"Carborundum Universal Q2 FY15 Results Conference Call Hosted by Batlivala & Karani Securities Limited"

November03, 2014

MODERATOR: **MS. RENU BAID –VICE PRESIDENT – RESEARCH, BATLIVALA & KARANI SECURITIES LIMITED.**

MANAGEMENT: **MR. K. SRINIVASAN–MANAGING DIRECTOR, CARBORUNDUM UNIVERSAL LIMITED.**
MR. SRIDHARAN RANGARAJAN – EVP & CFO, CARBORUNDUM UNIVERSAL LIMITED.
MR. RAJA MUKHERJEE – GM INTERNAL AUDIT & STRATEGY, CARBORUNDUM UNIVERSAL LIMITED.

Moderator: Ladies and gentlemen, good day and welcome to the Carborundum Universal Q2FY15 results conference call hosted by Batlivala & Karani Securities. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing * then 0 on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Renu Baid from Batlivala & Karani Securities. Thank you and over to you Ms. Baid.

Renu Baid: Thank you, Margaret. Good morning everyone. On behalf of B&K Securities, welcome to the 2QFY15 earnings conference call of Carborundum Universal. Today we have with us from the management Mr. Srinivasan – Managing Director, Mr. Sridharan Rangarajan – EVP & CFO, Mr. Raja Mukherjee – General Manager, Internal Audit & Strategy. I would now like the management to take over the call for brief initial remarks, after which we will start the con-call for a Q&A session. Over to you sir please.

K. Srinivasan: Good morning to all of you and a little bit of belated season’s greetings. We had actually a reasonably good quarter, though the numbers do not actually show that. I should say that we had a battle of in terms of sequencing things, but as we go down and explain you will realize that the numbers actually do not reflect the kind of positiveness that we feel about the way the business went.

Let me start by saying that we did a consolidated sale consistently above the 525 crores mark. It was now 541. So the topline was reasonably good. Sequentially, there is about 5% better. There was a small drop compared to the corresponding period last year, but that was really in terms of, you will have to look at it that today when we translate rouble, compared to the similar period last year there is an adverse movement. Overall, we actually delivered reasonably good numbers. We will explain in details when we go down step by step.

Let me jump straight away to the abrasives. Abrasives domestic accounts were nearly 75% of our business. Sales are up, consolidated 232 against 225. Margins are up in the domestic part. Order flow is reasonably good and we are really seeing a pickup both in volumes and margin in the abrasive domestic. We still have challenges in abrasives in Russia. We are still in the process of cleaning up in China. So these two are actually pulling us down, but overall I think abrasives clearly is on themend and getting better.

As far as the Electro-mineral business are concerned, where you have seen the most significant fall, this I would say is really where you are seeing as when we are in the process of really relooking at both the South African businesses. We have taken significant steps in both Thukela refractories. For example, we did not fuse at all in Q2 at Thukela. We are now selling what we have there and we are trying to get it to some shape.

As far as Foskor Zirconia, there are two parts. The taphole continues to run very well, but the bubble, we are almost at a stage where we decided that we must probably relocate and bring it to India. We are in the process of taking couple of decisions on this. So we have not made the formal decision yet. But I would really say that without these two, if you really look at it on a standalone business the Electro-mineral business, sales is good, margins are almost at the same level as the corresponding period last year even getting better. As far as the Russian business in spite of all that is happening, we have fused more material to the extent of 17500 plus which is one of the highest. So in a sense, the minerals business actually minus of the two South African businesses are actually not doing badly at all.

Ceramics with projects coming back clearly is doing well. The Australian business has readjusted itself to the lower mineral price. As you all know that the coal business has tremendously fallen in Australia overall, but our business has readjusted itself extremely well and we have done well in Australia. We have got our business back again. The Ceramic business was about the same 125 crores compared to the corresponding period last year. This is largely because of the fact that we still have to pick up our business for the aluminum industries in Russia and other places, but overall I think this business is clearly on the mend.

Capex, we went slow because we are in the process of recalibrating some of our businesses and repositioning the assets. So we spent only about 38 crores. Order flow overall good.

Couple of geographies let me touch, as you all know 48% of our business is India. India is definitely getting better. We are clearly seeing favorable conditions both in terms of project executions gradually starting to happen, order flow getting better. There is also a first indication that the energy prices can even moderate. So consequently I think our business in India which is 48% is definitely getting better. The next biggest piece is Europe including Russia which is 24%. Here, there are headwinds not so much on the business side. Our business is still strong and viable, but in terms of reporting it back in rupees, we are seeing some pressure because of the ruble depreciation. We are conscious of the fact that what has happened in Europe is going to stay for some time as an issue. We are in the process of registering a new company in Europe which will take care of sales in Europe and this should mitigate any kind of a possible slowdown in Europe and ensure that all that we produce in Russia continues to get sold. This is work in progress and hopefully should have something firm on the ground in this month.

The American market actually stabilized. We are seeing some improvement; in fact October was much better than even September. So really US is getting better and though it is only 6%-8% of our business, it is getting better. I mentioned already Australia is getting better. So overall the mood and what we are doing is far better than the numbers you are seeing. I am going to leave Sridhar to explain little bit on the numbers and you will realize that things are not as bad as they look. So let me request Sridhar to explain little more on the numbers please.

Sridharan Rangarajan: Thank you sir. Good morning to all of you and I will straight away get into the numbers. So what we are looking at is that CUMI standalone operating PBT percentage increased from 8.1% in Q1 to 10% in Q2. The increase of 8.6 crores came entirely by way of sales increase of 35 crores which is largely on the sales from all the sides particularly the volumes going up. The balance consolidated entities contributed to a drop of 10 crores in topline, but the PBT drop is dramatic at about 21.2 crores.

I will explain why this has happened. The first and foremost is relating to Russia and Mr. Srinivasan touched on the translation impact. VAW, when you translate the results of VAW, if you really see the results of VAW per se in ruble terms, they are doing better, but when it gets converted into Indian rupee and then restate that because it has to travel through dollar and come back to Indian rupees, what we are looking at here is a drop of about 6-7 crores in PBT. The US dollar to ruble was about 33.74 in June, moved to 39.46 in September. It depreciated almost about 17% in one quarter. That is the first impact, but this impact is nothing to do with operation, but it is largely a translation impact.

The second thing is that our business at South Africa, Thukela refractory's, we had about 8 crores of higher costs relating to voluntary retrenchment scheme that we have announced plus also we took some provisions on the inventory and fixed assets as we are trying to reposition this entire business going forward. So we need to take these costs so that we will be in a position to take appropriate actions. That is about 8 crores.

And the third big element is the Foskor Zirconia. The Foskor as just got explained that the bubble continues to be challenging and then we still have lots of work done on the bubble side, of which including lots of trials and consequently the cost relating to that. So we have higher electricity cost seasonality due to the winter cost is different in South Africa plus exchange loss and higher cost due to the trials and connected thing in terms of stabilizing the bubble that is something about 8 to 10 crores of higher cost. So these three things put together would account for more than 21 crores and plus some help from other people contributed a drop of about 21.2 crores that we are looking at.

On quarter-on-quarter levels, CUMI standalone operating PBT percentage dropped from 10.4% to 10, a drop of 0.75 crores despite the sales increase of 5 crores, largely attributed to two things. One is lower Maniyar power generation compared to the Q2 of the last year versus this year Q2. As you would see that the rainfall is relatively lower compared to the last year that is about 2.8 crores and higher depreciation due to the new Companies Act change about 1.2 crores. And there were some benefits of, off set, lower finance cost and few other favorable things going in our side. The consolidated entities contributed a drop of 16.6 crores in sales and PBT dropped 16 crores as well. The drop came mainly as we discussed from Thukela and Foskor. As we just explained the Thukela and Foskor, this same thing applies to sequential quarter explanation as well.

Going to the segments; abrasives, PBIT margin in abrasives which had dropped to 5.8% in Q1 recovered to 8.3% in Q2; however, it was lower than 9.8 margin registered in Q2 over the last year. On a sequential basis, it increased 7 crores. The entire thing came from the standalone because of the higher volumes in domestic India based business. On a quarter-on-quarter basis, the PBT dropped 2.7 crores. Standalone, however, improved by 2 crores. The drop came mainly from Russia and China.

Electro-mineral business, the consolidated PBIT margin dropped by about 19 crores and 23 crores on a quarter-on-quarter and sequential basis. This is entirely due to the three reasons that we earlier explained which is basically VAW on adverse foreign exchange impact and then Thukela particularly with respect to retrenchment and other cost that we took. And as far as Foskor, the higher cost relating to exchange loss as well as trial orders etc.

On Ceramics side, PBIT margins improved by 4.7 crores on a quarter-on-quarter basis and 2.3 crores on sequential basis. These are all largely relating to better performance from Australia and our JVs in India particularly MMTCL and Ciria.

As far as the CAPEX, I think we have spent about 38 crores on a consolidated basis. Probably, we will still be in the range of about 70-80 crores on a full year basis. On standalone basis, the debt-to-equity ratio from 0.1, it gone up to 0.11, there is a slight increase. The debt on a standalone basis increased from 75 crores to 85 crores from June to September. And on a consolidated basis, the debt-to-equity ratio as of June was 0.38, it moved to 0.40. The total debt on a consolidated basis increased from 437 crores to 444 crores. So basically lot of that is again restatement related because the dollar based loans have to be restated and that is how these loans are going up.

And finally on a quarter foreign exchange impact, translation loss on quarter-on-quarter basis 26 crores sequential, sales came down by about 3 crores. Foreign exchange gain is disclosed at 4.7 crores in the face of the P&L. So these are the broad outline in terms of the numbers that we have for Q2 and probably we will open up for the questions.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Farzan Madon from Axis Capital. Please go ahead.

Farzan Madon: Sir just wanted to know about TRI as to when would we see the finalization of this restructuring being done? So basically can I assume that Q3 and Q4 also would be slightly muted and then probably first half or second half of FY16 could be better?

K. Srinivasan: Yes. As far as TRI is concerned, there are three businesses in it. There is a fusion business, there is a castable or POW business and there is a slide gate business which is a refractory business for steel. What we are more or less on the process of doing is we will sell the POW business to South African entity. We will move the slide gate business to India and we will have to take a call on the fusion business as well. The general sense is it has so many approvals and others and nondisclosures, so I cannot disclose the complete detail, but we expect that the whole process should be completed in the next two quarters. But most of the impact has already been crystallized except some residual things that is likely to come in Q3 because since we know broadly what we are going to do, whatever needs to be taken as a hit, we have tried to take as much as we can in Q2 itself. There would be a small residual thing depending on the kind of realizations that we will get in the transactions I mentioned that can come into Q3. But I think you will not see too much of a surprise in Q3-Q4.

Sridharan Rangarajan: But Farzan, what we have taken is a hit is on a conservative basis knowing the certain facts and we have pretty much taken most of them in Q2 itself and there will be some residual effect, but it may not be dramatic as you think.

Farzan Madon: Right. So excluding TRI, our EMD revision would be capable of doing somewhere close to 8%-9% EBIT level margin?

Sridharan Rangarajan: This is on a consolidated basis.

Farzan Madon: On a consolidated basis, yes.

K. Srinivasan: If you look at it on a standalone, we are at about 10.6 on the EMD and for us to look at that is what the consolidation can come would really be a reasonable thing provided we get the act together on the Foskor as well.

Sridharan Rangarajan: I think in initial phase, first of all a standalone I think we would probably in that range. And then on a consolidated basis, we need to wait and watch in terms of how these two things span out and have closures of various things connected with that. So we need to wait for maybe, I would probably say minimum at least a quarter more to get clarity.

Farzan Madon: Okay sir. Sir in the abrasive business, I think the India business is coming back on track. So the Russia business is holding steady. So over there, can we see another 10-12% growth in FY15-16 with stabilized margins of around 9% this year?

K. Srinivasan: The Russia business actually is a bit of a weak. We tried to do a lot of changes to address Europe and got things together as you know we mentioned in the previous quarters. We brought in people, we took all the difficult decisions and as soon as we did it, we are going through this little challenge that we are having in Europe. So my sense is you must give us at least another quarter before things stabilize, then hopefully the abrasive business in Russia also will come back to doing well.

Sridharan Rangarajan: On the standalone, we will be at about 11.5-12.5, so that progression will happen.

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

Tanuj Mukhija: Sir, can you elaborate on the one-off costs incurred at the Foskor Zirconia and what was the reasons for same and have you incorporated most of the cost in second Quarter?

Sridharan Rangarajan: Are you talking the Thukela or Foskor?

Tanuj Mukhija: Sir Foskor, specifically Foskor.

Sridharan Rangarajan: Yes, Foskor we have taken not only cost, but also relating to some lower sales etc. All put together, the impact is about 10 crores.

Tanuj Mukhija: And sir, would the same continue over the next two quarters, three quarters, how do you see it moving forward?

Sridharan Rangarajan: At least another one or two quarters, this impact could be there, but as we just told that we have to have clarity in terms of how do we take this whole business forward. So I would at least wait for a quarter more to get better clarity before start putting a number to that.

Tanuj Mukhija: Sir what is the reason behind shifting your Bubble Aluminaplant from South Africa to India. I believe about two quarters back, the company was fairly confident of increasing the utilization at Bubble Alumina plant to about 60%. So why do you want to shift your plant to India given that you were fairly confident about 6 months back that utilization rate would pick up in South Africa.

K. Srinivasan: I think like Sridhar explained, the bubble has got two components. One is the technology component of making it efficiently and the second is the market component of selling it. Today, I think we are hopeful that once wesolve the technicalproblem and scale up and get the right quality out of it, we would be able to rapidly scale up and sell. It has now been almost 6 quarters and we are still struggling with it. We get bits and pieces of good products. We are able to sell and then we quickly go down into an inconsistent level. So there is a residual technical challenge that we are struggling. It is not a consistent kind of a business at this stage. So at some point in time, we have to take a call that we cannot indefinitely do this and maybe it would be better to relocate to a more let us say technically manageable location where we have the right kind of people and the environment to do this product. It is a technical product, it is a difficult product and this is one of the largest plants of its kind in the world. We are conscious of the fact that we took a decision to put it in South Africa for all the other advantages, local raw material, availability of reasonable price power etc., but somewhere the technology challenge seems to be so overhwelmingthat we cannot indefinitely keep waiting. So we may have to go ahead and take this call. It is a bit about difficult decision. See, we did know all this when we put the plant there and now when we take a decision to do something which is quite different from what we decided 2-3 years back, it sort of sets us back by almost a year and a half, but it cannot go on indefinitely like this. So like Sridhar mentioned, I think in the next quarter we will take this call one way or the other either we lickthis problem or we go ahead and do what is required to bring it back to India.

Tanuj Mukhija: Sir just a follow-up question and correct me if I am wrong. The primary reason for shifting the plant could be because of technical reasons. Sir, what is the technical advantage of having a plant in India. Is it the employees and if that is the case, why cannot we move employees from India to South Africa that would have saved our restructuring cost.

K. Srinivasan: Yes. I think this is possibly what we thought we will do earlier of moving people and this is what we have been doing, getting technicians not only from India from other parts of the world to come and help, but the challenge is like I said it allows you to produce in bits and pieces. Consistency is something when you say right from the junior most workmen to everybody must be clued on to work in a particular way. Being a hi-tech product, I think we may have to move it back to India because we feel that in spite of periodically putting people, running it, it goes back to a level which is unacceptable on a plant of this nature and size. It would be very difficult to say that why did not we think of it earlier, we thought we will do exactly like what you suggested sending people and bringing technicians and help it to stabilize, but I think it is more than that. It has to be the entire work culture right through and I think that is the challenge. So we would have to take this call during the quarter. We are conscious of the fact that doing that settles back by 6 months to a year, but not doing it could kill the business as well. So we will have to be careful and we will take this call in this quarter.

Tanuj Mukhija: So what would be the restructuring cost for moving the plant from South Africa to India?

K. Srinivasan: You have to give us a quarter to say this because we will not do it in bits and pieces. We will have to think through the whole environment of how we want to do it because there is a plant, there is a location. So let us decide and then announce it because it is too early to say how we will do this.

Tanuj Mukhija: And sir secondly on your abrasives business in China, I think even last quarter and first quarter, there was a loss in the Chinese subsidiary. Can you provide some insights on your abrasive operations in China and how do you see it going forward?

K. Srinivasan: See, earlier China was initially setup primarily as an export organization primarily to make low cost product for export to India and other parts of the world where Carborundum operates. In the last 3 to 4 quarters, we are consciously shifting it to address Chinese market. So the plant is still a plant, though it is made to for low cost export. We are now trying to make high tech products for the Chinese market. We have got the marketing team in place. We have got all the local distribution in place etc. So we are taking all those cost related to addressing Chinese market which was not there when this project was conceived and I think it will take us another two quarters before this entire thing is completed and then we will see that, otherwise we will lose on an average approximately about 3 crores a quarter and this is what we have been losing. We are conscious of it. We know that it will happen for at least another 2-3 quarters before we try and get this business completely refocused and addressing the Chinese market and then whole thing will change dramatically.

Tanuj Mukhija: Sir, what is the competition intensity in abrasives in the Chinese market. I believe it should be pretty high. So would your margins be materially lower?

K. Srinivasan: There are multiple tiers. If you look at the bottom end, which is what we call the cheap and dirty product, lower end, there is a huge competition and they probably have a very large market share anywhere in the world. Then there is a mid-range value for money, application engineering driven where we are competitive. We are able to even make products in India, ship it to India, sell, and make margins at both ends. If you make them in China, it comes to and you will even make better margins. Then there is a premium end which is really aerospace and high end. We are addressing it in reasonable level, not in a significant level at this stage, but that is a premium end which is still largely imported into from Europe, US and other places or Japan. So Chinese market, yes there is competition intensity, but also you must understand with all that it is still the largest market in the world for abrasives. So we must work and at least be aware of how to compete in this business to be a long-term player.

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

Jasdeep Walia: Sir, my first question is your ceramic sales are flat YoY, but still margins have improved. What has led to margins improving?

K. Srinivasan: Because it is more of an industrial ceramic product, less of refractory.Also on the Australian side picking up than compared to the last year.

Jasdeep Walia: Got it sir and sir also could you once again elaborate on your restructuring plans for Thukela separately for all the three businesses that you have at Thukela?

K. Srinivasan: See, what is crystallized I can say. There are three pieces. The fusion business, we have stopped fusion. We will have to find a home for it, how we will do is work in progress, I cannot disclose it at this stage. The second piece is the slide gate business. It is largely for the flow control products, huge growing market in India and we are going to bring it to Jabalpur. There is the castable business which is really for the well opener and another thing again largely addressing steel. We are finding a local home in South Africa, but the technology is not being sold. It will also be used for addressing similar market in India. So that is broadly what it is. We will be able to disclose more details as and when we have the agreement signed and in place.

Jasdeep Walia: So why is the fusion business not profitable in South Africa considering that energy cost is cheaper in South Africa?

K. Srinivasan: It has been a challenge. We thought we had everything sued up when we did this. Primarily looking at using the advantage of availability of Zirconia locally to make what is called Zirmul, Zirconia Mullite product and that was one thing which was a hole in our portfolio of electro-minerals. Zirconia Mullite was primarily used in glass refractories and we saw that it is one of the fastest growing spaces in electro-minerals and where we did not have a product. Unfortunately in the 2-2.5 years that we ran Thukela, the glass refractory business has taken the worst hit across everywhere. Most of the new float glass furnaces slowed down. Glass refractory business has been the one which has been the worst impacted. Consequently, contracts which we had supplied contracts, watertight sued up agreements are not honored, people just did not find use for this kind of a volume. So that was our core business around which we had bolted on a lot of other fusion businesses. Without that, it was becoming a marginal business. It was not pulling its weight and consequently, we did our best to see how we can get it back, but I think in some point of time we will have to take a call and move on. So we have decided to move on.

Sridharan Rangarajan: Jasdeep, the power cost is not the only factor. We have to bring in raw material, export it out. So that is the value addition which satisfies in all this effort that we are doing.

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

Bhoomika Nair: Sir, you obviously talked about a lot of restructuring initiatives in Foskor and in Thukela and which will obviously impact the near term profitability. But once the restructuring is over, over the next 2-3 quarters and things start improving, how do we see the growth part in the electro-minerals segment and where do we see margins going out in the long term. Also if along with this you can also elaborate on what is happening in the India entity for the Microgrit facility where we are looking to more expand into the value-added products.

K. Srinivasan: Let me touch the growth and how Carborundum would evolve going forward. The way we are restructuring, we are trying to make it as less impactful on the topline at the same time ensuring that the current bottom-line drag is removed. If you look at what Sridhar mentioned in terms of the quarters drag on bottom-line for this quarter, roughly about 20 crores. If you do the restructuring, probably that drag can disappear without any significant impact on the topline. This is very broadly what we are trying to do.

Bhoomika Nair: But 20 crores would be only for one quarter right and if we continue the restructuring on the next 2-3 quarters, actually there could be some 40-50 crores impact for the year?

K. Srinivasan: This 20 cr negative if you put it back after the restructuring, that itself on a quarter-on-quarter basis, every quarter you put it back. That is a significant kind of a number that you can immediately look at without any significant impact on topline. Now I will touch the topline part of it. Largely if you look at the core business and if it is bolted on back into India, what is the long-term vision of the mineral business? Bubble is valuable because of multiple things. It is the mineral of the future used right from nuclear uranium rods to colors, to pigments and whole lot of things. So the requirement of Zirconia does not disappear. So the way we have to do is to see how we can technically address this without in anyway giving up a strategic position in this business which means how do you bring it back and show that we are still able to bring the raw material, run it efficiently, use it as a fit start for a Microgrit business to make micronized Zirconia. So electro-mineral long term play largely remains unaltered in terms of what we want to do in it. It is a valuable play. SIC is again a strategy material. Zirconia is a strategy material. The two commodity material that we have are really brown and white and in both of them, we are going increasingly into value-added in terms of converting into semi-friables, into sol-gel, etc. So in a sense, longer term growth in electro-minerals both topline as well as bringing back the bottomline if not to the hay daysof the photovoltaic but at least very much towards it is what we are intending. It will take us two quarters before this can be sort of a drag is removed. It will again take another 3-4 quarters to fully stabilize the Bubble plant, get it integrated into the Microgrit business etc. In which case, it can go back to those hay days numbers. So but it is actually work in progress, still we are bringing this.

Bhoomika Nair: So if in that sense next year when you are stabilizing the plant in India, the margins would still be about 10-12% in that range?

K. Srinivasan: Absolutely, you are right.

Bhoomika Nair: And then once it stabilize, we now probably a year or two down the line, you could actually see margins going back to 14-15, (+10) levels.

K. Srinivasan: Absolutely.

Bhoomika Nair: Andsir on the Microgrit facility in India?

K. Srinivasan: So really this Zirconia Bubble is again a feedstock in the Microgrit. There are other things that is happening now where we are scaling up gradually, but let it become significant so that I can share openly with you. There are quite a few other happy things that is happening on the micronization. I can give one example that whatever we have talked of DPF is peaking up, whatever we talked of putting it into brake pads is peaking up. So I think we are seeing significant movements happening now, but the volumes are yet to come.

Sridharan Rangarajan: Bhoomika, we said it is a 3-year program. We are very much travelling in terms of the timeline that we have internally set, but it is not going to dramatically show up in the next few quarters to see this numbers going up.

Bhoomika Nair: Would it be visible in FY16 or more beyond that?

K. Srinivasan: Next quarter you would start seeing some improvement.

Bhoomika Nair: Sir, secondly in terms of abrasive. Obviously we have seen quite a bit of an improvement over the last couple of quarters driven by obviously demand coming back etc. If you could also elaborate on how is the competitive intensity and b) if our Uttarakhand facility is now completely settled down?

K. Srinivasan: On the competition intensity, obviously would have got the competition numbers. They seem to have done better than us in the last quarter or so which means that we have more headroom to do better than what we have done. Though we have done better, there is some more room for us to do even better than what we have done. Competition intensity, actually it is nice because in a way as the two of us really compete hard, it actually puts more pressure on the others than on us. So in that sense, I think the competition intensity is favorable. We are not 100% out of all the Uttarakhand problems. That is the reason why you are seeing this little gap between us and the competition coming up in the last quarter. We hope in this quarter we should be 100% out of all Uttarakhand issues and then you will see that catch up.

Bhoomika Nair: So what would be may be in the next 2-3 quarters once everything stabilizes? What would you guide for in FY16 margin on a consolidated basis for abrasives? Also by then I would assume that China would also kind of settle down as you said earlier.

K. Srinivasan: China, Russia, one-by-one everything will settle down.

Sridharan Rangarajan: Currently, we are at about 11.1% margin. This we think at least in the next two quarters could progressively more towards about 12-12.5% that is on a standalone basis. On a console, the same could be about 8.5-9.5% range in the next 2 quarters.

Bhoomika Nair: And then probably improving another 100-200 basis points next year, I would believe.

Sridharan Rangarajan: Let us take the step for the next 1 or 2 quarters, then we will have a better clarity in terms of the other two initiatives also.

Moderator: Thank you. The next question is from the line of Jinal Sheth from Multi-Act. Please go ahead.

Jinal Sheth: You talked about the market dynamic differences in China and India in regards to the abrasive business that is like in India we have split between organized and unorganized and in the organized, we have around 2-4 players. So could you just talk about the same in China? How it is?

K. Srinivasan: China has larger number of players. There is no big large player who controls any significant part. So that is the challenge. China is a very fragmented market. It is almost like an EU. There are regional players. So there is very fragmented market.

Jinal Sheth: That will become difficult on the margin front there or if you have quality, then you can have your margins.

K. Srinivasan: I will again go back to explaining on the products. Market becomes more important when you look at the bottom end which is what I call the cheap and dirty where you sell through distribution, but the mid-range value for money products are largely application marketing. You actually go to specific customers and specific applications. There you are wining account by account, customer by customer. So there it is very different. Let us say if you go after the automotive specific; Crankshaft, Camshaft, roll grinding, and bearings, so there are very specific customers and there are specific people selling into them that is the market that we are addressing.

Jinal Sheth: What about the organized and unorganized part gap?

K. Srinivasan: The application engineering oriented, customer oriented selling is almost 100% organized suppliers.

Jinal Sheth: And people are willing to pay if it is customized?

K. Srinivasan: Absolutely. It is value for money. They would say if it gives them less cost per component, they would pay for sure.

Jinal Sheth: And who would be the largest player in China at this point of time?

K. Srinivasan: At this point in time again, I have to be careful, lot of them are Chinese companies. The biggest player non-Chinese would really be Saint Gobain.

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

Bhalchandra Shinde: Sir regarding the crude prices since crude prices are falling as in Russia, the major part in the economic contribution is crude. So will it affect our sales, especially VAW entities sales?

K. Srinivasan: I do not understand the question fully, but let me explain. As far as our business in Russia is concerned, it is predominantly silicon carbide. We buy pet coke from the oil companies. We already get good prices. We expect the ruble prices of pet coke we buyto remain the same. The other big input that we buy is really energy. It is approximately costing us about 2 ruble per unit of power that is likely to remain the same. There is no major indication of either a decrease or an increase. So in ruble terms, our cost positions are not going to get better or worse. Now how does the Russian economy itself handle a lower oil price is a challenge that is very difficult for us to predict. The general sense we have is whatever we are producing as silicon carbide which is largely sold in the CIS and Europe, we are still among the most competitive and with the ruble depreciating against the euro and the dollar, we are becoming even more competitive. So we do not see volumes of what we produce not being able to sell or anything like that, we are quite happy with it. The challenge of ruble appreciating or depreciating against the dollar and consequently restating it into rupee in our books, etc., that is what Sridhar mentioned, is an issue. It can remain an issue depending on how the oil prices pan out.

Bhalchandra Shinde: Sir will only this Russian sales will get affected or overall sales will be in a good condition, let us like it would not get affected by that much because of the economic slowdown.

Sirdharan Rangarajan: What we are trying to say is that even now we are saying that our topline as well as the production that we are doing is really optimized and we are doing to the brim at this point. So what we look at it is that there are two types of impact. One is because of the foreign exchange particularly ruble to dollar exchange rate, let us say depreciated in a quarter about 17%, the positive thing is that we will be able to have, let us say if the price could be attractive for the other guys to buy so that could really one upside towards this whole thing. The downside is that when you translate back into Indian reporting, it has an impact in terms of the reporting. So these are the two impacts. Now the business as such because of the situation in Ukraine and Crimea, etc., generally there is a reluctance in terms of the Russian products etc. But there is no visible quantifiable measure at this stage. So what we are trying to do is that to protect those type of eventuality coming up, we are trying to set ourselves up a distribution base in Europe and that is what Mr. Srinivasan was sharing that we will have this launch soon as soon as we establish that entity.

Bhalchandra Shinde: And sir on the profitability front since you mentioned about the pet coke, will our profitability improve because of on this thing or it will be a lower impact?

K. Srinivasan: Last quarter, our ruble realization went up by about 300 rubles. It was not very big. So in ruble terms, again our margin is very small marginally better. But again you translate it all back to a dollar or a rupee, it shows less. So I think you must give us two quarters before you can see some kind of stability in the way we can read this. Business operationally looks strong. Business operationally is running to capacity. We are getting better ruble realization. Our costs are under control. We are doing well there. But when you restate everything back into rupees, it does not look the same. So that is the challenge that we are going through at this stage.

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

Tanuj Mukhija: Just one last question. We have seen that electro-minerals have been quite volatile especially overseas subsidized. So you mentioned that you planned to get into value-added component for electro-minerals. Just wanted to get your view and your thoughts on the strategy of the company in terms of how would you expand your capacity in abrasive, ceramics versus electro-minerals. Are you looking at consolidating electro-minerals capacity or would you also increase capacity over the course of next 3 years?

K. Srinivasan: At this moment, we are not putting up any new capacities in any of the businesses because on an average, if you see our capacity utilization at Carborundum is about 65%-70%. We are running flat in silicon carbide russia, but we are not running flat in several large electro-minerals like for example the bubble or the microgrit. So on an average, our capacity utilization overall is only about 65%-70%. So you are not going to create any new capacity that is the first answer. Broadly our revenues split today is 40% abrasives, 35% electro-minerals, about 25% ceramics. Is this split likely to materially change after this restructuring, etc., no, it will not change at least in the next year and a half to two because no major either reduction in topline is being planned or no major increase in topline is being planned in one segment in difference to the others. So broadly it is going to stay the same revenue split between the three. What can improve in each of those verticals is to move more and more towards value added. What we mentioned in the electro-minerals business is stability can come once we do restructuring by doing more with the value-added product. Value-added product by nature tends to be more India made rather than made abroad. To that extent, we are isolating ourselves from any kind of translation issues and other issues. So hopefully you will see more predictable, stable margins as we go forward.

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

Kunal Rakshit: I just wanted to understand what is the absolute PBIT at VAW in Q2 versus Q1?

Sirdharan Rangarajan: We do not share that individually like that. You may have to wait for the annual numbers.

Kunal Rakshit: Annual number last year I think was PBT of about 78 crores. Roughly that would be on average similar every quarter for VAW.

Sirdharan Rangarajan: Will be similar.

Kunal Rakshit: So it is roughly 20 a quarter. So is my ballpark calculation correct when I say that may be 20 crores in Q1 and down by 6 to 7 crores in Q2. Is that the kind of indication you are giving on VAW?

Sirdharan Rangarajan: Yes.

Moderator: Thank you. The next question is from the line of Shraddha Sheth from Edelweiss. Please go ahead.

Shraddha Sheth: Just wanted to understand in terms of visibility of demand in abrasives business like last quarter you had shared some visibility in terms of order pertaining to certain sectors. So we have seen the growth being more or less flattish yet. So if you could give some indicators where we are seeing some positive vibes?

K. Srinivasan: Shraddha I think on abrasives, there have been a growth. Between quarter-on-quarter, the growth in abrasives roughly about 6% on a sequential 15% and I think year-on-year is about 4-5%. We will see this getting better. I think the order flow like I said is still reasonably good. We think that we should expect a growth of at least about anywhere between 5-10% this year. That is the kind of growth that we will see in abrasives.

Shraddha Sheth: Sir, the only anomaly between for our growth vis-à-vis the competition where they already in double digit would be because of you notscaling up or is there any other reason for the gap?

K. Srinivasan: We will have to wait for one more quarter. We believe that the industry's growth will be anywhere between 5 to 10%. We know that for the last quarter, the growth for them was just bare double digit, but on a give it another quarter, I think the industry's average should be about 10-12% and we should also try to be within that

Sirdharan Rangarajan: So Shraddha, sequentially their growth is 7% while ours is about 15% and on YoY, let us take first half first that is about 13% versus ours about 4%.

Shraddha Sheth: So we should look at it probably 1-2 quarters down the line.

K. Srinivasan: That is right. Give us another quarter, I think industry's average is going to be at about 10%. So we will both be around that.

Shraddha Sheth: Generally it tends to be similar for both the..

K. Srinivasan: Absolutely, it is a very healthy competition.

Shraddha Sheth: And sir secondly on ceramics, if you could share the demand outlook whether this Australian business picking up, is it a sustainable trend or it is more something to do with the quarter?

K. Srinivasan: I think there are two parts to it. One is the Australian business came out of the big pressure they had on the coal business and coal prices falling. They now have repositioned themselves better, getting into more maintenance, getting newer packages in Indonesia and other. So this is going to continue, but normally projects tend to be a little bit of a year. You have one big quarter, then some muted quarter, then again a big quarter. So general trend is very positive. Would we repeat exactly the same as the previous quarter, that is a tough call. We have some huge nice projects as well, but general trend is hugely positive and we got the act together in the ceramic business.

Shraddha Sheth: So what could be the growth guidance if you could give any? Will it be single digit only over next 1, 2 years or?

Sirdharan Rangarajan: The next 2 years is too longer period. I think I will say for this year, probably we should be looking at about 10% growth by and large.

Shraddha Sheth: For the full year or for the second half?

Sirdharan Rangarajan: For the full year.

Moderator: Thank you. As there are no further questions, I would now like to hand the floor over to Mr. Bhalchandra Shinde from Batlivala & Karani Securities for closing comments.

Bhalchandra Shinde: Yes sir. On behalf of Batlivala & Karani Securities, I thank the management of Carborundum Universal and all the participants for taking timeout to be in this call. Sir if you have any closing comments, please.

K. Srinivasan: Let me say a few words. To Bhalchandra, thank you for organizing it and for all the participants, I know it has not been an easy quarter particularly for people reading the numbers. For us, since we were sort of handling it, it looks for us ourselves it was to be done and being done and it will take us to a positive number. All I can say is have patience regards for another quarter or so, then you will see that it becomes far more predictable and far more positive going forward. Thank you all for your patience and understanding.

Sirdharan Rangarajan: Thank you.

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