"Carborundum Universal Limited Q4 FY20 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day. And welcome to the Carborundum Universal Limited Q4 FY20 Earnings Conference Call, hosted by ICICI Securities. 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 would now like to hand the conference over to Mr. Renjith Sivaram from ICICI Securities. Thank you and over to you, sir.

Renjith Sivaram: Thank you, Janice. Good morning, all. We have the management of Carborundum Universal Limited, represented by Mr. N. Ananthaseshan – the Managing Director; Mr. P. Padmanabhan – Chief Accounts Officer, and Mr. G. Chandramouli – Senior General Manager, Strategy. We will have a small outlook by the management, followed by questions-and-answer session. So, over to Mr. N. Ananthaseshan for opening remarks.

N. Ananthaseshan: Good morning to all of you. Before we begin, as normal practice, we will have Mr. Chandramouli read out our disclaimer, and then I will take the call.

G. Chandramouli: Good morning, sir. Good morning to all. During the call, we may make certain statements which reflect our outlook for the future, or which could be construed as a forward-looking statement. The 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 defer. And these statements must be reviewed in conjunction with the risks that the company faces. Thank you.

N. Ananthaseshan: Thank you all for joining us on this call, once again. Last year has been one of tremendous uncertainty and volatility for the Indian economy, and also for the world. Starting with the global slowdown of the auto sector, the U.S. - China trade war, the increasing focus on nationalism, and finally culminating in a very debilitating COVID crisis that has ravaged countries and economies. During this period, teams across CUMI in India and overseas have shown tremendous grit and resilience in these trying times. And I am thankful for their uninhibited support. The last couple of months through the lockdown has also been a very hugely humbling and a learning experience.

Incidentally, I was reading the book, I am sure many of you would have read it, it's a fiction, called The Origin by Dan Brown. And I came across this para, which I felt was very relevant to our current situation. It says, "We are now perched on a strange cusp of history. A time when the world feels like it has been turned upside down. And nothing is quite as we imagined. The uncertainty is always a precursor to sweeping change. Confirmation is always preceded by upheaval and fear. The faith in human capacities for creativity and love when combined process the power to eliminate any darkness." I am sure most of us would have felt this uncertainty, this tipping change in many of our ways the work, from starting with basically things like working from home and possibly it is the first time in CUMI's history, I mean, obviously, in many other companies history that the entire financial closing was done where people were working from home. So we are going to see many more such changes good forward. Now, with all these experiences, I am very confident that not only we at CUMI, but the entire humanity will see through this crisis.

Now, I will move on to discuss the performance of CUMI in Q4 and the full year. At the consol level, for the full year, the company achieved a sale of Rs. 2,569 crores, which is a 3% decline over the last year. At the standalone level, sales was at Rs. 1,623 crores, which is a 7% decline over last year. At the standalone level, the highest impact came from the Abrasives business, which saw a 12% degrowth, though we were seeing some signs of revival in the month of January and February, and of course, we were on track for a strong closing in March. But with this imposition of the lockdown and closing of our plants across the country from 23rd of March, obviously, the year-end revenues took some hit.

The impact on our industry has been twofold this year. I don't remember when we saw a simultaneous decline of both the auto and the construction industries, and which we know have been caused by a combination of factors, including a poor consumer sentiment. So consequently we saw a decline in our Coated and Bonded segments, though our Coated segment has been relatively more resilient. Therefore, our focus over this year has been to strengthen our operations, improve efficiencies and control costs. On the upside, in the Abrasives segments, our margins have held up at the contribution level. The lower volumes has meant that the fixed cost coverage was impacted. Consequently, PBIT in absolute terms fell by 17% at the standalone level, and 19% at the consol level. PBIT margins fell about 110 basis points at the consol.

The Abrasives operations at our Russian subsidiary VAW also saw a decline, this is largely because they cater to the domestic auto industry, which in line with the global auto has been down. Our joint venture, Wendt, was also impacted by the degrowth in the auto and the capital goods sector. And there we saw our share of profits falling by a third. One of the upsides, exports saw a good traction, whether it was in the Coated or the Bonded Abrasives segment. Consequently, our American subsidiary also saw an 8% growth, driven largely by Abrasives. The entity there is turning profitable and has posted positive PAT for four quarters in a row. Our operations in China were impacted by general economic slowdown over the year, and also by the pandemic. You will remember that the pandemic there started sometime in November, December and a few months ahead of the other regions. So despite all this, our belief in the potential of the domestic market remains strong and is reflected in the commissioning of the new coated maker at our Sriperumbudur locations in Tamil Nadu. The project has been executed within the budget and timeline, and it began commercial production in March.

Now coming to the Minerals business. The Minerals business saw 1% growth at the consol level. Although the domestic business degrew by 9%, the positive growth of 4% at VAW Russia helped offset some of these impacts. The Foskor Zirconia in South Africa also degrew by about 7%. Volumes have been flat, almost flat in our domestic operations, but has grown at VAW. And during the course of the year, we converted the zirconia fusion facility in Kochi into a white fuse alumina fusion facility, where we saw the demand growing. And the utilization levels could go up over time this year. The top-line impact we see is mainly on a call of lower realizations this year with a product mix skewed towards the factory grade minerals, because that is where the demand has been this year.

The top-line and profitability were also deeply impacted by the overnight decline of the diesel particulate filter market in the beginning of the year. This has impacted both the profitability at the domestic and the standalone and also at VAW. However, VAW ran flat out, made a product mix switch and addressed the opportunities in the refractories and metrological segments, both in the domestic and export markets. We also see some signs of stable demand, with some customers who are keen on diversifying the supply chain coming back. Exports have shown volume growth in the segment too. And on the new products front, our pilot graphene facility was commissioned. And we are working towards establishing application across battery material, high strength alloys and composites. A new range of alumina zirconia grain for abrasives and composites was also launched. The generation from our hydroelectric power plant at Maniyar has been higher than the previous year, and that has also helped shore up margins.

Now coming to the Ceramics segment. It has been a very tough year, both globally and domestically. But despite that, ceramics posted a 4% growth. Our industrial ceramics segment which is largely export driven, and about 70% of this business is exports, performed very well. The geographical diversification and good demand from end users and key customers have also helped. Even in Q4 the business was the least impacted as the sectors it caters to, whether it's power, mining, steel have continued to operate even through lockdowns in various countries. So we have seen a good traction VAW, CUMI China and CUMI Middle East in the ceramics and refractory space. Collectively, these entities added Rs. 14 crores to the top-line in terms of incremental growth. Our Australian subsidiary, though it degrew by about 1%, has shown a resilient performance, especially as the economy was hurt by the bushfires in Australia and also the gradual slowdown in China impacting their exports.

The domestic refractory segment saw growth until H1, this is also on the higher base of last year. But over H2, we started to see this increasing trend of project deferrals amongst customers, who tend to be from core industries, auto and construction dependent industries such as steel, glass, cement, carbon black, etc. So, over H2, the business has degrown, but our composite business has shown good growth and margin, driven by demand for windmill nacelle covers and FGD spray headers**.** Our anti-corrosive business launched new products, including hygiene grade PU flooring – for healthcare, food and pharma industries.

In the industrial ceramics, we will commission our third metallized cylinders line later this year. We have also commissioned a pilot plant for tape casting of thin ceramics and sputtering facilities for electronic applications. And we are working with organizations such as ISRO, CSIR, NAL and others overseas to build capabilities in what I believe is a very exciting area. The business also received the prestigious CSIR Diamond Jubilee Technology Award 2018 for its innovation in technology and building a global business in the field of metallized cylinders.

So, overall, it has been a tough year, culminating in this unprecedented and sudden COVID practice. Our focus has been on containing fixed cost and variable cost. TPM practices are now in place across all divisions. And our heightened focus on operational efficiencies has prepared us for the year ahead. Operating margins have held up close to last year's level on a consolidated basis. Although the top-line impact has impacted PBIT in absolute terms.

Coming to PAT. The consolidated PAT grew by about 10% and the lower tax rate and higher non-operating income contributing to this.

On our CAPEX plan for the coming year, we have pruned it down considering the current economic situation. But the focus would continue to be on investing in ceramics and at our refractory infrastructure in Russia. The other focus areas would be in terms of automation with an intent of reducing our fixed cost in a sustainable manner.

We have also gained tremendous discipline in terms of cash flow management. And this emphasis on cash flows is going to be much more in the post-COVID scenario.

Now, I will request Mr. Padmanabhan to take you through the financials.

P. Padmanabhan: Thank you, Ananth. Good morning, everyone. Trust everyone is safe during this pandemic. Let me summarize the financial performance for the year and the quarter ended March 31, 2020.

The consolidated sales for the quarter has decreased by Rs. 110 crores, which denotes 16% degrowth over corresponding quarter of last year. Of this, the standalone drop was at Rs. 91 crores. The consolidated segmental PBIT was up by Rs. 2 crores, it is a 2% growth on quarter-on-quarter basis. The major contributors to growth were from the Ceramics segment, both the domestic as well as the global subsidiaries. The domestic subsidiary, Southern Energy also contributed to the growth after recovering from cyclone impact during the previous year.

At the standalone level, the segmental PBIT for the year was Rs. 52 crores, denoting a 20% drop. On a consolidated basis, profit after tax and non-controlling interest for the quarter was Rs. 92 crores as compared to Rs. 62 crores in the corresponding period of last year. At the standalone level, the PAT increased to Rs. 62 crores from Rs. 49 crores. At the consolidated level, the PAT margin was 15.8% as against 8.9% during Q4 of last year. And at the standalone level, it has increased from 11% to 17.5%. The increase in PAT has been largely due to change in the domestic tax rates and higher non-operating income.

Now, we move on to the segment wise results, the first being Abrasives. On Abrasives, the consolidated sales for the quarter decreased to Rs. 218 crores from Rs. 280 crores in the corresponding period of last year. Standalone sales decreased to Rs. 174 crores from Rs. 231 crores in Q4 of last year. At the consolidated level, the Abrasives PBIT reduced by 28% from Rs. 32 crores to Rs. 23 crores, the drop of Rs. 9 crores mainly came from standalone and Russian subsidiary, VAW. Sterling, our domestic subsidiary, also experienced a slight decline in the top-line, however, the margins showed positive returns. American subsidiary CUMI America continued to perform well in sales as well as profitability.

In the Electro Minerals segment, consolidated sales for the quarter decreased to Rs. 251 crores from Rs. 270 crores in the corresponding quarter of last year. At standalone level, sales dropped to Rs. 101 crores from Rs. 112 crores in Q4 of last year. Sequentially, the domestic Electoral Mineral business grew by 4%. The consolidated Electoral Minerals business recorded a PBIT of

Rs. 32 crores against Rs. 37 crores in the same quarter of previous year. However, sequentially the consolidated Electro Minerals business showed positive trend, both in sale as well as PBIT by 3% and 60% respectively.

In the Ceramics segment, the consolidated sales degrew by 16% on quarter-on-quarter basis from Rs. 166 crores to Rs. 140 crores. However, on year-to-date basis, the consolidated Ceramics sales grew by Rs. 25 crores, indicating a 4% growth. The standalone sales degrew by 20% on quarter-on-quarter basis. However, at the YTD level the sales grew by 3%, resulting in a growth of Rs. 14 crores. The net sales of our Russian subsidiary Volzhsky Abrasives grew by 61% on quarter-on-quarter basis and 16% based on the YTD basis. Consolidated PBIT of the Ceramics segment for the quarter grew to Rs. 36 crores against Rs. 24 crores for the same quarter last year. Subsequently, the consolidated PBIT also showed positive trends. At the YTD level, the consolidated PBIT of ceramics grew by 22%. CUMI standalone PBIT saw a growth of 22% at the YTD level. Gross PBIT for the year grew by 31% while the Australian subsidiary showed a growth of 15% for the year. The American subsidiary showed positive trends during the year.

Moving on to the finance, the debt equity on a standalone basis is zero, and on a consolidated basis the debt equity was at 0.04 as of March. There was no change in the debt equity position, which was reported during last quarter. Total debt on a consolidated basis was at Rs. 66 crores, mainly due to the long-term borrowing, including the current maturities of Rs. 4 crores and short-term borrowing of Rs. 55 crores in March 2020. This is in comparison to the position of last quarter, wherein we had Rs. 75 crores. On the moment of the loan position, we have been repaying all the loans and no significant increases in it.

In respect of FOREX, as you know, CUMI is a net importer in dollars and net exporter in Euro, and we take appropriate hedging in line with our FOREX policy. From the cash flow front, through more disciplined management of cost and operational efficiency, the consolidated operating cash flows net of CAPEX is equal to the same level of PAT of Rs. 272 crores. Additionally, our strong balance sheet is evidenced by net cash position, net of debt of around Rs. 300 crores and low debt-equity ratio.

This concludes my update on finance. Over to Mr. Ananth for his summarization.

N. Ananthaseshan: So, in summary, overall this was a year that has tested our resilience. The diversity of market, applications and products have proven again to be our strength in a very highly volatile situation. This, coupled with focus on sustainable cost reduction effort, both on variable and fixed cost, and working capital management should help us going forward. The Abrasives demand, we believe, will pick up with the industry. So, as and when the auto picks up and the manufacturing picks up, Abrasives is in a position to take advantage of that. And our effort and sustainable cost control in the segment for the last few quarters has helped, though it is still WIP. So I believe we can do more.

In VAW Russia, we will continue to invest in the nitride bonded silicon in leading carbide factories and also in silicon carbide itself. In standalone minerals, the focus this year would be on leveraging the volumes, sweating the assets and thereby improving profitability. We would also like to take advantage of any potential customer shift from China to the local sources. On Foskor Zirconia, we will soon close out, we aim to close this out soon and this also helps improve minerals profitability. This has been delayed a bit because of the COVID lockdown in South Africa as well.

On Ceramics, as I mentioned earlier, the metalized cylinders line to come in from the second half, the margins are expected to stay strong on account of operational efficiencies, and the FC coverage that we are seeing. The new product launches will be in wear materials expanding from ceramics into other materials as well, composites and also in electronic ceramics. And as Padmanabhan mentioned, the company has a very strong balance sheet and zero debt, this also offers us the strength to defend and grow in these crises.

So, while do we do all this, we also know that we do not know how long these crisis will go on or when we will have a vaccine, or if there will be a second wave, and what would be the impact of that. So in this very fluid situation, we plan to address this on a month-to-month basis while working on our fundamentals, and on areas that are in our control - Cost efficiency, technology and product development, hit our organizational model, and places ourselves in a stronger position for the future.

So thank you so much. And now we are open to questions.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Rajesh Kothari from AlfAccurate Advisors. Please go ahead.

Rajesh Kothari: My question is, in the Abrasives segment, if I look at the margins, of course, the fourth quarter was a challenge, but even otherwise the margins are a little bit under pressure. So, if you can give a little bit color on how do you see this segment, particularly, because a lot of unorganized sector also probably would have been significantly impacted. So, do you think you will be able to improve market share at some point of time?

And the second question is, if you remember discussing last time, you were talking about review of product portfolio to improve the profitability, and Foskor related decision to maybe at some point of time to review their entire decision. Can you give me some color on that as well?

N. Ananthaseshan: Sorry, your two questions, one is on Abrasives margin and second one is on Foskor, right?

Rajesh Kothari: Yes. And related question was, last time you mentioned that there is a review of product portfolio to improve profitability. And if you have any further, what I would say, more detailed three on that.

N. Ananthaseshan: This is specifically in relation to Abrasives or overall?

Rajesh Kothari: Overall.

N. Ananthaseshan: Okay. Now, first of all, let me address the Abrasives margins. You would find that, yes, so the margin has been hovering around between 11% and 12%, 12.5%. In this quarter we ended up the year with about 13.5%, 13.3% standalone. And at about, 11.3% for consolidated. Now as you know, most of the Abrasives business is domestic and this drop in the standalone in Q4 specifically was also known to be shut down or lockdown which was announced on the 23rd of March. So, if we did not have the lockdown, we definitely would have been much better off. So, that is we have been working on improving the margins in abrasives over these years, and you would see the trend over the last few quarters. We are pretty stable, though it is not in the levels of possibly ceramics business. We will continue to work on improving the margins there as well, with a lot of work going on and improving the efficiencies in the coated abrasives specifically, and the precision abrasives. You would also remember that last year the precision business overall, which is the most profitable business because it is a customer-to-customer business and B2B business, so you have the impact of a drop in volumes, and consequently on the profitability due to the slowdown in the auto industry. So despite that we have been able to manage to retain our margins. And we believe we can do better once the precision abrasives start picking up.

On the Foskor Zirconia, as I mentioned, we are clear that we want to exit that business. And we have been working on finding a partner. So we were hopeful of closing out by end of March, but then I guess it would take a couple of months more before we can firm up on that. Product rationalization has been one focus across all business where we are trying to call out some of those products which are low profitability, and that's a conscious effort. And hopefully you will see the impact of it in the coming quarters.

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

Ravi Swaminathan: Sir, just wanted to check with you regarding at metallized cylinder sales to international market. So how is it likely to pan out given the fact that a large portion of it goes to Europe, and that geography has been pretty much hit by COVID, so?

N. Ananthaseshan: Yes. See, the metallized cylinders go into our generation, transmission and distribution business. And power being, what we call, an essential service, it continues to remain strong. So the demand for that and the manufacturing units across the world, across our customer bases, they were working even during the lockdown So I see that segment as continuing to be strong.

Ravi Swaminathan: Got it. And the high margin in the current quarter in ceramics in the country is because of higher share of metallized cylinder in revenues?

N. Ananthaseshan: Ravi, the product mix also helps. I will ask Padmanabhan also to explain a little bit.

P. Padmanabhan: See, this quarter was good for ceramics overall, metallized cylinder and also the refractories market also picked up this quarter. Therefore, you could see growth both in top-line as well as in the bottom-line. And we expect that this will continue. And in fact, we will be commissioning our third metallized cylinder line this year.

Ravi Swaminathan: And how much would be the expansion for metallized cylinders from 1.8 to?

P. Padmanabhan: The metallized cylinder, mainly because of the exports almost 70% of the sale is out of exports, and this because of this the foreign exchange fluctuation is all high and the unrealized FOREX gain is very high, that has also given good realization in the profit front.

Ravi Swaminathan: No, sir I am asking about capacity.

N. Ananthaseshan: Thanks for the question on that. The line is about 1.5 million, 1.7 million pieces to 2.2 million pieces after we commission the second line.

Ravi Swaminathan: How much, sorry?

N. Ananthaseshan: 2.2 million.

Ravi Swaminathan: Okay, sir. And my second question is in terms of Abrasives, so basically at a retail level and at an industry level, so B to retail and B2B, what is the current level of sales which is happening? I mean, volumes vis-à-vis the usual run rate, say, if you can give an example of May it will be great.

N. Ananthaseshan: See, we target the operations middle of May and various parts of the world are at about 33% strength in some plants and a couple of plants are at 100% strength. So we have various stages of startup. So you will also understand that our high temperature processes take some time to stabilize. So as we start off in May, and I have a better picture of that in June, because some of the sales what we made in May could be to replenish stocks. So if there is some pent up demand, so we will know better as we go forward.

Ravi Swaminathan: Got it. And my final question is it with respect to the last segment, Electro Minerals. So basically, do you see some threat related to Chinese manufacturers reopening in some of the facilities and silicon carbide realization kind of coming under pressure, because assuming China economy itself is likely to remain weak. So whatever they had closed for environmental and other concerns, can they come back again?

N. Ananthaseshan: See, one thing which we know what's happening in China is, many of the manufacturing units, broadly the manufacturing has come back, in some cases could be 70%, 80%. But we also hear from them that there are lack of orders, because one thing is to produce but then the next thing is to sell. And some of the markets which are shut down, for example, some of the customers in India, they were down as to lockdown, difficult for them to ship out. So I would think that it is still a very fluid situation with regards to capacity utilization, but definitely there is also a green shoot here. If customers in India are going to be wary of further disruption, they could well start looking at local source.

Moderator: Thank you. We take the next question from the line of Kashyap Pujara from Axis Capital. Please go ahead.

Kashyap Pujara: Congratulations to the Carborundum team for a decent set of numbers. Mr. Ananth, I had a couple of questions, first is about the gross margin expansion. In Q4, we saw a significant jump, close to 70%, which a normalized run rate for us is around 65%. Now, could you explain, would this be sustainable or it is largely because of product mix that we had more tilt towards Volzhsky, and less from, say, Abrasives? So this more a function of mix or is there some sustainable initiatives, which explain some bit of gross margin uptake in Q4?

N. Ananthaseshan: You are talking about the whole of the company or specific segment?

Kashyap Pujara: No, for the full company we have had 70% gross margin in Q4, and versus 65% in the previous year and previous quarter, and normalized run rate for the company is around 65%. So just trying to see whether it's a mix or it is some other initiative which has driven this gross margin? Or maybe one-off raw material cost benefit?

N. Ananthaseshan: Yes. I think in Q4, we saw overall, one, Abrasives business of course started picking up as I said early in January and February, so where we saw the movement, even the precision business was doing well. We believe that that was impact of customers stocking up or beginning to stock up before BS VI launch and the production of components for that. But however, the last week of March saw a decline there. So abrasives had a combination of better product mix, increasingly good efficiencies, and is the service sustainable? I would definitely say in the case of coated abrasives. And in the case of Minerals, there again, both in terms of the power cost and the internal efficiencies at the domestic standalone was very positive. The performance at Russia in Q1 has been very good, so that has also contributed to better margins. Also the performance in Foskor Zirconia was better compared to the previous year in Q4. So overall, I think the Minerals business, whether it is in Russia, in Foskor was good, and in the standalone businesses as well. As I said, the margins in Ceramics are driven by both product mix, and also the benefits we had from a FOREX gain also helped. So, I would say, it's a mostly what we are doing is sustainable in terms of efficiencies, but there definitely would be some extraneous factors like the FOREX gains.

Kashyap Pujara: Sure, I think that's helpful, FOREX gains. Just one other extension about sustainability would be about the working capital, our operating cash flow after working capital has double Y-o-Y which is very commendable effort and on a similar level of top-line. So, how would you kind of comment on that? Do you think that we have used out whatever it is and it will normalize upwards? Or do you think that the current level of receivable days or inventory days or the current level of working capital is sustainable?

N. Ananthaseshan: See, in terms of working capital the efforts, I mean, traditionally also we have always seen that the number of days collection, the discipline of collection in abrasives has been pretty strong, and that continues. Though we would definitely see an impact on that in this quarter, I guess, because with many of the dealers not opening shop or customers not opening, we would see a number of days going up a bit. But all of them I don't see as a threat now, none of them are bad, we have made a complete evaluation of that. Our work on the working capital, on the raw material inventory, on finished goods and on the work in process, so that is something which the operations teams have been working on. And as I said, putting in place the CPA practices and lean management practices has helped. So, we would try and make this much more robust, and that is what we are banking on going forward.

P. Padmanabhan: In order to make it sustainable, we are taking focused efforts to reduce the inventory and then collect from the debtors. And a lot of cost saving measures have been done. These efficiency measures coupled with the working capital reduction will help us to make it sustainable for the future.

Kashyap Pujara: Last question was regarding competitive intensity. If I look at one of our key competitors, investing in the similar market share, their reduction in top-line for the year and for the quarter has not been as severe. So, how would you kind of comment on that? Is it about your thoughts on market share? Are we losing or do you think it is a product mix issue, what is your commentary on that?

N. Ananthaseshan: Well, I mean, definitely there is a drop in our top-line in Abrasives. And I would say that while we have been trying to ensure that there is no market share loss, the last 10 days of low sales in March really hit us. I would estimate another Rs. 50-odd crores of sales could have come about and we were on track for that. So I am seeing this not as a demand disappearance but more like a demand deferral. So we would be able to come back stronger. We have also taken some decisions in terms of toning down our product portfolio in abrasives where we have let go of non-profitable product groups, and that has also contributed to this. So the objective is, on the long-term how do we make ourselves more stronger with better profitability, and also use our capacities to gain market share. So that is the answer for you, I hope I have cleared that.

Moderator: Thank you. Next question is from the line of Bhaumika Naik from IDFC. Please go ahead.

Bhaumika Naik: Sir, congratulations on a good set of numbers in a challenging environment. Sir, just wanted to touch upon EMD a little more. You spoke about some ramp up in China, etc., and some green shoots out there. But just wanted to extend this further in terms of how is pricing moving out there on SIC grains. And are you seeing any upward movement or is it kind of moving down because utilization levels are actually quite low and some of the low end players also kind of trying to gain market share?

N. Ananthaseshan: See, the major portions or the major product groups in an Electro Minerals, what we call the regular products or the commodity products would be the silicon carbide and a fuse alumina. And silicon carbide, even before the COVID was under frame in China because of the environmental pressures, and also the disappearance of the diesel particulate filter market, and the photovoltaic market, curtailing some of their production. So, some of the capacities has gone out, and that also helped maintain prices. With the COVID coming in, the demand has further slowed down and at least for a couple of months, in early maybe February, March this year, we saw shipments out of China also struggling. So, in silicon carbide what we now see is that the prices are stable but maybe marginally dropping a bit, but not too much. So the demand supply situation is taking care of that. But in the case of the fuse alumina it's a little different. Fuse alumina, both are the brown fuse alumina and the white fuse alumina are seeing a drop in prices, more in a white fuse alumina than in the brown fuse. So but the demand for white fuse is more robust, because the white fuse alumina goes into manufacturing the refractories, while the brown fuse alumina would go into manufacturing abrasives as well. So what you are seeing is a mix, so while silicon carbide prices are going to be relatively stable, maybe a marginal drop of a couple of percentage points, we see that the white fuse alumina and the brown fuse alumina would be lower. So immediately I don't see an opportunity to increase prices here as well.

Bhaumika Naik: Right. And if you were to compare this, as you also mentioned that some customers will start looking at India as kind of, apart from a China kind of sourcing. So in that sense how would our competitiveness be placed versus a Chinese player to compete and get that market shares versus imports?

N. Ananthaseshan: See, among the products what we have or the portfolio what we have, the large capacities we have is for the fused alumina, which would be both the white fuse and brown fuse alumina. And here we are reasonably competitive with access to good raw materials, reasonable cost of power, and very high efficiencies. So I am confident that we can be competitive in these spaces. So that is one reason why we are trying to leverage our assets, sweat them, and maximize volumes for these product groups. The reason possibly some of the customers are looking at India as an alternative, and I am talking about Indian customers, these are customers who consume large volumes regularly, and they have been hit by the disruption of supplies from China. So, it would be logical for them to start de-risking and looking at an alternative Indian supplier. And especially we do not know whether there would be, let's say, another second wave which would again disrupt the shipping lines. So it would make sense to have a de-risking strategy in place, and that's what we are banking on.

Bhaumika Naik: Sure. And sir, if you could also comment on VAW, how are the current utilization levels there? I assume we are still running flat out. And how are the prices and exports panning out? And I am sorry, I missed the number which you said on Abrasives, at what level we are versus last year at this point.

N. Ananthaseshan: In Russia?

Bhaumika Naik: Yes, both in Russian and Abrasive domestic.

N. Ananthaseshan: Russia operation continues to do well, continues to do well in the first three months of the quarter and continues to do well in the first two months of this quarter. So, Russia has definitely been impacted by the COVID and they have been overall one of the countries with the highest infection, and they had a lockdown very similar to ours. The Russian operation continued to operate, given the fact that the silicon carbide goes into steel industries, which are considered as essential, and so they ran flat out. So, the operations in silicon carbide and the refractory space, again, which goes into majorly the aluminum industries, also considered as essential, help them keep the plants running. The abrasives part of the business in Russia was shut down consequent to the shutdown of the auto industry in Russia, because most of the abrasives consumption or the sales from VAW goes into the auto industries in Russia. So, while India had a slowdown, VAW was keeping a flat line, so they were going flat out. Sorry, what was your second question?

Bhaumika Naik: Sir, on the abrasives I missed on the domestic market, what was the utilization level or what level are we versus last year?

N. Ananthaseshan: See, the utilization levels I can only talk about for March. But if you are talking about now, we don't have any of our plants running in April and we just started off opening some of them beginning end April, mid-May. So, the plants are just coming back to operations. And whatever sales we are planning to make would be a combination of the stocks which we have and the production which we can make out of the rest of the month. So we would have a fair picture on that, possibly in June when the markets open up further.

Moderator: Thank you. The next question is from the line of Chirag from HDFC AMC. Please go ahead.

Chirag: Sir, if you can tell us your other income was up sharply this quarter, so why that was? My second question was in terms of metallized cylinders, the new capacity which comes in in the first half, how do you see that ramp up? And do you think that this will get fully utilized in FY '22? And assuming it does, what kind of revenue you can have in metallized cylinder? And my third question was in terms of the Ceramics business, if you could give us a break up between the segments, refractory ceramics, industrial ceramics and so on? Thank you.

N. Ananthaseshan: I missed your first question.

Chirag: Sir, the first question was just the other income, it was up sharply this quarter. So the reason behind that?

P. Padmanabhan: The other income are mainly due to the FOREX gain and followed by the interest income on the surplus fund we have been deposited in the bank.

Chirag: Sir, how much is the FX gain?

P. Padmanabhan: FX gain (standalone) will be around Rs. 4.5 crores, and balance is the interest.

Chirag: Sir, the second question?

N. Ananthaseshan: We will be commencing the metallized cylinder, line 2.5 as we call it, during the course of the year, the first half of the year. There was a little bit of a delay because of the COVID, the transportation of some of the key equipment did not happen, so they had just been dispatched from our suppliers in Europe and in the U.S. So, once we have them in place by possibly end of this quarter and the commissioning will happen in the second quarter. So, in terms of the capacity utilization, we are working on the customer base and we have some approvals in place. So, we hope that we can ramp up to its full capacity by the end of FY 2022.

Chirag: Right. And metallized cylinder at full utilization for the new capacity, is it fair to assume that you can do about Rs. 120 crores, Rs. 130 crores of revenue from that?

N. Ananthaseshan: No, that will be between about, I would say, Rs. 30 crores to Rs. 40 crores.

Chirag: Sir, the new capacity is of what size?

N. Ananthaseshan: 0.5 million**.**

Chirag: Okay, so it's going from 1.7 million to 2.2 million?

N. Ananthaseshan: Yes.

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

Bhavin Vithlani: Could you just help us with the Abrasives segment, one, what is the mix between bonded, coated, thin wheels and super abrasives? And what are the capacity utilization during FY 2020 for these products? And second is on the coated side, you will have a new facility which will come up, how do you see the incremental revenues from this? And lastly, maybe surely the question of the earlier participant, what is the mix of the Ceramics division between metallized cylinder and refractories and the other products?

N. Ananthaseshan: On the Abrasives, the bonded abrasive is typically about 55% to 60% I would say, and the coated abrasives is about between 40%, 45%. The thin bonded abrasives we do not largely give you a split on the thin wheel or the super, because there would be a mix of these products. So, we normally give a classification of the assemble products and the mass market or retail products. So the thin wheels, blade, super abrasives, etc., would come under the retail segment, so that would be about overall 70%, which includes the coated abrasives, and the 30% would go into the assemble products.

On the capacities which have come up on the coated abrasives, we have just commissioned the coated abrasives, it's double the existing capacity, so we are talking about a similar capacity, so the capacity will go up two folds. And as I said, the strength which we have built into the coated, both in terms of the product range, in terms of competitiveness and the inherent market size itself, makes us hopeful that we can leverage this to gain the market share, both in the domestic in the export business. As we all know, the coated maker, the capacity utilization does not come up in step jump, it is always a ramp. So, while our efforts are to build customer bases, so the full capacity utilization would happen over the period of five to six years.

On the ceramics business, the ceramics includes largely the industrial ceramics and the refractory part of the business. So on a consolidated basis, broadly the industrial ceramics would be a little more than 50%, 55%, and the refractories would be the balance.

Bhavin Vithlani: Understood. And how would be the FY '20 capacity utilization of bonded and the coated abrasives?

N. Ananthaseshan: See, typically it is about 60% odd is the capacity utilization. In coated, obviously, the capacities utilization was much higher. And that is the reason why we put up the new maker in the first place. We were running at about 85%, 90% capacity utilization in the maker the previous year. So, it had taken a little bit of a drop because of the drop in volumes in FY '20. So I would guess that the capacity position in quoted would be around 80%, while in the bonded it is in the region of about 60%.

Bhavin Vithlani: And the newer facility is going to be a replica of the existing one or there are certain newer products which is the import substitution that you are looking to cater? Because we have seen the imports rise considerably to about Rs. 7,800 crores from Rs. 600 crores, Rs. 700 crores over the last three, four years. So, a little bit more color on that will be helpful. That's my last question

N. Ananthaseshan: The capacity, I mean, the infrastructure itself is a replica. But obviously, the learnings from running the specific machine over the last 10 years has been factored in when we designed and implemented the new one. So there is an improvement in terms of the capability of the machine to run a wider range of products of thicknesses, steep, etc. So that could be leveraged to design and develop products for specific markets. So, we also have already developed products and ready for roll ups, so you could see more of it.

Moderator: Thank you. We take the next question from the line of Ashwini Kumar from Nippon India Mutual Fund. Please go ahead.

Ashwini Kumar: My question to Ananth is, that, in the businesses, the Abrasives, Industrial Ceramics and Minerals, you have these adjacent productions you have transformative products basically where you intend to enter. So what will be the critical factor for ramping up of this? And where are you in this journey, what kind of timeframe do you see, both for the adjacent products as well as the transformative products to be a part of Carborundum Universal's top reign?

N. Ananthaseshan: Thank you, Mr. Kumar. The answer to that is a little complex, because, one, want each of these divisions to have a range of what we call the core businesses, the adjacent products and the transformation products. So, the in terms of the position that we are in, there are different levels of maturity. Obviously, the largest chunk of the transformational products are in the ceramics business. But we are trying to put together the transformation businesses as more an ecosystem of products and services. So while we are working on, let's say, a 3D printing, 3D printing would encompass machines, the consumables and as components, so it will have multiple divisions. So, what would drive the transformation is obviously some of the industries which we are targeting in which would be the aerospace, the defense industry. And a lot of them will see hopefully traction when what the Finance Minister spoke about in terms of investments in electronics manufacturing, for example, take shape. So, that is one reason why we need to invest in pilot plants and industrial ceramics and electronic ceramics. So we are hopeful of that.

Ashwini Kumar: And second, currently if you have, let's say, if IIP grows at 5%, grow at maybe 6%, 7%. Now, your participation with your existing customers, particularly in India, which is maybe autos, general engineering and these are two large areas, how do you increase your participation? Is their scope for you to increase your participation or, let's say, the content of work with these current customers in these two segments?

N. Ananthaseshan: For the Abrasives industry, obviously, auto is a big client, so you have autos, general engineering, construction, infrastructure, woodworking, auto after, so these are all. And also in terms of the core industries like steel and cement also where we have a play. I would think that the speed at which auto comes back will definitely have a say on Abrasives, overall, especially on the precision side. And we constantly are working with our customers in terms of offering to them products which are local. So, in a situation where some of the products which were imported all these years, so we can be seen as a much more viable local alternative. And that is what we are doing with the business customers. So the retail segment, we have already started our journey in terms of expanding our reach and taking our products a little more into the rural space. So, we hope that these two initiatives will help us gain market share back in abrasives.

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

Harshit Patel: Sir, the first question would be on the Industrial Ceramics front. So, what would be a new product that we are currently developing or we would be introducing maybe over the course of next one or two years? And who exactly would be our competitors in such products, both in India as well as on the international side?

N. Ananthaseshan: In the Industrial Ceramics space, we are broadly looking at wear ceramics and the technical or engineered ceramics. And wear ceramics and the wear material has a much broader market globally, because these are products which are used to protect equipment and protect process lines and plans from wear. So, it could be a combination of ceramics, combination of rubber or combination of polyurethane, etc. So, we are looking at expanding the definition of wear ceramics into wear material, and this is where our new product development focuses now. So, we would be seeing a lot more in terms of wear material is term and not just wear ceramics. We are also looking at the entire ecosystem of wear protection in terms of offering wear management services. So, it's a combination of product innovation and service innovation. In the case of the technical or the engineered ceramics, our focus has been on, as you know, the metallized cylinders and the engineered components for the fluid delivery application. We also are looking at expanding from the alumina based ceramics into carbide based ceramic, which is what we have invested in and we would see some of that equipment in place this year. So, the silicon carbide, bonded silicon carbide or the reaction bonded silicon carbide, so which would be the newer products which would address, what I would call, the tribological properties or the wear resistant properties would come into play. So the end use markets would largely be global, so the competition would have obviously definitely be global in nature as well.

Harshit Patel: Right, thank you very much for the elaborate response. And my last question is a bookkeeping one. So if you could give us the revenue, EBITDA and PAT numbers for both Volzhsky as well as Foskor for FY '20, then it would be very useful.

P. Padmanabhan: You require YTD?

Harshit Patel: Yes, for FY '20, full year number.

P. Padmanabhan: See, generally the mix up as far as the electro minerals is concerned, we can say that VAW will be around 60%, and Foskor will be around 12%. There is no change in the percentages, it has almost remained same.

Harshit Patel: Okay. Sir, what I was looking for was the EBITDA and PAT numbers, for both VAW all as well Foskor. In Foskor you have already given that in your press release, but especially for VAW, what were our EBITDA as well as our PAT numbers for FY '20. That was what I was looking for.

P. Padmanabhan: In the overall electro minerals segment, it will be around 70%.

Moderator: Thank you. We take the next question from the line of Mukesh Mani from Vallum Capital. Please go ahead.

Mukesh Mani: Sir, my question was on the ceramics division, you answered a part of it between the breakup between industries and refractories. I just wanted to understand, from this year which sub-segment would have been the major growth driver for the business?

N. Ananthaseshan: While the Industrial Ceramics has definitely been one of the fastest growing segments in the company, over the last few years we have also seen the refractory segment along with the composites picking up. Because these segments are, again, very design intensive, and technically intensive. So, we are saying that there is a good amount of synergy between what we see in technical industrial ceramics and also the refractories. And I guess, though not at the same pace as industrial, the refractory has also been growing.

Mukesh Mani: And the application for both divisions, was it mainly project order driven or is it repairs and maintenance, any color on that?

N. Ananthaseshan: It is a combination of both, mostly it would be the project orders, especially in the case of the refractory units. While the MROs or what we call the repairs exist, Project orders are also part of the basket.

Mukesh Mani: Understood. And in the Abrasive segment, for the year have you seen competition from low price imports from China, at least in the domestic market?

N. Ananthaseshan: You mean to say in this quarter?

Mukesh Mani: For the year.

N. Ananthaseshan: Normally? Yes.

Mukesh Mani: Just the query was on the Abrasive segment for the year. Did you witness competition in the lower price point segment from Chinese products in India, imports from China?

N. Ananthaseshan: Definitely, over the year China has been a competitor, especially in what we call the mass market segment. So they have always been competing in that segment, whether it is in the coated abrasives or in the thin wheels or the diamond plate, etc., they have always been a competitor there.

Mukesh Mani: Alright. And just a clarification, sir. We have two market channels, which is the B2C like you just mentioned, and the direct which is B2B. So this would be about 35% of your sales for Abrasives. And this would be higher value-added products, which would be auto space that you cater to?

N. Ananthaseshan: About 30% odd, so that's auto, thin wheel, steel, power plant. So these are direct customers, yes.

Mukesh Mani: All right, understood. So the main competition from China would be in your channel distribution thin wheels segment?

N. Ananthaseshan: Competition is in the retail business.

Moderator: Thank you. We take the next question from the line of Ashish Kumar from Infinity Alternative. Please go ahead.

Ashish Kumar: Congratulations for a good set of numbers despite the COVID situation. What I wanted to understand was from a more strategic perspective that, given the fact that we have a strong balance sheet, and do you think there is an opportunity for us to increase our growth rate significantly over the next two, three years, either through consolidation of smaller players or a more aggressive growth plan? Do you see that happening as compared to historically or do you see that we will continue to kind of be in line with the industry?

N. Ananthaseshan: Traditionally, CUMI has always grown through acquisition, has grown through alliances. And with current strength in the balance sheet and our cash reserves, we believe this could be the good time to look at value buys. So definitely a part of our growth strategy is also in organic growth. And we would be looking at opportunities indefinitely in the ceramics space and in the abrasives space as well.

Moderator: Thank you. We take the next question from the line of Bharat Seth from Quest Investment. Please go ahead.

Bharat Seth: Sir, I mean, on the Chinese competition on these lower end products in channel distribution, so now with the kind of this sentiment which is developing in the whole world against China, so how do we see this as any opportunity or really how do we want to encash this opportunity?

N. Ananthaseshan: Sir, I am looking at it a little more pragmatically. Definitely there was an anti-China sentiment and a little bit of an anger towards China. But I do not know how deep or how long it will last. So maybe people would stop buying or prefer to buy not for initially maybe for reasons of nationalism, but I don't think that will last. It will be more from a practical point of view in terms of making or having products available at shorter notice, protecting themselves unfavorable FOREX imports, and also to have products available at short notice, because all of us should remember that we are all fighting for cash and none of us want our inventories to be blocked or money to be locked in inventory. So it would make great sense for people to buy locally and not pile up inventories as well. So I am hopeful that this is what we are also pitching in to the customer, saying that we can be as competitive as any of the companies in the world, we are available here locally and we offer great service.

Bharat Seth: So, are you seeing some kind of positive outcome? And second, on that same, I mean, in other international market where you are present, like U.S. and all, you are competing against China in some of the products, not only abrasives you but our electro minerals. So how that is playing out?

N. Ananthaseshan: Especially in the electro minerals and in refractories businesses, so we have seen some customers coming to us looking to realign their supply chain. So I am seeing that, again, not from an anger against China but a very, very practical viewpoint of ensuring that their operations are not disrupted in the future because of their over dependence on one country. We are seeing some positive lines from this.

Bharat Seth: Okay. And sir, I mean, how do we see some of the products, I mean, where niche technology which we were working and we were expecting some kind of commercialization. So any light on that?

N. Ananthaseshan: A couple of new products which we had worked on in the minerals space. So one on last year, we had installed our pilot plant for graphene. And that plant has been commissioned and it has started producing products for trials, and establishment process is going on. So with the increasing use of light weighting in automobiles and also use of refractory materials, I think these two products, which is both the specifics graphite and graphene would see demand going forward. Now, how soon will that demand is going to be? Because it also is a factor of how soon auto industry overall will shape up and come back. Now when it comes back, will it be more for IC engines or will it also move into EV, and how soon? So EV is going to be there. That is something which all of us are convinced about. But how soon will that commence is the question. But we are getting prepared for that. So these areas and ensuring that we have the right amount of approvals is the first step. And we are there.

Bharat Seth: And sir on ceramics also, we were evaluating some of them in healthcare area and all. So any update on that?

N. Ananthaseshan: I mean, as I mentioned earlier, we had invested in pilot plants for what we call the tape casting, which is a very, very thin ceramics for electronics packaging. And also we have capabilities in brazing, from our metallized cylinder operations where we can coat metals on ceramics. So, these are some of the technologies we want to leverage with the electronic manufacturing stuff in India or other parts of the world.

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

Bhavin Vithlani: Just continuing with the earlier participant's question, on the innovation, if you can just summarize into the three divisions, the product that you introduced last year, and maybe the products that you expect for the next three years. So you spoke about graphene, you spoke about ceramics, but maybe if you can give more color on the innovation front that would be helpful. You also spoke about some process related innovation, so some color on that will be very helpful.

N. Ananthaseshan: Okay. See, I will start off with abrasives. Abrasives, the innovation has been, we are working on two areas, one in the process area and on the product area. The process area innovation is more towards redefining the way we are currently manufacturing products, which would lead to a substantial reduction in energy cost. So that is work in progress and that is what we are going through, maybe we should have a better picture about it over the next two or three quarters. In the product area, we have been working on both the coated abrasives and on the super abrasives. And the coated abrasives, as you well know, since we have the new maker in place, it also gives us a chance to work with the expanded capabilities of that maker, and address application not only for the domestic market, but also for the international market. And on the super abrasives part, we have now a range of products in vitrified CPM, that would help us move up the value chain. So, that has been working on over the last two years, and we have seen greater acceptance of it over the last one quarter. So, that is what we are doing in abrasives.

In the case of the ceramics business, the range of products which is going to be moved in terms of the non-oxide materials, which is going to be a silicon carbide or the ZCA as we call it, or the nitrite bonus silicon carbide. These are cost both for the wear application and also for electrical applications. In EMD, we spoke about the products which are ultra-fine for the technical ceramics. We also work on the fine powder which are specifically meant for 3D printing. So those are the areas we are working on. So as a feedstock material for 3D printing and also for the battery materials using synthetic graphite and grapheme, some of those products we have now.

Moderator: Thank you. Well, ladies and gentlemen, that was the last question. I would now like to hand the conference back to the management for closing comments.

N. Ananthaseshan: Thank you all so much again for listening in. So, as I said, it is going to be a crisis which we will not know how it will pan out, but from our side we are confident that if we build our organizational muscle now, as I said earlier, and work on these areas which are in our control, then we are in a better shape for the future. So, that's how we look at it. So thank you again for joining in on this call.

Moderator: Thank you very much. On behalf of ICICI Securities, we conclude today's conference. Thank you for joining. You may now disconnect your lines.