"Carborundum Universal Limited 2Q FY22 Post Results Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Carborundum Universal Limited 2Q FY22 post results conference call hosted by Batlivala & Karani Securities India Private Limited. As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Kunal Sheth from Batlivala & Karani Securities India Private Limited. Thank you and over to you sir.

Kunal Sheth: Thank you Aman. I would like to welcome the management of Carborundum Universal Limited on the call. Thank you for giving us this opportunity. From the management team we have Mr. N. Ananthaseshan – Managing Director, Mr. P. Padmanabhan – Chief Financial Officer, and Mr. G. Chandramouli – Investor Relations.

Sir, now I will request you to give us a brief opening remark post which we will open the floor for a Q&A session. Over to you.

P. Padmanabhan: Good afternoon to all of you. Before we begin, as a practice, we will now have Mr. Chandramouli read out our disclaimer and we will take the call.

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

P. Padmanabhan: Thank you all for joining us on this call. I hope you all are keeping well in good health. We meet once again at one of the best quarters particularly in terms of performance. The sustained recovery in domestic demand, government impetus to infrastructure spending, export growth and the China plus one sourcing strategy of global players have led to strong rebound in businesses. With the industrial output increasing sequentially and high-frequency data depicting return to pre pandemic levels, our businesses have also recovered but facing challenges of increasing cost to maintain and improve margins. We have earned the distinction of being one of the best managed companies by the Deloitte India. With this achievement indeed we are proud in exceeding the benchmark levels which we have set earlier. On October 6th, 2021, the company acquired 71.99 percent equity stake in PLUSS Advanced Technologies Limited (PLUSS). PLUSS along with its wholly owned subsidiary Netherlands – M/s. PLUSS Advanced Technologies BV have become subsidiaries of CUMI effective from this date. PLUSS is a speciality materials research and manufacturing company involved in the fields of phase change materials (PCM) for thermal energy storage and specialty polymeric additives for enhancing mechanical and barrier properties.

In the July-September Quarter, at a consolidated level sales recorded at Rs.834 Cr; quarter-on-quarter growth of 22 percent and 18 percent sequentially and at standalone level, the company has recorded sales of Rs.551 Cr which marks 30 percent increase over Q2 of last year. On a sequential basis this records an 18 percent increase; the growth was driven by almost all three segments. Most of the overseas subsidiaries have also performed well on sequential basis. When it comes to the bottom-line performance, profit before tax was Rs.137 Cr as against Rs.123 Cr at the consolidated level on a quarter-on-quarter basis, and profit after tax and non-controlling interest grew by 13 percent to Rs.98 Cr against Rs.86 Cr in the same period of last year. Despite increase in sales and profits in absolute numbers, the margins were not increased proportionately due to lower base, increasing input costs and the freight costs. At the standalone level, the PAT increased to Rs.63 Cr from Rs.50 Cr in Q2 of last year.

Let's look at the segment-wise performance in some more detail:

The consolidated abrasive segment recorded sales of Rs.325 Cr and operating profits of Rs.45 Cr, both marking a 19 percent sequentially increase. Standalone operations performed well despite challenges of chips shortages, shifts towards clean mobility, and increasing petrol and diesel prices, faced by auto and auto components' sector. Increasing raw material and energy costs did impact the margins but were managed well through the price increase and better capacity utilizations. Subsidiaries - Sterling Abrasives, Volzhsky Russia and CUMI America registered double-digit growth compared to same period of last year and sequentially as well.

Coming to the ceramics segment, the consolidated sales recorded at Rs.210 Cr, marking a 21 percent increase in the topline sequentially. Operating profits were at Rs.49 Cr, 50 percent up sequentially. The demand scenario continues to be good - both at standalone and global operations; but our sales, deliveries, and margins to export customers were hugely impacted due to container shortages, port congestion, and higher freight expenses. Considering the future of clean energy and mitigating increasing cost of fuel, the kilns are being transitioned from liquid fuels to natural gas. Refractories segments continued to perform better on back of good orders from repair and maintenance as many core industries are beginning to invest in these areas.

In minerals, the consolidated sales recorded at Rs.323 Cr, marking a 12 percent increase in the topline sequentially. Operating profits was at Rs.48 Cr, 19 percent up sequentially. The business has benefited from combination of strong global demand and production cutbacks in China owing to environmental concerns leading to high realizations. The increasing input costs were offset by price increases to a decent level in most of the product segments. We also have a good run-in term of our in-house power generation at Maniyar Hydel - and that has helped shore up our bottomline. At our Russian operations, we have seen good volumes and higher realizations in all the business segments.

We do have good order book at present and we expect that the demand to be robust in the coming quarter for these three business segments. Maintaining/increasing margins will remain a challenge considering the rising trend of the raw material prices and the energy costs globally.

In terms of CAPEX, we have made considerable progress and spent Rs.71 Cr in the first half year.

A potential third wave is the near-term risk but an increase in the pace of COVID inoculation across the company - with nearly 90 percent of our workforce having received at least one dose already and around 30 percent with both the doses, should contain the demand disruption.

I now move to the financial performance for the quarter:

At the consolidated level, the sales were increased by 22 percent to Rs.834 Cr from Rs.683 Cr in the corresponding period of last year, driven by steady performance across all the business segments. Of this, standalone had increased by 30 percent to Rs.551 Cr from Rs.424 Cr of the same period in the last year. The consolidated PBT was at Rs.137 Cr which is up by Rs.14 Cr and about 11 percent growth on the Quarter-on-Quarter basis. At standalone level the PBT for the quarter was at the Rs.86 Cr against Rs.69 Cr during Q2 of last year.

On a consolidated basis the profit after tax and non-controlling interest for the quarter was at Rs.98 Cr as compared to Rs.86 Cr in the corresponding period of last year. At standalone level, the PAT increased to Rs.63 Cr from Rs.50 Cr. At consolidated level the PAT margin dropped from 12.6 percent during Q2 of previous year to 11.7 percent in the current year on account of the lower base, increasing input costs, and higher logistics expenses. At standalone level it has decreased from 11.8 percent to 11.4 percent.

Moving on to the abrasives segment, the consolidated sales for the quarter increased to Rs.325 Cr from Rs.259 Cr in the corresponding period of last year. Standalone sales increased to Rs.268 Cr from Rs.211 Cr in Q2 of last year. Domestic subsidiary Sterling Abrasives and Russian subsidiary Volzhsky Abrasives registered a significant growth. At the consolidated level the PBIT was at Rs.45 Cr increasing from Rs.37 Cr on account of better capacity utilizations and price increases.

Electro minerals business consolidated sales for the quarter increased to Rs.323 Cr from Rs.275 Cr in the corresponding quarter of last year. At the standalone level sales increased to Rs.142 Cr from Rs.108 Cr. Russian subsidiary Volzhsky Abrasives registered good growth whereas South African subsidiary Foskor Zirconia recorded marginal drop in revenue. The consolidated electro minerals business recorded a PBIT of Rs.48 Cr against Rs.40 Cr of Q2 last year on back of volume growth in domestic market and aided by higher power generation at Maniyar Hydel following good rainfall.

Ceramics business consolidated sales grew by 24 percent on Q-on-Q basis from Rs.169 Cr to Rs.210 Cr. The standalone sales grew by 30 percent on quarter-on-quarter basis to Rs.172 Cr. Standalone ceramic business performed well despite the logistics challenges, majorly for the export consignments. Subsidiaries in Russia, America and Australia also did well. Consolidated

PBIT of the ceramic segment for the quarter remained flat at Rs.49 Cr mainly due to the increasing input costs and the supply chain disruptions.

From finance side, there was no debt in the standalone books as of September 30, 2021. We continued to be a debt-free company. On a consolidated basis the debt equity ratio was at 0.018 as at Q2, FY22. The total debt on a consolidated basis was at Rs.42 Cr as compared to Rs.45 Cr at Q1 end. On the forex cover, CUMI is typically a net importer in dollar terms, and a net exporter in Euro terms. We cover the net exposure as appropriate, and in accordance with the Forex policy. On the cashflow front, our strong balance sheet is evidence by net cash position and low debt equity ratio. The cash and cash equivalents including the deposits with tenure exceeding three months net of borrowings was at Rs.650 Cr.

This concludes my update on finance and now we can take up the question and answer.

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

Ravi Swaminathan: My first question is with respect to the abrasives segment. So, basically if you can give a broad breakup or volume and value growth. Whether we would have won market share during the quarter. And from which sectors are we seeing demand, and which sectors we are seeing not-so-great demand?

P. Padmanabhan: With respect to abrasives, you all know that there is a recovery path seen in the auto as well as in auto ancillaries. We also see the improvement in the precision sector. But there is fear of the chip shortages, and the fuel price increase which is also impacting on the auto industries. It's a mixed response from our end. There is growth in the tractor, both in terms of the quarter-on-quarter basis as well as it has increased marginally to the pre-COVID levels. So, there we see demand for the abrasives products. And one constraint is that the input cost is increasing and at the same time the fuel costs are also increasing so there is a strain on the bottom line and there is a time gap between the passing on the cost to the ultimate customers and that of the increasing cost and that is why the strain is there. And we feel that the price increases will improve and that will be done in a phased manner, and it will take care of the increasing cost. Also, we feel that the demand and the recovery path will continue in the subsequent period as well, and it will have a positive impact on the abrasives segment.

Ravi Swaminathan: Which sectors are you seeing demand recovery being, so you told of those mixed bag, so basically which other sectors are showing strong trends of demand?

P. Padmanabhan: Followed by the auto, auto components we are feeling recovery in the construction sector, woodwork, and the other infrastructure which are also booming, and we feel that this will continue. In the iron and steel sector, slackness is there but we feel that it is only temporary, and it will get recovered in the current quarter.

Ravi Swaminathan: And volume value growth and any market share gains we would have seen from unorganized players or organized competitors?

P. Padmanabhan: In the mass market items the disruption from the Chinese imports is having a play on the market and we feel that we have also increased our share to a greater extent. And though the unorganized sector is there, the demand for the product and overall market size is increasing depending on the industrial growth and the recovery seen. The government impetus is also there across all the industries, the PLI benefit is there therefore we are seeing a recovery on the abrasive finance.

Ravi Swaminathan: And volume value growth YoY or over two-year period for this quarter any rough sense?

P. Padmanabhan: If you could see on the sale front, the abrasive we have sequentially grown by 19 percent and quarter-on-quarter it is 20 percent and the Y-on-Y it is 142 percent mainly on the lower base, so that is why the growth rate is seen at 142 percent at the consolidated level on the topline.

Ravi Swaminathan: Sorry sir, I didn’t get that. So, basically on a consol level we have seen year-on-year 25 percent growth, if you could break that into say volume growth and price increase?

P. Padmanabhan: We feel that it's a mix of both volume growth and the price increase. In the precision sector, we feel that due to the recovery in the auto, auto components, there is a volume growth. And in other sectors, mainly construction volume growth is there, and the price increases is also there.

Moderator: The next question is from the line of Jason Soans from Ashika Group. Please go ahead.

Jason Soans: My question is on the ceramics sector. In the ceramic segment you did mention that you faced some container shortage issues. So, just wanted to know what was the extent of the impact and how long do you expect the situation to normalize? Because around 50% to 60% comes from exports for this segment. Just wanted to know your view on that.

P. Padmanabhan: With respect to ceramics segment, we are mainly catering to the power sector, and the power sector is growing. However, the container shortages have impacted the sales of metallized cylinders, mainly catering to the power sector. And with respect to wear resistant products, most of the exports are to the Australian continent, the business has been impacted because of container availability as well as the logistics issue . We feel one issue is container availability and second is the increase in the freight charges. Despite the challenges at the standalone level, we have grown at 22 percent sequentially and 30 percent on a quarter-on-quarter basis. And on a year-on-year basis, it is 48 percent. And the consolidated level, the growth on year-on-year is 38 percent.

Jason Soans: Any timeline do you want to ascribe on how long do you expect the situation to normalize? Are you seeing any signs on the ground level as in for the freight increases as well as the container shortages, do you find that normalizing as of now?

P. Padmanabhan: As of now, the freight cost is only on the uptick trend, and we don't feel that this will get reduced in the near period. It will stay for some time and the container shortages are also continuing. We are managing the constraints negotiating with the available CNF agents and the logistics agencies and it has improved well. It's in fact a mixed thing. The container, etc., is getting delayed.

Management: We will get that clarity only during the third quarter end. As of now, it is going on as the last quarter, but will take some time, maybe around Q3 end we will get to know, or some clarity you can get.

P. Padmanabhan: Maybe wait and watch.

Jason Soans: My next question is, just want to know, ceramic segment, yes, you have a customized business, and you work closely with your customers generally for solutions. In that respect, I just wanted to ask you, who are your key competitors in the ceramics segment? That's my first question. In the customized solutions just wanted to know who are your key competitors in this segment?

P. Padmanabhan: In respect of the metallized cylinder business, we are the second largest producers of metallized cylinders in the world and the first from the Korean region and they are the competitors in this field.

Jason Soans: My final question, just wanted to know you did allude to lot of significant margins pressures due to import cost and freight cost as well. And in FY21 we saw on a consol level we did a margin of around 17.7 percent. which is the highest margin in the last few years. Just wanted to know what are the sustainable margins going ahead. Any guidance on some particular margins going ahead for Carborundum on a consolidated basis?

P. Padmanabhan: We are taking this as challenges and opportunities, and we are focusing on the cost reduction as well as cost saving across all the businesses in the organization and in almost all the entities, that is why despite the challenge and the pressure from the cost push side, we are able to have decent margins and we have cut off the cost of a greater extent. One is by tough negotiation with the suppliers. Second is that we are also concentrating on increasing the efficiency by protective measures. These have helped us. We feel that the sustainable margin will be around 100 to 150 basis points.

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

Bhavin Vithlani: My first question is on the ceramic side and especially focused on the SOFC side of the business. One of the supplier to the SOFC company, in the call in the morning today, guided for quadrupling of revenues to bloom energy given the growth that we are seeing. So, if you could highlight what are we actually hearing from our client side and for actually such level of volume growth are we also expanding our ceramics business?

P. Padmanabhan: In respect of the alternate source of energy, we are already in the solid oxide fuel cells, and we are supplying the ceramic components to them to various suppliers including the supplier which you had mentioned. And we feel now that the focus is on the alternative fuel energy including the SOFC and the hydrogen fuel cells are also coming in the market, the focus will be on the demand for the ceramic plates, ceramic components, etc. In addition to that, even though with the existing suppliers what we are doing is we are exploring the opportunity of replacing the ceramic plates wherever the metal plates are used across all the SOFCs as well as the hydrogen fuel sales. Is a promising growth potential there? We need to wait and watch about the velocity of this increase.

Bhavin Vithlani: But is the growth outlook that we could have, like it could be exponential in the similar quantum that one of the other supplier also is also speaking about?

P. Padmanabhan: Correct. See, it depends on how this sector behaves. The risk of third wave is also there. We cannot rule out anything at this point of time. So, we need to wait and watch. And going by the growth potential, we agree that there is a growth potential, but when it is going to pick up, etc., it is going to take time. On a conservative manner, we are not expecting an exponential growth. We are expecting an arithmetical growth.

Bhavin Vithlani: So, the doubling of revenues for the ceramic segment guided over a three-year basis, we maintain that outlook.

P. Padmanabhan: Yes. The concern is only in the near term. We need to wait and watch about how the COVID challenge is being managed across India as well as across the globe. Then we need to wait and watch.

Bhavin Vithlani: On the electro mineral segment, if you could just help us, because in the previous earnings call, we have mentioned that we are working towards a high purity SiC which is 99.999 percent and we had reached a level of 99.99 percent and after that we will be able to cater to the semiconductor segment. Any update on that will be helpful.

P. Padmanabhan: At present we are concentrating on the core minerals of the white fused alumina and brown fused alumina in respect of the Speciality products. See, it depends on the sector's applications across various industries. So, it will take some time. We are working to improve to the 99.999% level. As you rightly said that we have already achieved the first two decimals, the third decimal we are aiming at, and we are working on it.

Bhavin Vithlani: Any outlook on the electro mineral as a segment because China is a very large producer, and they are seeing power outages and lot of bottlenecks. So, are we seeing improvement in our price realization, and do we see a positive outlook on the margins because of global demand supply imbalances?

P. Padmanabhan: China Plus One strategy is helping to an extent, but we cannot rule out the supplies from China because China being the major supplier to the world. It is a mix. At this point of time, yes, there is a demand. And of course, the demand is there on one side and on the other side, we see the increasing costs in input materials, energy, fuel as well as in the freight.

Moderator: Our next question is from the line of Charanjit Singh from DSP Mutual Fund. Please go read.

Charanjit Singh: First, if I look at two-year CAGR we have delivered more than 3 percent growth on two-year CAGR basis across the category. And despite this, there have been a lot of issues in terms of supply chain bottlenecks and all that. And the underline here is markets still not present to the level of what they should be. So, as things normalize, what is the kind of the sustainable growth you expect, and it can be much higher than this, if you can touch upon that?

P. Padmanabhan: The demand for the products across all the businesses is growing. And it's a good sign for us and almost all the sectors we are in, are improving and there is a growth which is followed by the challenges of COVID. The logistics issue is becoming a big issue - one is the container shortages, second is the increasing freight costs. And the input costs as well as the energy costs are also increasing. So, the challenge is – on one side, the market is growing, the demand is growing and on the other side, the input costs and the cost of production are increasing. So, the challenge is what is the potential to pass it on to the customer, the timing is the real issue, therefore, we are seeing a neutral growth, or we are taking it on a cautious trend.

Charanjit Singh: And from the price hikes perspective, if you can just quantify what is the kind of quantum of price hikes which you would have taken across product category? And do you expect any further price hikes going forward?

P. Padmanabhan: Considering the present market conditions, the price passing will be there. Price increases will be done because the input cost has grown significantly. It is not in the arithmetical progression it is going in the geometrical progress and therefore we are speaking to the customers and then explaining to them the cost push on the input side, and we are in the consultation stage increasing the prices and we will be doing it in a phased manner.

Charanjit Singh: What is the quantum of price hikes which you have taken fiscal year to date?

P. Padmanabhan: It depends on the businesses as well as the sectors which we are supplying. It ranges from a minimum of 2 percent and then it goes to the double-digit figures.

Charanjit Singh: Lastly, there has been also discussion about imports getting banned, that is a category where we have also been trying to give more cost-effective products. One, in the overall size of the market what was the proportion of imports? And now what percentage of the revenues we have been able to cater to substitute in terms of the imports and grow our revenues especially in the abrasives segment, if you can touch upon that?

P. Padmanabhan: In respect of the imports, it is mainly happening in the mass market items of abrasives. Now there is a challenge in the supply from China. So, the demand for the mass product items internally is increasing and the customers who were using the Chinese products prefer to have the local players. And this is helping us, and we feel that this trend will continue in the near period. And we need to wait and watch how the bigger supplier China is behaving in the years to come.

Moderator: The next question is from the line of Sujit Jain from ASK Investment Managers. Please go ahead.

Sujit Jain: I just wanted to check, what would be the opportunity size in SOFC and solar panel application and as well as you had mentioned in the last call there are applications in the EV where for light weighting purposes there would be applications. For that segment as well what could be the potential opportunity size?

P. Padmanabhan: In respect of the alternate fuel energy mainly the SOFCs, we are presently supplying the panels for SOFCs and there is growth potential in a sense more of the other components, mainly the plates can be replaced by the ceramic plates. So, a market growth potential is there. So, we feel that this will help us in increasing the supply to the SOFC side. And the focus of the government is also helping us. It is on the hydrogen fuel cell side. And as we have already catered and supplying to the SOFCs, we have the technology and then we can cater to the needs of the hydrogen fuel cells also and there is a growth potential. We need to wait and see how that demand increases in the market. Depending on that our supplies, we are geared to supply to the increasing market. To that extent we are gearing ourselves.

Sujit Jain: Any number that you can put to the opportunity size for these?

P. Padmanabhan: As far as the numbers is concerned, the focus is on the initial stages. Even if you could take the earlier incentives like PLI, Atma Nirbhar, etc., it took 2 to 3 quarters to get stabilized and then the benefits can be seen only later quarters. That is why at this point of time we have to wait and then see how the demand is increasing. And then from our side we are gearing ourselves to cater to the needs of all the components to the extent possible. That's why with the existing suppliers we are giving and are getting ourselves quality clearances by supplying the other parts of SOFCs. This will help us in catering directly to the hydrogen cell market also. At this point of time, we may not be in a position to work out the numbers and then come out how it will behave.

Sujit Jain: If I do the math of consol minus standalone for the abrasive business, the EBIT margins are much lesser, 6.9 percent in the quarter. Annual trend also is anywhere between 6 percent to 8 percent kind of margins. What would be the reason for lesser margins in abrasives segment in consol minus standalone?

P. Padmanabhan: In respect of the consol minus standalone, the abrasive segment as you know that Rs.56-57 Cr is the turnover part which is 17 percent growth on quarter-on-quarter basis, and almost 16 percent on the sequential and year-on-year it is 34 percent mainly because of the low base effect.

Out of that the standalone has really performed well in line with the growth in the auto, auto components that is why you could see the growth in the standalone level abrasives. There are growth in the other entities like Sterling is also going because they are also catering to the industries mainly the precision as well as the polishing industries they are doing. As far as America is concerned, they are supplying the material for hot floor polishing therefore the market is there. There also it is growing, and we are seeing growth in the Russian market also.

Sujit Jain: And one last quick question is on your energy cost, 10% and 14% for the full year last year for standalone and consol. Now that you have this Maniyar plant, Hydel power plant, captive plant giving you energy. And you are also planning a captive power plant in Russia. With both of these coming in what would be the savings in energy cost at consol level?

P. Padmanabhan: At the consol level the energy cost is around 13 percent. It is hovering between 13 percent to 13.5 percent. And it is mainly because of one is the hydel power in India as well as the cheaper power availability in Russian front where the power consumption is very high mainly for the fusion purposes. In respect of these two places, the hydel is dependent on the rainfall. As you see now that the rainfall is good, the generation from our Maniyar hydel power plant is high, therefore it is reducing the power cost. On one end the power cost is increasing, EPI, to some extent it is offset by the better generation at our hydel plant. That is why you could see here and despite the increase of fuel prices we are maintaining at the same level of 13 percent.

Moderator: The next question is from the line of Ashwini Sharma from Anand Rathi. Please go ahead.

Ashwini Sharma: I have two questions, first is, what was the capacity utilization levels across the segments during the quarter? And what is the number that you are projecting for full year FY22?

P. Padmanabhan: On the first question relating to the capacity utilization, it is around 65 percent to 80 percent. In the abrasive segment it will be around 65 percent. In ceramics it will be around 80 percent. EMD it is almost 90 percent. This is how we are utilizing the capacities and in respect of VAW, it is almost flat out. And can you repeat the second question please?

Ashwini Sharma: The targeted number for the current full year?

P. Padmanabhan: We feel that going by the current demand trend we can repeat H1 subject to the how the COVID challenge we will see in H2. We are expecting if everything goes well, we are expecting the same figures can pan around in the second half also with reasonable growth.

Ashwini Sharma: My second question is what is the CAPEX for the current year, and which are the areas where this CAPEX will be done?

P. Padmanabhan: As of now, we have done a CAPEX of around Rs.71 Cr, and we expect that for the full year it will be around Rs.120-130 Cr.

Ashwini Sharma: And the areas where you think that this will be spent?

P. Padmanabhan: It's a mix. It is mainly on the ceramic segment as well as the abrasive segment. It's a mix up of the maintenance CAPEX as well as some additions of the ancillary equipment for the lines which we have already put in.

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

Harshit Patel: My first question would be on ceramics front. You have previously mentioned that we were doing a pilot of our new product in the filtered silicon carbide-based ceramics. So, could you give us an update on the same? And also, what would be the end-user industries for these kinds of products? And also, the margin profile, would it be similar to what we do in the alumina-based ceramics, or we need to be materially different from that?

P. Padmanabhan: It is in the very initial stages, and it will take time for us to check and come out with the margins for that. We feel that the market for that will grow because of the increasing concern on the green earth point of view. So, from the sustainability point of view this will help us because it is a high-purity product.

Harshit Patel: What would be the typical end-user industries where we are planning to supply? Is it aerospace, defence, those kinds of high-end industries or the end-user industry profile remains pretty much similar to what we are doing right now?

P. Padmanabhan: Majorly it will be the high-end industries.

Harshit Patel: My second question would be on super abrasives. We have seen a very good performance by Wendt India, which is our associate company in the last two to three quarters. Could you highlight which end of the industries or the product groups are doing very well? So that globally the electronics has been the main end user industry but that is absent in India. In India the automotive would be the major end user industry for super abrasives. But the automobile industry was not having a really great time in the last quarter. Despite that we have done really well in that. So, what actually is driving this kind of performance? Also, is there any plan to introduce this product in our standalone entity as well?

P. Padmanabhan: In respect of our associate Wendt India, they are supplying the super abrasives mainly to the auto, auto components and auto ancillary industries. And now that the recovery path is seen in the auto sector, the demand for the precision products has grown and that is why you are seeing growth in the results of the Wendt too. And we feel that, see, one advantage is that the chip shortages has not greatly impacted the India auto sector. So, we need to wait, how it is behaving. And at this point of time, we feel that the auto sector has recovered, though it has not gone to the COVID levels, but if you compared to the last year the demand has increased, and we see a growing trend. We feel that the demand for the super abrasives will continue in the coming quarters, and we can see good results from the Wendt too.

Harshit Patel: Is there any plan to introduce super abrasives in your standalone entity as well or we will cater to that market through Wendt in their own way?

P. Padmanabhan: Both are catering to the different applications. Though it is serving to the same auto sector, the applications are entirely different and then both will go on parallelly.

Moderator: The next question is from the line of Bhumika from DAM Capital. Please go ahead.

Bhumika: On ceramics, just wanted to understand two things. One is how is the metallized cylinder capacity ramped up, what would be the utilization now? And secondly, if you can comment about how the Australia operations which were disrupted earlier, because of the China trade war, how is that behaving in terms of normalization?

P. Padmanabhan: In respect of the ceramics, there are two components. One is on the Metz components, as you know that last year, we have increased the capacities mainly to cater to the increasing demand. And we have an installed capacity of around nearing 2 million as far as the capacity is concerned. And in the respect of the wear ceramics, it is mainly supplied to the Australian market, the mining operations, coal washeries, etc. The relationship between China and Australia, there is a strain, however we feel that at this point of time certain solutions are coming and because the demand has increased as far as the Australian market is concerned.

Bhumika: Is it possible to get what the utilization levels are for the mets plant?

P. Padmanabhan: Utilization level is around 75 percent to 80 percent as far as the Metz plant is concerned.

Bhumika: For the new metallized plant which you have commissioned?

P. Padmanabhan: On a combined manner.

Management: Bhumika, the earlier capacities of Metz was 1.7 million. After that last year we added another 0.5 million we have added, totally 2.2 million is the current capacity and out of which we have nearly 70 percent to 80 percent of the capacity currently we are running.

Bhumika: The other thing was in terms of the abrasives, we have definitely seen some good market share gain from Chinese import substitution, etc. Now, with the kind of price hikes that we are seeing, is the demand kind of sustaining and do you think these price hikes are getting absorbed, number one? And number two, do we need to take further price hikes to pass on any kind of raw material pressures that we are seeing?

P. Padmanabhan: The cost push has not subsided. We feel that in three areas the restrain is there. One is the input raw material cost is increasing and the second is on the energy and fuel prices are increasing and thirdly the logistics issue. There also we are having increases in the form of freight charges and of course the availability of the containers is also a challenge. And we are passing it on to the ultimate customer but there is a timing issue. See, what the price increase that is the cost push.

At what rate the cost push is there and at what rate the selling price has to be increased, the timing is very important. We may not be in a position to exactly quantify what would be the pass on at this point of time. If the cost push is continuing in the subsequent quarters also, we will be confined to increase our prices.

Bhumika: The other thing is in terms of Electro Minerals, mean in terms of VAW, we were looking at some debottlenecking of capacity over there. If you can talk about the status of same. And also, about the status of the South African venture scaled down.

P. Padmanabhan: In respect of it is almost at the flat out and we are running it fully. We are working on the scrubbers to match to the emission norms which we have already done, and we have got awards from the Russian government and in the region where we are working on and that is a main aim to reduce and to conform to the norms that have been achieved. The second is on improving the capacities which we have to cautiously do it based on the environmental controls. That's why we are not taking up in an aggressive manner.

Moderator: Our next question is from line of Lokesh Manik from Vallum Capital. Please go ahead.

Lokesh Manik: Just one small clarification. Since we have products across abrasives and ceramics dealing to a diversified set of end-user industries, so the growth that we are seeing is it more broad-based in nature or this is attributed to a few specific industries in the domestic market, growth in domestic market.

P. Padmanabhan: The advantage of CUMI business is that there is no single concentration to any user industries. It is very much diversified as you rightly said. And the growth in all the sectors, even if there is no growth in a particular sector, we are continuing to have the growth or on par with the existing levels. That is the advantage which CUMI has. We feel that the growth is almost the recovery is seen in all the sectors. It is mainly because of the Government impetus and then the China One Plus source strategy. These things are really helping us, and we feel that if this continues and the third wave, if it is under control, the present demand will continue.

Lokesh Manik: So, this would be broad base in nature.

P. Padmanabhan: It is broad based and is not any sector specific. We feel the demand will be across all the sectors.

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

Bhavin Vithlani: The question is on the supplies that we had spoken about in the previous quarters of our solid-state batteries to the likes of Morata and Toyota and any update on that. When can we see that mass production for solid-state could commence?

P. Padmanabhan: As we mentioned in our earlier calls, the quality and the acceptance by the suppliers or the intermediaries of the factories, it's a big process and we are in the process of qualifying that. The qualifications have come, some of the customers have agreed and then the process will take time.

One by one stage we need to finish. One will be on the technical quality side. One will be on the new run side. Another will be on how the energy can be retained, etc. So, it is a process.

Bhavin Vithlani: Any update where are we in that process and will it be like in 2 years, we could see some amount of revenue coming out from solid state batteries?

P. Padmanabhan: We are positive on this side and then the demand for the battery is increasing mainly due to the EV also. If you could see the EV growth, almost more than 1% growth is seen against the conventional vehicles across all the segments. Mainly it covers the two wheelers as well as the three wheelers, the demand for EV has grown. Out of this 1% more than 50% growth is seen in the two wheelers and rest is from the three wheelers. On the four wheelers, it will take some time and the demand and the supplies from us, will cater up to the battery of all the sectors, two wheelers, three wheelers as well as the four wheelers. So, we feel that demand will be manifold, but it depends on how it is getting accepted in India as well as in the group.

Bhavin Vithlani: My last question is on the exports for abrasives. In the previous calls you had mentioned about exporting jumbos and doing final assembly closer to the client side and there was some success that we had seen from our Russian subsidiary as well. So, any update and when can we see a ramp up in the exports for the abrasives?

P. Padmanabhan: As far as abrasives market is concerned, as I explained earlier, the growth is there in the American market. Mainly we had hard floor polishing and in the Russian market also it is improving, and a double-digit growth is seen on a quarter-on-quarter basis and as well as on a yearly basis. So, it will improve, and we are looking into the various avenues by which we can reduce the time involved in exporting to each of the jurisdictions.

Bhavin Vithlani: Any percentage of sales for abrasives which is exports and how should one expect this over a 3-year basis?

P. Padmanabhan: At this point of time the exports of abrasives is around 10 percent to 12 percent. Because we are catering to the American markets and the Russian markets to some extent, It depends on the growth in these areas. We have the steady source that the demand for the abrasive across the globe will increase. Even if it goes to the EV segment the demand for abrasives will continue.

Moderator: The next question is from the line of Rajesh Ranganathan from Doric Capital, please go ahead.

Rajesh Ranganathan: You had spent a lot of time talking about need to take up the price increase because of cost push but if we look at our margins for this quarter, yes, they may be little bit lower than what you reported most recently but compared to history our margins are quite high. So, in this context, either due to competitive pressure or pushback from clients, why are you confident that you will be able to pass on the cost push for us?

P. Padmanabhan: You need to look from the angle of the manufacturer across the industry. The input cost is not only for CUMI, the input cost rise is felt across the industry and all the manufacturers of abrasives are facing this. The energy cost is also increasing. Therefore, we feel that it is not a problem of CUMI alone. Across the industry, it is a problem, and the cost push has to be passed on to the ultimate customer. That is why we are confident that the increase has to be done. Of course, that will be a challenge of the competition. But when the entire world is facing the cost push, I don't think that it is a one-man problem.

Rajesh Ranganathan: What I meant was at least on the reported basis our margins are quite high. In that sense, we actually don't have a problem because compared to our history of margins are still high. So, if competition is also in a similar situation, they may choose to either accept it or use the opportunity to gain market share, or clients could push back saying, hey, you are making good money why do you want more prices? Or is there something about these margins which look high but actually because of historical inventory cost our margins are high but on current prices margins will be lower. If you could explain that.

P. Padmanabhan: We have taken the COVID challenge as an opportunity to look into the cost and we have taken initiatives to reduce the cost both at the variable cost level as well as the fixed cost level. These initiatives are taken across the company, across the businesses and across the locations. And the second thing is that we are exploring all possible areas where we can increase the productivity levels through efficient method. So, these two things are helping us to face the challenge of cost increase. This is helping to a greater extent. That is why you could not see even under these circumstances; we are able to stick on around the same profit levels.

Rajesh Ranganathan: To be clear, let's say input prices, freight costs, energy prices, etc., remain at the current level. Our margins would also be similar. You only need to take a price increase if current prices of input increase further.

P. Padmanabhan: The price increases is to match the cost input increases.

Rajesh Ranganathan: You have answered a lot of questions already on solid state batteries and so on. But as you mentioned that you supply a whole variety of industries and as you know that India is going through a potential area in manufacture zone. Several new industries are getting pushed from the Government to localize. Among these have you already looked at things, all of these are potential customers or any one of these look more exciting than others.

P. Padmanabhan: It is not only at the Indian level. It is across the globe, the demand for the ceramic components towards the manufacturer of the alternate fuel cells is there. The demand we are working on with the relevant manufacturers and in fact as I mentioned earlier, we have passed some of the quality stages and we are positive on this.

Rajesh Ranganathan: Sir, maybe I didn't clarify my question, what I meant was just even without solid-state batteries anything like that, we have so many other schemes that have come up India for chemicals, for solar, for semiconductor, mobile phones, whatever. I guess all of these are customers for you. Anyone one of these look more exciting than the others for you?

P. Padmanabhan: See, it is not customer specific it is more of the sector specific, and application based. So as long as we are catering to a particular application, naturally the customers who were existing at this point of time are the new incumbents. We will be in a position to supply it to everyone as long as our product caters to the specific application. For example, if you take EV, if we have geared ourselves to cater to the EV manufacturers whether it is X or Y, we will be in a position to supply to them.

Rajesh Ranganathan: Last question from me, specifically for EV batteries and on electronics industry, what applications that are exciting us at this point of time?

P. Padmanabhan: In respect of the ceramics, it caters to the high-end of the power generation both conventional and as well as the alternative fuel energy and the high advanced, the aerodynamics aerospace and then the defence research is also there, railways can also use ceramics and advanced medical equipment can also use ceramics. As far as the vehicles are concerned, the advantage is that if they use the ceramic plates, the weight of the vehicle will come down. So instead of using the metal, they will use the ceramic plates as an alternative which will reduce the fuel consumption and increase the speed also. So, the growth potential is very high across all the applications.

Rajesh Ranganathan: You were also trying to export to the source countries such as say Taiwan because ultimately even though electronics market is very small in India, it is a huge market globally, have you had any success with targeting export application for this end?

P. Padmanabhan: It is not any customer specific or geography specific, wherever the demand is there, if we are geared to supply it to a specific application, yes, we are in, and we can do that.

Moderator: The next question is a follow-up question from the line of Jason Soans from Ashika Groups. It seems there is no response on the line of Jason. Ladies and gentlemen, that would be our last question for today. I now hand the conference over to Mr. Kunal Sheth for closing comments. Thank you and over to you, sir.

Kunal Sheth: Thanks Aman. I would like to thank all the participants for taking time out for this call. I would like to wish the management and all the participants a very happy Diwali and prosperous new year. Sir, any closing comments from your side?

P. Padmanabhan: Thank you all again for logging in into this call. Of course, the global challenges like chips shortages, energy crisis, the increasing input costs, and supply chain disruptions will continue to remain for the upcoming months and maybe some quarters. We are confident to gear ourselves and be prepared to mitigate these, through higher realizations, efficiency improvements, and better cost management. We are also staying focused on building our capabilities to face the future. I also wish each and every one of you and your families a very happy, prosperous, and safe Deepavali.

Moderator: Thank you very much. Ladies and gentlemen, on behalf of Batlivala & Karani Securities India Private Limited, that concludes this conference. Thank you all for joining us and you may now disconnect your lines.