"Carborundum Universal Limited Q1 FY2020 Earnings Conference Call"

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ANALYST: **MR. KUNAL SHETH - BATLIVALA & KARANI SECURITIES INDIA PRIVATE LIMITED**

MANAGEMENT: **MR. K. SRINIVASAN – MANAGING DIRECTOR - CARBORUNDUM UNIVERSAL LIMITED**
MR. JAGANNATHAN CHAKRAVARTHI NARASIMHAN - CHIEF FINANCIAL OFFICER - CARBORUNDUM UNIVERSAL LIMITED
MR. G. CHANDRAMOULI - SENIOR GENERAL MANAGER, STRATEGY - CARBORUNDUM UNIVERSAL LIMITED
MR. ANANTHASESHAN – MANAGING DIRECTOR DESIGNATE- CARBORUNDUM UNIVERSAL LIMITED
MR. PADMANABHAN - CHIEF ACCOUNTS OFFICER - CARBORUNDUM UNIVERSAL LIMITED

Moderator: Good day ladies and gentlemen and welcome to Q1 FY2020 Earnings Conference Call of Carborundum Universal Limited hosted by Batlivala & Karani Securities India Private Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Kunal Sheth from Batlivala & Karani Securities India Private Limited. Thank you, and over to you, Sir!

Kunal Sheth: Thank you Margaret and good morning everyone. I would like to welcome the management of Carborundum Universal Limited on the call. From the management we have today Mr. K. Srinivasan, Managing Director, Mr. Jagannathan who is the Chief Financial Officer and Mr. Chandramouli who is Senior GM Strategy. I would request you to give us some opening remarks post which we will open the floor for Q&A. Over to you Sir!

K. Srinivasan: Kunal thank you very much. Just to add I also have my colleague, Mr. Ananthaseshan, who will take over Managing Director from me at the end of November. He is here with us and probably he will speak to you during the next earnings call. I also have with us here, Mr. Padmanabhan who is a Chief Accounts Officer and he is the one who ensures that all our accounts are up to order and shape, so we are backed up by a team out here and they are all joining in into the call. Let me start by saying good morning to all of you. Thanks for dialing in and Kunal thanks for hosting the call. I know it is raining in Mumbai and the mood is generally very low in the market. But let me start by saying that though the numbers may not say as much, we are actually happy with the Q1 results. We knew that the overhang of a poor Q4 will continue into Q1 and quite honestly, we maintained the growth momentum as far as the topline is concerned, we did give 6% growth on the consolidated at Rs.664 Crores against Rs.626 Crores.

We have a standalone growth of about 3% at Rs.424 Crores compared to Rs.410 Crores. So overall it was not a bad quarter, we could continue to grow in a market that was not doing exceptionally well. Particularly worth noting will be the standalone Rs.424 Crores had almost 27% of it coming from exports which really meant that this quarter our exports was actually at an average price at 68.2 compared to a 72.3 in the first quarter last year which consequently did reflect in the margin that we made. But overall I would say it was not a bad performance at all and as I look forward to the Q2 numbers, I am pretty pleased to see that you also would be reasonably good in fact in terms of looking at a topline growth, in the context of a slowdown that we are all seeing. The consolidated profit however was only Rs.78 Crores as compared to Rs.95 Crores last year, the PAT dropped by about Rs.10 Crores, nearly about Rs.4 Crores out of it came really from the foreign exchange and about Rs.6 Crores came from lower margin. We expect this will correct in the Q2 though the topline growth is not going to be as aggressive but we expect that the margins will correct in the Q2.

Now let me go segment wise. The segments that is worst affected really by the slowdown in the domestic market in abrasives because 75% of abrasives businesses in India specific. The quarter had a sale of almost flat compared to the Q1 last year at Rs.213 Crores, Rs.214 Crores. Margins also were marginally down because of cost impact was there and in a declining market we couldn't put up prices. This I believe was going to continue for a couple of more quarters, it is not going to see any quick revival as we see, but the good news is what is hurting us is killing others, so the market share is likely to grow during Q2, Q3 onwards and hopefully by Q3 we should also see some margin improvements. I would specifically say that almost all the subsidiaries except Foskor Zirconia which I will touch later, actually came to profit in Q1 onwards. So this is real good news as I see in the subsidiaries and I expect this to contribute to a better performance from Q2 onwards.

Electrominerals had a good topline growth, but a very poor bottomline and I will explain this better going forward. At Rs.264 Crores compared to Rs.239 Crores this is a good growth at topline 11%. The standalone revenue actually did not grow; it actually declined by about 2% and this largely comes in the fact that we almost had no sale of DPF. We had poor product mix and we also had a lower generation in Maniyar plus the exports were at a lower dollar rate compared to a lower rupee rate compared to the Q1 last year. So all three things went negative, this meant a significant fall in the margins as well, but as we speak margins are coming back, we are getting the first signs of increase in sales for exports, so we should see better numbers coming in from the Q2 and Q3. Volzhsky Abrasives had a record production we did more than 20000 tonnes of silicon carbide. We could sell everything, so this was outstanding performance out there. They lost almost Rs.4 Crores equivalent of profit simply coming out of the exchange rate in Q1 due to strengthening ruble but again that is something which will change in the Q2. So overall I would say mineral business showed growth of topline, we continue to hold market share or even grow on it, but margins decline hope to correct it during the Q2, Q3.

Coming to the ceramics business, ceramics had the best growth 14%, strong growth in topline driven by exports more than half of what we export out of standalone is from the ceramic business, also good sales in India, standalone business also grew from Rs.118 Crores to Rs.138 Crores which is nearly 17%, so overall strong topline growth. Margins again were not as good, same reason we lost almost Rs.6 Crores in foreign exchange alone compared to the Q1 last year but hopefully again this will correct out. A strong rupee really hurts exporters and that is really where it is, so we should be able to see this getting better going forward. CAPL again has strong topline growth. We have order backlog in the ceramics business to see us through to Q3 as well. Capex standalone we have spent Rs.18.87 Crores, consolidated we spend another Rs.19 Crores. Largely this is going ahead with our coated expansion which we are on track and to do we have taken a land in one of our subsidiaries in Gujarat to go ahead with the growth project there as well. So overall we are staying on course for the capex. The R&D effect was outstanding. We commissioned our Graphene plant, first commercial production has started and we have started delivering to the battery industries as well as to other special industries and hopefully we should see commercial sales picking up going forward.

So let me close by saying Q1 numbers do not look as good as what we would have liked it to be but in terms of performance as an operating person I am reasonably happy with what we did and even more confident that Q2, Q3 should be better. I am going to ask our CFO, Mr. Jagan to go ahead and give you a flavour of the numbers.

J C Narasimhan: Thank you K.S. Good morning everyone. Let me now summarise the financial performance of the first quarter. The consolidated net sales for the quarter increased by Rs.38 Crores which denote 6% growth over the corresponding quarter last year and the PBIT was down by Rs.16 Crores which was about 18% drop. Out of the increase in sales of Rs.38 Crores, the standalone share was Rs.14 Crores. Our Russian subsidiary contributed Rs.12 Crores to the increase, also Middle East, USA, Australia, and China have registered growth on Q-on-Q basis. PBIT percentage to sales fell from 14% to 11%, this is largely due to the losses Foskor Zirconia Limited and fallen margins in VAW. Standalone PBIT growth of Rs.3 Crores came majorly by way of increase in non-operating income during the current quarter. On consolidated basis, profit after tax was Rs.53 Crores as compared to Rs.63 Crores earned during the last quarter. At standalone level profit after tax increased to Rs.45 Crores from Rs.39 Crores. At consolidated level, the PAT margin was 8% against 10% during Q1 of last year. At standalone level it increased from 10% to 11%.

Now let me give an update on financial segment level. Abrasives, at the consolidated level PBIT reduced by 11% from Rs.32 Crores to Rs.28 Crores, the PBIT margin at standalone level remains flat; however, lower volumes had impact on the profitability. At consolidated levels Sterling and VAW experienced a steeper fall in margins affecting consolidated segment results. Impact of, reduction in profit at consolidated level was moderated by better performance in China with growth in sales and margins.

Electrominerals division, the consolidated electrominerals business reported a PBIT of Rs.24 Crores as against Rs.35 Crores in the same quarter last year. CUMI Standalone PBIT saw a decline of Rs.7 Crores signifying 70% degrowth over Q1 of previous year. PBIT was adversely impacted to the extent of Rs.6 Crores due to losses in Foskor Zirconia. Net sales of Russian subsidiary grew by 12%, however, the profit was lower by 3% due to lower margin.

Ceramics. Consolidated ceramics segments are Rs.1 Crore increased in PBIT representing a growth of 3% from Rs.29 Crores in Q1 of last year to Rs.30 Crores in current year. CUMI standalone contributed Rs.4 Crores to the gain owing to better volume from industrial ceramic division and super refractories. CUMI Middle East has moved from losses in the previous year Q1 to profit in the current year Q1. VAW refractories business and CAPL were showing significant decline in the profitability impacting the consolidated results.

Debt equity ratio. On consolidated basis, the debt equity ratio remains stable at 0.06 as on June 30, 2019. There is no major change in debt, the total debt at consolidated level was Rs.104 Crores.

On Forex cover, CUMI is typically a net importer in dollar terms and a net exporter in Euro terms. We cover net exposure as appropriate and in accordance with the forex policy, we have hedged a net payable exposure of USD 3.77 million and Euro 0.38 million for the Q1 2019-20. With this I conclude my financial update. I hand it over back for questions now.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Balchandra Shinde from Anand Rathi. Please go ahead.

Balchandra Shinde: Good morning Sir. Regarding electrominerals in standalone business we have seen a drop of around Rs.7 Crores, any specific reason means if you can highlight on it?

K. Srinivasan: So like I mentioned there are three reasons why the margins are down. One is the volume itself is 2% lower in the corresponding period last year and significantly lower than what we have planned. Three reasons I mentioned the big export order for DPF did not happen in the Q1. There was completely no shipment for diesel particulate filter products which is a high-margin product and that was almost zero. Not almost zero, it is zero. Maniyar had a lower power generation because the rains are still scant in Kerala. We are still not having the monsoon as normal that is second reason. The third is volume. The overall volume is not to plan. So all three reasons contributed to a lower margin in EMD. I mentioned as an overall thing, our margins falling is when we compare against the Q1 of last year to the Q1 of this year. The Rs.116 Crores of export was realized at 68.2 to 68.3 on an average whereas last year in the Q1, a slightly lower export was realized at something on an average between 72.3 to 72.5, so there was also fall though the prices we were almost the same, the net realized in rupee, we also had a fall, this affected both the topline as well as entirely on the bottomline.

Balchandra Shinde: If we improve on the diesel particulate filter order then probably our margins will improve or power cost will keep slightly margins under pressure only?

K. Srinivasan: Two things will happen. The diesel particulate filter business is not likely to improve dramatically. That is a technological change which is quite irreversible; however, it will not go to zero, we will have some improvement, but there are other things which are getting little better whatever we supply as microgrit for the silicon wafer business have picked up a little more than normal plus we also expect that with Maniyar generating better power that we should be in a better shape during this quarter.

Balchandra Shinde: And Sir in abrasives relatively our exposure towards auto is lower and industrial application is higher, so still we were not able to actually relatively grow because I think there was some improvement in the industrial activities especially on the fabrication side?

K. Srinivasan: Who said that? Actually what we really see like this, the auto is deeply impacted, we are talking of deeply impacted. The engineering industry if you are looking at textile equipment, fabrication and a whole lot of them except for primary steel production, everybody else have been having rather poor quarter. The construction industry which includes retail house improvement, home improvements, building etc has also shown a very poor activity during the Q1 and we believe this is not going to go away in a hurry, I think the bad news on the housing and the construction sector is yet to be fully heard.

Balchandra Shinde: And Sir in ceramics, was the growth largely because of the metalized cylinders or it is because of the industrial ceramics, which we supply to Australian mining?

K. Srinivasan: The ceramics like you know has two parts. The wear ceramics has done well, but the engineered ceramic part is run outstandingly well and it continues to grow. We are completely sort of full and the additional expansion we are working on would enhance and come into play after September will give us further growth. Here like we have co-created products to specific customers and all of them are doing well. They are all in Europe and US and doing very well.

Balchandra Shinde: And even in metalized cylinder we usually export or it is a largely domestic demand?

K. Srinivasan: More than 70% is exports.

Balchandra Shinde: Okay and Sir in this Graphene from when we will be able to see sales coming in our business in that?

K. Srinivasan: We should look at Graphene as two parts. What we now have is a commercial part with the right to play kind of an investment. but once we sort of see traction we will then scale up rapidly and then we will see significant volumes coming up, so you will only see the interest of getting commercial acceptance happening during this year, serious volumes will come only after we make the big commitment.

Balchandra Shinde: Okay, thank you Sir. I will come back for further questions.

Moderator: Thank you. The next question is from the line of Ravi Swaminathan from Spark Capital. Please go ahead.

Ravi Swaminathan: In the backdrop of weak start to the year, so in abrasives, can we expect mid single digit kind of volume growth or can it be better and also in terms of pricing, is there any scope for price increase at least in the H2 and what magnitude it can there be?

K. Srinivasan: Let me answer the whole thing like this. The Indian slowdown I think we are only seeing bits of it yet. Our general sense is this is far deeper than what everybody is willing to talk about or accept. This is going to continue at least for three to six quarters, so we must be mentally prepared that this is not going to come back very quickly. Under that possibility we would like to say the overall growth that Carborundum would look for which includes abrasives, a little more focus on export, ceramic, electro minerals all combine, we are likely to be below the plan of what we said above Rs.3000 Crores to be below Rs.3000 Crores. This also takes into consideration the fact that we expect not to have the topline addition of Foskor Zirconia in the H2 and also the corresponding losses, but profits also remaining relatively strong within the growth. So to answer your question in few words, high single digit growth of topline and bottomline compared to last year is what we are looking at.

Ravi Swaminathan: Got it Sir and in terms of the electro mineral business, so basically first of all what is the capacity utilization in the domestic market in Russia and is there any further headroom for Russia to grow and has there been any price increase this quarter there?

K. Srinivasan: Russia is running flat, price increase in Euro or dollar terms will not happen during this year. We will continue to run flat, but we hope to have better realization in ruble terms, if the ruble weakens a little bit. The price wise we will remain flat like I said but the cost can also be little softening coming from the Petco price is softening further and we already maxed out on the electricity price at 2.86 ruble a unit. We expect that too also soften a little bit in the next two quarters, so margins can come up in Russia, but the volumes we have maxed out. As far as the South African plant like we said that we hope to find a way out of it, we would not like to stay invested in this at least in the H2. We will only be able to talk further on it after the transaction or anything is finalized because we have a partner there. The other mineral part in the standalone have still capacity, we have not maxed out on several of them. We expect to have better capacity utilization from Q2 onwards, we have a fairly poor capacity utilization in Q1. We already as we speak had a better utilization in July and the order flow is reasonable, so I expect that capacity utilization should kick in Q2 onwards and that will give us a volume growth. I do not want to give you exact numbers in this because there are only 8 to 10 customers, so we do not have to talk too much about the numbers as yet.

Ravi Swaminathan: Got it and that 20% growth at the sub level in electro mineral that we had seen, why was it because already Russia is running at full capacity or is it because some debottlenecking had helped the…?

K. Srinivasan: We mentioned last time itself the Russia volumes we are taking it up from about 82 to 83 to about 90000 tons that is happening. Like I said in Q1 we did 20427 tonnes exactly, so we are moving towards the 83 thousand tonne mark during this year.

Ravi Swaminathan: Okay and…?

K. Srinivasan: So the additional volumes are coming out of Russia.

Ravi Swaminathan: Okay, got it and in the ceramic business, met cylinder next two to three years, what kind of growth we can expect there?

K. Srinivasan: Once we commission the debottlenecking part which is happening as we speak by September, October, we should go to about 2 lakh cylinders a month and then after that it will be a step jump, we have to make another line completely which can take another 18 months, so first step is to get to a 2 lakh cylinders a month and which we will do hopefully before end of this calendar year.

Ravi Swaminathan: Okay and there enough bandwidth in terms of customers to increase…?

K. Srinivasan: We can sell everything that we produce, see one of the reasons why we are so confident in what we are talking about in terms of sales and that is the first step. In most of our businesses, we would be the lowest cost or the first acceptable supplier, so in the sense that people first use up our capacity before they buy anything else so even let us say market is flat or down 15% we would still sell out all our production and capacity before others can come to play, but that puts a pressure that we are not able to put up prices as aggressively as we would or we could, but market is there, volumes are there, we will sell out our capacity.

Ravi Swaminathan: It will be market share gain also that is there on…?

K. Srinivasan: Obviously in a declining market it will be market share gain even with the same volumes on a marginal higher volume.

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 Ujwal Shah from Quest Investments. Please go ahead.

Ujwal Shah: Thank you for taking my question Sir. Basically on the EMD piece first, what is our contribution of PPS to the overall business and in terms of revenue growth and margin, what is it that we are looking for by the end of the year?

J C Narasimhan: I will take the second question first. This is Jagan here. The total as K.S was mentioning earlier, the growth in overall for CUMI business will be we are expecting high single digit growth, so EMD also will have similar growth both in topline as well as in the bottomline maybe a little more than the CUMI average level because they will get into the more volume and utilization of the capacity, their volume may be more, so there will be little more than what CUMIs growth levels.

Ujwal Shah: And in terms of margins Jagan if you can help where you…?

J C Narasimhan: Margin will be similar, margin as a same level of growth compared to the last year will be little more than Cumi's growth rate.

Ujwal Shah: Okay fine.

J C Narasimhan: The reason for that is because the raw material prices. We are expecting to save some more cost from raw material prices and with the water flow improving in Maniyar, our power generation will also go up which will reduce our cost on power. If you see last quarter to current quarter, the power cost has gone up in our EMD business, the power cost has gone up by about 7%, 8% compared to last quarter, which has impacted the margin, now that those things once it settles down, the margin will grow better than the CUMI average growth rate.

Ujwal Shah: Even the SEDCO plant is up?

J C Narasimhan: SEDCO plant is also up and that is running well now, because the gas supply has been stable, so we are able to do well in SEDCO plant.

Ujwal Shah: Okay and any hope on how large DPF business for EMD?

K. Srinivasan: DPF business I do not want to give you an exact number, but it is an important contributor both to topline and margins on the electro mineral side. There are only three customers in DPF.

Ujwal Shah: Okay and Sir just to get more sense on the abrasive business, so we have been trying to bring this business up quite a bit in terms of margins passing through the cost increase, but it has not seen the light until now. You said in your initial remarks you still see next two quarters challenging, can you just throw some more light what all is rowing abrasives as of now and the GST impact which had initially has that weaning out or how do you see this business and its margins for the year ahead?

K. Srinivasan: Abrasive business is intimately connected to India's economic activity, GDP and a whole lot of things, not just auto engineering and I think there is an overall slowdown. It was fairly remarkable in Q4, we expected the overhang of the Q4 to definitely have softer numbers in Q1 which has materialized. Perhaps, we keep looking at what is happening we realize this is not going away in a hurry. We expect this to continue and we probably think it can get worse as far as the construction, building and a whole lot of other things are concerned, the bad news is not still over which means the economic activity can soften further maybe in the next two, three quarters, and it could take as long as six quarters before things can get better. So we have to accept that that is the environment and which abrasives has to run and do its business. What is happening is that we are a large player in abrasives as you all know and significant part of the consolidation happens in India 25%. Consequently we are impacted whatever happens to the Indian economy. Having said this, I must also say as things get worse and I will give one example in another context of supply of mineral to a particular industry, the industry is badly affected and things have gone down by 30%, 40%, but we being a major supplier, our share is not even moved by one inch, we are still supplying the whole lot, so what happens in a declining market, like what is happening in the domestic abrasives, it will be an asymmetrical impact on suppliers to this industry while industry may go down like whether you are talking of auto or construction by 15%, 20%, we as a company will not probably even go down, we probably would take market share and grow. Now this means that we have to be patient in terms of our pricing and how aggressive we can be in putting up prices, which is what we are doing at the moment, we have not lost volumes, we are continuing to stay where we are and we expect to build market shares and probably the margins will start coming back once the market gets better. So to give a short answer, things are going to be bad may be even get worse, but abrasives will continue to do at least marginal growth over last year and hopefully get better margins as the things progress that is the general answer for the domestic. The export market is significantly better. We are very well placed. The US is still doing well, very strong economy, the short pain in Russia is very temporary and this is for one very specific reason and that will be out of it. We are doing reasonably well in other parts of the world. So I think overall I would still think we will get growth of topline and like Jagan mentioned margins will hold on, we will try and see how we can get better. Abrasives is the one which will be far more reflective of what is the situation in India and that is the long answer for what we think is happening in India.

Ujwal Shah: Sure Sir and Sir, your thoughts on basic raw material prices, are they also now correcting across all the segments that we are seeing and can that help us regain some of the lost margins in on year?

K. Srinivasan: That is true. as we spoke when Q4 indicative price increase of almost 35% in alumina that softened, electrode price have dramatically softened, so input prices are softening, power cost is a weighted average for us of what we buy and what we generate, what we buy is still at very, very high prices, it is very unreasonable and very high and this is dependent on what the electricity boards offer and we have no choice in it, but as what we generate in the account of bigger piece, the weighted average cost will start coming down, so there is a softening of input cost, prices even if it holds at the current level, our margin should improve, but I think prices also will start going up later because once the marginal capacities all start winding up in this bad time, we would still have some headroom for price correction.

Ujwal Shah: Sure Sir. That is all from my side. I will join back in the queue. Thank you Sir.

Moderator: Thank you. The next question is from the line of Ranjit Shivram from ICICI Securities. Please go ahead.

Ranjit Shivram: The environment looks to be a bit slow in India, but what we want to understand is that you have mentioned that abrasives you told the market share will increase in Q2 and Q3, so will that be on the cost of margins or you feel that margins we can still maintain and we can be able to improve market share if you can throw some light on that?

K. Srinivasan: I thought I did mention but I will repeat. Margins, there are two parts. If you maintain the same price with softening input cost margins will pick up. In addition we expect as our market share goes up, we will also be able to take price correction, so in the H2, we expect actually margins to get stronger.

Ranjit Shivram: With market share improvement?

K. Srinivasan: Absolutely.

Ranjit Shivram: And in the electro minerals, what is our outlook regarding the margins like this quarter it was bad because you mentioned that there were some issues in one of our subsidiary, so how do we see this going forward, where do you see this improving?

K. Srinivasan: The consolidated margin in electro mineral will move up Q2 onwards itself, but you will see significant improvement in the H2 when the losses from Foskor Zirconia hopefully should go away with that the margins on the electro mineral vertical consolidated would dramatically improve.

J C Narasimhan: And also because the power cost will be a little lower in H2 of this year, because after the Q1 the rain availability for Maniyar power generation was lower, Q2 to improve and may be Q2 and Q3 there can be some improvements on the cost of power as well raw material prices are stabilizing now, the fluctuations are stabilizing, so we are expecting this to help us get more margin in EMD business in the coming quarters.

Ranjit Shivram: Okay and under ceramics, our engineered some ceramics is largely dependent on the overall industrial activity and auto is one of the – we supply a lot of components to auto, so given the slowdown industrial engineered ceramics do you foresee any growth pressures?

K. Srinivasan: I think there is probably some misunderstanding, our engineered ceramic is predominantly exports except some cylinders which go into the Indian distribution largely for power distribution, it is very different from the auto supplies, they are co-created products working with let us say energy storage systems, energy generating systems like solid oxide fuel cells, let us say endoscopy tubes, whole lot of things which has got very little to do with the auto and this is actually doing very, very well and that is why you are seeing this 17% growth coming in, so this will continue to do well and this is not based on a competitive pressure, this is based on those products selling in the market and they are doing well.

Ranjit Shivram: Okay Sir. Thanks.

Moderator: Thank you. The next question is from the line of Ritwik Seth from One-up Financial. Please go ahead.

Ritwik Seth: Sir just one question. In Q1 FY2020 what was the total exports in the consolidated revenue?

K. Srinivasan: See export in consolidated is a difficult number, I can give export only on a standalone because rest of the consolidation would have Russia would sell something from Russia to Europe or to India, so that would be difficult to give. On a standalone, we had one-fourth of the standalone out of 426 was more than one-third was exports.

Ritwik Seth: Yes, you mentioned that earlier in the call. So is it possible…?

K. Srinivasan: Let us say if I have piece in South Africa or have a piece in Australia, they would sell in Australia, they would sell from Australia to Japan or to Indonesia for them that is the export, for me everything is outside India.

Ritwik Seth: So basically where I am getting at ex-India if you can give that?

K. Srinivasan: So that is only from the standalone plus a little bit from the smaller subsidiaries like Sterling and all this. So you should take our export in the Q1 of about Rs.120 Crores to Rs.125 Crores max.

Ritwik Seth: Okay, got it. Thank you.

Moderator: Thank you. The next question is from the line of Amar Maurya from AlFAccurate Advisors. Please go ahead.

Amar Maurya: Thanks for the opportunity. I just wanted to understand Sir, in this power cost how much of the power we are basically buying from the outside?

K. Srinivasan: We have power trading arrangement only in Kerala. Even that I would not give you an exact number, I would say approximately in a year, we power trade about between 500 to 600 lakh units.

Amar Maurya: That is from the outside right?

K. Srinivasan: Yes, so that is what we buy from power trading and is outside, but we also generate both SEDCO as well as Maniyar. In the good year, we would generate anywhere between 650 to 800 lakh units.

Amar Maurya: Okay. Thank you.

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

Arshit Patel: Thank you very much for the opportunity. In the past we have indicated that a lot of electro mineral capacity in China and South America were going down and so the realizations on silicon carbide and alumina products were supposed to increase, so are we witnessing such phenomena or is it expected to be there in the future?

K. Srinivasan: At the moment, the chapters under which Zirconia comes in alone has seen the increased when duties from China at 25%, silicon carbide and alumina those notification still says 25%, it has not actually been put to effect, so they are still being imported into US at a 10% duty, it has not moved up to the 25% level, so what we are now having or what we are getting as enquiries and supplies is. Let us say people are picking up four containers, three containers to sort of test it to see in case it really goes to 25% would they like to switch, so that is all that we are seeing at the moment. We are not still seeing the benefit of the US, China spat in a serious way.

Arshit Patel: Thank you Sir. That was from my side.

Moderator: Thank you. The next question is from the line of Balchandra Shinde from Anand Rathi. Please go ahead.

Balchandra Shinde: I would like to know from Foskor Zirconia, are we forcing any material and if at all then after say their inventory which will do, what will be the structure and what kind of raw material impact we can see?

K. Srinivasan: I will give you a little flavor of from Foskor Zirconia because I think a couple of others also were keen to know, this plant produces between 2800 to 3000 tonnes of three grades of Zirconia all of it is sold in Europe, India and the US. It is a fantastic product, we still lose money. If you make more we can still sell more, so the options with us was one whether relocate the plant and take it out and put it in a more let us say lower cost manageable location and scale up. The other option was to find a buyer to whom we sell and move out. Today it is moving towards the second option because there is a pressure locally to keep the jobs in South Africa, so that is the direction it is going. Any transaction would also facilitate our continuing to be engaged in either getting our requirement for India or for any other market that we address, so that will be part or whatever we will eventually settle, so we will take that into consideration when we finally exit, so this is the negotiation that is going on and we will announce as and when it happen. We will keep in mind, our interest to be seller in this market, we are a player in this and that will be in part of the transaction.

Balchandra Shinde: And the cost impact?

K. Srinivasan: I hope I answer your question.

Balchandra Shinde: Yes, just would like to also know about as you said there would not be a material impact on our raw material cost because of these phenomena?

K. Srinivasan: Not at all that will be taken into consideration when we do the transaction.

Balchandra Shinde: Okay Sir. Thank you. I will come back.

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

Kunal Sheth: Sir my question was on electro mineral, Sir we said that DPF is generally reducing market, so what are the other products in terms of value addition that we are working on in electro minerals that can compensate the market which is reducing in DPF?

K. Srinivasan: I think we did mention call and I will add, the ultra fine ready to press silicon carbide powder is one of the growing products, this is what we call as high surface area powder about 30 square meters per gram and these are used for making sintered silicon carbide or sintered silicon nitrite products used in fields and used in heat exchanges and a whole lot of high end advanced applications world over. We have an arrangement with the German company and we already had started making those ceramics parts in our industrial ceramic, the powder is being prepared at the moment at the electro minerals and it is being qualified. It has also been accepted, so this is something that would scale up as we go forward. We believe that the overall interest in silicon carbide can only go up DPF is the declining industry and it will decline because of diesel engines is going out, but there are several other interesting areas where SIC is being used extremely important areas would be like high purity SIC for making circuit breaker chip and a whole lot of other things though we do not make them at the moment, but there are a lot of interesting things up there and we are working on several of them. I will talk about it as and when we have commercial product ready.

Kunal Sheth: Currently in EMD what would be share of our specialized product versus standard commodity product?

K. Srinivasan: I think it varies from time to time, we talk of at the worst situation about 20% and the best situation about 35% to 40%.

Kunal Sheth: Sure and Sir lastly would it be possible to share losses from Foskor Zirconia this quarter?

K. Srinivasan: It is there, I think on our share of the loss is roughly about Rs.3 Crores.

Kunal Sheth: And Sir you mentioned that we are looking at finding a resolution for Foskor Zirconia in the H2…

K. Srinivasan: Kunal, I will correct it, it is Rs.3.8 Crores.

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

Ujwal Shah: Thanks again Sir. Some dope on ceramic business basically on the refractory side how has that been performing during this quarter and how ceramic margins sustainable at current levels or we might say some improvement on those as well for the year?

K. Srinivasan: Kunal, I assume that you are asking about the refractory business, refractory which is also under the ceramic vertical, actually has grown in the Q1 and the order flow reasonably good. We believe it still continue to be double digit growth. Like you know we do not sell too much into the steel industry, we sell into glass, carbon black, petrochemical and a whole lot of other industries. Surprisingly all these industries are going through a lot of rebuild like in many parts of the country, the milk sachets are going back to bottles, the glass industry has picked up. We are seeing a lot of deferred capex which were all postponed for several years, all coming back, so we are seeing in actual pretty good order flow and so we are doing well double digit in the Q1, continue order flow to keep a double digit for the rest of the year.

Ujwal Shah: In terms of margins can we…?

K. Srinivasan: Margins also have been good. If you see the fall in the ceramic margin is primarily coming out of the industrial ceramic exports, we explained it and I think it will get corrected in Q2 onwards.

Ujwal Shah: Great Sir and any dope on Z450 are we going to produce it from India, are we seeing any growth in its demand, how is that Z450 shaping up Sir?

K. Srinivasan: Z450 has been technically accepted, but it has not scaled up to the extent and level that you all expected. If it had then Foskor Zirconia would have quickly come out of trouble. Unfortunately it has not scaled up as quickly as fast we expected. Few coveted customers continue to buy it, but we did not get those big breakthrough orders yet. We will have to see how we are going to handle it once we take a final call on Foskor Zirconia. At the moment it would remain Foskor Zirconia product.

Ujwal Shah: Okay Sir. I think that is all from my side. Thanks a lot Sir.

Moderator: Thank you. As there are no further questions from the participants I would now hand the conference over to Mr. Kunal Sheth for closing comments.

Kunal Sheth: Thank you. I would like to thank the management for taking time out and hosting this call and also for giving us this opportunity to host the call. Sir would you like to give any closing remarks?

K. Srinivasan: Just to add to all we have said so far. Thank you all for taking time out to listen to us. I know there is a continuing disappointment on the way the results has been coming out in this season, we are all looking at numbers and looking at the industrial environment in India, but coming from where we are we realize that things are not as bad as we all expect or see it to be, Q2 onwards we should see definitely better numbers and better results coming and this would be quite independent of how the whole economy or the environment is going to be. So I am pretty positive that we will start seeing better times ahead, so I wish you all well and looking forward to working with all of you going forward. Thank you.

Moderator: Thank you. On behalf of Batlivala & Karani Securities that concludes this conference. Thank you for joining us. You may now disconnect your lines.

Disclaimer:

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