"Carborundum Universal Q1 FY2022 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to Carborundum Universal Q1 FY2022 Earnings Conference Call hosted by DAM Capital Advisors 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 Ms. Bhoomika Nair from DAM Capital Advisors Limited. Thank you and over to you!

Bhoomika Nair: Thanks. A very warm good morning to everyone. On behalf of DAM Capital, I would like to welcome you to the Q1 FY2022 earning call of Carborundum Universal Limited. We have the management today being represented by Mr. Ananthaseshan, Managing Director, Mr. P. Padmanabhan, Chief Financial Officer, and Mr. G Chandramouli, Senior GM, Investor Relations. I will now like to hand over to Mr. Ananthaseshan for his initial remarks post which we will open up the floor for Q&A. Over to you Sir!

N. Ananthaseshan: Thank you Bhoomika and good morning to all of you. 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: Thank you Ananth. Good morning. During this call, we may make certain statements, which reflect 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, more fully detailed in our annual report, which may cause actual result to differ hence these statements, must be reviewed in conjunction with the risks that the company faces. Thank you.

N. Ananthaseshan: Thank you Mouli. Thank you all for joining us on this call again. I hope you and your families are keeping in good health. We meet again at the end of yet another challenging quarter. I would say that it was a combination of pandemic related lockdowns, increased incidence of infection amongst employees and disruptions. Under these circumstances in addition to managing current operations, the company had also focused on building all round capabilities.

All of us at the end of Q4 were thinking that the Q1 and then subsequent quarters would be better than the previous year and April was an example of a great start most companies had like we did, but the extent of the second wave, which we experienced in the second half of April and through May is something that has taken the whole world if not India by surprise and if anything that has been ominous reminder that this war with COVID is not that might end anytime soon.

So over the past quarter our primary focus has been to keep operations running safely across all our plants. We also ensure that all employees and their families are safe and have all necessary support as and when required. Even while we were running the operations in April and when the COVID really was raging on in the north and later on in the south, we did not think of an intensity of such nature because last year was completely different. The COVID was far away from most of us, but this year it was very near our home.

So it was sad that despite all our care, we still lost seven people to the second wave and also some of our longstanding dealer partners to this disease. At the company level, we had vaccination drives to cover about 75% of our employees and have also rolled out COVID care policy to provide support and improve their confidence.

When this wave hit us in April and May it also caused a lot of fear in our employees and many of them went back to their hometowns so we had to bring them back and only vaccinations could kind of remove that fear. So we have also provided infrastructure like oxygen concentrators to all our family at our factory locations and we also established quarantine facilities. In addition we also had to have logistics challenge and increasing raw material costs coupled with poor availability. This is the background in which we have a Q1.

In the April to June quarter, the company recorded a sales of Rs.465 Crores at the standalone level, which was a near doubling of the topline of Q1 last year and on a sleek Q1 of last year is not a great comparison that being COVID impacted quarter and on a sequential basis, this marks a 8% decline and this decline was caused both by the second wave disruptions as well as the above average base of Q4 of last year, which saw a lot of pent up demand coming from abrasive segment.

At a consolidated level, sales recorded Rs.706 Crores and a sequential decline was lower at the consolidated level at 6%. Thanks to our positive performance in our overseas entities which have also been seeing a second and third wave impacts but at different points of time. So when it comes to the bottomline performance, at the standalone level on a sequential basis, we have seen an 8% decline in PBT for an 8% decline in topline. PAT however recorded a 10% growth despite lower share of profits from JV associates. This is also mostly on account of the base affect. You may recall that we had extraordinary expenses in Q4 due to fair evaluation of instruments.

While we did significantly better than Q1 of last year at a consolidated level, operating profits declined by 17% sequentially; lower quantum of profits at Sterling, CAPL, VAW, and FZL have had an impact; however, margins continue to hold up in standalone abrasives despite the lower volumes caused by the lockdowns.

Month of May was terrible especially for abrasives with very little dispatches happening to various parts of the country, which have all severely impacted by lockdowns. Overall, we have seen standalone abrasive margins softening by about 100 bps from 17% to 16% sequentially. In the standalone ceramics segment, the volume impact and cost impact led to a 200 bps softening of margins and this cost impact was not so much from input prices but from mitigating the chronic labor shortages at the Hosur complexes where we have our bonded abrasives, coated abrasives and super abrasives facilities with the temporary labor returning home for the lockdown period and also the unbudgeted COVID expenses. Standalone EMD has been the silver lining of the last quarter with margins increasing by almost 500 bps. So we have done record volumes in some of our products lines and also managed to pass on some the input price increases. In addition to a combination of product mix, which is favorable profitably we also had a great run at Maniyar due to a good rainfall.

Looking at the segment wise performance in some more detail; the consolidated abrasive segment recorded sales of Rs.273 Crores, marking a 9% sequential decrease and operating profits of Rs.38 Crores, marking a 25% sequential decline. Standalone operations had a very challenging April and May with many auto OEMs shuttering their operations during the second wave. This was a combination of both the COVID incidences in their respective plants and also due to the semiconductor shortage linked disruptions the auto industry had.

On an operational side, we did have some disruptions in our Hosur plant due to the imposition of the lockdowns and also the acute shortage of labor. We utilized this opportunity to revamp some of our critical assets.. In March, we were able to regain a significant portion of our lost sales in the month of June as we saw the lesser incidences across the country and the opening of the lockdowns. Our Ahmedabad based subsidiary, Sterling Abrasives performed well on account of good demand from agriculture sector. After several quarters of lower volumes at our Russian subsidiary, VAW - due to the ailing home and European auto market, we are beginning to see some revival in demand.

Coming to the ceramics segment, the consolidated ceramics recorded Rs.173 Crores marking a 100 bps decline in topline sequentially. As mentioned earlier, the disruptions in operations at the Hosur plant had impacted production and on time deliveries. Consequently, our sales to our Australian subsidiary CUMI Australia and other exports were also impacted due to non-availability of containers for exports. The orders from repairs and maintenance segments in domestic market have been particularly an encouraging story. What we are seeing is that after a year of on and off operations, many core industries are beginning to invest in these areas again.

In minerals, the demand scenario looked good both at standalone and global operations. This is also due to the fact while the end user industries are seeing an uptake there is also hesitancy or rather a preference from many of our customers to have an alternative source of raw materials from China and that is also helping both our Russian and Indian operations. We also had an increase in input costs that were offset by price increase to some extent. As I mentioned earlier, the good rainfall in our captive power generation facility at Maniyar has helped shore up our bottomline. This resulted in a 500 bps improvement in margin Sequentially. At the consolidated level, it declined by 70 bps. At our Russian operations, we saw good volumes in Silicon Carbide segment and these volumes could have even been better. We have lost a few days of operations on account of electricity supply disruptions and COVID related no working days in the region. So we do expect the seasonal demand over Q2 to be better abrasives and expect the good volume and realizations streak to continue in minerals.

In ceramics, we have a good order bank at CUMI Australia and expect the new mining projects in Australia to bode well for us in the near and medium term. We have also been seeing a rise in cost in raw materials and fuel and we expect this to continue for a while and this may have an impact on the margins.

In terms of Capex implementation, we have made considerable progress and spent Rs.29 Crores in Q1 on a consolidated basis.

As I mentioned earlier the focus is on our employees and keeping them safe and we are encouraging employees to get themselves vaccinated by way of organizing medical camps in our factories and as I have said 75% of our workforce is now vaccinated with the first dose and about 12% with both the doses. The work-from-home practice is now limited to about 10% of the work force mostly in office. Now I request Mr. Padmanabhan our CFO to walk us through the financials.

P. Padmanabhan: Thank you, Ananth. Good morning everyone. Let me summarize the financial performance for the quarter ended June 30, 2021. The consolidated sales ofRs.706 Crores for the quarter has increased by Rs.262 Crores, which denotes 59% over the corresponding quarter of last year. Of this standalone sales of Rs.465 Crores showed an increase by Rs.231 Crores on a quarter-on-quarter basis,despite the lockdown related disruptions by second wave of COVID pandemic and as a reference, Q1 FY 2019-20 sales at consolidated level was Rs.664 Crores and Rs.424 Crores at the standalone basis.

The consolidated segmental PBIT was at Rs.114 Crores, which is up by Rs.80 Crores and about 238% growth on the quarter-on-quarter basis. At the standalone level, the segmental PBIT for the quarter was Rs.78 Crores against Rs.7 Crores during Q1 of the previous year.

On a consolidated basis profit after tax and non controlling interest for the quarter was Rs.77 Crores as compared to Rs.20 Crores in the last year. As a reference, it was Rs.52.8 Crores for Q1 FY2019-20.

At the standalone level, the PAT increased to Rs.63 Crores from Rs.11 Crores.PAT margin at the consolidated level grew from 4.4% during Q1 of the previous year to 11% in the current year. At the standalone level, the PAT margin increased from 4.5% to 14%.

In abrasives, consolidated sales for the quarter increased to Rs.273 Crores from Rs.131 Crores in the corresponding period of last year. Standalone abrasive sales increased to Rs.224 Crores from Rs.101 Crores and at the consolidated level the PBIT was Rs.38 Crores increasing from negativeRs.3 Crores. Our domestic subsidiary Sterling Abrasives and Russian subsidiary Volzhsky Abrasives performed significantly well and showed positive growth on quarter-on-quarter basis for both in topline as well as in bottomline.

In Electro Minerals segment, consolidated sales for the quarter increased to Rs.288 Crores from Rs.210 Crores in the corresponding quarter of last year. At the standalone levels, sales doubled to Rs.134 Crores from Rs.65 Crores in last year. The consolidated electro minerals business has showed a PBIT of Rs.40 Crores against Rs.23 Crores in the same quarter of previous year. The standalone Minerals segment registered good growth, while Russian subsidiary recorded marginal drop in revenue on account of the global Rouble depreciation compared to Q1 of last year.

Consolidated sales of the Ceramics segment grew by 61% on quarter-on-quarter basis from Rs.108 Crores to Rs.173 Crores. The standalone sales grew by 79% on quarter-on-quarter basis to Rs.141 Crores. Standalone ceramic business performed well despite delays in export logistics caused by the pandemic. Consolidated PBIT of ceramic segments for the quarter was at Rs.33 Crores up by Rs.21 Crores from the same quarter last year. The entire increase was from the standalone ceramic business.

On the finance side, the balance sheet continues to be a strong and the standalone continues to be a debt free during the current quarter also. On a consolidated basis, the debt equity ratio was 0.02 and the total debt on the consolidated basis was Rs.45 Crores. On 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.

Our strong balance sheet is evident by net cash position and low debt equity ratio. The cash and cash equivalents including deposits with tenure exceeding 3 months net of borrowings was at Rs.662 Cr.

This concludes my update on finance. Thank you.

Bhoomika Nair: Moderator can you please open up the floor for Q&A, please.

Moderator: Thank you very much. We will now begin the question and answer session. Ladies and gentleman, we will wait for a moment while the question queue assembles. The first question is from the line of Ravi Swaminathan from Spark Capital. Please go ahead.

Ravi Swaminathan: Congrats on a good set of numbers. My first question is with respect to what would have been the kind of revenue loss this quarter because of the lockdown would not have been there. If you can throw some light?

N. Ananthaseshan: If we did not have the lockdowns in May right?

Ravi Swaminathan: Yes.

N. Ananthaseshan: I believe that the bulk of the sales was lost in abrasives and also some in the ceramic segment and if we had not had the lockdowns, we could have done about another between Rs.30 Crores and Rs.40 Crores more.

Ravi Swaminathan: At an overall company level. Is it?

N. Ananthaseshan: At an overall company level.

Ravi Swaminathan: Got it Sir. Would we have gained any market share in the abrasive segment from the competitors or from say the unorganized players especially the Chinese imports? Just wanted to get your sense on whether the organized sector are gaining share from unorganized players?

N. Ananthaseshan: I remember that you asked this question last time as well, or one of the participants asked and I think we have definitely gained. That is my sense on the feedback I get from the market and also my colleagues who are handling the abrasives segment. Definitely, some from the thin wheel segments and also on coated, definitely we have gained, I would say. We have also gained significantly I would not say significant but definitely have gained strongly in the precision abrasives segment. The reason being that many of the customers in the precision abrasives business (which is the auto and auto component segments) buy both from domestic players and import. Having someone local like CUMI to support them very quickly has helped and they see us as preference towards that. So, the position of this segment is definitely have gained in market share.

Ravi Swaminathan: Got it Sir and my final question is with respect to overall revenue growth for this year? Are we in line to achieve a double-digit revenue growth at a consolidated level over last year and with respect to margins given the fact that the costs have gone up and fuel cost have gone up, are we in a scenario to maintain the record of high margins, which we have gained last year, which was around 17.7 EBITDA margins?

N. Ananthaseshan: As for the revenues, I believe that we would be on a consolidated basis, we can hit a double-digit growth again even with the base was low last year and on the margin side, I must put in a rider here because everywhere we are taking about the third wave coming. So, I hope that we do not have it but unfortunately, we already seeing the beginnings of it in other parts of the world. So I hope we do not have it, but if things are normal and going the way I do not see any reason why we should not hit our double-digit growth on topline. On the bottomline, yes many of the commodities prices have been shooting up significantly and while we are working on two fronts one obviously on seeing how do, we depress our variable costs. We are also trying to push out some of those costs to the customers as well and that’s not in any time is easy and so that’s where we have the challenges also. We will endeavor to keep the margins a bit close where the margins are currently.

Ravi Swaminathan: Got it Sir. Thanks a lot.

Moderator: Thank you. The next question is from the line of Vineet from Birla Sun Life Insurance. Please go ahead.

Vineet: Good morning. This is Vineet from Birla Sun Life AMC. Sir my question is again regarding your margins? So we have seen your gross margins have actually been improving right. So, could you just give us qualitative commentary on segment wise how pricing as well as raw material has behaved. So is it mainly because of EMD only or what is happening in other segments? Could you just talk about that please?

N. Ananthaseshan: We have seen margin improvements in all three segments. If I were to start with abrasives, abrasives have been systematically improving their margins over the last few quarters. It has been a combination of very diligent work on the cost front, improving efficiencies, improving yields, reducing energy cost, and energy consumption, very scientific work, which has definitely helped both in the coated abrasives and in the bonded abrasives segments. We also have chosen raw materials which will give us lower losses so that has been a work which has been done on the operational side and on the marketing side, it has been a very systematic way in which we have worked on those product groups, which are more profitable, but also have opportunities to grow and consciously reducing or moving away from those loss making product groups. So it has been a combination of both and that has kind of definitely helped us in abrasives. In the case of ceramics, as you know that the bulk of our ceramics in the standalone and also in the case of Russia goes into the exports market and these are technical ceramics and despite the lockdowns even last year the end use markets, which is the fuel cell market or the alternative energy markets, the power transmission and distribution markets, they have been doing very well and these are custom built products and of better margin profile and that is where we have been focusing on building the volumes so that has definitely helped in the ceramics. In the minerals business while silicon carbide produced in Russia is always had a better competitive advantage due to its position in Russia, with access to competitive raw materials and energy, the work which the minerals team in India has done in terms of generating more volumes from the existing assets so they have been able to sweat those assets to create more volumes and also significantly change their product profile to ones which consume less energy, which has helped them both by specific energy consumption thus lowering the cost of energy itself and also churning out volumes, which help in a better fixed cost coverage so all these actions have helped these business resulting a possibly better margins overall.

Vineet: Sir, you spoke about some expenses that you had to incur because of COVID related lockdowns or bringing back workers to the plant, etc., would you be able to give a rough estimate of what these additional expenses which might not recur going ahead?

N. Ananthaseshan: In this quarter, as I said there was a combination of healthcare and expenses related to the COVID. As I said we also had some fatalities. We also took care of people. We did not depend on what level they were whether they were permanent employees or workers, transient workers, some of them had to be hospitalized for an extensive period of time and the company put up the bills of all of them. We also provided infrastructure in terms of oxygen concentrators, setting up one oxygen concentrator for hospitals here in Chennai, so altogether we did about I would say it will be about between Rs.1.5 Crores and Rs.2 Crores to the spend that we have towards this as additional expenses. These were the contributions that we have made over and above the CSR committed spent to the government in Tamil Nadu to support the COVID fight.

Vineet: Understood and obviously this is mainly in standalone numbers where it could be detected?

N. Ananthaseshan: The standalone numbers, we had similar numbers in our Russian subsidiary as well, because where you would realize the number of people in the plants are 1800 workforce and about 200 people are still in quarantine, so they also had to spend substantial amount of money in terms of their health support.

Vineet: Understood. Sir, my last question in the P&L account, there seems to be large inventory change number which was that we have had increase in inventory, so which is pretty large relatively which I looked at it.

N. Ananthaseshan: Absolutely.

Vineet: So you can just explain where has been build this inventory etc.?

N. Ananthaseshan: We were always tight on inventories, but this quarter has been exceptional so we had locked up inventories in two counts largely one on the raw material side and on the finished good side. On the raw material side, as you well know that the abrasives division and also the ceramics segment, import, bulk of the raw materials from overseas and in the abrasive segment we do significant imports of the grains from China and beginning of Q4 in February when the Chinese New Year starts and we all know that the Chinese go on for 15 day holiday and we normally tend to schedule more in just before the holiday starts in the event that something happens to supply chain. But unfortunately we did not receive those materials on time and then when the materials were on the way you had disruptions in the month of April and May, so the material started coming in and some were stuck in the port, some were yet to receive in the plants, so we were at a loss in terms of how we dilute that, we were not producing as much as we should be doing, so this ended up in piling up of raw material inventory or good inventory and this inventory will be diluted over the next couple of quarters. The same story is there for the ceramics division as well. Many of the raw materials getting stuck and we also had some of the credible inventory had to fly them in, which added to the cost. On the finished good side, as I said, container shortages, people not being available for production and dispatch also caused the WIP and the finished good to remain at the plant and not go out of a door. So that also impacted the finished goods inventories significantly, but these are I would believe are exceptional events and in Q2 and Q3 definitely most of it will be sorted out in Q2.

Vineet: Understood. Thank you very much Sir.

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

Bhavin Vithlani: Thank you for the opportunity and congratulations for good set of numbers. If you could speak about the end market outlook for the abrasives and if you could also give us a color on the pricing environment as well as the input cost that we are seeing?

N. Ananthaseshan: The abrasives segment broadly as we all know is in to precision and in mass market. In mass market, we have both bonded abrasives and coated abrasives which deal with whether it is housing infrastructure or the engineering segments, so when we saw in Q3 and Q4, the engineering industry is coming back especially auto and auto component is coming back strongly which also indicated that the second tier and the third tier companies and the engineering companies also doing well, so we see that the demand for precision abrasives has been growing, but still not to the pre-pandemic levels I must say. We saw that grow in Q4 and while it did grow significantly in April, we saw the slowdown in May and little bit in June and July we are seeing an uptake again. Now we believe that this end use market will remain robust, if we do not have the third wave and that is what all of us are praying for and hopefully the discipline of vaccinations will help. In the mass market segments, coated abrasives has seen an uptake with possibly more and more home innovations, building innovations happening and many companies or many commercial buildings also which has been closed down after the pandemic reopening now, getting innovated is also helping in moving these coated abrasives products, so overall the mass market and the precision abrasives market which we see linked to the auto and auto component has positive demand. In terms of the cost push, yes, we are seeing cost push are the raw materials, significant increases in raw materials and we have also been in implementing price increases across our product lines, some of the cost push can be passed.

Bhavin Vithlani: Thanks. My second question is on the ceramic segment. In the previous interactions, you did highlight about expansions that we are looking at considering the growth that we are seeing on the renewable side of the business, if you could give us an outlook where are we in the process, what is the kind of investment that we are looking at and from the current level of the technical ceramics, how should one thing about this business on the next three to four year basis?

N. Ananthaseshan: The technical ceramics is what we have currently in and building upon is on alternative energy or green energy sector I would say technically may not be very green because it is based on solid oxide fuel cells which use natural gas in that sense it is still a fossil fuel, but a much cleaner burning fuel, so that is one segment which we continue to work on and deliver so because there the opportunity is in terms of working with customers and building their next version of the products, so I see that that segment will continue, that industry segment will continue to do very well given the fact that most of these are located in the western world where the companies and the countries are promoting the sustainable development goals seriously. The other segment is also the power distribution segment, transition and distribution and generation transmission distribution segment which is in a lot of materialized cylinders use, so whether it is a largest cylinder which we now manufacture for high voltage power stations or smaller cylinders which we now seeing more from renewable energies for rooftop solar etc., that is our segment which again will be driven by the sustainable development goals (SDG), so these are positive trends. Ceramics also has opportunities in electric vehicles and here we have started work last year to qualify our products and some of the end users in the EV space that has seen traction as well. So overall, I would say a good outlook for the ceramics business going forward and most of them linked to industries which are the future drivers of economy.

Bhavin Vithlani: Just a follow-up, can the segment grow at the rate of 20% to 25% over the next 3-4 years given the strong tailwinds as you outlined currently?

N. Ananthaseshan: Today, we are about I think in the high teens or early 20. I would think that that is something which we can do consistently in the segment whether it will be moved from the high 20s to mid 20s or early 30s or late 20s remains to be seen but I think all depends on how fast revolution of EVs will happen which can drive possibly the segment faster.

Bhavin Vithlani: Thank you so much for taking the questions.

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

Charanjit Singh: Good morning. First of all, congratulations on great set of numbers. First question is overall on the exports as an opportunity, how do we see that from the size we are in the exports like ceramics has done well for us and the other segments also, how you see the scaling up of exports? That is my first question?

N. Ananthaseshan: The nature of the businesses, are different segment to segment. In the case of ceramics, it is a business which has got global customers, so the customers are global, but they sell the products that are also global, so naturally our share of exports in our business is very high because we deal with B2B customers and work with them co-create products with them. In the case of the ceramics, which is a heat resistance ceramics, it is also very similar, so we have customers who are global whether they are glass customers, carbon black customers, cements, so these are global customers and we work with them on their projects, so the nature of the ceramics itself lends to a higher exports than other businesses. In the case of abrasives, it is a global business, but very localized in nature, so every country will have its own set of abrasives manufacturing whether it is a bonded or a coated, because it is required for shipping and finishing metals and that is the reason why we are also predominantly strong in the domestic market. Where we have the successful and growing outside the country in abrasives is those precision abrasives which are differentiated from the rest of the producers or rest of the competition in terms of offering, a better value preposition I would say and that is what we are seeing in the US and then Europe or in the Far East, so the nature of the business determines how we compete and where we compete and while we know that the abrasives definitely in export market is about what to do from India is above 10% of our sales. There is an opportunity for us to leverage this, goodwill and grow further in those markets and obviously the way to do that would be through inorganic growth and that this definitely on the agenda as we progress. We will continue to keep our eyes open on those opportunities. In the mineral business is again, it is a global business, it is a bulk volume business, so the specialties are the ones which would be more exports friendly.

Charanjit Singh: Thanks for that answer. The next question is specifically on the Metz cylinder, so Metz cylinder in terms of our capacity utilization currently what are the utilization levels and how do you see ramping up of the capacity going forward?

N. Ananthaseshan: We did implement what we call 2.5 Metz line in the last year during the pandemic and that has been completely stabilized and we have also gained customer approvals because these things required to be approved by customers and that is happening and today the new line is about I would remember right is about 40% utilized already, so this is an area where we would continue to invest because it has to be invested in tandem with gaining new, acquiring new customers and gaining their approvals. I would say on the Metz cylinder's line we currently including the new line about 70%, 75% capacity utilization.

Charanjit Singh: Lastly while you are talking about auto as an end market, if you can touch upon the other end markets like be it metals, cement, how those end markets are behaving across product categories?

N. Ananthaseshan: Steel and cement are the ones which are doing pretty well and in terms of steel, we supply products right across all segments, whether it is abrasives for example roll grinding of steels or in the case of refractories for both projects and repairs and maintenance, not so much as daily consumer business or consumables. We also supply quite a bit of lined equipment for the steel industries, so these are definitely picking up, so we see the product is also coming in increasing with compared to last year. The consumer base like roll grinding continues to be good market to be here. The electrominerals business supply significant amount of raw materials, both the foundries and to the steel industry and that is one reason why we also saw the pickup of electrominerals this quarter and we believe that is going to be continuing business and we can see better growth there. In addition to the inherent capacity of these industries to consume a lot of raw materials, we are also seeing that there is a sustained earlier, a reluctance or prudence I wouldn't call reluctance, I would call prudence by end users to source materials locally given the potential disruptions in the future to whatever reasons and that is also one giving us some impetus in terms of unearthing more capacities from our current assets on the electrominerals side. Carbon black which goes into manufacturing tyres is definitely will be on our role both from an OEE perspective and also for replacement tyre market, so that is continuous good growth industry to be in. Non ferrous industries like aluminum, copper, zinc, all of them continued to have pickup and many of them are in the infrastructure space as well and that will give us opportunities in composites, where will be produce the electrolytic cells using polymer composites for fining of copper or zinc and that augurs well. In the aluminum industry, the ceramics which supplies heat resistant ceramics both from Russia and from India are definitely looking forward to the aluminum industries doing very well and that will continue. So, overall I would say base metals like iron, steel, copper, zinc all of them hold promise.

Charanjit Singh: Thanks for taking my question. That is all from my side.

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

Aditya Mongia: Good morning everyone and thanks for the opportunity. The question which I had was on your opening remark in the EMD segment wherein you talked about the benefits of China

Moderator: We will move on to the next question. The next question is from the line of Jason Soans from Ashika Stock Broking. Please go ahead.

Jason Soans: Thank you for taking my question Sir. My question is more on border level, so in terms of India also we see a lot of initiatives taken by the government such as NIP, the PLI schemes and even globally also there is a lot of emphasis on infrastructure creation, we have the US passing the bill and important infrastructure bill, so in light of the same for the next two to three years from a broader outlook how do you see abrasives, ceramics or electrominerals, what do you see the growth path under growth outlook for all the segments?

N. Ananthaseshan: Among the PLI schemes for example, these between 10 and 13 sectors which has been announced by the government many of them are related to for example, the auto and auto component industry, some of them are into the advanced cell chemistry manufacturing, into solar and solar mobility and EVs obviously will be part of that and we also see specialty alloys and also aerospace and defence since these are some of the sectors which are covered in the PLI schemes and obviously with our presence already has reputed consumable supplier to the auto comp industry, we see this as a good opportunity for abrasives. In the case of there is an infrastructure building, we would definitely require abrasives both in the coated abrasives and I would call the mass market or other tool driven abrasives, because that is definitely going to build into productivity and hence that is the bright spot for abrasives overall. Same is the story is with the specialty steels because specialty steels and even in the steel where India is poised to grow its capacity significantly, so the temperature or the heat containment refractories of ceramics for the specialty steels, the abrasives will go into them, are all on opportunity that we see in this PLI scheme. One area which are the new areas of materials can come in is obviously the advanced cell chemistry and there this goes through a energy storage with both for renewables and electric vehicles and here additives like high purity graphite and Graphene will be required for improving the energy density and energy storage of these back lines, so it definitely provides CUMI as a whole a good opportunity.

Jason Soans: Thanks for that Sir. I just wanted you to touch upon you have spoken about your product mix improvements basically you said growth through laminate also from mass market product as well as specialty products, so just wanted you to touch upon and get some color on your product mix improvement as if you just spoke about abrasives and you want to increase that export contribution from 10% and above even electrominerals you will want to increase the contributions from specialty minerals for basically high purity silicon carbide etc, so the specialty minerals and ceramics as well, so just wanted you to touch upon some comment on the improvement of product mix in each of the segments?

N. Ananthaseshan: Internal targets what we have for these specialty products whether it is largely in minerals has been the region of about 20%, 25%, so we ideally speaking we would like to have about 30% of our mix in these what we call adjacencies or performance materials and 70% as the low cost materials which will give that kind of solid foundation, but when we are looking at minerals specifically and increasingly growing on the core materials, in terms of the percentage share, the specialties may just come down, but I would broadly say about 20% of our product portfolio should come from specialties more.

Jason Soans: That is all from my side. Thank you for answering my question.

Moderator: Thank you. The next question is from the line of Sujit Jain from ASK Investment Managers. Please go ahead.

Sujit Jain: Our compliments on very good set of numbers. If I look at GNL's number, Grindwell Norton number their abrasives numbers the topline has gone down by about 20% Q-o-Q, ours has gone down by about 9%, so have we gained market share from the number two player in the market in abrasives?

N. Ananthaseshan: As I said, one the GNL's number going down by about 20%, ours going down by about 10% has to be seen from our higher base in Q4, but having said that I believe that we definitely would have gained market share both in the precision and in the mass market segments, obviously there are some segments where GNL is strong and we intend to gain some from them, some from others, but overall yes, we should have gained market share.

Sujit Jain: These market shares would be sustainable?

N. Ananthaseshan: That is what we are working at.

Sujit Jain: And the SOFC, the solid oxide fuel cell and the hydrogen applications which I believe are overseas sales, how will ours has already become from channel checks it suggests that it is already at Rs.80,000 Crores per annum, is it true?

N. Ananthaseshan: I would not comment on that suffice to say that yes, it is a growing market yes.

Sujit Jain: Meaningful, currently in terms of contribution to the overall topline?

N. Ananthaseshan: I would say it is reasonably good share of the sales and contributions, yes.

Sujit Jain: EVs you have spoken in the annual report about bulk supplies of ceramics to EV. If you could throw some light, has it come to some critical mark already?

N. Ananthaseshan: This is you are talking about the graphite?

Sujit Jain: You have spoken about bulk supplies of ceramics in the EVs, electric vehicles?

N. Ananthaseshan: What we do on the electric vehicle space is on two sides now, one from the ceramic side where we are already supplying parts to the EV manufacturers which goes into the power management systems or installation systems in electric vehicles, so this is agnostic of any manufacturer, any technology, so it is components which will find in every vehicle, so it is not you are tieing yourselves with technologies of Suzuki, Toyota or a Tesla, so I believe that this segment would significantly grow along with adoption of EV vehicles. We also have started our testing and commercial supplies of graphite and the graphene for enhancing the properties of batteries. We also have started our testing and commercial supplies of the Graphite and Graphene for enhancing the properties of batteries and here when I say commercial I would say it is still not commercial from a sense of putting it into a commercial battery for vehicles, but more from a sense of long-term testing of these batteries. So these are maybe significant in volumes for us but it is more for testing and evaluation for the end-users bulk testing I would call it for stage 2 testing.

Sujit Jain: We have clocked 18.8% EBIT margin in Q1 that is kind of lower than if I look at four, five quarters previously is it a one off and eventually do we get back to 20% plus kind of margin in ceramics?

N. Ananthaseshan: See the margin decline there is also significantly impacted by our Australian operations. As I said, many of the containers which could not reach them and though they have orders in hand they could not convert that into sales and hence it has been impacted. So I would put it down to probably a one off thing and we should get into a regular ream of margins in the next couple of quarters.

Sujit Jain: One last final question is on ceramics which clocked Rs.627 Crores in FY2021, previously to the question which was asked to you, you said is that, 20% kind of growth is possible then that means that in practically three, three and a half years we can double this segment.

N. Ananthaseshan: Yes, that is our goal and the intension as well, yes.

Sujit Jain: If I may just ask one more construction chemical product, we had mentioned that for waterproofing what is the potential there, there are already significant dominant player in this field the adhesives and the construction chemicals what is the potential for CUMI?

N. Ananthaseshan: See we are seeing as two parts - one is in terms of leveraging our material science's understanding because we do produce our resins and formulations in this space for anti-corrosive acid resistance food chemical so this is a niche industrial niche is what we are looking at in construction chemicals because we already supply other products as well to the same end-user industry so whether it is in Sulphuric acid manufacturing or in petrochemical industries or in refineries, we supply other materials so this could go out as a package along with these materials. If it kind gets some traction then we can also look at using our existing channels in abrasives for retailing some of these construction chemicals for residential home commercial applications as well. So the focus now is more on the industries and the industrial solutions and then later on to get it.

Sujit Jain: Thank you and all the best.

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

Manish Goyal: Thank you so much. Continuing on products you mentioned in the annual report there are couple of more which were emphasized one was on the sintered silicon carbide ceramics which were the facility was commissioned so if you can throw some light on that product and what is the potential market number one? Number two also you have mentioned within ceramics in terms of we are looking to we have already started with setting up pilot projects for 3D printing and probably do some niche products at the moment and so how do you see this opportunity also evolving? Thank you so much.

N. Ananthaseshan: In the case of sintered silicon carbide this is a very specialized process and the silicon carbide products which are used in high corrosion and high were resistance applications whether it is in the nuclear industry or whether it is in adhesive chemical industries so these are the products whether it is the seal faces, whether it is ceramic parts for pumps, etc., it will also find some use later on as in the ceramic bearings for rolling elements in bearings so these are the potential areas that we can work on and currently the facility has been commissioned, tested and we do have some approvals from end-users so we are hoping that this year, we would see a faster acceptance of those products and we are looking at growing there. In terms of the potential I would not be able to I mean it is a number which I can give but does not been anything unless we have those facilities and proven so we are looking at the first year at least that was a pilot.

Manish Goyal: 3D printing?

N. Ananthaseshan: Yes, 3D printing is one forming capability that we are adding to our repertoire. You would realize that the engineering ceramics which require very small parts, very intricate parts are sometimes not possible to make using conventional forming processes or is very expensive. So we have equipped ourselves with initially polymer 3D printing facilities which we can do prototyping and then now over the next quarter, we will equipping ourselves with the ceramic 3D printing and that will kind of enlarge the capabilities that we can possible offer and this will come in handy when we need more I would say more purposefully in the aerospace and defense applications.

Manish Goyal: Thank you so much.

Moderator: Thank you. The next question is from the line of Harshit Patel from Equirus Securities. Please go ahead.

Harshit Patel: Thank you very much for the opportunity. Sir you had earlier highlighted that the FY2022 capex would be around closer to Rs.150 Crores you had also highlighted a few plans for each of the segments so Sir is it affecting on Tricore there been any change in the way we were earlier going to do?

N. Ananthaseshan: We have done about Rs.29 Crores in Q1 on a consolidated basis and I think we would be largely in track to complete I would estimate we will do about Rs.130 Crores and plus minus given the pandemic in that region yes so that the projects what we have picked up in all the businesses are on track. You may see some allocation from our original plants towards other businesses for example EMD may get little bit more because of a conversion capacities what we are building up there but while we are still within our three-year plan window the allocations may kind of a shift that is there but mostly to be in ceramics and EMD of course and this is also has a chunk of spend coming in.

Harshit Patel: Sir you are also looking at some sort of inorganic expansion in both abrasives as well as ceramics to improve our technical capabilities as well as the market reach. So sir has there been any update on the same?

N. Ananthaseshan: We do continue to explore opportunities and both inside and outside the country so we have been doing some initial work short-listing and doing some progress part the pandemic has not helped the travel restrictions especially to Europe, to US has not helped in bringing them to a close. Hopefully, over the next couple of quarters we will have more progress to report.

Harshit Patel: If I could squeeze in one last question and a couple of quarters back you had mentioned that we had acquired a couple of institutional customers in the abrasives space in the North American market so how is the ramp up over there and a related question would be that in abrasives the subsidiary margins were pretty much low vis-à-vis last three, four quarters performance in this quarter so what could be the reason for that?

N. Ananthaseshan: See the subsidiary performance in the US.

Harshit Patel: Sir in the overall abrasives.

N. Ananthaseshan: In overall abrasives see overall abrasives has definitely been impacted by the lower sales especially in the US because of this lockdowns the sales have definitely dipped and consequently the fixed cost affects and consequently the margins are lower and here the effort is also to not only build a strong base like the intuitional buyers what I was talking about but also to have a base for our coated abrasives products which for segments like hardwood flooring which I would say it is not so standard up product but then it gives you a solid foundation for one to go from and that is a plan for the abrasive segment in the US. The other part of the abrasive is largely from China where of course I would say that China we had not been able to travel at the China for the last 18 months so it has been kind of coasting along I would say but in the case of abrasives in Russia we saw a very weak offtake from the Russian market but it is a very, very nice to report that this last quarter has seen a better abrasives show from Russia so hopefully this demand there will go as well and we will see better numbers.

Harshit Patel: Thank you very much Sir for taking my questions. Thank you.

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

Bhavin Vithlani: Thanks for the opportunity again. The question is on the high purity SiC and as we are seeing increase in the poly silicon prices so do we see that as an opportunity to substitute then the growth that could come in the SIC for us?

N. Ananthaseshan: It is a good question and the High Purity Silicon Carbide is not for abrasives or for refractories. It is for the electronics applications and here we are talking about high purity silicon carbide as a substitute for silicon wafer in electronic parts as IC chips and these are going to be more, you will find them more and more in 5G components or in high power density applications like in EV power systems, transmission systems, laptop adapters etc. So thereby you need a high power, high current application is there the high purity silicon carbide will come into play. This is I would not call it is a substitute for what they are doing but I would say this is the next natural progression of what we already producing or can produce and this is one area, which we are working on making silicon carbide some 99% purity to 99.99% is a work which our R&D teams both in India and in Russia are working on and we are very hopeful of meeting those kind of a purity levels soon. Yes also it is an exciting part of a materials going into the future.

Bhavin Vithlani: Sir second question is in our past interaction we have highlighted about the opportunities in the solid state batteries which potentially would be taking over the convention of that there is any update on that, it would be useful?

N. Ananthaseshan: In battery manufacturing as I said only in the elements of the material elements that is go into those batteries. Some of the elements are for example to prevent the thermal runaways which is using ceramic filers or even what I would call it tape cast ceramics so those are some of the things which we are working with those battery manufacturers but would not directly manufacturing or getting into the manufacturing batteries themselves.

Bhavin Vithlani: Thank you so much for taking my questions.

Moderator: Thank you. The next question is from the line of Sanjay S from Ampersand. Please go ahead.

Sanjay S.: Thanks a lot for the opportunity. I just had two questions one though you have already explained in many which way but I just wanted a short answer that our all the problems relating to logistics and anything else more or less behind you or still there are some issues, I mean let us not bring to be I scenario of the third wave but as it is how the situation is?

N. Ananthaseshan: Actually, it is an excellent question because I do not think any of us are behind this logistics issue that is my personal view. Of course, the container there are two parts to the logistics issues one is the container availability and this non-availability or limited availability is pushing up the logistics cost. The second is also the availability of bulk cargo carriers and we use some of them for shipping out or shipping the petroleum coke from the Reliance Jamnagar facility or calcined aluminas and as I see that the container shipment problem will carry on for at least another year because I understand from some of our vendors and logistic partners that the container availability globally has been impacted because of the pandemic starting beginning of last year so we have many containers which were shipped out to countries like South America are still there to US and some of those ports are chopping block with containers and they have not come back to their point of origin so which means that if they are not going to come back and they going to stuck somewhere inland and South America so they have to be compensated by new containers so manufacturing of new containers are not going to be quick and they will take time and hence there will be a shortage of containers themselves which will continue to impact logistics cost and also material availability.

Sanjay S.: Sir considering how dynamic this situation is and I am sure as a smart and an agile company like you really would be thriving interest rate scenario because you would be doing a better job than your competition, this is something which is to deal with the present problem but are these issues like this affecting your long-term plan of investing and driving accelerated growth because as I see that before pandemic for three, four years we have been growing at about 10%, 12% and much before that you use to grow at a much higher pace and so does this kind of impact your ability to go back to 15%, 20% kind of growth and with new product launches already so and because you are not really investing in some of the longer-term capability?

N. Ananthaseshan: See it is a fair question. If you look most of us have taken logistics for granted I would say you know that we all thought ships are available, containers are available and things would be all hunky-dory but there are emerging new ways of even shipping of material. To give an example we have rail lines which have now opened from Russia from Moscow to India part very part, part ship and we are exploring that aspect so which means that you can cut down on your shipping cost and possibly the time will be significantly lower but we also see this as an opportunity to grow in various geographies and that is the reason why I believe that local manufacturing wherever we are and increasing the local manufacturing will be in one way mitigating these risks and while for example our customers also say facing the same problem so our customers in India may want to not import a lot more because of the shipping issues but have someone who is reliable, who is quality conscious who can make and work with our long-term locally and that does not give opportunities to grow so that is what we are looking at and working on.

Sanjay S.: Thanks a lot Sir.

Moderator: Thank you. As there are no further questions, I would now like to hand the conference over to Ms. Bhoomika Nair from DAM Capital Advisors Limited for closing comments.

Bhoomika Nair: Thank you very much everyone for being on the call and especially the management to give us an opportunity to host you Sir. Wishing you all the very best.

N. Ananthaseshan: Thank you so much. Thank you all again for logging in to this call. What we say is as we progress into Q1 and further into Q3, we continue to see disruptions globally. As I said earlier a possible third wave India, we also serve recently geopolitical disruptions in South Africa, we are hearing about nature's fury in China especially in areas where minerals are made and abrasives are made, we are also seeing rapid COVID cases rising in China, US and Australia. So while we are all cautiously optimistic, we have to get through these potential hazards with as little damage as possible and also stay focused on building capabilities to face the future. That is what we intent to do. Thank you all and stay safe.

Moderator: Thank you. On behalf of DAM Capital Advisors Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.