"Carborundum Universal Limited Q4 FY2022 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Carborundum Universal Q4 FY2022 Earnings Conference Call hosted by DAM Capital Advisors Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference 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 Ms. Bhoomika Nair from DAM Capital Advisors Limited. Thank you and over to you, madam.

Bhoomika Nair: Thanks Rutuja. Good morning everyone, on behalf of DAM Capital I would like to welcome you to the Q4 FY2022 Earnings call of Carborundum Universal Limited. We have the management today being represented by Mr. Sridharan Rangarajan – Director - Finance and Strategy; Mr. N. Ananthaseshan – Managing Director; Mr. P. Padmanabhan – CFO, and Mr. G. Chandramouli – Advisor, Investor Relations. I will now hand over the call to Mr. Ananthaseshan for his opening remarks post which we will open up the floor for Q&A. Over to you, Sir.

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

G. Chandramouli: Good morning. During this call, we may make certain statements, which reflect our outlook for the future or which could be construed as a forward-looking statement. These statements are based on management's current expectations and are associated with uncertainties and risks are more fully detailed in our annual report, which may cause actual result to differ. Hence these statements, must be reviewed in conjunction with the risks that the company faces. Thank you.

N. Ananthaseshan: Thank you Mouli and thank you all once again for joining us on this call. Before highlighting the performance of the period, I hope that you and your families are safe and healthy. Today we are joined on the call by my colleagues Mr. Sridharan Rangarajan – Director - Finance and Strategy, a very familiar person and face to most of you, and Mr. P. Padmanabhan – CFO, and Mr. Chandramouli –Investor Relations.

Since the last time we met there has been quite some changes in the world. The VUCA factor has only been further reinforced by the totally unexpected geopolitical situation and its implications caused by the Russian Ukraine conflict. The domino effect it has been having on commodity price inflation, raw material availability, supply chain disruptions, and Forex fluctuations need no further emphasis.

We also had the Omicron scare globally and specifically in India in early Q4 reminding us the virus is still very much active and has not gone away for good. At CUMI it has been very exciting and challenging times. We had to do a fine balancing act managing the present and preparing ourselves for the future. So while operation teams were focused on creating capacities and delivering on the quarterly numbers, the other parts of the team were focused on getting the long-term drivers in place, particularly the acquisitions and product innovations. Later in the call Sridhar would share more in detail.

I am pleased to inform you that in the recent Q4 quarter and for the full year FY2022, the company has performed well despite many of these challenges. Our revenue for the full year has grown by 26% year-on-year to Rs.3290 Crores at a consolidated level and by 33% to Rs.2192 Crores at a standalone level. For the year, at consol level, profit after tax and non-controlling interest grew by 17% to Rs.333 Crores as against Rs.284 Crores last year. While at the standalone level the PAT increased by 38% to Rs. 254 Crores from Rs.184 Crores in the previous year. All this was made possible by higher capacity utilization, volume and realization growth from all the business segments and significant performance of key subsidiaries.

In the January to March quarter, at a console level sales recorded Rs.859 Crores with a quarter-on-quarter growth of 14% and at the standalone level the company has recorded a sales of Rs.580 Crores, which marks a 15% increase over Q4 of last year. Again the growth was driven by all the three segments and all the major overseas subsidiaries have also performed significantly. When it comes to the bottomline performance, PAT and non-controlling interest de-grew by 37% to Rs.57 Crores against Rs.91 Crores in Q4 of the previous year. This was majorly due to operational expenses related to Maniyar, some acquisition costs and employees retrenchment costs for the new acquisitions.

At the standalone level the PAT increased to Rs.62 Crores from Rs.58 Crores in Q4 of last year. So, despite increase in sales and profits in absolute numbers for standalone, the PAT margins were lower by 70 basis points due to partial absorption of increasing input costs.

Coming to the external environment the demand outlook remains fairly strong but facing supply challenges and also cost pressure due to inflation and commodity price increase. This also means that the price pass-through is also difficult. Just to update, our operations in Russia has not been impacted as much as it was anticipated during the initial days of the ongoing conflict and the consequent sanctions on Russia. More details will be covered later.

In terms of Capex, at a consolidated level, we have spent Rs.170 Crores in the last year. On the COVID front, the businesses are well prepared with safety protocols and vaccination drive. The new variance of the COVID is a key near-term risk, but an increase in the pace of COVID vaccination with nearly 99% of our workforce having received at least one dose and around 91% with both the doses should contain any demand disruption.

I will now request Mr. Padmanaban, our CFO to walk us through the financials.

P. Padmanabhan: Thank you, Ananth. Good morning, everyone. Let me summarize the financial performance for the quarter-ended March 31, 2022. The consolidated sales for the quarter has increased by 14% to Rs.859 Crores from Rs.750 in the corresponding period of last year, it is driven by steady performance across all the three business segments. Profit after tax and non-controlling interest for the quarter was at Rs.57 Crores as compared to Rs.91 Crores in the corresponding period of last year. PAT margins dropped from 12.1% during Q4 of previous year to 6.6% in the current year on account of the acquisition cost, Maniyar related expenses and employees retrenchment cost for the new acquisitions. The standalone sales increased by 15% to Rs.580 Crores from Rs.503 Crores, PBT for the quarter was at Rs.91 Crores against Rs.81 Crores during Q4 of previous year. Profit after tax grew 7.69% to Rs.62 Crores from Rs.58 Crores PAT margin decreased from 11.4% to 10.7% during this quarter on account of increasing input cost.

Coming to the yearly performance: Consolidated sales grew by 26% from Rs.2604 Crores in FY2021 to Rs.3290 Crores in FY2022. Profit after tax and non-controlling interest for the year was at Rs.333 Crores as compared to Rs.284 Crores during last financial year. PAT margin dropped from 10.9% in FY2021 to 10.1% in the current year. Standalone sales grew by 33% from Rs.1649 Crores last year to Rs.2192 Crores in FY2022. PBT for the year was at Rs.346 Crores against Rs.244 Crores and PAT increased to Rs.254 Crores from Rs.184 Crores showing a growth of 38%. PAT margin increased from 11.2% to 11.6% in the current year. Return on invested capital for three major segments together moved from 27% last year to 30.7% in the current year.

Moving on to the segment wise, on abrasives consolidated sales for the quarter increased by 15% to Rs.344 Crores from Rs.300 Crores in the corresponding period of last year. Standalone sales increased by 10% to Rs.279 Crores from Rs.253 Crores in Q4 of last year. At the consolidated level the PBIT for the quarter was at Rs.27 Crores decreased from Rs.50 Crores mainly relating to the acquisition cost relating to newly acquired subsidiaries. For the full year the segment grew by 29% from Rs.993 Crores last year to Rs.1283 Crores on consolidated basis and grew by 29% from Rs.818 Crores in last year to Rs.1052 Crores at the standalone level. The standalone business Russian subsidy Volzhsky Abrasive and subsidiary in America registered significant growth.

Moving on to electro minerals division: Consolidated sales for the quarter increased by 17% to Rs.340 Crores from Rs.290 Crores in the corresponding quarter of last year. At the standalone level sales increased to Rs.168 Crores from Rs.137 Crores in corresponding quarter of last year. Consolidated PBIT of electro minerals for the quarter increase to Rs.44 Crores from Rs.42 Crores in Q4 of last year.

For the full year the segment grew by 23% from Rs.1064 Crores in FY2021 to Rs.1312 Crores on consolidated basis and grew by 41% from Rs.440 Crores in last year to Rs.621 Crores at the standalone level. The standalone electro mineral segment African subsidiary Foscor Zirconia and Russian subsidiary Volzhsky Abrasive grew in double digits. The consolidated electro minerals recorded a PBIT of Rs.194 Crores against Rs.136 Crores for the full year on the back of volume growth and higher realizations.

Ceramics consolidated sales for the quarter grew by 6% on quarter-on-quarter basis from Rs.190 Crores to Rs.202 Crores. The standalone sales grew by 14% on quarter-on-quarter basis to Rs.170 Crores. Consolidated PBIT of the ceramic segments for the quarter decreased to Rs.35 Crores from Rs.42 Crores in Q4 of last year. These segments performed well and registered double digit growth but bottomline for the quarter was impacted due to the logistics challenges. For the full year the segment grew by 27% from Rs.627 Crores in last year to Rs.798 Crores on consolidated basis and grew by 32% from Rs.501 Crores in last year to Rs.661 Crores at the standalone level. Subsidiaries in Australia and America registered significant growth.

On the finance side there was a debt of Rs.163 Crores in standalone books as of March 31, 2022. The total debt at the consolidated basis was at Rs.212 Crores as compared to Rs.38 Crores as of December 2021. The debt equity ratio was at 0.09 for both standalone and consolidated as of the Q4 FY2022. On the Forex cover CUMI is typically a net importer in dollar term and net exporter in euro terms we cover the net exposure at appropriate and in accordance with the Forex policy.

On the cash flow front, our strong balance sheet is evidenced by net cash flow position and low debt equity ratio. The cash and cash equivalent including deposit with annual exceeding three months net of borrowings was at Rs.138 Crores. Free cash flow for the year ended March 31, 2022 was at Rs.118 Crores which was at 35% of the PAT. It was lower as compared to previous financial year wherein the free cash flow was 133% of the PAT. This was mainly on account of the Strategically maintaining higher inventories considering uncertain external environment and higher Capex spend.

On the dividend the board of directors of the company announced a final dividend of Rs.2 per share which is 200% of the face value of Re.1 to the shareholders of the company amounting to `a total dividend of Rs.3.50 per share. This concludes my update on finance.

I will now request Mr. Sridharan, our Director Finance and Strategy to walk us through the recent acquisitions and update on walk.

Sridharan Rangarajan: Good afternoon to all of you. Thank you Ananth and Padmanaban. I am happy to be back amongst you after four years. I thought it would be appropriate to talk about the recent acquisitions as well as the business in Russia. You all will be keen to understand why did we make this acquisition and how does it make sense to us. We are also keen to share this with you and we felt that this is an appropriate time to do that.

All the three acquisitions put together we spent about Rs.660 Crores and you all will know that it is all funded out of internal accruals and no debts were raised. You will also see that at the end of this financial year we still have positive cash at Rs.138 Crores, which shows that we still have rooms to do more and I think we will do as appropriate.

I will first cover about Rhodius. So, during the year we made a significant acquisition - Rhodius abrasives in Germany at an enterprise value of €55 million and took control of the company effective from April 1, 2022. Rhodius manufactures in Germany global best quality cutting and grinding dish. They lead in product innovation and quality with unique professional segment product suite. They have some proprietary product production process setting industry benchmark. Their turnaround time is the lowest in the industry. They have a strong legacy of seven decade of successful business serving more than 100 countries. Rhodius has got a good mix of own brand and private label brand. Rhodius supplies to tier one power tool manufacturers. It has trained and experienced employees with committed leadership team executing a successful strategy. Rhodius has a robust order book with considerable pipeline including multiple major projects as well as regional projects with power tool manufacturers which is going to support the future growth. Rhodius has got a strong financial track record with a clear growth path supported by the investment plans. Rhodius group had two independent businesses with strong growth potential both requiring considerable management attention and investment capital. They have beverages business and abrasives business. These are the two independent businesses they have. The shareholder family could not pursue both opportunities and prefer to direct their focus at more regional Rhodius mineral water and beverages business whereas abrasive business is more international and it requires more attention and investment. CUMI evaluated this opportunity based only on the strong fundamentals of Rhodius abrasive business and the reasonableness of the growth path carved out by the Rhodius team. Further the CUMI identified areas of synergies which will be explored to bolster this investment. The areas are access to Indian market, supplying critical electro minerals namely white fused alumina, brown fused alumina, silicon carbide, alumina zirconia, zircon and synthetic alumina, supplying CUMI’s precision abrasive products to Rhodius distribution network, supplying coated abrasives to Rhodius, manufacturing high quality thin wheel products at competitive costs in India and leveraging CUMI's international network and access to Russian markets. These are the six synergies we identified. CUMI and Rhodius team will work on these synergies and quantify the potentials of each of these synergies in the next one year. Our investment decision did not consider at this point in time, the benefits of synergy though we have a site of it. CUMI expects the Indian market for thin wheel would grow fast with Gati

Shakti Program of the Government of India. We feel that the Indian thin wheel market is roughly about Rs.2000 Crores wherein 60% is through cutting wheels and 40% is to grinding wheels. CUMI also expects that the market in USA would grow due to the US government's committed spend on infrastructure, trillion dollar spend they have committed. Similar trends are visible on other geographies. So we feel that infrastructure led growth will very well augur to the thin wheel demand going forward both in India, USA and international geographies. In 2021 Rhodius had a net sales of €61 million with high teens ROCE. CUMI expects a drop in the margin initially due to the investment in Capex in line with the strategy and operating expenses to support the business transition. CUMI expects to reach €100 million topline in next five years with a high teens return on investment.

I will now move to AWUKO: During the year CUMI acquired the main assets of AWUKO abrasives from the insolvency administrator. The assets included land, building, plant and missionary, fixed assets, lease assets, brand, trademark, patent, technical know-how, and other intangibles excluding cash and receivable. CUMI paid €8 million to acquire this asset. AWUKO is a 120 year old leading brand in quoted abrasive business, AWUKO is a market leader in leather and wood applications with strong presence in metal and lacquer applications. AWUKO exports 70% of its production predominantly in Europe and Americas. AWUKO has got two makers (flat belt and loop drying mechanism) with wide width capability which is significant. I would say this will give us an advantage. CUMI will gain access to coated abrasives capacity in Europe with global distribution base and an experienced process and application engineering team. CUMI is working on stabilizing AWUKO’s business and expect that to take a couple of years. CUMI expects AWUKO to breakeven by FY2024. CUMI expects to reach a sales of €22 to €25 million by 2026 with high teens return on investment. AWUKO has got a quoted capacity of 10 million square meter on a single shift basis, CUMI’s quoted capacity will double with this acquisition. CUMI will work on a global quoted strategy optimizing product portfolios, geography and application need and cost positions.

I will now move to PLUSS. During the year CUMI invested Rs.115 Crores in acquiring 72% equity stake in PLUSS a niche technology company in the field of phase change materials (PCMs) with good growth prospects. This is in line with CUMI's long-term goal of pursuing opportunities that leverages material sustainable. PCMs are thermal storage materials with versatile applications in pharma cold chain, refrigeration & food supply chain, medical devices, buildings and HVAC applications. In FY2022, PLUSS made a turnover of Rs.50 Crores with a loss of Rs.5 Crores after considering a few write-offs after we acquired the company. CUMI believes that PCM is a growing technology. PLUSS is working on many opportunities. CUMI would take a year or so to present and discuss with you the future opportunities of PLUSS. We feel it is too early to discuss the future opportunities of PLUSS at this point in time.

Update on Russia: Coming to the update on Russia, CUMI acquired Volzhsky Abrasive Works in 2007 for a total investment of $44 million. During FY2022 the total sales of Russia VAW was 7.3 billion rubles and made a profit of ruble 1 billion. Around 42% of the total sales of VAW comes from domestic market and 58% from exports. Over the years CUMI received dividends from VAW and has recouped more than the investment of $44 million it made. VAW has no debt in its balance sheet, VAW has converted all its foreign currencies into ruble before the start of the Russian initiatives in Ukraine. VAW has predominant banking relationship with two banks and these banks are not part of the sanction list. VAW has adequate inventory of raw material and liquidity to continue the manufacturing for the next four to six months. VAW procures its entire raw material mainly from the domestic market and very minimal imports. VAW could collect all its receivables from its customers with no challenge. Bank of Russia hiked its key policy rates at this point in time from 9.5% to 20% in February and decided to cut the key rates by 300 basis point to 14% per annum in April 29, 2022. VAW being a debt free company, the direct impact of increased interest rate is minimum. VAW has no customer in Ukraine. So far, there are five packages of sanctions released till date by EU. The products of VAW are not under any sanction nor is restricted material. Neither Volzhsky abrasive works as an entity nor its directors or its employees are under any sanction at this point in time. VAW sells 47% of silicon carbide volume in Russia. The current challenge is predominantly a logistics challenge, VAW meets only a portion of the demand of SIC in Russia so it has the capability to sell more in Russia. The breakeven volume of VAW is about 45% to 50%. The team in Russia is exploring all possible options in minimizing the cost and optimizing the opportunities. The impact assessment is a continuous process given the evolving nature of the uncertainties associated. The company will continue to monitor all material changes to the internal and external environment. We feel that the people at Russia are doing their best to minimize the impact of this conflict and as of April their business has also done so well. We feel pretty confident that they will be doing well in future as well. We need to navigate to this that it is a political conflict, so we need to wait and watch how it transfers and goes into the future. I would request Ananth to conclude with his summary and we will then take up Q&A from you.

N. Ananthaseshan: We are now open to questions.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Sujit Jain from ASK Investment Managers Limited. Please go ahead.

Sujit Jain: Sir just had few questions regarding the subsidiaries margins in Electro Minerals which have fared well. You have kind of covered some portion of that. But just to understand it a little more deeper, we would have ideally thought in Russia you would have faced problems but it seems that the results are good. So if you can just throw some light as to how Russian subsidiary coped up that is VAW coped up well and could fare well.

Sridharan Rangarajan: I think to start with if you see this conflict itself started late in February so it is a very initial stage and so the results are up to March that what we have presented so it has practically no impact at this point in time, but I would just say that even in April whatever we have seen, their business is normal as I said that their mix of business - 50% of the business is domestic and they are able to increase the mix within Russia so well and the demand of Russia for silicon carbide is so huge they are meeting only a portion of it. So they have still an opportunity to play with this and that is how this is happening, but it is not without any challenge like there is a lot of logistics issue that is currently been addressed one-by-one I think the team is working on in meeting those logistics challenges complying all the rules, complying all the restrictions imposed, we still find methods to fulfill our obligation under the sanction at this point in time.

N. Ananthaseshan: Just to add here VAW as Sridhar mentioned earlier in his opening remarks is not under any sanction, the material silicon carbide is also not under any sanction. So that has really helped in a sense that the customers who have been buying from VAW would continue to want to buy from VAW provided the material is made available. So legally for any of our customers it is not a challenge to buy from VAW and the focus has been on getting the material out. Traditionally all material which goes into Europe are largely through land routes and which comes into Asia or through sea routes. So today we are figuring out methods and fully in compliance with the rules currently in place to ensure that people are getting the material. There has been some additional costs involved, some delays but then we are still able to get the material across.

Sujit Jain: So I have multiple questions and for the want of time I will quickly go with them. You are saying is that what is getting imported in India from VAW in EMD might get impacted because of supply chain issues because globally many shipping companies have stopped trade via the Black sea.

N. Ananthaseshan: The initial impact assessment was showing that but we have been able to figure out alternative routes out of Russia through China and other Asian countries which gives us some comfort that the impact will not be so bad.

Sujit Jain: How much of VAW's total sales are exports to India.

N. Ananthaseshan: About less than 10% of silicon carbon.

Sujit Jain: And you are saying you are finding various ways it does not get impacted.

N. Ananthaseshan: Yes.

Sujit Jain: When I do a console minus standalone, the staff cost has jumped to a number of close to Rs.75 Crores.

N. Ananthaseshan: Sorry.

Sujit Jain: Standalone minus console which would be the subsidiaries data the staff cost there have jumped to Rs.75 Crores for the quarter compared to Rs.66 Crores Q-o-Q.

Sridharan Rangarajan: I think one is that we paid close to $1.8 million for settlement of AWUKO employees that is one which is about close to about Rs.20 Crores.

Sujit Jain: I am sorry actually my number was wrong from Rs.45 Crores to Rs.75 Crores you are saying most of that is because of the settlement and just one question Sir is it right to look at your console minus standalone data as an indicator for subsidiaries are there any sales from standalone to various entities which are global subsidiaries.

Sridharan Rangarajan: That gets eliminated so you can look at it that way.

Sujit Jain: So you are saying console minus standalone is the right way to look at the subsidiaries data.

Sridharan Rangarajan: Yes the only difference is that whatever the standalone sells it to the subsidiaries that profit elimination would happen. So it would represent the fair picture.

Sujit Jain: And if you can later share the data at least of topline PBT, PAT for the two entities you acquired in Germany.

Sridharan Rangarajan: I did tell, I think as far as the Rhodius is concerned the last year they made €61 million sales and high teens return on capital employed and as far as the AWUKO concerned, we bought assets so the sales of the pre-prior company is not relevant at this point in time, we need to make it work and we feel that it will take a breakeven situation by FY2024.

Sujit Jain: Right but some sense in terms of size for us to model it both these companies including the PAT of Rhodius.

Sridharan Rangarajan: I would say that the Rhodius we feel that it could take to a €100 million topline and a return on capital employed again with a high teens will be there from the investment that we have made in this and similarly we feel will be €22 to €25 million topline for AWUKO and again we will have high teen or even slightly higher than the return on capital employed from there.

Sujit Jain: Sure thank you and all the best.

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

Charanjit Singh: Hello Sir thanks for the opportunity. Just wanted to clarify on this standalone EBIT margins in the electro mineral segment. Historically also they had been volatile and this quarter we have seen single digit margin. Just if you can give further clarification and how do you see the outlook going forward for the electro minerals margins in the standalone business that is my first question.

Sridharan Rangarajan: I think your question is very pertinent and I think you have observed it very well. Electro mineral division had to take a one-time provision for settlement of a legal dispute with the Kerala State Electricity Board in which the company lost a legal dispute at Supreme Court level and that is about Rs.30 to Rs.32 Crores we took a provision. So hence this is having an impact so if you normalize that I think it would be a very good EBIT margin I think at the full year level it will turn into 17.5% EBIT margin that is how I would read it at a consolidated level I am talking consol level, reported is 14.8% that will turn into 17.5%.

Charanjit Singh: Thanks for the clarification. On the abrasive side we had actually a good run in the last couple of quarters because one the base was also low and now we have seen 10% kind of a growth in the standalone abrasive business on a Y-o-Y basis. From here on how do you see the abrasive segment performing in terms of the growth going forward both volume as well as value terms if you can highlight and any particular segments where you are seeing more promise versus some segments any weakening especially auto or any other manufacturing sectors.

N. Ananthaseshan: The abrasives has been maintaining its momentum in terms of both topline and improving its margin the focus has been very strong there. Of course the last quarter and a little more than the last quarter has been pressures on margins due to the commodity price increases. What we are seeing is that the demand pickup especially in Q4 from the auto industry for the precision abrasives has been reasonably strong and maintaining while the distribution led business which is a mass market business was showing some weakness towards the end of Q4. This could be due to multiple things in terms of the construction or building materials, costs going up and also resulting in possibly a little softer demand this possibly could be a short-term effect, but hopefully the focus on infrastructure, focus on all the manufacturing coming back should result in a better growth for both the auto industry or the component industry basically and also for the mass market products. Of course the pressures on costs are going to be there.

Charanjit Singh: If I can just squeeze in one more question in terms of we have seen our requisitions free in terms of acquiring three companies. So one in terms of our thought process when we are looking at these acquisitions and plus integrating it also requires a lot of management bandwidth as we are spread over geographies we have also Russia to deal with and then managing these new acquisitions. So how we have been thinking about acquiring these companies what are the main benefits which we are looking at when we are even contemplating in terms of acquiring new companies, that is my last question. Thank you.

Sridharan Rangarajan: Thank you Charanjit. I think I elaborated there are six reasons why we looked at Rhodius as a business which are basically we have a very large thin wheel opportunity within India which we need to explore as well as the growing thin wheel opportunity elsewhere and if you look at Rhodius, they are very strong company innovative products manufactured company where we feel that we will be able to leverage that and then take this into the next part of growth for CUMI. The other reason is basically capability of CUMI to supply critical raw materials needed for Rhodius and AWUKO so that is the second reason why we looked at that and also the third is that how can we leverage the network of Rhodius and put our products which is basically precision abrasive products into their network access to the Russian market are some of the reasons that we considered why we made these acquisitions, but broadly our template for acquisition is one if we would like to continue the path in the known areas of our business which is abrasive, ceramics and electro minerals and wherever it gives us an opportunity to grow our business globally access to technology and capability of delivering synergy with whatever the current business has got that is the reason why we are looking at going and acquiring companies at this point in time. So that is the broad template that we are looking at.

Charanjit Singh: Got it Sir. Thanks for taking my questions that is all from my side. Thank you.

Moderator: Thank you. The next question is from the line of Rajesh Kothari from AlfAccurate Advisors. Please go ahead.

Rajesh Kothari: Thanks for the opportunity. Sir my first question is with reference to the Russia business. I just wanted to understand a little bit more about the Russian industry because you said the demand there is huge and therefore as such the production and logistics the more of the kind of a thing which is probably can become a challenge at times. So can you just explain so till now who was catering to the demand was it they were importing from somewhere else and therefore that imports probably has stopped and therefore our Russian local company therefore is a ready market something like that.

N. Ananthaseshan: See the major product of VAW is silicon carbide and silicon carbide is used in abrasives in steel metallurgy and refractory manufacturing. So traditionally what has happened is while over the last few years while VAW has been building markets for its products it was not only in Russia but also outside the country when I say country it is largely to Europe and Asia where they were looking at the higher realization of products and applications. So there has also been a continuous demand in Russia which was not being serviced by VAW because of the capacity limitations that they have. So this situation current situation has given an opportunity both for VAW to service the local markets and for the local industries who have been sourcing silicon carbide from other geographies for example Ukraine is one of the other producers of silicon carbide and also from China so those volumes are now available to us and also the customers see a local producer who can supply them with volumes and of a quality which is now in demand. So it is a benefit to a benefit I would say and that has helped VAW to kind of manage or navigate this situation. Of course the other major markets are in India, India imports approximately 80% of its requirement with very small local manufacturing and that always also presents an opportunity for VAW to bring in more than what it normally does into India so that is why the challenge of the logistics if you are able to crack it then VAW will be in a much better position.

Rajesh Kothari: In case if you cater more to the Russian market you mentioned that pre these war the company strategy wants to focus more on European Asia because of the higher value added high realization kind of products so does it mean that in the interim the product mix may go to a certain extent change and therefore to an extent it can adversely impact margins.

N. Ananthaseshan: Quite possible, I mean, it is not that you can again just switch and it is for the same and have the same kind of a product mix available in the domestic market which is not possible. So the product mix which we would address in the Russian market would undergo a change and it can impact margins in the interim while the logistics challenges are being sorted out so which can again give us an opportunity for better realizing products outside Russia.

Rajesh Kothari: Would you like to indicate kind of some financial impact of this maybe I am talking about the first quarter I am not going beyond this because very difficult to predict.

N. Ananthaseshan: At this point it is not too material I would say.

Rajesh Kothari: Currently the margin impact is not material understood and also the impact on overall volume is also not that material.

N. Ananthaseshan: No.

Rajesh Kothari: And by material I mean kind of a 10% deviation that should one should assume.

N. Ananthaseshan: About yes.

Rajesh Kothari: My second question is with reference to the non-Russia side of the business. Earlier I remember every year probably you used to give your guidance how do you see next two, three years considering the geopolitical situations right now you find something ex Russia would it be possible for you to give the segment wise some color on how do you see the market from here on.

N. Ananthaseshan: Russia we are very clear I mean it is too early for us to comment on Russia and how things are going to work out there but if I am looking at the Indian business on the abrasives side still large part of business on abrasives and we believe that while this year can be a very difficult year for the economy in general, we have to navigate through all this inflation what we are seeing but going forward India I would believe is very well poised to leverage all the manufacturing opportunities that are being talked about and are being realized. So which means a good demand for abrasives and one of the reasons why Sridhar is also mentioning that we focusing on the distribution-led products so while we have always been very strong in the precision abrasives and we will continue to further build on those capabilities it is the distribution-led products which would see much faster growth. So the last few years has been the time when we had invested in growing the coated abrasives business and the other part of the distribution-led business is the thin wheels and with the acquisition of Rhodius it would help us make our position stronger. So I am very positive about abrasives, the challenges in terms of the cost push we will have to overcome it and industry has to overcome but that is something which is normal and preparing ourselves for growing in this business with better products, higher productivity, etc., is going to be our focus. On the mineral side, the work that we have done is in two parts one what we are doing in Russia which is again while the conflict is on we still have not lost sight of what we want to do there, we will continue to leverage those opportunities to invest and grow volumes and silicon carbide being a material which is not so easily available today is going to be very, very valuable. In the case of EMD which is a standalone EMD on India our focus is on building a fuse alumina complex and significant volumes which has happened over the last two years now. Our investment both in terms of fusion facilities and in conversion facilities are going as per plan and we hope to hit our volume somewhat close to 100000 tons over the next three years. So raw material security and raw material availability is going to be key to the world and that is how EMD is preparing itself. Ceramics is a completely customer driven, customer co-created business and whether it is in the alternate energy space or in the electric vehicles space we have been progressing quite well.

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 good performance amidst the challenges. The question one is there was a loss of 150 million on the subsidiaries EBIT for the abrasive segment if you could just help us understand what were these in the opening remarks you mentioned about a one-offs.

Sridharan Rangarajan: This is what we said I think when we acquired AWUKO abrasives we have to make a settlement of the existing employees so about close to 180 employees were there and we said that we will not be able to run the company with that size, we can only run with about close to 95 people. So that restructuring costed us about €1.8 million euro and that has to be booked as an expense and it is a one time and that is how this is shown roughly about 20 Crores.

Bhavin Vithlani: I understand, so the negative 15.4 Crores about 20 Crores is one-off but still the margins were considerably below the averages. So were there any other implications of either the cost or is it something which is to worry about.

Sridharan Rangarajan: See I feel that the full year margin is about 12.2% consolidated level, we feel that if you put this one-offs back it should get to 14% slightly higher than the last year number of 13.5%.

Bhavin Vithlani: Second is on the acquisition you mentioned about Rhodius return on capital could you help us with what was the EBITDA margins on a revenue of €61 million and what is the expectation for the current year.

Sridharan Rangarajan: I will comment more from an EBIT point of view rather than the EBITDA point of view is that they are in the range of 7.5% to 8% EBIT margin and ROC is on the high teens currently and we feel that for us to get back to an EBIT margin which is comparable at this point in time what we are looking at we would be getting back to the level of say 12% to 14% in 2026 and the ROC will also be at the same level as what prior to acquisition because their capital employed versus our cost of acquisition to be compensated by the growth path and the margins that we will deliver and that would take that much time. So we will get to that level by 2026.

Bhavin Vithlani: The other question is on the opportunities that you were evaluating if you could just help us understand where are we in this so three opportunities one is the high purity silicon carbide, second is the ceramics and the opportunity for the battery division if you could just give us an update where are we and on the hydrogen opportunity we were looking at a newer product where our content were expected to be significantly higher so if you could just give us an update where are we in these three opportunities.

N. Ananthaseshan: So the high purity silicon carbide work is happening in two phases, one is in the raw material side of it which means that the input material for making the crystal itself that is happening in both India and in Russia where we have made good progress, we also made progress in converting the material into single crystals of silicon carbide and that is in

Russia. So currently these are under evaluation and we hope to see a better progress in terms of a commercial sized volumes coming out towards the later part of this year. In the high purity quads I mean graphite part of it which is what is going into a battery material just to clarify that we are not into battery manufacturing but more into battery materials manufacturing and that evaluation and working with battery manufacturers is under progress there and so is the case of the graphene where we have been working on not only battery applications but also in combination with the graphites we are adding value to the battery manufacturing itself in terms of improving energy densities.

Bhavin Vithlani: Just last question in the month of March what was the capacity utilization at the Russian operations and what are we seeing as the capacity utilization currently that is my last question.

Sridharan Rangarajan: Both in March as well as in April I would say no drop in capacity utilization what they were doing and we are operating at an optimal level.

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

Moderator: Thank you. The next question is from the line of Deepesh Agarwal from UTI Asset Management. Please go ahead.

Deepesh Agarwal: Good afternoon team. Sir my first question is one standalone side if you see there seems to be a moderation on sequential basis in topline whether it is in abrasive, ceramics, electro minerals despite the possible price hikes and seasonally a strong Q4. Is that demand momentum is slowing down or the competition especially the imported competition is coming back.

N. Ananthaseshan: In abrasives I would not read too much into this topline because we have also been pretty careful about choosing those product segments which are more profitable. So to that extent we could have sacrificed some sales as I mentioned earlier there has been a little bit of a softening in the mass market segments consequent to there has been you would remember that in Q3 and also in Q4 we had to take price increases and this is not very normal that we take price increases in almost every second month. So that has also had some pushback from the market in terms of off take. So possibly that could be one reason. In ceramics we have grown in Q4 compared to Q3 sequentially and in electro minerals as well marginal that is a normal volume that we are seeing.

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

Harshit Patel: Hi! Sir, thank you very much for the opportunity. My first question would be on the ceramic segment, could you just give the ceramic segment revenue between the electronics and industrial ceramic for FY2022 as a whole and also how would have been the margin variation between these two sub segments for the entire year.

N. Ananthaseshan: The audio is not so clear, but I presume your question was relating to the margins of the ceramic segment and whether it would hold.

Harshit Patel: My question was if you could bifurcate the overall ceramic segment revenues for FY2022 between refractories and industrial ceramics also what would have been the margin variation between these two sub-segments that was my first question.

Sridharan Rangarajan: I think normally we club this as a ceramics division I would encourage you to look at it that way and making a view on a ceramic basis as we report as a segment is a better way of looking at and whatever historical margins will help you to even forecast the future as well.

Harshit Patel: But directionally speaking would it be true that the industrial ceramics would have grown at a faster pace than the traditional refractories products would that be true.

Sridharan Rangarajan: I would say the last year I think we are seeing a good growth opportunities available even in refractories. So it is mix at this point.

Harshit Patel: Sir secondly you had earlier mentioned that you would start seeing revenues from the silicon carbide based ceramics from FY2023 onwards we had already received approvals from the foreign customers so are we on track in commercializing these products.

N. Ananthaseshan: We have started getting approvals and we have progressed pretty well on that both in the chemical what I would call a chemical process industries and also from the wear industries. So quite a bit of a progress I would say but still the volumes when I say the infrastructure to build those volumes have to be continuously built. So the last year has been one of proving the products, proving the applications.

Harshit Patel: And just a last question if I can squeeze in you had shifted your kiln from liquid fuel to natural gas now I understand that even natural gas prices have shot up now so on a sustainable basis do you think will there be a margin improvement because of this shift.

N. Ananthaseshan: There are two parts to this one traditionally we have always seen that the liquid fuel is always little more expensive than the natural gas, but more important to us is that the natural gas is a much clean burning fuel and which leads to lesser emissions and also lesser leakages etc. So to manage an operation with a gas fuel is much, much easier and much better environmentally. So that is a focus we have today.

Harshit Patel: Thank you very much Sir for answering all my questions.

Moderator: Thank you. The next question is from the line of the Deepesh Agarwal from UTI Asset Management. Please go ahead.

Deepesh Agarwal: Thank you Sir again. My question is, is there any currency translation loss on the Russian operation.

P. Padmanabhan: The Russian operations loss is around 4 Crores compared to last year the rates are almost same from 1.01 to 97 paisa the loss has not been felt much.

Deepesh Agarwal: Secondly what is the extent of the sales or the mix in the sales to new region after that conflict.

P. Padmanabhan: There is no impact on the sales, the sales topline is still continuing at the same level we see no reduction in the topline.

Deepesh Agarwal: The proportion of the sales to be remain same as the conflict period.

P. Padmanabhan: Yes, there is no difference at all it is same.

Deepesh Agarwal: Thank you, that is it from my side.

Moderator: Thank you. The next question is from the line of Amar Mourya from AlfAccurate Advisors. Please go ahead.

Amar Mourya: Thanks a lot for the opportunity. Majority of my questions have been answered. Just on this as you indicated that the net imports are in dollar and exports are in euros. So any cross currency headwinds we will be facing because of this.

P. Padmanabhan: We are a net importer in dollar terms and we are a net exporter in euro terms we have natural hedge almost the exports and imports are almost same and only the net we are taking hedges and doing it properly therefore we are not getting any losses.

Amar Mourya: Because euro is depreciating against dollar that is the reason I am asking.

P. Padmanabhan: That is why I am telling that the imports is separately in dollars and the exports are managed in euros we do not have a mix of it.

Amar Mourya: Let us say exports are in euros and but euro is again depreciating against INR also so because of that also you will not face any cross currency.

P. Padmanabhan: The volatility is not much.

Amar Mourya: Thank you.

Moderator: Thank you. The next question is from the line of Khadija Mantri from Sharekhan. Please go ahead.

Khadija Mantri: Good afternoon Sir. Most of my questions have been answered. I just have two, three questions. I wanted to check for FY2023 what would be the debt level and the Capex also and also would we be looking at any more acquisitions and if yes then in which geographies we should be targeting for FY2023.

Sridharan Rangarajan: As far as the debt level what we have reported is about roughly 200 Crores which is normal working capital debt that what we have, these are quite normal it will go in and around that I think it could even go to zero depending on the type of working capital that we will manage. There is no long-term debt, there is no debt relating to the acquisition. So we expect that trend to continue. As far as the acquisition opportunities we just shared the broad template of opportunities that we are looking at. So we will be sharing with you as and when we are able to close a deal, it will be too difficult to give any guidance on that at this point in time but as we said that clearly is within the business in which we are currently working on is where we are looking at opportunities as well as the Capex for the next year Padmanaban do you have any.

P. Padmanabhan: Yes it will be in the same range. Usually the policy is to take the Capex at the depreciation level it will be around 100 Crores. Overall at a consolidated levels it will be at around 180 to 200 Crores.

Khadija Mantri: One more question I had we said that consolidated minus standalone would be the subsidiary number so if I look at Q4 FY2022 the reported PAT there is a loss of about 5 Crores at the PAT level if I just do the calculation so is it safe to assume that it is occurring because of the 20 Crores settlement that we have done.

Sridharan Rangarajan: Correct.

Khadija Mantri: So none of the subsidiaries are incurring losses.

Sridharan Rangarajan: No I think your view is correct we need to take that 20 Crores off to understand the normal profitability.

Khadija Mantri: Okay sir thank you so much.

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

Aditya Mongia: Thank you team for the opportunity. My first question relates to the 660 Crores that has been spent on acquisition. Is it fair to assume that this investment would be yielding a single digit returns in year one and as you suggested probably a mid double-digit kind of return in year five.

Sridharan Rangarajan: I would look at it this way is that so we have between these two investments Rhodius and AWUKO roughly about give or take about 550 to 600 Crores. Next year will get added to the current capital employed of roughly about 570 Cores of capital employed of abrasives. So we expect that this return that what we will have because we have to address the issue of AWUKO we expect that breakeven will be 2024 and Rhodius is a running profitable business but then we need to start working on growth path as they have laid out. So we feel that probably you will see a drop in return on capital employed in the next year but we feel that in 2026 as I said that we will get back to a better return on capital employed once we address these issues, but what we have not considered in this is how are we going to address the synergies that we are looking at we laid out six areas of synergies and we have not considered anything coming out of that. So if you have to work on those synergies we feel that this could be much earlier than this 2026. This 2026 view that I am presenting to you is as the individual companies how it is progressing and without considering the synergies. So if you have to consider this synergies this could be much earlier and I do not want to hazard a guess at this point in time in terms of how early, but we are keenly working on this because these are very well defined areas and we can really work on the quantification of it which our team is working on.

Aditya Mongia: The next question that I had was more on this comment made by you that raw material security is becoming more and more important in the marketplace should we see through this benefit coming to you as margins over time or as market share gains and some quantification if you could give on that part.

Sridharan Rangarajan: You are talking about this Gati Shakti Program that we talk about.

Aditya Mongia: No, what I am trying to say is you made a comment that raw material security in the marketplace is becoming important the fact that you do abrasive ceramics EMD everything put together is helping you win acquisitions today but I just want to kind of see from an incremental perspective does it add to your margins because you are better off or does it actually have market share and some quantification.

Sridharan Rangarajan: Yes, I think definitely it would help to address the margin part that is clear because not only to us I think including the two acquisitions that we have done we are seeing this in practice because they are able to provide them those security hence they are able to meet that so it is going to help obviously because of that I think their capability to serve the customer also increases hence would probably increase the market share but I think we should look at it more in a longish term I do not encourage you to look at it more a five-year term this security will help one on the margin, two on coming up with better products through co- working with our team in electro minerals and three is that it will definitely help to address their own market share and customer satisfaction levels.

Aditya Mongia: Just a data point from my side to end it off could you give us the market share in silicon carbide that your facility has in Russia, Europe, ex Russia and in India.

Sridharan Rangarajan: Market share means our products what we sell within that geographies or overall.

Aditya Mongia: Basically silicon carbide specifically of the market Russia, Europe, ex Russia, as in India as you said a lot of imports happen inside India of these three markets what would be the ballpark market shares that you would be having as a supply out of Russia.

N. Ananthaseshan: See overall silicon carbide if I have to take a guesstimate because there is a lot of materials also coming produced in China and we do not have a concrete picture about that but I would venture to estimate that VAW has about 8% to 10% market share globally and in India what we produce as CUMI in Kerala contributes to about again less than 10%. So on a global level about 10% from Russia and that should help when we bring in material from Russia into India.

Aditya Mongia: Just one more thing from my side it will really help. So you have been talking about the EMD capacities and there being a China Plus One global kind of effect that will make you invest more in capacities, given what is happening in Russia in terms of uncertain political environment does that impact your growth plans for the EMD segment out of Russia or would you still want to go ahead with those plans from Russia.

N. Ananthaseshan: Interesting question. We should remember that Russia has one of the largest deposits or sources of very competitive power and also resources and the resources what we need for making silicon carbide is definitely in Russia and this current conflict will take a few years no doubt but I guess the world would need access to the minerals or the resources from Russia and people will find a way and being in Russia, having invested, having experienced Russia and what it can do for our business we are still bullish about Russia.

Aditya Mongia: Thank you.

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 again. The question is on abrasives market in India your peer in the earnings call mentioned that between GNO plus CUMI in the market share has increased to about 58%-59% versus three year ago which was about 49% to 50% could you just help us understand and confirm that the two players have seen a significant increase in the market share over the last three years.

N. Ananthaseshan: Well I would be able to not quantify it in such precise terms, but what I can possibly share is a direction that we have seen over the last two, three years in terms of the product that we have been able to put in the market. Of course I think possibly there is an impact on the availability of material from China or less availability of material from China has had an influence on the market share of both the companies and having said that, while we have seen volume growth in these segments we have to see how China responds to it and what the logistics or the supply chain disruptions if any can have an impact on this.

Bhavin Vithlani: The last question is could you help us understand what is the total addressable market for abrasives in Europe, Germany and in the US. So just to gauge an impact how large are these entities for the European perspective.

N. Ananthaseshan: It is depending on the reports that we read it can be anywhere between $35 to $40 billion and then again the definition is conventional abrasives which is bonded abrasives, coated abrasives, super abrasives and the minerals as what they call as boost abrasives. So the market size is quite large, the addressable market if you look at from a conventional abrasives point of view I would guesstimate at least a couple of billion dollars or more in Europe. So we do have sufficient headroom to grow in both the geographies.

Bhavin Vithlani: Would you be able to quantify what is the size of EU addressable market for abrasives and maybe German market for abrasives.

N. Ananthaseshan: I would not be able to share right now just to suffice to say that even Germany is the largest consumer of abrasives in Europe.

Bhavin Vithlani: Fair enough thank you so much for taking my questions.

Moderator: Thank you. Ladies and gentlemen, this was the last question for today. I would now like to hand the conference over to Ms. Bhoomika Nair for closing comments.

Bhoomika Nair: Thank you everyone for being on the call and taking time out and especially the management to give us an opportunity to host the call. Wishing you all the very best Sir. Thank you very much.

N. Ananthaseshan: Thank you so much again

Moderator: Thank you. Any closing remarks from your side.

N. Ananthaseshan: This last year has been a very, very volatile year and very uncertain I would say if I would look back the last year we have been kind of four quarters of uncertainty I would say of course starting with the COVID and then we saw the demand coming back but raw materials not being available then we saw the prices going up significantly then again the COVID started. So it has been a yo-yo of sorts and we expect that this coming year would also see a lot more inflationary trends across the economies. Having said that we had a very exciting time in terms of putting together these inorganic opportunities and we will continue to focus on improving our volumes market share and building our capabilities to address the future opportunities. So thank you again for joining on this call and looking forward to sharing with you more information possibly in the next quarter.

Moderator: Thank you. On behalf of DAM Capital Advisors Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.