"Carborundum Universal Limited Q1 FY2021 Earnings Conference Call"

July 30, 2020

ANALYST: **MR. ASHWINI SHARMA – ANAND RATHI SHARES & STOCK BROKERS LIMITED**

MANAGEMENT: **MR. N ANANTHASESHAN – MANAGING DIRECTOR – CARBORUNDUM UNIVERSAL LIMITED**
MR. P PADMANABHAN - CHIEF ACCOUNT OFFICER - CARBORUNDUM UNIVERSAL LIMITED
MR. G. CHANDRAMOULI - SENIOR GM STRATEGY - CARBORUNDUM UNIVERSAL LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the Carborundum Universal Limited Earnings Conference Call hosted by Anand Rathi Shares and Stock Brokers Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0'on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ashwini Sharma. Thank you and over to you Sir!

Ashwini Sharma: Good morning everybody. On behalf of Anand Rathi Stock Brokers I welcome you all to Q1 FY2021 post results earning call of Carborundum Universal Limited. From the management team we have Mr. N Ananthaseshan, Managing Director, Mr. P Padmanabhan, Chief Accounts Officer, Mr. G. Chandramouli, Senior GM Strategy and other team members. Now may I now request the management to give opening remarks pertaining to quarter's performance post which we can open the floor for Q&A. Over to you Sir! Thank you.

N Ananthaseshan: Good morning to all of you. I will begin the call. As a practice, we will 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 reflects 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 are more fully detailed in our annual report, which may cause the actual result to differ. Hence, these statements must be reviewed in conjunction with the risks that the company faces... Thank you Sir.

N Ananthaseshan: Thank you Mouli. Thank you all again for joining us on this call. It is a very unique quarter. I guess in all our lives never before has anyone of us experienced such a turbulence with so much of uncertainties on a global scale. It has also been a quarter where individuals and companies have been challenged like never before.It has also required amongst all of us to exhibit care and as well as stand up to be leaders and work across states, and dig deep into our reserves and more importantly bring back attitude of not to quit.

I must say that actually we have taken up this challenge and we have been doing all this and more. While the lockdown or imposition of the lockdown and following the months and the weeks after March, we had to shut all our plants in India possibly the exception of the Maniyar unit, all the operations had been temporarily shutdown to the beginning of May, in some cases till May 10th, 2020. However, our operations at Russia and in Australia, both continued to run through the respective lockdowns in their countries. The lockdowns there permitted them to operate in a safe manner with necessary social distancing while the transportation system was allowed to run reaching the material movement with not much of a challenge. Today after the lockdowns have been lifted in multiple phases, all our Indian operations have since resumed and they are running safely, so what we are looking at is roughly between 45 to 55 days of operations in Q1.

Let me walk you through the results at a consolidated basis. Sales for the first quarter was Rs.444 Crores which is 33% lower than Q1 of last year. Segmental PBIT recorded Rs.34 Crores at the consolidated level, this marks an 8% margin vis-à-vis are 16% margin over the same period last year. This I would say is largely due to a relatively resilient demand especially in the minerals and some segments of ceramics. The abrasive segment is the most impacted of all segments had recorded a marginally negative margin of 2%. This was largely on account of the low demand end user industries obviously after the lockdown, most of the auto industries, auto-ancillaries at the component manufacturing, construction sector, engineering, all of them closed down in the domestic market, so that has had a big impact.

The Russian abrasives business also saw a lower demand from their end user industries, which is largely again auto and construction, so they also had a lockdown in the auto industries. Auto industries shut operations in Russia because of the low demand. So the fixed cost coverage in the segment has not been sufficient enough and we missed the operational profitability by a very thin margin. Across the board despite the heavy impact of volumes, our fixed cost reduction initiatives have helped shore up the margins. These would be more eminent and we would also know whether they are sustainable enough, so they would reflect on the past profit margin level over the coming quarters when we have hopefully a better higher degree of operations.

Our input costs have been better at the consolidated level, so it has been a mixed bag where in some cases, we have seen lower input cost and in some other cases we have seen a higher cost on account of the adverse forex impact and also some unfavorable product mix in some segments. In areas where we are net exporters the forex has helped us while other segments we have had adverse product mixes. PAT for the quarter was Rs.20 Crores which is 63% lower than Q1 of last year. At the standalone level sales was at Rs.234 Crores which marks at 45% decline, operating profits were at Rs.6.5 Crores and 88% decline over Q1 of last year. Operating margins were 3% compared to 13% in the previous year and at the segmental level abrasives recorded slightly negative margin of 2%.

Ceramics recorded 9% margin vis-à-vis 18% last year and the electromineral segment recorded 2% positive which is very close to last year's level despite comparatively sheer days of operations and a drop in revenue.

I will give you a flavour of the business environment that we are working with, beginning with abrasives. So as you all know in the standalone business auto and allied industries direct and indirect where we feed into the auto have taken a big hit. The other main industry construction has also been deeply impacted. So we can only expect things to open slowly as the labour force returns and construction and home innovation activities resume.

We also expect that the infra, real estate sectors to get a fillip from the Athma Nirbhar Bharat scheme and other programs which has been announced by the Government. In Russia as I said earlier the abrasives business caters largely to benefit demand and the auto industry in Russia much in line with the global auto industry is yet to see through revival. Sterling abrasives, our Subsidiary, have seen lower revenues by about 36% though they are PAT margins remains positive. Their outlook for agriculture remains largely positive and since Sterling Abrasives feed into the rice polishing or agro processing industry, we hope to see this business doing better in the coming quarters.

In America, abrasive segment declined over Q1 last year again due to the fact that many of the auto majors there had closed shop, they also had lockdowns in multiple states and some of the states had complete lockdown while some others had partial, so this also impacted the CUMI America sales. The associate super abrasive business in India, Wendt India also faced similar domestic conditions. Overall, in the abrasive space when it comes to product mix, we do see some opportunities for import substitution going forward largely driven by weakening of the rupee. We are also undertaking channel activities to our things in the field, now that a last 45 days our teams have started moving into the field and prioritizing first and foremost health and safety of our employees and our partners. We also put a digital infrastructure and we have put in place very quickly and that has helped us to carry out remote inspection, remote ordering and we have been able to undertake customers' engagement activities as usual.

The Minerals segment has been more resilient than abrasives, this contributed more to the topline and the bottomline and we are seeing good demand from certain product groups. The demand has been relatively good from the refractory industry and metal matrix composites. The outlook for both of them remains positive as mining and steel will domestic and globally as countries put out these masses, fiscal and monetary measures.

Operations in Russia have seen marginal volume growth, so overall the mineral segment has been better story than the rest of the businesses. Margins in the ceramic segments recorded 11% which is lower than the 18% of Q1 last year. This is also largely coming out of a topline decline of 45%. Some areas such as wear applications we have seen better demand in the domestic as well as in exports markets, so some of our subsidiaries like in America, ceramic segments have seen better performance. This is also due to the need for a repair and maintenance of these plants when they shut operation and start up again.

Our Australian entity continues to see good demand from the mining sector from Australia though the sales from India to Australia has been impacted a bit, because of the shipment delays at the ports usually during the lockdown and sales of metz cylinders was also lower than what we normally do due to the lockdown and this has also impacted margins.

There has however also been a slow demand in some segment of refractories and composites where we cater to project orders. There have been some project deferrals and the product mix has been adverse in this segment this year. Our overseas entities have seen relatively better performance in the segments, the refractory operations at VAW and Middle East both did very well. The Foskor Zirconia unit in South Africa also had a lockdown before the country went on lockdown till about early May and our portion of the losses from this business is about Rs.2 Crores. Overall our performance of JV and associates in India which is MMTCL, CIRIA and Wendt have also seen a similar impact. Capex addition during the quarter was about Rs.34 Crores at the consolidated level and we are very cautious on our investments in capex while we also explore opportunities to automate the processes in all our plants to ensure that the productivity of the plants are better and this will also ensure that the dependence on the temporary labour or on ensuring social distancing is maintained.

I must also say that the team has been very focused in terms of driving collections and we have had good collections in the quarter which has enabled the business to be continuously strong on cash front and on that score we do not have so much of a concern. So this closes my briefing for the quarter and I now request our Chief Accounts Officer, Mr. Padmanabhan to take you through the numbers following which we can open up the forum for questions.

P Padmanabhan: Thank you Ananth. Good morning everyone. Let me summarize the financial performance for the quarter ended June 30, 2020. The consolidated sales for the quarter, has decreased by Rs.220 Crores which denote 33% decline over the corresponding quarter of last year. For this, the major standalone which has dropped by Rs.190 Crores, this is mainly due to the impact by the prevailing lockdowns in the country. The consolidated segmental PBIT was at Rs.34 Crores which is down by Rs.51 Crores and about 60% degrowth on quarter-on-quarter basis.

At the standalone level, the segmental PBIT for the quarter was at Rs.7 Crores against Rs.56 Crores during Q1 of the previous year. On a consolidated basis, the profit after tax and non-controlling interest for the quarter was at Rs.20 Crores as compared to Rs.53 Crores during the corresponding period of last year. At the standalone level, the PAT decreased to Rs.11 Crores from Rs.45 Crores. At consolidated level, the PAT margin fell from 8% during Q1 of previous year to 4.4% in the current year. Out of this at the standalone level, it has decreased from 9.9% last year to 4.3% during the current quarter.

On the segments, the consolidated sales of abrasives for the quarter decreased to Rs.131 Crores from Rs.259 Crores in the corresponding period of the last year. Standalone sale decreased to Rs.113 Crores from Rs.214 Crores of last year, at the consolidated level, the PBIT was a marginal Rs.3 Crores negative from Rs.28 Crores of profit last year and out of which Rs.2 Crores of losses was from standalone. Our subsidiaries in UAE and America showed positive growth on a quarter-on-quarter basis in terms of profitability.

Moving onto electrominerals, division consolidated sales for the quarter decreased to Rs.210 Crores from Rs.264 Crores in the corresponding quarter of the last year. At the standalone level, sales dropped to Rs.65 Crores from Rs.105 Crores in Q1. The consolidated electro mineral division business recorded PBIT of Rs.23 Crores as against Rs.24 Crores in the same quarter of the previous year. Russian subsidiary continued to show strong performance both in terms of sales and profitability. The South African subsidiary also showed reduced losses on Q-o-Q terms.

On the ceramic segments, the consolidated sales of the ceramic segment degrew by 35% on quarter-on-quarter basis from Rs.165 Crores to Rs.108 Crores. The standalone sales degrew by 43% on Q-on-Q basis to Rs.79 Crores. The net sales of our Russian subsidiary Volzhsky grew by 49% on quarter-on-quarter basis. Consolidated PBIT of the ceramic segments for the quarter was at Rs.12 Crores lower by Rs.18 Crores from the same quarter last year. The entire decline was due to the reduction in the standalone, the entire Rs.18 Crores was from standalone only.

From the finance side, there was no debt in the standalone level and we continue to be a debt free at the end of this quarter. On a consolidated basis, the debt equity ratio was marginal at 0.03 at Q1 end. The total debt on the consolidated basis was at Rs.63.81 Crores in June, in comparison to the March wherein it was Rs.61.63 Crores. The increased of marginal Rs.1.5 Crores is due to the exchange fluctuation so the borrowings quantum remains same. On the forex cover, CUMI is typically a net importer in dollar term and a net exporter in Euro term as per the policy we cover the net exposures as appropriate and in accordance with the forex policy approved by the board. On the cash flow side, we have strong balance sheet and is evidenced by net cash position, net of debt which has increased during the quarter to Rs.393 Crores which was around Rs.294 Crores in March and also the low debt equity ratio. This concludes my update from finance side.

N Ananthaseshan: Thank you Paddu. Now we are open to questions, please.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Ravi Swaminathan from Spark Capital. Please go ahead.

Ravi Swaminathan: Good morning. My first question is with respect to July demand how it is shaping up compared to say June, is it flattish or has it seen improvement if you can give some colour on that across segments would be really great?

N Ananthaseshan: What we saw in Q1 and I guess as the lockdown started lifting in various cities, the June demand was more robust than the demand in April and May, so we are continuing to see a better demand in July, largely coming from both the major segment and in the ceramic segment. The abrasive segment which is again driven also by auto and assuming is yet to see such traction though it is definitely better than earlier April and May. I hope that once the auto industry starts and people start coming back to work we should improve in possibly August, September.

Ravi Swaminathan: Got it Sir. Abrasive will be 70%, 80% of normal in the month of July?

N Ananthaseshan: Around 70% would be better.

Ravi Swaminathan: Got it and international operations are running fine, Russia etc?

N Ananthaseshan: Russia is doing well, so they also had a good quarter last quarter and decently started this quarter as well. So we do not see a major hiccup there.

Ravi Swaminathan: Got it and any update with respect to the exit of Foskor this quarter?

N Ananthaseshan: As I had mentioned during the last call we had been progressing with due diligence with one of the potential buyers and this has been progressing, but it was a kind of derailed because of the lockdown and subsequent to that we have made some progress, so hopefully we were trying close for this transaction definitely in the next couple of quarters max.

Ravi Swaminathan: Got it Sir and with respect to the cost both from employee cost and capex vis-à-vis our earlier estimate, are we cutting anything if at all how much it would be?

N Ananthaseshan: On the employee cost, though April and May there was no production, as a company and as a group we had committed to pay salaries to everyone including contractors. As part of social commitment we said we will not deny them or we will definitely support them during these tough times and we did, so the employee cost I would say was higher than normal for the sales what we did, also we ensured that going forward it would be more productive and recognizing that we would not have the luxury of people coming in and working on a temporary basis, so we are looking at making investments and organizing and mechanizing the plants especially on the material handling and automation of operations etc., though it will take couple of quarters for it to get installed. In the Capex, we have been focusing only on those which are vital for the growth of revenues and which would also reduce our variable cost with respect to productivity. The desirables have been calibrated from us. So there would be some job in capex hopefully does not so significant.

Moderator: Thank you. Ravi would request you to please come back in the question queue for any followup question. The next question is from the line of Renjith Sivaram from ICICI Securities. Please go ahead.

Renjith Sivaram: Given the challenging scenario, it is good to see profits. It's heartening. Sir if you look at the other income your other income was high, so is there any impact of forex gain in that or why it was high this quarter?

P Padmanabhan: The other income is mainly on account of the dividend received in the standalone that is why it is high and in respect of the consolidated, it is interest from the bank deposits.

Renjith Sivaram: Forex related impact on that?

P Padmanabhan: Forex related this time it was a loss and therefore it is in miscellaneous expenditure and other income has not been impacted because of that.

Renjith Sivaram: How much was that forex impacting the expenditure?

P Padmanabhan: Forex impact was around Rs.7.5 Crores at the consolidated level out of that Rs.5.5 Crores coming from our Russian subsidiary, VAW and Rs.1.5 Crores from our Australian subsidiary, it is mainly due to the translation losses.

Renjith Sivaram: What is your current utilization of the facility?

N Ananthaseshan: It depends on each division 50% to 60%, Russian is running flat out.

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

Harshit Patel: Thank you very much for the opportunity. In the last quarter, you had mentioned that some of our sales were stranded with respect to imports as well as domestic sales because of the restrictions on the travels, so I see in this quarter revenues would have benefitted from that, so if you could elaborate a little more on what was our run rate in terms of both the month of May as well as June versus the same period last year and that would be very useful?

N Ananthaseshan: I did not catch your first part of your question?

Harshit Patel: In the fourth quarter of financial year 2020 we left off some sales in the last 10 to 15 days, so sales would have now come into the first quarter results. So if you could quantify that and in terms of both production as well as sales, what was our run rate in the month of May and June versus the same period last year?

N Ananthaseshan: Many of the sales lost in March, which typically would be the sales with channel partners, happens in our kind of business though we had started shipping out some of the orders in May, we also have to realize that many of the orders which was shipped just before the lockdown also were not delivered till the beginning of May, many of the transporters were stuck and the trucks did not move, the materials in the godown, did not get delivered to the dealers, some of the dealers were in containment zones like in Maharashtra, Mumbai and Gurgaon. So it is not easy to make a comparison from a normal time, it is just a shutdown for 10 days, so that has been a lot more repercussions that has happened. Having said that I think May would have been about 60% of a normal sale 60%, 70% and June was little bit better.

Harshit Patel: That was very helpful. On the second question Sir, could you give us a little bit of flavour on the recent trend in terms of realization in both fused alumina as well as silicon carbide, also have there been any negatives or positives on the raw material procurement for us in terms of any supply side issues or the raw material availability issues etc?

N Ananthaseshan: Fused alumina is largely supplied to the abrasives and the refractory industries so while the demand for fused alumina in the refractory segment was higher, the local customers choosing to source from domestic suppliers rather than from China for various reasons including possible disruption of supplies from China. The realizations are typically lower compared to abrasives products because abrasive products are much more higher performance or much more quality, the standards are higher. Abrasives sales have been impacted because of the drop in overall abrasives industry as well, so the demand for those products have been lower, so what you are seeing overall is on weighted average basis a lower realization from fused alumina and silicon carbide again the silicon carbide abrasives has been lower and more to the metallurgical and the refractory market, the prices have not gone up, so the prices has been stable, but in the case of alumina oxide, the cause of the product mix change, the realizations are dropping and are lower. In terms of availability of raw materials for these we do have secure raw material sources from both alumina and raw material for silicon carbide.

Harshit Patel: That was very helpful and Sir on the bit on the book keeping question, I had noticed that we have incurred a capex of almost Rs.300 Crores in the last three years. I am talking about from FY2018 to FY2020 still our depreciation has not increased at all, it is still hovering around Rs.105 Crores end of the level in each of the last three years even in the last quarter we have noticed downward trend in the overall depreciation, so Sir could you give us a little bit more flavour on that?

P Padmanabhan: On the depreciation, if you take for the current quarter, the April was down and may was picking up and June was normal. Therefore the depreciation is based on the shifts of operation, so when you are not working then it will be a single shifts of operation and in the subsequent month, the shifts will increase and if you compare with the previous years, it is a mix, one is that because of the shifts and second is that the accelerated depreciation the useful life has been closed and therefore there is a reduction of depreciation as compared to the previous years.

Harshit Patel: Thank you very much. That was all from my side.

Moderator: Thank you. The next question is from the line of Kaustab Bubna from Rare Enterprises. Please go ahead.

Kaustav Bubna: Sir, if I have to breakup your segments into abrasives, ceramics and refractories and then electro minerals, could you help me the blended capacity utilization as of today or end of Q1 for each of the segments and if there has been any meaningful capex in the segments which has recently come on or will come on in the next one to two years?

N Ananthaseshan: If you look at abrasives largely domestic business, so there the current capacity utilizations stand to about 50% odd.

Kaustav Bubna: Sorry, I did not hear you.

N Ananthaseshan: About 50%. The major capex here has been the coated maker which was recently commissioned that was in the last half of March, so that was the major capex which has come out, so in the case for ceramics we would be running at about 55% again I am talking about the blended, so it is different product groups are running at different capacities. We had considered for our metalized cylinders which is the second line or line 2.5 as they call it, those equipments has just been received, it was a delay because of the shipments got stuck during this times and we have received and we would be commissioning them in the second half of this year. Electromineral segment the capacities again has been in the range of about 65%, I would say that is in the domestic side and in the case of Russia it is almost running at about 90%, 95%.

Kaustav Bubna: For all this capacity addition which you were doing, what is the total cost of that and what is the total revenue that can generate towards close to 100% whatever the max it can run at?

N Ananthaseshan: I would believe that the capacities what we have in place, we should be able to hit revenue between Rs.3200 Crores to Rs.3400 Crores on a consolidated basis.

Kaustav Bubna: For the full company?

N Ananthaseshan: For the full company.

Kaustav Bubna: Thank you so much.

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

Renjith Sivaram: Just coming back to as in the previous participant question, if you look at the normal utilization of the refractories based at Hosur abrasive refractory, ceramic refractory and the current utilization how much is the difference and when do you see this normalizing or is it close to normalization in terms of our productivity?

N Ananthaseshan: When you say the word normal, I think your guess is as good as mine, so the normalization will happen only when we have effective vaccine to this virus globally so that is going to take some time to come in and in terms of utilization of the capacities, what we have learned over the last three months is that every day we will bring you surprises. For example, in the last couple of months in mineral division in Kochi almost running flat out and we thought Kerala was the safest place to be in and the last two weeks I have told Kerala infections has been increasing and there has been a series of lockdown in that state as well. We are taking a day-by-day, week-by-week, so in terms of capacity utilizations depending on whether we will have another wave or we will not, the capacity will have to be ramped up accordingly, so we will have to wait and watch and yes, why we have to worry about the safety and the health of people, we are focused on improving our productivities in the plant, but if there is a government order to shutdown or restrict operations in one area and then it will happen.

Moderator: The next question is from the line of Kashyap Pujara from Axis Capital Limited. Please go ahead.

Kashyap Pujara: Thanks for taking my question. Good morning Ananth and everyone. Gross margins at consolidated level might have shown some improvement, but actually in the standalone level you have seen deterioration both on a Y-o-Y and Q-o-Q, so while fixed costs have kind of been under check in line with the topline deceleration, but gross margin at the standalone level has come up, so could you just explain what has driven this as it would have been adverse mix or is it foreign exchange due to import of grains where exactly we can quantify this movement?

N Ananthaseshan: The gross margins have largely been impacted in both abrasives and in ceramics. In the case of abrasives it has been a combination of product mix and though we had had a better handle on the fixed cost, the product mix has probably been impacted by the near absence of the precision business, that is the one which has a better margin business than the channel business and what is related to the auto industry, so that has seen a significant decline, and still not picked up, so obviously there has been an impact because of that. Second in terms of even the operations itself, because of the nature of our operations where we have to start, we had to stop the kiln and then run them back again after stop, so we have had to take on additional costs in terms of restart cost, so that also had impacted and this is the case of both ceramics and abrasives where they are high temperature processes because the things have to we have to put additional fuel to bring it back from a cold start to the temperatures. Third is what we also have discovered over this period is that the costs which did not even plan for in our scenarios, for example, the cost which we are now incurring on setting up quarantine facilities, so it is not that we have had instances of COVID positive, the people in the plants as well, so we have to give them the confidence that they would be taken care of and especially there are people who do not stay with the families and we cannot just allow them to be at their rooms or in a hospital, so we have to spend money on quarantine facilities now, medical and sanitization, these costs are just not factored in, so these are also impacting our margins, so overall the gross margins has been impacted due to these as well. In the case of ceramics, the product mix definitely has impacted, the ware ceramics part of the business it is a shown better traction especially both in domestic and in the export markets has helped in the topline, but in the bottomline there are less profitable than the ceramics. Now the engineered ceramics are the ones which we supply as a met cylinders and to others energy companies in the US and other parts of the world and they have been impacted by our enable due to ship out volumes during first 45 days of the lockdown, so that has also impacted.

Kashyap Pujara: Another question was about the difference between consolidated and standalone, could you give us a breakdown of what constitutes the distance how much is contribution, I would say Volzhsky in the current quarter both on topline and profit likewise on CUMI Australia, CUMI International, if you just give some colour it would be helpful?

N Ananthaseshan: Russia has been as I said running flat out so they have been normal sales levels, so their ratio which is typically about 25% or 22% of the company's sales are normal times would definitely be higher this quarter, the drop in the sales of about Rs.220 Crores odd have come largely from the domestic, so Rs.190 Crores odd has dropped from domestic to that extent the ratios will change, but the Russia has done normal numbers, so it is a case of Australia, so Australia also done the normal numbers in terms of the topline marginal decline, but overall at the same levels.

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

Bhavin Vithlani: Thank you for the opportunity and congratulations for managing the cost well even in a difficult time. My question is on related to your opening remarks where you mentioned there is an opportunity with respect to import substitution and when we look at the import data there has been a massive increase in the abrasive imports, now could be may be about 50% of the total industry consumption, so the question is what actually difficult increase in the import where it was a lost opportunity for companies like Carborundum and what is the measures that you are taking corrective measures that you are confident that you will be able to win back that so that is the first question. The second question is on the Abrasives front, you did give some colour on, but we have puzzled on negative margin or the loss at EBIT level on abrasive segment, so if you could just help quantify what was the impact on the abrasive is specific on the gross margin and what was the detrimental impact on the cost on the abrasive side? These are my two questions.

N Ananthaseshan: On my first part of the observation there we have opportunities to have more import substitution, my observation both for abrasives and for the mineral business the abrasive business when I say there is an import, there is obviously benefit in terms of the forex, so the forex or the rupee having weakened over the last year and the last couple of quarters, also gives us an opportunity to act as a possible barrier to imports so that is one area we are looking at and our fact that one of the biggest import and product groups is Coated abrasives and that is why we are losing our capacity but now we have the capacity to go after them and that is one. The other part of the product group which is thin Wheel we do have a good position in terms of the project orders, so the project is largely segmented into two you can say as per the applications, so the product application which are heavy duty and it is a much more demanding in terms of safety that is where we are strong and we continue to deliver those volumes in our segment. The area where the volumes are getting imported significantly are the ultra thin wheels and this is one area where while we do have some capacities we are also limited in that but we are working on alternative methods including sourcing to address this segment. On this electromineral side, because many of the companies now are little wiry of possible disruptions in China and are looking at local suppliers we see an opportunity to replace the significant sources as well. On the margin side, we must also realize that all our factories of abrasives are in Chennai in Tamil Nadu and this is where has seen the maximum disruption in terms of the operations, for example when we had our factories in Kerala running with a full complement of people, in Chennai it was limited to 33%, so to that extent the volumes had to drop, so while technically the lockdown was lifted in many parts of the country, in Chennai, in some containment areas whereas our factories are in the containment areas it was limited to 33% of the strength, so the volumes had significantly dropped both in the precision and in the mass market segment. So that we also had to incur additional cost, because we cannot let the people go, we had to pay those salaries and we had to transport them, sanitization, all of them had additional costs and abrasives bore the brunt of it.

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

Moderator: Thank you. The next question is from the line of Bharat Sheth from Quest Investment Advisors. Please go ahead.

Bharat Sheth: Good morning Sir and thanks for the opportunity. Taking on channel side, to some extent earlier participant to reply to the question, how now there are lot of downtrading which was happening because of slowdown and the downtrading may further go on looking at the economic scenario, so in that sense can we really in channel partner and in channel this thing, we will be able to make some kind of inroad and simultaneously China plus one strategy, because largely it was imported from China abrasive side, so how we are seeing the things are happening on the ground and where do you see over a couple next nine months, we will able to play?

N Ananthaseshan: My broad sense is in bonded abrasives, the precision abrasives we would be slower to get off the ground than the mass market business for the simple reason is that when you look at precision running weak it can be anywhere ranging between Rs.10000 a wheel to a couple of lakh rupees and for companies to make those investments in consumable which mean they need to have strong visible order flow coming in. The mass market segment of the grinding wheel it may starts from about Rs.10 wheel going up to Rs.100 or Rs.120 and this is much less of an investment for daily wages earner than for a MSME, so this is the segment which I am seeing it will grow faster or it will come back into the economic faster than the other one. Similar is the story with coated abrasives, because coated abrasives once again what we are also looking at it is in the auto aftermarket where the personal transportation preference could possibly move towards the two-wheelers and smaller cars and also pre-owned cars because of the fear factor that would be prevailing with the people to travel in a public transport, so this would also we have seen an increasing level of activity in repairs in garage and that is where we are strong, strong products there and that is where we expect to come back stronger.

Bharat Sheth: Sir on second side, this coated with the new plant commissioning we were looking to export in and cutting down and develop the market in Russia, so what is the status of that?

N Ananthaseshan: From the plant we have made out some prior shipments to Russia and to other markets, South East Asia and Europe as well, so we are targeting both the converters and the end users, so largely these are converters people to buy the jumbos and then convert them into products, so we have had the initial shipments shipped out and hopefully our post results after this quarter and that is one area we are intending to grow. Coated capacities are doubled, that is not borne by the fraction or incremental capacities, there is always an x, 1x and 2x kind of with capacity increase, and there is utilization we will not happen in the same case.

Bharat Sheth: Last question Sir, we were working on the lot of new metallurgical, at this point of time is there anything work mentioning or it is on backburner at this point of time?

N Ananthaseshan: Sorry in the metals?

Bharat Sheth: New application and several users as well as new material?

N Ananthaseshan: The new materials are largely in both in ceramics business where we are invested in working on the silicon carbide, nitride bonded silicon carbide synthetic carbide etc., and that is where the facilities for them has been setup and those equipment has also arrived earlier this month and we should install them in the next couple of quarters I mean next couple of months and then second quarter, third quarter we should see them starting off, so those are some of the new materials from the ceramic side, we also have done some work on the composite side with carbon fiber products, especially for defense applications we are looking at and in the mineral space where we already have this so that project has also seen some traction in terms of application development, so while this is early times to bring them to commercial space, there are a lot of work has been done given during these times when people could not go to the factories.

Bharat Sheth: Last for coated side also the new plant coming we were looking to develop a new application for the same coated, so anything on that?

N Ananthaseshan: The markets which we are targeting had economics for new products so we have now developed what we call a global products which can be applied fit in application on the global scale, so whether it is for hardwood flooring in the US or metal work in Russia, so these have been developed and this is the ones which are under trial.

Bharat Sheth: Thank you. All the best Sir.

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

Kirthi J: With regard to EMD how would be now our mix between the specialties and basic due to the global preference for Indian products slowly coming after China issue, but we started to get some traction towards the specialties in terms of the enquiries and any trials going on in terms of increasing the specialty mix in the EMD?

N Ananthaseshan: I must tell you that most of the specialties in the EMD basket where also focused towards the abrasives industry which is whether the ceramic grain or whether it is surface grinds etc., that has especially in this quarter taken a hit, so this quarter cannot be a measure of what we the mix is, so this quarter has been largely back to basics kind of business where people are focusing especially there is no abrasive requirement when people will focus on the refractories and we have been working on the refractory industry for supplying these materials, so while a lot of business development work is happening it also kind of a hampers little bit because we have to travel to the customers in overseas markets, but having said that now the overseas markets also realized that it is not really necessary to see us more as frequently physically, but today we have lot more virtual calls and engagements with them, so the trials are starting back again and hopefully after some semblance of stability comes in through operations we would see more, more trials and resulting in orders.

Kirthi J: In abrasives anything we are doing to gain the market shares in the coming time Sir?

N Ananthaseshan: Sorry.

Kirthi J: In abrasives, what is the strategy we will be adopting to gain market share in the coming next one, two years Sir?

N Ananthaseshan: As I said it is a mixture of addressing both the mass market through channel and reach especially for the coated abrasives and that is where we have built up now with capacities and also to addressing opportunities in the global markets again for both for coated abrasives and in bonded abrasives, the precision part of the abrasives which we had built up over the last couple of years unfortunately the last one, I would not say unfortunately even during the last two, three months, the exports business of abrasives had shown much better traction than the domestic position, so there are hope that people in other parts of the world even though they have this pandemic going on, they are still looking at good suppliers of these products, so our strategy in terms of ramping up of sales and position in the export markets and also leveraging our distribution and increasing our reach of both the coated and bonded and the domestic market that would be our strategy. There has also been increasing focus especially with the slowdown in auto on possible non-auto applications, the non-auto applications will include for example, the steel sector, the medical sector for medical equipment, the food industry etc, it is a big growing industry as well, so these are plus the aerospace and defence which is long gestation period but then definitely one of these promising sectors.

Kirthi J: Sir, in abrasive export can we expect to reach at least say 25% of our overall standalone abrasive space as export, is it a possibility you see in next two years from 10% to 15% kind of sales currently?

N Ananthaseshan: I think you are right, you are fair and some of those areas is where we have to improve and we have the local reach there as well now.

Kirthi J: When we see all the coated and all they have seen a lot of lateral entry and we are hearing lot of talent addition in terms of capability, we have been done in terms of human resources especially from good MNC names and all we are doing, when do you see there the efficiency, their ideas and all coming into play and basically come apart from existing manufacturing talent and other things we have already built in when you think the collaborates for these two factors to take the company to a faster group?

N Ananthaseshan: It is a good question. The talent mix what we are building as the combination of both in grown in house talents and these businesses require long gestation period in terms of people understanding businesses, understanding processes, so we do have a pipeline of talent, we also have, we are not adverse to for the people from other companies and even at senior positions like what we have done with Mr. Ninad Gadgil for abrasives and we look at both culture fit and also how does it fit in terms of what the business needs, so the business needs and culture fit are considered and we believe that some of the good practices with previous companies from where people come from would have also add to the strength of CUMI, it is a continuous process, it is just not that it is a switch on switch off. That is something we continuously do.

Kirthi J: In terms of the cost cut have we done with this thing or best to yet to come in terms of overhead reduction or in terms of the material and profit loss reduction anything further we can do the best we have achieved?

N Ananthaseshan: There is nothing like the best we will continue to work on both the material cost again through sourcing efficiencies and also through consumption efficiencies where the productivity of various product groups or efficiencies of input and output efficiencies are constantly worked upon, some could be marginal, but some could be of a significant nature where we are also looking at complete redesign of the processes, so that would be the combination of savings both at the material level and at the fixed cost levels, so the fixed cost level is the combination of what we have a mixture of consolidation of some of the operations, consolidations of some of the factories that is also possible, but all these things have a roadmap and that will take time, but endeavor to ensure that we are constantly working on making our whole operations in business much more say.

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

Charanjit Singh: Thanks for the opportunity. While you talked a lot about the exports, so if you can even just help us understand from next two to three years perspective in terms of the mix of exports versus domestic, how do you see things that it could change, lot of countries are now talking about China plus one strategy how it can benefit us in terms of ramping up exports, so that is my first question?

N Ananthaseshan: Abrasive business I would say it is still a largely domestic business, opportunities in abrasives in the domestic market is too significant and so that will continue to drive our focus. We will have abrasives at the core in domestic markets while working on mineral, mineral is a global business and where we have an opportunity to in silicon carbide we are a significant player globally with 8% to 10% market share at least 10% market share globally so that is one area where we would like to grow and cost position what we have in Russia, so that is one area what you are seeing. We also have good cost position in the alumina business in India and that will also help achieving company's positions if we want to move away from China, so we can be seen as an alternative, cost competitive quality alternative to China and that will help us growth in the domestic and in export market. The ceramic business is the one which is largely export focus and global business where some parts of it has some companies which are global in nature and some parts of it has industries which are global in nature. So we are a combination of both and next steps where we would drive these exports as well so we would see a lot more investments and efforts going into the ceramics to further their international process.

Charanjit Singh: Sir you talked about you being cost competitive versus China so in terms of our costing versus China can you give some numbers in terms of whether we are like 10%, 15% cheaper how do you see in which product categories?

Ananthaseshan: See clearly in silicon carbide space possibly we are among the most competitive in the world including China, especially Russian subsidiary is amongst the most competitor so surely we have the volumes and cost position there. In the case of fused alumina, I think we would be about 5% to 10% more expensive than the Chinese on a landed basis but in terms of what we offer to the domestic market definitely in terms of ready supplies in terms of less in time deliveries, and the comfort that we are close to home and any reception we can handle so that give us definitely a positive edge. I am not mentioning the application support in this offer which other companies from China they do not offer. So I would say it is a combination of both the cost position, the ability to deliver solutions, ability to meet the customers and sort out their problems so all of them are the valuable position that we have for the human resources.

Charanjit Singh: Sir if I can just ask one last question in terms in a world that is changing fast so in terms of our products are there any new end market applications like for abrasives, or new sectors which you are seeing as emerging which can become larger going forward and can benefit from volume perspective so that is my last question.

Ananthaseshan: Definitely couple of areas which are emerging is as a common theme in terms light weighting whether it is fiber composites or a metal matrix composites or the carbon-carbon composites so they are slowly emerging materials across occupations so you would see them as one of the main drivers other than abrasives so they are in mobility or in aerospace defense sectors so we are seeing a lot of thing happening. One more interesting area would be semiconductor industry we see about manufacturing of semiconductors in India so that will also we will see a lot of traction from right across the distribution of abrasives or in terms of ceramic as well.

Charanjit Singh: Great Sir. Thanks a lot for taking my questions.

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

Ruchit Jain: Good noon. Sir if I look at data from FY2014 to FY2019 excluding the FY2020 because that was an abnormal year in the last quarter our topline has compounded at around 4% to 4.5% to 5% to give you the exact number 4.8%, our annual topline has compounded at much higher 10.5%, 3M numbers we do not have separately but there overall topline compounded 9.8% so we seem to have lost market share. So my question number one is what we are doing to address that? The second question is on the China opportunity in domestic market that is Chinese players are about 25% to 30% is there a scope for replacing them and supplying both at the mass market and at the higher end industrial end which you just explained 10000 to 100000 kind of price points? The third thing last thing is that in the recent interaction India's largest steel companies are market cap their Chairman spoke about a completely in-sourcing that is a domestic sourcing India sourcing all the refractory material which right now a large portion is getting imported. All of these put together what is the long term growth rate forget what is happening with COVID that is when it normalizes, post that what is the long-term growth rate that we can expect for three divisions of ours?

Ananthaseshan: On abrasives definitely we know the opportunity exists for us, as I said earlier to couple of other gentlemen, in mass market in abrasives. That is why we had not filled capacities ahead of time and that is what we have done now. We have also seen that we have lost to some of the Chinese manufacturers again in the abrasives, so that is a big chunk of business which we had lost so the fact that we are comparing I do not want to be defensive here because we are looking at standalone numbers for CUMI but possibly granular numbers also include the superimposed segment and we will further have abrasives brand, we are looking at number which are little different but I do not want to get into a debate on it. I am accepting yes on some of the segments we have lost now and we will get back for sure. That is what the team is working on. As you also mentioned in terms of steel Industry looking at completely switching over from China the range of products which the Chinese make for the steel industry, by the switch which they have, which includes things like silica, magnesia, and clay products, we are catering in the steel industry also but not a very big player we are in the project segment of steel so we supply to critical parts blast furnaces and others the steel making ladles and others we do have an opportunity here to go and look out some of those at high performance areas , today we are not in the factory management either but we can try and get into it in terms of steel industries at some point of time. So the opportunities to grow are there definitely are there in refractory's also even you look at custom-built refractories so opportunities are there. I am looking between the refractory's growing at about between 10% and 15% range so that is a kind of opportunities we are looking at.

Ruchit Jain: Okay and minerals are largely imported is it from the Chinese and if so is there is a replacement for the world to look at or dominance China still holds and do we see our import content coming down which is roughly around 40% of your overall cost of goods sold?

Ananthaseshan: The import content is for what we import from China in terms of minerals is for the abrasive division about 41%. We also have other materials which China currently makes for which we have already started looking at domestic sources so the plant here is over a period of time, in the next couple of years it seems we should see a significant shift towards localizing some of our raw materials, so that will happen both in abrasives and in other parts of the business. As regards the imports of mineral for the refractory industries as I said the above mineral business in India has built capacities over the last three or four years and hopefully change of product mix what we have done it also give us an opportunity to ramp up on the white fused alumina which is largely aggressively refractory segment. So there are opportunities for us to be a significant when I say significant for the domestic market we can be significant player for the white fused alumina business. In the silicon carbide space, VAW is still a significant player as we compare to do so while on a global level to replace China as a source it would take little longer than people generally feel because today in the middle space China has about 80% of the global market share in these materials which feed into the steel industry and other core industries. So it is not going to be easy to replace them but depending on where we are located we do have pockets of opportunities.

Ruchit Jain: Just to understand I do not have the numbers of FY2020 readily with me but let us say if our forex outgo is about 400 Crores how much of that is for minerals, how much of our total imports is for minerals?

Padmanabhan: It would be 20% to 25%.

Ruchit Jain: The remaining is split between abrasives and ceramics?

Padmanabhan: Yes.

Ruchit Jain: Thanks.

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

Bhavin Vithlani: Thank you for the opportunity. You mentioned about investments in automation and productivity related enhancement if you can just highlight what is the kind of investments you are looking at, what areas and what is the level of cost efficiency that one can expect? That is first. The second question I mean sometimes back I was just looking at my earlier quarter notes is that one of the reasons that we lost market share was because of availability related issues and penetration levels at the channel where the traders just freely went and imported and that is where our market share was impacted. So any thoughts on this how we had been able to come back because of the import substitution front INR has been depreciating for long and not sure whether that actually helps?

Ananthaseshan: On this automation there are two types of automation one is in terms automating our processes which we have started off couple of years ago in moving IoT-enabled process lines which would give us right hand information on the process and have a better control on the consistency. So that has been implemented in our plants in abrasives, in ceramics and what we are now driving is the material handling automation as I would call it so this has also been driven because of this COVID so we always had availability of manpower in some of our plants in ceramics and abrasives which enabled us to have technical manpower available but after the COVID impact many of the people have inherent fear to whether I continue to work here or should I go back home?, we are seeing that as well. Some of our experienced people in the shop floor, they have gone back home so we are moving people from other parts of the country and other similar plants to support them. So this also cost to that. So what we have taken in the midterm and the near term is to identify areas for automating or new process. When you say automating the process there we can automate the material handling side of the process initially so which will enable us to have a lesser dependence on manpower so that would help us save fixed cost on that side plus also meet the requirements of social distancing which will come in the future which is there and which we need to meet. So we cannot operate the way we have been operating all along while still meeting material guidelines. So these are areas were we will invest and this is going across all our plants. In terms of assessing the nature of the investments, in terms of designing required automation which is happening now so we would be doing that in a phased manner. With regards to question on the imports and gaining back market share, While our focus has been on the precision side of the business we did lose ground in the channel side and one due to capacities both on the thin wheel side and on the coated-abrasive side, which is now being corrected.

Bhavin Vithlani: Any number you can share that increase penetration on Tier 3, Tier 4 and what we understand?

Ananthaseshan: While we are working on it, I think let me take a couple of quarters to give you some numbers. I want to see how this impact on floors.

Bhavin Vithlani: Sure and the availability related gaps which were there just in time availability of the product have they have been addressed just leave apart the COVID situation currently?

Ananthaseshan: See the availability was low basically because of the capacity constraints.

Bhavin Vithlani: I understand sure. Thank you so much.

Moderator: Thank you. As there are no further questions, I would now like to hand the conference over to the management for closing comments.

Ananthaseshan: Thank you again for joining for this call. As I said earlier this has been very, very uncertain times and teams have been stretching themselves and trying to handle the known and unknowns as we call it so it has been a unique experience for all of us. So hopefully hope the country and the things would get normalized soon and we are preparing ourselves for that and we hope to come back with better numbers in the future. Thank you so much again for joining.

Moderator: Thank you. On behalf of Anand Rathi Shares and Stock Brokers that concludes today's conference call. Thank you for joining us and you may now disconnect your lines.