid: There was no one off in the first quarter?

K. Srinivasan: There was no one off. I think we want to be careful. We have seen good margins. We hope to stay there, but let us wait one or two more quarters.

Sandeep Baid: This contribution was substantial jump in margin was because of the metz cylinder business?

K. Srinivasan: All the three I explained it earlier. It is one-third metz. One third is a big growth in wear ceramic sales to Australia and the US. I mentioned it also the US market is picking up and the one third coming from engineered ceramic, which is also something, which goes to the US and other parts of the world, so all the three contributed for the margin growth.

Sandeep Baid: Secondly can you give us some update on the new hydel plant that we are building in Maniyar? Would it start contributing in FY2021?

K. Srinivasan: No. What has happened is we won the tender. We got the bid of the plant called Keerithodu, which is a 21-megawatt plant for the necessary approvals we are still battling with the bureaucracies, with the government, etc. It is still not fully approved. The state electricity board sees that they would be a better person to execute and not us, so there is a lot of work going on. At the moment, there is no work on the ground. The project report is there. Everything has been given. The government has not given us a formal green signal to go ahead, so at the moment we are still in a limbo as far as the new project is concerned.

Sandeep Baid: Right and lastly Mr. Srinivasan is it possible to give some idea of the kind of money that we spend on R&D on new products and how much do we expense and how much do we capitalize every year?

K. Srinivasan: Like I said in Carborundum consolidated we have seven DSIR approved labs. This includes are JVs and subs as well. We would spend about a percentage on what is regarded, reported and put into the R&D chapter. About 1.8% to 2% now, so that is what we spend, but that is one part of it. The other thing, which is not really captured under this head, is the work that we do on new product establishment and new product development. This really gets booked off as normal operating expense on marketing and other things where we do a lot of these new product development with customers. That is I would say at least another 2%, so I would say about 4% is what you could conservatively estimate as what would be traditionally seen as R&D.

Sandeep Baid: Right Sir and most of it is expensed would you say?

K. Srinivasan: All of it.

Sandeep Baid: Thank you Sir.

Moderator: Thank you. The next question is from the line of Jayesh Gandhi from Harshad Gandhi Securities. Please go ahead.

Jayesh Gandhi: Sir you said that coal and diesel engine usage can reduce demand for many of your products? If it is possible for you can you share with us the percentage of revenues coming from such products?

K. Srinivasan: It is very difficult to answer Sir, but I would think that it is anywhere between 3% to 5% of our total revenue in electro minerals and abrasives would have linkage to diesel. It would have the reverse effect on ceramics because a lot of it goes into technologies, which are competing with diesel engines, so the ceramic would have the delta of a growth coming in if this declines, so for Carborundum always we have this compensating benefits and challenges across the value chain, so that is about it. About 3% to 5% I would say negative impact in abrasive, electro minerals and maybe positive in ceramics.

Jayesh Gandhi: Thank you. That is all from my side.

Moderator: Thank you. The next question is from the line of Ruchir Khare from Kotak Securities. Please go ahead.

Ruchir Khare: Good morning. Thanks for taking my question. I am sorry my line got cut in between. Sir most of the questions have been answered just one question. In Foskor Zirconia, you mentioned that current capacity utilization is around 40%, so what would be the kind of pan out in this by the end of this year and may be by FY2020?

K. Srinivasan: I will give you a rupee number. We did roughly about Rs.28 Crores in the Q1, which is what we said about 40% to 45% capacity utilization. It should start delivering Rs.50 Crores a quarter. Even if have two quarters of around Rs.45 Crores or so 1) the business will be profitable and successful; 2) is it could be beginning of the next phase of growth, so we have to see how the next two quarters play out. The key would be the scaling up of this Z-450. It has gone through acceptance with customers and now volume orders have to come and that will determine how quickly we can hit these numbers.

Ruchir Khare: Fine. Thanks Sir. That is it from my side. Thank you.

Moderator: Thank you. As there are no further questions, I now hand the conference over to Mr. Bhalchandra Shinde for his closing comments.

Bhalchandra Shinde: Thanks Lizaan. On behalf of Anand Rathi Securities, I would like to thank the management for taking time out and answering all the questions and also to all the participants for being on the call. Wish you all the very best Sir. Thank you so much and now we can close the conference.

Moderator: Thank you. Ladies and gentlemen, on behalf of Anand Rathi Share and Stock Brokers that concludes today's conference. Thank you for joining us. You may now disconnect your lines. Thank you.