“Carborundum Universal Limited
Q2 FY 23 Earnings Conference Call”

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Moderator: Good morning, ladies and gentlemen and welcome to the Q2 FY'23 Earnings Conference Call of Carborundum Universal Limited hosted by DAM Capital Advisors Private Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Ms. Bhoomika Nair from DAM Capital Advisors Private Limited. Thank you and over to you, ma'am.

Bhoomika Nair: Thanks, Michelle. A warm good morning to everyone. Welcome to the Q2 FY'23 Earnings Call of Carborundum Universal. We have the management today being represented by Mr. Sridharan Rangarajan, Director -Finance and Strategy; Mr. N. Ananthaseshan, Managing Director; Mr. P. Padmanabhan, CFO and Mr. G Chandramouli, Investor Relations.

I'll now hand over the call to Mr. Ananthaseshan for his initial remarks, post which we will open the floor for Q&A. Over to you, sir.

N. Ananthaseshan: Good morning, everyone. Before we begin, as a practice, we will have not Mr. Chandramouli but Mr. Denesh because Chandramouli is indisposed and Mr. Denesh will be taking his place and he will read out the disclaimer and then I will take the call.

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

N. Ananthaseshan: Thank you, Denesh. Thank you all once again for joining on this call and a very warm welcome to the second quarter FY'23 Earnings Call of CUMI. I trust that all of you and your family are safe and all of you had a very good Diwali. Today, we are joined on the call by my colleagues, Mr. Sridharan Rangarajan, Director-Finance and Strategy; Mr. Padmanabhan and Mr. Denesh.

I will begin this call by providing an overview of the company's performance and a commentary on the outlook. This will be followed by financial performance by our CFO and afterwards Mr. Sridharan will take you through the performance of our major subsidiaries, VAW and newly acquired business.

Since the last time we spoke in July, the macroeconomic conditions have changed across all sectors and markets. There has also been change in the level of optimism as businesses and economies around the world or all of them are dealing with all-time high inflation. We are seeing geopolitical turmoil, which is causing this energy crisis, an increasing or rising cost of capital, the Forex rates are fluctuating and there are disruptions on both the demand and supply side and almost every major economy is also experiencing an economic deceleration and a little bit fear of recession. So it is, in a way heartening to note that despite all these challenges, the company has managed to deliver a double-digit growth year-on-year on topline on a standalone and consolidated level.

Profits, obviously, has been better at a standalone basis, but lower on a consol level on account of losses from the newly acquired subsidiaries and Mr. Sridharan will cover this in detail during his part of the call. Overall, the performance for this quarter is largely a reflection of the diverse nature of our business portfolio. So, with all these uncertainties around, diverse nature has balanced the uncertainties and the opportunities across industries and geographies. This resilience is contributed largely by our diverse product portfolio mix and the market delivery channels which are both customer and distribution and supported by efforts in newer and emerging areas.

For the quarter, our revenues has grown 34% to INR1,117 crore and remained flat sequentially at a consolidated level. At a standalone level, it has grown by 11% quarter-on-quarter and 2% sequentially to INR610 crore. The growth was driven by all the three segments, Electrominerals and the Ceramic segment has shown significant growth quarter-on-quarter, while the growth in Abrasive segments also includes additional sales from the newly acquired subsidiaries.

All major existing overseas subsidiaries have grown significantly compared to Q2 of last year, whereas on a sequential basis, American subsidiary grew in double digits. Subsidiaries in Australia and Russia remained flat, while the South African subsidiary, Foskor Zirconia, de-grew marginally. The growth in top line has been significant on a YTD basis. Consol sales grew by 46% to INR2,245 crore and our standalone sales grew by 19% to INR1,211 crore.

Coming to the bottom-line performance, at a consolidated level, profit after tax and non-controlling interest grew sequentially by 13% to INR89 crore against INR79 crore in Q1 of the current financial year, but de-grew by 9% Q-on-Q. PAT margins improved sequentially from 7% to 8% in Q2 but dropped by 374 points quarter-on-quarter. This was mainly on account of the cost related to the newly acquired subsidiaries, as I said earlier.

At the standalone level, PAT grew 14% to INR72 crore from INR63 crore on a quarter-on-quarter basis but decreased by 2% sequentially due to cost impact on Abrasives segment and the minerals. PAT margins has increased to 11.8% from 11.4% in Q2 FY'22 but dropped by 38 basis points sequentially.

Coming to the bottom-line performance of subsidiaries, the domestic subsidiaries except SEDCO, which is our energy generation subsidiary, did well. The profits of SEDCO, which is located in Tamil Nadu was impacted due to the steep increase in input gas prices for the H1 of FY'23. There is also a hike of 40% in gas prices for H2. Also, due to steep jump in related generation and transmission charges, the losses are expected to widen for SEDCO in H2 FY'23. The operational losses from PLUSS Advanced Technologies have come down by 37% compared to Q1 FY'23 and the American subsidiary has shown remarkable growth quarter-on-quarter and sequentially on account of increasing demand for Abrasives and Wear Ceramics in the end user industries.

The profitability of the Australian subsidiary was lower due to the increase in freight charges and was negative for a subsidiary in Middle East due to the non-availability of materials because of the logistics challenges. The profits for VAW in INR terms have grown in double digits quarter-on-quarter and also sequentially. More details will be covered later in the call by Sridhar. Profits of our subsidiary in South Africa was higher on a quarter-on-quarter basis, but significantly lower sequentially. This was majorly on account of our supplies being disrupted due to the congestion in the South African ports, are caused by their strikes.

Coming to the bottom-line performance, on a YTD basis, PAT at a consolidated level decreased by 4% to INR168 crore from INR175 crore during H1 of last year and PAT margins dropped to 7.5% from 11.3% year-on-year. The drop was mainly from the Abrasive segment as commented earlier. On a standalone basis, PAT increased to INR145 crore in H1 from INR126 crore in H1 of last year. Margins dropping by 47 basis points.

Coming to the external environment, we expect that the global growth would decelerate from 6% in calendar year 2021, which was caused by the post-pandemic resurgence to 3.2% in calendar year 2022. This is mainly because of the tightening global financial conditions to fight inflation, sharpest slowdown in China due to extended lockdowns and the spillover effects from the war in Ukraine. We believe India is positioned at a better place than many other economies across the globe.

The auto sector has reached pre-pandemic levels in most segments and expected to do better on the back of strong order books and easing supply constraints, especially on the semiconductor front. The construction linked sectors are also showing signs of continuous improvement over the pre-pandemic levels and is led by the Capex plans announced by the government and many private players. However, we see the inflation which has impacted margins significantly across segments in the last few quarters, hopefully is expected to slow down as we see cooling off in the commodity prices.

We remain cautiously positive on the outlook for sectors like steel, cement, power, glass, carbon black, new energy businesses to which CUMI caters. While we do have a good order book, especially in the Ceramics segment for the coming quarters, we believe that the Abrasives and Minerals are expected to have the demand side challenges. In terms of Capex, at a consolidated level, we have spent INR177 crore in the first half of FY'23.

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

P. Padmanabhan: Thank you, Ananth. Good morning, everyone. Let me summarize the financial performance for the quarter ended September 30, 2022. At the company level, consolidated sales for the quarter increased by 34% to INR1,117 crore from INR834 crore in the corresponding quarter of last year, driven by strong performance in Electrominerals and Ceramics segment and of course, the additional sales of INR 141 crore from newly acquired subsidiaries.

On a YTD basis, the sales has grown 46% to INR2,245 crore from INR1,540 crore in H1 of last year. This includes the additional sales of INR322 crore from new subsidiaries. On a consolidated basis, profitability for the quarter recorded a strong growth across Minerals and Ceramics segments. Profit after tax and non-controlling interest for the quarter grew by 13% to INR89 crore against INR79 crore in Q1 of the current financial year. However, profit after tax and non-controlling interest for the quarter de-grew by 9% compared to Q2 of last year. The profit for the quarter was lower in comparison to Q2 of last year on account of the raw material cost inflation and amortization arising out of the acquisition costs related to the newly acquired subsidiaries in second half of F'22.

On a YTD basis, profit after tax and non-controlling interest dropped by 4% from INR175 crore to INR168 crore and PAT margin dropped from 11.3% to 7.5% because of reasons cited above. Coming to the standalone performance, sales increased by 11% to INR610 crore from INR551 crore on a quarter-on-quarter basis and by 2% sequentially. For the quarter, PAT grew by 14% to INR72 crore from INR63 crore on quarter-on-quarter basis and decreased by 2% sequentially and PAT margins have increased to 11.8% from 11.4% quarter-on-quarter but dropped marginally by 38 bps sequentially. On YTD basis, sales grew significantly by 19% to INR1,211 crore from INR1,015 crore, and PAT increased by 15% from INR126 crore to INR145 crore, but the PAT margin dropped from 12.4% to 11.9%. The drop was mainly from the Abrasive segments on account of raw material cost inflation.

Coming to the segmental performance, Abrasives consolidated revenue for the quarter grew by 49% to INR484 crore compared to INR325 crore in Q2 of last year but was lower by 6% sequentially. Standalone Abrasives grew by 3% quarter-on-quarter and sequentially to INR276 crore. The newly acquired subsidiaries, RHODIUS and AWUKO added additional sales of INR128 crore to the top line beside significant growth from the subsidiaries in Russia and America.

On YTD basis, consolidated sales grew by 67% to INR997 crore and for standalone, it grew by 11% to INR545 crore. AWUKO and RHODIUS added additional sales of

INR298 crore during the first half of '23. Profit from the finance cost and tax at consolidated level was lower by 37% at INR28 crore as against INR45 crore in Q2 of last year. However, the profits were better by 57% on a sequential basis. On YTD basis, consolidated PBIT de-grew by 44% to INR46 crore and for standalone, it de-grew by 11% to INR67 crore. The lower profit is due to the raw material cost impact in standalone and integration costs for the newly acquired subsidiaries.

Electrominerals segment consolidated revenue for the quarter was at INR410 crore versus INR323 crore in Q2 of last year, resulting in an increase of 27%. Standalone Electrominerals grew by 21% to INR172 crore from INR142 crore on account of higher realizations and volumes in fused Aluminas. Volzhsky Abrasive Works, Russia and Foskor Zirconia, South Africa, also registered significant growth. On YTD basis, consolidated sales grew by 34% to INR816 crore and for standalone, it grew by 27% to INR351 crore. Profit before finance cost and tax at consolidated level was at INR69 crore as against INR48 crore of Q2 last year. Profitability growth was due to strong performance at standalone as well as overseas subsidiaries on account of higher realization with increasing demand of minerals. Our PBIT remained flat on a sequential basis due to softening in commodity prices globally, which impacted our realization. On YTD basis, consolidated PBIT grew by 46% to INR128 crore and for standalone, it grew significantly by 79% to INR57 crore.

In respect of Ceramics, consolidated revenue for the quarter was higher by 21% at INR254 crore as against INR210 crore in Q2 of last year and sequential growth was at 5%. Standalone Ceramics grew by 22% to INR211 crore on a quarter-on-quarter basis and 9% sequentially on account of strong demand across end user industries and geographies. Subsidiaries in Australia and America also registered significant growth. On YTD basis, consolidated sales grew by 30% to INR497 crore and for standalone, it grew by 29% to INR404 crore. Profit before finance cost and tax at consolidated level grew by 32% to INR65 crore from INR49 crore on quarter-on-quarter basis and 11% sequentially on account of growth in volume, realization and product mix. On YTD basis, consolidated PBIT grew by 51% to INR123 crore and for standalone, it grew significantly by 52% to INR99 crore.

On the finance front, there was a debt of INR263 crore in the standalone books and at the consolidated level, it was at INR382 crore as of 30th September as compared to INR254 crore as of June 2022. The debt equity ratio was at 0.14 for consolidated as of Q2 '23. 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 cash flow front, our strong balance sheet is evidenced by net cash flow position and low debt equity ratio. The borrowings, net of cash, was at INR78 crore.

This concludes my update on finance. I'll now request Mr. Sridharan, our Director, Finance and Strategy, to walk us through the performance of the Russian subsidiary, VAW and the recent acquisitions.

Sridharan Rangarajan: Thank you, Ananth, and Padmanabhan. So good morning to all of you. Hope you had a good Diwali celebration and getting back to normalcy. You are keen to understand how we have performed in Russia as well as the new acquisitions. So, I'll try to cover all your probable questions that you will have in your mind.

First, I will take Russia. As we earlier commented in the call, the products of Russia are not under any sanction, not as restricted material, neither Volzhsky Abrasives Works as an entity or its Director or any of its employee are under any sanction. VAW is having timely collections from its customers with no challenge. The logistics arrangements to Europe, India, or other geographies are in compliance with the regulations which are in place. VAW delivered a top line of RUB1.8 billion this quarter compared to RUB2.1 billion in the prior quarter and RUB1.8 billion in a comparable last year Q2.

They delivered a profit of RUB236 million in this quarter and RUB225 million in the last quarter and RUB270 million in Q2 last year. Ruble were converted at an average of RUB1 to INR1.32 for this quarter. The same was done in Q1 at INR1.16 and in Q2, it was done at INR1.01. VAW is able to collect all its receivable on due dates or earlier. They continue to be debt free and having enough liquidity. They have also worked on zero import and they are able to source all their material within Russia.

Capacity utilization is normal and they are able to sell inside Russia higher. The current mix is around 55%, which used to be normally at 45%, has moved to 55%. In terms of the last quarter, we said that they have incurred an exchange loss of INR35 crore because of a sudden change in strengthening of the ruble. This quarter, an exchange gain of INR8 crore. So, that gives you a broad picture of our Russian subsidiary.

Just to sum up, I think we are in quite decent performance in Russia, but we are taking one month at a time and all our leaderships are focused on delivering, maximizing the capacity utilization and making sure that what they invoice is well collected and complying with all the regulations. This is how we are doing it in Russia.

I'll move to RHODIUS. Just to recap, CUMI made a significant acquisition of RHODIUS Abrasives in Germany at an enterprise value of EUR55 million and took control of the company effective from April 1, 2022. RHODIUS manufacturers in Germany, global best quality cutting and grinding discs. They lead in product innovation and quality with unique professional segment product suite. They have proprietary production process setting industry benchmark. They have a very strong legacy of 7 decades of successful business, serving more than 100 countries. We took control of the company 6 months back. We would like to tell you that RHODIUS Abrasives was supported by RHODIUS Holding in terms of the common financial and IT leadership.

It used the common infrastructure, including IT infrastructure and resources. These resources will be available until December and CUMI will have to recreate the team and the infrastructure by then. The progress is good. I would like to report to you that we now have a CFO of the company recruited and joined the company, which we shared with you in the last call itself. We have also now an IT Head recruited and joined the company. This is also we reported to you earlier. We have appointed a consulting company to work on providing the IT infrastructure. The progress is good and we'll be able to have all the common services part of us by December. We have engaged recruiting agents to set up a proper team. We are progressing well in this regard.

So just to sum up, I think the leadership team is in place, the infrastructure will be in place by December, but there's a provision of infrastructure through the common platform during these 6 months. RHODIUS in Q2 achieved a net sales of EUR14 million. As of H1, they are closer to the plan. We expect the full year sales to be EUR68 million to EUR70 million. I said in the last call, we will be in the range of about EUR70 million to EUR75 million.

I would like to recall what we communicated in our last call. We said that EBIT margin of RHODIUS used to be 7.5% to 8% with a high teens of ROCE. We also said that we would expect a drop in margin as well as ROCE after we take over. We expect to reach EBIT margin of 12% to 14% by FY'26. These were communicated to you in the last call and we still feel that we are progressing towards these marks that I just shared with you.

As far as this quarter is concerned, we made a loss of INR9.6 crores and in Q1, we made a loss of INR6.5 crores. We expect the full year loss would be about INR19 crore to INR20 crore. Please note that we have INR23 crore of higher costs due to amortization of intangibles, that is EUR2.8 million. We will incur an integration cost of about INR11.5 crores, roughly about EUR1.4 million. This is for setting up the team, infrastructure costs. Some will be written off and some will have a Capex program. Beside this, RHODIUS was impacted by higher cost of input material and logistics. They have contracted the energy for the full year, which is the calendar year 2022. So far, there is no impact on the energy costs. Within Q4 of FY'23, there will be an energy cost increase that is now factored into the number that I just shared, which will have an about EUR1 million increase in higher energy costs in Q4.

With all said, we expect that they will be incurring a loss of about INR19 crore to INR20 crore. Predominantly, as I said, one, due to higher amortization costs, that is INR23 crore, integration costs one-time about INR11.5 crore and higher energy cost of about EUR1.1 million. RHODIUS has implemented a planned price correction. Of course, this can only be affected progressively. We expect the full-year impact of this would be about EUR3 million.

In the last call, we said that we expect full year would be a breakeven, but now we are saying that they will be incurring a loss of about INR19 crore to INR20 crore. Losses in Q2 and Q3 will come down and we expect a profit in Q4. We expect FY'24 a profit from where we will progress to PBIT margin of 12% to 14% in FY'26. In addition to the current quarter, the expectation of energy price increase, which we now have clarity, we feel that there will be an increase in energy price in FY'24 to the extent of about EUR4 million to EUR5 million. We would plan a price increase and expect a softening of raw material and freight costs. We would work on offsetting the energy price and when I communicate now that FY'24 a profit, this considers energy price increase as well as the price correction that will affect, as well as the softening of the raw material and freight cost.

I will move to AWUKO. Probably, I will just sum up RHODIUS for a second. I think RHODIUS is doing well. Their product demand is in shape, capacity utilization is well under control. There are challenges in terms of the energy price increase, which we need to face. Obviously, there is also a recessionary feeling that has been set. But I think the demand for the products which are sold in many geographies are well in control and we have to take it one quarter at a time.

AWUKO, just to recap, during the last year, CUMI acquired the main assets of AWUKO Abrasives from the Insolvency administrator. The assets included land, building, plant, machinery, fixed assets, leased assets, brands and trademarks, patents, technical know-how and other intangible assets, excluding cash and receivables. CUMI paid about EUR8 million. AWUKO is a 120-year-old leading brand in coated abrasives. AWUKO is a market leader in leather and wood applications with strong presence in all these areas.

AWUKO exports 70% of its products predominantly in Europe and America. AWUKO has got 2 makers. With wide-width capability, CUMI will gain access to the coated abrasive capacity in Europe with a global distribution base and an experienced process and application engineering team. CUMI is currently working on stabilizing AWUKO's business and expect that it will take a couple of years. We expect AWUKO to breakeven by FY'24. This is what we communicated to you on last call. We still have the same view at this point in time and to reach sales of EUR22 million to EUR25 million by '26, with a high-teen returns on the investment.

AWUKO has got a coated capacity of 10 million square meters on a single-shift basis. CUMI's coated capacity will double with this acquisition, and CUMI will work on global coated strategy, optimizing product portfolio, geography and application need and cost positions. We have taken over the company 8 months back. We are in the process of strengthening the local leadership. We are reestablishing the relationship with suppliers who stopped supplying us as the company was earlier in financial problems. Setting up the supply chain is our priority. We are doing that. We expect the supply chain will become normal only in H2. We are also reaching out to customers and distributors. This process is going on well. CUMI's name and Murugappa Group backing helps us a lot in this process. We feel we'll be able to settle the full leadership team, reestablish the supply chain, bring back customers by Q4 of this year. This was communicated earlier and we still feel no difference to that.

We feel the process of morale building, reestablishing supply chain customer relationship is progressing in the right direction. We have now onboarded Chief Operating Officer for AWUKO, who is from abrasive industry and has got a substantial experience in this business, which is a positive thing for us. We have now a dedicated leader from CUMI appointed for the integration of AWUKO and RHODIUS, who would spend at least 2 to 3 weeks in a month from Germany. This quarter, they have achieved EUR2 million in sales.

We expect the full-year sales to be EUR10 million to EUR12 million. We expect the full-year loss to be INR20 crore to INR25 crore, which was again communicated to you earlier. We still feel the same. Q1 loss is INR4.8 crore. Q2 loss is about INR4 crore. AWUKO will breakeven by FY'24. There is no debt in the company. We will continue to fund the company until it stabilizes.

As far as PLUSS, I think we still feel they are progressing on the right direction. I would allow some more time for them to stabilize and deliver what their full potentials are. So, I think we will share more with you as and when probably in a year's time, they will be doing better and we'll share more details to you.

So, I think just to sum up, I feel that the acquisitions are doing fine. We have put in place a reasonable leadership team, both at RHODIUS and AWUKO. We have put a person in charge of the integration project. We feel that this will take time, particularly AWUKO. It's a long haul and we need to work on each of these areas, which is what we expected and I think there's no difference to earlier what we communicated.

And as far as Russia is concerned, we are still doing fine. Capacity utilization is good. They continue to have a prudent management on the ground. But it's a tough time. I mean every day, there are lot of news, there are lot of changes that's coming in, geopolitical feed. But what is important to us at this point in time is the products what Russia manufactures is a very important product and I think it is in demand.

Similarly, the RHODIUS products are also in demand because of the technology and innovation support. AWUKO has a good product. We just need to give time to reestablish the whole thing, which would take about a couple of years. We are prepared for that long haul and we have put in leadership in place.

I think I will close my remarks. But I'm sure you are eager to ask many questions. We'll be glad to answer as much as possible. Thank you.

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

Sujit Jain: In standalone Abrasives segment, we are clocking margins of close to 12%, 12.5% versus earlier higher margins. When I look at the Grindwell Norton numbers Q1, their margins did not decelerate. Of course, their results are yet to come out for Q2. Both of us are equal size in India almost. What is causing this margin decline? You have given reasons in Q1. When do you see these margins come back to their normal levels?

N. Ananthaseshan: Okay. I will now answer that question. So, in the case of Abrasives, we do have 2 product segments. One, as you know, is a bonded segment and the coated abrasives segment and over the last couple of quarters, we have seen the raw material prices going up significantly. The bonded abrasives is a material, I mean, as a product group, which consumes a lot of grains and approximately 70% of a grinding wheel are grain and the cost push there has significantly impacted the overall cost and industry margins.

What happened over the last quarter is that, so while we put up prices over the last 3 quarters to offset these costs push, we also saw that last quarter, the commodity price was coming down and consequently, the grain price was also coming down, which has helped Abrasives pick up the margins. I believe that this trend, what we see over the next couple of quarters will get the model Abrasives back into a much better position.

Having said that, we also had supply chain challenges last quarter before. We had stocked some material, which is obviously at a higher cost. So we have to balance that. In the case of coated abrasives, most of the paper backing has imported and also some of the resins and they are imported from Germany and the cost of those imports have gone up significantly. So while we are putting up prices and then we have seen also the work which we've done on the efficiencies kicking in, the rate at which the prices will come down on these raw materials are not so clear. So maybe it will take another quarter or 2. But I believe over the next few quarters, we would see Abrasives margins back to its normal level of about 14%.

Sujit Jain: Sure. And in terms of AWUKO absolute sales for this quarter, what is the quarterly run rate that you're clocking currently and your estimate of annual revenues, therefore, in AWUKO?

Sridharan Rangarajan: So AWUKO, I think we are running about EUR 1 million. This is the run rate at this point, EUR1 million a month and I think this quarter is lower. We feel that EUR10 million to EUR12 million for this financial is what we are expecting as a full year.

Sujit Jain: Yes. Because if I reduce the sales of RHODIUS from the total that you've given in the presser, right, can you grow the amount to only EUR 1.4 million quarterly sales for AWUKO, which you are saying which this revenue run rate will increase.

Sridharan Rangarajan: That is still correct.

Sujit Jain: Right and there is one item in the cash flow, which is basically exchange gains of INR 24 crore. What is that on account of?

P. Padmanabhan: It is mainly on the fixed deposits we kept in our subsidiaries to acquire the new entities.

Sujit Jain: Fixed deposits kept in subsidiary to acquire new entities, and these deposits were in euros probably?

N. Ananthaseshan: Correct.

P. Padmanabhan: And we utilized that for acquiring the companies.

Sujit Jain: Right. And I just want to check with you, CUMI International, what business is it? How is it, the subsidiaries?

Sridharan Rangarajan: So CUMI International is a holding company. So, it has Russia, South Africa, China, Germany, America, all subsidiaries, except the Australian subsidiary and the domestic Indian subsidiaries.

Sujit Jain: Yes. And one last question is the increase in working capital, especially inventory and receivables, consol level?

Sridharan Rangarajan: So 2 reasons. One, there's a standalone increase as well as the new acquisitions, which are now getting consolidated. So, their inventories and receivables are also getting added. Standalone inventory is higher, largely in abrasives, as well as in

Electrominerals, largely to cater to the future requirements and wherever we feel that it's better to lock in, that's what we have done.

Moderator: We have the next question from the line of Vishal Biraia from Max Life Insurance. Please go ahead.

Vishal Biraia: Perfect. Sir, the first question pertains to the domestic Abrasives segment, the standard Abrasives segment. Could you help us with the pricing scenario and the competitive dynamics in the market?

Sridharan Rangarajan: Yes. So, I think the question, Vishal, you are asking is the Abrasives EBIT margin and then the competitive scenario. Is that correct?

Vishal Biraia: Yes and the pricing and the competitive scenario.

Sridharan Rangarajan: Pricing and competitive scenario. So as far as Abrasives and domestic business is concerned there are 2 major players. Of course, there are few other players who have got niche products segment, et cetera. I think I would say that capability to pass on price is there, but at the same time, beyond a point, it is difficult to pass on because of the nature of the industry that we serve. So sometimes it comes as well. But in the last year or so when the imports in China were expensive, particularly in terms of the minerals and Abrasive prices went up. So all the competition, as well as we put up the price and it was absorbed in the market. And so, hence, the capability to pass on the price is there, but it depends on, up to your point and beyond which there could be some, people will start trading on the lower products and then start managing their expectation or, let's say, performance at that level.

Vishal Biraia: So have we seen increase in imports from China for the second quarter?

Sridharan Rangarajan: So there's a small increase, but I think it is not to say that there is a significant change. So we need some more time to see how this whole thing will span out. Like, for example, how China in the new regime how they would approach, all these needs to be looked at and I think people importing are also a bit vary in terms of all these because they understand there could be some quality constraint, there could be some commitment to the meeting the schedule cannot be predicted. So all these are also factored in by the importers, so we need to wait and watch.

Vishal Biraia: Okay. And we've grown by just 3% on a year-on-year basis for Abrasives in India. So I mean, is the demand slightly tapering off? Or would we have lost some market share?

N. Ananthaseshan: What we have done is in terms of the volumes what we are picking up is the precision abrasives. We are seeing there is a demand pickup. So that is helping us. While also in the coated abrasives, we are seeing better than the Q1 demand. So yes, we believe that there is a volume pickup, which has happened in both precision and in the mass market segments.

Vishal Biraia: Okay. The other question pertains to VAW. Exports forms what proportion of the revenue currently?

Sridharan Rangarajan: It's about 45%.

Vishal Biraia: And what proportion of this would be going to Europe? Bulk of it?

Sridharan Rangarajan: Yes. A significant portion is going to Europe.

Vishal Biraia: Okay and what is the capacity utilization currently from VAW?

Sridharan Rangarajan: 90-plus percentage, very high percentages. There's no drop in utilization.

Vishal Biraia: Okay. And lastly, on RHODIUS, are there any plans for capital expenditures to increase capacity, I mean, in the medium term?

Sridharan Rangarajan: So, we are continuing whatever is their earlier plans of Capex expansion. No, we have not changed any of our plans. PLUSS, we are also looking at various synergies, which we laid out when we acquired between RHODIUS and AWUKO. So we'll continue to progress and including opportunity for us to manufacture something in India and using some of our products being exported through the RHODIUS channel, all these are now being looked at. It is just 6 months old in this venture and I think people are on the ground. We need to build a good working relationship, the chemistry with leadership. Leadership is being set up now. So always we'll start spanning out in the next couple of years.

Moderator: We have the next question from the line of Deepesh Agarwal from UTI AMC. Please go ahead.

Deepesh Agarwal: Yes. My first question is if I read your FY'22 Annual Report, you have given a vision of increasing your bottom line to 3x by 2025. Does it mean you are looking to actually increase our consolidated PAT through almost INR1,000 crore by, say, FY'25-'26. And if so, what will drive it? Because even then your AWUKO and RHODIUS contribution would not be very significant to bottom line.

Sridharan Rangarajan: See, good question. I think if you really look at this vision is a mixture of organic growth as well as somewhat continued inorganic growth that we will pursue. The 2 acquisitions that we are talking currently is the initial year and we will get back to the normalcy by 25% and all these acquisitions when they start performing, right now, they will have a loss because this is an initial year and we have explained some of these specific extraordinary situations. One, due to the intangibles that we need to write off, plus the synergies that we identified will also play out by then. So if you really look at that, those sell, let's say, for example, last year, we delivered about INR 333 crore, so then we are talking about delivering INR 600 odd crore doubling this by then. So we will be able to progressively do this through both these acquisitions performing well, domestic business doing well, as well as a few more in the pipeline that we would target and look at it by then. So this is how that will play out.

Deepesh Agarwal: Okay. Secondly, what would be the impact of the Europe slowdown? Is that factored in our guidance for AWUKO and RHODIUS?

Sridharan Rangarajan: Yes. So we are sharing our guidance for FY'23, which is factoring in whatever is happening as of today and we feel there is a strong demand as far as the products of RHODIUS is concerned and as far as AWUKO is concerned, we are just very, very low in utilization and very low in their products. The last 3 years, kind of the company was going through tough times. So hence, the distributors and dealers that they have been working with have slowly gone out and started sourcing products from others. But now they have started coming back and I think that's the first touch point that we are looking at. So I think for us, there's a lot of headroom for us to do better. So we need to focus on that at this point in time. So at least for what we are sharing, FY'23, we have considered all these factors when we are sharing with you.

Deepesh Agarwal: Okay and lastly, do you think VAW's performance is sustainable from here on? I understand there are lot of uncertainties there. But in terms of pricing and volume scenario, do you think these kinds of EBIT is sustainable?

Sridharan Rangarajan: I wish I have a crystal ball to answer your question. So look, this is a very, very dynamic scenario. But I think what we are telling is to strength, we need to play on our strength at this point in time. One, the product is in demand. Two, this is the lowest cost of production for this product still. The company is having a Zero debt. The company has the capability to vary the mix of its product being served, domestic, as well as export and capability to collect money and having liquidity. So these are the strengths at this point in time we are playing and we hope good sense prevail in the political arena and so those beyond our control.

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

Bhavin Vithlani: A few questions. One is the growth of standalone abrasives decelerated to 3% from 28% last year, but your comments were on the positive side. So if you could just help us understand what led to deceleration in the growth? That's number one. Number two is the Ceramics segment. You're seeing positive traction, both on the top line and the bottom line front. Could you help us understand what is the sustainable level of growth that we could see over the next 3 years, which is medium term and what are the key drivers of this? That's the number 2 question.

Number 3 is when we look at the consolidated minus standalone, we have seen a significant increase in the depreciation on absolute basis. So what is driving this depreciation? Because the acquisitions, the cost of it are not as significant. So what is driving this depreciation increase? The last question is on the standalone Electrominerals business, wherein we are seeing a marked improvement in the profitability and EBIT level of 16%, 17% from 5%, 8% we used to see historically. So what is driving this? And what is the sustainability of this? These are my questions.

Sridharan Rangarajan: I think a lot of good questions and I think we'll take some time to answer you. We'll first take the depreciation part, so the depreciation you are comparing is the right comparison. I think you have seen that the depreciation has gone up significantly compared to a normal run rate. So that's largely coming out of the new acquisitions, which are basically RHODIUS and AWUKO. So if you really see, they are significant. While you used the word, they are not big, it's almost EUR 50 million plus acquisition and another one is about EUR8 million plus acquisition. And those depreciations will start kicking in, and that's one of the reasons that in fact, these two alone account for a significant increase and one should look at it, at this point in time, a run rate of about INR45 plus crore at the quarter level. So that's on the depreciation side.

I'll go to the Electromineral, and then we'll come to the Abrasives in a minute and Ceramics also we'll cover. So if you really see the Electromineral, what is driving the Electromineral change is that 2 broad reasons. One is that the strategic move to manufacture synthetic brown fused alumina without depending on bauxite. This resulted in cost competitiveness, increasing capacity, as well as cleaner products. This resulted in a significant volume increase and thereby, the cost leverage. We feel that this portion of this will continue. The advantage will continue to be available to us.

The second reason is that there's a particular demand-supply shortage, purely playing out of the China lockdowns and related issues. So we feel that this could be temporary, but I think people are also wavy I would say that they are a bit shy of importing from China at this point in time. So there could be some, I would say, a mixed benefit. Some will continue. Some will drop. So these are the 2 broad reasons, I would say, for the EMD margins to do better, as well as the top line is getting better.

Now coming to the Abrasives portions of it. I think there are 2 sets of questions there. One is on the top line. The other one is on the margin. I think as far as the margin is concerned, I will take first. We were clocking about 13.8 percentage at the consolidated level. It has come down significantly. It is coming down to 5.8%. Obviously, this is a concern from many of you. So we'd like to put things in perspective at this point.

The biggest driver for an Abrasives margin is standalone first. Standalone, we were clocking about 15% to 16%, and we are coming down at this point in time and on shares, large drop is a function of cost push, not being able to pass on fully and that's one of the reasons we are able to have a lower standalone margin. So we feel that it would take a year to get back to the normal level of 15% to 16% from the current level of 12% to 13%.

The second composition in the consolidated margin on Abrasives side is AWUKO's acquisition. So we explained that they would make a loss of INR20 crore to INR25 crore. We expect them to breakeven in '24, and then start making profit in FY'25. AWUKO will have a 4% share in Abrasives. Then the other significant reason is about RHODIUS acquisition. Q2 achieved net sales of EUR14 million, but their EBIT margins were much lower. Hence, it is affecting our overall consolidated Abrasives margin. We expect them to be back to the level of 12% to 14% by '26, which is what we just shared in the opening remarks.

So in summary, I would say, standalone, we'll get back to 15%, 16% in a year. RHODIUS will be about 12% to 14% by '26. AWUKO will start making profit by FY'26. So we feel that Abrasives margin on a consolidated basis from the current level of 5.8% would get to 12% to 14% by FY'26 and these are the key components that will take this progressive change that will happen.

The next question is on the Ceramics side, which you laid out. I think we are seeing both Technical Ceramics and Refractories are witnessing strong demand due to the end user industries demand and core sector doing fine, as well as the Solid Oxide Fuel. Ceramics, this is also helping quite a lot in terms of the demand that Ceramics business is witnessing. So in the medium term that you were looking at, we feel that it would continue to do well, both in top line as well as in bottom line. I hope we answered all your questions.

Moderator: We have the next question from the line of Renjith Sivaram from Mahindra Manulife Mutual Fund. Please go ahead.

Renjith Sivaram: Yes. Congrats on good set of numbers given the slowdown. So what we are looking at is that despite good growth in the automobile volumes, the Abrasives are not showing a similar growth. So why is that? Is that because our other segments apart from has any of the segments have degrown? That will be my first question. And second question is that your other operative expense, which you show in your segmental, that has seen a considerable increase both in standalone and consol. So is there any one-time in that other unallocable expenditure. These will be my 2 questions.

N. Ananthaseshan: Okay. On the Abrasives, yes, we have been seeing the auto industry getting back to pre-pandemic levels and especially you are seeing the CVs and the PVs coming up. So what we supply into those segments are the precision abrasives, where we have seen good growth. So when you look at the Abrasives in totality, it is a combination of what we supply into the automobile segment, which is about 25% and that has shown us good growth. The other part of the segment is a, what I would call the mass market segment, which is our infrastructure, woodworking, engineering, which has shown a little muted growth that is also the price-sensitive segment. So when you're looking at the costs, when you put up the prices, there is always a pushback from this segment rather than from a precision segment because those are largely custom-built. So that's possibly the reason for this little lower growth.

Renjith Sivaram: Yes, sir and regarding that other unallocable?

P. Padmanabhan: In respect of the other unallocable, it relates to the other liabilities and the assets.

Renjith Sivaram: Yes. So is there any one-time because we see a good jump in this quarter, both in standalone and consol.

P. Padmanabhan: As compared to the last quarter in the sense of last year, Q2 of last year, we didn't have the RHODIUS and the AWUKO, whereas it is getting reflected in the consol in the current period. Therefore, it is happening.

Renjith Sivaram: And in standalone?

P. Padmanabhan: And then standalone, we'll get back to you.

Moderator: We have the next question from the line of Alok Ranjan from IIFL AMC. Please go ahead.

Alok Ranjan: Just one question from my side, sir. On the Electrominerals part, if you can help me understand, over the last 5 years, if I have to see the demand and supply, could you help me understand how much of the new demand that has got created from the new segments, like, let's say, 5G or semiconductor and all that? So how much of that has happened? And over the next 5 years, if someone has to think about this business on the Electrominerals part, let's assume that the China comes back, how do you see the demand and supply equation will pan out? So if you can elaborate on both the sides.

N. Ananthaseshan: Yes. So, I will confine myself to the standalone part of Electrominerals, with silicon carbide part in Russia has largely been steady over the last 5 years and there's always been this kind of yo-yo EMD standalone segment. So in the Electrominerals, broadly, what we do have is what we call the regular business, which is your commodity type aluminum oxides, which is brown fused aluminas, the white fused aluminas and still about 18 months, the capacity is what we were running at, especially the brown fused alumina was largely dependent on natural raw materials like bauxite, which was going down in quality.

So the amount of energy and infrastructure or capacities that was consumed to purify the bauxite was much higher and since the last 18 months, we have been able to come up with a process, which not only reduces energy costs, but also significantly increases the output from the same capacities. So that has given us kind of an edge in terms of building volumes for the Abrasives and the Refractories business. While the Abrasives and Refractories business themselves, in India, I would say, broadly on an average for the raw materials, I would say, a 10% growth is what we saw. But because of our less participation in the brown fused, we were always much lower and hence, what we are seeing now is advantage we are taking out of this new process.

The second is on the white fused alumina, while the market has always, I mean, been there, and some of them has been serviced by imports from China, the volumes what we have now today is also a consequent to the shifting of the capacities what we had in South Africa a couple of years ago and investing in supporting infrastructure and in processing, which has helped us since the last couple of quarters. So, these are the structural changes that we have made, both in terms of cost and capacities and hence, Electrominerals business is seeing more stable numbers.

As to your question in terms of the newer products, whether how will the minerals business look like, there has to be certain amount, a certain part of the business, which will address a higher realization and more technical side of the products or higher performance side. So that is the area we have invested in, in terms of pilot plant research and that will continue to grow.

Alok Ranjan: Sir, just one clarification. Since our Volzhsky plant is operating at 90% plus capacity and lot of environmental restrictions are there in terms of coming up with a new capacity and this is in relevance to industry as a whole, where Carborundum is a part of that. Do you see that because of the newer opportunity or in terms of the demand that is coming out from the Electrominerals, there can be increasing mismatch will come on the demand and supply side and the demand will be much higher compared to the supply and leading to continuous tightening of the product supply here?

N. Ananthaseshan: You're talking about products for the existing applications?

Alok Ranjan: I'm saying, sir, since the product, newer demand is coming on the aggregate basis, so traditional demand is there. But on the aggregated basis because the newer demand which is coming for this product.

N. Ananthaseshan: Yes. There will be a pressure on capacity creation, whether it is in Russia or India or elsewhere and all of them will be tied up into making the product in a much cleaner fashion and as I have been mentioning over the last couple of quarters, we have invested in much cleaner technologies in Russia and we are doing the same in India as well. So hopefully, that will help us in putting up capacities going forward.

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

Ravi Swaminathan: Sir, if you can give a breakup of the Ceramics and Refractories revenues. Across Ceramics, there is regular Wear Ceramics, the Technical Ceramics, the Refractories and the Metallized Cylinders and what kind of growth rate that one can expect for all the subcategories, if you can give you a broad thought process?

Sridharan Rangarajan: Ravi, we normally do not share this.

Ravi Swaminathan: Ballpark numbers, sir. Even ballpark numbers.

Sridharan Rangarajan: When I say ballpark, I may as well give you.

Ravi Swaminathan: Got it. At least for metal cylinders, how much is the run rate now and what kind of growth that we can expect in that? Are there any special new applications which are coming up with respect to Metallized Cylinders, if you can give? And also for Solid Oxide Fuel Cells, what is the run rate? How large can it go?

Sridharan Rangarajan: So, I think the existing demand with the respect to application itself is quite strong and we feel that double-digit growth rate is possible and the current run rate can continue.

Ravi Swaminathan: Okay. And the profitability improvements that we are seeing in the Ceramics and Refractories, is it a function of mix or operating leverage or a combination of both?

Sridharan Rangarajan: That's a combination of both. You are right.

Ravi Swaminathan: And with respect to RHODIUS and AWUKO, long-term growth rate, how should we think about it? So basically, will it be low single digit, mid-single-digit, high single-digit or even double-digit growth?

Sridharan Rangarajan: I think we shared earlier as well as now also. I think by FY'26, RHODIUS can be about EUR95 million to EUR100 million company and EUR25 million for AWUKO.

Moderator: We move on to the next participant. The question is from the line of Mihir Manohar from Carnelian Asset Management. Please go ahead.

Mihir Manohar: I had just 2 questions. First was on the antidumping duty that government is looking to put on resin bonded thin wheels. So how important is that for us? I mean, what is that segment contributing to us and what is the progress over there? And second question was on the capacities. I mean, are you putting on any new capacities on organic basis? Yes. So those were the 2 questions.

N. Ananthaseshan: Yes. So the antidumping duty on the resin bonded, it's largely focused on the cutting and grinding wheels, which were coming in from China. So it is important to us and to the industry for, one, in terms of the market prices for these products have been depressed for quite some time largely because of these very low-cost imports, which will help the local industries have a fairer competing ground for these products. Second and more important is that, when the cost goes up, it also hopefully ensure that the quality and the safety, which is built in of these products will further improve. And that is what we are looking at. This segment is one of the fastest-growing segments. And definitely, we will also put in Capex to grow in this part of Abrasives.

Mihir Manohar: Sure and sir, if you could quantify what is this particular segment contributing to our revenue to our top line?

N. Ananthaseshan: Today, I would believe that it will be around 12%.

Mihir Manohar: Of the overall company level top line?

N. Ananthaseshan: No, of the Abrasives.

Mihir Manohar: Of the Abrasives business. Okay. Yes. Sure and second question was on just the capacity revenue across the 3 divisions. Are we putting on capacities on organic basis?

N. Ananthaseshan: We continue to do that, whether it is in Abrasives. Last year, we completed our sort of the upgrades in EMD, both in terms of the processing. And we have other investments in line balancing, whether it is in Abrasives or in Ceramics.

Moderator: Ladies and gentlemen, this would be the last question, which would be from the line of Ashwani Sharma from ICICI Securities Limited. Please go ahead.

Ashwani Sharma: Yes. Sir, I have only one question, basically, on the debt. So obviously, we have seen a sharp increase in the debt and thereby, interest cost. I just want to know, is there a further room for a further increase in the debt from here on?

Sridharan Rangarajan: I think the debt is 0.14 at a consol level and in fact, net of cash is INR70 crore or plus net debt. So it depends on your debt taking appetite. So, there's a lot of room.

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

Bhoomika Nair: Thank you very much, sir and the entire team for answering all the queries and also all the participants for being on the call. Thank you very much, sir and wish you all the best. Any closing remarks from your side, sir?

N. Ananthaseshan: Yes. Thank you all very much for joining us on this call and so what we believe is that our focus would be on getting this integration, these newly acquired subsidiaries going on well. And hopefully, the global trends what we see and the volatility in commodity prices, energy prices, we do expect another challenging quarter going forward. But we continue to focus on our operational efficiencies, the management of the working capital and building our capabilities to address the opportunities in the future. Looking forward to seeing you all again in the next quarter.

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