"Carborundum Universal Limited Q3 FY22 Earnings Conference Call"

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MODERATOR: **MR. ADITYA MONGIA, KOTAK SECURITIES**

Moderator: Ladies and gentlemen, good day and welcome to the Carborundum Universal Limited Q3 FY22 Earnings Conference Call hosted by Kotak Securities.

As a reminder, all participants lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

I now handover the conference over to Mr. Aditya Mongia, from Kotak Securities.

Aditya Mongia: Good morning to all. From this side of the company Carborundum Universal the Management is being represented today by Mr. N. Ananthasesan - Managing Director, Mr. P. Padmanabhan - Chief Financial Officer and Mr. G Chandramouli from Investor Relations.

I thank the Company for the opportunity for us to host a call and I would request him to make opening remarks that cover not only the performance of the quarter gone by, but also some things on the recent acquisitions that they have done and certain geopolitical events that are happening in the world especially Russia. Thank you sir, over to you.

N. Ananthaseshan: So, good morning to all of you. Before we begin as a practice, we will now have Mr. Chandramouli with 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 Management's current expectations and are associated with uncertainties and risks, 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.

N. Ananthaseshan: Thank you all again for joining on this call. And I hope that all are keeping in good health. Again, good morning to all of you and wish you all a very Happy and safe New Year. I guess we are meeting for the first time in this year and hence looking forward to a great year ahead for all of us.

So, we meet up after a very exciting and difficult quarter for CUMI. On the performance front this quarter has been CUMI's best so far, in terms of the top line and the bottom line. This was achieved amid tremendous supply chain challenges and relentless cost push in terms of input costs.

At the same time, this quarter has been very exciting in terms of executing our strategic growth plans through acquisitions in India and Europe. On October 6 2021, the company acquired 71.99% of equity stake in PLUSS Advanced Technologies Private Limited. PLUSS, along with its wholly owned subsidiaries in Netherlands have become subsidiaries of CUMI effective from this date. PLUSS is a specialty materials research and manufacturing company involved in the fields of phase change materials for thermal energy storage, like usage in cold chain logistics or in the upcoming EV battery space and specialty polymeric additives for enhancing mechanical and barrier properties of products like in packaging.

During the quarter, the company also initiated plans to acquire the assets of Abrasives Wandmacher GmbH & Co. KG popularly known as AWUKO in Germany, for a total consideration of up to €8 million. This includes land and building, plant and machinery or fixed assets, leased assets, brands and trademarks, patents, technical know-how and other intangible assets after the closing conditions having been met.

AWUKO is a 120 year old leading brand in coated abrasives business and is a market leader in leather, lacquer and wood polishing applications. So, this acquisition is very much in line with our expansion plans in Europe. The transaction is now complete and since February 1, 2022, AWUKO is part of the CUMI group.

We have also done work during the quarter in terms of identifying and conducting due diligence of another company in Germany and through a newly wholly owned step-down subsidiary and turn into a share purchase agreement for acquiring all shares in the German company RHODIUS Abrasives on February 2, 2022.This was for an enterprise value of €55 million. The transaction is expected to be completed by March 31, 2022.

RHODIUS for your information is leading abrasives brand in Europe and is into the manufacturing and sale of abrasive tools and ancillary products, cut-off wheels, grinding wheels, diamond tools, coated abrasives, carbide cutters etc. So, it has presence outside of Germany in Brazil, South Korea and in U.S. These acquisitions provide CUMI a stronger and a wider global presence. So, both companies come with their distribution channels as well.

Entry into new products in leather, wood, lacquer applications through AWUKO and on a synergy benefit, CUMI being a major producer of abrasive grains, Silicon carbide and infused alumina, would also provide these new partners with raw material security.

So, that has been the busy quarter with operations on one side and driving the growth plans on the other side.

At the meeting held yesterday, the Board of Directors have declared an interim dividend of Rs. 1.5 per share (150% on the face value of Re.1) to the shareholders of the company.

Coming to the performance of October-December quarter, at a consolidated level sales was recorded at Rs. 891 crores and this translates to a QoQ growth of 23% and 7% sequentially and at the standalone level, the company recorded sales of Rs. 596 crores which marks 22% increase over Q3 of last year and on a sequential basis, this records an 8% Increase. The growth was driven by all three segments and all the major subsidiaries overseas have performed significantly.

When it comes to the bottom-line performance Profit Before Tax was Rs. 141 crores as against Rs. 114 crores at a consolidated level and profit after tax and non-controlling interest grew by 16% to Rs. 102 crores against Rs. 88 crores in Q3 of last year. At the standalone level, PAT increased to Rs. 67 crores from Rs. 66 crores in Q3 of last year. Despite increase in sales and profits in absolute numbers, the margins were lower by 2.3% due to partial absorption of increasing input costs largely in the abrasives and in the ceramic space.

Abrasive Segment

When we look at the consolidated abrasive segment it recorded Rs. 341 crores 13% up quarter-on-quarter and the operating profit was Rs. 47 crores, lower by about 6% quarter-on-quarter.

Standalone operations performed well, despite challenges of chip shortages and increasing fuel prices faced by the auto and auto component sector. The margins were impacted due to the increasing raw materials and energy costs but were managed through price increases and cost control innovations.

All subsidiaries performed significant in terms of top line compared to the same period of last year. The Indian subsidiary Sterling Abrasives had a maximum impact on the margins.

Ceramic Segment

Coming to the ceramic segment, the consolidated sales recorded Rs. 213 crores marking, a 33% increase in top line quarter-on-quarter. Operating profit was Rs. 43 crores, 25% up quarter-on-quarter. The demand scenario continues to be good both at standalone and global operations. Standalone ceramics business performed well and registered double digit growth despite slowdown in export market due to the third wave of COVID. Subsidiaries in Australia and America registered significant growth as well. However, the margins were impacted, but reduced through cost innovations like transitions of kilns from liquid fuels to natural gas.

Refractory segment continued to perform better on back of good orders from repair and maintenance as many core industries are beginning to invest in these areas.

Electro Minerals Segment

In minerals, the consolidated sales recorded Rs. 361 crores, marking a 24% increase in top line on a quarter-on-quarter basis. Operating profit doubled to Rs. 63 crores when compared to the same period of last year. The demand outlook remains positive for minerals business due to production cutbacks in China owing to environmental concerns and leading to better realizations. Standalone businesses and subsidiaries in Russia and Africa also registered double digit growth in top line and significant improvement in bottom line. Increasing input costs were offset by price increases to some level in most of the product segments. We also had a good run in terms of our in-house power generation at Maniar and that has helped shore up our bottom line.

We have good order bank at present and expect the demand to be robust in coming quarters for all three business segments. However, maintaining or increasing margins will be a challenge considering higher input costs, but will be managed through price hikes and cost innovations.

In terms of CAPEX at consolidated level, we have made considerable progress and spent Rs. 118 crores in the first nine months.

On the COVID front, like in many parts of the world and the country, there is a surge in COVID cases among our employees in many of our factories, but the performance was not impacted, as the businesses are well prepared with safety protocols and the vaccination drives. We believe the new variants of COVID are the key near term risk, but an increase in the pace of the vaccination, with nearly 99% of our workforce having received at least one dose and around 86% with double doses should contain any disruption.

The Union budget 2022 which was presented on 1st February amid high expectations. The economic survey also forecasts a 9.2% of real GDP growth in FY22 followed by an 8% to 8.5% growth in FY23.The Government has continued its course to improve the quality of its expenditure by focusing on investment growth. This should all go well for CUMI. CUMI has continued its focus on growth from core businesses, expansion through acquisitions, and working on emerging areas like clean energy, electric mobility and advanced manufacturing.

So, with industrial output increasing sequentially and the high frequency data depicting return to pre-pandemic levels, except possibly in the auto sector, our businesses have also recovered while the challenges of increasing costs and the uncertainties regarding the COVID still persists.

So, now, I will request Mr. P. Padmanabhan our CFO to walk us through financials.

P. Padmanabhan: Good morning everyone. Let me summarize the financial performance for the quarter ended December 31, 2021. The consolidated sales for the quarter has increased to Rs. 891 crores from Rs. 727 crores showing increase of 23% in the corresponding period of last year. This is mainly driven by the steady performance across all the business segments.

Of this, the standalone has increased by 22% to Rs. 596 crores from Rs. 488 crores. The consolidated PBT was at Rs. 141 crores which was up by Rs. 27 crores and about 24% growth on quarter-on-quarter basis. At the standalone level the PBT for the quarter was at Rs.88 crores against Rs.85 crores during Q3 of the previous year.

On a consolidated basis profit after tax and non-controlling interest for the quarter was at Rs. 102 crores as compared to Rs. 88 crores in the corresponding period of last year. At the standalone level the PAT increased to Rs. 67 from Rs. 66 crores. At the consolidated level the PAT margin dropped from 12.1% during the previous year to 11.4% during the current year mainly due to the cost push across all the businesses. At standalone level, it has decreased from 13.5% to 11.2%. This is also mainly due to the increasing input cost.

On Abrasive consolidated sales was for the quarter increase to Rs. 341 crores from Rs. 303 crores in the corresponding period of last year. Standalone sales grew to Rs. 280 crores from Rs. 253 crores in last year, the standalone business Russian subsidiary and the American subsidiary registered significant growth. At the consolidated level, the PBIT was Rs. 47 crores decreased from Rs. 50 crores on account of the partial absorption of the cost inflation.

Electro Minerals division consolidated sales for the quarter increased to Rs. 361 crores from Rs. 290 crores in the corresponding period of last year. At the standalone level sales increased to Rs. 177 crores from Rs. 130 crores in last year. The standalone Electro Minerals segment, African subsidiary and Russian subsidiary grew in double digits. The consolidated Electro Minerals business recorded a PBIT of Rs. 63 crores against Rs. 30 crore showing a significant growth on the back of volume growth and higher realization. Profits were also aided by the higher power generation at our hydel following good rainfall.

Consolidated sales of the Ceramics segment grew by 33% on quarter-on-quarter basis from Rs. 160 crores to Rs. 213 crores. The standalone sales grew by 27% on quarter-on-quarter basis, toRs. 278 crores. Standalone ceramics business performed well and registered double digit growth despite slowdown in exports market due to the third wave of COVID. Australian subsidiary and American subsidiary registered significant growth. Consolidated PBIT of Ceramic segment for the quarter increased to Rs. 43 crores from Rs. 34 in Q3 of last year. This is mainly on account of the volume growth, better product mix and cost innovations to absorb the increasing input cost.

On the financial front CUMI standalone continues to be a debt free company and at the consolidated level, the debt equity ratio was at 0.0156 as of Q3. The total debt on a consolidated basis was at Rs. 38 crores as compared to Rs. 42 crores as of September.

On the FOREX cover, CUMI is typically a net importer in Dollar terms and net exporter in Euro terms. We cover the net exposures as appropriate and in accordance with the FOREX policy.

The balance sheet is very strong, and it is also evidenced by the net cash position and low debt to equity ratio. The cash and cash equivalents including deposits with tenure exceeding three months, net of borrowings was at Rs. 616 crores.

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

Ravi Swaminathan: My first question is with respect to the kind of volume growth that has been seen across all the segments, if you can give some color it will be great. I know multiple products are there across each of the three categories. But if you could give a sense on the volume increase vis-à-vis the price increase will be great.

N. Ananthaseshan: As you pointed out volume increases has happened across all segments but let me start with the minerals business first. So, the minerals business had been preparing itself on its capabilities to increase its volumes over the last year, year and a half. Now, given the fact that we saw during the course of late last year and early this year, that the disruptions of supplies from China were increasing both because of the emission requirement of their operations and the energy demand going up and which also made people to shut down some of the operations. It was an opportunity for EMD and customers also were looking at an alternative to China. So, this has definitely helped and EMD has also been working on moving away from what we call a traditional raw materials to synthetic raw materials, which gave them higher volumes from the same infrastructure and also better efficiencies, cleaner operating conditions. So, that was one change which happened. This has happened not only in India, but other minerals, businesses as well. So, the minerals businesses are enjoying a good run in terms of the market offering a better pricing. So, that is good news and hope it continues to be this way.

In the case of abrasives obviously, the precession abrasives has been doing well in Q2 and definitely in Q3. So, how long will the volume demand last has to be seen given the Q4 numbers or the Q3 numbers which many of the auto industry have been reporting, because we come later in the line and have a lag effect for the auto industry for us later.

Refactories has been driven both on repairs and maintenance and also new projects. So, hence on the fired component definitely there has been a volume growth.

There has also been a pass on of costs to some extent across. So, I would think that on an overall basis about 3% to 4% would be the price increase impact.

Ravi Swaminathan: And with respect to I mean, this quarter Electro Minerals margins stood at 17% it is some kind of a new normal or so, basically it will be in the range of 12% to 13% which we used to do earlier. So, if you can give some clarity on the margins, it would be great.

N. Ananthaseshan: See, the margins in the Electro Minerals has definitely been positively impacted by two things. One I would say in terms of the prices of commodities going up whether it is silicon carbide or fused alumina so, that has naturally pushed our realizations and consequently the margins. So, the margins have also been helped by the pivot that the business did in terms of choosing to go the synthetic raw material way which is which is enhanced, it's a cost position. Business also has been helped by an extremely good rainfall this year. So, which has been a record generation of hydroelectric power. So, this has definitely contributed to increased margins.

As to your question whether this is the new normal, I would say we are progressing towards that, but 17% and 17.5% would be a very difficult thing to replicate. I would rather stay around 14% at this time.

Ravi Swaminathan: My next question is with respect to the acquisitions that we have recently done, at least for the major acquisitions if you can give what kind of growth that we can achieve and the margins, which are there in that it will be great.

N. Ananthaseshan: On acquisitions front I would not like to comment right now, because we just closed down the acquisitions. I mean all of us should realize that these things were done in a pandemic situation where we have not visited any of these plants, right. So, we have been meeting people, discussing with them got the transaction done all through the teams virtually. So, we would need some time to go and get into much more details. So, I would rather say that maybe possibly for a full year earnings call, we will have to wait to get better understanding of the acquisitions.

Ravi Swaminathan: And with respect to the Electro Mineral, the possible supply of silicon carbide for electronics, what is the progress in terms of purity improvement and on all the other things?

N. Ananthaseshan: There has been quite some work happening there. So, while both Russia and India has been working on the raw material front, we are now in a position to realize that the chemistry or the purity of these materials have to be tested at international labs, which are standard and today we are working with an international lab in the U.S. and try these materials first to know exactly where we stand, but we are making progress there.

Ravi Swaminathan: So, basically, will it be market ready in say by the next financial year, I mean FY23.

N. Ananthaseshan: That's our target.

Moderator: Thank you. We have the next question from the line of Ankur Sharma from HDFC Standard Life Insurance. Please go ahead.

Ankur Sharma: Just two things, one, if you could comment on the whole geopolitical situation in Russia, obviously we have our manufacturing facilities there. So, any impact either on production or supplies into EU or the rest of the world, how are things progressing there?

N. Ananthaseshan: I think it's a very valid question given the times. We have been in constant touch with our teams in Russia and also taking inputs from people we know, in the political spectrum. What we see on the ground is possibly different from what we see in the newspapers. The transactions or the businesses, what we have with the EU, or even with Ukraine, for example so we do supply material into Ukraine, we buy material from Ukraine, and we don't see any problems in that happening. So, our team there, Mr. Sergey Kostrov, has been very closely following up and updating us, we believe that things will be more business as usual on the business front. And unless something dramatic happens, there will be little danger of any disruption. That is as of now, so and in a political situation like this where tempers run hot, none of us can predict anything, but we hope that good sense prevails.

Ankur Sharma: Seconds on the two acquisitions we have done right so while you highlighted overall in terms of the values you are paying, and the areas they operate in or what does CUMI get if you could just detail a little more, is it technology obviously assuming we get access to more distribution, geographical areas and, as you said, supplies from Russia, the raw material for these companies. But, if you could just tell us a little more, though I know you said, can't talk about margins at this point. But a little more on synergies, what drove you to take up these companies, will be very helpful.

N. Ananthaseshan: Abrasives business it's a very global business, but very local. And CUMI has been a very strong player locally in India, but with global, when I say global presence through its subsidiaries in CUMI America, largely for the precision abrasions, which goes to the auto automobiles, aerospace, defense, etc. In India itself, you will find that the fastest growing segment in abrasives is also what I would call the power tool driven or productivity linked abrasives businesses, right. So, these are power tools accessories, which goes on to power tools, and all of us see that there's a big shift in the way that people are using abrasives so we wanted to move in faster and this is a trend which you are going to see across the world.

So, when countries and companies are investing in improving their infrastructure, whether it is in India or in America or other parts of the world, you will find an increasing use of the power tools and its accessories. Now, while we have our product group in India, the RHODIUS acquisition brings about a significant change in terms of its technology profile, in terms of its brand perception and the brand visibility that it carries not only in Europe, but in other parts of the world. It's among the leading manufacturers of these products and what we hope to gain out of this is one is, it also has a nice distribution network across Europe. So, it helps CUMI either way one with getting the RHODIUS products into India and building for the future. And also using the Rhodius distribution channels to distribute our range of products whether it is vetrified or whether it is coated abrasives as well. So, that's one synergy we are looking at.

The other one is same thing in case of AWUKO. AWUKO is a very strong brand in specialty leather woodworking where they can grind bit precision very wide products which is like the plywood or the MDF for infrastructure and housing requirements. So, those are the advantages and it kind of extends our product portfolio, brings in technology, brings in a distribution network in Europe and also addresses some of the gaps that we have back home in terms of our product profiles. So, that’s a second thing we are looking at.

And the third of course is in today’s world, any abrasives manufacturer would love to have raw material security. And the fact that both in Russia and now in India we have significant quantities of raw materials abrasives range, fused alumina and silicon carbide will only help those companies as well.

Ankur Sharma: And just one last one, on the abrasive business again, while you did highlight, some slowness in demand, possibly from the auto side, could you also talk about some of your other key end markets, industrial machinery, fabrication, construction and so on and so forth. So, how are things looking on those in market seasonality?

N. Ananthaseshan: I can only tell you the trend what you are seeing. While the chip shortages may have caused some disruptions on the auto sector, and also the auto component sector we are also seeing definitely a slowdown in the two-wheeler sector. So, the two-wheeler sector, driven by possibly fuel price increases, the increase in prices has affected the rural off-take of two-wheelers significantly. What we see now as of now, on the mass market lead products whether it is the infrastructure for the housing all of them, as of now seem stronger.

And again this could also be, not only to do with the demand from these segments, but also the availability of material from China. So, getting these products out and filling up shelves would be one way of ensuring that we beat the competition and prevent the competition, especially from China, making a bigger headway. So, that's how we are looking at it.

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

Harshit Patel: Now that we have acquired a couple of abrasives companies in Europe and we were also looking to expand our presence significantly in the North American market, where we had indicated that we would like to be closer to the customer. So, is there any thought process on that front and also on the similar lines, I mean power tools, you have just indicated that the usage of those tools is increasing at a rapid pace, and that is also resulting into the higher penetration for abrasives. So, is there any thought process to expand our presence in the power tools? If I remember correctly, we also have a small business on this front where we also sell power tools but we have really not been able to scale up that business. So, that would be my first question.

N. Ananthaseshan: On the power tools, power tools is a completely different business, in the sense that the capabilities that are required to build a power tool business is very different from that of an abrasives consumable. So, the power tools what we have today is very limited in terms of range. And it's largely been used as a marketing tool for us where power tool carries a brand for much longer than a consumable. So, we are very clear that the, we are not in the power tool business as of now we are only in the accessories business.

Coming to your question in terms of growth outside of Europe, we have always been mentioning that we have to be in markets, which are closer to the customers, whether it is in Europe or in U.S. and where opportunities crop up. So, when opportunities crop up, then we have to take advantage of that. And that's precisely what's happened in Europe, though our overall strategy of expanding our abrasives footprint still continues. So, if there are opportunities coming up in the U.S., we would definitely look into it as well.

Harshit Patel: Just a small follow-up on the acquisition part. So, out of the €55 million of the enterprise value that we would be paying for RHODIUS, what would be the debt levels for that particular company?

N. Ananthaseshan: At this point, I would not like to share these details. We will have a detailed sharing of the information on both RHODIUS and AWUKO at the April call.

Harshit Patel: My second question would be on one of our growing segments that is alternate energy. So, recently one another Indian company, who is also a supplier in this particular segment, they have posted a very strong growth. So, are we also witnessing the same kind of outlook, I mean, if you could give some flavor on what would be our current level of sales towards this particular segment and where we could reach probably in next three to four years then it will be very helpful.

N. Ananthaseshan: Clean energy is definitely one of the fastest growing segments. And we have been working with this customer for the last 10 years. And definitely we see much faster growth with these customers in the Solid Oxide Fuel Cell space. We are preparing ourselves and we continue to build our capabilities in this direction and I can only tell you that the reports what you have read and what you have seen in terms of the growth rate of this segment is definitely on. So, our capability building is also in the same lines.

Harshit Patel: If I can squeeze in just one last question on the solid-state batteries. So, I think a couple of earnings call ago, you had mentioned that the trials were going on. So, these were some elements to prevent the thermal runways. So, essentially, we were doing these to our tape cast ceramics. So, is there any progress on that front?

N. Ananthaseshan: We have now started supplying those what you call the ceramic products or the ceramic fibre products for these battery thermal runaway protection and it is still not scaled up, it is still undergoing testing. But we see some possibilities there.

Harshit Patel: Next year, we would be seeing some revenues from the SiC based ceramics. I mean, I think we are undergoing the pilot as of now.

N. Ananthaseshan: We would, because the progress what we have made there again, is very positive, in terms of getting our approvals done in both not only in India but also in customers in Japan and in Europe. So, we would definitely see progress from the silicon carbide components, yes.

Moderator: Thank you. We have the next question from the line of Bhoomika from DAM Capitals. Please go ahead.

Bhoomika: We are working in a lot of new areas, if I look at ceramics, we are working on fuel cells, the energy storage, construction chemicals, 3D printers. Within EMD, there is graphene etc. As you said that within EMD, high purity is very, starting to commercial applications next year. All these new initiatives that we are doing, what is the status of all of them and where do we see these revenue scaling up in the next four to five years which will drive much more stickiness in terms of revenue, there is also a better margin profile.

N. Ananthaseshan: So, Bhoomika as you very well know that we are looking at those businesses as broadly two segments. One is what we call the regular businesses or the commodity types of businesses, which are the workhorse materials that we need to run our current businesses. The second is the high performance materials there is a bunch of them, and this is across divisions. So, whether it is the graphene or the high purity silicon carbide or the stabilized zirconia that would finally go into electrolysers, so, these are some of the projects that are in the pipeline and you can't scale both of them simultaneously. So, the effort has been on scaling up the regular materials and that is what we saw last year, and we continue to see in the next year as well.

On the high-performance materials, the growth would not be as rapid as in terms of the scale as normal regular material. So, because most of these are specific to customer applications, would require a lot of qualifications with them and then we will get into a scale up phase. I would presume that we are, while we have small amounts of commercialization which are more for seeding the market across these products, I won't call it as a significant to the sales as of now. But I would possibly believe that over the next two years, we should see higher participation of these products in the portfolio. As to the volumes, as to the realizations or margins, I would not comment on that now.

Bhoomika: While I understand that you want to speak about the acquisition at a later stage, if one were to just talk about not specifically on the company or anything of that sort, but more about the addressable market that expands for us given that you are entering into Europe with these power tool accessories, which you are not present in, what is the market size that is possibly there, which through these acquisitions, we can kind of tend to explore further and grow within that.

N. Ananthaseshan: See broadly, Europe itself is a billion and a half market or more. Then we are talking about the benefits it can bring to India and specifically in segments where we are not strong, as CUMI. So, CUMI has always been more focused on the vitrified, precision and the vitrified standard products whereas with respect to resin bonded cut off wheels, thin wheels, while our presence has been there for many years, we are not strong across the portfolio. And that is one of the reasons why we were looking for a company like RHODIUS to bring in technology, to bring in a globally acceptable brand and which help us leverage the opportunities in the Indian market. So, I am pretty bullish about what we can do together.

Bhoomika: Just one thing on the EMD segment, if I look at it, the South African entity has kind of turned around and done quite well in the current quarter. So, is this a sustainable and what is our long term strategy on this entity given that we were looking to kind of find it down etc.?So, where are we on the status of, our thought process on the entire South African entity?

N. Ananthaseshan: To be very honest with you, we have been, we are taking it quarter-by-quarter. So, working with the teams and ensuring that we have stable volumes first, because given the current conditions where the markets for minerals is largely very positive and the demand for especially materials like the fused zirconias are increasing significantly. Obviously, there has been an impact of the scenario in China, because China has closed down high energy consuming materials and zirconia is one of the large energy consuming products. So, that has given a breather for the zirconia. So, while saying that the team there has ensured that the operations run much better so cutting down on the shutdowns and getting the volumes to be consistent. So, that has been the effort over the last three months or four months and that has definitely started paying off. So, to answer your question, whether this is sustainable, we are going to take it quarter-on-quarter, we will work with the teams there to ensure that is a more stable operations, and hopefully build a stronger business before we take a call.

Bhoomika: Our current capacity utilization across segments broadly and given all these new initiatives that we are looking at, what kind of CAPEX or capacities we will need to kind of expand or in terms of capacity if you can speak about?

N. Ananthaseshan: Capacity building would differ between segments. So, if I were to talk about the Electro Minerals business, obviously, the capacities in Russia are already stretched, though we are adding a couple of fusion cells as we call it. So, that would give us some capacity, but then not a very significantly large capacity. In India, we have done work on increasing capacities and also increasing the conversion capacities. So, that has already come into play partly this year, and will come into full play by next year or year and a half. So, here we are looking at building up a fusion capacities, which would possibly be another 25% to 30% of what we have today. So, that will give us a good position in the Electro Mineral space in India.

And then in Abrasives, again, it depends on the product groups. So, like I mentioned, we would have let's say invested earlier significantly on the thin wheels, but now with the acquisition of RHODIUS, we do have capacities, that's for Germany, but we also have to work with the teams in terms of building thin wheels capacities for India based on the RHODIUS technology. So, that is something which we will be doing over the next year or later this year.

I mean on the ceramics capacities, there has been a continuous focus on building the metallised cylinder capacity. So, with both the lines running reasonably well, we now have to start looking at increasing the capacities there. The ceramics for mobility applications whether it is for the ICE engines, and for the EV that is also getting, so that will be largely a kiln firing capacities so that will be modeler that can be coming up and in terms of the thermaltronics the factory products, again, it would be the kiln firing capacities that will go up. So, it is not a one large big bank kind of a capacity building, but identifying those capacities in a modeler fashion. That would both debottleneck and also, for specific product groups increase volumes.

Moderator: Thank you. We have the next question from the line of Sanjaya Satapathy from Ampersand. Please go ahead.

SanjayaSatapathy: Just wanted to clarify, I heard somewhere in the discussion that you feel the current EBITDA margin of somewhere around 17.5% is not sustainable. And could fall to something like 14%, did I hear it correct?

N. Ananthaseshan: So, that was all the Electro Minerals Division.

Sanjaya Satapathy: So, as a company you are moving up the value chain, I believe. So, considering all of that and also your focus on electric vehicle and many other things, how do we really articulate our growth trajectory as well as margin from here on?

N. Ananthaseshan: As I said broadly there are two segments, which is across product groups, we have what we call the cost comparative segments. So, whether it is in the minerals business or in Abrasives that will be driven by control on costs. And by design, how can we be more competitive and that's how the margins will be driven there. While on the specials across businesses, it would be more on a variety of variants and also trying to get the realizations up. So, that's the combination that we are working on in all businesses.

Sanjaya Satapathy: If I can just ask the same question a little differently, is the cost pressure or the negative headwinds per margin a peak for you or there is more to come. And also, are you more confident of demand than margin at this point of time?

N. Ananthaseshan: Sorry.

Sanjaya Satapathy: Are you more confident of the demand outlook rather than margin at this point of time?

N. Ananthaseshan: So, on the legacy businesses yes we are more confident on the demand, because the margins are based on the input costs also significantly and how much of it can be passed on, because the kind of volatility we see on the prices, on raw materials, it has not been seen before, because we all know that the commodity prices, input prices will go up and are going up, but not at the frequency which we saw in the last few months. So, I must be cautious here in terms of saying that yes, while you see the demand is there, but then there is also the input costs uncertainty which has kind of capped the margins.

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

Sujit Jain: If you were to explain the capabilities that you brought through this acquisition to a layman, so for example, PLUSS, which manages the negative or low temperature, does it mean that in areas where there is no refrigeration, that is where it is useful, and to that extent, its application is limited, (1).

(2) RHODIUS, again, what kind of products and what applications.

And (3) all of these new things stabilizes zirconia high performance SiC ceramics, graphene, these two acquisitions, how much percentage to the top-line it will add on a regular basis, on a compounding basis going forward.

N. Ananthaseshan: PLUSS is a thermal energy storage material, they also deal with specialty polymer additives so there are two parts of the business and today the one part of the business which is the thermal, I mean the specialty additive business goes into making barrier films for medical packaging, for food and pharma packaging and for improving the strength and water qualifier resistance of the components in automotives and other mobility solutions. So, that's one part of the business. The PCM business or the thermal energy storage business deals with a cold chain transportation, refrigeration as in the last mile deliveries you also have that in building and HVAC. So, it is definitely an application intensive business, but can deliver significant savings in terms of energy usage. So, that's something which is exciting for us as a thermal materials company. So, on one end where we protect materials at 2000 degrees centigrade we also have the other end materials which can protect and save energy at (-60), (-70) degrees centigrade. So, that's a big spectrum that we are working with.

In the case of RHODIUS it's very clear, very focused on the thin wheels portfolio for grinding, cutting and this would address the requirement of, let's say, engineering, fabrication, infrastructure, woodworking, stone cutting. So, these are all regular industrial consumables. On the new businesses, for example the zirconia which goes into as electrolysers for hydrogen fuel cells or SOECs as they are called and the graphene which goes as additives into batteries. So, these are some of the newer businesses and as of now, honestly, I cannot give you a top-line growth for the businesses.

Sujit Jain: I am asking all of these initiatives put together, would they add 2% to 3% to growth for a long time to come?

N. Ananthaseshan: I would believe so.

Sujit Jain: And onto the negative temperature that you manage with PLUSS acquisition, does that mean you said last mile, so where refrigeration is not there you would use it or even where refrigeration is there, cold storage is there it can be used.

N. Ananthaseshan: For example, in trucks which has a refrigeration so in using a PCM panels, you can reduce the cost of energy, which goes into running those refrigeration, while PCMs will deliver the same temperatures, the cold room temperatures that is needed, to keep the trucks on the road. So, you are reducing the energy, the fuel that is burnt, plus also reducing the carbon that is emitted. So, it's a double impact that we are creating. In the case of last mile storage or vaccine transport, where you don't have a refrigeration these panels work as well. So, they can be designed to give you a temperature range, sustain the temperature range over a period of 10 hours or 12 hours. So, that's what they do, there is a quite a bit of energy savings there.

Sujit Jain: And in terms of margins, 17.4% margin, nine months for the company this is at the higher end that what we have achieved previously, would these margins be sustainable, given new initiatives? And given the supply chain security that we have compared to the other companies?

N. Ananthaseshan: I always say that of course everybody's desire is to ensure that the margins go up, but all of us know that there are always some headwinds, which we don't anticipate. So, none of us anticipated the kind of rise in shipping costs that we saw over the last couple of quarters. And so why we will try to have multiple mitigating initiatives in terms of whether passing on the cost or looking at alternative ways of transporting material. I would say, let us be conservative, because there are too many unknowns in the play still. So, 17.4%, we are happy that we are able to deliver those numbers right now. But I would believe around that is what we would be looking at on a stable basis.

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

Aditya Mongia: You made a remark on suggesting that you are more confident of demand versus margin. I wanted to kind of check with you on the demand visibility across the key segments that you operate in. And where you are, let's say the most positioned, where you are seeing some signs of some slowdown kind of happening, just want to kind of color across segments in terms of demand visibility.

N. Ananthaseshan: We broadly believe that in Electro Minerals business, which is the raw materials business is in a much better position as far as demand visibility goes. So, this is a combination of both the project orders picking up and also as an impact on the China One and of course the China One Strategy. So, that is giving us a higher demand visibility on the electro minerals business. On the Ceramics business, the part where we are dealing with in terms of the solid oxide fuel cells and the Engineer ceramics that was pretty reasonably good, because these are all contracts which we generally tie up with customers. So, hence, for us, that's visibility is much better.

On the high temperature side, we did see a significant rise in inquiries in terms of project orders over the last two, three quarters. But we have to see whether that momentum is sustained. While we do see or do hear about projects being announced, especially the solar renewable space, how much of that will translate into projects on an ongoing basis is to be seen. So, there could be some slowdown in that part of the business. While Abrasives, we are, as I said earlier, the demand slowdown would largely be on the precision side of the business, rather than on the mass market side.

Aditya Mongia: Similar comment, if you can make, let's say from the perspective of ability to pass on cost to the end customer across segments, as an if there is more room to do so in certain segments versus the other, where you may be hitting let's say a cap?

N. Ananthaseshan: I would believe that it would be relatively easier to pass on the cost push on the raw material side, because people want I mean, people need raw materials. And it is evident that if there is an input cost in the raw materials, it would impact the product cost for us. And people can't live without raw materials. And definitely they would ,in terms of whether it will happen, it will happen quickly or whether there will be a little bit of a lag before people accept. Obviously, there will be a pushback, nobody is going to say that. Yes, I will accept that prices increases in immediately in raw materials, but in a relative term, I would believe that the Electro Minerals has a better chance of passing on the raw material cost portion on their input costs. It could be a little more difficult on the ceramic side, because many of them are kind of contracted. And it takes a lot more effort in terms of communicating and getting customers to agree to regular price increases. On the Abrasive side, again, while definitely there will be a pushback on the mass market or distribution side, could be a less challenging than possibly than precision Abrasives.

Aditya Mongia: So, the confusion statement for me on the call was that you were saying that yes, we can take more price increases, but sustaining current margins may become a challenge. So, I just want to kind of get it right are you kind of hitting a kind of a cap in terms of the kind of price increase that have been taken for you to making that comment that margins will not go further up and actually go down.

N. Ananthaseshan: For example, if the raw material somehow became, in some cases raw materials went up by 30% to 40%.See, we can’t pass on all that cost in one shot. So, that's what I was meaning. So, while we would definitely try and get the cost passed on yet, the entire cost can’t be passed on in one shot.

Aditya Mongia: I am just trying to get if there is an upward bias to margins from here on, given that you have not taken what you could take as price increases or is that a downward bias? That the simple questions I am trying to --

N. Ananthaseshan: At the same time we are also not sure about how much of price increases is going to happen for input costs. So, this year prices are creeping up, it has not been, it crosses $100. So, while one side, yes, we would continuously drive the markets to get our realisations up at the same time the input costs can play a part.

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

Harshit Patel: Just a small follow-up from my side. I noticed that we have included the results of PLUSS into the other segment, the sales and the margins, rather than the ceramics. What would be the reason for that sir? And are we going to do the same going ahead in our results?

N. Ananthaseshan: See, it is not a ceramic material, so it's a polymer material. And for the present, we don't have a segment maybe Padu can answer it much better.

P. Padmanabhan: See it depends on the application, while it's in the nascent stage while move on, it depends on the application, we will change that. At this point, we want to monitor it closely. That is why we are parking it in other segment.

Harshit Patel: When we had acquired that business, in August 2021. At that time, we had reported that the EBITDA margins for this business in FY20 were around 10%. So, do you think it can move up to around let's say 15% to 20%, closer to the blended margins for the company level, or maybe closer to 20% which is the margins for ceramics. So, is there is scope to increase margin to that much or it will continue to probably around 10% kind of demand?

P. Padmanabhan: While the expectations to increase the margin will be there we need to consider the rising input costs, fuel cost, therefore it's a mix up of all and if the demand increases, we will certainly increase the prices also.

Moderator: Thank you. We have the next question from the line of Jason Soans from Ashika Stock Broking. Please go ahead.

Jason Soans: Just wanted to know, I mean, you did specify about some slowdown in demand visibility in the precision segment, which basically caters to the auto and auto component segment. Now, I just wanted to understand, I mean, how do you, if I have to see this from medium to long term sort of picture, don't you think this chip shortage thing is transient in nature, it might be solved in within 12 months, and you could see a strong recovery in abrasives volumes and if I have to paint a sort of a positive picture to this. So, just wanted your sense on the auto sector demand rebounding, because if there is a chip shortage, I am sure there will be a lot of demand, which could be back ended, once everything sorts out. So, just wanted your sense on this.

N. Ananthaseshan: I think you are right. So, if the chip shortages play out and then we have much more stable output from the auto industry is coming up yes, we would definitely benefit in terms of our increased volumes on the precision side. So, that's on the positive. So, how long it will lasts, how many years it lasts is something to be seen. While at the same time we are also recognising the fact that the EV adoption, definitely on the two-wheeler side will have an impact, I mean we also saw even the last month where 2% of all the two-wheeler sold are EVs today. So, EV adoption will have an impact, but on the four-wheeler adoption, it is still a little time away I would guess. So, with the overall demand for auto components, exports and also for the ICE engines which would be there for some time we do see a positive requirement a positive trend for the precision of Abrasives. But this will have to pan out after the semiconductor shortages, well semiconductor shortages also impacting your EVs as well today.

Jason Soans: So, I mean, in terms of EVs, I think, so is there something like in terms of your ICE regular engines and EVs precision abrasives would have more usage in EV two-wheelers or something like that, I mean, is that the correct assumption or is it the same usage across whether it be ICE or EV?

N. Ananthaseshan: No ICE obviously has a more usage of Abrasives than in an EV it's very, very clear. So, whether it's a two-wheeler or a four-wheeler the usage of Abrasives will come down, will have to come down. Where it will still continue to be effectively used as in your one is the body which is a coated abrasives and also in the brake linings, the bearings ,the forklifts, I mean the forks so that continues.

Jason Soans: Just wanted some color on your mass market segments, engineering, construction, woodworking, there is a lot of focus on the budget as well on infrastructure creation, and all over there is a lot of impetus on Government CAPEX or infrastructure. So, in terms of this mass market segments, in terms of an end user demand for engineering, construction, woodworking, how do you see the demand panning out, housing cycle also, we talk about an up cycle as well. So, that will also aid demand in the sectors as well. So, just wanted your sense on this.

N. Ananthaseshan: As I said the mass market if you look at the products, which we supply into these mass markets on the bonded abrasives, vitrified standard abrasives goes into the engineering side, fabrication side. In terms of the foundry sector, or in terms of fabrication sector, through the thin wheel business, the stone cutting through the diamond blades, the woodworking, infrastructure, etc., through all the coated abrasives. So, those are the mass market range of products, which could be different it could be sheets, rolls, discs, etc and these are all the mass market products. And it's a big retail channel that is emerging over the years. And that is one area where we are strengthening ourselves.

So, what I would think that the capacities what we have built last year on the coated side, has definitely helped and will definitely help in addressing these markets, on the coated. And similarly now with both the acquisitions and the further investments that we are making on the thin wheel side, would help us address this again in the future.

Jason Soans: And just about the engineered ceramics part. I mean, you did speak about starting your suppliers to EV manufacturers on the engineered ceramic parts, and to EVs as well as renewable energy applications. How is the demand for that end market looking? Is it looking as healthy or is it strengthened? How is the demand for that end market looking?

N. Ananthaseshan: What we see is on the ceramics for EV part, it is largely, I mean, most of the EV activity in India is in terms of assembling the components and putting together the vehicle itself. And not so much in terms of creating the ecosystem of part as required. That is still happening in countries like Japan and Taiwan. And that's where we are working with customers in terms of building our EV range of ceramics portfolio, and that has progressed definitely well over the last year. And hopefully, when we see more of adoption of these parts happening in India, and we are also seeing the requirement of ceramics just about coming up for the mobility, a high speed train mobility, high speed trains are also requiring ceramics, and that is one area we have started working with.

Jason Soans: Just wanted some a brief outlook on your metalised cylinders as well as your industrial ceramic, again in light of a lot of impetus on metalised CAPEX and we can probably see metalised CAPEX also going ahead there is some good traction on that front. So, that basically has a bearing on your refractory which is a thermal refractory business and some color on the metalised cylinders outlook as well.

N. Ananthaseshan: Metalised cylinders, they are into the vacuum interrupters, and that is something which is a growing business. I mean as an interrupter right, so, it's largely used in electrical transmission, generation and distribution and whether it is in the fossil fuel based or any energy base, you would need distribution. And that is where these interrupters are used and definitely we see that as a steady business going forward.

Jason Soans: And what about the industrial ware ceramics, some industrial ware ceramics in refractory some color on that?

N. Ananthaseshan: Today ware ceramics is supplied as either ceramic standalone ceramic products or in combination with steel as a line equipment in designed. So, which maybe work with both CUMI Australia and CUMI America. So, they are specialized in addressing the design and installation of ware components and extending ware ceramics to ware materials whether it is rubber based ceramics or rubber backed ceramics or with PU back ceramics. So, that is giving us a larger plane off. So, ware ceramics is an application which is universal, ware management is an application which is universal, so.

Jason Soans: So, the demand outlook is looking quite steady at this stage?

N. Ananthaseshan: Yes.

Moderator: Thank you. We have the next question from the line of Mohit Pandey from Citi. Please go ahead.

Mohit Pandey: Two questions, firstly, on metal cylinders, what would be the current utilization level of the new line that is added? And secondly, in terms of Ukraine, if you can please help quantify the exposures that VAW has currently in terms of top-line contribution?

N. Ananthaseshan: So, the utilisation we have two lines of metal cylinders and we had installed the second line during the last year, during the course of the pandemic. And progressively we have enabled two, utilized both the lines, and first line is about 85% and the second line is also running close to about 80%now.So, that has made a quite a bit of progress both in terms of customer acquisitions and approvals. So, yes, I would say that both these lines are steady.

And in terms of expanding these capacities, we are also looking at how do we do it in a more modular fashion and debottlenecking some of those capacities in the process stages. So, that would definitely release some capacities for the next year.

In the case of Ukraine this is, I mean, now overall, in the CIS, we do sales of silicon carbide, I would say about 40% of our sales gets done in Russia CIS and Ukraine is part of that sales group. We also buy raw materials from Ukraine, for our Abrasives in Russia. So, the equations with the Russian suppliers, customers are pretty normal as of now. And that's why I said we don't see a major disruption happening on the ground while there are definitely a lot of noise in terms of the geopolitical equations.

Mohit Pandey: Metalised cylinders in terms of export geography what would be the top two, one for you?

N. Ananthaseshan: We do quite a bit to Europe, Europe is a big chunk of course and also to Japan. Yes, Europe, partly Japan and little bit of the U.S.

Moderator: Thank you. Ladies and gentlemen, due to time constraints that was the last question. I would like to hand the floor back to the management for closing comments. Please go ahead.

N. Ananthaseshan: So, thank you all so much for joining in today's call. I know it's been a kind of a difficult call for most of us, difficult quarter for most of us and Omicron COVID has taken its toll. I mean, I would say fortunately not as bad as it was in the COVID-2. But then it has had an impact across industries, across even our own companies. We just hope that this is now tapering towards being an endemic.

We also have seen challenges in terms of chip shortages, energy costs going up, increasing input costs, and also the supply chain disruptions and all of them is expected to remain there for some time.

And despite the Government being very positive looking in terms of infrastructure spend. So, let's just hope that the opportunities that we have worked on and we are working on as a company addresses most of these opportunities and while we are quite positive about it, but it's also I think, realistic to be cautious in our approach to building this business. Our effort here would be to ensure that the businesses always gain in terms of profitability and growth will sustain.

Moderator: Thank you members of the management. Ladies and gentlemen on behalf of Kotak Securities, that concludes this conference. Thank you for joining us and you may now disconnect your lines. Thank you.