"Carborundum Universal Q4 FY 2015 Results Conference Call"

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ANALYST: **MR. FARZAN MADON – INSTITUTIONAL EQUITY RESEARCH - AXIS CAPITAL**

MANAGEMENT: **MR. K SRINIVASAN - MANAGING DIRECTOR CARBORUNDUM UNIVERSAL LIMITED**
MR. R. SRIDHARAN - CHIEF FINANCIAL OFFICER - CARBORUNDUM UNIVERSAL LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the Carborundum Universal Q4 FY 2015 results conference call, hosted by Axis Capital 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. Farzan Madon from Axis Capital. Thank you and over to you Mr. Farzan!

Farzan Madon: Good day and thank you everyone for standing by. We have with us the management of Carborundum Universal, represented by Mr. Srinivasan, the Managing Director and Mr. Sridharan, the CFO. Over to you Sir!

K. Srinivasan: Good morning to all of you. Thank you, Farzan. I think we had a good year, I should say FY 2015. Let me explain that statement in detail. We were going through a significant amount of changes that we wanted to do across the various locations of Carborundum, and the difficult part was to deciding to do it and having got into it, I think we started moving assets into let us say into more growing areas what we call as repositioning of our assets and we have brought it many of them back to India.

Consolidated sale actually was near flat. It was actually down 3.6% compared to the previous year probably the first time ever. Largely coming out of the fact that we took a 182 Crores translation impact coming out of the Russian operation and the Rouble going down significantly. One smaller thing was of course the movement of manufacturing out of South Africa to get our refractory, which we started doing from the second half onwards. We also stopped producing the Bubble at Foskor Zirconia in the last quarter. So clearly we have started taking some of those steps. The assets to get our refractories are being moved back into India and the Bubble plant also will be moved into India. So that transition is happening and that is the reason why we did not see a topline growth, but we also had the benefit of this coming in terms of the profits growing.

On the PBT level before exceptional there was a growth of 6.2%, 154 Crores to 164 Crores this year and with the exceptional income, the PBT grew significantly. It grew to 220 Crores from 154 Crores.

If you look at abrasives, abrasives like you all know is about 75% India dependent, only 25% is outside India. The Indian part of it grew by about 4.5%. The overall was about flat. Again you must take into consideration the Russian situation there. 860 Crores is overall sales. The good thing about this business really is that significant amount of work in terms of building long-term sustainable competitiveness has been done. Two of our major locations were awarded TPM Award for Business Excellence by JIPM , Japan, which really shows that these parts of the business are becoming globally competitive to deliver products which are not only competitive but also significantly technically advanced in comparison to what you would get anywhere in the world. So that also starts showing in terms of results. The coated outgrew the bonded in terms of growth rate and that was a big impact largely coming out of building competitiveness in the business.

The two other businesses that did well and these are in the specialized parts of abrasives is the superabrasive business and the Agri product business coming out of Sterling and these two parts outgrew the rest of it because they grew double-digit and largely again on the back of good growth in auto component in Agri high end products.

The Electro Mineral business is where we saw major amount of repositioning or redeploying of assets. The overall sale for the year was about 10% lower than the previous year at 727 Crores again I must once again remind a large part of this is the restatement of the Rouble sales of Volzhsky into rupees that is still over 180 Crores impact on topline.

The second again is the Thukela discontinuation of manufacturing there as well as stopping making bubble in Foskor Zirconia, so in spite of all that I think we did reasonably well.

In terms of the domestic we did about 232 Crores marginally lower, part of it because we had lower sale of alumina which again has started coming back. This is bit of a seasonal thing. When we get our operations running well in our mining and the related things, alumina sales picks up. It has started picking up from this year. So you will see that this is only an interim kind of a thing. It will come back.

Good story in ceramics though refractories did not do well, the alumina ceramics did well. The overall sales was marginally up 482 Crores compared to 471 Crores. Standalone business also grew by about 3%. We grew to 315 Crores from 306.

Sales in Australia was the second highest in our history. So significant growth in sales and particularly in a year when the mineral cycle is actually at its lowest, there is a commendable huge amount of taking of market share. So, we took the market share, took a fall in the margins, but the Australian sales we were at the second highest ever.

The metallized cylinder business is picking up. We are getting it more broad based, well in preparation for the next phase of expansion in the metallized cylinder business. Refractories were not good, which was expected because we are overall still going through the phases of poor offtake in the domestic market as well as poor offtake with the aluminum industries in Russia plus this together the businesses are being repositioned into India.

So, I think the refractories underperformed and the new business is going to happen, but I think the overall thing was that key thing takeaways from the last year was the business has been prepared for the future. The part of business that had lower chances of growth and they had wrong positions were all moved, built capacities in key areas, positioned ourselves to take market share in Coated and Bonded Abrasives by getting ourselves to be more competitive. We continued to keep leadership position in the Ceramic businesses in Australia. We made a capex investment of about 80 Crores, largely into key areas where we are running capacities, like in the Silicon carbide business in Russia where we modernized the plant a bit, so overall it was a satisfying year.

Topline for the first time lower but largely like I said out of the Rouble effect, but profits coming back and we expect the year going forward would be significantly better. I am going to request Sridhar to take you through with the numbers.

R. Sridharan: Good afternoon. What I would cover is both standalone and consolidated and this time around to understand the numbers we had to do a bit of explanation on the translation, so I will go step-by-step. So on a standalone basis, on a full year we had 24 Crores of higher sales, 2.1% higher. Operating profit before other income, finance costs and exceptional income was lower by 4 Crores on a 24 Crores sales, but we also had quite a bit of one offs. When I say this for example, power cost has gone up by about 8 Crores this time around, largely because of two things, one is the power cost rate went up in Kerala by 0.50 paise per unit as well as the lower power generation in Maniyar. This is due to the lower rain this year compared to the last year.

At the same time we have a benefit of fuel cost by 4 Crores which is offset by let us say the 8 Crores of cost increase, so net-net we have 4 Crores of cost increase in power and fuel. Depreciation went up by about 6.4 Crores besides the capex due to the change in the Companies Act. This is again one off at this point in time. The lower export benefits by about 2.5 Crores largely because of the export scheme got over a year before and then we also had a peculiar situation in Tamil Nadu where the government has put restriction in taking some VAT credit particularly when you have sales through C-forms to 3% which is about 2 Crores. So all these where I would say that the kind of one-offs that we had, despite that we delivered better operating PBIT, resulting in drop in operating PBIT by only 4 Crores.

Moving on other income is higher by about 13.7 Crores compared to the last year largely coming from the preference dividend came from CUMI International. This is again one more key action that we have done. Preference shares that we had in CIL got converted into equity shares so that we have strengthened equity capital in CIL as well. We have a portion of the dividend which would be coming for the next year. Finance costs were lower by 4 Crores due to the lower utilization in terms of the loans as well as the lower cost of funding.

We also had an exceptional income by way of selling off a noncore land and building that is about 87 Crores. So that is broadly an understanding of the standalone P&L. We will now cover the standalone segment results.

Abrasives and Ceramics segment business increased in PBIT margins and the PBIT margin percentage also moved up. EMD margin dropped largely due to power costs increase, which I just covered about 7 Crores. There is also one more thing is there that EMD's Q4 PBIT margin was lower but if you historically observe that every year the Q4 PBIT margin will be lower because that is the lowest power generation as far as Maniyar power plant is concerned. They are roughly about 8% to 10% of the total power is generated during that period.

Ceramics Q4 PBIT margins are also lower this is due to largely there was a breakdown of a kiln and attended to that. It is about 1.5 Crores, but for that I think the PBIT is very much comparable and it is growing.

Getting into the consolidated financials, we need to understand two things, one is the impact of translation and the other one is exceptional income. So before commenting on consolidated financial we should touch upon the exchange impact due to translation. If the exchange rate were to remain the same as last year 2013-2014 in terms of exchange rate, we would have higher sales by 182 Crores and the higher PBT by about 22 Crores. So, let me give one example, Russian Rouble was translated in 2013-2014 at an average by 1.83 and this year we translated that by 1.35 which is a 26% drop. For example, VAW we have done higher sales in Rouble 3.1 million Rouble went up to 3.4 billion Ruble. So practically 300 million Rouble higher sales in VAW and the PAT went up from 317 million Ruble to 437 million Ruble. So that is the reality as far as the Rouble financials is concerned.

However, the same thing when you translate now the sales of 573 Crores of last year came down to 461 Crores there is a drop of 112 Crores only from VAW in this respect. So, I would say while reading the consolidated P&L you will also see a large swing in terms of the cost, let us say the power cost went down by 36 Crores, lot of such swing is there and especially you would note that in Q4 so, due to the translation impact.

Now the next thing to understand the consolidated financial is that we have classified and grouped them as exception income. We have a 56.5 Crores of exceptional income. So this consists of two broad parts; one is the profit or gain from sale of land 86.9 Crores and an impairment cost or loss of 30.42 Crores. So these two components netted together comes to about 56.5 Crores of exceptional income. As far as the Thukela refractories, we have fairly completed all the required things. The equipment will start moving in the next three months and will move into India both for refractory as well as the fusion plant. We expect this will take about nine months and the stabilization time of another three months. We will do an organized winding up post the shipment of all the equipments. We do not expect any major cost relating to Thukela operation in 2014-2015.

As far as the Foskor Zirconia we have agreed on the following restructuring plan. Tilt furnace plant will be brought by CUMI India. We expect the moving of the plant will start from July 2015 and as we said we expect July 2016 it will start the commercial production. We would continue the tap plant operation from Foskor Zirconia

As far as Canada, we have already consolidated the operation with CUMI say in 2013-2014 and we have shared this earlier itself. We are left with one land and building there. We could now find a buyer of the land and building and will be completing the transaction in Q1 FY 2015-2016. In this regard we provided for impairment based on an expected realization of the assets.

As far as the China is concerned, this is the first step in restructuring the China operations. The manufacturing operation will be shut down and operation will be converted into a trading outfit. We will then work on a long-range plan for our operation in China after the completion of the first step. In this regard, we have considered a restructuring provision and are part of the exceptional item. We expect to complete the restructuring by 2015-2016. So these are the items forming part of the restructuring cost.

Now moving to the next, consolidated PBT 2013-2014 was 154.3 Crores while for 2014-2015 it was about 163.9 Crores before exceptional income so there is a growth of 9.6 Crores. The current year PBT includes a loss of 7 Crores from TRI and 17 Crores of loss from Foskor Zirconia. This is before considering the exceptional items that I just listed. So there is about 24 Crores of loss, which is part of the numbers that we are talking about.

In Q4 we moved some of the costs particularly in the Thukela Refractories. Up to December we have been providing as a normal business loss, but in Q4 once the whole restructuring is finalized we moved them to the exceptional cost. This resulted in Q4 a TRI before exceptional costs a gain. This is also the reason you would see that PBIT margins of EMD at consolidated level in Q4 is higher at 20.3%. So this is not going to repeat. So, this is basically a one-off benefit that we have.

Now let us get into consolidated segment. On a full year basis all segments PBIT margins have improved. Abrasives, volumes in Russia have come down reflecting very low industrial activity in Russia. China is readjusting to the trading model and has lower volume as well. Hence the growth in consolidated PBIT margin is from the Indian operations, which includes CUMI, Wendt and Sterling operations.

Ceramics the growth in PBIT is due to better performance in Australia and JVs in India. As far as EMDs the Q4 PBIT margin at 20.3% is an exceptional one as I just explained a moment earlier. As far as the capex, we have done about 80 Crores on a full year basis. Standalone capex was about 40 Crores.

Coming to the balance sheet the debt equity on a standalone basis, the debt equity ratio improved from 0.11 to 0.10 and the total debt on a standalone basis both long-term, short-term all put together is about 84 Crores. On a consolidated basis, the debt to equity ratio improved significantly from 0.42 to 0.31, which is probably the lowest in the last few years. The total debt on a consolidated basis is at 340 Crores, came down from 444 Crores in December 2014. So we have used the sale of land and building that happened in India to pay off the entire loan so we are in a very good shape at this point in time as far as the balance sheet is concerned.

As far as the DSO, the DSO has improved at a consolidated level by six days from 73 to 67 days and standalone by one day 58 to 57 days. So, in summary what I would like to leave here is that we have completed the restructuring actions. Physical activity could spillover this year like the movement of the equipment, etc., but the financial impact is already considered and is part of the financials of this year 2014-2015. The assets getting relocated in India will start commencing their operations and start yielding the topline from 2016-2017. So we have fairly a very healthy balance sheet with Indian economy picking up, the asset utilization is expected to go up. So, with that I would open up for question and answers. Thanks.

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 B&K Securities. Please go ahead.

Balchandra Shinde: Good afternoon Sir. Regarding Electro Minerals on consolidated basis, I understood the part of the exceptional, but was there any EBIT margins improvement due to the higher export content in the Volzhsky?

R. Sridharan: There was an export benefit at the standalone Volzhsky level we have seen this improvement. What we are saying is that that improvement when it gets translated back into Indian Rupees where we are not able to demonstrate this change.

Balchandra Shinde: But now at how much percentage export will be in Volzhsky?

R. Sridharan: Volzhsky on EMD is roughly about 40-45% exports in value terms

Balchandra Shinde: Sir, regarding the trade sanctions and all related issues, means do we see that all those problems getting resolved and we will be able to concentrate more on exports or how?

K. Srinivasan: So far I think the trade sanctions have not directly impacted exports out of Volzhsky because we are exporting silicon carbide, which is not an item which is defined in any of the export restrictions, so there is no direct impact on trade sanctions. Indirectly a customer or somebody ordering in field with especially smaller customers who feel a little reluctant to order on Russia,if he could order it. We have covered this sentimental part of it by having a front end at Czech. We have now CUMI Europe based out of Czech. So for the smaller customers it is easier for him to access to buy out of a European EU Company.

Balchandra Shinde: So what I mean to say is like since our export content is around 40 to 45% and we are already running at around optimization so are we concentrating to reduce on domestic demand and to cater exports because I think because of Rouble depreciation our margins will be much better if we export through Volzhsky?

K. Srinivasan: We make significantly better margins when we export compared to what we sell in Russia for two reasons. One is what we export is largely what we call as crystalline material. What we sell domestically is what we call as metallurgical grade material, which is not something, which you lug it around for too long. It is used for steel making etc. We are mindful of the fact that Volzhsky represents the only silicon carbide producers in Russia today and there are only two such plants in the whole of old Soviet Union and the other one, which is now in Ukraine, also is not producing any significant quantities. So we are mindful of the fact that we need to meet their requirements of local industry. We are doing it and the rest of it we are maximizing in terms of crystalline production for exports. We cannot deny offering material for the domestic market.

Balchandra Shinde: Sir, last question on standalone basis, other income has increased significantly in fourth quarter any specific reason behind it because of dividend or some?

R. Sridharan: This as I said in my coverage is basically there is a preference dividend from the CIL, which is the holding company at Cyprus of all the overseas investment. They had given a preference dividend above 13.5 Crores. That is the increase you are seeing there.

Balchandra Shinde: I will come back for further questions. Thanks.

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

Tanuj Makhija: Thank you for taking my question. Sir, my first question is related to the restructuring of South African operations. Correct me if I am wrong. You have mentioned in the previous two conference calls that due to the technical difficulties you were not able to scale up the utilization related to future alumina so how would shifting the plant from South Africa to India resolve those technical issues.

K. Srinivasan: I think we probably either we did not communicate well enough or I think there is a misunderstanding. The technical difficulty is primarily in the Bubble Zirconia manufacture. This is one of the most modern plants of its kind in the world. We brought it from a very large company from Canada first of its kind of a very large capacity. This is a plant where we are having technical difficulty in stabilizing the production. So that is the plant that is being moved to Cochin into the SEZ zone there where we will make the Bubble Zirconia. In terms of the product itself in terms of proving the capability of the plant, we have blown Bubble out it. We have done about 200-odd tonnes and sold it to the main users and they are extremely happy with the quality of products that comes out of it, but the plant itself is not being run stably. We are not able to run it stably for any period of time to deliver consistently. We have battled with it almost for a year and then we said okay now there is time that we have to move it. We cannot endlessly keep trying this experiment, so we have decided to move it to India and consequently we stopped blowing the Bubble for the last one quarter. The plant is now being wound down. It is being now dismantled and in the next six months it will probably be on the way to India. In the meanwhile construction related how to house it etc., will start here so that in the next nine months, we hope to have this plant at least bringing into India then of course it will stabilize here. So there is nothing related to alumina. I do not know where this alumina came in. Alumina or light alumina etc., was being made at Thukela Refractory. There historically it has always been a case of the premium products like the Zirmul and other things, we have supply contracts which are not being committed and maintained plus we could not stabilize any new product out of these plants. Consequently we decided to close this operation. The two furnaces are being shifted to India again. They have already packed and on their way. They will be used here to make a product for which we have huge amount of opportunities and where we have already scaled up a product called the semi-friable. This we make in large volume already and we export. So this capacity or the facility that comes in will be used to make another type of product that is also alumina but that is more of a semi-friable alumina and not the Zirmul, which we were trying to make in Thukela. So this will be used to making higher volume of semi-friable product out of India.

Tanuj Makhija: Sir, regarding Bubble Zirconia you mentioned that the customers are very happy with the product. So in that case why do you want to incur restructuring cost and move it from South Africa to India? Would not it have been better off operating out of South Africa only?

K. Srinivasan: Ideally what you say is the best and that is what we wanted to do and that is the reason we set it up because the raw material, local sand everything is there and if we could have stabilized this plant and made it run consistently we would not have shifted. Unfortunately after battling with it for almost one year we could not stabilize the plant. When I talk of stabilizing the plant it must run continuously three shifts and continuously deliver products without breaking electrodes without going under breakdown very frequently. Now this is a very technical plant. I mean you are boiling something an oxide metal at 3500 degrees and then you pour it and when you are pouring this liquid ceramics, you are blowing 20000 cubic meters of wet air to make it into a bubble. So it is a highly technical thing and there are too many moving parts and our ability to stabilize it in South Africa was not good enough. Then we decided that instead of having teams of our people sitting there, stabilizing they may think that we are done, we come back again it goes under, this is not going to work. So we said that with the capability and with the talent that we can locally get, it would not be able to stabilize if we battle with it for so long, so rather than losing a business opportunity and wasting an investment of this nature, we said we will relook at it and do it out of India where most of our technical team, I mean, our best teams have worked in this area for 60 years are all sitting here. So we said it is better to do it here because this is going to need that much more technical help and support compared to the other products that we make.

Tanuj Makhija: Sir my last question is even in fourth quarter FY 2015 the company has reported a loss in the abrasive segment, if you just look at the subsidiaries performance despite depreciation of Ruble, the margins I assume would have gone up but still you have reported an abrasives loss in the fourth quarter?

K. Srinivasan: In the outside of India like I said 75% of this business is India, the balance 25% is really Russia and China, and to a lesser extent US markets. So Russia did make a loss. In Russia, I think we probably explained it was producing about 12800 tonnes of bonded abrasives. Our market share in Russia was about 35%. Today, last year we produced only 5800 tonnes our market share is now 43%. The collapse of the Russian economy in terms of local manufacture is dramatic. So, we are not able to get better prices. We are running all our tunnel kiln suboptimally. What should produce 12000 tonnes, the cost of running it is the same and it is 5800 tonnes. So there is actually erosion. It is making losses. There are people there. It is making losses. The Chinese operations also made losses. Sridhar explained to you that we have gone ahead to restructure the Chinese by which we are taking out manufacturing. It will be what we call is outsourced manufacture. It will be our formulation, our blending, but the actual making of the wheel would be outsourced. We will only then do the final inspection, testing and dispatch. With this we expect to significantly make ourselves more competitive and more future oriented. So, both Russia and China we are rebuilding our business in abrasives. So they did make loss last year, you are right.

Tanuj Makhija: Sir, my last question is can you please provide guidance for the year FY 2016 for say revenue and EBITDA margins and if possible segment wise?

R. Sridharan: I think what we feel is topline there is one thing we have to talk about is that the current number 2018 Crores consists of at least about 55 Crores, which is not going to recur like for example the Thukela Refractory sales, Bubble sales, etc., so the base is going to be about 1963 Crores. From that number we expect we will be in the range of about say 2150 to 2200 Crores as a topline and as far as the PBIT margins at consolidated level what we are looking at is the abrasives could be in the range of 9% to 9.5%, ceramics is going to be 12% to 14%, Electro Minerals about 12% to 14%. This is what we are looking at as a broad number.

Tanuj Makhija: Thank you very much for answering my questions.

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

Bhoomika Nair: Good morning. Sir, on abrasives if you could, we were losing some market share in one of the CUMI segment. So how is that progressing and have we started to gain some market share with those?

K. Srinivasan: In the abrasives business there has been significant changes. I mentioned what we are doing to build long-term sustainable competitive advantage in terms of producing, competitive products in a reliable manner and so that is why I have said we have won this JIPM TPM Excellence Award, etc., in the Coated part of the business. Coated also a large part of it the new additions, the technical goods all go into the fabrication industry. I am looking at fabrication as one industry segment, but now what is happening in the fabrication industry the industry was earlier using only what we call as the thin bonded abrasives. Today technically a significant part of this fabrication industry is moving to what is called as flexible abrasives, which is really the flap discs, the pressure disc, non-woven disc and a whole lot of things. So really what is happening is there is a technical transmission that is happening. We are seeing products, which are now overlapping with each other. There is a bit of a coated which is now also getting into the fabrication industry and that is growing much faster than the earlier wheel. So we have addressed both and we are seeing traction for our products coming out of the coated as well. We have taken market share significant market share in the coated side. We are holding our own on the thin wheel business though I would not say we have taken market share, we are holding our market share there, but we have taken more from the coated side, so overall the fabrication industries I believe are from Q4 and I am seeing definitely that we are taking share. This will probably accelerate as we go forward because we have made significant investment on the coated side with technical products so that would really start giving us a better market share as we go forward.

Bhoomika Nair: This is the reason why we have seen in 4Q standalone revenues going up or with volume going up or is it like realization going up.

K. Srinivasan: I think everything is going up. Volumes have gone up marginally, but realization has also gone up all across everything. Our receivable days are down. Our balance sheet items in terms of inventories and other things are very strong, so really it shows that we are making products, which the market wants to buy and they are paying for it. So there is a tremendous traction and that is a good sign of a robust business as we go forward.

Bhoomika Nair: Sir, you also mentioned in China you know, you have restructured the business into treading entity etc.?

K. Srinivasan: I will use the word outsourced manufacturing because that is the more appropriate word I would say because what we really want to do is, we would still make these products to our formulation with our key input material the plant as we will call will remove but we will still do the blending out this and get it down outside. The actual manufacturing we see no competitive advantage in fact is there. If we do, it has our Carborundum Multinational Manufacturing, it will be significantly more expensive than getting the same thing down out of the Chinese company. So, we would reach that advantage.

Bhoomika Nair: Sir I mean till this was kind of loss making in China so with this and having taken some amount of restructuring costs into account in the current quarter would that kind of reverse and come back to profitability in the FY 2016 in China?

R. Sridharan: Bhoomika, what we have done is that on an expected basis we have taken some provisions. Actual transactions of cleaning up would happen, physical transaction would happen in 2015-2016 so, we expect that these losses on the year-over-year basis more or less will remain the same but then end in the year after 2016-2017, we would see this turnaround really getting ourselves into profit zone will start happening in 2016-2017.

Bhoomika Nair: Sir coming to EMD segment you know, you mentioned there will be reversal or the provisioning which was there in the nine months has now been taken into the restructuring cost will be taken has an exceptional item up to nine month the number that I have is roughly about 50 Crores of losses due to restructuring and others, this quarter the margin on a consolidated basis jumped to 20% and I would believe part of it has got to do with the reversal in the P&L going to exceptional item. So how much would have been the reversal because restructuring costs shows at 30 Crores in the exceptional items?

R. Sridharan: I think what we have told in the earlier calls is 55 Crores, the number that you are told is the total loss that we were expecting for a full year basis. So that is including the operational loss so the classifying the entire 55 Crores as restructuring would not be appropriate so that is a total loss. What we have done is that there are certain costs let us say for an example the provision that we took it for retrenchment of the employees, etc., which were sitting as an operational one which got reclassified at this point in time to exceptional one hence the swing in terms of the PBIT margin went up to 20.3 so, what we are saying is that there is a 30-odd-point Crores in the exceptional one. We also have 7 Crores of operational loss from TRI and another 14 Crores of operational loss from the Foskor both are already there. This is above the exceptional income.

Bhoomika Nair: So it basically 30 plus 25 in that sense, 25 to some extent 30 will definitely not recur next year because of the restructuring not happening or some amount of restructuring but at least the operational loss as we shift and stabilize operations in India that should go away by end of FY 2016 and FY 2017 it should be profitable entity?

R. Sridharan: Yes, in 2015-2016 itself as I said that the Thukela loss should not happen because practically the entire operation will be wound up so, there will not be any impact on that and similarly for the Foskor also we do not expect to have the same thing continued in 2015-2016 itself.

Bhoomika Nair: Sir the other thing in the ceramics division I was seeing on QOQ basis there is some decline in revenues and there is also margin and I remember you were mentioning that there was some pickup in revenues as such clearances were picking up and know Australia as you mentioned in your opening remarks you are doing fairly well, so why has there been a QOQ decline is it just seasonal or is there something else associated to it?

R. Sridharan: QOQ largely, if you really see, there was some sales from RHI you know that is not recurring at this point in time so you will see those exceptional things not happening there so, it is largely Thukela Refractory sales of last year Q4 and this year Q4 is practically zero so that is why you are seeing this drop. Thukela has got both segments ceramic as well as Electro Minerals. The ceramics portion is dropping which is expected because an entire operation is stopped.

Bhoomika Nair: So that is versus the December quarter it is slightly down?

R. Sridharan: Exactly.

Bhoomika Nair: Thank you so much. Lastly what will be the capex that we are looking at FY 2016-2017?

R. Sridharan: We are expecting somewhere in the range of about 175 Crores because there will be relocation cost involve in this year.

Bhoomika Nair: But, apart from the relocation cost there would not be any capacity expansion in any of the geographies?

R. Sridharan: No, nothing.

Bhoomika Nair: Thank you so much and wish you all the best.

Moderator: Thank you. The next question is from the line of Pranav Gokhale from Religare Invesco. Please go ahead.

Pranav Gokhale: Good afternoon Sir. Sir just a slightly longer detailed question. Sir, what I have seen is the asset turn based on gross block over the last 10-12 years has been a bit lower than what the competition has kind of displayed so is that and where I am comparing, I am comparing the standalone business itself so is there something which is different which has led to this difference?

K. Srinivasan: I think, if you look at the composition of how the business has done most of the multinational comparison if you would do you would largely see the there is a significant amount of trade. I would not use exactly 100% trading but let us say they get the jumbos out from there where they would do only the conversion, they have certain level of bought outs which they sell here, etc., so a lot of what is sold is not really 100% manufactured. Unlike that we practically have everything in-house. We make our own grains, we generate power, and we do everything with here to that extant it is more capital intensive. There is consequently a lower asset turn. That is one part of it. The second part of it is whatever asset has been created we today can say potentially with all the investments that we have on ground we should the able to get an additional 50% higher sales than what we are doing today comfortably, we are doing about 2000 Crores we estimate that if everything runs flat out, we should probably do more than 3500 Crores plus so to that extent I think the asset utilization has not been as much as it can be, so I think once we get these two things corrected you will see that this number what we talk of would be better than what you comparing with.

R. Sridharan: If you see ROCE last year to this year on abrasive business has big time increased .The working capital reduction, inventory reduction all that helped us and today you are seeing a very high ROCE compared to the last year.

Pranav Gokhale: Sir, agreed, but the reason I am just trying to understand this what I am looking is the combined ROCE on a combined assets turn on a standalone business has never crossed 1.7 and you are indicating this to go up to say 2 to 2 plus what has actually changed which has not been present over the last 10 to 12 years.

R. Sridharan: Sorry, I did not get that part of the question?

Pranav Gokhale: Sir, the assets turns which used to be hover between 1.2 and 1.7 which is the last 10 to 12 years earlier average, I am talking only on the standalone business what has changed which will now move to 2 or 2+ or has a potential to move to 2+?

R. Sridharan: Because of the unutilized capacity utilization see today we have an average in the range of about 70% capacity utilization. Once the volumes pickup you will see that this is going up and you will able to touch and in fact for example ceramics business we will be in the range of about 1.5 to 1.6, abrasives will go up as similarly for the refractory also will go up so it depends on the tiles, the segments that we are looking it but on an average we expect this to go up because of this volumes that we have seen. We have a potential with the current invested capacity to go up and if that happens naturally the turns also will go up.

K. Srinivasan: You are asking why is it also such a number for the last 10 years is it?

Pranav Gokhale: Yes.

K. Srinivasan: So that question I can only answer by saying that we have always been investing ahead of time. I mean we have always been building up capacities ahead of time to see that we continue to grow expect for the last three years, we were growing organically by about 20% plus so that is the reason why our capacity creation has always been higher compared to others whom we compare which is predominantly less capital intensive. They have largely been sourcing from their own global operations and then converting and selling so there is that comparison that will remain that will not go away.

Pranav Gokhale: But the gross margins or EBIT margins are similar on a segmental basis, which has kind of moved around, in the same range?

K. Srinivasan: That is also true to some extent but I think you will have to look at the overall number because at some stage once we get let us say capacity utilization up our effective margins will go up and at that stage we will be better.

Pranav Gokhale: Thank you Sir and all the best to you Sir.

Moderator: Thank you. The next question is from the line of Kunal Rakshit from First Voyager Advisors. Please go ahead.

Kunal Rakshit: Thanks for taking my question. I had a clarification on the Electro Mineral business, you know you have reported EBIT profit of around 31.7 Crores. I just wanted to get it a sense what would be absolute number that we should take out for the write back so that we can get you know what is the EBIT without the write back in this quarter?

R. Sridharan: This is on the consolidated basis.

Kunal Rakshit: Yes.

R. Sridharan: You need to take about close to about 11 Crores that number.

Kunal Rakshit: 11 Crores and going forward so if you take it out there would your on 21-22 Crores would that kind would be the kind of run rate we would expect going forward?

R. Sridharan: That is what we are looking at about 12% - 14% PBIT margin going forward.

Kunal Rakshit: The second question I had was on the ceramics margin. If I look at the standalone ceramics business you know the margins have dipped to around 8.5%. Just wanted to understand what is the reason because the sales have been at least for standalone have not fallen so what is the reason for the lower margin in this quarter?

R. Sridharan: There is the 1.5 Crores of higher repairs and maintenance because of some challenge in the kiln and that alone brought this change, otherwise we would have been normally in the range of our 11.5%.

Kunal Rakshit: Okay and that is fixed now and going forward?

R. Sridharan: Yes, it is addressed.

Kunal Rakshit: Thanks. Thanks for these.

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

Jasdeep Walia: Good afternoon Sir. Thanks for taking my question. Sir, in your opening remarks you mentioned that you have done significant amount of work to make the abrasive business globally competitive. Can you elaborate on what kind of steps has been taken in what are the results that have been achieved so far?

K. Srinivasan: First, I will take it in three parts. One is in terms of building competitiveness in the manufacturing itself. I think we have one; two of major locations won the JIPM and TPM Japanese award for TPM, which means that they are practicing strategic TPM continuously reducing cost, delivering competitive products and ensuring a continuous improvement. We have had our plants audited by leading European companies and they would be quite happy to even source products. So they are really high end now. The second thing is in terms of innovation and new products. I think last year we filed about 18 IPs, a significant amount of it is from abrasives. We see that we are launching a couple of very promising new products as it goes forward. The third thing is this vertical integration had some unique advantages that has gradually started kicking in. The alumina Zirconia that we produce, the semi-friable that we produce, the new coated greens that we produce etc., are all getting converted into superior technical products. So what is happening out of the Electro Minerals is now flowing in through the abrasives is superior products with the customers. I think innovation, improvement, and integration. These three things are really making us more and more competitive in the abrasive business. You will see the impact of it as we go forward.

Jasdeep Walia: You also mentioned about some expansion plans in the metallized cylinder business. Could you elaborate on that as well?

K. Srinivasan: We are in discussion with external company. We are likely to get some assets of metallized cylinders, which would enhance our capacities. We are running the current capacity at about nearing 85%-90%. We expect significant growth. We have got lot of new approvals so this is WIP as soon as signed we can announce it.

Jasdeep Walia: So when will this new capacity comes on line?

K. Srinivasan: Once we do the transaction it will take us at least about 8-9 months.

Jasdeep Walia: Got it.

R. Sridharan: Not for this year.

Jasdeep Walia: Sir out of the capex number that you mentioned what is the capex number excluding the relocation cost?

R. Sridharan: That will be hardly in the range of about say 50-55 Crores I mean normal 55-60 Crores will be our normal run rate capex.

Jasdeep Walia: So then the relocation capex number seems a bit high so 125 Crores I would have thought a much lower number for relocating the plant?

R. Sridharan: This is on a standalone basis then there is an expansion or the capex program in the other subsidiaries, JVs and Russia all put together.

Jasdeep Walia: So what is that number?

R. Sridharan: That will be another about 25-30 Crores.

Jasdeep Walia: Approximately then around 90 Crores is going for relocation of the plant?

R. Sridharan: You are right.

Jasdeep Walia: That is also my side Sir. Thank you.

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

Pritesh Chheda: Just a couple of clarification. You said the base business next year is about 1960 Crores which means that the business linked to Thukela and the Bubble plant, refractories and Bubble is about 50-60 Crores?

R. Sridharan: Yes that is correct.

Pritesh Chheda: What is the corresponding operating loss on account of this in FY 2015, which does not reappear in FY 2016?

R. Sridharan: That was we said about 17 plus 7, 24 Crores probably in this year.

Pritesh Chheda: 17 for Thukela and 7 for Bubble plant?

R. Sridharan: 7 for Thukela and 17 for Bubble.

Pritesh Chheda: Now this number was a part of operational number in FY 2015?

R. Sridharan: Correct.

Pritesh Chheda: When does the Thukela plant relocate into India start operations?

R. Sridharan: 2016-2017 is that we are expecting to start.

Pritesh Chheda: How about the Bubble plant?

R. Sridharan: Same.

Pritesh Chheda: Now when the plants start operation should one see an operating loss till the time the plan runs up to a certain scale and price?

R. Sridharan: No, we do not expect that in the year 2015-2016 we do not expect any loss because they all will be work-in-progress that we will be working on in terms of capitalization and as we said that we are giving about total period of 16-18 months of fixing this, stabilization etc., with a lot a multiple trials etc., so we are confident that once we start commercial production we will be in the position to market that we are parallely doing the marketing and as earlier said to the product acceptance is there, the demand for product is there and we are pretty confident that we will able to address this.

Pritesh Chheda: Last quarter you had given a number of 50-odd Crores as operational loss for Thukela plus Foskor Bubble plus China. How does it reconcile then with this 17 plus 7 so what is operational loss on account of China operation?

R. Sridharan: We said 51 Crores is the overall loss that we expected including operational. What we are now saying is that 17 plus 7, 24 Crores and 12 Crores of loss in China is what the operational portion is and we have moved a portion of the operational loss to exceptional one which we said about 12 Crores.

Pritesh Chheda: What is the outlook on the China? What steps are we taking and does this loss also be looked at in FY 2017?

K. Srinivasan: In China what I have mentioned that we are restructuring our business. We are going more towards on outsourced manufacturing model. We expect that the topline sale will continue to grow. It is expected that we will do at least about 60 million Renminbi and we will hopefully come to a nil operating loss. So at least over whatever other restructuring other things we have taken the hit this year and we still would have to complete the process of moving out the assets etc., the plant, manufacturing, location, etc. Hopefully we should be into cash no loss situation.

Pritesh Chheda: When does this appear?

K. Srinivasan: The whole year we will have to work on this, this is FY 2016.

Pritesh Chheda: Lastly on the abrasives market in India now what would have been the growth of the market in FY 2015 and if you could break it up into volume and value?

K. Srinivasan: Very difficult to say in terms of volume because like I said there is a very moving thing, I mean we move bonded to coated, things move between applications etc., we estimate that the growth of abrasives, bonded, coated, super abrasives all put together would have averaged between 5% and 10%. I am not able to give an exact number unfortunately because there are a lot of gray imports that happen etc., anyway between 5% and 10%, parts of Carborundum like the Sterling and the Wendt business have also grown double-digit.

They have also grown between 12% to 14%; parts of Carborundum have grown about 5%. I expect with the company the overall market has grown anyway between 5% and 10%.

Pritesh Chheda: Has been any change in the structure of the market visible changes if any visible market share changes if any?

K. Srinivasan: Market share changes are very little, structure changes yes. I think the significant amount of imports coming in at the lower end has actually gone up and this is also coming from the fact that in a stressed market people were down trading and they were willing to take a risk and buy the cheap imported products. So there was a significant amount of imports that have happened during the last years added to that is a problem where imports that come out of ASEAN comes duty free and that has actually opened a new avenue for the traders to bring products, which may have let us say the origins really not from the ASEAN but still coming through ASEAN with duty free so that has added to the problem. So there has been a significant amount of imports at the lower end.

Pritesh Chheda: How about any export opportunities?

K. Srinivasan: We have record exports of abrasives. Last year we exported to what we call as a global products, the ball wheels, and the rubber, razor blade all these wheels we were a big exporter. We did more than 60 Crores of abrasive exports and we will continue to grow this. I mean our main present in different market allows us to establish products. We have exports out of Wendt, out of Sterling, out of our bonded and coated application and this seems to be one of the target areas for significant growth.

Pritesh Chheda: Lastly on the pricing side, at the mid end and the specialty level abrasives any pricing related comments?

K. Srinivasan: Last year we were the only person who probably pushed prices up. We were keen that prices must go up because the margins were falling and I think we held on to it and we hope to stay there. It did mean that we did take some hard decisions in terms of holding prices, but eventually, it will benefit the industry as a whole. This year I think the prices will not go up any further. It will probably remain at the same level as the last year.

Pritesh Chheda: Lastly, what should be our outlook for growth in abrasives market in FY 2016?

K. Srinivasan: The abrasives industry grows at about I think we call it as GDP growth into two at least. So that is the kind of growth we should expect on an average.

Pritesh Chheda: Thank you very much. All the best.

Moderator: Thank you. The next question is from the line of Manish Goyal. Please go ahead.

Manish Goyal: Good afternoon Sir. Just to clarify on the Russian operations number, you can please repeat? Am I right that sales in Crores were down from 573 Crores to 461 Crores.

R. Sridharan: Yes. I will just repeat that. What we are saying is that the Russian sales in Ruble is 3.1 to 3.4 billion in terms of the sales has moved up from 317 million to 437 million and in terms of the Indian Rupee the sales went down from 573 Crores to 461 Crores.

Manish Goyal: What was the impact on the profit due to currency translation?

R. Sridharan: It is almost flat.

Manish Goyal: You mentioned that the impact around currency translation was 182 Crores on revenues and PBT of 22 Crores or something?

R. Sridharan: That PBT of 22 Crores is the total PBT, but in terms of the Russia we do not have an impact on the PBT side.

Manish Goyal: So, out of 182 Crores currency translation impact 112 Crores was from Russian operation?

R. Sridharan: No, let me repeat it. See 182 Crores is the number which basically was arrived after considering same exchange rate as last year and then arriving at the impact in sales. The 112 Crores is the impact, which you are mentioning compared to the current exchange rate versus the earlier exchange rate. So these two numbers are not comparable.

Manish Goyal: So this 22 Crores currency translation loss is on account of what?

R. Sridharan: Same basis had I used the same exchange rate of the last year; I would have got this impact.

Manish Goyal: Thank you so much.

Moderator: Thank you. The next question is from the line of Abhinav Sharma from HDFC Securities. Please go ahead.

Abhinav Sharma: Good afternoon Sir. Sir, could you give us the breakup of 30 Crores of exceptional expenses between the impairments?

R. Sridharan: Abhinav, we would not like to give such a breakup. Overall number because we have a lot of other things into this. Specifics would not be shared.

Abhinav Sharma: So, would it be correct to understand that we have taken all the expenses in FY 2016 we do not expect any such expenses to recur?

R. Sridharan: Absolutely. As we said that for Thukela we do not expect to recur, as far as the Foskor also we do not expect to recur and Canada also we do not expect to recur. China is a work-in-progress. We have taken an assumption. We have taken based on some realization capability and based on that we took at this point in time. So there we may have but we do not expect that at this point.

Abhinav Sharma: Sir, would you also give the tax impact of the exceptional income in our P&L?

R. Sridharan: It is a bit difficult to expect because these are different geographies, etc., so it is not easy to share that way because of each has got a different deferred tax, assets and continuation of the business all that matters at this point in time, but it is not an easy one to give. You cannot have a one-to-one matching.

Abhinav Sharma: But Sir, the income, which we booked on the sale of land, which is 86 Crores that is in India, right?

R. Sridharan: Correct. That is in India. That is about 67 Crores of PAT impact.

Abhinav Sharma: Sir, finally, if you can give some outlook on the domestic abrasives and ceramic segment, because abrasives we expected some recovery to happen but it has not yet taken place. So when do you think it will actually be seen on the ground?

R. Sridharan: At this point, what I would like to talk about is that on an overall basis we expect the topline at consolidated basis would be in the range of about 2150 to 2200 Crores, considering certain growth that would happen in India as well as outside of India. The specific ones in terms of segments we would like to wait for what is happening in the industry activity and then probably once we have better understanding, we would like to give that.

Abhinav Sharma: But in Q1 of FY 2016 have we seen any pickup in abrasives market in general, not for Carborundum, but in general have we seen any pickup compared to Q4?

K. Srinivasan: There is no abnormal pickup. I think we are having a normal seasonality and beyond that we are not able to see any major traction coming out of any new policies or anything.

Abhinav Sharma: Thank you very much.

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

Jasdeep Walia: Sir, just wanted to know what are you planning to do with the base capacity at Foskor of around 5000 tonnes?

K. Srinivasan: We will produce Jasdeep. We will produce the tap will run there, it produces largely what is called the Calcia Stabilized Zirconia. There are not many good Calcia Stabilized Zirconia players. We still have a very good market for us. We will continue to produce there. We will also produce some produce some quantity of Monoclinic. So that tadpole will continue to run.

R. Sridharan: We are running even today. We are running at about 70% to 75% capacity utilization and that will continue.

Jasdeep Walia: That is all from my side. Thank you.

Moderator: Thank you. Ladies and gentlemen that was the last question. I would now like to hand the floor over to the management for closing comments.

K. Srinivasan: From the management side, I would say thank you all for being so patient and listening. I know it is not an easy business and particularly so we are going through a transition phase. I think to sum up; I would say that the difficult parts have all been taken up. What added to the confusion was the Rouble going down, which was not a part of our plan of restructuring. Now we are getting the things organized. We know that we are going through a next at least a year or two of lower mineral cycle so the prices of all the input materials are going to remain low, but the business is in the right track and I hope to see better numbers and profitability as we go forward. Thank you all.

Moderator: Thank you. On behalf of Axis Capital Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.