"Carborundum Universal Limited Q4 Financial Year 2014 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Carborundum Universal Q4 FY 2014 Results Conference Call, hosted by Axis Capital Limited. As a reminder, all participants' lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal an operator by pressing "*" and then "0" on your touchtone telephone. Please note this conference is .being recorded. I would now hand the conference over to Mr. Kashyap Pujara of Axis Capital. Thank you and over to you Mr. Pujara!

Kashyap Pujara: Thank you so much. Good afternoon everyone and thank you for standing by. It is the great pleasure to have with us the management of Carborundum Universal, represented by Mr. K. Srinivasan, Managing Director, Mr. Sridharan, CFO, and Mr. Raja Mukherjee, DGM Internal Audit & Strategy. I would like to hand over the floor to Mr. K. Srinivasan now. Over to you Sir!

K. Srinivasan: Good afternoon to all of you. This is Srinivasan here. I would broadly first cover the business what we have done and then Sridharan will take over from there to explain the numbers and later we will both take the questions.

First of all thank you all for joining us in the afternoon. The Q4 numbers are already there with you, the full year numbers also will be there. I will quickly sum up the numbers itself.

The sales of the full year actually increased by approximately about 8% on a consolidated basis and about 2% in terms of profit. We had reasonably good performance in Q4 but nothing outstanding as you would normally expect. There were a quite a few areas where we think we could have done a little better and I will explain it as I go down further. Big growth really for us came from the mineral business during the year. Russia has delivered significantly on its silicon carbide volumes. The Zirconia production in South Africa sector and in terms of volume of production were better in the last quarter, Thukela also picked up in terms of volumes. So overall the mineral business did well, which really aided the company in a year when the other businesses particularly the project dependent business ceramic did not do as well as we thought.

I will now go the various segments first. If you look at abrasives, abrasives we grew by about 6%. It was not a very profitable growth. We had serious challenges in the big piece, which is really the Indian market in terms of product mix. The more pain on standard business, which we do with the automotive and other customers declined in the market which was doing well and the large part of the growth came from taking on the lower end business at a lower margin. So there was an unfavorable product mix.

There were also cost pressures coming out from input cost being higher. We also had a couple of internal things. We had one time challenging in terms of scaling up on new plant at Uttaranchal, which mean that we did take unusually high losses in terms of production in the last two quarters, which I think is behind it and hopefully to go away from the next quarter or the quarter that has just started.

The abrasive business in Russia we did a conscious reorganization of the abrasive business. We used to have what we said as a name plate capacity in Russia. When we bought it was about 50,000 tonnes we scaled it down to 25000 but increasingly we realized this capacity is really the old Soviet kind of manufacturing which is really not relevant and useful to the changing industrial environment. So what we did during the last year was we took out a significant amount of this capacity. We have scaled it down to less than 15,000 tonnes of useful capacity and we have reoriented it to address the new industries as well as exports. We have taken some one-time cost in this and we believe that this is now behind us and hopefully the abrasive business in Russia would grow profitably from here on.

Coming to the Electro Mineral business, the sales grew by about 21% and like I mentioned the big part of the growth came from volume growth of silicon carbide in Russia, volume growth of Zirconia in South Africa as well as the alumina's growth particularly in the last quarter Thukela. The Indian business also did well. We must say the specialties are gradually picking up in India and going forward this would really help this part of the business. You would recall that it had a bad year last year because of the photovoltaic business but from there this has come back reasonably well.

The Ceramic business is the business that is worst affected by all the project downturns. Refractories were badly affected with all the power projects and new growth projects stalling. To a larger extent, the ceramic business is affected by the coal prices and coal washeries going down etc. So this business actually recorded a drop in sales for the full year, first time, 5.7%. We are seeing marginal traction coming back in the last quarter. You would have realized in the last quarters the numbers are coming back, largely coming out of specialty ceramics. This is addressing through the metallized cylinders, engineers ceramic etc. The refractories are still remaining flat. So ceramics going forward, I believe has bottomed out. It can be a better going forward. So that is broadly in terms of the numbers that we have.

In terms of the capex we spent roughly about 94 Crores and out of that most of it, were an improvement in routine three major projects. We did something in the coated business India primarily looking at discs, flap wheels etc., and we did the big improvements like I mentioned in the abrasive space in Russia to get the project oriented more towards exports. So those are the somewhat major additions on the capex. Otherwise there was no major addition of capacities. It was a year when we sort of consolidated our operations and bring it back to the stage from which we can grow back to profitability.

So that is broadly what we did during the year. I would now request Sridhar to take you through the numbers please.

Sridharan Rangarajan: Thanks. Good afternoon to all of you. I think I will just quickly go through the numbers broadly as well as by segment and then we will take up the questions.

For the full year consolidated level our sales grew up by about 152 Crores, which is 7.8% and the PBT grew by 2.4 Crores. Out of the incremental sales of 152 Crores and 2.4 Crores of PBT, standalone sales increase was at 48 Crores with a drop of PBT of about 5.6 Crores, which means the subsidiaries in JVs contributed to 104 Crores of sales increase with an 8 Crores in PBT.

CUMI standalone operating PBT percentage dropped from 10% last year 9.1% in this year. The drop of 5.6 Crores came due to increase in employee costs, power costs, raw material costs. The tight market we could not pass on the entire cost push through price hikes and hence the margin dropped.

As far as the consolidated numbers are concerned PBT margins increased marginally by 2.4 Crores owing to increase in favorable swing in foreign exchange gain of Rs.9 Crores. Increase in other income and other operating income of about 6 Crores. This was largely negated by the cost push witnessed in the power and fuel costs and employee costs.

If you look at entity wise the marginal increase came from better performance in Foskor from a low base of last year at least about 24 Crores better performance. VAW registered a highest ever fusion. They brought about 8 Crores more. This was offset by CAPL which is our Australian entity. They are down by about 12 Crores. This business have been impacted because of the coal washeries, they are not replacing or doing the maintenance work as they used to. The lower generation of power because of the lower gas supply in our subsidiary Sedco about 8 Crores. Thukela losses actually last year was 8 months and this year was 12 months. So their loss has increased by 4 Crores but however worth mentioning is the loss rate is coming down. So that is something worthwhile to note and the last quarter they have done about 30 million Rand of topline sale so which is we feel that some more good work to happen and we will come out of the problem soon.

JVs and other units put together dropped by 4 Crores and standalone drop of another 2 Crores put together net up dividend would explain the whole increase in the consolidated PBT.

Now going to the segment, abrasives as a result of moderate revenue growth coupled with higher cost increase, the abrasive business recorded a decline in profit before interest and tax on a consolidated basis from 83 Crores to 60 Crores a drop of 23 Crores. 20 Crores of the drop came by way of profit in standalone in India in domestic market. 3 Crores drop came from VAW in Russia. Sale of the abrasive business marginally dropped but lot of that as Mr. Srinivasan was telling that we were taking some one-off hits there to bring down the capacity to the newer requirements.

As far as Electro Mineral business is concerned the Electro Mineral business recorded an increase in PBIT of 24 Crores to 81 Crores. That is a swing of 57 Crores. Of that VAW contributed 20 Crores. Basically the silicon carbide fusion registered highest fusion volume ever and the manufacturing we were able to flux the manufacturing processes as we were talking in the previous quarters as well more towards metallurgical grade. CUMI India profit swung about 21 Crores largely due to two factors one is Maniyar better rainfall which is giving lower power cost and utilization in Alumina business.

Foskor profits were higher about 19 Crores. Higher volumes came from low base plus the Bubble plant got commissioned. We started selling. Last quarter put together about 500 tonnes we sold. The growth in profits was negated by increase in losses in Thukela about 3 Crores and this is sum of all the Electro Mineral business by entity.

As far as ceramic as result a lower sales the ceramic business recorded a decline in operating profit before interest and tax on a consolidated level from 79 Crores to 59 Crores, a drop of about 20 Crores. Of this drop our Australian business drop was about 12 Crores which is largely due to their volumes down and CUMI's drop was about 8 Crores again in a lower offtake in terms of the project.

On a consolidated standalone basis, debt equity ratio improved from 0.17 to 0.16, which is probably the lowest debt equity as far as standalone is concerned and on a standalone basis the debt stands at 119 Crores as of March 2014 and on a consolidated basis the debt equity ratio declined from 0.40 as of December almost at the same level and total debt on a consolidate basis decreased from 465 Crores to 456 Crores.

Regarding the forex, I would say as far as the translation gains between various entities versus the consolidating entity CUMI year-over-year we got a sales benefit of about 24 Crores topline and the forex gain is 5.4 Crores which is readily readable in the P&L itself and foreign exchange gain in exports sales was something like about close to about 28 Crores.

So that is the summary of all the numbers that we would like share at this point in time. We are happy to take questions from you.

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

Bhalchandra Shinde: Good afternoon Sir. Good set of numbers, congratulations. Sir regarding Electro Mineral business sales growth was robust in FY 2014 do you see same kind of sales to be continued in the FY 2015. What kind of guidance you can give for the Electro Mineral business both at the subsidiaries and the standalone levels?

K. Srinivasan: The Electro Mineral business I will take this in three parts. The standalone Indian part of it, there will be improvements largely coming out of specialties getting scaled up. In the Russian part there cannot be too much of improvement in terms of tonnage. We already hit the peak. We do not expect prices to go up with all these new challenges that we have. So really we should feel the Russian part should be about flat. That is the best we can expect out of there. The big challenge and opportunity for us really is the two pieces in South Africa both Foskor piece as well as Thukela piece. Q4 was very good, if you really look at it. If we keep the momentum and I hope to do that we would see significant improvements coming in from the South African part. So to sum of the whole thing ,standalone double-digit growth, possible consolidated stretched double digit because the big piece from Russia cannot grow. So that is the challenge we are going to have to see that to hit double-digit on an overall basis without Russia growing.

Bhalchandra Shinde: Sir as you said in abrasives we scaled down some facility in Russia and we decreased some capacity related to revenue so we faced loss. Do we see on the EBIT side same kind of losses to continue or there will be some pain in next one or two quarters and then the margins will normalize again and reach to the normal levels?

K. Srinivasan: We did not make any big loss in Russia.

Sridharan Rangarajan: It is about 3 Crores of loss for the abrasive segment. Last year was almost flat. So that will not be there. It will not make a loss.

Bhalchandra Shinde: Sir on standalone basis our power and fuel cost has actually as a percentage of sales has declined so it is like it is due to the lower improved power situation or largely because of other factors?

K. Srinivasan: The improvement largely comes from Maniyar. See Maniyar this year has brought in another 100 almost extra 90 lakh units of power and consequently that gets netted off. So the real difference is the percentage you are saying is largely because of Maniyar power. So as a percentage there is no major technology or product mix change that is driving energy cost. It is largely coming out of Maniyar.

Bhalchandra Shinde: Sir on the subsidiaries level there also we are seeing slightly decline in the power and fuel cost?

Sridharan Rangarajan: There you would have seen increase in power cost. At consolidated level power cost has gone up due to two factors. One is Foskor has lower capacity utilization. This year we had our capacity increase. Again Thukela we have higher capacity utilization and Russian power cost has gone up which we have been sharing. So overall power cost at the consol has gone up. At standalone it has come down largely because of the Maniyar's better power.

Bhalchandra Shinde: What will be our utilization level across all facilities?

K. Srinivasan: Still very low it is about 75% on an average except pockets where we have completely like we are seeing fusion in Russia is full but by and large I would say around 75 is the good number to look at.

Bhalchandra Shinde: Sir any guidance on the sales and margin? do we see a better utilization in operating leverage margins improvement to be significant enough or it will be in the range of FY 2014 levels?

K. Srinivasan: On a topline we normally like we do not give too much of guidance or anything but topline we expect definitely double digit growth in sales because we just seeing what is happening in Q4 and the momentum that is carrying through. I think a double-digit growth in topline is a reasonable expectation. On the margins clearly again double-digit plus for the company is what you are looking at the PBIT level almost double-digit.

Bhalchandra Shinde: Thank you Sir. I will come back for any other questions.

Moderator: The next question is from the line Jasdeep Walia from Kotak. Please go ahead.

Jasdeep Walia: Good afternoon Sir. Could you take us through the cash flows for this year. Could you break up the cash flows into operating cash flows and cash on investments and working capital?

Sridharan Rangarajan: In terms of the capex I think we just shared with you 94 Crores and what is your other question?

Jasdeep Walia: Basically operating cash flow and incremental working capital that you have used this year?

Sridharan Rangarajan: **O**perating cash flow after incremental working capital about Rs. 126 cr

Jasdeep Walia: So broadly on a cash flow basis this year has been negative?

Sridharan Rangarajan: At the end of the overall activity the movement in cash is lower by Rs. 56 million

Jasdeep Walia: Sir what is the gross debt number year end?

Sridharan Rangarajan: 456 Crores consolidated short and long-term.

Jasdeep Walia: Gross debt has gone up from last year. Last year it was 434 Crores?

Sridharan Rangarajan: Yes at a full year level.

Sridharan Rangarajan: This debt actually what happens is that the absolute debt did not go up but when we have to translate that into Indian rupee the dollar denominate has to be translated. So this includes the translation effect. It has gone down because we have done the repayment of $7 million etc. But still it will show like this.

Jasdeep Walia: So what is the repayment?

Sridharan Rangarajan: around $7 million .

Jasdeep Walia: Sir in the last quarter you were very hopeful that abrasive margins at the segment level are one-off in the sense the came very low at around 4.5% and you seemed hopeful that in the next quarter which has fourth quarter they will bounds back but that has not happened. So what is your view on this?

K. Srinivasan: Like I said in the beginning I think we could not really judge how much would be the scaling up issues in Uttaranchal and I think it continued for another quarter and also we had to really take out some capacities in Russia and reorient it. So both of it I think they took much longer and much more effort than what we thought it would initially take and so I would really think that is behind us now. So hopefully we should see it improving from Q1 onwards.

Jasdeep Walia: Sir in Russia the money that you have spent in reorienting capacity has that been expensed out or it is being capitalized?

Sridharan Rangarajan: It is expensed out because we are taking out the capacities, not creating new capacity.

Jasdeep Walia: So it is basically reflected in the PBIT margins that you have showing last two quarters?

Sridharan Rangarajan: Absolutely.

Jasdeep Walia: So what is the impact of this Russian reorientation on margins or in absolute term if you could specify?

Sridharan Rangarajan: Roughly about 4 to 5 Crores.

Jasdeep Walia: 4 to 5 Crores and capex guidance for next year?

Sridharan Rangarajan: Would be in the range of at least in the range of 75 to 80 Crores overall.

K. Srinivasan: It will be around the same as what we did this nothing big. It is going to be around the same.

Jasdeep Walia: So what are the main projects that you will be taking up next year?

K. Srinivasan: We have kept the couple of things where we want to do some improvements in almost all the areas and this is largely in terms of capability building. No single big piece in this. So we will share with you as we go forward. A lot of it is very specific capability building to towards the niche markets because we want to get the margins back.

Jasdeep Walia: Sir and what has been the change in provisioning cost YOY if you could specify on an absolute basis for the year?

K. Srinivasan: Which provisioning?

Jasdeep Walia: Provisioning on account of let us say bad debtors or something?

Sridharan Rangarajan: By and large bad debt increase is about 2 Crores as a company and that is largely because see it is not bad debts per se but we have a strict policy anything above 365 days we make a provision. So that is the reason why we have to do that.

Jasdeep Walia: 365 days you said?

Sridharan Rangarajan: Yes anything above 365 days of overdue we make 100% provision.

Jasdeep Walia: What have been any losses or any provisioning on account of inventories etc?

Sridharan Rangarajan: Very, very marginal as far as inventory is concerned.

Jasdeep Walia: We have been hearing a lot about this pollution concerns in China and it seems like government is shutting down capacities of lot of polluting industries. China has begun most of the Electro Mineral products that you operate in so if the capacity shutting down is it benefitting your company in any manner in terms of do you foresee higher margins in next year?

K. Srinivasan: I hope they really do what they are telling because I think this an ongoing game of cat and mouse and if it really goes out those capacities then global operating prices will move up. So let us see what happens. We are not banking anything specifically on this.

Jasdeep Walia: Anything you have noticed on the ground Sir?

K. Srinivasan: On the ground quite honestly no. I have not seen anything really being taken out so that is why little bit cat and mouse game. They close a few something else starts up so really substantive changes in volumes coming out we have yet to see.

Jasdeep Walia: Could you take us through the YOY trend in profitability at Foskor and Thukela at the PBT level?

Sridharan Rangarajan: PBT level Foskor about 24 Crores of swing and Thukela increased in profit by about 3.84 Crores.

Jasdeep Walia: Swing is 3.8 Crores. It is a negative swing right in Thukela?

Sridharan Rangarajan: But last year was eight months this year was 12 months.

Jasdeep Walia: Sir, can you talk about what will be the trends in Foskor and Thukela next year in terms of utilization how they are looking in the Q4 and what is your prognosis for next year?

K. Srinivasan: The Foskor has got two parts. It has got the old plant, which is stabilized Zirconia plant which is running reasonably well at about roughly about 4000 tonnes. The big challenge has been in the big investment 115 million Rand on the Bubble plant which has hardly produced less than 500 tonnes for the whole of last year. That kind of capacity is 6000 tonne plant. So our target is to at least take it up to about two-thirds of it during this year. Now there we are seeing some traction. We are trying to find some way to scale up quickly. It is a challenge that we did not anticipate as much as it would be so because it is the one-of the technologies that we have put in. It is really state-of-the-art but it has taken far more let us say effort and time than what we thought it would. Hopefully we should get back to at least two-thirds of it is capacity during this year and that will make a big difference as far as Foskor is concerned. The product is excellent. The quality is acceptable. The kind of cost that it will allow us to operate when you run it at that capacity is very attractive. We are talking of additional sales that it will give.

Jasdeep Walia: Sir next year you are hoping that this capacity will produce roughly 4000 tonnes?

Sridharan Rangarajan: Our current capacity is about 5000 tonnes as far as Bubble is concerned. So two-thirds of that roughly about 3000 tonnes we can expect from the current 500 additional 2500 tonnes would come in for the next year.

Jasdeep Walia: What kind of impact can it have on PBT and EBITDA Sir?

Sridharan Rangarajan: We sold roughly about $3500 per tonne.

K. Srinivasan: Additional $10 million on sale.

Jasdeep Walia: So I guess the interest in depreciation for this capacity is already hitting your P&L so this will be the operating leverage will be significant on this $10 million sale?

K. Srinivasan: Exactly.

Jasdeep Walia: What about Thukela?

K. Srinivasan: Thukela the challenge is far deeper. The Q4 sale was roughly about 30 odd million Rand. We expect that it will continue and get better. If we do that at least we would get to on definitely a no loss situation at the PBT level that is the target.

Jasdeep Walia: For next year?

K. Srinivasan: Yes. The operating year yes.

Jasdeep Walia: Thank you.

Moderator: The next question is from the line of Bhalchandra Shinde from Batlivala & Karani Securities. Please go ahead.

Bhalchandra Shinde: Thukela refractories as you mentioned earlier you were planning to utilize the facilities for the other products like fused alumina. Where those plants have reached?

K. Srinivasan: Today this Q4 is largely by running this plant for producing fused alumina. This is not what we have bought this plant for since the significant part of the capacity could not be utilized because the contracts were not been fully kept. We have reoriented it to do fused alumina and Q4 out of the 30 odd million Rand of sale a significant part of it is for the fused alumina and the good thing about it is the kind of product that we have produced there have found very unique market which cannot be addressed by even products what we make out of India. They produce high bulk density products, which have a very unique applications requirement. So really they have got into something good. It was something we intended but over a period of time we have tuned it towards something which is really helping. We want to see how to scale it up and take it forward from here.

Bhalchandra Shinde: Sir in Russia actually I forgot to ask about the political risk which the country is facing. How much impact we may see on the sales because of those things?

K. Srinivasan: We sell very little into Ukraine itself but a bit of our goods, on this surface on road goes through Ukrainian land to Kharkiv and others but a lot of this transporting companies like are really German companies and as we speak even last month end material were being made and moved across the Ukraine and it is being delivered. We had some detailed discussion there with our Russian colleagues, the transporters and others do not see any problem. Things are moving normally as far as commercial transactions are concerned. There is really not as much of a crisis on the ground as we would believe. We do not expect any significant impact for us in terms of operations. The sentiment has been affected. The Ruble itself has got devalued. Those are realities, but in pure operations there is practically no impact in terms of the operations. Material is still moving. We did loose you. Did you hear me fully or it is lost in between?

Bhalchandra Shinde: Sir you are about to say about the impact what can be the major impact?

K. Srinivasan: Like I said there is practically very little operational impact on the ground, material is still moving through Ukraine no issues. We sell very little into Ukraine. There has not been a complete stoppage or anything. They are paying in advance and lifting. So on the operational side practically no impact but the sentiments are negative. It has affected the value of Ruble. Ruble has depreciated so those are the impact that we are seeing and that is actually in a way let us say coming up in terms of how we look at growth and other things. So we are still though we are running full and we have to be little careful about putting further capacities and other things. Operationally, no issues.

Bhalchandra Shinde: Sir if we assume worse-to-worst condition that trade sanctions are imposed. What kind of impact in percentage terms will it take place for our sales?

K. Srinivasan: This is the very difficult question. As far as what VAW sells into US is very small. So if there is going to be complete embargo of Russian goods into US then probably about 3000 to 4000 tonnes of FIC and that I can take into India not an issue. If it is going to be complete trade embargo of all Russian goods coming into Europe which is very, very unlikely because all the gas everything is Russian. So really ours is the small product but assuming worst case even that happened that is another but 18000 to 20,000 tonnes which I will find markets elsewhere. So it will not kill us because we sell significantly into Russia, CIS, Asia and other parts. So it will hurt us but it will not kill us.

Sridharan Rangarajan: It is also premature to make these assumptions because currently the sanctions are all person-based, asset based sanctions, travel restrictions and those type of things. So I think to come to this level it has to escalate into a whole range of things, which the countries like Germany and other countries needs to support, which mean they also will get impacted because of that the gas supply will get impacted all that. So I think it is too far at this stage.

Bhalchandra Shinde: Sir one last question. Regarding the new product additions as we know that there was a Bubble Zirconia product which was added and I do not recollect which are the products were there?

K. Srinivasan: Alumina Zirconia in Cochin. Quite a few new products yes.

Bhalchandra Shinde: JV for the industrial ceramics. How much additional sales we contributed by all the factors?

K. Srinivasan: At the moment like you mentioned lot of it is work-in-progress. The Bubble is hardly 500 tonnes last year. We have to scale up further. Alumina Zirconia I think Q4 we had started sales nothing significant. I think you will see all this start kicking in from this year.

Bhalchandra Shinde: Sir regarding Andarman Sheffield JVs which we did towards industrial ceramics will increase because of these JVs. Do we see additional growth to take because of all these factors in FY 2015 or in FY 2016?

K. Srinivasan: Both these businesses are primarily targeting refractories. One is the steel industry and the other is largely for aerospace and precision component. Both of them are shaping up well. We are impacted in the refractories but still we are less impacted compared to others primarily because of these technology agreements are allowing us to enter new markets. We believe once the markets improve traction of much better. For example I can tell you one of the new things that we launched for the first time in India is for rebuilding cement plants by a process called shotcreting and we were the first to bring it in and this machine is now running flat out in the last three to four months so this is completely new things that we have brought in and this is tremendous traction that is there. So hopefully things will improve. These will all start paying dividend as we go forward this year.

Bhalchandra Shinde: Any specific timeline, which you see it is like?

K. Srinivasan: Every quarter will get better and better. Like I said if largely going into projects one by one we are taking it up and as the project positions improve things will get even better.

Bhalchandra Shinde: Sir about the diesel particular filter, which we used to talk threes quarters back means, we are waiting for the approvals I think from the Japanese?

K. Srinivasan: The Japanese approval is not there but we already started supplying into Europe. One of the companies has approved. Small quantity supplies have gone even in Q4. It is not as big as the Japanese company so we were not talking about it too much. Also it is we are taking it away from a competitor but this supply is already gone in Q4. I hope to scale up. So this is largely utilizing the micronizing capacity we created for the photovoltaic so the good news is some shipments have happened in Q4 and it is scaling up not to Japan but Europe. Japan is still work-in-progress things are improving.

Balachandra Shinde: So by when we may see an improvement in the Japanese approvals?

K. Srinivasan: It will be quarter-by-quarter; things will get even better and better. We are almost through four stages. So we are getting little by little. I think nobody is going to shift completely to us but I think it is happening little by little. We will tell you how much of an improvement. There has been an improvement we got orders from Europe. Q4 was the first decent shipments going out to Europe. We already have order in Q1 of this year. Things will get better.

Bhalchandra Shinde: Thank you Sir.

Moderator: Thank you. We have the next question from Bharat Sheth from quest investment. Please go ahead.

Bharat Sheth: Good afternoon Sir. My one question which was related to photovoltaic has been answered. Thank you very much.

Moderator: Thank you. The next question is from the line of Nikhil Garg from BNP Paribas. Please go ahead.

Nikhil Garg: Good afternoon. Sir my question is more on the India business on the abrasive side and on the ceramic side. Can you throw some light on competition, market share and the pricing of these products in India? I mean I understand that obviously but in general if you can throw some light on the trend?

K. Srinivasan: Abrasives two parts one is what we call as what goes to customer specific. The other is through the channel or trade standard products. Standard products what is going through channel is deeply impacted. One by cheap inputs second is there is a level of downgrading happening. There is no cash in the distribution. Consequently people are scared of giving material and so that is where the impact is deeper. It goes into construction sites. It goes into project sites and there is significant amount of inventory in the pipeline for these products so we do not leave too much material out there. The operating prices are under stress. This is where the margin impact is the deepest. In terms of direct customer accounts there is actually no margin impact. The margins are still very strong and robust but there is a huge volume impact. Most of the major users are down between 5% and 20% so they are not picking up enough volumes. But the margins are relatively robust and still very intact because there is no completing product over here. So it is really they buy from us or they do not buy but the margins are there. So those are the two segments. Practically all abrasive companies in the world are trying to be here and most of them try an address their channel first so there is that much more pressure out there in the channel side. That is as far as abrasives are concerned. You mentioned ceramics. Two parts in ceramics; one is the industrial ceramic or the alumina ceramic. Largely we supply to the power projects etc. Last year except one power project every other power project was on hold as far as our supplies were concerned. Replacement supplies, which go to NTPC and others, are still strong. We were making supplies but the project is completely dry. It is absolutely nothing and even what we made was not lifted till the end of the year. So that is as far as the stress on the project side is concerned. In the refractory part there is again large part of it goes to refractories where required heat usage, large parts again to power projects, steel plants, new projects like and other things. Project orders suffered badly, even orders where we had things could not be completed or taken by them, they suffered really badly. Glass industries none of them were even willing to pay etc. There was also actually a delaying of what we call is the M&R requirements because they were trying to drag on and not replace the refractories because utilization of the interesting plants was low. So to that extent refractories was twice affected. Projects drying up, repair work drying up so they were badly affected in terms of sales and in our businesses wherever the volumes go down our utilization of furnaces and tunnels become inefficient because we tend to run them under utilized or run them half full then the energy cost per tonne goes up and the efficiency drops dramatically. So all this impacted our margins as well. That is as far as the India story is concerned. On the ceramic side, export was pretty good still in this fourth quarter. The metallized cylinders and other things came back also grew two products which is really specialized ceramic for engineering applications came back and came back reasonably well the US markets and the other things picked up. The Australian market we are seeing the glimmer of hope, prices are coming back but the replacements cannot be postponed forever so the repairs will start coming back. There is some glimmer of hope in Q4 onwards. Hopefully it will not be as bad as the first half of last year as far as Australia is concerned. Things are getting back there.

Nikhil Garg: Sir in abrasives, you mentioned very high inventory and you mentioned lot of global companies trying to get it. Do you see increase in competition? Are you seeing any new players as well or is it like just inventory filling from the existing players?

K. Srinivasan: I think everybody new is already here. I mean you name an international company is already there right from Chinese to European to American everybody is here. So is not so much of new companies coming in but everyone making an attempt pushes material into the market and so in a market where consumption is flat or declining. More people pushing means the operating prices go down. So that is the condition today in the trade channel because people will switch for price.

Nikhil Garg: You are trying to maintain the market share there or you basically trying keep the prices?

K. Srinivasan: We are holding market share but we are loosing margins.

Nikhil Garg: What about the ceramics business? How is the pricing I mean I understand there is virtually no demand or little demand but how is the pricing?

K. Srinivasan: Pricing is not an issue there the pricing is robust. The contribution largely comes out of operating inefficiencies of low capacity utilization.

Nikhil Garg: That means competition is not that much?

K. Srinivasan: The status quo kind of thing. There are a few competitors but is largely global.

Nikhil Garg: No incremental competition as such.

K. Srinivasan: No new dynamics in the market.

Nikhil Garg: Right and in the India business in both these abrasives and refractories what would be the capacity utilization?

K. Srinivasan: I think below 75%.

Nikhil Garg: Thank you.

Moderator: Thank you. The next question is from the line of Pritesh Chedda from Emkay Global. Please go ahead.

Pritesh Chedda: Sir just a followup of the previous question. What could be a market share in domestic abrasives and refractories?

K. Srinivasan: Refractories is insignificant because we are not a big player we are only a niche player. So let us say our turnover of 150 Crores in market size of about 5500 Crores is absolutely insignificant so you can read that out. In abrasives I would say our market share in bonded about I would say 35% plus if you include our Indian subsidiaries as well like Sterling, Wendt etc.

Pritesh Chedda: Would there be a change in the industry in the last two years in terms of the proportion of imports would have come down and is there export potential here?

K. Srinivasan: There are two things happening. There is export happening of customized product like what Wendt builds or whatever we build in what we call is direct customer account non standard, This is an export that is growing and there is an export of premium products even in trade that is improving both from us and from our competitors in the US and other market. Equally there is a huge amount of imports that is growing at the bottom end of the pyramid. These are the once which sells in the counters and every hardware shop etc. All the noise you hear and walk across the road of things being tracked etc., is all the trade products where there is a significant import that is happening. Those are what we call as cheap and dirty products. There is a significant import in that space.

Pritesh Chedda: How much of the total market in abrasives would be at the bottom end?

K. Srinivasan: I think that is the fastest growing piece and that would at the moment the above 20%.

Interviewee: 20% of the total market in the quarter?

K. Srinivasan: Ye.

Pritesh Chedda: When we put back the utilization at about 75% what would be industry utilization abrasive?

K. Srinivasan: It will be around that level. I would suspect less simply because we have taken in couple of cases market holding strategy saying that we will not loose market share, which means really it is throwing in our margins.

Pritesh Chedda: Is it fair to assume that in the last three year the volumes would have been largely flattish?

K. Srinivasan: In terms of absolute tonnage the volumes have grown because like I said the bottom end a lot of new applications are now running with these products. You would never hear any more people in the construction site using a chisel and cutting a steel rod. There all know sawing it or cutting it. So lot of what I said is the bottom end is not a replacement but new applications which mean tonnage of products coming in will probably be higher but overall as the premium end of the product you would be right to say it is flat or even declining.

Pritesh Chedda: But even if it is declining it hardly single digit number?

K. Srinivasan: Yes very small movement up and on in terms of volume.

Pritesh Chedda: If this trend has to change I think this industry used to grow about 10% to 12% volume. If the swing has to come from whatever -2 or 2 back to 8% to 10% what are the key factors that should happen to make it grow back?

K. Srinivasan: Construction sites have to start, projects have to start, all the capacities will have to start running then the volumes will start coming back. Simple things like I can share straightway let us say the railway project orders that have been placed in the last two years have declined dramatically. Huge amount of grinding wheel is consumed in what we call is railway insert business around eastern part of India. It is cut by 50%. There is hardly any activity on that. The kind of steel fabrication work central India you can see most of the plants are languishing so lot of project infrastructure related consumptions is dried up and dried up dramatically.

Sridharan Rangarajan: IIP has to go up basically.

Pritesh Chedda: Many thanks to you and all the best.

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

Kashyap Pujara: Actually wanted to again extend the abrasive question on we had earlier set up a non-woven coated capacity I think which was closed to 1.8 million square meters and when we were planning to scale that up obviously the margins are not reflective of that so could you throw some light as to where are we in that and do we actually see some scale up that can actually come through from that product.

K. Srinivasan: We are running this plant at about 30% capacity utilization levels today and we have primarily supplying to third party who sell it in their brand. Almost the leading multinationals who handout a non-woven along with washing bars and other things is really taking it. This is where the margins are significantly better. That activity is on. Hopefully we should start seeing improvements both in capacity utilization as well as margins in this going forward.

Kashyap Pujara: If I were to assume a normalized economic climate assuming a stable government does come through eventually and we do start seeing some normalization of growth and business sanity return overall then what would be the margins which could be sustainable over a longer period for the abrasive segment. I mean erstwhile we were doing 14% also on the standalone business, so can we actually explain margins flowing back there?

Sridharan Rangarajan: I think the margins in abrasives in the short term probably about 12 to 24 months would be in the range of about 10% to 11% and long-term three to four years' time could be in the range of about 14%.

Kashyap Pujara: If I were to ask you for a similar kind of us explanation for the other segments if I were to take that similar number for ceramics and Electro Minerals?

Sridharan Rangarajan: Ceramics could be in the range of 12% to 14% in the short-term and probably in the long-term could cooperate of about 15% to 16% and Electro Minerals could be 10% to 11% in the short-term could go to about 13% to 14% in the long-term.

Kashyap Pujara: Now having said that I think there was one observation that I had where you said that 6000 tonnes of Bubble Zirconia capacity has got added in South Africa, so that the utilization there in my mind was more intertwined with Indian Kochi expansion also, because you would end up doing the alumina Zirconia micronization, so you could probably swing both the units at one go if you are able to increase the utilization there ultimately it would be brought to India and turned into value-added, so essentially that would lead to quantum jump in margins. Is my understanding right?

K. Srinivasan: Correct.

Kashyap Pujara: So that as a roadmap is something which is more in your hands, it is not more from an external environment perspective and that hopefully we can look at it in the coming year, in 2015 that is FY 2015?

K. Srinivasan: It happens quarter-by-quarter Kashyap, because we have to win account-by-account because these are the products where we have to win accounts and convert them, so a lot of work going on even with big customers in India where they have to use alumina Zirconia and they start with kilos and after six months they have come to the first two tonnes, so they have potential. Each of them is about 3000 tonnes. So really it is very slow, so once you are in you are in, but it takes that quarter-by-quarter, account-by-account winning that is going on. We are working on it. The map is clear. We are making our effort. We should get there.

Kashyap Pujara: On the Thukela front, the guaranteed offtake that you had with RHI that would you see that happening this year?

K. Srinivasan: We are seeing volumes coming back, they have given the orders and we also now picking and choosing what we want to do with them, because this interlude and the losses we have taken has also forced us to get into some newer things and we suddenly found like as I mentioned earlier one of the alumina seems to be getting a winning product out of it, so really we will reorient this, target there is to get back to 30 million Rand of sale, quarter-on-quarter, which means we will not make a loss and that is the target for the year then we will see how take it far from us.

Kashyap Pujara: Fair enough, so assuming that these entities like said the Australian ceramic business picks up on replacement and your South Africa also starts contributing positive surprises, the minority interest I am sure would move up, so currently we are at Rs.3 Crores, so where do you see that eventually going back? Would it go back to 2011-2012 levels, what do you see that?

Sridharan Rangarajan: I think the minority interest in our case largely consists of Foskor and then the next come the Sterling and other smaller entities. So the higher the Foskor moves the higher the minority comes, so it could range in the range of Rs.12 to Rs.15 Crores in the next one or two years we can look at it then it could probably move to about Rs.18 to Rs.20 Crores.

Kashyap Pujara: Fair enough, understandable and just lastly on that point which you mentioned that Russia is an engine especially in the fusion front is running flat out. Now having said that I think clearly you guys have the adequate infrastructure there. You have cost position, you have pet coke, silica and power all present at the same location. So, would not it be sensible to increase the capacity by 15000 tonnes or so, considering that you have a great cost position and you are running flat out or do you think that is not a wise to do at this point in time?

K. Srinivasan: I think last year we had more black swans than white swans, so we have to wait for some more time. Today, one side if I go to the Board and look we have Crimea issue there and then I wanted double my capacity I do not think it will fly well. I think we will have to give it some more time. Let it run flat. Let things quieten down a little bit and I think we will then take a call. Clearly your point is right. We have all the legal approvals for an expansion in Russia. We have the technology for the big furnace in place. We have done the preliminary work. Everything is in order. We are now running it flat, improving efficiency then saying okay that is where we will be, because the simple reason that the environment changes so dramatically, just imagine if I go to back with this Crimea issue and Ukraine issue with a doubling capacity it would not sit well with anybody at this stage.

Kashyap Pujara: That is all from my side. Operator just check if they have other questions or we can end the call?

Moderator: As there are no further questions, I now hand the conference to Mr. Pujara for his closing comments.

Kashyap Pujara: Thank you so much everyone and the management for Carborundum for taking time out for this conference call. That is all from my side.

K. Srinivasan: Thank you all. Thank you very much. Hope to come back to you with better numbers next quarter.

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