"Carborundum Universal Limited Q4 FY16 Earnings Conference Call"

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Moderator Ladies and Gentlemen, Good Day and Welcome to the Carborundum Universal Limited Q4 FY16 Earnings 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 would now like to hand the conference over to Mr. Kashyap Pujara of Axis Capital Limited. Thank you and over to you, Mr. Pujara.

Kashyap Pujara: Hi, Good morning friends and thank you for standing by. It is a great pleasure to have with us the Management of Carborundum on the conference call for Q4 FY16 results. From the Management side we are being represented by Mr. Srinivasan who is the Managing Director and Mr Sridharan – CFO. Without taking too much time I now hand over the floor to Mr. Srinivasan. Over to you, sir.

K Srinivasan: Thank you, Kashyap. Good morning to all of you and thanks for joining on a relatively earlier and normal conference call. We have a good set of results to report to you. F16 was a good year. Most things that have been planned happened as we would like to have seen it. The standalone sales top-line grew by 11% to Rs.1,281 crores, the operational profit grew by almost 48%. The consolidated income grew to Rs. 2,056 crores, again a growth of about 1.9% and again there the operating profit grew by about 48%. So overall the sales growth as well as the profit growth was very much in line with what we had planned.

Abrasives, after a long time we had solid performance on the domestic, sales grew by almost 9% particularly satisfying growth in coated abrasives. Our consolidated sales lagged a bit because we still are in the process of rebuilding our business both in Russia and China. In terms of EMD the sales in India grew by 35%, this was the highest growth that we had. The consolidated sales were relatively flat simply because we had the Russian business translation as well as the winding down of Thukela Refractories in South Africa. But in terms of profitability it was extremely good.

The ceramic business was relatively muted, like you know we have the two pieces, we have the refractory and industrial ceramic. Significant part of both the business is project driven and so the projects simply did not start happening. So consequently the ceramic business was lower, the consolidated levels were about 3%. Good news around the ceramic are only two things that I can talk off, one is the metalized cylinder business not only did well but we have gone ahead and taken the plant from NTK Japan and in the process of getting it re-commissioned in India, so that was one good step. The second one is the Nitride Bonded Silicon Carbide business in Russia stabilized and started doing well. So these are the two good things that happened around the ceramic business.

Overall in terms of CAPEX, standalone was about Rs.120 crores, consolidated almost at about Rs.180 crores, significant parts of it are still work in progress, the projects are all being commissioned and once they are all up and running we will start seeing quarter-on-quarter impact of these targets into our both sales and profits.

Quickly in terms of the geography, 53% of our business continued to be from India, 24% of our business comes from Europe including Russia, about 10% of our business is from Asia Pacific which includes Australia, Japan, etc, 7% of it is from Americas and 6% from the Middle East and Africa. Now this breakup continues to be robust and solid which means that our dependence on any one region is relatively low.

When I look ahead in terms of what is happening and what we have done significantly during the year which we will start seeing as results in the quarter ahead is that each of the SBUs, each of the verticals we have taken up three to four growth projects and each of these projects significant amount of effort, time and investments have been committed and the benefits of this will actually start coming in from quarter-on-quarter. Last year we filed over 20 IPs which was in line with what we had planned, we thought we will probably do about 24 to 25, we did about 20 IPs. Again, these are of significant value to the company in terms of creating business opportunities for the future.

Now to take you through the numbers I am going to hand you over to Sridharan now.

R Sridharan: Good morning to all of you and we are pretty happy to share the good set of numbers from us. We are on a journey of transitioning our businesses and still one more year to go but I think we have crossed a lot of hurdles at this point in time.

So on a full year basis consolidated level of sales increased by Rs.38 crores which represented a 2% growth. Operating PBT grew by Rs.80 crores out of the sales increase of Rs.38 crores, Rs.80 crores increase in PBT, standalone sales increase was Rs.129 crores and operating PBT gain of Rs.55 crores. So which means the subsidiaries and JVs contributed to Rs.91 crores of drop in sales and a pickup of Rs.25 crores in PBT. CUMI standalone operating PBT percentage improved from 9.9% last year to 13.1% in this year, the gain of Rs.55 crores came by way of drop in fuel rates, swings in foreign exchange restatement around Rs.3 crores and the balance all relating to the leverage we got out of the sales growth and product mix that we have.

As far as the consolidated numbers are concerned, PBT margin increased by Rs.80 crores owing to increase in favorable swing in foreign exchange gain of about Rs.6 crores, lower interest cost of Rs.3 crores, lower employee cost of about Rs.9 crores and lower power and fuel cost of about Rs.55 crores. So this is a huge swing, so we need to explain that, one is largely coming from India, we got a benefit of fuel cost at least about Rs.12 crores to Rs.14 crores and in terms of Russian cost, when you restate the last year numbers it was restated at about Rs.1.34 and this time it is about Rs.1.02, that gave a Rs.40 crores swing benefit to us. And South African operations, few of them were shut down so that the gain of about Rs.3 crores, that is a reason for lower power fuel cost of about Rs.55 crores. Balance Rs.8 crores is basically lower exchange impact on depreciation, etc.

If we look at entity wise, the increase came from better performance in CUMI standalone about Rs.55 crores and restructuring of South African entities was about Rs.25 crores which we have been communicating even in the earlier calls. There has been a gain in terms of the profit which has been offset by the moderate performance in the other JV entities, CAPL, our Australian entity and China.

As far as segment performance, abrasives aided by the growth in revenue and the cost reduction project initiatives, the standalone business recorded an increase in PBIT at about Rs.94 crores from Rs.68 crores, there is a gain of about Rs.26 crores. At consolidated level the profit also moved by similar amounts, Rs.62 crores to Rs.89 crores which means the rest of the abrasive entities put together the performance is almost same as the last year.

As far as Electro mineral is concerned, the consolidated Electro mineral business recorded a PBIT gain of Rs.48 crores, CUMI India gain of Rs.13 crores owing to higher alumina sales and special products, VAW about Rs.7 crores gain despite sales drop in Indian rupee, though in rubble terms they have had a reasonable increase in sales. Foskor gain is about Rs.28 crores because of the restructuring cost that we took last year which is not there today in this current year.

Ceramics, Ceramics had a 7% drop in operating profit, that is about Rs.5 crores, CUMI India Ceramics business had an increase in PBIT of about Rs.4 crores owing to better product mix both in industrial ceramics as well as in refractories and VAW refractory business also had a higher PBIT of about Rs.3 crores due to improvement in the refractory business. But the JVs and the Australian entities were not performing up to the mark and there was a drop of about Rs.5 crores.

As far as the CAPEX is concerned, the total spend in CAPEX is about Rs.179 crores on a full year basis of which Rs.100 crores is capitalized and the balance is in various states of work in progress as well as capital advances.

As far as debt to equity ratio is concerned, the standalone debt to equity remained at the same level, basically 0.12, but compared to the March it has come down slightly and on a consolidated basis our debt to equity ratio at this point in time has come down from 0.31 of last year to almost about 0.26 to current year. And as far as the foreign exchange gain or loss impact, the translation loss in consolidated sales is about Rs.158 crores in the top-line and we gained Rs.15 crores in foreign exchange gain and that is an overall impact which we can summarize that.

So I think all in all I would say that all the cost that we were taking out in the last year i.e. FY14-15 is no more coming here plus the better performance in top-line results in a good set of numbers. Debt to equity has come down, cash flows are in good shape, overall position of receivable is also reasonably in good control both in domestic as well as consolidated, so our domestic DSO is almost one day it has come down compared to the last year so which means we are doing collections well and the money is not out in the market.

So with that I would open up for Q&A. Thanks a lot for listening.

Moderator: Thank you very much, sir. Ladies and Gentlemen, we will now begin with the question-and-answer session. Our first question is from the line of Madan Gopal from Sundaram Mutual Fund. Please go ahead.

Madan Gopal: My first question is on the abrasive segment, domestic sir, second half seems to have done really well for this business, you have gained back some market share as we explained. If you can elaborate for the full year how has been the volume and pricing movement for the overall business and your growth rate in Q4 is really impressive, so what is really contributing to this?

K Srinivasan: The overall growth is about 9%, there has not been a very significant price increase, there is a bit of a product mix increase but predominantly most of this 9% comes from product mix and volumes. What you are seeing is the growth in the second half will continue, I think it is a trend, I think it will get better quarter-on-quarter.

Madan Gopal: And second, you explained the FOREX gain there was Rs.15 crores this year, what was this last year and actually where it is slowing, if you can explain a bit it will be helpful.

R Sridharan: Largely the FOREX gain is because of restatement of our receivables and payables and that is what is shown in the P&L, it is called out as a separate line item itself in the consolidated set of numbers. So if you see the foreign exchange gain is about Rs.15.2 crores is the current year that we have and the last year was about Rs.9 crores.

Madan Gopal: And during the initial remarks you highlighted that you have got some 20 IPs during the year or something, if you can elaborate a bit where these are and if you can explain any of these significant ones in terms of market opportunity that they can create over the next three, four years, that will be helpful.

K Srinivasan: I would break them up into three parts, some of them are products, many of them are process IPs. They are all in our current set of business, they are around electro minerals, they are around composites, they are around industrial ceramic products and all of them are active IPs which are getting into our current projects, etc. I also mentioned that each of our business has taken between three to four growth projects and each of these IPs are actually dovetail in these projects. So these are active IPs that we would employ in our own business.

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

Bhalchandra Shinde: Sir, on subsidies level if you will see our margins have comparatively dropped, any specific reason for that because actually our employee cost has increased and overall other expense have also increased.

R Sridharan: You are talking about consolidated or consolidated minus standalone?

Bhalchandra Shinde: Consolidated minus standalone.

R Sridharan: Consolidated our margins have improved, like if you really see it has moved from almost about 9% to about 12%.

Bhalchandra Shinde: Yes, but I was talking about the fourth quarter actually, last year fourth quarter we were better comparatively.

R Sridharan: Last year fourth quarter our numbers were about Rs.37 crores overall delivery and right now it is about Rs.28 crores. Large swing is predominantly coming from electro minerals which add about Rs.28 crores and then the current year is about Rs.22 crores, so that is where the big swing is coming. So I would say it is largely to do with the standalone, it is a reflection of what is happening in Foskor and Russia. Typically, what happens is that Russia's last quarter is our Q3 very strong and then the current quarter is always a slightly lower quarter compared to the Q3 for us, so that is one reason and then the Foskor's better performance, these are the two reasons for that. But a full year the Foskor's performance is pretty much in line with the overall volume they did last year versus this year.

Bhalchandra Shinde: And sir in Volzhsky, how much sales growth we did in rubble terms of our volume growth and profitability wise how was the performance in Volzhsky?

K Srinivasan: See, the Volzhsky sales grew to roughly about 4.3 billion from about 3.8 billion, so they had a growth of almost 25% on rubble terms. Most of this growth has come from price increases with a very small volume increase, because we are running practically to capacity, we produced about 3,000-odd tons more than the previous year, so most of this growth actually comes from price realization.

R Sridharan: Which means price increase as well as the exchange benefit that we get because we export out of Russia.

Bhalchandra Shinde: So our export content have increased from Russian entity versus last year?

K Srinivasan: About 35%, it has been around there for some time now.

Bhalchandra Shinde: And sir one last question related to our working capital levels, when we see consolidated levels and standalone levels, overall working capital when we calculate our implied cash flows, overall working capital pressures have increased on subsidiaries level it reflects, what will be the major reason for that, means is it because of the translation or actual there is an increase on the working capital?

R.Sridharan So let's divide this into two portions, standalone and the rest of the entities. If you look at the standalone, our working capital as a percentage of sale, we are in the range of about 29% to 30%, it has pretty much remained the same compared to the last year, probably a percentage here or there there could be an increase. Now in the rest of the entities, particularly receivables in Foskor and inventory in Volzhsky has gone up, but for that I do not think any significant change has happened.

Bhalchandra Shinde: Because actually there is a swing, though last year operating cash flows were highest but there is a swing of around Rs.160 crores, that is why I wanted to…

R.Sridharan: Absolutely because you are moving from 2013-14 to 2014-15, that swing really gave a substantial reduction in capital employed, the same type of swing is not happening in the 2014-15 to 2015-16 and that is what you are seeing there.

Bhalchandra Shinde: So these are the sustainable cash flows you mean to say?

R.Sridharan: Correct.

Moderator: Thank you. Our next question is from the line of Ranjit Shivram from Antique Stock Broking. Please go ahead.

Ranjit Shivram: Sir, just wanted to understand this translation gains and if you and throw some like how will this be going forward because we feel that FOREX is one of the major volatility component in our income statement, so if you can just help us in understanding this, like if the currency moves adverse then if you can just get a sense like how our earnings or how our FOREX component will move?

R Sridharan: Just one entity which is significant in this whole thing is Russia and what is happening is that, I am giving you a three year broad view, in 2013-14 we were converting it about 1.83 and 2014-15 we are converting it about 1.35, these are on an average I am telling, quarter-to-quarter there could be swings and 2015-16 is about 1.02. So you see that this is the biggest change in terms of the exchange impact that we may have which is a translation impact. So it works two impacts, one is the sales when it gets translated it comes down and similarly the cost also has come down which means there is a benefit in terms of the profitability that it gives in terms of the translation effect, but the top-line goes down. So these are the two sets of impact. Now to your second set of questions, which is going forward how do you read, it is very-very difficult set of question to answer because it all depends on how rubble versus dollar and how INR versus dollar would behave but given that it has come to almost a stable situation we are looking at almost the conversion in the range of about somewhere in the range of 1 to 1.05. So we expect that the impact or the swing from the current year to the next year may not be that big, so this is what we can say at this point in time but it is subject to so many other factors.

Ranjit Shivram: So at least one of the major volatility in the earnings will be in a reduced way for next year. And coming back to the South African restructuring, is it completely factored in or we will see some more margin improvement in FY17 because has it completely taken that restructuring impact this year or will we be seeing some more margin improvement next year because of that restructuring?

R.Sridharan: See, South African restructuring, the full impact was largely taken in 2014-15 and there was some small impact that is coming in 2015-16, so we do not expect any of this impact to continue in the next year. So I would say that practically no impact due to South African restructuring.

Ranjit Shivram: So this margins going forward will be in the similar levels, there would not be any additional improvement because of the restructuring thing, it is completely taken in FY16?

R.Sridharan: Completely taken in effect and now as the capacity utilization starts picking up we know we will see a better profitability coming from there.

Ranjit Shivram: And sir lastly, in the standalone which segments of the market are you seeing growth and how do you see this going forward, I know you do not give any guidance but at least if you can help us in understanding which are the segments which you are seeing growth in terms of demand?

K Srinivasan: See, broadly what we can say from this year's result is if you see abrasives is a good indicator of where the market is going, we did a 9% growth. And like we keep saying that abrasive growth is about 1.5 times the GDP growth which is generally what we can take as a nearest indicator because it is very widely used. We think we see a general improvement in the economy but the projects are just not happening, almost all major project whether it is power, steel, cement everything is struggling. So consequently these ceramic and refractory business would continue to struggle to that extent. But the basic consumption, basic economy is picking up so consequently abrasives will continue to do well. We have done a significant amount of repositioning both in the ceramic and in the refractory business so I expect that they would also start performing better than what they did last year. So we expect that overall company's standalone growth was 11% could only get better during this quarter-on-quarter.

Ranjit Shivram: And was there any market share increase in abrasives and if so how much was…

K Srinivasan: We have lost our market share and we are trying to, I believe we have taken back most of it but I think there is still headroom to grow.

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

Ujwal Shah: Sir, can you just give the progress on the relocation of assets, the Thukela assets being relocated in India… Sir, I just needed the progress happening in terms of the relocation of assets, in terms of timeline are we as per the schedule or just behind the time?

K Srinivasan: See, the Thukela plant has two components, the refractory plant has been relocated and trial productions have commenced in Jabalpur, you will start seeing quarter-on-quarter scale up as the plant cuts in the production. The mineral plant moved to Cochin, the pot furnace is getting commissioned hopefully in the next couple of months. The tilt furnace, we are converting one into tilt for doing semi friable and others, that should start production only in the last quarter, we will start some trial production in the third quarter but you will see commercial production only in the last quarter. So practically everything is WIP in terms of nothing has so far hit the real sales numbers, you will start seeing them hitting sales number from Q1 onwards.

Ujwal Shah: And secondly sir, update on our China business, we were doing a lot of things to revive that part of the business as well, so where are we positioned as of now?

K Srinivasan: See, China is a fundamental change in our business approach there, we have explained it earlier, I will repeat it. We are now no longer going to have a captive manufacturing plant, we are now getting our products made to our specification, design and inputs by third party manufacturers who are contracted or toll manufacturers for us where we have our people implanted into their system so that they control the quality, the process and the output. Also, China would continue to buy and sell products from the Carborundum system from India, from Russia and other places. So the marketing and sales team have been strengthened, we have more approvals, we have bigger orders. So China's sales will grow, the business will not decline, on the contrary it will grow but our fixed cost or operations or plant is still being taken up, we have decommissioned everything, we have booked all those costs as well. The actual sales for the sale of the plant and the building have been entered into, part payment has been received, we hope to complete the transaction in the next quarter where this quarter ends.

Ujwal Shah: And in terms of margins as well we would see FY17 to be a turnaround case for China as well?

R Sridharan: As far as margin is concerned, China we are having losses that will not be there next year.

K Srinivasan: Step one is China should come out of losses, we will then see how it will get into more profitable space.

Ujwal Shah: And sir lastly just wanted to understand your Electro mineral business a bit more in detail. So in terms of product mix what kind of value mix we have currently between those standard products like brown fused and white fused, silicon carbide as compared to value added products and others?

K Srinivasan: I have to be a little careful in this because we have a fairly competitive business that we are running here, I can only assure you that we have not increased our capacities of standard products, a significant part of all the growth that you are seeing are all coming from specials and all our additional capacity that we are creating and improving are all going to be on specials, so they will continue to grow in that area.

Moderator: Thank you. Our next question is from the line of Bharat Sheth from Quest Investments. Please go ahead.

Bharat Sheth: Sir, just taking forward one question on this China, how much was our loss booked in FY16?

R.Sridharan: Just about Rs.11 crores.

Bharat Sheth: And second sir, on Electro mineral, to understand more on consolidated level, our EBIT level in percentage is coming down so what could be the sustainable EBIT that we are really looking because in Q1 quarter-over-quarter it is coming down, say first quarter over last year was 18% then 22% then 15% and around 14.8%.

R.Sridharan: See, I think we were communicating this, if you were following this is that one is, as we were doing the restructuring majority of these restructuring was happening in the Electro mineral space, so what happened is that as that losses came down, so that is why you will see a higher PBIT margin last year and in a stabilized level coming to the current year. To your next quarter that how do you look at this one, I think the current margin is sustainable and we should say that from in and around plus some upside should be there to the current margin levels.

Bharat Sheth: And last one more question, since standalone in Electro mineral sales grew substantially whereas EBIT has come down, sir any major reason in current quarter Q4?

R Sridharan: Current quarter what happens, always our Q4 is a lower quarter because even if you look at last three years numbers it will be in the range of 5.7% - 5.8% PBIT margin largely because the Maniyar power benefit we will not get in the Q4, so that is the broad reason, it is consistent with any of these prior periods.

Bharat Sheth: And in Q4 our power and fuel cost has come down substantially, sir any significant, I mean all those sales have gone up.

R Sridharan: I would encourage you to look at it as a full year view and I gave you a broad idea of the power cost, see largely what is happening is that two things that we need to keep in mind, domestically the fuel cost is giving us the benefit, that is number one reason and the second reason is that the translation is giving us also a benefit, particularly what is happening from Russia into the India rupee, so that is the second large reason. But for that I do not think any other significant reasons are there in the power and fuel.

Bharat Sheth: And one more question on this power and fuel, earlier if there was a problem in Tamil Nadu particularly on power and we were not getting, we had to run the plant on DG Sets, so now can you just give some highlight, I mean more color how is the situation currently and going ahead…

K Srinivasan: Last year and half to two we actually are not really extensively using DG Sets or something, there is really no power cut per say so there is no shortage of power, power continues to be expensive like every other part of this country, the cheapest power continues to be in Kerala where the cost of power to that from the grid is about Rs.5.20, everywhere else the average cost would be well above Rs.7.

Bharat Sheth: Sir, in your opening remark you said that in standalone business this quarter we grew by almost 50.6% and growth is going to improve from your end, so what I read in that number, I mean what is your statement?

K Srinivasan: At standalone it grew by 11% and we expect to grow from here further, so that means from 11 it will get better.

Moderator: Thank you. Our next question is from the line of Gaurav Sanghavi from Bajaj Allianz. Please go ahead.

Gaurav Sanghavi: Sir, just wanted to understand overall on the abrasive market, what kind of a growth market would have reported and how is the competitive intensity in the market and if you can just throw some light on the market size in mix of organize and organize and probably some top three, four players?

K Srinivasan: I think we have done this before, I will repeat it. The market size if I look at the conventional abrasives, super abrasives all combined could be anywhere between Rs.3,000 crores at the manufacturer or selling end of the business, at retail it will be higher. Out of that you an take conventional business is approximately about Rs.(+2,500) crores, so that is around where it is. Major players you already know, we are one of the major players. The market is by and large three tired, there is a top premium end which is partially supplied by European branch and by the two of us, the mid-range is almost entirely supplied by the two of us and maybe small quantities from others and the bottom end is predominantly with the Chinese and local players in different areas, unorganized sector, etc. But both of us also have some products for the higher end of this bottom pyramid. So this is broadly how the market is tiered. Growth wise, the top end is growing the slowest, the mid-range continues to grow, it is becoming a fatter pyramid and the bottom grows the fastest because in a stressed condition in the economy there are more people down trading and buying more of the cheap and dirty product. So that is a reason why all of us also try and address this bottom end of the pyramid. Growth approximately like I said last year I would rate it on an average about 8% to 10%.

Gaurav Sanghavi: So basically 8% to 10% would be more or less the growth, is there any benefit on account of mix shifting or anything, because you are mentioning it is moving more to a bottom end, so does it put also some pricing pressure among the premium end player like player cutting the pricing to get the market share or to protect the share?

K Srinivasan: The segments are very distinct so the people who buy at the bottom end of the pyramid really would try and at point in time upgrade income to the value for money product, so really in that sense we tier the business, we have separate products for each of these tier, so there is no too much of price cutting in any of these segments, you would have seen the margins are only getting better. So they are very different businesses so we do not cut prices, so that is as far as price cutting is concerned. In terms of how the market is shifting, clearly I think on a longer term basis you must look at that the metal intensive manufacturing globally will move to a composite intensive manufacturing which is a longer term trend which means that finer finishing and coated abrasives and flexible abrasives have a larger growth potential and consequently that will have a larger growth compared to the fixed abrasive that you see now.

Moderator: Thank you. Our next question is from the line of Madan Gopal from Sundaram Mutual Fund. Please go ahead.

Madan Gopal: Sir, broadly if you can give some sort of view on what sort of growth we should be factoring in the international operations per say, I understand completely global slowdown and all, so should we be working with a nominal growth rate for at least a year or so or you think with Russian operations being really good and operating at full capacity any plans there to expand, if you can elaborate a bit.

K Srinivasan: See, we have to look at now more from way we sell then way we make, because the way we have now restructured our business of moving some of our facilities to different points, it does not matter whether you produce in South Africa or you produce at SEZ at Cochin, if the addressable market or the target market is going to be America or Europe. So really what we need to look now onwards is to say what is sold rather where it is produced. So that is why I gave a flavor of it in the start saying that 53% of our business last year came out of sale that we do in India, not necessarily all that is produced in India and the 24% of what we sell happens in Europe which includes Russia. So in that sense really if you focus on where the markets are being addressed or sold, for us a big chunk is going into Europe including Russia, that will continue to be an important area in spite of all that we hear and see Europe is still doing well and there is still a big opportunity for us in the Europe, we continue to address it. We are not seeing any serious headwinds in that profit after tax. Americas for us is relatively small, we are talking of something like about 7% today, that is a market we expect to grow faster than the other markets because the share is so small, it is not so much as what is happening in Americas as much as what we can do more in America.

Madan Gopal: Which segment sir in America, which product you will be targeting?

K Srinivasan: I will be a little careful here, we will address primarily in the ceramic and the abrasive space, so that is an areas where we will significantly grow as we go forward because the size is so small that we are very-very small player in that market. So these are the two areas where we will continue to grow in terms of market that we address. The 6% that we do in the Australasia business will remind about that, it is not going to grow much. There is still a potential to grow more the 10% that we do or the 7% that we do on the Middle East, Africa segment which we will continue to invest and grow.

Madan Gopal: So any thoughts on this Russian operation? Is there any plans of expansion or something because we are already operating a full capacity there?

K Srinivasan: We shared with you last time We are in the process of expanding what we are offering from the abrasive side of the business. We are going to do more of thin wheel and the coated abrasives converted products there. First set of new equipment have been installed and the markets are being addressed, this will also help us to maximize our presence I the abrasives space and come out of losses in that space. The refractory business which I mentioned in the matted bond and silicon carbon doing well we would be stretched in terms of capacity there and then we will grow that capacity further. But that as a size of business is pretty small. So Russia would stay with that for the next one year till things gets more clear. We are not thinking of the next big expansion there in Russia till things get clear.

Moderator: Thank you. Next question is from the line of Sandip Baid from Quest Investments. Please go ahead.

Sandip Baid: Sir, in the past you have grown at 30% in the electro minerals in FY16 of course it was a flat year business of rubles and because of traffic and operation. Going forward you just mentioned that you are not looking at expanding capacity in Russia. So what is the kind of growth outlook for the electro mineral business for the next two years - three years?

K Srinivasan: See have taken up several growth projects in India partly coming out of what we have transferred from South Africa and what we are doing here as well. You would have seen that in terms of top-line growth the standalone electro minerals grew 35% last year. So like I mentioned it is not a question of where we are making as much as what we are going to sell and which markets we are going to sell. So the mineral business will continue to chug along, it is going to be one of the faster growing of the Carborundum businesses. Russia I said, we will take another year before we take a call. We are at flat, we are mindful of the fact that we have opportunities to do more but we are also mindful of the fact that we need to time it better. We have to be careful as to when because these capacities come not incremental they come as big steps so, we have to time it better. So it will take us another year before we make a big commitment or decide to make a commitment. But till that time the domestic investments and the business growth will continue. It is not going to, it will not drag the growth of Carborundum overall I said, Carborundum will grow better than the 11% we did last year and the electro mineral business would not be the drag on that, it will grow further than the rest of the company.

Sandip Baid: Right, sir. Sir, on the abrasives side, you have mentioned in the past that the endeavor is to grow at twice the GDP growth rate. Do you think that it will be achievable in FY17 and beyond?

K Srinivasan: We are in abrasives like I said, we did about 9% in standalone last year. We should do double-digit this year or even better so, I think we will get to what we mentioned like I said we are in a good part of growth somebody mentioned that our growth in the second-half was even better than the first-half I think we are in a trend, we should start seeing improving growth rates.

Sandip Baid: Right, sir. And sir, on your consolidated margins on abrasives I think you were at about 10% in Q4, do you think there is scope for improvement there?

R Sridharan: The scope for the improvement I would say the consolidated we are in the range of about 9.7% as of full year and this should be in and around like somewhere in the range of 10ish should be there in the next year because what is happening here is that one is the China losses if it comes down definitely it will help us to increase the margins. And the domestic margin also will go up as the volume goes up so definitely it should see it end up moving up.

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

Bhoomika Nair: Sir, on abrasives I know this has been discussed on the call, but if you could just throw some light on your fourth quarter particularly has seen a very strong growth in revenues. If you could give some color on what are these new products what has driven this growth? How much of it is actually on ground and how much of it is actually market share growth which is driven? And how much of it is sustainable?

K Srinivasan: Yes, I will be a little guarded here. Our growth trend will continue. Like I said, there is a larger pull on the coated side of business and export also is doing well. So you are not still seeing major new product launches that is driving this growth, it is largely our existing business that is growing and doing well and also new markets that are opening up fast.

Bhoomika Nair: Okay. In the current year as you mentioned earlier in the EMD segment particularly in the standalone entity, we saw very strong revenue growth which was led by higher alumina and also some specialized product. So just wanted to get some more sense on what is driving this? What are the industry that are driving this growth? And what kind of growth numbers we should at for going ahead?

K Srinivasan: See like I said, I would like to again be a little careful on the product split between standard, specials, etc., you will see what we talk of alumina now a broad brush of standard special sol gel grains, the treated grain, and the semi-friable grains all are combined. More and more international establishment of these grains are happening, more of international customers and a lot of these customer when I talk of I am talking of competitors so that is why I have to be a little more careful, competitors in our abrasives line are standardizing to buy these products so that is why you are seeing this traction and once this volume starts coming up this will get even better.

Bhoomika Nair: Okay. And in terms of has there been any traction on specialized micro grid kind of thing where we were looking at DPF kind of application. So how is the progress on that front?

K Srinivasan: This plant is running at about 40% capacity now but it is now running what we would think as very profitable part of the business, we are running on businesses which we earlier only using up capacities and not really adding to the profit at this stage. So expect that this would get better because couple of more establishments have happen, again I will be a little careful in terms of where we have done this. So this year we expect significant improvement in utilization and consequently also profits. Because somebody earlier also asked why is the margins not showing in the domestic EMD? Unless this goes up to profitable businesses and volumes hitting (+60%) you will not see significant movement in margins but hopefully this should happen this year.

Bhoomika Nair: And ex of this micro grid facility how would the utilization levels be on the other part of the business in domestic?

K Srinivasan: All the furnaces that are already up and running are running flat out. The new plants are just getting installed. Like I said we have one pot coming in in the next couple of months, the tilt coming in third quarter, production by fourth quarter, and the Bubble plant coming in hopefully by the fourth quarter so a lot of capacities are coming in now.

Bhoomika Nair: So 2018 is when we see the full benefit or major coming in by these new plants?

K Srinivasan: We will see quarter-on-quarter but full year in FY18.

Bhoomika Nair: Okay. And in Russia as you said in some fairly flat out but how is the exports versus Russia domestic volumes? And how would be the volume mix between say crystalline and metallurgical because in that…

K Srinivasan: Yes, I think we shared that we are approximately 35% export that will remain.

Bhoomika Nair: And how is this fairing now given that ruble is starting to appreciate a little bit.

K Srinivasan: But the export is still 35% so it is about 35 and that also is broadly an indicative of crystalline to metallurgical because what we have exported is almost entirely crystalline.

Moderator: Thank you. Next question is from the line of Vineet Maloo from Birla Sunlife. Please go ahead.

Vineet Maloo: Sorry, what I was asking you made the cursory remark that in China your margins are likely to inch up so if you could just throw some light what is likely to lead to that is it the market situation or something that we have done or I mean what exactly is happening out there?

R Sridharan: Okay. So what I said is that currently our losses in China we are expecting that it will be going into a breakeven step next year so, that swing will help us in terms of brining the margin up.

Vineet Maloo: Okay. But what are plans there I mean to deal with the business because I remember, in past you have mentioned that you would only maintain a presence for sourcing.

K Srinivasan: No, I think we explained in the beginning the China model is changed to getting product manufacture by a least associates continuing to market and sell our products made there as well as what we make in other parts of Carborundum. The sales force has been reinforced, our sales is actually growing and we will not have our own plant to manufacture our own products that would be sold.

Vineet Maloo: Okay. So it will be sort of an outsourcing model where you get manufactured and sold wherever we have market presence?

K Srinivasan: Mainly for China and they are not so much as outsourced as so much as tolled because it is our raw material, our team, our process, our QC and everything.

Vineet Maloo: Okay. So sir specifically I mean for selling into China just wanted to understand so, do we have any specific advantage or unique proposition that for this business or they are more like standardized commoditize product?

K Srinivasan: No, all that we sell in China are premium products, specialized products. Let us say we sell from here export products in to China and they distribute it like for gear grinding or ball grinding, etc., these are our global products, I mean in these products we have a status across the globe in specialized application as one of the big suppliers.

Vineet Maloo: Okay. And the competitive intensity is not pretty high in this is it or it is pretty low?

K Srinivasan: It is there in all this products, the buyers of our products would be largely the multi-national companies who are manufacturing in China.

Vineet Maloo: All right, understood. And sir, another thing is so now we are done with the restructuring exercise right, or is there anywhere anything is left or we are just through a that now?

R Sridharan: All of them and all the impacts of that is fully absorbed and we are just in the process of getting it stabilized as Mr. Srinivasan was telling that these assets repositioning is happening as we speak and all of them will come in to place in this year when the full effect of that would be felt in the FY18.

Vineet Maloo: Sure. And my last question sir, you talked about you know one is that you move plants into India right from outside and you also are in the process of adding capacities in various places. So just wanted to understand that would these projects more or less be over in this year or they are going to continue into next year as well?

K Srinivasan: Completed this year.

Vineet Maloo: They all will be completed in this year?

K Srinivasan: Correct.

Vineet Maloo: And what is the overall residual CAPEX that we are going to do this year?

R.Sridharan: This year will be in the range of Rs. 60 crores to Rs. 70 crores at best which is our normal set of CAPEX that we will have.

Moderator: Thank you. Next question is from the line of Bhalchandra Shinde from Anand Rathi. Please go ahead.

Bhalchandra Shinde: Sir, regarding electro mineral the specialized micro grits which earlier we were trying for some tie-ups in particulate filter in Japan. I would like to know the status on the same? Have we reached to some extent or and the other levels where we use to earlier supply for the silicon wafers so what kind of scenarios are available for us for this specialized micro treatments with more applications we are trying to get into and what kind of growth we see in that?

K Srinivasan: Yes, let me answer this way, the solar is gradually picking up but it is no longer as attractive as it used to be so, that is not our first driver but the volumes are picking up even in solar. The other one that you mentioned is the area where we are focusing and I think we have crossed most of the hurdles and we should start seeing volumes this year.

Bhalchandra Shinde: But are we doing any tie up with any Japanese company….

K Srinivasan: All these businesses are based on what we call co-creating a solution, we have to work with them for probably about five years to six years to build a salutation for their requirement so these are not really made and then sold. So these are co-created solutions and I think we have crossed most of these hurdles, we have jumped across all the barriers we have even probably get a **TA Certification** which is certification you need to be an auto component supplier because these are active parts that need to work within the automobile for a fixed periods of time. So I think we are more or less through with all that.

Bhalchandra Shinde: So by probably FY17 end we may start…

K Srinivasan: We should start seeing some results coming in and probably that volume start picking up, we should see big results in 2018.

Bhalchandra Shinde: Okay. Sir, how much volume potential we can see into that?

K Srinivasan: I would like to wait and watch in this see because are very sensitive things and there are world over only few buyers so we will take it step by step. So I can only tell you that we have crossed most of the hurdles, things are picking up, let the volume start hitting and then we will try and tell you more.

Moderator: Thank you. We have next question from the line of Kashyap Pujara from Axis Capital. Sir, please go ahead.

Kashyap Pujara: Yes, I had just couple of questions. Firstly, I recollect you saying in the past that the Foskor Zirconia, the new facility which had come up that and the fortunes of the domestic micro grids were more or less enter intertwine because you could micronized the Bubble Zirconia and now with the facility having shifted here, would it be fair to assume that when the full benefit of this will come that will also kind of give a leg up to our micronization unit?

K Srinivasan: It will give a leg up and if everything happens together we will not even be having capacities.

Kashyap Pujara: Okay, that is fine. And the point is that going forward since in EMD if I were to dissect what is left now we basically have the traditional Foskor Zirconia plant and we have the Russia Volzhsky unit and everything else is now shifting to India. So essentially where we sell is secondary but essentially the manufacturing from India is what is going to drive growth incrementally going forward and that would be projects like say the Bubble Zirconia micronization you have the sole gel and the **semi-friables,** et cetera. So would that be a fair assumption that India with all these new products will be the growth engine in the future?

K Srinivasan: Absolutely.

Kashyap Pujara: And if I were to then look at the margins in EMD specifically, we have seen you know if I were to look at the overseas margins or say ex-India margins we are still at around 20% and the Indian margins are around 10% that is how we will get to a blended number. So with the incremental utilizations coming up would it will be fair to assume that India can actually reach to a potential of 15%-20% margin from where we are right now.

R.Sridharan: Yes, I think Kashyap your analysis is right, I would think the blended is in the range of 17% to 18% at this point. We will travel to 17%-18% probably in the next one year and one and half years and then as the new capacities on the value added side comes up and the utilization on the micronization picks up, we would see that the other part which is basically a standalone part margin also starts picking up and then you would see that both put together could travel to the range of about 18% to 20%.

Kashyap Pujara: Correct. Which is back to what we were before we come off, basically a 20% kind of margins if the India also start contributing is possible in the EMD side.

K Srinivasan: Correct.

Kashyap Pujara: Having said that, if I look at the ceramic side of the business again that is one segment where Carborundum has a maximum operating leverage in the system and that is also not playing out because of the growth. Now with the, Thukela facility coming in and you have that global tie up so, you can get into flow control products tap whole and slide gate. So I think would it be fair to assume that going forward the margins there have significant scope for expansion?

K Srinivasan: Sure.

R Sridharan: Yes, I think definitely see the larger portion is more than this I would say the metalized cylinder portion which is we are expanding that capacity by bringing in the NTK equipments. So coupled with the projects picking up in India definitely this margins will start going up. We are now in more or less about 14.15%. Plus I would think that the next big reason would also be that Australian business starts picking up which I think it would take about at least a couple of years by the time the coal industries recovers. So definitely it should start picking up far better than what we have today.

Kashyap Pujara: So according to I mean, what would be a fair sustainable margin level to assume if things were to normalize say two years - three years down the line in this segment?

R Sridharan: See if it is three years is to I would say probably may be I am making a wild guess but I think in the interim in the 14.15% it is not an unreasonable assumption to make.

Kashyap Pujara: Okay. And what would be the capacity expansion you know I mean with the NTK plant what would be the total mets capacity then that we would have?

K Srinivasan: We can go to about 1.8 million cylinders.

Kashyap Pujara: Okay, 1.8 million cylinders.

Kashyap Pujara: Okay. And just the last two bits because there are not more questions in the queue so, I thought I will take up the floor. I think from a utilization perspective if I were to check across all our divisions I mean how would you peg the total utilization level at the company level?

K Srinivasan: Abrasives you take it as may be 70% because coated is running relatively full but bonded we have still capacities. EMD I think a lot of capacities are coming up so really it is not a good time to talk of capacity utilization because we do not have a lot of capacities coming up.

R Sridharan: But the existing one are operating about 85 plus.

K Srinivasan: Yes, except the micro grid everything is operating well. So ceramic again the engineered part of it is operating reasonably well but the wear ceramic part is running at 50%. So overall as weighted average for the company I would say 70%-75% is a good estimate.

Kashyap Pujara: Sure. And what is your assessment of the overall Indian economy, you cater to most of the core segments across not any particular dependence on any single segment, so where are you seeing any incremental data points that there are green shoots and you know if you can just sound out your view on the how the growth is shaping up?

K Srinivasan: Our general sense is this will be a year of better utilization of investments already made so projects are unlikely to happen in anything big but a lot of investments which is on the ground will get either rectified improved or make to perform and come on stream, et cetera. So we look at more of consumption and consumables R&M kind of an investment but no big project orders I think this is broadly we expect for one more year at least.

Kashyap Pujara: Okay. See off lay there will be a lot of noise about or at least something's on the ground that roads are really picking and I was just wondering whenever that segment takes off, it should have a very strong uptick on the thin-wheels kind of category or some of the abrasive products. So would that be a fair thing to assume that abrasive could actually be growing pretty well irrespective of the current environment even if this environment were to continue?

K Srinivasan: Consumables all abrasives, coated, all that which is driven by consumption and not by projects all will grow.

Kashyap Pujara: Fair enough. And in this situation I mean if I were to again probe you, so what would be your reasonable expectation of growth for Carborundum Universal what would be the number that you know you would like to leave us with?

K Srinivasan: GDP into 2.

Kashyap Pujara: GDP into 2, okay. That is good enough. I think we have one last question and that would all. Thanks so much for patently answering. Karuna, you take the next question please.

Moderator: Sure, thank you. Next question is from the line of Vineet Maloo from Birla Sunlife. Please go ahead.

Vineet Maloo: Just one very basic question, so you have this goodwill on consolidation in your console numbers. So could you just indicate this is related to VAW entities, now that we have moved some assets out of South Africa et cetera does will this not get impacted or something or how does it work, just from accounting point of view.

R Sridharan: Yes, see goodwill on consolidation is typically stated when you acquire company and that pretty much stays. Yes, restated based on the currency which you really acquire. So hence this would not get impacted because of the repositioning of the asset that we have.

Vineet Maloo: Okay. But so it is not related to the acquisition of those subsidiaries or companies?

R.Sridharan: Correct.

Vineet Maloo: Okay, correct. And we do not have any policy on amortization or anything like that?

R Sridharan: No, you test for the impairment and we always have taken a look at what kind of future projections that we have vis-à-vis our investment that we have. So those policies are global policies and we definitely do follow on that.

Vineet Maloo: Sure. And sir, one last thing is after this IndAS comes in is this going to impact us in any way in any of the line items?

R Sridharan: Well, it is a good question and see we are working on it. So the first is that in terms of what we are seeing generally I mean it may not be specific to CUMI alone. See India by in large what we are seeing is that companies could have a top-line going down largely because of the consolidation effect of it. But for that I do not see any major change that would come in terms of I am talking about a manufacturing type of companies so, the top-line could go down depending on the structure that they have in terms of subsidiaries, joint ventures, those type of stuff. But in terms of the PAT I do not think there would be any major impact. And one has to tread through carefully in terms of the first time adoption basic concept that whatever we have the choices that is available. So but for that I do not think any major impact will be there. There could be some drop in the top-line.

Vineet Maloo: Okay. And there will be no impact on the consolidation of any associate or subsidiary right because of this because there with some confusion about the definition or what….

R Sridharan: That is why I am saying the top-line could go down because of the consolidation challenges.

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

Kashyap Pujara: Thank you so much, everyone for being there on the conference call. And thank you Mr. Srinivasan and Mr. Sridharan for taking time out for the call.

K Srinivasan: Our pleasure.

R Sridharan: Thank you, it is our pleasure, and really patiently your hearing and we would see set of better numbers to come hopefully in the next year. Thanks. Bye.

Kashyap Pujara: Thank you.

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