"Carborundum Universal Limited Q2 FY17 Earnings Conference Call"

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Moderator: Ladies and Gentlemen, Good Day and Welcome to the Carborundum Universal Limited Q2 FY17 Earnings Conference Call hosted by Anand Rathi Share and Stock Brokers. 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 '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Bhalchandra Shinde from Anand Rathi Share and Stock Brokers. Thank you and over to you, sir.

Bhalchandra V Shinde: Hi, Good morning, friends. Happy Diwali to everyone and thank you for standing by. It is a great pleasure to have with us the Management of Carborundum Universal for the Q2 FY17 earnings call. From the Management side, we are being represented by Mr. Srinivasan, who is the Managing Director and; Mr. Sridharan – CFO, Mr. Raja Mukherjee – Senior General Manger, Internal Audit and Strategy.

Without taking too much time, I now hand over the floor to Mr. Srinivasan. Over to you, sir.

K. Srinivasan: Good morning, Bhalchandra and good morning all of you. Wishing you all a very Happy Diwali. I hope this year will be one of great peace, progress and performance from all companies. So, let me start for Carborundum.

It was a good quarter. the volumes were higher, operating leverage is better, we delivered Rs. 47 crores PAT in the current quarter against Rs. 40 crores on the sequential quarter and similar period last year. Consolidated sales were up at Rs. 544 crores. And income was at Rs. 551 crores, which was 7.5% higher than similar quarter last year. Sequentially also we grew by 3.5%.

I will touch various verticals and I will also touch the geographies.

Abrasives, consolidated sales Q2 were at Rs. 252 crores, which was 6% higher than the corresponding period last year. Sequential basis we were 2% higher with q1 sales being at Rs. 247 crores. The growth was lead by strong performance in standalone. Sales for the quarter was Rs. 215 crores, grew at 7% on a quarter-on-quarter basis and 3% sequentially. Volzhsky Abrasives sales was flattish, overall there was no big impact on translation, gain or loss. Sequentially, overseas sale was about flat. YTD, we had a growth of about 10.5%.

Then I will come to EMD. Consolidated level sales Q2 was higher at Rs. 185 crores versus Rs. 182 crores. This is in spite of the fact, like we mentioned last time that we still have problems of power availability at Volzhsky. We were running with one transformer on the incoming side and consequently we lost about 2,800 tons in this quarter over and above the 2,200 tons we lost in the last quarter. By middle of September the transformers were back, we are back to full fusion. As we speak, October has been running at full fusion. So, the worst is behind us. We also had during the period increase in power cost. Power cost, due to supply and demand gap was up by about 10% in Volzhsky. So Volzhsky was a bit of a struggle in the mineral side.

On the Ceramic, it was outstanding performance. Growth was 22%. Q2 sales at Rs. 121 crores against Rs. 99 crores was a significant jump. Sequential basis also they grew by 9%. And Ceramic growth is particularly gratifying because this serves both the projects as well as R&M. And as you know projects are not really happening still, so this growth is particularly commendable coming on the back of lower project sales. Overall, YTD basis sales in Ceramic grew 19% and there has been an improvement, both in Industrial Ceramic and the Refractory business.

CAPEX H1 was roughly Rs. 56 crores. We expect to complete all the CAPEX projects that are announced, this is likely to be between Rs. 140 crores to Rs. 150 crores for the year.

Now, I will ask Sridhar to touch on the financials.

Sridharan Rangarajan: Thank you, sir. Good morning to all of you and wish you a very Happy Diwali and let this year be a stellar year for all the participants and all the companies in India. First, I will summarize the key financial results.

On a quarter-on-quarter basis I will share the few key highlights. I will touch upon the highlights and then go to the details. Consolidated level, we registered a sales growth of Rs. 38 crores with profit from operations before other income and finance cost growth at Rs. 9 crores. However, PBT growth was only at Rs. 2 crores.

So, two facts that I would like to touch here.

The first is that the exchange loss for the quarter was at Rs. 310 lakhs against the exchange gain of Rs. 12.4 crores in the similar period last year. This caused an adverse variance of Rs. 16 crores and this was largely attributable to VAW. USD-Ruble rate was on depreciating trend last year, say from RUB57.9 to a dollar on 31st March, 2015, to RUB65.91 in 30th September, 2015. So, this was a depreciation of 14%. So, the last September receivables, payables, bank balances denominated in foreign currency, when it got restated we had an exchange gain. This year, however, the Ruble appreciated against USD by 7%, so March end rate was 67.55 moving to Rs. 62.89 crores in September, hence the restatement resulted in a foreign exchange loss. So, this is a big reason for the swing.

Secondly the interest cost was lower by about Rs. 141 lakhs due to the reduction in overall borrowings as well as the interest rate.

Now I will get into details. Quarter-on-quarter the results, by entity I would summarize. Standalone sales were up by Rs. 32 crores and the profit from operation, before other income, finance cost and exceptional items went up by Rs. 6 crores for this Rs. 32 crores of sale. Our PBT was down by Rs. 16 crores compared to last year. Last year we had paid a preference dividend of Rs. 20 crores, this was a one-off event. So if you look operationally we delivered higher profit by 6 crores.

Coming to subsidiaries, Subsidiary sales increased by Rs. 6 crores, however the PBT was down by Rs. 3 crores, it is a net result of gain in other subsidiaries and lower profit of VAW by Rs. 7 crores.

On a sequential basis at consolidated level, we registered a sales gain of Rs. 18 crores, which is 3.5% gain and PBT gain of Rs. 5 crores. On YTD basis at a consolidated level, we registered a sales gain of Rs. 88 crores which is 8.9% gain and profit from operation before other income and finance cost we had a gain of Rs. 20 crores. This was offset by adverse movement on exchange on restatement of Rs. 20 crores which we have explained just now. The gain of Rs. 2 crores in finance cost and Rs. 8 crores in other income, so overall a PBT gain of Rs. 9 crores. Standalone sales increased by Rs. 84 crores and profit grew by Rs. 12 crores after eliminating the dividends gains. Subsidiary sales increased by Rs. 4 crores but PBT dropped by Rs. 3 crores. This was due to net result of gains in other subsidiaries and lower profit of VAW by about Rs. 10 crores.

Now, let's get into the details by segment.

PBIT margin in Abrasives increased from 9.9% in Q2 last year to 10.9% in Q1 to 11.8% in Q2 of this year. The margins have improved on the back of higher sales on a standalone business, out of the Rs. 6 crores profit expansion on QoQ Indian entities contributed Rs. 2 crores and the balance Rs. 3 crores were contributed by VAW. Sequentially, the profit expansion was Rs. 3 crores, Rs. 70 lakhs came from the standalone and Rs. 2.3 crores from other subsidiaries. At YoY level the PBIT grew by Rs. 16 crores due to Rs. 6 crores improvement in PBIT from CUMI standalone, lower losses in China, better performance in Sterling, VAW etc, contributed to PBIT margin growth of Rs. 9 crores.

On EMD, the consolidated PBIT of EMD came down from Rs. 39 crores in Q2 of last year to Rs. 24 crores in the current quarter. The Rs. 15 crores drop was attributable to Rs. 2 crores in CUMI EMD and Rs. 13 crores in VAW. Lower rainfall in Maniyar, almost 25% lower compared to the similar period last year had adverse impact on the profit of CUMI EMD. For VAW, it is a combination of lower volume, as Mr. Srinivasan just explained, higher power cost and then reinstatement impact. Sequentially, profits were down by Rs. 26 lakhs. Though CUMI EMD had a gain of Rs. 2 crores, lower volume and exchange loss in foreign entities contributed to the overall drop in profits. At YoY level, PBIT margin dropped by Rs. 23 crores owing to standalone Rs. 4 crores and VAW contributed the remaining. Rs. 9 crores impact due to lower volumes in VAW, that is 5,000 tons lower volume, Rs. 2 crores due to the power cost going up by 0.25 rouble/ unit and Rs. 7 crores was due to exchange impact in VAW which was basically the restatement swing. The standalone drop of RS. 4 cr was due to Maniyar power which was lower as I said by 25% resulting in Rs. 2.5 crores adverse impact. Higher cost due to people's recruitment in marketing, product development and few repairs and maintenance cost contributed the balance. So that is the reason for the fall in EMD standalone.

Ceramics, PBIT margin of Ceramics increased by Rs. 7 crores for the quarter over the last year, facilitated by increase of Rs. 21 crores pickup in CUMI standalone sales. Industrial Ceramics continued to register good sales on the back of higher volumes in metalized tiles and engineering ceramics. Super refractory business registered a good volume growth on a lower base. Sequentially, also profits were higher by Rs. 93 lakhs. CUMI IC and SR business contributed to the increase. On YTD level, profits were higher by Rs. 12 crores, CUMI's IC and SR business contributed Rs. 9 crores and the balance Rs. 3 crores came from other entities.

CAPEX, so far, we have done Rs. 56 cr. We expect to do about Rs. 140 crores to Rs. 150 crores for the whole year.

Coming to debt to equity ratio, on a standalone basis, the debt to equity ratio moved from 0.09 as of June 2016 to 0.14 as of September 2016. The total debt on a standalone basis increased from Rs. 86 crores to Rs. 136 crores as of September, 2016. On a consolidated basis, the debt to equity ratio moved from 0.23 as of June 2016 to 0.25 as of 2016. Total debt on a consolidated basis was Rs. 319 crores as of September 2016 in comparison to Rs. 291 crores as of June. The consolidated debt of Rs. 319 crores were the gross one, our cash and cash equivalent has moved from Rs. 113 crores to Rs. 202 crores, so the net debt is around Rs. 117 crores.

So, just to summarize the overall financial performance so far, we have been doing all the restructuring very much in terms of whatever we wanted to do. We will complete all the key projects this year, Bubble Zirconia plant, semi-friable plant, metz cylinder expansion. China's land and building that has already been sold and that is a very big achievement in terms we collected the money, we settled the loans, so we just need to do few last things in terms of moving few plants and etc. And this quarter we will complete this whole transaction and we do not expect any more issues than what we already took so far.

So, with that, I think by and large we are very much in line with whatever we are thinking - Rs. 2250 crores to Rs. 2275 crores in terms of topline, and PAT should be about Rs. 185 crores to Rs. 200 crores of PAT. So, that is what so far we are looking. I think with this next year we will create a solid base with good balance sheet and all the problems behind us, we should see better performance coming the year after.

So with that, I would open for the question-and-answer session. Thank you.

Moderator: Sure. Thank you very much. We will now begin the question-and-answer session. We have the first question from the line of Mr. Nirav Vasa from B&K Securities. Please go ahead.

Nirav Vasa: My first question pertains to the CAPEX plans which are underway. Would it be possible for you to share some updates on the relocation CAPEX that we are undertaking for Foskor, Thukela and NTK cylinders?

K. Srinivasan: Yes, as far as the NTK project is concerned, the entire equipments are being shifted and they are all being re-commissioned at various points inside the current Hosur complex. There are only two special presses that are yet to be shipped out of Japan, which hopefully they should do this month. The reason is, that they would come under what is called dual technology and we need some special clearances for owning them, that alone is taking us a little more than anticipated time because the Japanese government has to clear that. The plant is progressively being bought into production, we still need to get the gas connection done and that is being worked. So progressively this plant is being commissioned. We expect it to be up, fully commissioned and running from first quarter next year. But in the meanwhile parts of the plant are gradually getting commissioned, so that may start contributing to increase the current production capacities of the metalized cylinder business. That is as far as NTK is concerned.

As far as Thukela is concerned, the refractory part of the business has been shifted and commissioned in Jabalpur. We started commercial production end of Q2. As we speak, I know the October results, so I can tell you that some of these products are working extremely well and I think we have got some very good feedbacks, so hopefully we should see increased market preference for this from this quarter, Q3 onwards. As far as Thukela's furnaces are concerned, one furnace has been reinstalled, converted into a pot for semi-friable, this is already commissioned and running. We should see commercial production from this quarter, it is already commissioned. One more is being converted into a tilt and that will be put into production from this month. So again, this will also come into commercial production probably at least in December.

The biggest transfer is the Bubble plant, the Bubble plant has all been located, reinstalled. We hope to switch it on for trial production by 19th of December, that is our target date. And if that happens, we will start seeing scaling up during Q4 and then serious production from Q1 of next year. So, this is broadly the major projects that are being running. We are about one to two months behind many of these projects, but considering the fact that these are all major relocations where we have multiple dimensions to handle clearing at the government side as well as the South African and Japanese companies are concerned, etc. I think it has come out reasonably well. The installed facilities are outstanding. The way it is performing, in fact whatever we have seen both in Jabalpur as well as the first part there, they are now functioning in terms of parameters far better than what we expected it to be and much better than what it was in the earlier locations.

Nirav Vasa: Sir, my second question pertains to your production operations that is Volzhsky, sir would it be possible for you to share the 1H FY17 revenue EBITDA and PAT of Volzhsky in Ruble?

Sridharan Rangarajan: So H1, we do not give so much of details but I will give you broad data, it is about 2.1 billion and the PAT of about 350 million.

Moderator: Thank you. Our next question is from the line of Mr. Madanagopal Ramu from Sundaram Mutual Funds. Please go ahead.

Madanagopal Ramu: So, my first question is on the Abrasives domestic market, there seems to be from Q2 point of view the growth numbers are a little lower compared to what we delivered in Q1. Do you see any issues here or you think this is a quarterly stuff and then we should be able to normalize growth numbers from second half?

K. Srinivasan: I think what you are seeing as a 7% growth have got two elements in it. Normally for us Q2 is a good quarter, but this time we have some unusual situation where a significant part of our manufacturing and sales moves through the Hosur hub. So, we have to keep in mind the fact that we had periods of disturbance which then allow the normal movement. I think this is a very temporary blip which will get corrected. Generally, the traction in the Abrasives business is still very strong and I think it is only a very interim thing.

Madanagopal Ramu: So that has probably shown up in the margins also in this quarter I believe which should be normalizing as we go ahead?

Sridharan Rangarajan: Margins are better. This quarter margin, for a Rs. 6 crores top-line you are seeing a Rs. 70 lakhs conversion, that is your question. And largely because this quarter almost Rs. 1 crores of people cost increase is there because normally our salary revisions happen in July and those are the reasons for that. But for that on a gross level of conversion, we are still in good shape.

Madanagopal Ramu: And sir, you explained pretty clearly on how the Thukela factories are getting recommissioned, for the full year would it be right to assume something like Rs. 30 crores to Rs. 40 crores out of contribution from these factories this year or that would be a very stretched assumption?

K. Srinivasan: I would take it step-by-step, because really there are couple of things. One is the refractory business is going to probably contribute at least about Rs. 4 crores - Rs. 5 crores plus at least. The Pot and Tilt should give some quantities in Q4. I am going to be a little careful on the Bubble. So maybe I would say about Rs. 15 crores plus is definite, Rs. 30 crores is possible.

Madanagopal Ramu: And we should be careful on the margin front, given that the initial ramp up would lead to some sort of leverage impact?

K. Srinivasan: We have actually started taking in the corresponding marketing people, Sridharan explained really that we have started incurring cost for handling this additional volume in terms of infrastructure, people, etc. I do not think you will see any big difference in the margins because of this.

Moderator: Thank you. Our next question is from the line of Rajesh Kothari from Alpha Accurate Advisors. Please go ahead.

Rajesh Kothari: Just briefly if you can just explain in terms of EMD business how do you see the outlook going forward? That is number one. And number two, if you can just clarify what is your FY17 revenue guidance, I just missed that number.

Sridharan Rangarajan: Broadly in the range of about Rs. 2250 crores of Rs. 2275 crores.

Rajesh Kothari: And if you can give EMD business, how do you see the EMD outlook going forward for next two quarters?

K. Srinivasan: Yes, I will split it again into two parts. The Indian part of the business is half and half, about half or a little more than half supplying into India and other half going for exports, largely addressing the abrasives, refractory and general industries. I would say that this requirement or the demand is still very robust and strong. There is tremendous margin pressure or price pressure, which means that more competitive businesses would survive, so that is clearly what is pushing the margins down in this. As far as Russians silicon carbide business, again the same, we are extremely competitive, we can sell as much as we can make. In Ruble terms the prices are up but in terms of dollar pricing, this is again under pressure, dollar-Euro pricing, which means the margins are under pressure but volumes we will sell as much as we can make. Overall, demand for all our products is very robust and strong. Prices are not going up, which means there will be always pressure on the margins.

Rajesh Kothari: So, if I therefore look at next two to three years' perspective, since the pricing pressure as business becoming more competitive and challenging, how do you see to offset any such kind of a pricing pressure? And whether this pricing pressure is only in EMD or do you think even in abrasive and ceramic also there can be pricing pressure?

K. Srinivasan: See, you have to look at it in two parts. One is, are we able to sell all that we can make, that means is there are we competitors in business, the answer is a firm yes. Second is, the pricing pressure is a global phenomena, today if the steel industry does not do well refractoriness do not do well, you would have probably seen all the big names of Europe who just announced their results for Q3, significant negative results. Now, the capacities of some of these will all have to go out and it is not an easy process. There have been already two major transactions that have been announced in Europe in the last three months. So, some of the more inefficient capacities if they start going out, prices would start coming back. So this is a process, there has to be a balance, but the fact is that we make and sell all the quantities that we can, ensure that we are competitive, pricing will remain a pressure point till the recent capacities go out.

Rajesh Kothari: So this meaning we are basically driven through EMD you are talking about, or…?

K. Srinivasan: Yes, it is only EMD. Abrasives is a growing business, I mean Abrasives really demand is continuing to grow globally because everything gets better finished, better controlled, better tolerance and better dimensions. There is a continuous change in the kind of Abrasive that is consumed, as we move from a metal centric world to a more composite world, it is more coated, more fine finishing, more of precision products, so that is an ongoing thing that we continuously keep working on. We keep bringing in those new products and that is how we plan to take the market.

Rajesh Kothari: Would you like to give, in terms of FY18 how do you see overall revenue growth and if you can also comment on margins that will be really useful?

Sridharan Rangarajan: See, normally we do not give any broad guidance on the top-line, we are just saying that we have been growing and history you can see. We also talked about the relocated capacities, how it is coming through. So that is a broad understanding one can give. And as far as the long-term view on margins on abrasives, we already see that we have grown and we expect this to continue. And ceramics, we expect this to be in the range of 14% to 16% and electro minerals in the range of about around 18% is very much achievable in a long-term basis, so broadly one can talk about it.

Rajesh Kothari: Any CAPEX next year?

Sridharan Rangarajan: Normal CAPEX should be in the range of about Rs. 80 crores to Rs. 100 crores.

Moderator: Thank you. We have the next question from the line of Ujwal Shah of Quest Investment Advisors. Please go ahead.

Ujwal Shah: Sir, just needed a brief update on our Australian business as well as the Chinese subsidiary, and CUMI USA if you can throw some light on.

K. Srinivasan: As far as Australia is concerned, they have probably their second highest sales ever and profits ever. They have gradually being trying to address more than the coal washery business, also mineral business. So it is still very, very competitive and doing well.

Sridharan Rangarajan: Absolute sale value typically in the year would be about Rs. 75 crores to Rs. 80 crores.

K. Srinivasan: And we have been probably growing there about 7%to 10% year-on-year. So that continues to do well, very profitable and successful. The second question on CUMI China. CUMI China we sold the land and building, we got payment as well, I think we told you already that we sold it to our erstwhile joint-venture partner, we realized the full payment for it and we have used it to repay our bank loans.

It is now more of an outsourced manufacture and sales model, we have the right to use our current offices for two year period, so that gives us an additional advantage in terms of being in the same location but not having to have any additional cost for it. We expect China not to make any losses, we expect it to keep growing in terms of sale. We are approximately about 40 million renminbi and we hope to grow to about 100 million renminbi in the next two to three years.

As far as the American operation is concerned, we started after a long-term to get about $1 million of direct sales out of CUMI America in the abrasive business. We do direct sales from here as well to some of the large companies, so this business will become profitable from next year, this year we still have been incurring some cost that we will still continue to incur, particularly to support the marketing initiative, but hopefully from next year we should be profitable. But America is a big market and we still are looking at what we need to do to access this market in a more direct basis, we are working on it.

Ujwal Shah: And sir what were the losses in the Chinese subsidiary for the quarter?

Sridharan Rangarajan: It is about Rs. 1.5 crores of loss.

Ujwal Shah: Sir, in terms of domestic EMD business, considering that Maniyar plant has not seen, I mean, in terms of rainfall it has not been that good and 4Q being seasonally weak, so what are our expectations for EMD standalone numbers for the year sir, do we think that it can grow at double-digit or we might end up at mid-single-digit or what are your expectations from it?

K. Srinivasan: See, we will grow in EMD for the full year, whether it will be a double-digit would depend on how quickly we can get the Bubble plant and the tilt plant commercially running. We are working hard on it, even if I get one extra month of sale we will go on to double-digit.

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

Kashyap Pujara: Sir, just wanted to assess your thoughts on growth, through the quarter we would have grown abrasives at say single-digits, but if I were to look at it from H1 perspective, we are close to 12% - 13% in standalone and close to 10% in the consol. And even H1 performance on ceramics and EMD in that sense standalone or consolidate is as per what we had earlier expected. Now, going forward I mean while you have definitely given your thought process for this year in terms of guidance, but what are your thoughts on getting back to sustainable growth rate of 12% - 13% on abrasives and maybe mid-teens in ceramics.

K. Srinivasan: Yes, I think it is a good question and I think I must touch a little bit on what is it we are doing as plan for the year and the year beyond. See, the big commencement in terms of Capex into the mineral business have all been done with relocation of plant, etc. And we already said that just getting them to run flat to take us to about Rs. 3,000 crores in the next two years. On the abrasive side we are running our coated maker currently almost flat. We are looking at some kind of strategic initiative in abrasives, this would require certain amount of capacity enhancement and building some capability, this would be India specific. We are also requiring some kind of market access into America which should allow us to access one of the fastest growing market still in abrasives. So these are still all work in progress, we have not still opened this up to public. We are working on it very hard and we hope to do something in these two spaces. On a longer term basis, I must add that this year we have now completed either filing or getting approval of six DSIR approved labs within the CUMI system, which means that our filing of IPs and patents have enhanced. We were doing about 20 plus, we hope to start doing almost 50 plus of patents and IPs, this will allow us to significantly improve our new product delivery and also to address newer applications in market. So there are multiple tie-ups, capacity building, capability building, creating vehicles for the future, all this that we are working on. I really expect that you will see fundamental changes happening quarter-on-quarter as we going forward. Very positive on what we can be in the next two years to three years.

Kashyap Pujara: So this would basically involve largely upgrading our skill sets from the EMD side wherein we have the electro mineral bouquet to basically move towards more of value addition to launch new products in ceramics and refractory and abrasives side, would that be a fair understanding?

K. Srinivasan: Absolutely.

Kashyap Pujara: And on the margins front, while we have seen even in the H1 we are seeing a consistent improvement across all the points, barring EMD which is for obvious reasons why the margins are down, but the other two segments are showing up the necessary operating leverage. We are nowhere I think close to where we used to be in the peak across any of these segments, so with the kind of endeavor that we have in terms of top-line growth, new products, I reckon there is substantial operating leverage yet left for us to extract over the next two to three years?

K. Srinivasan: Absolutely.

Kashyap Pujara: And even this year the Maniyar plant has also not been contributing at all in that sense.

Sridharan Rangarajan: 25% below last year, last year was also lower actually.

K. Srinivasan: So, yes Kerala you have just seen today they have announced that all the districts have been drought affected now, so it is one of the worst performance for hydroelectric stations.

Kashyap Pujara: So, I do not know, but would you be able to throw some light that if the company were to achieve optimal potential, say two years out, then what kind of steady state margins one can look at if the operating leverage were to come out, assuming that we factor in proper Maniyar or normalize operations at other segments. Is it possible or you would not want to answer that?

Sridharan Rangarajan: We just talked about in the earlier question the same point. Broadly, I think 12% to 14% on abrasives is very much possible, 14% to 16% on ceramics and about 18% on electro minerals in the two to three years' time.

Kashyap Pujara: And lastly, we have been generating good amount of free cash and the borrowing have been coming down. And in the next two to three years, considering that Capex is barely equally depreciation, should we assume more of debt retirement, I mean like debt restructuring in next two years for us?

Sridharan Rangarajan: See, as I was completing my commentary in the beginning, I mentioned net debt position at about Rs. 117 crores - Rs. 120 crores, which is almost kind of debt free. So we will use the cash generated this quarter, this first half we have generated Rs. 88 crores of free cash flow which means it is really good and we all used it to pay down the loan, so that is what our first endeavor is. And second is to finance all our future expansions and other opportunities, we will definitely make use of that. And obviously investors are critical component in this whole thing, so we will definitely keep this in mind as well.

Moderator: Thank you. Our next question is from the line of Pawan Parikh from HDFC Securities. Please go ahead.

Pawan Parikh: I missed a few numbers in the beginning if you have mentioned that, so you had said that RUB 2.1 billion of sales in Volzhsky for the first time, right?

K. Srinivasan: Correct.

Pawan Parikh: And that is entirely Volzhsky, Abrasives plus EMD?

K. Srinivasan: Abrasives, EMD and refractory.

Pawan Parikh: So would it be possible to just slice out the electro minerals portion out of this 2.1 billion?

Sridharan Rangarajan: Approximately 130 million is abrasives and about 80 million is refractory, rest of it is EMD.

Pawan Parikh: And would it be possible for you to share in INR terms what is the EBIT contribution from Volzhsky?

Sridharan Rangarajan: We do not give that details, we gave a broad top-line and a PAT, and almost the conversion is 1.04.

Pawan Parikh: And I just missed, so what is the differential between VAW EBIT in Q2 FY17 and Q2 FY16?

Sridharan Rangarajan: Sorry, I did not understand your question.

Pawan Parikh: So, in the beginning you did explain about few crores here and there because of various entities, so what is the fall in Volzhsky profitability in Q2 FY17 YoY is what I wanted the numbers.

Sridharan Rangarajan: YTD Q2 or only Q2?

Pawan Parikh: Anything is fine, Q2 in specific would be good.

Sridharan Rangarajan: Yes, so in Q2 we had about almost last year same period we delivered Rs. 29 crores of PBT and against that we are delivering a PBT of about Rs. 22 crores.

Pawan Parikh: So this is YTD, right?

Sridharan Rangarajan: This is Q2.

Pawan Parikh: And this Rs.22 crores is despite the fact that we have had that power related problems for some part of the quarter?

Sridharan Rangarajan: Absolutely.

Pawan Parikh: Okay, so had it been on a sustainable basis, this could be seen quite higher actually?

Sridharan Rangarajan: Yes, that is what, Rs. 29 crores is one of the highest and we could be in that range.

Pawan Parikh: And going ahead similar should be the numbers at least in Q3, Q4?

Sridharan Rangarajan: Yes, I mean typically Q3 is slightly lower quarter because of Christmas and all other things will be there, there will be seasonality that has to come.

Pawan Parikh: Sir secondly on the ceramics part of the business, I mean the growth is substantially good and you have also mentioned that project part of the thing has also picked up. Do you think this growth number is sustainable for us, at least this quarter specific quarter?

K. Srinivasan: We said that we are already commissioning these plants, the NTK plant is gradually coming on stream, we are having other projects, so the growth would be sustainable.

Pawan Parikh: And sir, you did mention about Rs. 15 crores to Rs. 30 crores on the best side of additional revenue from the new plant that you are going to commission, can you actually share a similar ballpark number for FY18 as an entire year? FY18 would be, I mean, all these plants will be commercially operational?

K. Srinivasan: Yes, we have given an indication that all our major projects that are being done, if they all run flat out, our top-line should go to between Rs. 3,000 crores to Rs. 3,200 crores as soon as we start running all of them flat out. So this can happen in about a year and a half to two years.

Pawan Parikh: But then, I mean, we are at about Rs.2,000-odd crores now…

K. Srinivasan: So about Rs. 1,000 crores additional can come as these plants come up and also our existing capacities also start going up.

Pawan Parikh: And sir, you did mention about some capacity expansion in the domestic business, while I understand that the capacity utilization is just about 70% odd for standalone business, so why do we need the Capex now - is what I wanted to understand?

K. Srinivasan: The commentary was mostly on the coated capacity where we are running almost full when we said we will add necessary capacity. This is right, other places we will not add the capacity.

Pawan Parikh: And just one final thing, you did mention that in the EMD business competition is pushing the margins, pricing and margins down. So is it just specific to silicon carbide based EMD or is it for non-silicon carbide based EMD also?

K. Srinivasan: For all mineral business the prices today are generally under pressure.

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

Bhoomika Nair: Sir, just a couple of questions. In abrasives you mentioned that Hosur there were some dispatch issues which is what impacted a little bit in terms of the growth numbers. So, do we see some traction accordingly in the second half?

K. Srinivasan: Yes, see I think if you look at quarter one the growth was roughly about 20%, quarter two dropped to 7%. So it will come back at least to the 11% plus growth, so it will clearly be double-digit.

Bhoomika Nair: And this quoted CAPEX that you are talking about in terms of putting up new capacities, since it is running at 100% utilization, when do we see that a new capacity coming in?

K. Srinivasan: We are not even, like I said it is work in progress, we just do not want to add capacity alone, it has to address newer businesses, newer products, so it is a combination of capacity and new capabilities. We will have to take a call, it is still work in progress, we will inform as soon as it is completed.

Bhoomika Nair: So would that restrict growth in the near term till that new capacity comes in?

K. Srinivasan: We have multiple steps that we are working on in parallel, there are projects that I am working to see how we can debottleneck and get some extra capacity out of the current plant that is working on. We will not lose market share for this but we will be under pressure in terms of addressing larger growth that we make this commitment we will do something during the next couple of quarters.

Bhoomika Nair: On VAW, obviously on a consolidated basis if we look at margins in EMD they have fallen and I think that has largely got to do with VAW, and now with things coming back to normal in September, second half should come back to normalized level of margins of 16%, would that be a fair assessment?

K. Srinivasan: I think so, because I think two things, both the volumes will come back and the power cost will at least go back to the better rates, we had power cost going up to RUB 2.3 / unit, it will come back to more normal rate.

Bhoomika Nair: So this is more of an aberration for the first half in that regard.

K. Srinivasan: Yes.

Bhoomika Nair: Third part is in terms of you talked about in the beginning obviously of the new capacities which are broadly on track with lag of one or two months in that sense. Now as they are completely operational in FY18, since it is the first year of operations, what kind of revenues can we look at from all these new facilities?

K. Srinivasan: All the three plants put together adds up to some Rs. 200 crores to Rs. 220 crores of revenue in a full fledged state. So we will have to ramp up both in terms of manufacturing as well as marketing. So, in two years time one can really look at these kind of growth rates coming in.

Bhoomika Nair: Sir, the other thing was, you spoke fairly in detail in terms of abrasive outlook, similarly if you could just talk on EMD, how the market is, where are the growth factors coming in, what we are doing etc., that would be helpful.

K. Srinivasan: I think basically we are working still on the four major products, the silicon carbide based product, alumina based product, Zirconia based product and all of them have significant coming up. There have been consolidation happening on the alumina space globally, there have been some talk of consolidation and some movement on the silicon carbide as well. But the demand for these products still remains very strong, and we being a low-cost producer and all these, we would still have a major position. This is as far as general things are concerned. On the specialties where we are filing IPs, this is like what you call as sol-gel, semi-friable, etc., there we are actually creating new applications and new market because these are special products. The big customers internal where we see value addition as we start using more and more of these in abrasives and in our own internal use, this is a market that we open up, we supply to the high end customers who use the higher performance part. This is a growing business and it is also a high value, high margin business. So EMD business overall, if you look at a very macro basis, it is probably a business that will get more and more integrated into the newer products. These grains etc would find part not only of the abrasives, ceramic kind of thing but also get into metal metrics, metal ceramic composites, etc. Here we have to work with external customers to co-create applications, we are doing such things in Zirconia, we are trying to work on other similar things with other leading international companies. So this will be something which is for the future.

Bhoomika Nair: Sir these specialties would be roughly about 15% currently of the EMD revenues?

K. Srinivasan: See, generally try and keep it quiet, we would be okay 15% plus.

Bhoomika Nair: And where do we see over a three to five-year timeframe these specialties growing?

K. Srinivasan: We will have to see how it grows, we will have to work on it. Our intention would be to grow this to a larger percentage.

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

Sandeep Baid: Sir, you had mentioned in the last call that you are expecting about 3,000 tons of loss on the EMD side for Russia, I guess the overall loss has turned to be about 5,000 tons. And you had also mentioned that you expect to recoup this loss in the second half of the year, do we still expect to recoup the 5,000 ton loss in the second half now?

K. Srinivasan: 5,000 would be a stretch, we will try and see as much as possible. The best that we have done in a quarter is about 18,100 tons - 18,200 tons, last quarter we did only about 15,127 tons. So really we will do our best, I do not expect to make up all the 5,000 tons but we will do our best and see how much we can cash in.

Sandeep Baid: And secondly sir, you had earlier guided that EMD should grow faster than the other two divisions on a medium term basis, do we still expect EMD to grow faster or do we think it will grow in line with the company?

K. Srinivasan: No, I think it will still grow faster, simply because all these projects that we have committed and which is already all getting commissioned in a phased manner would all start bringing the delta into the EMD much before it hits the other businesses. We will see EMD growing faster at least in the short-term and medium-term.

Sandeep Baid: And we expect it to go back to the normalized growth from H2 onwards now?

K. Srinivasan: Yes.

Moderator: Thank you. We have the next question from the line of Bharat Sheth from Quest Investment. Please go ahead.

Bharat Sheth: Sir, last year when abrasive sales were declining because we started selling lot of low end also to capture market share and then again moving back to high end. Sir in that whole journey what level we have achieved and where do you expect going away in next 18 months?

K. Srinivasan: Abrasives, we have sort of not gone away from high end to low end, I think we address across the spectrum, we have products for the trade, we have products for value for money buyers and we have products for the high end premium products which is for specific applications like aerospace, gear grinding, etc. We continue to be in all the three segments. The focus in the down-trading time tends to be more toward the lower of value for money and cheap and dirty products, that continues, that pressure still remains, that continues. But as market picks up, the value for money signal itself gets stronger, and this is where we are seeing growth, particularly we are seeing in the last quarter the auto component business and the two-wheeler business extra pickup, we expect to see this growth and we expect to benefit from this in H2.

Bharat Sheth: And second sir, on Volzhsky side also we were putting lot of effort to grow its abrasive business and scale up the operational efficiency, so in that journey where we have reached?

K. Srinivasan: The abrasive manufacture there is still about the same, about 6,000 tons a year. But what they are now doing in terms of thin wheel and converted coater products from jumbos from India, that is picking up. We have placed the first set of products in market in Q2, we have seen good traction and we hope to grow this in H2.

Bharat Sheth: And sir on refractory side with ceramics business you said that this growth we have achieved, still projects are not taking up the way we want. So what is the ground reality and where do we see the whole business moving?

K. Srinivasan: Like you know there are two parts in ceramic business that we talk off, the industrial ceramic business is almost 65% to 70% is exports, that is doing really well. It has got metalized cylinders, it has got engineered ceramic, it has got lined equipment, we supply it to projects all over the world and this is doing extremely well, this has what has seen the big growth in that vertical. As far as the refractory business is concerned, it is essentially and here it also goes to other parts but by and large in India, this is where the lack of projects and lower sales of steel plants is impacting the growth rate. This will continue, this is not something that is going to go away in a hurry, but overall this vertical will do very well based on the back of the strong work that they are doing in R&M as well as international business.

Bharat Sheth: Sir and in last con-call we mentioned that our R&D spend specifically looks low, but we also have almost 3% kind of our revenue in project R&D where we keep on taking new projects. So where do we see this other 3% will continue to remain or with the top-line growing that 3% will come down? And when I mean one of the project that you have started that you were talking will start kicking in?

K. Srinivasan: I explained that we have now filed or got approval for six DSIR approved labs within the Carborundum system. We also have added significant amount of technology, people into these companies, into these labs, this is now taking route and getting more and more productive. We are filing significant number of patents on R&D, what is calculated by definition under this which is about 1% plus and what we otherwise spend largely on development, trials, etc which is roughly about 3%, this will continue, this will continue even in a higher base of sale because we believe that this is what will allow us to be competitive in the future.

Bharat Sheth: But when do we really start revenue kicking up in those projects, I mean, what timeframe maybe 18 months, 24 months or...?

K. Srinivasan: Bharat Bhai, this is going to be an ongoing thing. I mean, in our business like I keep saying in abrasives we lose about 10% to 15% of the applications because of the customer changes the way they do things, there is less material to grind, there are more composites, less metal, all kind of changes keep happening. R&D temporarily allows you to be at the cutting edge and keep creating the new future. So I think this is an ongoing thing, it keeps us alive, it also adds new opportunities. Like in the mineral business all the specialties that we talked off are all coming out of our own patterns, so this is what allows you to get the growth.

Moderator: Thank you. Next we have a follow-up question from the line of Madanagopal Ramu from Sundaram Mutual Funds. Please go ahead.

Madanagopal Ramu: This is on Wendt India, if we can comment on their performance, if I see their super abrasive business has really done well in this quarter, good growth on top-line as well as margin expansion but seems to be like machines business seems to have lost a bit on the margin front. Any outlook that you can give sir on this front?

K. Srinivasan: Yes. They have, see as you are aware the technology tie-up was withdrawn by Germany which is really a 3M company now about two years back, so they have been able to reposition themselves, create their own IPs, create their own bonds and other things, so they have done in getting better margins in growing the sales. Growth has also come because they acquired the assets of diamond Tool Company from Bombay called Star Diamonds who were making single point diamonds, that business was also folded in to it. So the growth in super abrasives has been good. As far as the machine side is concerned, that vertical has got the two parts, it has got the machines as well as machined components and the component part of it was predominantly to diesel engines and for global suppliers. There is this pressure that diesel engines are all going through some amount of refitting because of all these emission norms and other things, so they had some transfers and changes. Hopefully they should get back to growth even in that vertical in Q3 and Q4.

Madanagopal Ramu: But this growth numbers that are coming up in super abrasives should be…

K. Srinivasan: Sustainable and will get better.

Moderator: Thank you. And that was the last question, there are no further questions. I would now like to hand the conference back to Mr. Bhalchandra Shinde for any closing comments.

Bhalchandra V Shinde: Thank you, everybody. And thanks to the Management of Carborundum Universal Limited to give us time for answering all the questions in a very detailed way. Thank you very much sir. I will hand over the call to you for the closing comments.

K. Srinivasan: Thank you all very much. I know we could have probably done better in this quarter if had we had a couple of things going better. But we expect that growth in quarters ahead would be more predictable, more consistent and probably even be more to your liking. So thank you all very much and thank you once again.

Moderator: Thank you very much. On behalf of Anand Rathi, that concludes this conference. Thank you for joining us Ladies and Gentlemen. You may now disconnect your lines.