"Carborundum Universal Limited
Q1 FY2023 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good morning and welcome to post earnings conference call of Carborundum Universal hosted by Spark Capital Advisors India Private Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal the operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ravi Swaminathan from Spark Capital Advisors India Private Limited. Thank you and over to you Sir!

Ravi Swaminathan: Thanks. A very warm good morning to everyone. On behalf of Spark Capital, I would like to welcome you to the Q1 FY2023 earnings call of Carborundum Universal. We have the management today being represented by Mr. Sridharan Rangarajan – Director - Finance and Strategy, Mr. N. Ananthaseshan – Managing Director, Mr. P. Padmanabhan – CFO, and Mr. G. Chandramouli – Advisor, Investor Relations. I would like to hand over the call 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 Ravi. 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: 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 the management current expectations and are associated with uncertainties and risks are more fully detailed in our annual report, which may cause the 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 and welcome to the first quarter FY2023 earnings of CUMI. Before highlighting the performance of the period, I hope that you and your family members are safe and healthy. Today we are joined on the call by my colleagues, Mr. Sridharan Rangarajan – Director – Finance and Strategy, Mr. P. Padmanabhan – CFO, and Mr. Chandramouli –Investor Relations. I will start with providing an overview of the company performance and the commentary on the outlook followed by Padmanabhan who will walk us through the financial performance and Sridharan will take you through the performance of the newly acquired subsidiaries and VAW, Russia.

The quarter started on a volatile note with geopolitical tensions impacting global economy. The current macro environment is more challenging compared to the previous quarters with headwinds like inflation, raw materials' availability, supply chain disruptions, foreign currency rate fluctuations, higher cost of capital and expectations of a global recession. We had sensed and shared some of these during our last call. Economies across the world including India are facing inflationary pressures. Hopefully, as the supply side situation improves, inflation should come down. This was also highlighted by a recent RBI report that India is today better positioned to mitigate external risks and global spillovers as compared to other economies and that is good news.

Coming to the company's performance, we are glad to report yet another quarter of robust performance and a reasonable start to FY2023. Our performance yet again is backed by strong demand of our products/solutions and also backed by manufacturing and research capabilities and the timely execution in domestic and overseas markets. For the quarter, our revenues has grown by 60% quarter-on-quarter to Rs.1129 Crores at a consolidated level and by 29% to Rs.600 Crores at a standalone level. The quarterly revenues at consolidated and standalone level has crossed the milestone of Rs.1000 Crores and Rs.600 Crores respectively. The growth was driven by all three segments. All the major overseas subsidiaries have performed well on topline and also the newly acquired subsidiaries have contributed additional sales of Rs.181 Crores during the quarter.

As far as the bottom line performance is concerned, profit after tax and non-controlling interest grew by 10% to Rs.86 Crores against Rs.78 Crores in Q1 of previous year. The negative variances when compared on a Q-o-Q basis have come from our power generation subsidiary-SEDCO, due to significant increase in gas prices and reported losses from newly acquired subsidiaries, which Sridharan will cover later. Also, the incremental growth in topline of our Russian subsidiary did not translate proportionally to bottomline due to the strengthening of the Rouble against all currencies. At the standalone level, profitability for the quarter recorded strong growth across minerals and ceramics segments and the PAT increased to Rs.73 Crores from Rs.63 Crores in Q1 of last year; however, the profit margins were impacted due to cost inflation.

Coming to the demand side, the outlook remains positive, but could be facing supply challenges and cost pressures going forward due to inflation and commodity price increases. The auto sector performed well compared to the previous year, but still below pre-pandemic levels in some segments. The construction linked sector has grown, but margins are likely to be impacted due to increasing input costs; however, led by policy tightening and expectations of a slowdown in global growth, some cool off has been witnessed in the commodity prices since the start of the Russia Ukraine conflict. In the base metals, iron ore has corrected by 49% and aluminium by 37% from their respective peaks and this gives us some relief. The outlook remains positive for other sectors like steel, cement, power, glass, carbon black, solid oxide fuel cells, etc., to whom our company caters. We do have good order back at present and we expect the demand to be robust in coming quarters for all the three business segments; however, maintaining or increasing margins will be a challenge considering higher input costs and the uncertainties due to geopolitical tensions, but have to be managed through price hikes and prudent cost management.

On the health front, the COVID-19 cases in India once again saw an increase in June 2022 after witnessing a decline in May; however, the rise was not significant, thanks to the large-scale vaccination drive. The lesser severity and fewer fatalities has revived confidence in improving the conditions but the businesses are well prepared with safety protocols and vaccination with nearly 99% of our workforce having received at least one dose and around 91% with both the doses. In terms of capex, at a consolidated level we spent Rs.56 Crores in the first quarter.

I will now 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, 2022. The consolidated sales for the quarter has increased by 60% to Rs.1129 Crores from Rs.706 Crores in the corresponding period of last year mainly driven by the steady performance across business segments and additional sales of Rs.181 Crores from newly acquired subsidiaries. Profit after tax and after non-controlling interest for the quarter was at Rs.79 Crores as compared to Rs.77 Crores in the corresponding period of last year. PAT margin dropped from 10.9% during Q1 of previous year to 7% in the current year on account of the cost increase and the losses at the newly acquired subsidiaries, which will be covered in detail later. The standalone sales increased by 29% to Rs.600 Crores from Rs.465 Crores, PAT grew 16% to Rs.73 Crores from Rs.63 Crores. PAT margin decreased from 13.6% to 12.1% during this quarter mainly on account of increasing input cost.

Coming to the segmental performance, Abrasives consolidated sales for the quarter increased by 88% to Rs.513 Crores from Rs.273 Crores in the corresponding period of last year. Standalone sale increased by 20% to Rs.269 Crores from Rs.224 Crores in Q1 of last year. The Russian subsidiary Volzhsky Abrasives and domestic subsidiary Sterling Abrasives registered double digit growth. The newly acquired subsidiaries - Rhodius and Awuko added additional sales to the topline. At the consolidated level, the PBIT for the quarter was Rs.18 Crores decreasing from Rs.38 Crores mainly due to the cost push in domestic and overseas subsidiary performance. In the electro minerals division, the consolidated sales for the quarter increased by 41% to Rs.406 Crores from Rs.288 Crores in the corresponding quarter of previous year. Volzhsky Abrasives, Russia and Foskor Zirconia, South Africa registered significant growth. At standalone level, sales increased to Rs.179 Crores from Rs.134 Crores in Q1 FY2022. The consolidated PBIT of the electro mineral segment for the quarter increased to Rs.59 Crores from Rs.40 Crores in last year. Profitability growth was significant at the standalone level driven by the volume growth and higher realization. Russian subsidiary recorded a drop in profits on account of rupee depreciation. Ceramics consolidated sales for the quarter grew by 40% on quarter-on-quarter basis from Rs.173 Crores to Rs.243 Crores. The standalone sales grew by 37% on quarter-on-quarter basis to Rs.193 Crores despite logistics and cost-related challenges. Subsidiaries in Australia and America also registered significant growth. Consolidated PBIT of the ceramic segments for the quarter increased to Rs.58 Crores from Rs.33 Crores in Q1 of last year, many on account of growth in volume, realization, better product mix, which was further aided by the forex benefit. On the finance side, there was a working capital debt of Rs.148 Crores in the standalone books as of quarter end. The total debt on a consolidated basis was at Rs.254 Crores as compared to Rs.212 Crores as of March. The debt equity ratio was at 0.09 for the consolidated as of Q1. 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. On the cash flow front, our strong balance sheet is evidenced by the net cash position and low debt equity ratio. The net cash available was at Rs.118 Crores. This concludes my update on finance. I now request Mr. Sridharan, our Director - Finance and Strategy to walk us through the performance of the Russian Subsidiary - VAW and the recent acquired entities.

Sridharan Rangarajan: Thank you Ananth and Padmanabhan. Good morning to all of you. I would walk you through both Russia as well as the recent acquisitions and update on them. First of all, let us start with Russia. I would say the team in Russia has managed the business well in a very, very challenging environment complying with all possible restrictions imposed on them. We saw that in the local currency, the sales grew by 22% on quarter-on-quarter basis on account of higher volume and realization, sequentially sales grew by 9% on account of higher volume as well as some realization put together. We see that the silicon carbide segment also has done very well both in terms of volume as well as in terms of the realization. We saw that the abrasive business grew double digit. Both the segments achieved higher sales for any quarter so far that is silicon carbide as well as abrasives. Considering the current challenges, particularly the logistics related challenges to sell outside of the Russia due to Russia Ukraine conflict, the business had explored opportunities to sell more with domestic market and increases volume share in Russia from 45% to 55% levels as well as selling more to India and they are able to sell within Europe as well with the small decrease from their earlier position complying all the logistics norms that they need to follow. There has been no impact on the operations and installed capacity utilization due to this conflict. Also, collections are on time. On logistics front, they have definitely improved far better from the initial stages when we talk to you about three months back. They were able to develop logistics routes, which will work properly both to Europe as well as to India.

Coming to the bottomline, the performance of the operational PBIT definitely improved far better, at least by 800 bps and 340 bps in Q1 compared to Q1 last year. However, the profit after tax in local currency decreased largely due to the restatement of their receivables and payables in foreign currency to Rouble. This is a big impact. The impact due to forex loss was 372 million Roubles, roughly one can state it is about Rs.37 Crores to Rs.40 Crores of impact. You would note that when this conflict started, it was about 75 to 77 Roubles per dollar and went as high as about 135, then it fell down to 56 and right now it is in the range 60 to 62. So there is a wide fluctuation as far as the currency movement is concerned and this caused the receivables both in terms of dollar and in euro have to be restated from their earlier position of what they booked in March to June and that restatement effect is what we are seeing. So, as and when this position changes suppose it starts improving in this quarter obviously there will be restatement gain that we will have from the earlier course, so this is a normal I would say unrealized position at this point in time but it could change depending on the quarterly movements that would happen. We feel the outlook remains very positive in the upcoming quarter. The team in Russia is exploring all possible options in minimizing the cost and optimizing the opportunity. We expect yearly performance to be in line with the business plan and better than previous years both in terms of the topline as well as profit after tax.

Now coming to Rhodius; just to recap - during the year, CUMI made a significant acquisition of Rhodius Abrasives in Germany at an enterprise value of 55 million euro and took control of the company effective from April 1, 2022. Rhodius manufactures in Germany globally best quality cutting and grinding discs. They lead in product innovation and quality with unique professional segment product suite. They have proprietary production process setting industry benchmark. They have a strong legacy of seven decades of successful business serving more than 100 countries. We took control of the company three months back. We would like to tell you that Rhodius Abrasives was supported by Rhodius Holdings in terms of common financial and IT leadership across their various businesses. We choose the common infrastructure for both IT and in electrical and electronic support and resources. These resources will be available until December and CUMI has to create the team and the infrastructure by then. The progress so far in the last three months is very good. We have now CFO for the company recruited and joined the company. We have also now an IT head recruited and joined the company. We have appointed a consulting company to work on providing the IT infrastructure. We have engaged recruiting agency to setup a proper team. We are progressing well in this regard. We are also happy to share that the Rhodius delivered better than our internal plans and this quarter achieved net sales of €18 million; we expect the full year sales to be €70 to €75 million for this year. I would like to recall that we communicated in our last call that the EBIT margin of Rhodius used to be 7.5% to 8% with high teen return on capital employed. We also said that we expect a drop in margin as well as ROCE. We expect the EBIT margin of 12% to 14% by FY2026. As far as this quarter is concerned, the sales are better than planned; however, we made a loss of Rs.6.5 Crores, this partially in line with our forecast. Rhodius was impacted by higher costs of input material and logistics costs. Rhodius has implemented a planned price correction but of course the catch-up game is on and this can only be progressively done. We expect the full impact of this would be around €3 million. Besides this, as explained earlier we expect additional cost in setting up the leadership team, infrastructure costs as well as the depreciation of intangibles. Considering all these, we expect the full year would be a break even. Losses in Q2 and Q3 will come down and we expect a profit in Q4.

As far as AWUKO, just to recap - during the year, CUMI acquired main assets of AWUKO Abrasives from insolvency administrator. The assets included land and building, plant and machinery, fixed assets, lease assets, brand, and trademark, patterns, technical know-how, etc. CUMI paid €8 million and we also paid a settlement cost for the reduction of labor force. AWUKO has got two makers with flat belt and loop drying machine with wide width capability. CUMI will gain access to the coated abrasive capacity in Europe with global distribution base and an experienced process and application engineering team. CUMI is currently working on stabilizing AWUKO’s business and expect them to take a couple of years. CUMI expects AWUKO to break even by FY2024. CUMI expects to reach sales of €22 to €25 million by 2026 with high teens return on investment. All the statements what we made last time still hold fine. We are progressing right on target. We have taken over the company five months back, we are in the process of strengthening the local leadership as well as facilitating by providing shared services in the DSR, finance and HR. This will be common to Rhodius and AWUKO. We are re-establishing relationships with suppliers who stopped supplying as the company was earlier in financial problems. Setting up the supply chain is the priority and we are doing that. We expect the supply chain will become normal only in H2. We are also reaching out to the customers and distributors and this process is going well. CUMI’s name and Murugappa Group backing helps a lot in this process. We feel we will be able to set up the full leadership team, re-establish the supply chain and bring back the customers by Q4 of this year. We feel the process of morale building, re-establishing supply chain and customer relationship is progressing in the right direction. We now have a dedicated leader appointed for the integration of AWUKO and Rhodius. This quarter, they achieved €2.7 million sales. We expect the full year sales to be €12 million. We expect the full year losses to be around Rs.20 Crores to Rs.25 Crores and Q1 loss is about Rs.4.8 Crores. As we earlier said that AWUKO will break even by FY2024.

Now I will go to PLUSS. As far as PLUSS, the sales for the quarter was Rs.11 Crores. We expect the full year sales to be Rs.50 Crores. We expect that they will break even at full year level. For Q1, there was an operational loss of Rs.26 Crores. We feel we need to nurture this company. CUMI believes that PCM is a growing technology; PCMs are thermal storage materials with versatile applications in the pharma cold chain, refrigeration and food supply chain, medical devices, buildings and HVAC applications. As communicated earlier, CUMI would take a year to present and discuss the future opportunities for PLUSS. So, this is the update from my side as far as performance of Russian subsidiary and the three recently acquired subsidiaries is concerned. All of them are on track. As expected in terms of our own decision- making process, we feel that we need to give some time to make sure that we stabilize their operations well and then we will start reaping the benefits. With that, I will conclude my opening remarks and probably we can open up for question and answer.

Moderator: Thank you very much. We will now begin the question and answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Sujit Jain from ASK Investment Managers Private Limited. Please go ahead.

Sujit Jain: Thank you for the opportunity. Just to get the numbers right of these two subsidiaries German subsidiary at the company level if you can give us sense as to what is the volume growth and the pricing growth would be or at the division levels?

Sridharan Rangarajan : I think I would say the company level is a bit difficult because of the varied businesses, let us drive by segments. Now as far as the CUMI standalone is concerned I think in abrasives, there is lower volume compared to Q4 of the last year, but higher volume compared to Q1 of the last year, prices are soft and that is why it starts reflecting it in the PBIT margin. As far as ceramic goes, there is very strong volume growth and moderate price growth, in EMD both volume and price growth very strong. This is I would say a broad tnumber I would be able to give you.

Sujit Jain: The ceramics and EMD commentary that you gave would be Q-on-Q, right?

Sridharan Rangarajan : Q-on-Q as well as sequential both is doing fine.

Sujit Jain: Right and in terms of the staff costs and the standalone they are of 60 Crores, so what is that has led to this increase Q-o-Q?

Sridharan Rangarajan : You are talking about the employee costs is that correct?

Sujit Jain: Right.

Sridharan Rangarajan : So, employee cost both standalone and consolidated since this question is asked I am sure there will be a question relating to consolidated also. The increase in consolidated is largely a function of the cost in AWUKO, cost in Rhodius and the cost increases in CUMI standalone, all these three contributes to the employee cost addition and it reflects largely a function of salary increases in the domestic subsidiary because the Q1 of the last year compared to the Q1 of this year, there will be a salary correction that would have happened plus people addition that happen all through the last year and as far as AWUKO and Rhodius is concerned, it was not there hence both of them got added to the consolidated. The other big entity is VAW because there also there is the people addition and the salary corrections. We feel it is normal and nothing abnormal.

Sujit Jain: The depreciation rate at the consolidated level of Rs.43 Crores per quarter that will continue?

Sridharan Rangarajan : You are talking depreciation at the quarter level, so these Rs.42 Crores would include a portion of the depreciation that would come from AWUKO and Rhodius, which has just come in right, so hence this is going up I think for you to estimate you can take this as a base for you to estimate the full year.

Sujit Jain: Thank you. I will come back in the queue.

Moderator: Thank you. The next question is from the line of Rahul Gajare from Haitong Securities. Please go ahead.

Rahul Gajare: Thank you gentlemen for very elaborate presentation. I have got two questions, one you briefly touched upon supply chain constraints during the quarter can you please elaborate on this and how do you see this impacting your full year performance, that is the first question?

N. Ananthaseshan: The supply chain constraints I would say is largely on the inbound side, so where we get our raw materials from China plus in countries from Europe, so we did have disruptions in materials coming in from Europe especially on abrasives because many of these are from Scandinavia and some other countries like France and there the shipment got delayed and also because of their production disruptions because of these energy limitations also caused a delay in suppliers. On the outbound we still see some disruptions, but definitely it does better than the previous two quarters.

Rahul Gajare: My second question is I think you had indicated earlier that South African operation will take a couple of years to turnaround, so I was pleasantly surprised to see profits, can you discuss what happened in South African operation please?

Sridharan Rangarajan: The South African operation, I do not think we said two years perhaps it might have been two years back because we introduced quite a few new products, they also changed their business model to get into shorter working capital cycle, they also introduced tilt firm furnace from their stationary furnace, these three coupled with few other local changes and the demand side in terms of the availability of the products push the prices as well that resulted in a quick turnaround of the company, so for the last four quarters they are consistently performing and delivering profitable resources.

Rahul Gajare: Sir, thank you very 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, my first question is on VAW, our earlier impression was that there could be some translational gains over there because the Rouble had appreciated significantly over Rupee, so could you explain as to why as to nearly 37 Crores to 50 Crores kind of forex losses we have made, so is it because of translating those receivables in euro, so translating those receivables to rouble and then into INR, could you explain a little bit over there?

Sridharan Rangarajan: Yes, I think it is a good question. As we said in the earlier calls also they have almost more than 50% of their business in silicon carbide getting exported out of Russia, they are predominantly invoiced either in euro or in dollars, their receivable in euro and dollar have to be converted into roubles and if you see that the rouble appreciated like for example if I have to get a million dollar and if I have to restate this million dollar let us assume at 80 dollar in last quarter I am just giving an example only and then it is appreciated let us assume it goes to 50, so that would result into an exchange loss in the rouble books and that rouble loss will now have to be converted back into INR. So hence the same exchange loss will translate back into Indian rupees and that is how it comes.

Harshit Patel: Understood, just a follow up to this, could you say as to what was the geographical mix of Russia in the last quarter, how much of the volumes were sold in Russia, Europe, India and the rest of the country?

Sridharan Rangarajan: Around 55% in Russia, 17% in India, the balance is Europe and rest of the world.

Harshit Patel: Understood. Sir, my second question would be on our industrial ceramics portfolio. So could you throw some light on our portfolio in anti-corrosive and composite, I think you have given quite a lot of flavor in the annual report, so what is the overall addressable market that we are catering to through these categories of products, what would be our revenues at the moment and how fast they can grow?

N. Ananthaseshan : The anti-corrosive product for a portfolio what we have is largely for floorings and coatings which are used in asset manufacture, sulphuric acid or fertilizers or very corrosive chemicals, so these are industrial coatings and as to your question of how fast they can grow we do believe that one as a coating and also as what you call as bricks these are speciality lining and they are project based, today in terms of size the business.

Sridharan Rangarajan: A small portion the anticorrosive side of it, so there are three components to that -ceramics segment, industrial ceramics, refractory and anticorrosive. These three components and industrial ceramics has got wear as well as the higher end of the industrial ceramics application, so this is how the industry has to be looked at and that is how if you look at the annual report we would have covered all the three sides of it.

Harshit Patel: Right, Sir, what would be our broad mix of the sales between these three categories, refractory, industrial ceramics, and this anticorrosive and composite?

Sridharan Rangarajan: I would encourage you to look at it together rather than splitting it because it is a mix that sometimes gives us ability to sail through and then service various industries like for example, the same industry is served through all the three different products, if you take a cement, we will serve cement industry by all the three product lines, so we do not distinguish in that way.

Harshit Patel: My question was on the capex plan, I think we have already done around 56 Crores in the first quarter, I think that is likely on the higher side vis-à-vis our own historical averaging. We also see the electro mineral sales ramping up very fast helped by China plus one, so here what are the product lines that we are expanding, are there any new product line, I think you had previously mentioned about this brown fused alumina, so how is that product line doing and what would be our overall capex for the next couple of years that would be my last question?

N. Ananthaseshan : Your observation is right, we have seen that we are spending a little more than what we normally do, it is also an effect of these spillovers of the Q4, which gets capitalized in Q1. As to your question regarding electro minerals, the product you rightly pointed out is the brown fused alumina, which came in through I would say full capacities in the late of the second half of last year, so you are seeing the benefit of that, so the synthetic brown fused alumina is running well and that was going to deliver volumes in EMD, so is the case of the white fused alumina, so the capacity increases in white fused, in brown fused alumina, which is core products are significantly resulted in the EMD business doing well.

Harshit Patel: Understood Sir. Thank you very much for answering.

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. First question is on the standalone abrasives division. We see some softness sequentially as well as in the margins which were hovering around 18% in the last seven quarters we saw 14.5%, so could you just help us with the volumes as well as the margins in fact in the standalone abrasives division?

N. Ananthaseshan : The standalone, if we were to take the three broad segments, we have abrasives, ceramics and the minerals while the minerals and the ceramics had a good run because both in terms of the volumes and also the margins, the abrasives is the one which has been impacted and this is largely due to a combination of cost push of all the input raw materials and we also remember that this cost push came in through from Q3 on so significant increase in the case of the input materials, so not all the costs we have been able to pass on because there is always a lag in the abrasives industry, so to putting up the prices and implementing it in full, so that is largely the reason for this lower margins.

Bhavin Vithlani: Sure, on the volumes front, the softness and what is the kind of growth that we should expect on the abrasive side for the annualized basis?

N. Ananthaseshan : If you look at sequentially, yes there has been a drop in volume that is also due to the fact that we have not been able to get I would estimate about 15 Crores to 20 Crores we have not been able to deliver more because of non-availability of specific raw materials otherwise the sales would have been better. We do see that there is definitely more positive mood in terms of the consumption so we expect that it would be better and positive around 10%.is what we expect.

Bhavin Vithlani: Sure and would the margins come back to that 18% levels as the lag impact is covered?

Sridharan Rangarajan: I do not know where you get the 18% Bhavin because I am just looking standalone, the best in the last eight quarters we delivered is about 16.8%, but I think still there is a point that you are making is yes we have come down in the margin we clearly see that I think we will be back, my guess is that at last year full year level we were at 12.2% and we think that we should be get back to that level at the full year level at the end of 2023.

Bhavin Vithlani: Sure, the last question is if you could just help us again with losses which were there in the German subsidiaries and the kind of crisis that we are seeing on the energy prices as well as availability, how do you see the impact of the energy availability and the prices on the operations and what is your plan of action to overcome these difficulties?

Sridharan Rangarajan: I think it is a good question, so first of all we need to split this into two broad areas, AWUKO and Rhodius, I covered both AWUKO, if you really see we took the assets of the AWUKO when it was end of the liquidation for almost two to three years they were reeling under a lot of pressure, supply chain disruptions happened, customers started moving away from them and that is the kind of situation we took over this company and we know that it is going to take time and we said and we communicated that it will take at least two years upto FY2024 to even come to break even, so in that regards I think the losses that we are seeing and I think I said that we will be full year loss could be about 20 Crores to 25 Crores is very much in line with our expectation. Now to the question that you ask how is the gas price playing around, few good things that in our favor is that we have contracts for the full year that this calendar year, so the availability of gas is not an issue, cost also in the terms of the current situation we are very well under control, we would like to enter and we are in the process of entering into contracts for the next year, so we feel that though the headline newspaper led gas price cost increase, etc., is one, but in reality that is not going that alarmingly high, but it is definitely on I would say at least minimum three times higher compared to what we have been looking at, so which means we need to start preparing putting the price back to the customers as well as work on the energy saving measures, product mix changes and some productivity work, so this is what currently we are looking at, looking forward to the next year, not for this year, as I said that we are fine as far as this year is concerned and we have to wait and see how things turn. There are signs of positive things coming along in terms of this conflict, probably people will start realizing that cash price also is not sustainable at this level, it will start coming up, alternate energies will start appearing, so we will have to wait and see, but definitely we are watching this trend. The same goes for the comment for Rhodius, I think they have very well entrenched contract with the local suppliers, so we are fine as far as this year is concerned, we are working on contracts for the year to come and we see this across the entire Europe, we see this across the other geographies as well so there is going to be a lot of pressure, so that pressure will start reacting on bringing this cost back and if you really see that 18 months back we all saw the commodity price going up and then now suddenly there is a big drop of course it is not comparable to earlier price, but it is still a huge drop of 40% to 50% drop has happened, so I think we are seized off this particular fact and we are working on that.

Bhavin Vithlani: Sure, I just missed the Rhodius loss number for the quarter and your expectation for the current year?

Sridharan Rangarajan: I said the expectation for the full year, we will break even and the loss for the quarter I said about 6.5 Crores.

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

Moderator: Thank you. The next question is from the line of Dikshit Mittal from LIC Mutual Fund. Please go ahead.

Dikshit Mittal: Sir, my question is on Russian acquisition, you have mentioned that you have resumed your exports to Europe, so do you think you can get more market share maybe higher margins in Europe since Europe is suffering from higher gas or power cost?

Sridharan Rangarajan: We have not resumed, we continue to do what we are doing and like there was no impact, I think we will communicate this in Q1 also, so I think what I would say that the silicon carbide is a very important material and it is needed by all the industry hence they will have to start using this material and we are following whatever is the guideline respective government provides as far as the logistics is concerned we are doing the same, so I would say the logistics issues are getting better day-by-day, the Indian Government is also doing quite a lot as far as logistics routes to India. To your question will it create more opportunities for Europe I would think definitely yes, but like as I said operationally we are doing the best at this point in time except that the exchange issues are beyond our control that is the challenge we face.

Dikshit Mittal: Because your operations are in Russia so I presume that you will be better placed as compared to your European competitors in terms of cost structure, so will that help you increase margins in the medium term?

Sridharan Rangarajan: I think as far as our position is concerned yes, we are better positioned than probably in European counterpart particularly in terms of the energy availability and the cost, but I think we want to do the right things for the customer and we will go by the market price, we are not looking for like for example using this opportunity to have a windfall gain, but it depends on the demand supply and the price at that point in time.

Dikshit Mittal: But I assume that the prices will automatically rise right basically power costs are rising so in a way that should help?

Sridharan Rangarajan: That is right, I think I told in my remark is the combination of what we got is the price and volume and price is playing a big role there.

Dikshit Mittal: Thank you Sir.

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

Aditya Mongia: Good morning and thanks for the opportunity. My first question relates to the three segments and I will put in one, from what I recall a few quarters back when I asked this question it seems that EMD amongst all the three segments was the best place as per you in terms of growth visibility and ability to pass on cost inflation to the customer, it seems to be the case right now also as per your commentary, we do understand that EMD is the commoditized or the commodity like business, do you expect this trend of EMD is related to the other two segments sustaining for a longer period of time?

N. Ananthaseshan : The EMD business as I share this in two parts, one is in Russia and other was in India and it was always the Indian part of the business that we were concerned about in terms of sustained profitability. The last couple of years I have seen EMD grow in volumes and also improve when I say product mix it has picked up products and changed them completely as in the case of the synthetic brown which gives them a very good cost position, so what is happening is that combined with volumes and also a good cost position now. EMD has set itself up for I believe a sustained profitable growth, so while some parts or the bulk of the EMD businesses in what you call a commoditized product, but there is also a large growing portfolio of specialized products, which would overall improve the margin profile of EMD.

Aditya Mongia: Understood. Thanks for your response. My second question is more clarification somewhere in your opening remarks you suggested that beyond the subsidiaries creating a loss making situation for you there was also a gas price issue and that impacted, if there is a separate loss number that you would want to kind of quantify for the quarter?

Sridharan Rangarajan: SEDCO the price is set by ONGC every quarter based on the global basket of the price of their source what they source to us, it is an Indian based one, so if you really see $2.9 per MMBTU has gone to $6.1 per MMBTU, so that has created a high cost of gas to SEDCO and SEDCO in turn cannot pass on it to its customers so it is a captive unit it serves the group and we always price the group companies at what power generation company can charge to its customer, which is basically is it TANGEDCO or KSEB how they charge the same rate they charge, so in some quarters they get a better profit because of your gas input cost is coming down, in some quarter it has got a loss that is how the whole thing plays, so what you have to see is that had passed on this and it will come in the other side of it that is how it goes through.

Aditya Mongia: Understood and just one more clarification and not a question, when you say that the receivables have been treated and there has been a forex impact where exactly does it get booked inside the segmental EMD numbers?

Sridharan Rangarajan: Yes, it gets booked in segment EMD, correct.

Aditya Mongia: Got, Sir. Those were my questions. Thank you for your response.

Moderator: Thank you. The next question is from the line of Manoj Bahety from Carnelian Asset Management. Please go ahead.

Manoj Bahety: Sir, thanks for taking my question. I have a couple of questions, so my first question is since you mentioned that portion of impact on margins is due to conversion of exports back to Rouble so just wanted to understand like once we have done the exports and do not we have a hedging like where we lost our export realization for this kind we have decided not to have looking at like expectations that Rouble will keep on under pressure?

Sridharan Rangarajan: I wish such mechanisms are available in Russia given what they are undergoing.

Manoj Bahety: The second part of my question is that if you can touch a bit on our next generation business vertical especially on the battery side is silicon carbide, if you can touch upon some update on that that will be helpful?

N. Ananthaseshan : As mentioned in the last call these two projects are still on a pilot stage and while we have made progress in terms of the high purity silicon carbide both as a raw material and also as potentially single crystal and it would take time to get that into some commercial levels so as of now it is on a pilot and progressing as per our plan.

Manoj Bahety: Sure, thanks for taking my question.

Moderator: Thank you. The next question is from the line of Alok Ranjan from IIFL AMC. Please go ahead.

Alok Ranjan: Good afternoon, Sir. Sir, my first question is broadly on the macro with the way we are listing on the macro side of the things. The global demand we are likely to continue to see headwind, are you getting any initial signs in any of your segment especially on the electro minerals and abrasives any early indication in terms of the demand coming down or something?

N. Ananthaseshan : In the abrasives segment what we have seen over the last quarter the precision abrasives has stayed strong that is possibly the revival of the auto industry is helping and also the imports of abrasives, the forex is also leading to higher cost of imports and also supply difficulties from overseas suppliers is also helping, so the position of abrasives is seeing a stronger demand. In the case of the mass market abrasives, there has been some amount of pressure from the construction industry side, but I believe that going forward this should ease a bit, while in the case of minerals and the ceramics, the demand continues to be very positive.

Alok Ranjan: Just to add on this one given that China was impacted because of the COVID and there were lockdowns although it was kind of localized, but the way you mentioned that the mass market segment is the one which majorly goes into the house under construction with this opening of the Chinese manufacturing, how do you see ex China for companies like us, how the volume market share gets impacted or also in terms of the pricing, will you see with the opening of the China manufacturing will be impacting us negatively or it will be neutral or positive. Can you just comment on this please?

N. Ananthaseshan : It is not surprising that the China has got back or will get back. It is a large production base for materials like ours, having said that their cost position has been impacted because their energy costs have gone up, their people costs have gone up and also the raw material costs for them also have gone up, so I am saying that while they would come back the prices at which the imports from China would come in is not going to be cheap and on top of that the rupee also weakening, so that is also going to put up the overall cost of the products, yes, it is not going to be a very lopsided competition as before.

Alok Ranjan: Got it, just one clarification, given that we are witnessing commodity cost coming down except oil most of the commodities have seen cost correction, will you see electrominerals also witnessing price correction or the dynamics are very different there?

N. Ananthaseshan : There will be pressure on price correction because when the commodity prices went up commodities like alumina went up obviously we had to put up prices and it would be the reverse going down but at the same time having said that there is also the raw materials what we source can also be at a lower prices, so hopefully the margins remains the same.

Alok Ranjan: Got it, Sir. Thank you, that is all from my side.

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

Bhoomika Nair: Good afternoon Sir. Sir, just continuation of the previous question in terms of the EMD while realizations will go down and also the raw material prices will go down, will that actually mean an expansion in the margins per se because of mathematically as such the margin numbers should go up because absolute profit will remain same?

N. Ananthaseshan : Mathematically, yes, but while there are demands or there will be a demand from customers to bring down the prices, we also have to see the next because there are already raw materials, which we have bought at higher prices so to that extent we will have the margins being imparted, so when the prices go down and the future consignments at a lower price then you still have a better margin, so overall I would think that net-net would stay with similar margins.

Bhoomika Nair: The next question is on Rhodius we are projecting something like €70 million kind of a revenue versus what we used to earlier do about €60 million odd, now with Europe entering into slow down or recession, etc., is it a risk to this number which would mean that what you are projecting break even for the current year could be at risk and if you can just throw some light into we are looking at sustainable margin at about 12% plus by FY2026, how are you looking at the journey from break even from that 7% historic margins of the 12%?

Sridharan Rangarajan: Bhoomika, first of all they export to multi geographies it is just not focused on one geography and also there is a mix of own brand versus the private label brand so coupled with the construction boom that is happening in every place and also the visibility that the private label players give, the team is confident of delivering this number, there could be some softness but I think by and large they are very much looking at that like for example this quarter they delivered better than the last year, so it is in line with that. The second question is about what is your path from 7.5% to 12%, the path is coming largely from three broad areas, the volume going up, certain new investment in terms of improving the productivity, also introducing few new products what they have started introducing or work in progress in the final stages and the mix change particularly some of the raw material that they have been using, so these are the three broad reasons which will lead us them to pick up this. I am looking at not just the drop, right now what you are witnessing is not a right comparison because it is a lag between price increase that you would product versus the cost push that you are suffering, so that you need to eliminate and if you put this back they are still in a very healthy of 7.5% to 8%, so from there they will pick about 400 to 450 basis points to these measures and that was kind of originally planned not because of our acquisition that they have planned they have in their own projection. Now there is an offset and on top of that that we talked about six synergy areas in the last call that needs to play out which will be on a larger bases of both India and Europe put together so for that we have not considered any benefit that would come from that, we need to work on that, we have now identified one leader who would champion this project obviously he will be given a team to support delivering this synergy that we are looking at.

Bhoomika Nair: Sure, so it would be fair to see while this year there is a challenge because of all these aspects in the first year and as expected to be break even in the current year but would it be fair to say that next year onwards we should bounce back to that 7% to 7.5% level given that recently commodity prices are kind of easing off?

Sridharan Rangarajan: Yes, absolutely.

Bhoomika Nair: Great, Sir and the next question is on ceramics. We have clearly seen a very strong performance both on the standalone and consolidated basis, there is a lot of moving parts out there if you can just kind of elaborate what has happened and how sustainable it is, the outlook in terms of the segmental margins?

N. Ananthaseshan: In the ceramics business largely divided between wear ceramics and engineered ceramics and both of them have a significant export component, on the wear ceramics we do see both through Australia and through America demand for the lined equipment as you call it, we also have projects which was delivered in Q1, which was a spillover from Q4 so that also helped. On the technical ceramics which is Metz cylinders and the ceramics for alternative energy the demand continues to be strong and that is where we would continue to grow.

Bhoomika Nair: Sir, these margins that we have seen in this quarter now would be a more sustainable level as we move ahead on an overall for standalone and consolidated basis?

Sridharan Rangarajan: Let us look at two compartments, we feel standalone is sustainable and consolidation that comes from our Australian business and also from America, so there are some orders pile off which they could ship out this quarter, so there is a higher margin but it is not going to fall off this time so I would say they would be better than the last year's margin on a consolidated basis.

Bhoomika Nair: Sure, thank you Sir and I will come back in the question queue and all the best.

Moderator: Thank you. Ladies and gentlemen due to time constraint that was the last question for today. I would now like to hand conference over to Mr. Ravi Swaminathan for closing comments.

Ravi Swaminathan: Thanks a lot and thanks everyone for being in the call. I would like to thank the management also. Thank you everyone.

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