“Carborundum Universal Limited Q3 FY21 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Carborundum Universal Q3 FY21 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, 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. Thank you and over to you, ma'am.

Bhoomika Nair: Thanks, Bikram. Good morning everyone. Welcome to the Q3 FY21 earnings call of Carborundum Universal. We have the management today being represented by Mr. N. Ananthaseshan - Managing Director: Mr. P. Padmanabhan - Chief Financial Officer and Mr. G. Chandramouli - Senior GM, Strategy. I will now hand over to Ananth sir for his initial remarks, post which we will open up the floor for Q&A. Over to you, sir.

N. Ananthaseshan: Very 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 considered as a forward looking statement. The statements are based on management current expectation and are associated with uncertainties and risks are more fully detailed in our annual report which may cause the actual result to defer. Hence, these statements must be reviewed in conjunction with the risks that company faces. Thank you.

N. Ananthaseshan: Good morning once again and a very Happy New Year to all of you. I do hope that this New Year is quite different from the one which we all passed by, so once again wishing you and all your families a very healthy and a safe New Year. The shadow of the COVID was, I think still present when we started the quarter in Q3 while all of us were very bullish or very positive about the way Q2 turned out and with the gradual opening or the unlocking of the lockdowns or opening up of the lockdowns, we saw economic activity come back strongly in Q2, while there was always a shadow of doubt whether this COVID would eat into Q3 post the festivities in the festival season. Fortunately, for India I think the expected surge in the cases did not happen and today, we are better positioned compared to many other countries. So what we see is that, India, I wouldn't say, have forgotten COVID, but in many places, the activities are getting back to normal. While that does augurs well for us, I don't see any reason why we should let our guard down and we should have an eye on the resurgence of the COVID till such time the entire country is vaccinated and we can all breathe a sigh of relief. So I am sure that the last couple of days have also been very exciting for the entire investor community with union budget in focus. So what we also saw that the union budget stress on infrastructure is possibly a very welcome move that will have a direct impact on co-sectors such as steel, cement, auto. The growth in capital expenditure, we see can possibly flow down to the private investments and we expect to benefit by way of better demand across all our segments and also by way of hopefully high value, high margin for the project orders. So the first cut impression has been positive for us and we also hope that the PLI scheme when implemented and the vehicle scrappage policy will also bode well for us. Toward the government's focus on renewables and specifically the hydrogen energy mission and on both these PLI schemes and this hydrogen energy mission, we would be digging into the details more, but we believe it is a very encouraging move by the government.

Coming to our business performance over the quarter, Q3 has been a mixed experience for us while we saw that the standalone business has done extremely well, many of our overseas business could have done better. We saw that over the October to December period, economies across the world have had very different experiences in terms of their responses to the pandemic and their economic performance. In some ways, this has impacted or reflected on the results, especially in Australia, Russia and also Europe. The standalone portion of the business had, what I call an. outstanding quarter and recorded 20% growth compared to Q3 of last year. Sales was driven by very strong domestic demand across all segments and we recorded an all-time high of 488 crores. The standalone also saw very significantly higher PAT growth of 63% and a PAT margin of about 13%. The growth has been through both volumes and little bit on realization in some segments and the lower fixed cost, I mean we have been focusing on fixed cost reduction throughout the year has helped us show profits substantially. This also marks a sequentially better performance. So standalone topline grew by 15% over Q2 and PAT grew by 31%. As I said earlier, the surge in the demand over the festive season, which was also fueled, we believe by the higher savings among consumers during the lockdown period was a big driver of growth. However, the performance of overseas entities was a little tepid compared to the domestic business and subsidiaries. The sales of the subsidiaries grew by 5% over Q3 of last year and their profits grew by 31%. However, on a sequential basis, the overseas subsidiaries have seen a muted growth. Their topline declined by 6% and again here one major contributing factor as I said was the second wave of the pandemic in Australia and Europe and the outbreak of the new variants of COVID in some of our exporting target countries and consequently they had subsequent lockdowns, and this has impacted the results as well.

While the COVID was definitely one reason for performances being impacted in Australia and in Russia, there were also other geopolitical factors that play. We saw the China-Australia trade tensions which led to the decline in coal exports from Australia which had again a spiraling effect on the coal mining and thus the coal operations itself. On top of it, apart from the geopolitical situation in these countries, we also had as all of us know a very acute shortage of containers globally, so inbound and outbound logistics across businesses both in the standalone and in our overseas operations have been impacted through different levels depending on the intensity of exports or the intensity of imports, businesses have been impacted differently.

To sum up, I would say consol sales grew by 13% and PAT grew by 40% and again as broadly it is also the reflection of how the pandemic is seen in India and outside India, so we saw the pandemic as something which has been fought and done with and that is how the entire country has responded to that situation while another countries, it is still being taken much more seriously I believe, maybe we also have things in better control, so that is being reflecting in the performances as well. So now let me walk you through the segment wise performance.

Abrasives has been a good performance; I would say a very good performance from Abrasives at the standalone level and we have seen a 16% growth over Q3 of last year and 20% growth over Q2 of this year. Growth was I believe driven by a very strong resurgence in demand from the construction and the auto-ancillary industries. So we saw that auto pick up in Q2 and that continued in Q3 as well. Overall, the festive season, we also saw many construction projects which resumed and there has also been an increase in home renovations which had given a fillip to our coated abrasive segment. Similarly, as I said earlier, the strong growth hosted by the auto industry led by the PVs, the two-wheelers and also the agri equipment, the tractors drove abrasives volumes.

We did have increases in input cost, and I think we would see that coming up more in Q4 as well. So across all commodities, we are seeing costs going up. The raw material, in grains the fuel cost has gone up, the Graphite electrode cost has gone up, the resins have gone up. So across all input costs, there has been an increase. We did cover some of them through price increases, but it is still not sufficient to cover them completely. Despite that, the standalone segment results grew by 44% over Q3 of last year and by 37% sequentially. Abrasives, at a consolidated level via what we sell through CUMI America was low, the sales, though we have been able to on-board some big customers and hopefully, we will see the benefit of them over the coming quarters. The sale was low on two counts, one is, Q3 is always a traditionally low export month given the weather conditions and compounded now with the non-availability of containers and shipping delays.

In the Middle East, we have kept up the momentum and project orders and recorded a good topline growth. The Abrasives business in Russia started the quarter with signs of recovery, but again with imposition of lockdowns in some European target markets, it has impacted performance. The Sterling abrasives in India had what I would call a sterling quarter, so their topline grew by 27% and because they specialize in agro processing, grinding wheels. So good demand in the agriculture or rice polishing segments, also the industrial segments, like in grinding and ball bearing, so that has supported Sterling abrasives to do exceptionally well in this quarter. So on a consolidated basis, abrasive sales grew by 15% over Q3 last year and 17% sequentially. Consolidated PBIT grew by 59% over Q3 last year and by 35% sequentially.

Now coming to the Electrominerals segment, the domestic Electromineral segment saw a growth of 33% over Q3 of last year and by 20% sequentially. Volumes were largely driven by the demand of the white fused alumina which is an input material for the refractory industry. We saw also the exports doing well here. The segment is also seeing growth in the specialty minerals such as what we call the blue abrasives of the synthetic alumina abrasives and the semi-friables. We have also seeing here increase in input prices of minerals and for example, the Graphite electrodes which has gone up globally and here again, some coverage through better realization and favorable product mix has helped. The hydropower generation unit at Maniyar has also seen a steady performance over the year and generation has been close to last year's level. The rainfall has been kind and this year we are seeing steady, but consistent rainfall pattern in that region.

The standalone results consequently grew by 86% over Q3 last year and by 11% sequentially. VAW, the silicon carbide producer in Russia had marginally lower volumes on Q3 last year and also sequentially. This is in nutshell; the volumes were impacted by demand from Europe and also the plant closures for the holidays. Again, we did have some increase in realization, but it was not enough to cover the volume decline. The volume decline is not a very significant and it is a normal thing to happen in Q3 when the temperatures dip very significantly and the temperatures of -25 and -30 in those regions. It is not so easy to ensure that the operations are run continuously. Losses in our Foskor Zirconia grew sequentially but were lower over Q3 of last year and our share of losses for the quarter was roughly about 3 crores. So overall the impact of VAW softened the consolidated segmental sales of the Electrominerals to 19% over Q3 of last year and to 5% sequentially and the growth in the result was moderated to 48% over Q3 last year. However, on a sequential basis, profits declined by 26% due to higher losses at FZL.

Coming to Ceramics, the standalone operations grew by 18% over Q3 last year and by 6% sequentially. In Ceramics, the wear segments performed well. Though we are yet to see the project orders recover strongly, so this has been compensated by the domestic repairs and maintenance segments with the surge in demand and industrial activity over the quarter, so we are in case seeing good uptake from the core industries here. The technical ceramics performed exceptionally well. We have been able to ramp up volumes in metalized cylinders and auto components such as spark plugs over this quarter and we are also being seeing good demand in the components for the green energy and renewable energy space.

The Australian business as I had indicated earlier had a very tough quarter, I think while they had issues in terms of the coal mining industry being seeing adverse impact because of this political tensions which we believe are of a temporary nature. We also have containers being held up at the ports, coal containers and the country's exports of the coal has seen substantial double-digit declines, but Australia we are sure, and we hear that are preparing themselves to overcome the situation by addressing other markets globally and which will consequently see the revival of the coal mining. However, the team at Australia has started looking at other opportunities, whether it is an iron ore or gold or another metals, nonferrous metals mining sector and we have seen a good opening here as well. So the ceramic segment in CUMI America performed pretty well, so they also had in addition to the coal mining there, they also had better breakthroughs in the mining industry, iron ore and non-ferrous metal mining. So overall, at a consolidated level, the sales growth softened to 5% on a Q-on-Q basis and also declined by about 6% sequentially. Profits grew 15% over Q3 of last year but declined by 29% on a sequential basis.

Coming to our investments and CAPEX, consolidated CAPEX for the quarter was 77 crores out of which standalone was about 46 crores and the focus continues to be on vital CAPEX and automation projects. So this closes my briefing for the quarter. I will now request our CFO, Mr. Padmanabhan to take you through the numbers following which we can open up the forum for questions. Over to Padmanabhan.

P. Padmanabhan: Good morning everyone, wishing you Happy New Year and let us hope that the current year be out of COVID. Let me summarize the financial performance for the quarter ended December 31. The consolidated sale for the quarter has been increased by 13% from 642 crores to 727 crores of which the standalone has increased by 80 crores signifying 20% growth over last year.

The consolidated segmental PBIT was at 117 crores which was up by 33 crores and above 39% growth on quarter-on-quarter basis. At the standalone level, the segmental PBIT for the quarter was at 88 crores against 58 crores of last period denoting a 51% growth over the previous year. On a consolidated basis, PAT, and non-controlling and after non-controlling interest for the quarter was at 88 crores as compared to 63 crores in the corresponding period of last year signifying 40% growth. At the standalone level, the PAT increased to 66 crores from 40 crores indicating 63% growth on quarter-on-quarter basis. At consolidated level, the PAT margin improved from 10% during Q3 of previous year to 12% in the current quarter. At the standalone, it has increased from 10 to 13% at 300 basis point increase.

On the segment, abrasives, on abrasives, the consolidated sales for the quarter increased from 263 crores in the corresponding quarter of last year to 303 crores this Q3. Standalone sales increased from 217 crores to 253 crores in Q3 denoting a 16% growth. At the consolidated level, the PBIT was at 50 crores up from 31 crores, out of which 13 crores increase was from standalone and 3 crores increase was from our domestic subsidiary, Sterling abrasives.

In the Electromineral segment, at the consolidated level, the consolidated sales for the quarter increased to 290 crores from 244 crores in the corresponding quarter of the last year, denoting a 19% growth. At the standalone level, sales increased to 130 crores from 97 crores in Q3 of previous year. The consolidated Electrominerals business recorded a PBIT of 30 crores against 20 crores in the corresponding period of last year indicating a 48% growth. The standalone contributed 5 crores to increase in the profitability.

In the Ceramic segment, consolidated sales grew by 5% on quarter-on-quarter basis from 152 crores to 160 crores. The standalone sales grew by 18% on quarter-on-quarter basis to 140 crores. The net sales of the Russian subsidiary, VAW grew by 52% on quarter-on-quarter basis. Consolidated PBIT of the ceramic segment for the quarter was at 34 crores higher by 5 crores from the same quarter of last year. The standalone profitability increased to 32 crores denoting a 50% growth.

On the Finance side, we continued to be a debt free company at the standalone level as compared to last quarter. On a consolidated basis, the debt equity ratio is at 0.02 as compared to 0.03 in the last quarter. The total consolidated debt was at 42 crores and out of that we had repaid 25 crores during the current quarter that is the reduction as compared to last quarter. On the Forex side, CUMI is typically a net importer in dollar terms and net exporter in Euro terms. We cover according to our policy where the net after setting off the natural hedging, we will be hedging the balance, and this is from my side. Thank you.

N. Ananthaseshan: Thank you, Padmanabhan. So overall it has been a very confident building quarter. Going into Q4, we believe that the current momentum what we saw in Q2 and Q3 will flow into Q4 as well. Some of the very strong standalone or domestic market is what we see, some of our businesses which are located overseas had a Q3 what we believe is more like one-off situation and would be coming back strongly in Q4 as well. Now, as I mentioned earlier, the impetus which has been provided by the budget hopefully should flow through Q4 and that would spur the entire economic growth and the moment for the country, so looking forward through better times. Thank you so much again.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Kirti Jain from Sundaram Mutual Fund. Please go ahead.

Kirti Jain: My first question is, with regard to Abrasives, how much like market share you would have gained and what could have been in your view the market growth sir for say, the current quarter or the last 6 months, either way you can tell?

N. Ananthaseshan: We keep track of the sales numbers of most of the organized players, so from that what I would see is that the market share gain has definitely happened in Q3 definitely, so that is something which we are sure about. This has come across in both the bonded abrasives precision segment and also in coated abrasives across product groups. We also saw that the imports from China has slowed down possibly because of this delay in shipments and that also would have contributed to a better performance from our side. So though I can't put a number to the market share gain, I believe that overall there has been a gain in market shares.

Kirti Jain: Sir, you had highlighted there were two disruptions which happened in our business, one is with regard to abrasives you had highlighted that container availability became an issue and then in Australia there were disruptions, sir, both put together, how much of the business we might have lost, just estimate how much business you could have lost, sir?

N. Ananthaseshan: In Australia?

Kirti Jain: Australia and the abrasives, the container exports, container shipments….

N. Ananthaseshan: Yes, shipments did not happen not only in abrasives, but also in IC, Industrial Ceramics part of the business because you all know that the ceramics part is a very export intensive part. So we also in some cases had to air flight some of these large parts because these are contracted and had very strict delivery times, so that also have added to our cost, but having said that, I believe that Australia would have dipped by about 15 crores, Paddu?

P. Padmanabhan: 15 to 17 crores are the loss.

N. Ananthaseshan: Yes, in terms of topline.

Kirti Jain: And then in India the abrasive and IC sir, which you were trying to highlight?

N. Ananthaseshan: I would estimate that we could have sold when I look at the containers which are stuck, which could not go out, I believe we should have sold at least another about 10 crores.

Moderator: Thank you. We have next question from the line of Ravi Swaminathan from Spark Capital. Please go ahead.

Ravi Swaminathan: Sir, just wanted to get an understanding on, what would have been the volume growth and price increase mix that we would have taken in abrasives this quarter?

N. Ananthaseshan: Abrasives, the price increases were to the tune of about less than 1.5%, so the entire balance came out of volume growth.

Ravi Swaminathan: And what would have been the industry growth in terms of volume, so probably our growth would have been 12-13%, so what would have been the industry growth during this period?

N. Ananthaseshan: That is why I have said earlier, our growth in abrasives was to the tune of about domestic was to the tune of about 20%, Paddu?

P. Padmanabhan: 20%, yes.

N. Ananthaseshan: So the volume growth has been significant in the domestic side and since we know clearly that we did gain market share, I would possibly estimate that the industry grew by about 10% at least.

Ravi Swaminathan: And this market share gains would have been from the Chinese imports or from other players also we might have seen market share gains in any sense?

N. Ananthaseshan: We believe that we have gained both from the organized players and from the Chinese, possibly a significant gain from the domestic players.

Ravi Swaminathan: And do you feel that there is still further gains that can be done from the Chinese imports or do you think that it is transient, I mean in the sense just because of the fact that the supplies are getting disrupted that we have one market share or is it like so basically customers have kind of shifted to our brands and generally?

N. Ananthaseshan: I think there are two parts to it, one is, what is happening in China by itself. So the prices in China, the currency is getting stronger, the RMB getting stronger, has also kind of pushed the dollar pricing of the Chinese for exports and that has made them a little less competitive. Second is that the pressure on the Chinese manufacturers to comply with environmental norms is also putting pressure on their cost structure, both from the raw material side and on the finished good side. Fourth, the congestion at the various ports, the shipping delays and the significant increase in freight cost, I mean the Chinese always used to supply CIF basis and today every supplier saying only FOB basis because the freight cost have gone crazy up north, so while we had situations of containers being available from China at $300 to $400 a container, the same containers are now at between $3000 to $4000. So that has really pushed up cost. So the landed cost of Chinese imports also has been impacted that way. The other factor which I also see is that the government has come down hard on GST compliance. So the GST collections have significantly improved, and they also went above closing down all these nonoperational or I would for want of a better word, I would call fake GST accounts and that has augured well for the organized players. So I believe it is a combination of all these and some of these definitely would be sustainable going into the future.

Ravi Swaminathan: And with respect to price increases in abrasives and other segments, any further price increases which are there on the cards?

N. Ananthaseshan: It depends on how the raw material prices will pan out because there is going to be a very significant price increases which can't be covered by any efficiency improvements, then we have to pass on the costs, so there is no choice, but when we intake it quarter by quarter, we do not know if the freights are going to be at these levels continuously or will they come down if with improved availability of containers.

Ravi Swaminathan: And any growth guidance for FY22 at an entire company level, that is my last question?

N. Ananthaseshan: I won't give a growth guidance for the company, but I can only tell you that India GDP story, everybody is talking about 11% growth, so definitely we are looking to better that, so that is what I would call as a guidance.

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

Bhavin Vithlani: Sir, my question is primarily on the margins and if you look at margins for the standalone abrasive, which used to hover around 13-14, we have seen a level of 17.5 this quarter and simultaneously if I look at the margins for the subsidiaries within the abrasives, we have seen a remarkable improvement in the margins, so two questions here, what has driven this and what is the sustainable level in your view?

N. Ananthaseshan: See, improvement in margins did not happen overnight and we have been systematically working on reduction in our material input cost, but I say input cost, not unit cost but more from an efficiency input output cost, so making the operations more efficient in terms of consuming less energy, so that is something which has been driven in abrasives and also across the company through what we call the STPA methodology and that has possibly now borne fruits**.** We have also systematically looked at reduction in fixed cost structures. So the COVID definitely has helped speed up that process, so the focus on fixed cost, the focus on variable cost and thus an improvement in our EBITDA margins that has been what the teams have been working on. So when we have the situation and then we have a situation where the volumes kick in, so obviously that has really helped the margins overall. So higher margin volumes, lower fixed cost, better coverage, and the EBITDA's margins have improved at this level. So while going forward, we do believe that there would be some elements of these costs which are onetime cost, obviously like many of us, we don't travel, our communications are pretty low, so exhibition cost, promotion cost has been low this year and while this may not be staying at the same level the coming quarters, definitely there would be a large element of that which can be sustainable and we believe that the margins we have to see is what we will get going into the future plus minus.

Bhavin Vithlani: I appreciate that. Again, the second question is on the growth of the abrasives as the industry, even if you could break that into domestic and international, what I was seeing is internationally the subsidiary side, the progress has been actually on the delta basis much higher both on the topline and margins, what are the structural changes that we have been doing where we have seen the subsidiary performance has actually come much better and, in your view,, what could be a sustainable level?

N. Ananthaseshan: The abrasives in subsidiaries, largely in US and of course in Russia, they are the big chunk of it plus the subsidiaries what you see in India itself, you have Sterling abrasives, all of them, Sterling Abrasives in domestic market obviously has done pretty well leveraging what we are seeing in the domestic market. So it is not a surprise that Sterling is doing very well, so their focus on the agro products and on the industrials have really borne fruits. So Sterling is a good growth story. In the case of America and the other parts of the world where we have abrasives operations, the last few years have been focusing on gaining customer acquisition, all of those acquiring customers, large customers who would give us stable volumes month on month, so that has been the focus. So instead of gaining a large number of customers who we have to go back again and again, so here we are talking about customers who would possibly give us schedule for the entire year. So gaining access to them and building our confidence with them has been the theme over these last couple of years and again that has grown foot in the US while they did well, they could have done better without the COVID, but I am hoping that this momentum will now take them forward.

Bhavin Vithlani: And lastly on the Russia part of the abrasives because last quarter you mentioned about Italian market as an opportunity?

N. Ananthaseshan: The Russian business in abrasives is largely domestic focus and though we do, what we have done is there in domestic focus, the customer segments are largely in the auto and OE and foundry segments which had been impacted by the COVID. So there you see a fluctuation in performance there, but this quarter has been a little better, but in the coated abrasives side, where we sent them jumbo rolls from India and for conversion into coated and distribution in their markets, they have started picking up volumes there.

Moderator: Thank you. We have next question from the line of Renjith Sivaram from ICICI Securities. Please go ahead.

Renjith Sivaram: Sir, in this Australia issue, what is your outlook now that if situation normalized or when do you see this normalizing or what are the actions that we are taking so that to reduce the impact of the same?

N. Ananthaseshan: If you look at our sales into Australia over the last quarter, we have done better than Q3 that is the dispatches shipping containers from India into Australia. It is not that we do not have the order book. So the order books are there so we have already shifted out from here, containers are either getting stuck in Singapore, Kuala Lumpur even in Melbourne and Sydney. Some of those containers would have reached normally it takes about 4 to 6 weeks max and some of them have reached only now. So, it has been in some cases 12 to 14 weeks so that has really disrupted their supply chain and in some cases, they had to take out the containers and Sydney and then shift them all the way to Adelaide inland routes. So we see that these are possibly a temporary blip and the theme there is now hopefully have got excess material because we keep shipping out and so they will have stocks available to them for sale in Q4. One other thing which has really impacted them is that apart from the geopolitical tensions is a very strict COVID protocols in Australia. So as we all know the travel between states have also been tightened so you have to have whether to go from Western Australia or to New South Wales or to Brisbane area. So you have to have those quarantine compulsorily done. So that has really the restricted movement of man and material possibly that would ease with the situation improving and we see that Q4 can get back to normal levels.

Renjith Sivaram: What has been the performance in terms of top line, EBITDA and PAT if you can share for this quarter for Russia?

N. Ananthaseshan: Russia comes under the minerals business so they have done pretty well in terms of volume, a small volume drop, but they have been maintaining their profitability. So I am seeing them driving the volumes regularly in this year.

Renjith Sivaram: If you can share some numbers on that in terms of revenue EBITDA part?

N. Ananthaseshan: We do not share specifically on different parts ast it comes under as a segment.

Renjith Sivaram: But it is largely profitable there is no issue is there?

N. Ananthaseshan: Yeah, it is a profitable absolutely no issues there.

Renjith Sivaram: Just a bookkeeping one your consol other income is lesser than the standalone, so you said because of the dividends or something like that?

P. Padmanabhan: It is not because of the dividend because the intercompany dividend will always be knocked off therefore it is not because of the dividend and it is a normal the production scrap sales, etc., that is why it has come down and moreover, the export benefit at standalone level had come down. When the rates have come down DEPB rates, etc., so that is why the impact is there.

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

Kunal Sheth: Sir I wanted to know in our abrasive how large will be auto as a sector for us and also if you can talk about which are the other key large sectors that contributes to the abrasives?

N. Ananthaseshan: So we supply what we call both the custom built products or precision abrasives products and also the regular I would not call mass market, but standard products into the auto and auto related businesses. So, when I say auto it can be auto OE, auto ancillaries and business in which feed into the auto. When I say that I mean let us say for example the foundry segments which can deal with auto, which can deal with oil and gas etcetera. So, overall if I like all these together broadly, we will estimate that our participation in the auto related businesses would be to the extent of about anywhere between 25% to 40%.

Kunal Sheth: And sir other large end markets that would contribute to the abrasives if you can?

N. Ananthaseshan: Other markets would be let us say the precision engineering, which is not necessarily auto, but also steel for example steel making, the roll grinding, the medical equipment, the pharma in terms of the needles, hypodermic syringes. We also work at on the mass market side lot of work on the wood working construction, home refurbishments. So, these are all the other segments that we supply cater to. I would not say that anyone of them are as large as the auto and auto related businesses, but each one of them could be the region of may be between 7% to 10%.

Kunal Sheth: Also second question is related to where are you are FOSKOR divestment we were talking about the finishing that by the end of the quarter?

N. Ananthaseshan: We are still in talks we are still kind of progressing there. We have had as I said delays earlier in terms of the DD and the COVID has not helped so that has also put in a kind of a break therefore the partner also has a slowdown in their businesses. So we are working towards resolving this and hopefully by March end that is our target we should have a resolution to this.

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

Harshit Patel: Sir my first question would be on electro minerals sir could you give us an idea on the trends on the pricing front, so in the last quarter you had mentioned that would this silicon carbide in the alumina realizations were kind of stables, so have they seen an upward trend in the third quarter and how do you think it will fare be coming ahead in the probably next year in FY22?

N. Ananthaseshan: See as I said let us take the alumina fused, alumina part of the business that is largely india centric and that is a white fused alumina and a little bit of the brown fused alumina as well. The input cost into these businesses have been kind of a stable in Q2 and early part of Q3, but as we progress into Q3 and now into Q4 we are seeing significant pressures on cost both only on input cost as I said the graphite electrodes and many of them also linked to the shipping cost because the electrodes coming in from China, some of the other inputs coming from other parts of the world. So, shipping cost has a big role to play in the commodity prices. So we are seeing, and we will see the prices going up and if we have to put up prices to cover these cost pushes we will do. We have started off talking to the customers and it is not that they are not aware of it they are actually facing the same problem with their logistics as well. So, there will be definitely a price push and the cost push and the price increase that we will see selective increases, but there will be increases.

Harshit Patel: Sir on the product mix front in the last quarter you had highlighted that we had benefitted from some silicon fine powder volumes from the DPF customers, but it was a one of kind of a demand, so sir how was the product mix in the third quarter?

N. Ananthaseshan: The third quarter we still continued with that the fine powder orders there is an annual schedule that we got so that was good news, but what also increasingly happened is that the fused alumina is largely going to areas which is abrasive and refractories. So, while the abrasives were little muted in Q2 and volumes also were lower, but in Q3 the significant growth happened in refractories demand from the steel industries in steel related customers. So what we saw was a mix towards more towards the refractory part of the business than the abrasives and this has also did well, but in terms of growth rates refractories was much better. So obviously the realizations there are a little lower so hence the overall realizations could have seen a small dip there.

Harshit Patel: Sir lastly on our ceramics business sir has there been any improvement from the project orders especially in the wear ceramics area I remember it was slightly muted in the last quarter and also sir follow up to that would be how is the refractories business shaping up now that the demand from both steel and cement has somewhat revived now?

N. Ananthaseshan: So both the business in ware ceramics and in refractories are more project focused and as you rightly said Q2 was muted on project orders and we did benefit out of working on building businesses for the repairs and maintenance. So that trend continues, but definitely we see indications of orders being talked about, projects being talked about, projects being negotiated and hopefully that I will culminate into something concrete in these coming quarters. The same goes to for industrial ceramics and refractories as well. In the refractory businesses we have seen some progress in project orders coming in from some steel industries and chemical processes industries.

Harshit Patel: Sir just a small follow up on that so sir how much would be the contribution of refractory in our overall ceramic sales as of now?

N. Ananthaseshan: On a consolidated basis about 33%.

Harshit Patel: So I think it has declined from 40% to around 33% in a frame if I remember correctly?

N. Ananthaseshan: I mean when you stop talking on the standalone refractories, but if I want to have the consolidated refractories then it is still about 40 odd percent.

Harshit Patel: Because of the refractories in the Volzhsky Abrasives.

Moderator: Thank you. We have next question from the line of B Anand from White Oak Capital. Please go ahead.

B Anand: Sir just wish to understand from a two to three-year perspective what are the challenges and opportunities do you see in each of our three major segments?

N. Ananthaseshan: If I look at the business overall and how the environment at least let us say the domestic environment is obviously there is a hunger for growth and we also see an environment which hopefully is set up for growth and all our respective segments whether it is abrasives, minerals or the ceramics segments have a play in many of the application areas and the growth sectors that we are looking at. So whether it is auto OE and construction infrastructure, engineering part of it all of them are seeing hopefully a positive trend. So I am confident and positive about abrasives doing pretty well and hopefully with all this PLI schemes turning into reality then it will be a good opportunity for us. The infrastructure and the coal industry whether it is in steel, power, etc., will also give a good opportunity for the minerals business because the minerals are the mainstay of the high temperature materials that go into all of this industries like steel, copper, zinc any of them you need these minerals and which is a good business to be in and with the focus on volumes and on maintaining cost or maybe very lean that business can be poised for good growth. Coming to the ceramics as I said ceramics has two parts. One is high thermal management part which is focused on domestic and also the exports. The auto industry if it grows whichever it is whether it is EV vehicles or SUV engines you do need tires and for example tires consume lot amount of carbon black so that is where we are very strong at and whether it is the domestic market or export market that gives us an opportunity. In the ceramic segments, we are taking the ceramics as a global business and it is very largely export focused and I see opportunities for that to continue its momentum plus the emerging opportunities what we see in the defense materials especially on the composite side is also very heartening. So, overall if all these growth blocks which the government has for now and India poised to take advantage of that. We should see a good growth story.

B Anand: Sir from any challenges if you can also highlight for each of these segments?

N. Ananthaseshan: So obviously when India is so attractive it will also attract lot of competitions. So, competition intensity will increase. We will have people sitting up coming into India the PLI scheme itself is a good attraction for people to come and set up a shop in India and they may bring their actual units which could include some whether it is abrasives or ceramics. So we have to be careful and really watchful of the competition that can come in from outside to India. At the same time what also it needs to ask is that we have to up our efforts in terms of coming out with new products, much more driven on innovation and that has been our strength and that is what we will continue to do and look at those disruptions very proactively and be prepare for that.

B Anand: Sir secondly I wanted to understand our capital allocation and plan for next couple of years like how do you see our CAPEX requirements for each of these sectors and over next two to three years how much overall CAPEX for the company as a whole we would need?

N. Ananthaseshan: The current years plan of CAPEX was while it was taken at about a 120 plus score levels. We had been muted and kept it very prudent and focusing only on the vitals and as I said earlier on the automation requirements that has been the theme for all the businesses this year. When we will have growth, CAPEX is on largely on ceramic side both in India and in Russia and also in the abrasives side. Coated abrasives we will see investments in shoring up their conversion facilities. We did invest in the maker facility last year and that has started off well. So now we have to invest and support that facility with conversion facility. So abrasives we will see investments we will also see investments in ceramics and selectively in the minerals business as well. The minerals business had completed their kind of CAPEX spent on trading infrastructure about a year and half ago and now once they started ramping so there would be some areas there would need balancing capacities and that is what we will be investing in.

B Anand: Sir in terms of numbers?

N. Ananthaseshan: See numbers normally we do about between 120 to 150 crores per year and that will be the normal numbers and as and when we see opportunities to grow so that can go up a little bit.

Moderator: Thank you. We have next question from the line of Ashwini Sharma from Anand Rathi. Please go ahead.

Ashwini Sharma: My question is that what would be the current utilization level at our newly coated abrasives capacity and also if you can tell us the fully utilization basis on a blended basis in abrasives vis-a-vis pre COVID level?

N. Ananthaseshan: Overall the capacity utilization in abrasives has moved up I think pre COVID we were at about 55 I am looking at because it is not one capacity that I can speak about whether it is an overall basked of capacity, so we are talking about a 55% to 60 odd percent capacity utilization has moved up to about 75% plus overall in abrasives. Coming specifically to the coated abrasives maker you remember that we had a capacity about 13 million square meters depending on the product mix for 13 to 14 million square meters and we had doubled it make a capacity. So in terms of the jumbo making capacity, we have about 28 to 30 million square meters and last quarter was about the on the new maker we had a capacity utilization of about 25%, 30%.

Ashwini Sharma: Sir, in terms of opportunity in the PLI you did touch in your initial remarks one of the candidates asked, but if I can dwell that more than how large this opportunity can be for you in next two to three years and how are we prepared in terms exploiting this opportunity?

N. Ananthaseshan: The PLI opportunity I think start off with the 10 sector and now this is going into about we are talking about now 13 sectors and among these 13 sectors what we also see is that auto ancillaries, some of these alloy steel, medical. So these are some of the areas that we see as opportunities. For example, the auto is something which already in so whether it is abrasives or the composites or the light weighting materials and the floor into the auto whether it is a steel making, engineering, foundries etcetera. So broadly I mean abrasives, refractories, composites, and the minerals will flow into auto. The other focus area has into advance side chemistry where we have an opportunity to get into the graphene and the graphite. We still do not know how much the market requirement or market size would be we can shoot for we are doing the estimations now, but definitely these are areas that we will grow. In the electronics depending on what sort of electronics manufacturing is going to come into the country. We do have opportunities both for the engineered ceramics, high purity silicon carbide so that is again a good opportunity. In pharma there are materials of course abrasives currently flow into the pharma whether it is in the equipment manufacturing, pharma equipment manufacturing or the hypodermic syringes grindings. So those are some opportunities, but I believe when there are bigger opportunities in the cold chain so that is in terms of materials so that we can offer for energy storage. So we have to do something we are looking at elsewhere. Of course, as I said earlier in the specialty steel for abrasives and refractories and in medical devices. So these are some of the opportunities that we have in most of the sectors which PLI covers.

Moderator: Thank you. We have next question from the line of Manav Vijay from Deep Financial. Please go ahead.

Manav Vijay: Sir I just have one question and that is regarding your CAPEX so now in some of the earlier questions you eluded to let us say the kind of opportunity that we have on the PLI scheme side or yourself mention that as far as the budget is concerned I mean it is basically focusing on spending infra and everything and the sectors that you cater to you have I mean slightly better growth than let us say what we had in last few years now putting all these things together you still sounding not very I would aggressive as far as the CAPEX is concerned because if the requirement is going to increase you as a dominant player will gain disproportionate market share if you have the capacity, so like the way we have I think we have since like we double the capacity on the abrasive side and that is now coming handy when the China issue is happening, I just wanted to understand your thought process on the CAPEX side?

N. Ananthaseshan: I want to question and answer this question, or I had the same question 12 months ago. So when we said we are pulling up a coated abrasives unit and doubling our capacity one of the questions in one of the calls was are you being a little ahead or little less careful about putting capacities so we should be more prudent. So I think time and the opportunities are different and while we see them because the coated abrasive capacity for example takes a longer gestation period. It needs about 24 months to put up a coated it cannot put it overnight. So it is what I would call a continuous process plan. So that we may have to put it ahead of the market and we have other products other processes which are more discrete in nature and where the capacities can be built in a short time because they are discrete manufacturing. So while we see opportunities opening up in each of these sectors I believe that as we see those opportunities we can have a CAPEX spent tuned for those industries in a reasonably short period of time. Unless in the case of electro minerals where the process industry so you have to put up CAPEXs ahead of time which we have already done. So only benefit of what we did about three years ago and when we shifted our furnaces from South Africa into India and set it up much ahead of time. We were pathetic capacity utilization at that time. So today those are the investments which are paying off. So we have to balance both.

Manav Vijay: So one last question so last quarter also and this quarter again you have mentioned about this high purities this silicon carbides as our biggest opportunity if the manufacturing in the PLI scheme on the electronic side picks up, so is possible for you to quantify as to let us say what kind of market opportunity that one could look at than on the second end you mentioned about the increasing competition because the pie per se will increase dramatically I mean I do not know how much capture or how much capturing will happen, but what could be the opportunity size per se if you can explain us?

N. Ananthaseshan: The high purity silicon carbide is a pretty nascent business, and you have international reports giving a different numbers, but I would go by is the broad trend that are happening in this industries. So silicon is a favored material for IC chips which goes into all over electronic circuits and that has been so for many years and they achieved, they are easily available, but they have limitations in terms of how much of power density they can take. So the future when you have things like 5G coming up or the electronic components in EV cars coming up they need power inverters or the chips which can withstand high temperatures and also high power densities and that is where materials like silicon carbides and other materials like gallium nitride, etc., come into play. We do have started our works in terms of producing high-purity silicon carbide and in our initial work we have been able to achieve 99.9 plus purity. So these are very I would say initially at least we would find volumes are low, but then as things progressed and as the end use adoption increases you would find them growing much more exponentially. So to put some numbers I would not venture through put some numbers there or it is anybody's guess but then it is based on the adoption of these technologies going forward, but we are going to be careful at.

Moderator: Thank you. We have next question is from the line of Jasdeep Walia from Infina Finance. Please go ahead.

Jasdeep Walia: Sir, in your opening comments you mentioned that you opened up some large accounts in US as far as the abrasives are concerned, so if you could give us some more color on the nature of these accounts if you could give us some names is that possible for you and how did you position yourself to get that business and what would be the residual percentage?

N. Ananthaseshan: So these are one I cannot give you the name of the accounts because obviously we are protected by an NDA, so we are not allowed to share the names. What I can tell you is that these businesses are build overtime because these are large auto components manufacturers who supply components through multi brands whether it is a Ford or a General Motors or the Volkswagen or Toyota of the world in the US and Mexico. So they are the large manufacturers who are plant located across the US and traditionally they have been supplied where they have suppliers would be the local large US players and we have been kind of working with them improving our capabilities both in terms of understanding the replications and offering them a better price to performance and I believe at least in one case where the local competition could not solve their problem. So while we have been working with them for few years now they would always buy a few wheels just for testing or for some emergency requirement. They did have an issue in terms of having a part which they could not find a local supplier to grind in terms of giving them the solution. So, when we took up that job and then we said we can come up with a solution for you and a very cost effective solution there then they realized that possibly CUMI is the company that they should like to work with in a long term because we do have the capabilities right from the raw material down to design and application engineering in the US market and so they shifted over the last two years the bulk of their requirement for us. So we could displace one of the major suppliers in the US and that is how we build that reputation so step by step we are getting there.

Jasdeep Walia: And sir since the seems like your brand possibly is getting established in US now after many years, so could we see like a very sharp growth next couple of years as far as abrasive sales in US is concern when I mean sharp growth it is like 20%, 30% CAGR since we are starting from a very low base?

N. Ananthaseshan: That is our intention as well so now that we have set out a platform for growth and build the brand, build the visibility. So pre COVID we had over the last three years been present in all the major shows in the US which has really helped make our brand visible so that has really helped so that investment plus the investments what we are putting in both in terms of people and in terms of the product range. So we believe that we can have a chance to grow these numbers at these rates that we were talking about. Now that we have both the bond and the coated range of products so that should definitely help there.

Jasdeep Walia: And sir what is the base of sales in US as far as abrasives are concerned for US or for the entire North American region?

N. Ananthaseshan: North America we do about $5 million.

Jasdeep Walia: And that was the abrasives?

N. Ananthaseshan: Yeah.

Jasdeep Walia: That is last year right?

N. Ananthaseshan: Yeah.

Moderator: Thank you. We have next question from the line of Rajesh Ranganathan from Doric Capital. Please go ahead.

Rajesh Ranganathan: You already answer lot of the other participants in terms of all the segments in your business are seeing good momentum and that you expect that margins would remain at current levels even though commodity prices are going up because we have opportunity on both efficiency and price increase I am assuming that my summary was correct there and you also mentioned that with all the newer opportunities in India in terms of the manufacturing you have opportunities to participate in all that given that you have so much opportunity in things that you can do in India or in exports, how do you sort of prioritize and within the next say 12 months to 18 months are there any because with economic growth anyway all of your segments grow, but the real excitement for you as a business and for us as investors is if you can move up the value chain and get into new segment that you are currently not present in, so over the next 12 months to 18 months if you help us understand which say one or two areas you are most confident that you will start sort of seeing actual sales in or good wins which can become important parts of the business in the next three to five years?

N. Ananthaseshan: So the one part of abrasives business which I would think positive about which the teams are working on is on the so while we are working on the acceleration of the mass market segments and that is where the volumes lie obviously. In terms of moving up the value chain I would still bet on the precision side of abrasives when I say precision side of abrasives it could be both the conventional abrasives and the super abrasives, so super abrasive is also the products which would come in a big way when the electronics manufacturing takes shape. So preparing ourselves for that segment so that is one area which we are focusing on and we believe that having the super abrasive segment in our portfolio and growing that will definitely help improve our margin profile as well. In the mineral space we have been working on two sides to it. One building a solid base of products for the core industries which is what we call the regulars which provide us the volume and the wherewithal venture into new areas. The areas which we have been working on and we have been piloting some are definitely in the energy storage side of the business. The graphite that is why I mentioned earlier and the graphene which has kind of build up some momentum and so we do have today a range of products which the learning of the last one year has been significantly steep and the results in terms of what we have been able to understand of the technology has really been very encouraging. So these are the areas that you would see us invest the high-purity silicon carbide is another area which works has been done in the Russian part of the business so they are doing some very good work on that area so you would see that happen and in ceramics of course whatever they are doing today and for tomorrow. So whether it is in the areas of solid oxide fuel cells or in the hydrogen energy work which they are doing, the ceramics for the electronic segments for the aerospace. So these are some of the work which this ceramics guys are already working on so I would say a blend of the conventional and very futuristic.

Rajesh Ranganathan: And any of these areas you believe you can get a win in the next 12 months say in EV side or on the silicon carbide side?

N. Ananthaseshan: I believe that we would see pickup in the rate at which we are gaining customer approvals on the ceramics side for the EV segment which we had already started a quarter ago so that we would see some momentum there. I am hoping to see on the next 12 months much more traction in the usage of graphene in some of our existing applications as well and of course in the super abrasives side of the business.

Moderator: Thank you. We take the last question from the line of Jonas Bhutta from Phillip Capital. Please go ahead.

Jonas Bhutta: My questions have been answered.

Moderator: Thank you sir. Ladies and gentlemen that was the last question I now hand the conference over to Ms. Bhoomika Nair from DAM Capital for closing comments. Over to you.

Bhoomika Nair: Thank you everyone for being on the call and particularly the management for giving us an opportunity to host them and for all the answers are very detailed and thank you very much and wish you all the very best.

N. Ananthaseshan: Thank you so much and wish everyone a great year ahead and a very positive year ahead too. So thank you so much.

Moderator: Thank you very much sir. Ladies and gentlemen on behalf of DAM Capital Advisors Limited that concludes this conference call. Thank you for joining with us and you may now disconnect your lines.