# “Carborundum Universal Limited Q2 FY2021 Earnings Conference Call”

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**Moderator**: Ladies and gentlemen, good day and welcome to the Q2 FY2021 Earnings Conference Call of Carborundum Universal Limited hosted by Axis Capital Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Kashyap Pujara from Axis Capital Limited. Thank you, and over to you Mr. Pujara.

**Kashyap Pujara**: Thank you. Good morning everyone and thank you so much for standing by. It is a great pleasure to have with us the management of Carborundum Universal Limited to discuss Q2 FY2021 earnings. From the management side, we are represented by Mr. Ananth, who is the Managing Director, Mr. Padmanabhan, who is the CFO and Mr. Chandramouli, Senior GM Strategy. I now hand over the floor to Mr. Ananth for his opening comments. Sir, over to you and big congratulations for a great set of numbers.

**Ananthaseshan:** Thank you so much Kashyap. 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.

**Chandramouli:** Good morning. During this call, we will make certain statement which reflects our outlook for the future, or which could be considered as a forward-looking statement. The statements are based on the management 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. Hence, these statements must be reviewed in conjunction with the risk that the company faces. Thank you.

**Ananthaseshan:** Good morning again and thank you all for joining on this call. At the outset I hope that you and your families and your colleagues are all safe from the pandemic. If I were to look back on this quarter, it has been a confidence building quarter I would say which followed the highly volatile and a unique Q1 that all of us experienced. The uncertainties surrounding the COVID and also what I would call the attendant fears spilled over into the early part of Q2 but then over the weeks and with the lockdown lifting across the country, most of us have got to be comfortable with uncertainty, I think that is the sense I get just like a ship on a choppy sea. It was also a great learning for us as to how becoming and staying resilient is invaluable in these times, I would call it turbulent, uncertain, novel corona and ambiguous. So as a company we have always been present in many segments, geographies, multiple technologies and for many of you it was always been a kind of a confusing amalgam of what are we really doing. I think this pandemic showed that spreading our risks while at the same time being conscious of the fact that all that we do is tying together to making a material science company that is what we are and that is what has brought about this resilience. So, it was important that we kept our focus on what we plan to achieve pre-COVID times and while calibrating to the new normal. We also kept the growth engines running. In parallel, it was also about building organizational muscle, whether the improvement of the existing processes or getting into newer processes which would be more relevant going forward while keeping an eye on new opportunities, being bold and agile and trying out new things. I must say that all of these were done at various parts of the business driven by a high degree of self-volition by the teams and they all displayed leadership across all others. So, I must thank my entire team for standing up to this challenge and delivering these results. So, while Q2 has been a welcome respite we are also seeing mixed bag of signals in the economy. We all know that in Q1 the GDP recorded a -24% which is the lowest among the major economies of the world, but some high frequency indicators such as the manufacturing PMI, the PV sales, two-wheeler sales and the rail freight index are possibly at encouraging levels. We also saw that possibly a pent-up demand coming back in the auto and auto ancillary spaces. Some pockets of real estate and construction especially household consumption related to home renovation, refurbishments have also done well. We also saw the steel industry slowly reviving and a better demand coming up in the repairs and maintenance segments of core industries such as coal and power.

Projects orders understandably have been slow, but I think as focus across industry this quarter has been to meet the demand with existing capacities, we expect the project orders to revive over H2. So I would say our outlook is also tempered by the inflation expectations going forward and the uncertainties in the discretionary spend, we also do not know how the COVID will pan out whether there would be second wave, but then we are moving into H2 with an eye of cautious optimism.

In the global markets, in US for example, the new home starts at a 15 year high, so this is augured well for us in terms of increasing enquiries for some of our products especially in coated abrasives. This possibly is also a signal of the economic revival and while Europe has seen a more tepid quarter, there has also been signs of year-on-year growth in the auto segments especially towards September and this is reflected on our performance by way of better volumes in abrasives. In Russia definitely growth in the minerals and ceramics exports and also a sequential revival in CUMI America, but as I said the COVID risk is still around and all of us know that Europe and including Russia is on the cusp of the second wave of the pandemic, not to mention the political uncertainties caused by the elections in the US. So while in India the order books are good at the moment we are cautious about how Q2 may play out in the global and domestic markets.

Coming to the performance at a consol level, the sales was 683 Crores marginally higher about 1% higher than last year and 54% higher sequentially, the sequential numbers are also to be taken keeping in mind the very low Q1 what we had. PAT recorded 86 Crores representing a 12.6% margin compared to 10% margin of last year. At a standalone level, sales were at 424 Crores, a 2% decline over last year. The 6%-6.5% growth in subsidiaries also helped showed up the top line growth. The PAT recorded at 34% growth over the current period of last year. Obviously, the cost management driven by both variable cost reductions and fixed cost across the board and the end of depreciation of assets at our power business has also helped the PAT. The biggest contribution to growth came by way of standalone cost reduction both one of and sustainable cost reduction methods. PAT from JVs are at 80% of last years level.

If you look at the entity wise performance, the standalone abrasives resumed to last year's levels and came in flat. It is a very creditable performance as if I would say because the Q1 was very low and the abrasives which is largely in the mass market was last of the block, so while the bonded abrasives was inching very close to last year's level, the coated abrasives outperformed during this quarter. While we are also seeing a sequential growth in abrasive portion of CUMI America, the volumes are not back to last year's level yet, but we expect H2 to be better there. CUMI Middle East grew almost 36% over Q2 at top line, some large projects orders have helped there. On the back of fixed cost controls margins have also been good. Sterling abrasives has grown over 5%, demand from agro processing agriculture overall has been doing well and segments of industrial such as bearings, gear grinding etc., in the auto ancillary segment has also been good. While the abrasives as a segment remained flat on a consolidated basis, the segmental margins have increased by almost 300 basis points.

Now coming to the minerals business at a consolidated level EMD or the minerals business grew by 3%. Here again the volumes and realization at Volzhsky Russia helped. Exports were all time high in Russia and favourable forex and higher share of exports helped the top line.

At the standalone level, sales were flat over last year of the same period and in the standalone mineral business, silicon carbide saw volume and realization growth. Demand from the abrasives industry is slowly reviving and consequently fused alumina also performed well in the second half of the quarter and so was the performance from the refractory segment for the mineral business. The demand for specialties from the diesel particulate filter business have been better, but though this could be one-offor may be a short term gain while overall the business has also done well in terms of improving its margins at 430 basis points higher than previous year at the standalone level. The ceramic segment declined by 1% at the console level and 10% at the standalone level. So, at standalone the technical ceramics registered its highest numbers ever, so this segment continue to do well but then as I said earlier the project orders are yet to come in while the focus has been on meeting the repairs and maintenance demand. The thermal management side which is a refractories also we had a very tepid quarter, this is due to the fact that many of the projects both industry and renewable sector for the composites, so that is been not forth coming in this quarter and once that is back, we are confident of catching up but they have been working on the margins improvement and the higher share of the technical saw the margins going up by about 700 basis points. The ceramics portion of the CUMI America also did very well and they had a 21% growth on quarter-on-quarter.

Now coming to the balance sheet, I think a big positive this year is working capital management, so the inventory which has been built up has been realized by focused business development efforts and identifying new markets, so this has really paid off and while the paranoia on ensuring that the cash comes in has also driven the receivables and the collections have been very, very positive across all businesses. Understandably on the capex side, we have been very prudent with the spends happening only on the vital few because all of us will remember with uncertainties in Q1 we had to be cautious about spending in Q2. We have not taken our eyes on those capex spends which would drive future growth and hence the capex is being limited to absolutely vital spends which could deliver us results in either top line or improve our competitive position.

So this closes my briefing for the quarter, but before I hand over, it is my pleasure to introduce you to our new CFO. He is new in terms of the role that he is taking but Mr. Padmanabhan who has been our Chief Accounts Officer, very familiar face to most of you and very experienced with CUMI and its operations has now been designated as the CFO for the company. Padmanabhan is a 26 old veteran in CUMI and brings with him solid grounding in accounting standards, very, very clear and strong in compliance matters and I wish him all the well and requesting to take the financials and explain the performance going forward.

**Padmanabhan:** Thank you Ananth. Good morning everyone. Let me summarize the financial performance for the quarter ended September FY2020. (All amounts are in Indian Rupees unless specified) At the consolidated level the consolidated sales for the quarter has increased by 1% to 683 Crores from 678 of the same quarter last year. This includes the standalone. The standalone has decreased by 10 Crores, but the good sign is that domestic business has revived post the lockdown due to the prevailing pandemic. The consolidated segment PBIT was at 130 Crores which was up by 34 Crores and about 36% growth on quarter-on-quarter basis. At the standalone level, the segmental PBIT for the quarter was 76 Crores against 64 Crores of last year denoting a 19% growth over Q2 of previous year. On a consolidated basis profit after tax and non-controlling interest for the quarter was at 86 Crores as compared to 65 Crores in the corresponding period of last year showing a 35% growth. At the standalone level PAT increased to 50 Crores from 44 indicating a 15% growth on quarter-on-quarter basis. At the consolidated level, PAT margins improved to 12.5% in the current quarter from 9.5% of the previous year. At the standalone level, the PAT margin has increased to 11.8% from 10%.

Moving onto the segmental, abrasive level on the abrasive consolidated, the sales remained flat at 259 Crores which is almost at the same level of previous year. Standalone sale marginally increases from 210 Crores to 211 Cr. At the consolidated level, PBIT was 37 Crores which moved from 30 Crores and standalone has contributed 4 Crores and 1% from our domestic subsidiary selling abrasive this is mainly due to the revival of the domestic industry in India. The electro mineral segment at the consolidated sales for the quarter increased to 275 Crores from 267 in the corresponding period of last year denoting a 3% growth. This includes standalone level which is flat at 108 Crores. The consolidated electro mineral PBIT is at 40 Crores against 27 Crores of the previous period, this indicates a 48% growth. The standalone contributed 5 Crores to the increase in profitability and the Russian subsidiary continue to show a very strong performance both in terms of sales and profitability and then adding the PBIT margin by almost 600 basis points. On the ceramic segment the sale de-grew by 1% from 171 Crores to 169 Crores. The standalone sales de-grew by 10% on quarter-on-quarter basis to 133 Crores. The net sales of our Australian and Russian subsidiary grew by 13% and 7% on quarter-on-quarter basis.

Consolidated PBIT of the ceramic segment for the quarter was at 48 Crores which is higher by 12 Crores from the corresponding period of last year. Despite the lower topline the standalone profitability increased to 34 Crores denoting a 12% growth and almost all the entities in ceramic segment showed positive growth on quarter-on-quarter basis.

On the finance side CUMI continues to be a debt free company at the standalone level and at the consolidated basis the debt equity ratio was at 0.03 and the balance sheet, as MD said, there is a strong balance sheet, this is mainly due to the collection drive and focus on the reduction of working capital. The total debt on consolidated basis was at 68 Crores as against 63 Crores of last period. On the forex cover, CUMI is typically a net importer in dollar terms and exporter in euro terms. We continue to hedge on a net basis as per the policy. On the cash position because of the strong collection drive and focused reduction in the working capital we were able to have surplus of around 490 Crores and this is due to the effective working capital and it has also contributed 580 basis point increase in the return on capital employed. This concludes my update on finance. I hand over to Managing Director for his comments.

**Ananthaseshan:** Thank you Padmanabhan. In summary as I mentioned earlier Q2 has been a very confidence building quarter. We believe that the quarters coming ahead will stay positive and though we are conscious about the COVID and it is still there, it has not gone away anywhere. So, we would be taking things month-on-month, quarter-by-quarter, while at the same time preparing ourselves for building our future. CUMI as I would say in its six decades old legacy has weathered several storms and the current COVID induced upheaval might be by far the biggest challenge that we have faced, but we need to be aware that the worst is not over. I am confident that CUMI's True Grit and that resilient character both literally and figuratively will enable it stay strong and do better in the future. Thank you again and I would like to take the questions now.

**Moderator:** Thank you very much. We will now begin the question and answer session. The first question is from the line of Bhoomika Nair from IDFC. Please go ahead.

**Bhoomika Nair:** Good morning Sir, and congratulations on a very good set of numbers with a strong performance and profitability. Just wanted to touch upon each of these segments slightly more, if I look at abrasives, as you mentioned that macro environment is quite weak but yet we have been able to report the kind of a flattish number in terms of revenue, so has there been market share gains from either the unorganized player or some smaller players if you can talk about that and where is this revival coming from. A little more granular details on that and on this how are we looking at exports? Number two is on abrasives itself, it is on the margin profile which has been quite robust driven by a lot of cost efficiencies on our part. So, just wanted to understand how sustainable these costs are and what could be the level of outlook in terms of segment margins on abrasives?

**Ananthseshan:** Okay, abrasives as you all know are broadly two parts, one is mass market and also the precision abrasives which goes into auto-ancillaries engineering etc., At the end of Q1 what we saw was that abrasives had begun to show signs of revival, basically after the lock downs were lifted especially the end user segments, which our end users who are the painters, carpenters, fabricators, etc., coming back into the main stream, getting back into those jobs and we saw that slowly picking up in July and then gaining stream in August and September. So, consequently I would say possibly the initial fear of people letting outsiders to walk in their homes or in their offices etc., slowly came down and there has been a pickup in this area. So, the mass market has picked up well in terms of the demand and that is consequently showing up in our products for those markets, which is the bonded abrasives and the coated abrasives. So, at the same time we also saw that in the second half of the quarter significant pick up in orders from precision abrasives. This is the auto-auto comp people coming in from the growth in two wheelers, two wheelers have been pretty strong and also these small car segment. So, that has kind of raved up the comeback in the auto segment I would guess. This could be possibly due to the fact that people would prefer a personal transport now rather than a public transport. So, that has really helped, of course the festive sentiments also I think added up to those positive move, and we see consistent demand pick up in this area which is also spilling over into the Q3. So, we are seeing demand staying strong in Q3 for the precision business as well now. There has been a quite a bit of work on the margins, both in terms of the fixed cost and also in terms of the variable cost. So, teams have been working on many projects internally to improve the margins in the variables cost side and also in the fixed cost side. Understandably, some of the fixed costs are not going to be permanent in nature because there has to be let us say reduction in travel is definitely an opportunity that all of us have taken, how much of this reduction in travel will stay, will we all start flying again, how much of our rentals will stay. So, all these things will come up as time progresses but, definitely a portion of it will stay to that extent there will margin improvements. While this quarters margins have significantly improved, this same margin improvement some of the margins will go back that is my assessment. Because many of them may not be sustainable cost reduction, while some definitely are. As also mentioned in that some of the cost which we did not even touch them which we did not even think of like the COVID expenses, quarantine expenses, sanitization, so all those things also came in out of the blue.

**Bhoomika Nair:** Got it, then as here if you could also talk about export for abrasives because that was seen for more long-term growth perspective as this gives a very good color on the near term but also just trying to understand the long-term perspective?

**Ananthseshan:** Yes, sure. In abrasives exports it has kind of a hovered around about 10% range that has been the traditional levels of exports what we always have, and this has been mainly focusing on the precision abrasives. So, precision abrasives exports is a long and painful journey because you have to prove yourself to the customer, and that does take time. So, what we are now building is and over the last three month-four months having commissioned our new maker in coated abrasives we also have developed very strong product from the maker and which has seen a good reception and qualification in markets including the US. So, our focus now would be on also using the coated abrasives as a base export product which should possibly give us steady revenues while give us the time and flexibility to build the brand using the precision abrasives.

**Bhoomika Nair:** Okay, so where do you see this export growing in the next two year to three years?

**Ananthseshan:** Our target for abrasives is to move it from the current between 8% to 10% to close to about 20%.

**Bhoomika Nair:** Okay, thank you so much.

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

**Bhavin Vithlani:** Thank you for the opportunity and congratulations for great set of numbers.

**Ananthaseshan:** Thank you Bhavin.

**Bhavin Vithlani:** Sir, I have couple of questions, first is the EMD margins for the consolidated minus standalone which is the subs largely Russia seems very high at about 17% and in your opening remarks you did mention about DPF sales and that could be one off. So, what is that one off proportion and what is the sustainable levels if you were to take out those one-off numbers?

**Ananthaseshan:** As I said the consolidated elector-minerals is combination of both the commodities and the technical and the commodity business which is the large volumes, silicon carbide from Russia and also the white fused alumina's or fused alumina's in India they comprise the bulk of the volumes. In the case of technical, the silicon carbide business I would say that it is not more than, in this particular case the DPF is not more than about less than 5% and while we did not have this business last year. They do have decent margins but on overall in terms of the volumes they are less than 5%. The reason I said this could be one off is that this business was not there and was moving away from us to possibly the Chinese, but then the customers have started coming back. So, I only hope that they see us as a better and more consistent supplier or reliable supplier and then stay with us.

**Bhavin Vithlani:** Sure, the second question is again related to there is an observation that the percentage of abrasives from the Russian facility has been rising. Is there an outlook that you could share or could be the more inhouse usage of the SIC?

**Ananthaseshan:** When I say the percentage of abrasives has gone up in Russia in Q2 overall, it has stayed flat. There has been a lull in the abrasives consumption in Russia obviously in Q1 was not there because many of the customers had shutdown. You would remember that in Russia while the lockdown was imposed it was left to different regions to do it as per their conditions. So, some of the customers in regions where the lockdown happened did not operate in Q1 while they came back in Q2 so, we saw their demands also increasing and being met in Q2. I would still think that the abrasives growth in Russia will remain steady, but it will not grow significantly at the bonded side. But there are definitely opportunities for the coated abrasives business to grow there.

**Bhavin Vithlani:** Sure and just last question from my side. If you could help us what was the performance of the metz cylinders and sometime earlier, you did speak about specialized products where commencement has happened for the hydrogen fuel cells. So, would appreciate if you could give some color on these two?

**Ananthseshan:** Yes, the technical ceramics did see a record performance in Q2 definitely helped by both the metz cylinder business and also the products at the service to the alternative energy like fuel cells. So, that has been a good volume in Q2, and we believe Q3 also will see reasonably good volumes on that front. But there could be a tapering down of those volumes for the segment in Q4 largely due to the fact that these customers would buy now for shoring up their inventories. But it is a strong growth area. We have seen good numbers not only for these two broad product lines but also related segments as well leveraging these capabilities. For example, the new products which we have developed leveraging the similar materialization capabilities for the electric vehicle space for customers in Japan augurs very well for the future going forward.

**Bhavin Vithlani:** Sure, thank you so much for taking my questions. Best wishes from our side.

**Moderator:** Thank you. The next question is from the line of Ravi Swaminathan from Spark Capital. Please go ahead.

**Ravi Swaminathan:** Good morning Sir, thanks for taking my question. My question is kind of a continuation from the earlier participants question, have you seen market share gains in the abrasive space, there is a large unorganized market probably which is roughly around 25%-30% of the overall market especially imported from China. Is that market kind of shrinking that unorganized and are we gaining market share or is it like post COVID also status quo?

**Ananthaseshan:** We definitely see a preference to our products now in terms of even these segments as well, could be a combination of two things. One is that there is, I will not call it as slowdown, but I think the difficulties in getting products manufactured and shipped out of China there has also been some disruptions there, that is one, and second there has also been a conscious effort from our end in terms of putting out better stable products and that has seen a welcome this quarter I would say. So, on the bonded space that while our volumes have seen significant growth and I cannot really comment on whether we have gained market share and how much possibly another quarter we will know.

**Ravi Swaminathan:** Got it Sir, and with respect to the second segment that is ceramics and refractory segment. My first question in that is how fast can the technical ceramics segment which includes the metallized cylinder grow in the next two year to three years. Can it be like 15% kind of a growth which is still possible with high margin product like metallized cylinder and my second question within that is, with respect to the wear ceramics segments you had given a commentary that steel is doing well and given the fact that steel consumes the wear ceramics and refractories also. So, can those segments also start driving growth for you in that particular segment?

**Ananthaseshan:** Yes, I will take them in two parts, first I would like to take technical ceramics part. The technical ceramics we believe that the markets we are addressing, the segments we are addressing are high growth segments and the level of growths that we are clocking in terms of about 15% is doable. There are segments, which is coming up so, I believe that is on the technical side we should be definitely been able to do that. On the wear ceramics we are expanding our scope into a wear material so, not only ceramics. So, as you rightly said both the steel industry and the coal mining industry would be the beneficiaries of this. While the steam has started to pick up the project always have not started kicking in yet. So, we are mostly addressing the repairs and maintenance orders right now.

**Ravi Swaminathan:** Got it Sir. Thanks, I will come back in the queue.

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

**Kashyap Pujara:** Hi! Just a continuation of the question which Ravi just asked, in the ceramic segment, if I recollect right, this segment is one of the segments where CUMI has the highest operating leverage and while topline has kind of remained flat we have seen a very sharp improvement in margins. So, while I get wear ceramics is still to pick up but just wanted to understand the breakup of this as to what is the growth if I were to dissect it and say growth from CUMI Australia, versus say the metallized cylinders or other technical ceramics. Can you just give us some color what has led to the sharp margin performance given a flat top line?

**Ananthaseshan:** The margins as compared to last year, the volumes of the technical ceramics have significantly increased in this quarter. So, while in terms I think we did about 15% higher in technical ceramics compared to the wear ceramics. The wear ceramics again, while we did not do the volumes, I think the repairs and maintenance which are traditionally high realization compared to the project orders also helped.

**Kashyap Pujara:** Okay, and here you have refractories also in the ceramics segment where you have technical ceramics, and you have refractories which are again …

**Ananthaseshan:** So, the refractories of course they had a big drop in sales compared to previous year. But then the drop is coming in from segments which are not as high as a margin and the work done the team in terms of cost reduction has significantly showed up the margins here as well. So, I would say in the refractory space it is a more cost reduction efforts while on the technical ceramics side it has been a product mix.

**Kashyap Pujara:** Okay to sum up it is fair to say it is the technical ceramics which we are seeing is in high growth rate and can grow at 15% and if the other segments were and refractories which are not currently contributing as much because project orders are not there and whenever they kind of revive is it fair to assume that there is a new norm in ceramic margins, segmental margins now where the current margins may be a shade below but it would be still on the higher side compared to what we have seen in the past?

**Ananthaseshan:** I would not venture on that.

**Kashyap Pujara:** Again an extension to this question now at a broader level, if you look at our margin in Q3 you kind of reported close to 18% to 20% EBITDA margins and there are again a couple of elements one is the sustainable element to it because certain cost reduction that you do at permanent capital and there would be certain cost which will come back like you said travel employee cost so as a management have kind of dissected as to what will be the margin which will be permanent in nature and what would be coming back, so we can just try to understand what is the new norm of PBIT margins for CUMI because we have not yet seen top line growth and this is a very high operating leverage in the business without that we are seeing these margins if top line growth happens than we should see higher margins?

**Ananthaseshan:** To answer your question, yes, we are conscious about so the focus is on ensuring that many of the initiatives what we are taking are sustainable. Too early to come out with how much is going to be the permanent reduction and how much is going to come back but I would have a better handle on it in the course of next couple of months.

**Kashyap Pujara:** Sorry, I will just take the last question and I will hand over the floor to the queue. We have close to 600 Crores of cash, operationally our cash flows have been very strong, so one is that some amount of initiatives that we have done on working capital reduction would you term that as sustainable, that is point number one and point number two would be what do we now do with the cash because the cash is going to grow further so what is the capital allocation plan going forward with the cash which is going to pile up?

**Ananthaseshan:** The working capital reductions which the teams have been working on I would believe are largely sustainable so while there will definitely be some elements of growth in raw materials because you know that some of our raw materials are imported so we have to be ensured that the security is paramount. So, I would believe these kinds of working capital levels are possible. Definitely the numbers for abrasives may need an improvement in the higher side because it is good to have some inventories especially in the mass market on the finished goods side so we would consciously build up some inventories on the finished goods for abrasives they are at a pretty low level today which is not so comfortable for the channel partners so we will work on that, but overall I think it is a sustainable work that has happened. On the cash, yes, you are right so our focus has been on ensuring to first build a good cash position so it gives us strength and also will be used as I would call it is as watch, but definitely something that we have in hand when we go and pursue growth opportunities.

**Padmanabhan:** Just to add to Ananth's comment, is that it is a conscious effort to focus on cash, we increased the collections and reduced our working capital and we have reduced the capex also, we are concentrating only on the vitals so we are keeping it ready to focus on the capex as well as further investments.

**Kashyap Pujara:** Thank you so much and all the best.

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

**Harshit Patel:** Hi Sir. Thank you very much for the opportunity. Sir, I had couple of questions. Sir, the first one was on the ceramics front. In the last earnings call you had mentioned that you are setting up some capacity for silicon carbide based ceramics so Sintered SiC and Nitrate bonded SiC, if you progress on that front have we started introducing the products into the market?

**Ananthaseshan:** Not yet, so we have got the equipment in place during the Q2 we have received the equipment, installation is on, there is a delay in commissioning of the segment because these are high precision equipment involving, I mean you would be aware of it lot of inert gases like Argon, Hydrogen etc., so these are very expensive equipment from Germany and the German engineers are awaiting their visa clearances because while we did commission one of the lines over a video call so it is also a new thing for us to invest and commission an entire line without a glitch on a video call from the US that is been done, but on this specific piece of equipment in this line the suppliers are not so comfortable doing it on a video call, they would like to come in person so hopefully the travel restrictions will ease over the next of couple of months and we will have the line in place.

**Harshit Patel:** Sure Sir. Just a follow up on that, what kind of capex have we committed for the new manufacturing lines?

**Ananthaseshan:** See, this was committed last year so this year it would be about 50 odd Crores is the capex that has been committed for this plus the other projects that we have in the ceramic space.

**Harshit Patel:** Sure Sir. Sir, my second question would be on the electro minerals front, while we have benefited from a slight improvement in the product mix in Russia, has there been any significant improvement in the overall realisations on both silicon carbide as well as on the fused alumina in India. So, the trend which was thought to decline has that declining trend has been arrested in the pricing?

**Ananthaseshan:** See, the pricing in fact if you compare of the minerals in India, prices have come down, this is largely due to the fact that the product mix has skewed more towards the refractories application than the abrasives because all of us know that Q1 was a wash out for abrasives not only for us but the entire industry and abrasives being high realisation product has taken a knock but what has helped in the domestic minerals business is that they hit the volumes and though the realisations were down, the fixed costs were also contained and helped better coverage of the fixed cost and hence the EBITDA margins across product groups also improved and there I would believe is a very sustainable manner.

**Harshit Patel:** Just a small follow up on that. You had hinted about gaining some market share from China so both the Russian plants as well as Indian plants were having some higher levels of enquiry so has that trend sustained and do you see if it is going to be a structural improvement in the market share on that front?

**Ananthaseshan:** See, definitely the last two quarters have seen an increase in enquiries and also customers reaching out to us, whoever all buying from China so that we are seeing the shift happening not only to us but to some of our competitors as well in Europe so they are seeing people moving away from China and this I believe is going to be a trend going forward and that can definitely help us also.

**Harshit Patel:** Lastly on the Foskor, has there been any progress on the divestment front?

**Ananthaseshan:** Definitely there is progress, and we would more formerly close it out in this quarter.

**Harshit Patel:** Sure Sir. That was all from my side. Thanks a lot.

**Moderator:** Thank you. The next question is from the line of Jenal Sheath from Avere Capital. Please go ahead.

**Jemal Sheath:** Good afternoon Sir. Mind my ignorance this because I am going to ask a basic question but I would just like to understand growth drivers for each of your business and in order for them to grow in double digit what really has to happen if you can just kind of touch upon the drivers?

**Ananthaseshan:** First I will take abrasives. So, abrasives is been around for a long time and any grinding or metal finishes or rather say material finishing application requires grinding so whether if there is a grinding wheel or whether it is a coated abrasives, smoothening of surface requires abrasives and as you look around whether it is GDP driven industries or the IIP driven industries so both of them require abrasives and this is what we believe are the drivers of growth. So auto industries, wood working, construction, fabrication so these are all equivalent and these are all growth drivers for abrasives, not only in India but across the globe as well because I would say the basic consumer requirement is shaping the surface or smoothening of the surface so that is something which is going to be there for some time to come.

In the case of minerals business, the minerals business are largely feed into the abrasives also and to the high temperature applications, high temperature protection applications so which is the refectories business or the ceramics business and that is driven by growth in let us say the eight core industries be it the cement, steel, infrastructure so there you would see or power, there you would see most of these minerals being used either as a raw material or as a industrial consumables, also possibly as a durables when you build furnaces so they go into the capex but for the repairs and maintenance they are more as consumables.

In that segment itself we have also when I say specialities which would see usage in things like we spoke about the diesel particulate filters or in the emerging industries like electronics where 5G and the electric vehicles are going to see major drivers of minerals so whether it is in silicon carbide, high purity silicon carbide or high purity graphite which we are working on, so those are the areas which will drive future growth so while these basic commodities will grow into the core industries, the newer materials will be used in the newer applications like battery storage or the power devices.

Wear ceramics I would believe is a very global business because wear is something which is protection something which is required globally, the wear protection and that is where wear ceramics or wear materials come in. So, with the growth in all these segments whether it is in the mining segment or in the processing segment wear will grow.

Technical Ceramics is driven by, currently what I would call, the alternate energy sector and alternate energy whether it is the fuel cells or renewables play a big role in that. Consequently, the power transmission distribution also requires these ceramic parts and that is another area of growth. Interestingly, we are also seeing that the electronics industry requires ceramics and that will also drive the future growth of ceramics. One area which would be growth driver for to me is aerospace and defence sectors so we are seeing in this sector usage of ceramics and also materials like composite so I believe that these sectors offer good opportunities for growth as well.

**Moderator:** Thank you. This would be the last question for today which is from the line of Bhavin Vithlani from SBI Mutual Fund. Please go ahead.

**Bhavin Vithlani:** Thank you for the opportunity. Just one followup question. There has been significant incentives given by the government to the electronic industry, mobile manufacturing etc., so I would appreciate what role would CUMI play in this and what all the products may be you could say where CUMI can play and what we understand abrasives is the pretty large industry in China because of very high usage from the electronic and semi-conductor industry, so if you could give a slightly longer term perspective that would be very useful, that is only my question?

**Ananthaseshan:** The electronics industry and the focus the government is placing on electronics I would say good opportunity for CUMI. There has been a lot of movement in this direction and I am sure that you would have also read about the investments coming into Tamil Nadu in this space. What we see currently is that on the electronics, on the abrasives side, from the products what we offer, I would take it as two parts, one is the products that we offer to these industry and the products that we can offer to this industry so what we have on offers to these industries are the precision abrasives, this is the diamond abrasives and the vitrified CBN abrasives which is now handled by our company Wendt India, the joint venture and that is something which can see some significant growth. So while CUMI is also developing its range of products in diamond and vitrified CBN but presence of Wendt already in the precision space will help speed up our development.

The ceramics is another area which is what I call the tape cast ceramics or the thin ceramics could be Aluminium Oxide, could be Silicon Carbide so they have again a big opportunity here, but the biggest opportunity I would believe is as a raw material which can flow into the electronics especially in chip making and that is the high purity silicon carbide and we currently have a team working on its development and I hope that we would be able to crack this sooner than later. So that will give us a strong position in offering high purity silicon carbide as a raw material for chip making for the future. So, big opportunities in electronics coming up.

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

**Moderator:** Thank you. Ladies and gentlemen, as there are no further questions, I would now like to hand the conference over to Mr. Kashyap Pujara for closing comments.

**Kashyap Pujara:** Thank you for being on the call and thank you Mr. Ananth, Mr. Padmanabhan and Mr. Chandramouli for patiently answering all the questions. Thank you so much and we wish you all the best.

**Ananthseshan:** Thank you Kashyap and thank you everyone for joining on the call. So, looking forward to meeting again in the next quarter.

**Moderator:** Than you. On behalf of Axis Capital Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.