



**“Carborundum Universal Limited Q4 FY2018  
Earnings Conference Call”**

**May 07, 2018**



**ANALYST:**

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**MANAGEMENT: - CARBORUNDUM UNIVERSAL LIMITED**

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**Moderator:** Good day ladies and gentlemen, and a very warm welcome to Carborundum Universal Q4 FY2018 earnings conference call hosted by IDFC Securities. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “\*” followed by “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Bhoomika Nair from IDFC Securities. Thank you and over to you Madam!

**Bhoomika Nair:** Thanks Ali. Good morning everyone. Welcome to the Q4 FY2018 earnings call of Carborundum Universal. The management today is being represented by Mr. K Srinivasan, Managing Director, Mr. Padmanabhan, Head Accounts and Taxation, Mr. Raja Mukherjee, Head Corporate Communication and Internal Audit and Strategy. I will now hand over the call to Mr. Srinivasan for his opening remarks post which we will open up the floor for Q&A. Over to you Sir!

**K Srinivasan:** Good morning all of you. It has been a good year for us 2017-2018 and hopefully should be a beginning of better years to come. Consolidated sales for the full year increased by 12% to Rs.2330 Crores from Rs.2080 Crores. This is of course normalizing after the GST excise thing. This was driven by better performance across all segments. Standalone also grew by 12%. All the shifting of projects, recommissioning have all been completed and they all running through full speed except the Bubble plant. I will touch about it a little bit later.

Consolidated profit before tax increased from Rs.262 Crores to Rs.322 Crores. Profit after tax at Rs.216 Crores compared to Rs.175 Crores last year. Abrasives consolidated level sale at Rs.1018 Crores compared to Rs.938 Crores with 9% growth. Standalone also grew by about 8%. It went up to Rs.860 Crores for the year. Coated we are running near flat out, bonded has been running well, but we still have capacities available. The abrasive business in Russia and other parts of the world has also picked up. On the electrominerals side, consolidated sales at Rs.883 Crores compared to Rs.749 Crores last year driven by strong growth in Volzhsky Abrasives. Standalone also had record growth. We increased to Rs.406 Crores from Rs.318 Crores. Prices are going up, but input costs are also going up. I will touch about it a little bit later. Russian Volzhsky ran 10000 tonnes higher than last year, which really gave us a significant growth. They have a 19% growth on topline and near 38% growth on the bottomline, so that was a very good year for Volzhsky.

Foskor Zirconia had a bad year particularly a bad quarter. We did a couple of things, one is we do not pack all the inventories to the new value of the Z450. Consequently we did take a



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hit. We also did not create any deferred tax credit, so we took almost a hit of Rs.12 Crores in the last quarter at Foskor Zirconia. The Zirconia Bubble plant in India also was not running flat in the last quarter. Consequently the depreciation hit we did take and that both showed up in the consolidated margins on the electrominerals side.

As far as ceramics is concerned, consolidated sales were 11% higher at Rs.502 Crores compared to Rs.451 Crores. Standalone grew by 9% Rs.401 Crores compared to Rs.369 Crores. The metallized cylinder plant, which we shifted from NGK, is commissioned and all acceptance by key customers has been completed. We will see rapid scale up in Q1 onwards.

CAPL Australia did well. They had a 10% growth and Volzhsky Refractories also did well. The refractory business in India was muted and that is a reason why the overall growth is only 11% in this segment. In terms of capex, we did Rs.57 Crores on standalone and Rs.92 Crores on consolidated most of it is largely committed capex, which we completed. Significant investments into the R&D part of it are continuing and that should come to our help in the ensuing quarters in terms of the growth. Now I will request Raja to take through the financial part of us.

**Raja Mukherjee:**

Thank you Sir. Let me now summarize the financials for full year basis. At consolidated level our sales increased by Rs.250 Crores, which is 12% growth. PBT grew by Rs.60 Crores. Out of this sales increase of Rs.250 Crores and Rs.60 Crores increase in PBT, standalone sales increase was at Rs.169 Crores and PBT gain was at Rs.32 Crores. That means subsidiaries and JVs contributed to Rs.82 Crores of increase in sales and Rs.32 Crores increase in PBT. Standalone PBT gain of Rs.32 Crores came by way of lower finance cost of Rs.7 Crores and a higher volume of around Rs.25 Crores. The entire subsidiary JV sales and PBT increase of Rs.82 Crores and Rs.32 Crores respectively was contributed by Volzhsky. Volzhsky Abrasives Works sales and profit grew on account of higher quantity sold at 10000 tonnes is what they have done in this year against last year.

If you go to segment for abrasives at a consolidated level, the PBIT increased from Rs.113 Crores to Rs.132 Crores, almost the entire growth in the profit of around Rs.19 Crores came by way of standalone performance on the back of higher volumes. Coming to electromineral division segment, the PBT gain was around Rs.36 Crores out of which CUMI India contributed around Rs.11 Crores, which again came on the back of higher sales. Volzhsky gave a gain of around Rs.42 Crores due to significantly higher volumes, of course Foskor had a loss owing to increase in electrode pricing at a lower topline, which we will explain later. As far as ceramics is concerned ceramics had Rs.5 Crores gain in



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operating profit, which was contributed by Rs.3 Crores of the gain owing to better volumes from the standalone business both IC and SR. VAW refractory business and CAPL also had gained.

In terms of debt equity on a standalone basis, the debt equity ratio was at almost nil in March 2018 as against 0.01 as of December 2017. The total debt on a standalone basis decreased from Rs.9.2 Crores as of December 2017 to Rs.1.81 Crores as of March 2018. The entire borrowings were financial lease borrowing. On a consolidated basis debt equity ratio improved from 0.09 as of December 2017 to 0.08 as of March 2018, in March 2017 it was 0.11. The total debt on a consolidated basis was at Rs.129 Crores and the breakup for it is long term is around Rs.7 Crores and the current maturity is at Rs.4 Crores, short term was at Rs.118 Crores in March 2018 in comparison to the position as on December 2017 where it was at Rs.134 Crores including external debt.

As a standard practice, we would like to give a forward looking guidance, so we would like to make the statement saying that during the call we may make certain statement, which reflects our outlook for the future or which could be construed as a forward looking statement. These statements are based on management, current expectations and are associated with uncertainties and risks more fully detailed in our annual report, which may cause the actual results to defer. Hence these statements must be reviewed in conjunction with the risks that the company faces. So we now open the floor to the Q&A.

**Moderator:** Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Nirav Vasa from B&K Securities. Please go ahead.

**Nirav Vasa:** Thank you very much for the opportunity. My first question pertains to your guidance for FY2019 and overall as you had stated that the existing asset base can generate revenues of around Rs.3200 Crores, so based on the current scenario do you think this number can be revised upwards and your overall outlook on the business?

**K Srinivasan:** As far as FY2019 is concerned, we expect that we should be definitely around the Rs.2700 Crores plus range. We will have to see quarter-by-quarter like you know there is a certain amount of volatility still in the input cost and consequently apprising. If you are able to push up prices this number can get even better. There are investments already in place like I said for the Rs.3200 Crores and during this year we will make further investments to take it forward from there.



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**Nirav Vasa:** Sir any capex number that you can share because my relocation capex is already done and as per my understanding only the maintenance capex would be there, are we planning to add new capacities or like how would that be?

**K Srinivasan:** For doing the Rs.3200 Crores the capex is already in place and it is completed and running. Now what we really expect to do during the course of this year we have taken a budget of about Rs.150 Crores, this includes a new coated maker, which will take almost 18 months to be installed and commissioned and it would also have other capacities that comes up to take it beyond the Rs.3200 Crores range.

**Nirav Vasa:** Sir you said the number was Rs.115 Crores right?

**K Srinivasan:** Rs. 150 Crores on a consolidated basis. It also includes the gas based power station that we want to put up in Russia for about 12 megawatts.

**Nirav Vasa:** Sir Can you help me with the performance of Volzhsky absolute in Indian rupees?

**K Srinivasan:** Volzhky I will give you in Indian rupees. Volzhsky you can take it as in Indian rupees we did for the full year Rs.565 Crores topline compared to Rs.453 Crores last year and post tax profit was Rs.90.38 Crores this year compared to Rs.52.14 Crores the previous year.

**Nirav Vasa:** Sir on the pace of price hikes can you add some qualitative comments to when you are negotiating the prices with your customers, in what range you are able to get this price hikes and in FY2019 out of this Rs.2700 Crores of revenue that you are targeting what contribution can be from the volume and what contribution can be from the pricing?

**K Srinivasan:** I will give you an example of how it has played out so far. Out of the 8% growth in standalone abrasives we got the price increase would have been less than 2%, so I would say the price correction has been less than 20% of the total growth. It is also about the same in Russia we got 19% topline growth and the price in fact was about 4%, so really we are getting between 20% to 25% of the total growth as price increase. Now we expect this to go up to about 33% because of the very high inflation in the input cost. So if you can get to a growth of about 15% to 18% as an overall growth number, our price increase should be in the range of about 5%.

**Nirav Vasa:** Thank you very much Sir. My queries have been answered.

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



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**Balchandra Shinde:** Good morning Sir. Sir in standalone electrominerals we have seen relatively lower price increase or it is more a factor of higher price increase in electrominerals in standalone?

**K Srinivasan:** The price increase have been coming in, but we have not been able to completely cover the growth in costs. So to give you an idea, the power cost has moved up per unit weighted average cost from Rs.4.7 to Rs.5.4 per unit in the standalone part of Carborundum, a significant part of it would have actually gone to the electrominerals because that is a largest power consuming part. The power cost itself has moved up so significantly from Rs.77 Crores to Rs.101 Crores as far as standalone itself is concerned. All this has not been completely recovered from the market particularly on the Zirconia side. While the other parts the volume growth, etc., has helped to improve the margin. You have seen a margin improvement, but it has not been that much as we would like it to be. The margins have moved up from 9 to 10.2. What we really would like to see it move to about 14 or 15, so really that has to be coming from a price increase.

**Balchandra Shinde:** In future, we will take further price increases?

**K Srinivasan:** Yes continuously taking a price increase, but it is a battle, it is not going to be easy, customers are fighting every bit of it, which means that we have to keep both going. We have to keep the volumes running otherwise the plants would suffer and at the same time prices would all have to go up.

**Balchandra Shinde:** Sir regarding Bubble Zirconia as you said that it did not hit the mark in fourth quarter, in FY2019 how much kind of revenues we expect to generate through Bubble Zirconia?

**K Srinivasan:** The overall Zirconia business is in a bit of a transition. The biggest impact has been in Foskor Zirconia because they live only with the Zirconia business. The Zirconia prices today in the world market are lower than the cost, which means that if you make Zirconia you lose money. That is really the story that is happening on the Zirconia side. The only way this can be surmounted is one significant price increases. To give you an idea of the scale Zirconia uses almost about 7500 units of power per tonne and consumes almost about 160 kilos of graphite electrode, both have gone up, power has gone up, graphite electrode has gone up, sand has gone up and they have gone up in multiples and the price increase that the market is willing to give is only a few percentage points. Consequently it loses money if you make this material. The only way around it is to go to the Z450, which is what we are working on, but having said it we have taken in Foskor the hit by saying that we have marked down all the inventories to the current market prices, which is why we took a near Rs.12 Crores hit in the profits in Foskor in the last quarter. We expect two things to



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happen, one the market should get stronger with the Z450 model plus prices should also go up, both this together would take up the margins.

**Balchandra Shinde:** How much expensive Z450 as a product will be as compared to normal Zirconia products?

**K Srinivasan:** The Z450 would still give you a profit margin even at the current price points.

**Balchandra Shinde:** If you can give the comparative expenses I do not want exact prices, but if a normal Zirconia product is 100 how much will be the Z450 product?

**K Srinivasan:** I would not give that as an answer because the number of customers who buy this is very few, so it is not in anybody's interest for us to get so detailed about it, but let me tell you that it consumes one third electrode compared to the normal Bubble Zirconia, so consequently there is an advantage particularly with the electrode prices being what they are, so that is where the advantage would come from.

**Balchandra Shinde:** Sir regarding our synthetic graphite approvals where we are exactly placed right now and by when we expect to start the production?

**K Srinivasan:** I think there is some amount of miscommunication that is out there I also see it in the digital space. Actually the Z450 is a way to consume less graphite electrodes, so that is nothing to do with synthetic graphite. There is a separate project of making graphene, making high quality high grade graphite primarily targeted at the battery manufacturing companies and that is a very basic project that is running at this stage. It is not commercially scaled up yet. We are only doing alpha and beta testing and that is today insignificant in terms of topline.

**Balchandra Shinde:** Sir regarding ceramics and refractories especially in the Australian side how you see overall outlook of the business and even on the Indian segment where we see in FY2019?

**K Srinivasan:** We had mentioned in the beginning itself the Australian business grew by about 10%, it will continue to grow 10% plus. There is a strong growth in the market globally, so they will continue to grow. As far as the ceramic business in India is concerned again the metallized cylinder project will continue to run to capacity, so you will see volume growth in that as well. The refractories is picking up. We have had long period almost about four to five years of poor sales and poor margins in refractories, but the refractories are picking up again coming largely on the back of growth in steel making and other things, but you will see a far less significant growth from refractories compared to the ceramics. Ceramics is doing very well and it will grow further.



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**Moderator:** I am sorry to interrupt, but may we request you to come back in queue for any followup questions. Thank you. The next question is from the line of Ashutosh Adsare from Sharekhan Limited. Please go ahead.

**Ashutosh Adsare:** Good morning Sir and congratulations for good set of numbers. Sir just one question. Sir how do you see the spread between realization and margins to pan forward like you would be easily passing on the pricing, but on the cost front how easier, how difficult is to control the cost of power cost going up and other expenses going up?

**K Srinivasan:** It is a real tough question, so I will take it like this. It is not easy to put up prices because we have contracts, we are doing our best, there seems to be a lag and in some cases customers would find it extremely difficult to give us these increased prices, so we have to come up with a differentiated product. We are working on that as well. As far as cost is concerned, some part of the cost gets mitigated as soon as we have more and more internal power generation. So our cost of power is a weighted average of various source from which we get our power, our own power stations at Maniyar, our buying from trade, our grid power, etc. We try and work on this. If we have good rains then we tend to get better power averages. Last year was a pretty bad year, the year before was even worse, so let us see how it goes as far as the power cost in domestic is concerned. In Russia first quarter actually we had a small benefit in the power cost because that is seasonal little bit because when they have the winter coming up they are able to sell the steam and consequently the cost of power comes down, so it bounced from 2.5, so that is a small benefit that we had in the quarter, but generally we have to accept that almost all input material, power, pet coke, zircon sand, graphite electrode, alumina, bauxite, everything is getting more expensive and that is a way of life. The only way we can try and get better is to be more efficient, which is what we are working on and the rest of it has to come from increased pricing.

**Ashutosh Adsare:** The second question is if I am correct in FY2018 your net working capital has increased substantially on a year-on-year basis?

**K Srinivasan:** It has overall gone up on a standalone by about Rs.60 Crores. More than half of it really is from the raw material side, which is a bit of a conscious decision considering the kind of volatility we are seeing in the input pricing and the other half has come up from receivables. All of it is good. Significant sale in the last quarter volume is what has pushed it up. We are quite comfortable with it, it is nothing unusual, number of days wise the receivables is still within the same as previous year. The big growth like I said is a conscious decision to hold a certain amount of raw material.





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- Ashutosh Adsare:** That is it from my side. Thank you Sir.
- Moderator:** Thank you. The next question is from the line of Abhishek Agarwal from Prithvi Finmart. Please go ahead.
- Abhishek Agarwal:** Good morning Sir. My question is regarding GST things how the demand is looking post GST because last few quarters ago we were struggling because of GST things in the counter sale part, so how is the scenario right now?
- K Srinivasan:** It is a good question. Let me answer like this. So far GST has had no major positive impact on the distribution side. We are not seeing anything substantially good happening because of the GST, so it is really it has to still settle down and come to play. What we also see particularly in the last quarter, which is the Q4 number and I can see it happening as well as in April is that with the e-way bill coming from April probably things should get better, but it will go down before it goes up because there was a significant amount of pre-e-way bill buying in the last quarter and this I believe is for all industrial consumables and as the trade winds down with that, the inventory things should get better, but it has to play out yet. GST is not going to be a one quarter story. I think GST has to evolve over a period of time. It is still a very confusing thing and people are battling with it.
- Abhishek Agarwal:** One more thing as you said that is around 20% to 25% growth come from the hike in the price and in the future also as you said that 30% to 35% another growth will come, so can we say like this as the growth will come in the pricing our EBITDA margin will improve from here?
- K Srinivasan:** Our consolidated EBIT margin or PBT margin is 13.2%, which went up from 11.7%. The EBITDA margin is 18.1% compared to 17.2%. We expect it to continue to get better. It will improve quarter-on-quarter. It will be a combination of pricing as well as efficiency.
- Abhishek Agarwal:** Sir last question like companies every year if you see company is generating free cash flow of around Rs.250 Crores to Rs.300 Crores, so where we will deploy, we will be doing some expansion or what we will do with this internal accrual?
- K Srinivasan:** We have to do expansions. We have to do potential good M&A, but on a shorter term basis this year the board was mindful of the fact that on a consolidated basis we are actually working short and long term combined we are minus Rs.56 odd Crores. We are actually sitting with cash, so the board did decide to pay record dividend. The final dividend was another 1.25, so the total consolidated dividend this year is 2.25, which is probably the



highest that we are paying. Hopefully as idea comes, we will have more money spent on growing the business as well as paying higher dividends.

- Abhishek Agarwal:** Great Sir. That is from my end Sir. Thanks a lot.
- Moderator:** Thank you. The next question is from the line of Ujwal Shah from Quest Investment Advisors. Please go ahead.
- Ujwal Shah:** Thank you for taking my question. Sir just wanted some more clarity on the abrasive business we were expecting some amount of growth from that business to come in, but the growth has eluded till now, so can you just share your thoughts how do we see abrasive standalone especially how things will pan out over there?
- K Srinivasan:** Abrasives has grown 8%, which is probably one of the better years during the last four to five years. It is still largely a consumption driven growth. There is no major capex or anything happening. The GST driven growth is still elusive. It is not happened. Margins have moved up. If you see quarter-on-quarter in a one year period, it has moved from 11.5 to 13.9, so there has been a significant growth in margins in terms of what is happening in abrasives. We will see growth in the next quarters like I said with the e-way bill, etc., coming in I think the GST impact should start biting in which case you will see consumption as well as margin growth. Abrasives are going to be a very India based story. 75% of our business comes out of India and so we have to see the Indian economy picking up to see very significant growth.
- Ujwal Shah:** Sir on the electrominerals part, so on the Foskor side have things completed totally? we might not see any further hits in the upcoming quarter and in terms of margin guidance if you can give us some guidance on each of the business where do we see the margins heading in FY2019 if you can please?
- K Srinivasan:** Like I said the overall margin EBITDA is 18.7. If you take only segment wise I think abrasives like I said average for the last year was 13, the quarter alone was 13.9, so really the last quarter if it is a trend you should see improving margins coming in abrasives. Ceramic margin I would be careful. We are at about 15.1 and I think it will continue to be around 15 to 16. It will get better as the natural ceramic part grows faster than the refractory. The electro-mineral story is where the margin hit came up from the Foskor thing in spite of Volzhsky doing extremely well. We are on a full-year basis around 14.4. I expect it to move towards 16 as we go forward.
- Ujwal Shah:** And that would be in next two years?



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- K. Srinivasan:** At least in the next three to four quarters, yes.
- Ujwal Shah:** Sir, on the Foskor side has the headwind been completed in Q4 and we might see?
- K. Srinivasan:** I would not say that we have done our best to write down all our inventories to the price at which we can currently sell the product. The topline has to grow and the Z450 has to take up. Unless the Z450 takes up significantly like I said making the bubble or making the normal Zirconia, you will actually put out cash. So, this is something which we have to play out in the next three quarters.
- Ujwal Shah:** Sure Sir, and lastly your guidance on VAW of Russia for the year ahead and...?
- K. Srinivasan:** If it comes well, it will continue to do well. There is no uncertainty about Russia. Whatever we are reading about sanction does not affect us and it is pretty good.
- Ujwal Shah:** Great Sir. Thank you.
- Moderator:** Thank you. The next question is from the line of Bhalchandra Shinde from Anand Rathi. Please go ahead.
- Balchandra Shinde:** Good morning. Sir, regarding Metz cylinder, if you can specify any potential revenue, which we are targeting in FY2019 in ceramic segment?
- K. Srinivasan:** We said we will be above Rs. 100 Crores this year and that when both the plants running flat out. I think we would stay there.
- Balchandra Shinde:** And profitability wise, will it be at the similar levels of ceramics or it will be better?
- K. Srinivasan:** I have very limited customer in this business, so I would rather not answer the question.
- Balchandra Shinde:** Sir, in VAW last year we did around 77,000 tonnes, so this we year we did around 87,000 tonnes, right?
- K. Srinivasan:** See last year the actual external sale, we have to do two things. One is what we choose and what we sell. We did about 68,000 tonnes of sale, this year we have sold 78,000 tonnes. So that is the 10000 tonnes that impacts the topline. The rest of it, we also consume it for our own refractories and a small quantity for our internal grinding, so I will leave it out. Actual what we put out in the market jumped from 68 to 78.



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- Balchandra Shinde:** Sir, now what will be our capacity because I think we were working on debottlenecking?
- K. Srinivasan:** We are well above 80 now and we will continue to do our best to see how much we can go up.
- Balchandra Shinde:** So, we were targeting around 90,000 tonnes. By when we will be able to achieve that capacity?
- K. Srinivasan:** We said two years, we should be there.
- Balchandra Shinde:** Thank you Sir.
- Moderator:** Thank you. The next question is from the line of Ruchir Khare from Kotak Securities. Please go ahead.
- Ruchir Khare:** Good morning Sir. Thanks for taking my question and congratulations on the bottomline growth. Sir, my question again pertains to the abrasive segment, I am sorry to press on this, but now GST has been here for some time and we have not seen the results as per our expectation, so from where you are drawing the confidence that you know sales could further grow up even substantially from the current level, so what is going to change in the real scheme of thing?
- K. Srinivasan:** It is a tough question to answer because how GST is playing out keeps all of us guessing. What we did realize is that there was particularly no impact of GST implementation for almost, till let us say almost for the last quarter of last year. We are hoping from first quarter with the e-way all coming that there will be a far better compliance and we should see some impact coming in. Let us give it sometime because it is difficult to judge and anything you say here would be very, let us say it is guessing. You will have to wait and see how it moves.
- Ruchir Khare:** Got it Sir. In the ceramics part of the business from where exactly demand is coming and what are the key drivers today for this business?
- K. Srinivasan:** The industrial ceramics sells to wide spectrum of high-end engineering customers, right from solid oxide fuel cell to metalized cylinders to parts that go into the EVs etc., and I think it is coming from across board from all segments - strong demand, also the traditional wear ceramic which goes from the mineral processing also is picking up. What is not picking up is the power station-related project, that is not picking up, but all the other things are doing well.



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**Ruchir Khare:** Fine Sir and lastly on silicon carbide, so what is your outlook on the prices of silicon carbide because we have been reading few reports which says that some plant shutdowns in China, so I do not know how to relate this because number of players are still not limited in this business, but what is your overall opinion and outlook on the silicon carbide part?

**K. Srinivasan:** All fused minerals, the Zirconia, white fuse, brown fuse, silicon carbide prices will continue to go up. It has driven on the back of graphite prices, power cost as well as capacities being taken out in China. There is a significant demand increase and there is no corresponding capacities coming up on the contrary existing capacities are being taken out. So consequently prices will go up significantly.

**Ruchir Khare:** Fine, Thanks Sir. Thanks for taking my question.

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

**Kashyap Pujara:** Thank you for taking my question and congratulations for a good set of numbers. My question was largely related to operating leverage drivers, so if you actually see, if one were to remove the Volzhsky from the numbers and probably the rest of the business is around Rs. 200 Crores PBT for the year and there are sufficient portions of the business, which can scale up substantially driving further operating leverage, so could you actually run us through, which are those segments in your mind where we see significant improvement in the next two years or so. So for instance you said refractory was muted, abrasive price increase could yet happen, we are still at only 8% growth, and TK has just been commissioned. So could you just run us through a sequence of where we see operating leverage coming from?

**K. Srinivasan:** So, let us take segment wise. Abrasives, I think overall there is still a lot of headroom for growth, our capacity utilization in bonded is still only at about 65% to 70%, coated is running much better. So there is both leverage available as well as a price opportunity available in that business. You will see that playing out in the next six quarters. Hopefully away bill getting implemented from April should help us. On the electro-mineral side, I think the bubble plant, which depending on what mix we run whether it is Z450 or any other grain can give us another at least 4000 to 6000 tonnes and that is something, which can make a big difference to the operating leverage and the topline, that is still there we are doing nothing with it. The rest of the plant is running reasonably well. On the ceramic side like I said, you will see the most of the benefits kicking in this year as the metalized cylinder plant runs flat out, the other plants all run flat. Refractories, we still have a lot of



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headroom for growth, capacities are in place, so there we should see some operating leverage. Overall, I would say on a standalone basis you will see both topline improvement and margin as we head towards the 3200 we are talking about and that should happen in the next, if everything goes well, four quarters, otherwise six quarters. Let us see how fast it goes.

**Kashyap Pujara:**

Sure and lastly on the Volzhsky one given that while we are running it flat out and we saw great gain there, but now that you know abrasives are picking up there and you are putting up the gas-based power plant captive. So what kind of incremental margin expansion that we can see there, given that volumes will largely remain flat?

**K. Srinivasan:**

Margin expansion from the current level is not going to be easy because I think you will find that we are already running it at a fairly high margin. What you will see is there will be incremental improvement in capacity. We will use the abrasive which is relatively small business. We will use the refractories more. We will get a few thousand tonnes more of silicon carbide. We will get better product mix. Overall, you will see a combination of topline growth and along with it the same margin, your ratio is maintained, but still you will see the bottomline will go up.

**Kashyap Pujara:**

Sure and my last question to you would be that we are going to be throwing up a significant amount of cash in the next two years even if we were to pencil in Rs. 150 Crores capex per year, it will still be substantially cash generative. Now while we understand that Rs. 3200 to 3500 Crores topline you could deliver from the current facility, but I am more interested in what next from here given that we have significant cash accruals coming up. Then say if one were to glance beyond FY2020, how would we see Carborundum Universal go to?

**K. Srinivasan:**

See this is there, we have mentioned in the beginning about the R&D efforts. I think there are quite a few newer opportunities coming up. Some of it would be organic investments, which could take a longer time may be three, four years to scale up. Some of it could be potential M&A. Today, whatever we are looking at is all pretty pricey. We will not do anything dramatic, but we will keep looking at things and I believe that there is still a lot of activities that are being put in place to take the company beyond the Rs. 3400 to the Rs. 5000 Crore mark in the next three to four years.

**Kashyap Pujara:**

Sure. Thank you so much and wish you all the best.

**Moderator:**

Thank you. The next question is from the line of Vinod Chari from Dolat Capital. Please go ahead.



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**Vinod Chari:** Good morning Sir. Thank you for this opportunity. I wanted to ask you something that you have mentioned in your opening remarks that you said India has slowed in growth, so which all areas do you see slowdown is happening and when do you see some kind of a recovery happening in these verticals?

**K. Srinivasan:** I do not know whether I used the right phrase I think India's growth has been relatively slower, particularly on the capex side. There is a consumption-driven growth, but we see huge growth, again largely consumption driven in Europe and America. You cannot get a capex equipment out of Europe in the next 8 to 10 months, that is a kind of order backlog they are all looking at. So there is a big demand-driven growth across the world. That should actually drive consumption up. Now, the capex cycle that we are talking really is not there yet in india. So you have seen small capex happening with the MSME, just medium and small companies in India, but big projects are still not there, so you are not going to see a big power station coming up or a new steel plants. So consequently the refractories and whatever are tied towards the major capex that is not happening, but consumption is strong and we will see growth and that is what we will believe, which is stable for the next at least four to five quarters.

**Vinod Chari:** When do we see recovery in the capex cycle happening?

**K. Srinivasan:** Difficult to judge. You see, most of whatever we have spend and there is also little bit of global story yes and I think people are also worried. I will give you only an example. If you look at the automotive side, it is very difficult to judge anybody is going to put up a new crankshaft line or an engine line in Europe or US at this stage. People probably run the existing lines flat out and they are all running full and they are trying to buy more components from elsewhere, but it is difficult to judge anybody is going to put up a brand new line because there is also disruptive technologies, which is always being talked about and in that context it sort of puts a little bit of scare on people in terms of committing to the capex. Same is the story in power station, we are going to run more power stations flat out rather than putting up new station. So I think it is going to take some time before the real serious big capex that are going to happen at least in the traditional industries.

**Vinod Chari:** And the same would apply to India you think?

**K. Srinivasan:** I believe so.

**Vinod Chari:** Thanks a lot Sir.



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**Moderator:** Thank you. The next question is from the line of Ritwik Sheth from Deep Finance. Please go ahead.

**Ritwik Sheth:** Good morning Sir. Just a couple of questions. Sir, firstly has the increase in raw material prices stabilized or halted within the last couple of quarters they have started increasing significantly, so I wanted to have a sense on whether they have stopped rising now?

**K. Srinivasan:** Simple answer is no. It has not stopped rising and it is not only not stopped rising, but we have seen some kind of unusual volatility. I will explain just as one example. We had alumina running at about \$420 to \$450 a tonne, which is a basic raw material used in the metal aluminum industry, but that is also a raw material that we use in our white fuse, in our refractories, in our ceramic and a whole lot of thing and when the Rusal sanctions were announced you would normally expect that one of the largest metal makers when they are under sanction the alumina prices would actually drop instead it went exactly the opposite direction, it went to almost about \$680 to \$690 a tonne and now it is sort of coming down a bit. So it is tough to judge what is happening and who is playing with this, but the fact is it is all very volatile.

**Ritwik Sheth:** But has the pace slowed down, some sense on that?

**K. Srinivasan:** No, not really because we are still seeing very strong volatility across and that is the reason why all of us are battling with this.

**Ritwik Sheth:** And Sir on this Z450, what are the end users for this product like who you will be supplying to and where will you be supplying to, will it be globally or any particular geography that we are looking at?

**K. Srinivasan:** Monoclinic Zirconia is largely used in pigments in the nuclear fuel rods, in refractory applications, it is used in ceramic, so it is used in a wide range of applications and this Z450 would ideally suite for almost for all these applications because one it is far purer, second is it has got a lower U+Th. U+Th is really what we have as a measure of radioactivity. The reason why we call it 450 is, it is guarantee to be below 450 significantly below the international threshold that is put up. So there is a lot of positives about it. Any large input material, major transfer or change happens over a fairly long period of testing, people normally take at least six to eight months to test and clear it. We believe we have crossed the hump, we should start seeing scaling up going forward.

**Ritwik Sheth:** Have we received any orders regarding the same?





- K. Srinivasan:** Yes.
- Ritwik Sheth:** And that will start from Q1 FY2019?
- K. Srinivasan:** Yes.
- Ritwik Sheth:** And just one clarification Sir, I got cut off in the middle you mentioned that from here on margin improvement will be slow and gradual or EBITDA margin for the company as a whole?
- K. Srinivasan:** It will be steady.
- Ritwik Sheth:** It will be steady okay, so we should work between 18% and 19%?
- K. Srinivasan:** Yes, it will get better and better. The EBITDA today is 18.7, it will get better from there.
- Ritwik Sheth:** Great, all the best, thank you.
- Moderator:** Thank you. The next question is from the line of Bharat Sheth from Quest Investment. Please go ahead.
- Bharat Sheth:** Good morning and congratulations on good set of numbers. Sir, on this gas-based power station, you say it for Volzhsky, so what timeframe do we expect it up and how much capex that we have planned and what could we really save out of it?
- K. Srinivasan:** We are planning something around 12 mega watts or even little less. It should be up in running during this year because one is to get that like I said all capital equipment today the delivery is at least 8 to 10 months in Europe, so it is going come from Europe and it will take as about eight to nine months to get it. In terms of cost saving, today the power cost in Russia like I said is for us per unit is about 2.5. This would give us probably about 1.8, so that is the saving you will get.
- Bharat Sheth:** How much would be investment?
- K. Srinivasan:** 10 to 12 mega watts we have not really put out the numbers yet. So it will be within the capex. We are talking of 25 -30 cr
- Bharat Sheth:** Sir would you like to I mean give some colour on American business on abrasive side and Canada, how the things look like, where we were I mean?



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**K. Srinivasan:** The American business is nothing significant to talk about. It is around the same that we always had, so about Rs. 50 Crores business it is still about the same.

**Bharat Sheth:** Are we making money or which we were earlier?

**K. Srinivasan:** No, we are still marginally losing money.

**Bharat Sheth:** Do we expect this year to turn it around?

**K. Srinivasan:** Yes, we should. See, really it is a question of getting the topline running. There are two parts, what sells out of CUMI America is about a Rs. 50 Crores, we also probably do another Rs. 50 odd Crores directly from the various units into customers in the US, so CUMI America has got a couple of roles, one is to put our flag out and say we are there, but all of it necessarily we do not sell through them, so the small loss if we make is acceptable because at least it keeps our brand running there and there is a significant amount of direct sale that happens. So lot of customers still buy directly from us. So we will hopefully turn it around in this year.

**Bharat Sheth:** And Canada side?

**K. Srinivasan:** Canada is also sold out of US, we do not have a separate operation in Canada anymore, that we already closed and shifted everything into the US.

**Bharat Sheth:** You said on the synthetic graphite, which is when we expect the timeline to it be a commercial production we expect to start?

**K. Srinivasan:** You will have to give us some time. Like I said it is still very small, it is still at alpha and beta. So we will take some more time. We have not made any commercial investment yet ad it is still a very small plant.

**Bharat Sheth:** On this coated abrasive side we were doing lot of small project, to make more value-added products, so can you give some colour on that?

**K. Srinivasan:** The conversion plants in coated are running well. These are small capex and this is all running well that allows us to scale up and add value to the coated as you know coated we are running it almost flat. We have done some improvements in our Kolkata plant giving us some additional capacities, which will actually help us till we get our new maker running that plant is running now well and that will give us another about 3 to 4 million square



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meters, hopefully that will give us the time before we get the new maker running. Overall, coated is doing well.

**Bharat Sheth:** How is this value-added new product that we have developed and we are...?

**K. Srinivasan:** That is very difficult Bharat bhai. It is too much over detail.

**Bharat Sheth:** Thank you. All the best, Sir.

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

**Sandeep Baid:** Good morning Mr. Srinivasan. You mentioned that met cylinder's ramp up will happen this quarter?

**K. Srinivasan:** It is happening every quarter. We will start hitting full plant capacity. We can do 1.8 million. By end of the year we will be at that level.

**Sandeep Baid:** And last quarter what was the utilization capacity?

**K. Srinivasan:** The old plant is running flat. The current plant is running at about 25% to 30%.

**Sandeep Baid:** Second just an accounting clarification, when I look at our segment to consolidated results un-located expenses in the last quarter, that is December quarter was about Rs. 11.3 Crores while it is hardly anything in the March quarter, so just wanted to understand what is causing that fluctuation, is it forex or it is something else?

**P. Padmanabhan:** Mainly it is the debt coming down and surplus being parked in the liquid funds that is why it has come down.

**Sandeep Baid:** So other income has gone up and that is what has been in this item?

**K. Srinivasan:** Right.

**Sandeep Baid:** Thank you.

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



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**Charanjit Singh:** Sir, thanks for the opportunity. See, you have talked about the new product development and also our initiative may be going forward to look at some inorganic growth opportunities, so if you can just give us some highlight in terms of how you are looking at these new product developments, which areas are going to be our focus area for this initiatives?

**K. Srinivasan:** So, basically like you know Carborundum is the material science company. All the new products that you are looking it are around this space. We are looking at newer grain, newer raw material, newer processes that will give us to make different new value, a couple of examples which are in public domain. We have launched during the grind tech in Augsburg in Germany, the new range of glass fiber body is high-speed grinding wheels. We have also showcased wheels with sensors we called them IoT, internet of things where the wheels are smart, they can talk to the grinding machine, they can sort of practically make the operator redundant. They are smart wheels. So these are things that we are working on. None of it at this stage saying that it is giving me topline or something, but these are the areas that we are working on, similarly if you look at it in the mineral side the Z450 is one part. We have filed significant number of patents on the new version of making Zirconia for the metal composites so that is an another pattern that is being put out. So quite a few areas of future oriented activity that is going on and as they become more and more commercially valuable we will start talking about it more.

**Charanjit Singh:** Sir, in China we are seeing... last time also you had mentioned that lot of capacities which have been shutdown so what is the kind of impact which we could see in terms of the pricing, which we can get a better pricing or which areas where we can capture that growth from the capacities which are getting shutdown?

**K. Srinivasan:** The mineral related area is where the Chinese businesses are being partially closed or partially upgraded to have better environmental compliance. You will have to take everything with a pinch of salt. These plants may disappear for about three quarters, suddenly they will come back again, etc., so there is a bit of volatility in the global markets because of this. Whatever we have to build, we will have build it on a sustainable stable basis that we can stay and compete even then these Chinese plants eventually may come back with some kind of improved environmental compliance, etc., so that is the way we look at things. So we are looking at where we can invest, which will be inherently comparative and that is the area we are looking at.

**Charanjit Singh:** This is the last question on the raw material side, I know lot has been discussed, but in terms of going forward, which key raw material which we should keep track of and where



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you see that the volatility could continue for longer where may be some demand supplier issues would be there which could be causing these pricing things to pan out and in terms of our discussion with the customers how we are trying to mitigate may be with the term of the contract or including something in the contract for the variation to be included, so how we should take it for the next couple of quarters?

**K. Srinivasan:**

Tough question. I can only say that these kinds of volatility is happening after many, many years and in the kind of sphere which these changes are happening and the volume of changes are significant. We are not talking a few percentage overall changing 30%, 40%, so we are all battling with this. We have worked out certain strategies how we will address, for example we do not take long-term contract. We only take volume contracts. We do not take price contract. We are trying to see how we can buy raw material with price contract, but again there are supplies have gone under force majeure and refused to supply, so we are trying to hold some inventories. A whole lot of things are happening, but this is not a stable state. We must give it at least another two to three quarters when things will quieten down a bit. This is not normal and this will settle.

**Charanjit Singh:**

Thanks a lot for taking questions.

**Moderator:**

Thank you. As there are no further questions from the participants, I now hand the conference over to Ms. Bhoomika Nair for closing comments.

**Bhoomika Nair:**

On behalf of IDFC Securities, I would like to thank you the management for taking time out and answering all the questions and also to all the participants for being on the call. Wish you all the very best, Sir. Thank you so much.

**K. Srinivasan:**

Thank you.

**Moderator:**

Thank you. Ladies and gentlemen, on behalf of IDFC Securities that concludes this conference for today. Thank you for joining us. You may now disconnect your lines.