"Carborundum Universal Limited Q2 FY20 Earnings Conference Call"

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MODERATOR: **MR. KASHYAP PUJARA – AXIS CAPITAL LIMITED**

Moderator: Good morning ladies and gentlemen, welcome to the Carborundum Universal Limited Q2 FY20 Earnings Conference Call hosted by Axis Capital Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal the 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. Kashyap Pujara from Axis Capital Limited. Thank you and over to you sir.

Kashyap Pujara: Thank you, Lizzan. Good morning everyone and wish you all a Happy Diwali and a Prosperous New Year ahead. It is a great pleasure to have with us the management of Carborundum Universal for Q2 FY20 Earnings Conference Call. From the management side, we are represented by Mr. Ananthaseshan who is the Managing Director (Designate); Mr. Jagannathan Chakravarthi who is the CFO and Mr. Chandramouli who is Senior GM (Strategy). I now hand over the floor to Mr. Ananth. Over to you, sir.

N. Ananthaseshan: Good morning everyone. At the outset, I would like to wish you all a belated Happy Diwali and season's greetings to you and your families. We hope that this Diwali will bring better tidings for the economy in the coming year. So, welcome again to the call and before we begin as a practice, we have Mr. Chandramouli read out our disclaimer and then I will take the call.

G. Chandramouli: Good morning. During this call, we may make certain statement which reflects our outlook for the future or which could be construed as a forward-looking statement. These statements are based on management's current expectations and are associated with uncertainties and risks are more fully detailed in our annual report, which may cause the actual result to defer. Hence, these statements must be reviewed in conjunction with the risks that the company faces.

N. Ananthaseshan: As Kashyap mentioned, we also have Mr. Jagannathan Chakravarthi and Mr. Padmanabhan assisting on this call and as mentioned by Mr. Srinivasan during the last call, I would be briefing you on the performance of the company.

Now, I would share the overall performance following which Mr. Jagan will present the financials and then we will take the questions. Overall, Q2 for CUMI was a good quarter considering the Q1 performance amidst the current macroeconomic environment. It was another tough quarter for us; however, on a positive note, we see some green shoots in the environment especially with some positive auto numbers coming up, though is it connected to the festival sales, it is too early to say. At a company level, what we have worked on is on our margins and they are improving due to the various operational measures that have been initiated by us to bring down the cost of operations. Now I will take you through the business updates for the quarter.

On a sequential basis, overall the company's performance has operationally and financially been better than the previous quarter. If you were to compare the performance last year, same quarter has seen muted topline growth while delivering significant bottom-line improvement. Consolidated net sales increased from 663 crores in Q1 this year to 678 crores in Q2 marking a

2% sequential growth. This was driven largely by the standalone ceramics business and our subsidiaries including Sterling Abrasives and CUMI Australia. The flat growth at VAW was to some extent offset by the growth at Foskor Zirconia.

On the PAT front, consolidated PAT increased from 53 crores to 64 crores which represents a 22% sequential increase and we did see an improvement in the margins from 8% to about 10%. Again, the growth in PAT was contributed largely by Sterling Abrasives, CUMI Australia and an improved showing from CUMI America. Foskor Zirconia also recorded positive margins, supported by improvements in sales and operational efficiencies.

At the standalone level, sales grew by 2% increasing from 424 crores to 434 crores driven by the ceramics segment, but PAT was marginally lower due to a lower dividend income in Q2. On a quarter-on-quarter basis, consolidated sales recorded 4% growth moving from 651 crores in Q2 last year to 678 crores this year. This was largely driven by better performance in the JVs and subsidiaries including VAW, CUMI Australia, Middle East and Foskor Zirconia which together offset the marginal degrowth in other subsidiaries. The profit after tax degrew marginally moving from 65 crores to 64 crores. At the standalone level, sales remained flat. This was largely due to the tepid performance in Abrasives and Electro minerals. Standalone PAT recorded 1 crore higher mainly on account of the lower tax rate and while overall margins remained flat.

Coming to the segmental performance:

The biggest of the segment is Abrasives which is the largest among the CUMI businesses and with the highest domestic exposure. Consolidated sales remained flat on a sequential basis and degrew by 8% on a quarter-on-quarter basis. The domestic Abrasive segment continues to be impacted by slowdown in key industries including auto, auto ancillaries and construction etc. Sterling Abrasives performed well growing in topline and margins largely due to the seasonal agri business and industrial exports. PBIT grew by 7% on a sequential basis but degrew by 20% on a quarter-on-quarter basis. Margins improved by about 100 bps sequentially.

The next is the Electromineral segment where the consolidated sales remained almost flat on a sequential basis but grew by 9% on a quarter-on-quarter basis. PBIT grew by 12% on a sequential basis, but degrew by 4% on quarter-on-quarter basis. The Electro minerals business had a steady topline growing by about 3% from 261 crores to 268 crores. Overall, the focus of the Minerals business was to drive volumes. VAW continues to produce flat out and it grew by about 3% while Foskor Zirconia did exceptionally well to grow the topline and bottom-line in this quarter. The standalone revenue for Electro minerals degrew by 5% consequent to the slowdown effect of the lower sales to Abrasives and Refractory segments in the domestic market and lower sales to diesel particulate filter customers in exports. The margins have improved due to the support from Maniyar. Maniyar performed well in the latter half of the quarter. The rains have been good in the second half of the quarter. VAW had an adverse impact due to product mix, an increase in raw material cost and an exchange rate impact and overall for the Minerals business, holding volumes has been the key and would be the key in this market.

Ceramics segment grew about 4% sequentially and 19% on a quarter-on-quarter basis. This business has performed very well and has been the major contributor for performance in this quarter for the company. Both the domestic, ceramics, industrial ceramics and refractory businesses and the Australian operations also performed well and CAPL grew by about 10% on a sequential basis and 17% on a quarter-on-quarter basis. PBIT grew by 22% sequentially driven by better margins in the domestic business and on a Q-o-Q basis, PBIT grew by 34%.

Coming to CAPEX:

In the current quarter, the investment towards capital expenditure was 34 crores at a consolidated level. Standalone CAPEX was at 23 crores, out of which major spend happened in Abrasives towards the coated maker project expansion while VAW had invested about 8 crores during the quarter.

To summarize and to give a broad summary of the performance and actions initiated by us:

Overall, the ceramics business is growing faster. Domestic refractory business is also performing well. The exports business in ceramics as you know is driven by the technical and wear ceramics. Our continued focus on R&D, product development and various partnerships and focus on efficiencies has helped us to improve operations and will continue to support in furthering the margins.

I am also pleased to share that CUMI Industrial Ceramics Division won the CSIR Diamond Jubilee Technology Award 2018 in September. This, as you all know, is a very prestigious award and has been won only by a clutch of companies over the last 10 years.

Here, coming to Abrasives, we had taken an initiative to expand distribution about a couple of years ago and that is beginning to yield results. We should see a higher degree of penetration going forward supported by an increased R&D spend and development of new products in Precision Abrasives which is both conventional and super abrasives and in mass market. We will focus on delivering improved value to the customer. We also see continuing strong demand from the North American market, largely driven by the Make in America programs and select European customers.

Coming to the cash, our cash flow is strong, and efforts will be on improving operations, gaining customer traction and to maintain the strong cash flows. So, while we see that the Q2 has been an improvement on Q1, we expect to continue with this momentum.

Now, may I request Jagan to take you through the financial aspects?

Jagannathan C.: Thanks, Ananth. Good morning to all, Happy Diwali to all. Hope this festival season brings the market back in track. I will now take you through the financial performance of CUMI for this quarter and Q2 2020.

The consolidated net sales for the quarter increased by 27 crores which denote a 4% growth over the corresponding quarter last year; however, the PAT has come down by 34 lakhs compared to Q2 of last year. Our standalone sale was down by 2.4 crores compared to same quarter of last year. The consolidated PBIT is down by 5.3 crores compared to Q2 of last year. The shortfall in standalone PBIT was Rs. 10.3 crores. The PAT has increased to Rs. 44 crores in the current quarter compared to 43 crores in Q2 of last year.

Abrasives, at the consolidated level, PBIT has reduced from 38 crores in Q2 last year to 30 crores this year in Q2. The CUMI standalone Abrasives contributed Rs. 6 crores out of the total 8 crores shortfall. Moderate performance by CUMI America has helped us to curtail further drop in the profitability. The PBIT margin on standalone level is 13.4% in the current quarter against 14.8% in the corresponding quarter last year.

The Electromineral division, the consolidated Electromineral business reported a PBIT of 27 crores as against 29 crores in the same quarter last year. VAW profit dropped by 6.5 crores compared to last year same quarter. On the positive side, the performance of FZL in Q2 was good. Sales growth in FZL in Q2 compared to Q1 was higher by 8 crores resulted in achieving 11 crores higher PBIT in Q2 compared to corresponding same quarter last year.

Ceramics, we have shown a good growth in consolidated ceramic segment. On profit front, we have achieved Rs. 9.3 crores increase in PBIT representing a growth of 34% from 27.1 crores in Q2 last year to 36.4 crores in the current year Q2. Out of the 9.3 crores increase in PBIT, CUMI standalone contributed Rs. 8.6 crores to the gains owing to the better volume from the industrial ceramic division and super refractories. Apart from CUMI standalone, the performance of CUMI America and CUMI Australia and VAW also contributed to higher PBIT in Q2 this year compared to Q2 of last year to the tune of Rs. 1 crore and Rs. 2 crores respectively. The PAT, the CUMI standalone in H1, we have the change in the taxation regulation has given us a benefit of around 10.4 crores which has helped us to save the tax cost as well as increase the PAT of the company.

On a consolidated basis, the debt-to-equity ratio has remained stable at 0.04 as on September 30th, 2019. There was a reduction in debt by 25%, the total debt at consolidated level was Rs. 76 crores. The Forex cover, CUMI is typically a net importer in dollar terms and net exporter in Euro terms. We cover the net exposure as appropriate and in accordance with the Forex policy. We have hedged the net payable exposure of US $3.31 million and Euro 0.58 million for the Q2 2019-20.

Investments and cash position, CUMI continued to have a strong balance sheet with investment of Rs. 91 crores compared to 90 crores last quarter. Our cash position is 108 crores compared to 114 crores last year.

With this, I conclude my financial update, I hand it over back for the questions now.

Moderator: Thank you. Ladies and gentlemen, we will now begin with the question and answer session. The first question is from the line of Ravi Swaminathan from Spark Capital. Please go ahead.

Ravi Swaminathan: One is with respect to the Abrasive segment. Apart from autos, you had mentioned construction etc. has seen some weakness in terms of growth, but Abrasive sales of 8% decline is a pretty steep fall. So, was it just volume decline or which other segments had seen a fall in terms of volumes and was there any fall in realizations as it is per the unit realization mix also was there an unfavorable one if you can explain and how was the market growth in terms of overall Abrasive market, how it had grown?

N. Ananthaseshan: Thanks, Mr. Swaminathan. You will be aware that Abrasives comprises of two parts, one what we call the bonded abrasives which includes precision bonded and the mass market. Then, we also have the coated abrasives or what we call the flexible abrasives. The drop in Abrasive sales to the extent of 9% has largely been I think contributed by the drop in sale in the bonded abrasives. What we see as the bonded abrasives has been supplying into the auto, auto-component industry, though it is kind of, I would call a domino effect where the supplies into the Precision industry or Precision Abrasives has not only been affected, but also the supporting industries whether it is the general engineering or the Foundry Industries has also been impacted. The Coated Abrasives is largely into the construction, wood working, the infrastructure, I would call infrastructure, but I would call building industry, but that has not seen so much of a dip, so that still remained strong. The auto-related industries which has pulled down, so the product mix has moved from a high precision and into the Coated Abrasives which is more a mass market item; however, there has not been an impact in terms of realizations and you would notice that our contribution margins continue to remain strong and that has been reflected in our profit margins as well.

Ravi Swaminathan: And can we expect any growth this year for the Abrasive segment or is it likely to remain flat or even lower than last year?

N. Ananthaseshan: We are definitely hopeful on the Coated Abrasive side, but on the Bonded Abrasives, especially the Precision, your guess is as good as mine, so I would look forward to the auto industry picking up soon and if that happens, definitely the growth will happen.

Ravi Swaminathan: And almost 20% growth in Ceramics and Refractory, was it largely contributed by Metallized Cylinder alone or other segments also chip them in terms of growth, which was the prime driver in terms of growth?

N. Ananthaseshan: The ceramics business has been a good story. All the three major segments which are the technical ceramics, the wear ceramics and the refractories, all of them had pitched in well and the ceramics segment as you know is largely export driven and good orders from Australia and Metallized Cylinders from customers has helped Industrial Ceramics business to grow. In the refractories part of the ceramics, we have again a very distributed customer base which would include the steel, the carbon black, cement and most of them have done well, so we are hopeful that going forward in Q3 and Q4, we will also see this positive performance.

Ravi Swaminathan: And my last question is with respect to the Electromineral segment, how much amount of loss reduction has happened in Foskor as there has been a loss reduction has it happened during this quarter or still, we continue to incur some losses there?

N. Ananthaseshan: Foskor has been a good news in Q2, largely driven by sales growth consequent to the China-US spat so that has given us some good orders in the US. There has also been a focus on reduction in expenses and improvement in efficiencies which has resulted a reduction in losses.

Ravi Swaminathan: And was there an EBIT level loss or profit during this quarter in Foskor and how sustainable it is?

N. Ananthaseshan: The losses are there but it has come down significantly compared to Q1, but still they are not out of the woods yet.

Ravi Swaminathan: How much sir was the loss in EBIT for Foskor our share?

N. Ananthaseshan: Our share would be about 2 crores.

Ravi Swaminathan: 2 crores and last quarter it was 5 crores?

Jagannathan C.: Yes, you are right. Ravi, at the operation level, although their volumes have grown and they are taking measures to control the cost till they are not out of woods, we don't expect this to sustain and performance to sustain in the coming quarters. Profit has been more at PAT level than at EBIT level.

Moderator: Thank you. The next question is from the line of Rajesh Kothari from AlfAccurate Advisors. Please go ahead.

Rajesh Kothari: Sir, can you please tell us the breakup of Abrasives in terms of the revenue from Bonded Abrasives and Coated Abrasives?

N. Ananthaseshan: Approximately, we would say Abrasives were 60, 40.

Rajesh Kothari: 60% Bonded and Coated is 40%.

N. Ananthaseshan: In traditional yes, but this time may be the coated is marginally higher.

Rajesh Kothari: From the user mix perspective, how the breakup looks like?

N. Ananthaseshan: The abrasive sales into auto, auto comp would normally be about 10 to 15%; however, the industries which feed into the auto which we don't classify as auto, for example, general engineering which would include two room grinding, foundries, forgings, they have also been impacted now.

Rajesh Kothari: So, auto is 10 to 15%, then it will be?

N. Ananthaseshan: That would be the direct supplies we make into auto, auto components.

Rajesh Kothari: That is fine, I am saying, one is auto 10 to 15%, likewise can you give top major industries from the user mix perspective?

N. Ananthaseshan: One would be obviously the auto, second would be the construction which will be the mass market, then you have the steel, Bearing industry.

Rajesh Kothari: What is the percentage?

N. Ananthaseshan: I don't have the numbers off hand in terms of percentages.

Jagannathan C.: Just to add a point here, all other industries may be between 7 to 8%, it is not touching the double digit percentage any of those industries, it is high single digit may be the contribution from the user industries because we are widely spread across the industry.

Rajesh Kothari: So, basically auto and auto-related including direct and indirect put together would be about what 18 to 20%?

Ananthaseshan: Yes, that is more like it.

Rajesh Kothari: Secondly, in terms of the CAPEX, what is the total CAPEX you are planning in FY20 and FY21? And lastly in terms of guidance, how do you see from the CAPEX utilization perspective and the margin guidance perspective?

Jagannathan C.: This quarter is about 34 crores of spent, total is around 70 to 75 crores we have spent as of now. What we are expecting is the total spend for financial year 20 may be around 95 to 100 crores, may be little more than that, may be the same for this year. This is originally we were planning to do around 130-140 crores of CAPEX. Based on the current market condition, we have pruned the spent in CAPEX at present**.** Next year, we will be investing around, every year we may be investing between 130 to 150 crores of CAPEX. This does not include the inorganic growth opportunities what we will be investing further.

Rajesh Kothari: On guidance?

Jagannathan C.: Guidance, you wanted guidance on sales, or you are asking about the CAPEX?

Rajesh Kothari: Both. No, I am talking about the sales and margins.

N. Ananthaseshan: The current year, we had indicated even last time that given this situation conditions, we are looking at less than 3000 crores and we would kind of stay with that.

Rajesh Kothari: And margins?

Jagannathan C: Margins will be at the current level. We don't see any impact on margin. There may be a little improvement coming in the second half of this year but we don't expect any substantial movement on the profitability also.

Rajesh Kothari: Last question if I can squeeze, any major price trends in the raw material side?

Jagannathan C: Nothing. Raw material supply prices are okay. As of today, the prices are little stable and no steep increase is coming on raw material side.

Moderator: Thank you. The next question is from the line of Kirthi Jain from Sundaram Mutual Fund. Please go ahead.

Kirthi Jain: Sir, in the opening remarks, you had highlighted about some cost reduction initiatives, so how material are the initiatives and how much benefits we envisage over next 1 or 2 years?

N. Ananthaseshan: The cost reduction initiatives across the company has been focusing on both the variable costs and on the fixed cost reduction, so most of the locations while we have been implementing TPM practices and which has given us good sustainable cost reduction over the last few years. This has further been driven and you would see that the contributions improvement has happened mostly by improving efficiencies and yields. In the case of fixed cost, there has been a tightening of fixed cost obviously which is what is required in this time and we had cut off any undue expenses and being prudent about our spend, so which is critical is what is being taken up and essentials are being focused on and what is necessary will be spent, so we will continue to be prudent about it.

Jagannathan C.: And just to add a point to what Ananth said, the focus is more on structural changes and benefits to flow in the long run. It is not like cutting the expenses at present that is not the mood what we operate at present. We work on long-term cost saving initiatives in every business, how the structural change in cost can be brought in. In the long run, how substantial it is, it will add to at least we are expecting 100-200 basis point benefits to flow into our profitability in future at contribution level.

Kirthi Jain: Sir, you had also highlighted the CAPEX plan of 130-150 crores next year, so what are the areas where the money would be spend, say in FY21?

N. Ananthaseshan: The CAPEX what we had currently planned out and under execution is in Abrasives which is the coated maker expansion. This would come in by end of next quarter in Q4 is what we are planning to commission. The subsequent years will also see, subsequent next two quarters and going forward will see the CAPEX in increasing capacities for silicon carbide in Russia and in the metallized cylinder business in ceramics.

Kirthi Jain: Silicon carbide, sir through the mix improvement which we had envisaged previously, so when we expect profitability improvement in that segment?

N. Ananthaseshan: The silicon carbide, last year you would have noticed that the silicon carbide was addressing segments like better realization, higher margin, diesel particulate filters. Now that segment has disappeared almost completely. With the VW scandal, etc., so many of the DPF requirement has disappeared, so there has been a move towards finding and addressing markets in what we call the metallurgical grades, the refractories and in the abrasive segment. So, the DPF is unlikely to come back in its full but our focus is on finding those better realization opportunities; however, the focus first is on ensuring that the plant run flat out because that is more critical because we can't have the furnaces idle so we will run the furnaces flat, produce the production would address opportunities in bulk volume markets like refractories and metallurgical.

Moderator: Thank you. The next question is from the line of Vishal Biraia from Aviva Life Insurance. Please go ahead.

Vishal Biraia: Sir, wanted to check on, what is the quantum of investments that we are doing that is related to new technology, new products?

N. Ananthaseshan: Across the company in all the divisions, we have been working on investments in new technologies. In the Abrasives segment, you would find that we are invested and developing a range of super abrasive products under the CUMI umbrella and also in the clutch of products in coated abrasives. You would know that now with this new maker coming in, we have capacities which we can leverage and produce products for the global markets, so that is one area we are working on and we have a few products already developed and ready for rollout. In the ceramics business, we are working on products for what we call the Tape Casting technologies which would make very thin ceramics. That would be again into the future. In the case of composites, we have a range of products which is being developed and in minerals we have recently commissioned and tested out our Graphene plant, so these are some of the areas where we would work on, so Graphite, Graphene in minerals; engineered ceramics in the industrial ceramics and in composites and in super abrasives in abrasives.

Vishal Biraia: Sir, what would have been the contribution of the new products, say for first half, if you look at in a perspective that new products that you introduce in FY19, how much they would have contributed to revenue in FY19 and how much they would have contributed in FY20 and what is the time that you take for the product to scale up, just some perspectives on this front?

N. Ananthaseshan: Across businesses, we have this metric of new product as a percentage of sales and depending on various businesses it ranges between 20% to 25% of new products which has developed over the last 3 years.

Vishal Biraia: Sir, any targets of your M&A in the near term and that would be guided by new products, new technology or just capacities or?

N. Ananthaseshan: I don't have guidance on that. We keep looking for opportunities to grow and that includes inorganic opportunities and inorganic opportunities has to be through a filter of either access to technology, management bandwidth, markets and/or combination of all those, so we continue to look for these opportunities in an appropriate time. Whenever this happens, we will definitely share with you.

Vishal Biraia: Last question on the Graphite and Graphene plant, what could be the potential contribution from this plant? How big could it be based on the capacity that you already have?

N. Ananthaseshan: The capacities what we have put is largely a pilot facility to make Graphene and test it out for various applications. This includes for battery, for mechanical strength addition in metals or composites, so these are functional properties which we need to build into the graphne; so what we have is a pilot and I would say once we zero in on a couple of applications which you can scale up, we would invest in that but right now the capacities are not significant enough to add to the topline.

Moderator: Thank you. The next question is from the line of Ranjit Sivaram from ICICI Securities. Please go ahead.

Ranjit Sivaram: Congrats on decent numbers, given the overall muted demand scenario. In the Abrasives, if you can throw more colour on how has been the overall market and how our market share has been and was there any reduction in our market share or any increase? And how do you see this overall abrasive market domestically panning out?

N. Ananthaseshan: Thank you so much for your positive comments on our performance. The Abrasive segment, we would assume that we hold about 25% to 28% market shares and I have not seen any change in that position. The reason being we are looking at the Precision Abrasives and which we feed into the auto, auto-component industry and our competition has also been impacted. We also know that the user or this competition the volume has been similar to ours in terms of supplies into this industry. The mass market volumes have continued to remain same and so I would presume that the abrasives market has grown in a very flattish manner, so may not be very significant compared to last quarter but it has definitely been a muted growth.

Ranjit Sivaram: And what is the outlook for the full year?

N. Ananthaseshan: As I said earlier, the coated abrasive segment has been the one which has been doing better and the bonded abrasives is going through tough times, so I would expect that under the current conditions, this would continue and we are looking at closer to, I would say, low single digit growth in abrasives.

Ranjit Sivaram: And 3M is getting more aggressive in the domestic market, so will you be worried about one global player getting more aggressive in the domestic market or what is our reaction to such kind of international competition?

N. Ananthaseshan: In Abrasives, we always had international competition. If you were to look at Saint-Gobain which is Norton, they are international competition, we have 3M, we have other major names as well, so we have to respect all of them and appropriately change our strategies or fine tune our strategies to meet competition. While we know that 3M has niche products both in Precision and in the auto after market, they are not present across all the segments that we are in, so why I am not saying that we are not worried about it, yes, we treat all competition fair and we do our best.

Ranjit Sivaram: And sir, this ceramics if you can break up into domestic and export, so how was the domestic growth and how much was the export growth? It will be helpful to understand how the domestic has performed.

N. Ananthaseshan: On an average, ceramics has grown about 20% and export is typically about 75% of this.

Ranjit Sivaram: So, is it fair to assume that domestic has degrown?

N. Ananthaseshan: No, domestic is 75% of the ceramic share is exports and both of them have grown together in the same range.

Ranjit Sivaram: So, you don't see any impact on the overall slowdown in the domestic ceramics market?

N. Ananthaseshan: We don't see too much of that because the size of the ceramics in the domestic market is relatively smaller and it is also spread across large number of industries.

Ranjit Sivaram: And met cylinders like we are planning to increase our capacity, so how much are we putting CAPEX towards met cylinders and what will be the capacity increase?

N. Ananthaseshan: The met cylinders we had invested about 15 crores and we expect another 0.5 million cylinders per year to be the increase in capacities.

Ranjit Sivaram: And we are confident that we will be able to displace the import market and because of our cost advantage we will be able to?

N. Ananthaseshan: These products go to direct customers and these are products which we co-create with them, so most of these met cylinders are supplied or exported out and contracted with customers, so there are customers who we already are working with and we are confident that this volume will be safe.

Ranjit Sivaram: And lastly in the Electro minerals, I think solar is becoming a larger portion of the business in India and I think someday in future, it can be a big opportunity for us, so what are we working towards the solar panels, in between we had some thoughts on that. Is there anything which is moving ahead in the Electro minerals as a supply for this solar panel?

N. Ananthaseshan: When we were addressing the solar industry a few years ago, we were supplying silicon carbide for slicing of the silicon blocks into silicon wafers. Now, there has been a huge technology shift in that where the slicing is now done using diamond wires and hence the window of opportunity for silicon carbide was there, we took advantage of it and then we exited. Subsequently, we found other opportunities for the silicon carbide in DPF and now we are going into the submicron powders for making industrial ceramics, so we don't have an opportunity right now in terms of silicon carbide or going into the solar cells and we don't see that happening any time soon.

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

Bhumika Nair: Sir, just wanted to understand the EMD segment slightly better in terms of our performance, if I look at the margin on the standalone basis are at about 5.5% versus historically what used to be around 8 to 9% and if you can talk about I understand that part of it is contributed by the lower sales of speciality especially DPF, how would have the Maniyar performance impacted because last year I remember there was an impact of Maniyar whereas this year there would have been a positive impact and how should we look at the segment margins given that incrementally now we would be looking at more volume growth versus speciality sales, so would these new level of margins at about 5% to 6% is what we should look at on a standalone basis going forward?

N. Ananthaseshan: The Electro minerals profitability is contributed by one, in terms of the product mix where the better realization products always been the specialties and also in terms of access to low cost power, so last year you would have noticed that the Maniyar generation which contributes about 30% of our requirement was next to zero because of the floods but fortunately this year Maniyar is back; however, the rains which aid in Maniyar generation was not in full in the first quarter and we saw that rains pick up in second half of this quarter, so that has definitely contributed to improve margins in the Electro minerals business, especially the standalone. The non-supply to the DPF segment has impacted the Electro minerals definitely, also the low offtake of a higher realization segments in abrasives; however, the team has worked on their product mix and efficiencies and you would notice that compared to last quarter, the profit margins have bounced back to about, if I remember right it is about 3.5%. So, we are on track and we would look at improving those margins to about 6%.

Bhumika Nair: And how would have the product mix on the standalone basis be in between specialities and earlier used to be around 18 to 20% and how sharply has it come off?

N. Ananthaseshan: I think it is about the same range between 15, I would say 15 to 20% in terms of the volumes but the focus will be on improving that.

Bhumika Nair: Sir, second you said that VAW performance in the current quarter was impacted, so if you can just get some broad numbers for in terms of volumes, revenues, EBITDA, etc.?

N. Ananthaseshan: VAW runs at a capacity of about 80,000 tonnes of silicon carbide and this quarter, they have been running at flat, so their production has been about 20,000 tonnes of silicon carbide. That is the major chunk of that business and in terms of as I said they were also supplying as a feedstock to the diesel particulate filter markets and hence the product mix consequent to the disappearance of the DPF had to move into crystalline, metallurgical and the refractory segment, so the focus has been on running volumes, leveraging the power availability and delivering those numbers, so there has been consequently a drop in contribution that has impacted their margins.

Bhumika Nair: Sir, if you can just get some numbers like what was the revenues and say, EBITDA, PAT like by VAW in the current quarter or the first half?

N. Ananthaseshan: I think it has been flat compared to last quarter, same level as last quarter.

Jagannathan C.: Bhumika, this is Jagan here. VAW sales growth volume remains the same, they are able to continue to run flat out and so the sales improvements continue to be there in the same level; however, the profitability is little impacted because of the product mix which Ananth was explaining.

Bhumika Nair: So, sir, how much would have been the profit decline on a Y-o-Y basis?

N. Ananthaseshan: In Russia?

Bhumika Nair: Yes.

N. Ananthaseshan: It is about 4 crores.

Jagannathan C.: It should be around 200 basis point impact in terms of percentage may be there.

Bhumika Nair: Sir, you have said Foskor obviously saw an improvement in the performance in the current quarter, sir any change in thought in terms of you looking to kind of scale down operations or any thoughts or change in thought out there and you mentioned that there has been an improvement in the profit level versus not as much on the EBITDA level, so if you can just explain that slightly better and if I can get the number for the EBIT loss on 2Q 19 last year?

N. Ananthaseshan: I will take first half and then Jagan can take the second half. In terms of Foskor, I think it has been a good performance by Foskor to improve their volumes. As I said earlier, we are seeing some orders coming in subsequent to the tariff barriers or tariff increases from China into the US for Zirconia based products and that has given them some life. However, the operations while it has improved, we are very clear that this may not be a sustainable and hence we are continuing exploring the options

Bhumika Nair: And by when can we look in that exit happening?

N. Ananthaseshan: We are working with our partners and we would like to do it as quick as possible, but we have to go through the process of finalizing things with potential buyers, etc., so we are hopeful that we would do it. If everything happens, it can happen this year but our decision to exit out of Foskor is final.

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

Kunal Sheth: Most of my questions have been answered. Just one clarification, sir you mentioned that we are looking at similar margins for the rest of the year, so you are referring to the Q2 margins, right?

N. Ananthaseshan: Yes.

Kunal Sheth: We will be able to maintain margins at the current levels?

Jagannathan C: Yes. Kunal, the YTD margin is slightly lower than Q2 margin. We will be in this range between the YTD margin and the Q2 margin. We will be somewhere similar to that range.

Kunal Sheth: And sir, I had one question on the EMD side, in previous few calls, we did refer to some consolidation in the global market on the EMD side, so I just wanted to get the sense on, how is the market coming along now or have we passed that phase of consolidation in the global market and therefore have the pricing trend stabilized?

N. Ananthaseshan: You are referring to the silicon carbide business?

Kunal Sheth: Yes.

N. Ananthaseshan: Broadly the minerals business is China centric, so where you find that about 80% plus capacities of the global capacities sit in China. There has been pressure on the Chinese producers whether it is from the environment or whether it is from the labor cost increase and also the power cost increase, so we see there has been some amount of consolidation which has happened definitely in the silicon carbide space where the producers of green silicon carbide who were supplying into the DPF and also the PV industry have shut down, I won't call it shut down but also moved their production into black silicon carbide. That is one impact that has happened, and it is also that many of the Chinese producers have been now compelled to improve their emission controls and that has also forced them to invest in these areas. On the other hand, what we see is that on a global basis, it is not only in India we see an auto slowdown, we are also seeing this phenomenon happening in other parts of the world as well, so the offtake for the crystalline material of silicon carbide and the steel industry has put a dampener in an opportunity to put the prices for silicon carbide, so we hope that this can change soon. We also have one of the major producers of silicon carbide being sold to a private equity company, so that will also, it has to be seen what kind of thought process they have regarding the pricing policies for silicon carbide but we don't have an immediate opportunity to put up prices.

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

Kashyap Pujara: I wanted to ask couple of questions. First is regarding the coated maker while we have obviously invested during the downturn while you are seeing some slowdown at the moment but generally coated maker takes a bit of a time to stabilize and get the return on capital going. It is unlikely?? may be some other product categories within the abrasive space, so what are the thoughts on the scale up of coated given that we might commission in the coming year, but given where the economy is, you might take some time for the efficiency and corresponding operating leverage to show up, so could you just give some thoughts there?

N. Ananthaseshan: Among the abrasives portfolios or among the coated and the bonded, the coated is the one globally which is increasing, so for the simple reason that people are moving away from material removal to material finish, so finish is increasing, and coated abrasives is the one which provides finish. That is the reason why we invested in increasing our capacities for coated. Other basic reason is also the fact that the existing coated maker was running towards full capacities. In fact, it is more than running towards full capacity because as I mentioned earlier, implementing the TPM process, we discovered more capacities from the existing maker, so when we put on the first maker, it took us some time to establish both the production volumes and the quality of the product which we could get from it. Subsequently, after the implementation of TPM, we have crossed that and we have exceeded the nameplate capacities. When we put up the second maker, all the learning from the TPM and the skills will be brought in and that is the reason we believe that the establishment and commissioning of this maker and bringing it up to speed will not take as long as we did in the first instance. In terms of the products that we would make and the markets we address, the market opportunities in India and also outside the country, so why we are building products for the Indian market, we are also conscious of the fact that we have a maker which would come on stream and in the case of coated maker, it is always zero to one because the full capacity comes on stream the day you commissioned it, so we are focusing on building products which can be exported and that is one focus area for us.

Kashyap Pujara: And incrementally at full utilization is how much incremental topline would this new coated maker be able to generate?

N. Ananthaseshan: It would be between 300 to 350 crores.

Kashyap Pujara: So, just to ask you one overall high level question would be that you would be taking over as MD and wanted to basically understand your vision for the company, so while Mr. Srinivasan used to mention to us in the earlier calls that the capacity of the company which we can deliver without any incremental CAPEX is 3500 crores and given the operating metrics of the company, I think 10% net margin or a 10 to 11% net margin is an easy given if we are to hit that kind of revenue run rate but now going forward, where do you see the company over the next couple of years and obviously what is the journey that you could share with us on once the growth normalizes how do you see the company over the next couple of years?

N. Ananthaseshan: I think first of all, we should recognize and acknowledge the kind of efforts that Mr. Srinivasan put in to build this company to where it is today. There has been a tremendous focus on building a global company and that does give us also responsibility to take it to the next level. We have as a company good strong product verticals, whether it is abrasives, minerals, ceramics, but what we see is going forward how do we strengthen this core, by leveraging existing capacities and how quickly we can bring the CAPEX addition which has been commissioned to fruition. That is our focus one and the timing here today is we are in tough times, turbulent times and the immediate focus is to strengthen the basics, review of our product portfolio to improve profitability, streamlining and digitization of processes end to end and also expanding reach levelling new products faster. The company has always had what you call as built on the strength of material technology across its various divisions and we believe we can be and we are a truly material science company, so an integration of materials chemistry, materials physics and materials processes is what we are looking at which means leveraging the capabilities across divisions of a product and solutions that can give us bigger share of the customer's wallet. I believe it is going to be a few quarters going ahead but I am sure with our inherent strength we would see this through.

Moderator: Thank you. Sir, would you like to add any closing remarks.

Kashyap Pujara: No, thank you so much. I think we don't have any further questions, so we can end the call.

Jagannathan C.: Thank you all. Thank you Kashyap.

N. Ananthaseshan: Thank you Kashyap.

Moderator: Ladies and gentlemen, on behalf of the Axis Capital Limited, that concludes today's conference. Thank you for joining us and you may now disconnect your lines. Thank you.