"Carborundum Universal Limited Q4 Full Year FY 2021 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day, and welcome to the Carborundum Universal Limited Q4 Full Year FY 2021 Investors Conference Call, hosted by Axis Capital Limited. As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Aditya Bagul from Axis Capital Limited. Thank you and over to you, sir.

Aditya Bagul: Thank you, Mallika. Good afternoon, everyone, and a warm welcome to the Q4 FY 2021 and full year FY 2021 conference call of Carborundum Universal Limited. Before we begin, I just wanted to congratulate Mr. Ananthaseshan and the entire management team for a brilliant Q4 performance and wish them all the very best for the coming quarters.

We have the senior management of CUMI here with us, Mr. N. Ananthaseshan – Managing Director; Mr. P. Padmanabhan – Chief Financial Officer, and Mr. Chandramouli – Senior General Manager, Investor Relations.

I won't take too much time; I will hand over the floor to Mr. Ananthaseshan for his opening remarks. Post which we will open the floor for Q&A. Thank you and over to you, sir.

N. Ananthaseshan: Good afternoon, ladies and gentlemen. It's a pleasure talking to you all. Before we begin, as a practice, we will now have Mr. Chandramouli read out our disclaimer, and then I will take the call.

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

N. Ananthaseshan: Thank you, Mouli. So, before I start, I sincerely hope and wish that every one of you and your families and friends are safe. I know that terrible stories that we are hearing from all over India, whether it is in Mumbai or Delhi, or Bangalore, or now even in Chennai, I do sincerely hope that we have a control on this very quickly, and then and all be over.

Okay, so I would like to start off with giving a context to the year. All of you well know that the beginning of last year, honestly, was started off in FY 2019-2020 with a very poor auto performance and a lot of uncertainty regarding the BS-VI and the insurance costs etc., and we saw a significant slowdown in automobiles. And while we thought that the subsequent year, which is 2019-2020 would be better, we were hit in March with the pandemic, right. So, early that year we heard about the SARS like virus spreading in China, but subsequently in March when we had the pandemic announced and then the lockdown implemented, all of us went into a complete shutdown. So, like many of the others, CUMI's plants also were shut down and progressively we started operations sometime in June, July.

So, we had effectively lost about a couple of months of sales, while we had to absorb costs. So, progressively, the plants resumed operations, crossed over 50% utilization in Q1, while dealing with labour shortages. And also, the utilization levels were not so great. Among our businesses, the minerals business was the first one to come back or rather start off after the lockdown lifted or the lockdown lifted in a partial amount.

The joint ventures and subsidiaries were more resilient, as I would believe. While our largest businesses, which is abrasives business, picked up a little later than the other two businesses. So, while the ceramics business which is largely an export-oriented business and more a B2B business, and the Electrominerals business which riding on the shortages that were coming in from China, because of their lockdowns, picked up faster. We saw the abrasives business starting up a little late. And subsequently in September, October, when all the festive season demand grew, our top line also started growing.

We also saw during the same time the auto, auto component, construction, the home renovations, all of them beginning to pick up. So, abrasives did start doing well right from that period on, and a combination of both the mass market segments which were largely the engineering, the construction, wood working, and the precision segment, which is given by the auto, auto component, started doing well.

Sometime in November, December, we also saw the beginning of the second wave in Europe and other parts of the world as well. U.S., Australia a little bit initially, and also of course, Russia. So, many of these countries did have their own versions of lockdown, which for the U.S. and Europe in a much more stringent fashion than the others. While that happened in also the country, we saw the domestic market continue to do well, and most of us thought that the pandemic is behind us. And all of us were also very positive when the government announced a slew of initiatives like the PLI schemes or later on we also saw the Union Budget giving a big infra push. So, that was a big positive news for the entire country.

And at about the same time, we also saw a much faster rollout of vaccinations. When I say much faster rollout, our expectation was that the vaccine will come later, but the fact that it came up ahead of time was also very big positive. So, while we were all looking at these things, now we are hit with the second or third wave, and we have now become the worst affected country in the world. So, that is where we are coming from and our performance should be seen in that context.

So, as year 2021, while it has been testing on so many fronts, it has also taught us a lot of lessons, and how to manage in a virtual world. The business managed to record a 1.4% growth at the consolidated level and 1.6% growth at the standalone level. So, we had the PAT growing by about 4.5% at the consol, whereas at the standalone level it declined marginally by 2%. Now, if someone had told me that these are the numbers that we will look at, at the end of the year, when we set out our scenario planning in April-May, I would have gladly taken it. That's the kind of situation we were in Q1 where we did not think that this demand would come back so fast, and we would be able to do these numbers. So, overall, the standalone businesses drove the top-line growth, and the subsidiaries drove the bottom-line growth.

So, while we saw the pent-up demand coming back in Q3, in Q4 we also saw another set of challenges, which is basically on delayed shipments, containers not being available, the commodity prices going up, the raw material prices consequently going up. So, these were where uncertainties and ambiguities which plagued us in Q4. But there has been a visibly higher demand in Electromineral segment over the last year. The company level growth we see in sales and standalone and consol came from the minerals segment. So, not only did it help us overcome the slowdown in other segments, but also helped record overall top-line growth.

The abrasives segment managed to remain flat at the standalone level, so this coming from a slow start. So, what we have seen in this segment is a dramatic shift in the pattern of sales between quarters. So, the overall volume of sales did not come down and we were able to maintain FY 2020 levels. However, the performance of our overseas entities in abrasives segments, both at America and Russia, was impacted by their domestic markets and their lockdown which impacted the auto, auto component businesses. So, consequently, there our top-line saw a marginal decline.

But the positive I would say in this segment has been the profitability. So, while we had a flat top-line, the operating profits grew 19% year-on-year. So, we had taken a slew of measures, cost controls, both on the material cost and on efficiencies and on the fixed costs, which has helped us clock double-digit growth rates. And towards the Q4, a more favorable product mix in terms of higher precision and abrasives also helped. Obviously, many of the expenses related to travel, communication, exhibition, etc., came down, and that also helped. So, these are what I would call possibly one-off, but this year also it seems like many of these costs will not be incurred if situation continues like this. The margins in the segment improved by about 300 basis points. Now, going into FY 2022, the focus will be to regain some of these structural changes in cost. We know some of them will come back. And the investments what we have made in automation and mechanization has to start paying off.

Electrominerals has seen a very good performance this year. At the consol level, the business grew by 4% in top-line. Here, it is pertinent to say that our Russian subsidiary, VAW, though was impacted by the COVID, the plant and the market there continue to do well throughout the year, they churned out the volumes, they don't have even a single month of a slowdown, so they managed to keep their material moving. It also helped that they came under the essential services or essential materials in their geographies. So, standalone growth was higher at 7% and this segment was one of the earliest to see revival in demand. And this was also due to the fact that some of the export customers seeking to reduce sourcing from China, and also domestic customers who were sourcing from China were looking at local opportunities or opportunities to source from India or local opportunities.

So, this segment has seen a strong demand in white fused alumina and the silicon carbide. Realizations have also been strong. But as in all segments, we have been facing input cost pressures here too. So, what we are seeing is a 30% growth in consolidated operating profits and a 46% growth in standalone operating profits for a single-digit top-line. And it is not just a story of volumes here, very active business development, ensuring that we address markets which we have not been there before. And this is evidenced by the high volumes and specials, efforts at fixed cost reduction. And the variable costs have also led to these record growth figures.

The ceramic segment had a very mixed year. In the technical and engineered ceramics, we saw record volumes, we did much better than ever. Metallized cylinder volumes also recorded very good growth and we have completed the expansion activities in this line. The other breakthrough this year is the entry into the electric vehicle component space. So, for the electrical parts of EVs, we have started our supplies, so that's a good initiative which has been started and we are looking forward to growing in this space. However, the wear ceramics and the refractories performance was relatively muted. This is largely due to the project deferrals in core sectors, and hopefully the project orders will come back this year. Because we believe that these process plants which are heavily dependent on these kinds of materials would have taken up only a repair job, or EOR job as we call it. But definitely the project orders are due this year.

But on the positive side, the wear ceramics or the wear materials part was able to onboard new customers and repairs and maintenance space, especially many customers have had to start and stop operations intermittently, and this led to more wear and tear. Overall, the consolidated segment declined the 0.3% and the standalone businesses declined by 2%. But despite this, the PBIT grew by 3% at consol level and a much higher 6% at the standalone level. So, the lower fixed cost, higher volume from continuous process lines and a more favorable product mix helped the standalone profits.

CUMI Australia's performance, that was the part of the ceramics is impacted by a host of factors, which included a setback to the domestic iron ore industry, as political tensions between China and Australia are escalating for a while. So, this business has seen a 5% decline in top-line. The ceramics segment of Russia subsidiary, VAW, was a real success story. And we have been seeing strong growth in the nitride bonded silicon carbide refractory space, which goes into the non-ferrous industries. We have also been putting up capacities here and added another kiln earlier this month. The ceramic portion of CUMI America and CUMI Middle East also saw a growth, and also kind of negated the domestic softening to some extent. In American market, we have made some breakthroughs in the mining sector over the last year, and that augurs well for the future.

At the full year level, all entities were in positive margins, except for Foskor Zirconia. But to the credit of Foskor Zirconia, they have halved their losses from last year's levels, and the lower losses come over a 30% growth in top-line, so also in Q4 we saw positive modules. A quick look at the other subsidiaries we, have Sterling abrasives was the other success story over the year, it is in Ahmadabad. So, this business has grown by almost 9% this year and saw a volume growth, both in agri and industrial segments. CUMI Middle East grew about 20% while China also did very well. Profits were also positive. Overall, the share of profits from JVs was lower by about 15%, so Morgan Thermal Ceramics and Wendt performed very well and recorded a growth Ciria which is more a project-based business, had a very tough year. And on top of it, it comes over a higher base of last year.

Therefore, to sum it up, what you are looking at is a consolidated sale of Rs. 2,604 crores which marks a 1.4% growth, and the Rs. 284 PAT, which marks a 4% growth. CAPEX over the year, we spent about Rs. 103 crores, standalone at about Rs. 56 crores and Russia is about Rs. 40 crores, and some expansion CAPEX we started before the pandemic has also been completed this year. So, these include the second lined equipment plant, and the new facilities in composites, and expansion in the metalized cylinders. We also have commissioned this sintered silicon carbide facility in the ceramics business. Going forward into FY 2022, we have a few more CAPEX planned, both in India and in Russia, and we will continue our cost and volume focus.

Our CFO, Mr. Padmanabhan, will talk more about this and our balance sheet position is also very strong this year. And we have been able to keep receivables well under control and maintained the net working capital. So, this closes my briefing for the quarter and now I request our CFO, Mr. Padmanabhan to take you through the numbers, following which we can open up the forum for questions.

P. Padmanabhan: Thank you, Ananth. Good afternoon, everyone. Let me summaries the financial performance for the quarter and the year ended March 31, 2021. The consolidated sales for the quarter has increased by 28% from Rs. 586 crores to Rs. 756 crores of this the standalone had increased by Rs. 147 crores, thus signifying a 41% growth over last year. The consolidated segmental PBIT was at Rs. 138 crores in Q4, which was up from Rs. 94 crores in Q4 of last year, signifying a 46% growth on a quarter-on-quarter basis. At the standalone level, the segmental PBIT for the quarter was at Rs. 84 crores, again, Rs. 52 crores denoting a 63% growth over Q4 of previous year.

On a consolidated basis, profit after tax and non-controlling interest for the quarter was at Rs. 90 crores as compared to Rs. 92 crores in the corresponding quarter of last year, a 2% decline. At the standalone level, the PAT decreased to Rs. 58 crores from Rs. 62 crores, showing 8% decline on a quarter-on-quarter basis. The margin level, the PAT margin degrew from 16% during last year at the consolidated level to 12% in the current quarter. At the standalone level, the margins have come down to 11% from 18%.

And on the abrasives segment, the consolidated sales for the quarter increased from Rs. 213 crores in the corresponding quarter of last year to Rs. 300 crores this Q4, indicating a growth of 41%. Standalone sales increase from Rs. 174 crores to Rs. 253 crores in Q4, denoting a 46% growth. At the consolidated level, the PBIT was at Rs. 50 crores, this is up from Rs. 23 crores, 119% growth, out of which Rs. 22 crores increase is from standalone and Rs. 4 crores increase is from our domestic subsidiary, Sterling Abrasives.

Going to Electrominerals segment. The Electrominerals segment's consolidated sales for the quarter increased to Rs. 290 crores from Rs. 251 crores in the corresponding quarter of last year, denoting a 15% growth. At the standalone level, sales increased to Rs. 137 crores from Rs. 101 crores in Q4 of previous year. The standalone South African subsidiary and Russian subsidiary contributed to the top-line growth. The consolidated Electrominerals business recorded a PBIT of Rs. 42 crores against Rs. 32 crores in the same quarter of previous year, this indicates a 31%

growth. The standalone contributed Rs. 2 crores to the increase in profitability, while the Russian and South African subsidiary showed strong results.

Moving to the ceramics segment. Ceramics consolidated sales grew by 36% on quarter-on-quarter basis from Rs. 140 crores top Rs. 190 crores. The standalone sales grew by 28% on quarter-on-quarter basis to Rs. 149 crores. The net sales of our Australian subsidiary grew by 23% on quarter-on-quarter basis. Consolidated PBIT of the ceramics segment for the quarter was at Rs. 48 crores, higher by Rs. 6 crores from the same quarter of last year. The standalone profitability increased to Rs. 33 crores, denoting a 38% growth.

And as Mr. Ananth said, the balance sheet is very strong, and we have good cash position. There is no debt in the standalone books as of March, and in Q3 also we don't have anything. On a consolidated basis also the liquidity position and the financial position is strong. The debt equity ratio was at 0.02% in March.

The total debt on consolidated basis was at Rs. 43 crores and at the net level it is Rs. 647 crores. Then to comply with the minimum public shareholding requirement we divested 2.47% of our equity stake in our associate company Wendt and this has resulted in a profit of Rs. 13 crores during the current quarter.

On the FOREX cover, CUMI is typically a net importer in dollar terms and a net exporter in euro terms. We cover the net exposure as appropriate in accordance with the FOREX policy.

And this is the update from the finance side.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Bhavin Vithlani from SBI Mutual Funds. Please go ahead.

Bhavin Vithlani: Congratulations to the management team on an excellent performance. My first question is, if you could help break the ceramics segment into refractories, med cylinders and others, and how do you see the outlook of this? In your opening remarks you mentioned about EV batteries and fuel cells also as an opportunity historically. So, how should one think about the ceramics segment on a three-year perspective and also on the profitability of these segments?

The second question is on the abrasives. Last year, similar time, we had a new facility of coated maker commissioning which doubled the capacity. So, given the current situation, without further CAPEX, what is the kind of revenue that we could see from the abrasives facility? Thanks. These are my two questions.

N. Ananthaseshan: On ceramics facilities, broadly we have the thermal part of the business and the technical ceramics, and we also have a smaller composites business which is both the wear and the corrosion resistance, or anti-corrosive business opportunities. On the technical ceramics, as I said, it's largely an export-oriented business with customers in the Vacuum insulator tubes space, which is for the high voltage power transmission, and also in the alternative energy business. So, both these segments are doing well and the outlook for the current year, which is the FY 2022, and at least going forward over the next couple of years is positive. So, definitely this is one area where we will continue to invest and create capacities. So, the capacity expansion what we set out in the middle of the pandemic by installing a new furnace, which was commissioned earlier late last quarter, and then stabilized earlier in this Q4, is now ready and that is something which we look forward to in the coming year.

As to the thermal part of the business, it is more product-oriented business. And I believe there are two things which come into play here. One, I think the intimation now, and the intention of many of the players in, whether it is the steel industry or refractory industry, to source from local sources, I think that we are seeing going on an increase. Which means there are opportunities for the refractory segment to replace competition mostly from China and other parts of the world. So, while we are focusing not only on the day-to-day consumables' refractory, we are also focusing on the design, the bespoke solutions, which we offer to customers across various segments, we also see an opportunity to leverage that and grow in global markets. So, whether it is glass, the cement, carbon glass, so these are all opportunities not only in India now, but also growing across the globe. It's still early times, but then with some of these segments and the PLI scheme getting a seal of approval and hopefully investments coming in deal with specialty steels for example, especially on the specialty steels where more investment casting, high purity alloys etc. will come into play, this is something which we are looking forward towards the growth area.

On the subject of margins, I would believe that the industrial ceramics part of it would largely continue to stay at these levels, plus/minus percentage. But the refractories and the composites would be marginally better. Because the reasons it's a product business, once a product business comes in, it is in a much better position than a consumable day to day refractory business. On the abrasives, we did invest in the maker, and got it commissioned last year during the pandemic. And I am happy to say that the capacity utilization of that maker has been at a little better rate than what we thought and set out at the beginning of the year. So, while the capacity utilization of the coated quarter maker is ramping up, and that would definitely drive growth this year. We are also supplementing that with investments in the conversion part of the coated business, whether it is the sheets, belts, disks, etc. So, that is what is going to drive growth in coated.

Bhavin Vithlani: Sir, just one follow-up if I may. With the current investments that we have, historically, you had mentioned that we could do revenues of about Rs. 4,500 crores and about 11%, 12% PAT margins, but we have seen increased price level. So, with the current increased price level, would it be fair to say Rs. 5,000 crores revenue potential from the current capacities, would that be a fair assumption over a three-year period?

N. Ananthaseshan: I mean, with price levels, yes, last year, in some cases, some product groups had increased price levels. But these are commodity prices, so especially in the minerals business prices can fluctuate a bit. I would say that region would be fine.

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

Kirti Jain: Congratulations, sir, for excellent performance and trust you are doing well. So, my first question is, we have seen a very good cash flow from CUMI, we are now sitting on roughly Rs. 700 crores kind of cash pile as compared to debt neutral status two to three years back. This year, again, since our CAPEX in the existing businesses can start kicking off, so we will again have a Rs. 300 crores, Rs. 400 crores kind of cash accruals which we will have. So, with these kind of cash accruals, where will be the money invested? Like we will have at the yearend Rs. 1,100 crores, where will the money get invested?

N. Ananthaseshan: See, last year was a year where we wanted to conserve cash, we just did not know what can crop up, what can come around the corner, so we had to be extremely careful, be prudent about our spends. And I think this year is proving to be different or very different but of a different degree altogether. So, yes, cash is important and that is something which we value, and we will continue to build on those reserves. As for the investment, we definitely have plans to grow in inorganic manner. There are segments, there are areas where the growth potential and the profit potential are in line with our corporate guidelines. And it is in those areas that we would invest. Obviously, the ceramics part of the business is one area of resources allocation would be higher. We also know that we have opportunities, and we can grow in abrasives space only through inorganic acquisitions across the globe. So, that being a business of a global nature, and we are having already a good brand position in Europe and the U.S., growing inorganically is the way to grow for abrasives. So, that is another area of growth. It is just not only for the top-line but also in the case of abrasives it should add to our portfolio, to our range, technology, and market access. So, these are some of the criteria that we have for choosing our targets.

We are also looking at investing in areas of advanced materials. There are possible materials which we are not currently in, but these are materials of the future, and some of them are in the thermal storage space, and they have a wide range of applications including preservatives and food storage or pharma, vaccine deliveries, etc. So, these are temperature storage materials that we would be investing in. So, areas where we have, what we call, a material science of flavor, at the same time which makes sense to us strategically, so that is the area of growth.

Kirti Jain: Sure, sir. Sir, secondly, we are seeing crude going up, like pet coke is one of our material, aluminum is going up, Sir, are we intending to take other price increases, and will we be able to meet the cost inflation and maintain the margins in the abrasive segments, sir, or in the ceramics segment?

N. Ananthaseshan: Yes, so we saw this in Q4 where commodity prices have definitely started going up. And I mean, there is only a certain amount of cost which we can absorb, no work on efficiencies and absorb cost. But if it has to be passed on to the customer, we will have to do it. So, that we are seeing that happen as we speak, so that selective passive increase is already happening.

Kirti Jain: Sir lastly, just one bookkeeping question. What was the one-off loss expense which we had written-off this quarter? That's the only thing I wish to know.

P. Padmanabhan: This is in compliance with the Indian accounting standards, the fair valuation has been done in the respective financial instruments and that is why the provision has been created, and which is netted off against the income from part stake sale in Wendt India and the balance net of around Rs. 11 crores have been showed.

Kirti Jain: What is that instrument, sir, like?

P. Padmanabhan: The instrument, as per the Indian accounting standards, we have to fair value each and every line item of the asset. Like that we have done the financial instruments in the consolidated level and the consolidated level will move to the standalone level also. Similarly, we have done and then we have taken this provision. See, like each and every year or the quarter end, we have to revalue and then the movement has to be done either through the profit and loss account or through the OCA account. If it relates to the current period, then it has to go through the profit and loss account, which has been done during the current quarter.

Moderator: Thank you. The next question is from the line of Charanjeet Singh from DSP Mutual Funds. Please go ahead.

Charanjeet Singh: Sir, on the top-line front, if I see on FY 2019 versus FY 2021 how we had delivered, so it's kind 3.4% kind of growth. And now with a lot of these drivers coming like PLI or even the manufacturing, overall intensity is expected to go up. So, where do we think that the growth rates, once this situation of COVID stabilizes, how industry can grow versus the historical growth rates?

N. Ananthaseshan: See, the PLI schemes and the infrastructure spend announcements in the budget, both are definitely good drivers of growth for the company. And to pick on a few areas, initially it was about 10 schemes which the government had said, and then added on another four schemes. But then not all the schemes have been approved yet. So, we are hopeful that this will kick start, for example, in the areas of auto, auto components. The idea is India can be a very big global player. And if that happens in auto, auto comp, would require the abrasives and also the foundry segment to do much better than what it is doing. So, those are opportunities, whether it's for abrasives or for the refractories and also for the minerals part of the business.

But that has still not been finalized yet or approved yet, things like the advanced chemistry cell batteries, again, where the plans are in terms of big investments, so that has not happened. But we are preparing for that, so we have materials like the graphene and the high-performance graphite being qualified by potential customers. So, we will be ready for that kind of opportunity when it comes to. Similarly on the electronics manufacturing space, whether it is through engineered ceramics or the high purity silicon carbide which can go into the 5G chips, so high purity silica carbide as silicon sticks. So, these are areas in which our teams are in Russia and in India already working on. So, we have been able to hit purities of 99.99 plus. So, it is just a matter of time before we hit those desired purities and be ready for those industries.

In terms of, I was talking about pharma, food delivery. So, materials like insulation materials, so they are all good materials, science products that we can have for the PLI schemes. Telecom, whether through composites and again silicon carbide. So, in many of the PLI schemes we have a play going. It all depends on how soon these capacities will come on stream or the players will come on stream. But we are readying ourselves with those product lines.

Charanjeet Singh: And sir, on the margin front now, last few quarters we have seen bumped up margins, there have been a lot of cost savings. And you rightly mentioned that there are a lot of costs which may not occur in this financial year, but they will definitely come back. So, from a sustainable margins perspective if you can touch upon like how we should look at sustainable EBITDA margins. And within different segments, especially abrasives we have seen, again, EBIT margin jumping to almost more than 15%, and what has been the driver for that, and even for ceramics can we sustain at these levels what we are currently delivering at more than 20%.

N. Ananthaseshan: See, the profit margins in abrasives is not a standalone event, I think it's been a systematic improvement in abrasives margins and the kind of work which the teams have been putting in, in addressing costs in a much more scientific manner has been paying off now, I would believe. And yes, some cost will come back and possibly 1%, 1.5% could be the kind of cost that we will not, those kind of savings we will not see. So, I would possibly believe a 15%, 15.5% kind of margins would be more sustainable. Specifically, in Q4 what also happened was that we had a significant improvement in product mix. So, with the automobile industry picking up strictly, then you saw replenishment abrasives requirement going up. So, that being a very custom-built business, obviously, the realizations and the margins are better. So, that definitely kind of also took some of the shock from the raw material price increase. Again, I said, the capacity utilization of coated abrasives and the kind of volumes it were able to churn out, plus the fact that this new investment is also more efficient, helped us save some cost. But that is definitely something which is a sustainable cost. So, going forward, I would believe that when the capacity utilization of the coated maker is growing, we will be in a much more competitive position than we are today.

Charanjeet Singh: Okay. So, sir, you mentioned that abrasives will be in the range of 15% to 15.5%, is that a correct understanding?

N. Ananthaseshan: Yes.

Charanjeet Singh: And on ceramics and refractory, how do you see a sustainable margin here?

N. Ananthaseshan: Ceramics, I would believe around 20% margins what we currently have would be a good base to have.

Charanjeet Singh: And Electrominerals also have seen quite a lot of variability on a quarterly basis in the EBIT margins. So, if you can touch upon that, what is causing so much variability and do we think that the pricing which we wanted to see improving because of China related issues, do you see that sustaining and the margins can remain at a sustained level of 13%, 14%?

N. Ananthaseshan: I would say for the standalone minerals business, the design is to get closer to the 13%, 14%. The fact is that they did move quite a bit from where they were last year to now, which is almost doubling their EBIT margins. Having said that, the Q4, the drop in margins in Q4 was due to a couple of factors. One, an increasing move towards the refractory industry, because the volumes in the refractories industries today are much higher, and that is where most of the customers are importing material from China. So, we are ramping up our volumes in a white fused alumina segment, and that has given us a definite push to the top-line. But the contributions or realizations are not as high as what you would get from, let's say, a specialty sector like abrasives. So, while the overall contributions may drop, you would still find that the EBITDA can be higher. But in the case of minerals in Q4, all of you know that a significant portion of cost is power, and in the period of Q4 generally we have a very low generation from our own power plant. So, that has impacted costs a bit. Plus, the cost push which came on to the raw materials, we have not been able to pass on in the same month in the same quarter, so which is what we are now doing in subsequent quarters. So, I would say that in the Electrominerals segment, especially standalone, I would say targeting between 11% to 13% would be a much more reasonable margin target to take.

Moderator: Thank you. The next question is from the line of Sanjay Dam from Old Bridge Capital. Please go ahead.

Sanjay Dam: Sir, congratulations. So, sir, if you could give us some brief comments on market share gains, a couple of quarters earlier you had said that there have been certain gains in most of the segments that you operate in, especially the abrasives. Have there been more consolidation and gains after that?

N. Ananthaseshan: See, the numbers what we saw in Q3, they definitely indicated market share gains in the mass market. So, there has also been definitely a drop in imports in some of these segments where we play in, and that has contributed to this market share gain. So, if were to see Q4 numbers as well, that trend seems to continue. For two reasons, one, the imports from China are traditionally in the month of February, March, would be lower because of their new year. And some of the shipments still continue to be delayed from China. So, there is definitely a good chance that we would have gained market share in abrasives.

Sanjay Dam: Thank you, sir. Secondly, sir, in FY 2021, our CAPEX and depreciation were by and large balanced, and going forward you said that refractories possibly will create some capacities. So, in the next couple of years, the capital allocation that you see organically, any ballpark estimates?

N. Ananthaseshan: Last year, when we set out the plants, we had taken up a CAPEX of, if I remember right, about Rs. 150 crores, around that. And then during the course of the year, we kind of looked deep into those critical capitals that we must do. And that's what we did. So, we ended up the year broadly around about Rs. 102 crores, Rs. 103 crores. And obviously, that is not a very good way to drive sustainable growth. So, we need to put in growth CAPEX. And we have made our plans this year to do about between Rs. 150 crores to Rs. 170 crores across the company, across consol. But having said that, again, when we put on these plans, we didn't see this third wave of COVID or second wave COVID coming.

So, we will definitely look deep again into what we should spend but knowing fully well that those areas which the spend should happen will happen, things like the industrial ceramics is definitely one area where resource allocation will happen. There are projects in the electromineral space largely for the conversion, because the fusion capacities are all in place, they can churn out volumes, but those huge volumes have to be converted into products and for that CAPEX will have to happen. We have CAPEXs coming up for expansion in Russia, both on the furnaces side and also on the refractory side. So, these will happen.

In the case of abrasives, this time, the coated abrasives, the conversion CAPEXs which was already planned but kind of planned for next year will be advanced to this year, because we see the capacity utilization of the maker coming up faster than we expected. So, that conversion CAPEX will happen this year. We will also be spending on the modernizing and upgrading of some of our bonded abrasives, presses and case. So, yes, wherever the vital and critical CAPEX has to happen will happen. But broadly, what you see currently is about Rs. 150 crores is what we are planning.

Moderator: Thank you. The next question is from the line of Manish Goyal from Enam Holdings. Please go ahead.

Manish Goyal: I just want to clarify on the earlier participant where you mentioned we expect margins of 15% to 15.5% on a sustainable basis. And so basically just to correct myself, you mentioned that 1%, 1.5% of the cost saving what we saw during the pandemic time may not sustain, and that is why you believe that the margins can revert to our FY 2020 levels?

N. Ananthaseshan: Yes.

Manish Goyal: But sir, on other side like you also mentioned that with the current capacity we can go to say Rs. 5,000 crores revenue, what it implies is that we have enough operating leverage in place. That is one that we have operating leverage and I believe like we have been looking to move towards higher value-added products, especially in the ceramics space and with entry into EV battery space and solid oxide fuel cells. And I believe you have many more such products lined up. So, I am just wondering that is it very conservative, because we have ended up with 17.7% EBITDA margin without other income in FY 2021, so just want to know why such…

N. Ananthaseshan: No, sorry, my answer was specifically for the abrasives segment, not for the company overall.

Manish Goyal: Okay. So, overall, can we expect that the margins what we have currently is more or less sustainable going forward?

N. Ananthaseshan: Yes, I would believe so.

Manish Goyal: Okay. So, coming back to the Rs. 5,000 crores revenues, just want to get a sense that are we going to probably in next three to four years are likely to witness higher revenue contribution coming in from more value-added products, and which will in turn help us achieve higher revenue growth going forward then to what we have seen historically? Do we see a fair degree of change in our product mix leading to a revenue mix change?

N. Ananthaseshan: See, I would not completely go with that, because we are today very clearly, if you look at the minerals business, we are very clearly leaders in silicon carbide, and that is main, I will say, commodity business. It's a big volume, highly volume business. There are elements of value-added products there, but definitely a bulk of the volume will still be for the mass consumption as a raw material. Same case in the case of fused alumina. So, while we are about 1 lakh tonnes capacities in silicon carbide, we are looking to leveraging our existing capacities, plus some bolt-ons to have a similar capacities in the fuse alumina business. So, the growth will come from regulars, as we call it, and also from the special, which is the high-end materials, whether it is high purity silicon carbide, graphite, graphene, etc. So, it's going to be a mix of both. So, one will give you the foundation and second is possibly add on to the value going forward. In the case of abrasives, it is a very different story where the bulk of it, at least 70% of what we are in today is mass market, and this is where we will be going again. So, that is where growth is, infrastructure growth, housing growth, in India definitely it is coming from that segment and we would be preparing ourselves for that. And of course, any opportunities that come along in terms of the PLI and opportunity to grow in the precision, both in conversion of precision and super abrasives is another area. So, it is a blend of both, what I would call, regulars and specials.

Manish Goyal: Sure. So, ideally, with the annual CAPEX of Rs. 125 crores to Rs. 150 crores over the next couple of years, we should be able to achieve that number in probably three to four years?

N. Ananthaseshan: CAPEX would also depend on some of these projects which have to ramp up faster, so we need to put in a little more money there. But I would say that this is the range in which the CAPEX will be.

Manish Goyal: Okay. And last question sir on micro grits, earlier we used to have a fairly high degree of sales and profitability from micro grit sales to the solar PV industry. So, are we seeing that product also doing well?

N. Ananthaseshan: See, that product for the solar PV industry is declining, but what is happening is the same product is now being used for semiconductor industry. So, the semiconductor industry, both in Europe and in Japan, we are supplying, so we have the capability to supply to this industry. And if that is going to come into India as a part of the PLI scheme, so we are well positioned.

Moderator: Thank you. The last question is from the line of Bhavin Vithlani from SBI Mutual Fund. Please go ahead.

Bhavin Vithlani: Sir, could you give us an outlook for the super abrasives and for Sterling abrasives, which is largely on the food and beverage side, how should one think about these companies over the next two to three year period?

N. Ananthaseshan: Sterling abrasives is a very niche player in precision abrasives, largely catering to the rice processing, dal, atta processing segments. So, it is, I would believe, a recession proof industry we are in. Food processing, more and more of us prefer to buy food from the store. So, dals, whether it is in all these pre-packaged foods or atta, growth is phenomenal. So, I would see the Sterling abrasives growing very well in the agro industries, both for agro processing or food processing, both in India and in Southeast Asia. They also have a very good product portfolio for the industrial applications, some of it which complements what we do in CUMI. So, that kind of broadens our portfolio, whether it is in the bearing industry or some auto component industries, and they have a good distributorship in markets like in the U.S. and Europe. So, good prospects for Sterling abrasives in the precision industry.

Your next question was on super abrasives. I think super abrasives is, again, globally many of the applications are moving into super abrasives largely because of the sophistication of the machines. If you want to have a more precision, that will provide output plus productivity then super abrasives is possibly the tool of choice. So, of course, a good range of products in diamond, so CUMI and Wendt together are working on a few products which complements each other. So, that is something which we are very bullish about.

Moderator: Thank you. Ladies and gentlemen, this was the last question for today. I would now like to hand the conference over to Mr. Aditya Bagul for closing comments.

Aditya Bagul: Thank you. So, a big thank you to the management team for patiently answering the questions. I would also wish them all the very best for the quarters to come. Thank you so much. Anant sir, over to you for any closing remarks.

N. Ananthaseshan: My only closing remark is that the entire last year, I was just talking to a friend of mine, the entire last year was one of waiting for demand to come. So, we were all figuring out, we are all feeling sitting at home, okay, when will the demand come back? And when the demand came back, we all thought that this COVID is done and dusted, right. So, today we are seeing a very new different COVID. So, the demand is still there, technically, yes, the manufacturing lines are open, the factories have opened, but then there is also a major, major fear factor in place. So, while we are still very, very positive about the growth and the growth prospects, we should keep in mind that this situation has to be brought under control. And it is up to each one of us to play our part in keeping ourselves safe, keeping the people around us safe, and get ourselves vaccinated as soon as we can. So, that is something which we are driving across the company. And for us, seeing the next couple of months without any, I would say, fatalities in the organization is the most prime thing which is driving us. So, business will definitely follow. But ensuring that every one of our team members are healthy and safe, and wishing you will also very safe future and your families too. And looking forward to seeing you all soon again. Thank you so much.

Moderator: On behalf of Axis Capital Limited, thank concludes this conference. Thank you for joining us. And you may now disconnect your lines. Thank you.