"Carborundum Universal Limited
Q3 FY '23 Earnings Conference Call"
February 02, 2023

MANAGEMENT: **MR. SRIDHARAN RANGARAJAN – DIRECTOR FINANCE AND STRATEGY – CARBORUNDUM UNIVERSAL LIMITED**
MR. N. ANANTHASESHAN – MANAGING DIRECTOR – CARBORUNDUM UNIVERSAL LIMITED
MR. P. PADMANABHAN – CHIEF FINANCIAL OFFICER – CARBORUNDUM UNIVERSAL LIMITED
MR. G. CHANDRAMOULI – ADVISOR, INVESTOR RELATIONS – CARBORUNDUM UNIVERSAL LIMITED
MR. DENESH KUMAR – SENIOR MANAGER STRATEGIC PLANNING – CARBORUNDUM UNIVERSAL LIMITED

MODERATOR: **MR. ASHWANI SHARMA – ICICI SECURITIES**

Moderator: Ladies and gentlemen, good day, and welcome to the Carborundum Universal Limited Q3 FY '23 Earnings Conference Call hosted by ICICI Securities 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, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Ashwini Sharma from ICICI Securities. Thank you, and over to you, sir.

Ashwani Sharma: Thank you, Darwin. Good morning, everyone. On behalf of ICICI Securities, I would like to welcome you all for the Q3 FY '23 Earnings Conference Call of Carborundum Universal Limited. We thank the entire management of CUMI for giving us this opportunity.

The management is being represented by Mr. Sridharan Rangarajan, Director, Finance and Strategy; Mr. N. Ananthaseshan, Managing Director; Mr. P. Padmanabhan, Chief Financial Officer; Mr. G. Chandramouli, Advisor, Investor Relations; and Mr. Denesh Kumar, Senior Manager, Strategic Planning. We'll start the call with opening remarks on the results and outlook by the management post that we can have the Q&A session.

I would now like to hand over the call to Mr. Ananthaseshan for his opening remarks. Thank you, and over to you, sir.

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

G. Chandramouli: Good morning. During this call, we may make certain statements which 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 are more fully detailed in our annual report, which may cause the actual results to differ. Hence, these statements must be reviewed in conjunction with the risk that the company faces. Thank you.

N. Ananthaseshan: So thank you, Chandramouli, and thank you all for joining us on this call, and a very warm welcome to our third quarter FY '23 Earnings Call. Before we begin, wishing you all a very Happy New Year. Traditionally, we have our earnings call the day following the Board meeting. But since yesterday was the budget day, and ceding to the wishes of many people, we have our call scheduled today.

As mentioned earlier, we are joined on this call by my colleagues, Mr. Sridharan Rangarajan, Mr. Padmanabhan, Mr. Chandramouli and Mr. Denesh. I will begin this morning by providing an overview of the company performance and a commentary on the outlook, followed by the financial performance by our CFO, Padmanabhan. Afterwards, Mr. Sridharan will take you through the performance of the VAW and the newly acquired subsidiaries. Since our last call, the macroeconomic environment has largely been unchanged. The fears of recession and slowdown, while has been there, but it's not been as strong as it was anticipated. We also saw that the crude and commodity prices softened during the second half of the second quarter and also in the quarter following that.

While it has benefited our input prices, realizations have also been under pressure. We also saw that the Russian-Ukraine war continued into the third quarter as well. Despite all this, our Russian subsidiary managed the business very well. Overall, during the quarter, we delivered growth year-on-year on top line at standalone and at consolidated levels. Profits have definitely been better on a standalone basis and lower at console level on account of losses, specifically from the newly acquired subsidiaries. We will detail this during the later part of the call.

The good news is that the profits of the consolidated subsidiaries are on an increasing trend since Q4 of FY '22. For the quarter, our revenues have grown by about 32% to INR 1,172 crores. And at a standalone level, it has also grown 6% quarter-on-quarter to INR 634 crores. The growth has been driven by all the 3 segments and the Electrominerals and Ceramic segments have shown significant growth.

On a consolidated basis, the Abrasives segment also includes additional sales from Rhodius and AWUKO. So all major existing overseas subsidiaries have grown significantly compared to Q3 of last year, except our African subsidiary, Foskor Zirconia. On a sequential basis, we saw the American subsidiary grew in double digits, both on the Ceramics and Abrasives segments, and subsidiary in Australia and Russia also showed a little growth.

The growth in top line has been significant on a YTD basis at INR 3,418 crores by about 41%, and the standalone sales has grown to INR 1,845 crores. For the bottom line, at a consolidated level, profit after tax and non-controlling interest grew sequentially by 23% to INR 109 crores, which is possibly our highest ever. PAT margins have also improved sequentially from 8% to 9.3% and PAT grew 9% to INR 72 crores from INR 67 crores. With respect to the bottom line performance of the subsidiaries, the domestic subsidiaries, except SEDCO, have performed very well.

The bottom line performance of overseas subsidiaries, especially the American subsidiary, has shown remarkable growth. The profits, however, sequentially has been impacted on account of inflationary pressures and also higher freight costs. The profits for VAW in INR terms have grown significantly and also sequentially. More details will be covered later in the call by Sridhar.

When it comes to bottom line performance on a YTD basis, PAT at consolidated level increased to INR 277 crores from INR 276 crores in FY '22, and PAT margins dropped to 8.1% from 11.4%. And the drop was mainly from the Abrasives segment, as commented earlier, because we did not have the overseas subsidiaries last year. Coming to the external environment, the global growth is expected to decelerate from about 5.9% in calendar year of 2021 to 2.9% in calendar year 2022 and to 1% in 2023. However, we are better positioned in the domestic market.

And also, we see that the auto sector in India has crossed the pre-pandemic levels in some segments.

The adoption of the EV business, electrification of these vehicles in India has been significant and also provides us additional opportunities. The construction-linked sectors are also showing signs of improvement, and this should augur well for us going into the future. What we see is that the outlook, remains cautiously positive for broadly all segments like steel, cement, power, glass, carbon black and the other segments like solid oxide fuels, etcetera, to which CUMI caters.

So in terms of the capex at a consolidated level, we have spent about INR 267 crores in the 9 months of FY '23. May I now request 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 December 31, 2022. Consolidated sales for the quarter increased by 32% to INR 1,172 crores from INR 891 crores in the corresponding quarter of last year, driven by strong performance by all 3 segments, including additional sales of INR 145 crores from AWUKO and Rhodius. On year-to-date basis, the sales have grown 41% to INR 3,418 crores from INR 2,431 crores in the corresponding period of last year.

On a consolidated basis, profitability for the quarter recorded a strong growth across Minerals and the Ceramic segments. Profit after tax and non-controlling interest for the quarter grew by 23% to INR 109 crores against INR 89 crores in Q2 of the current financial year and grew by 7% compared to Q3 of last year. On a YTD basis, profit after tax and non-controlling interest increased by 20 basis points to INR 277 crores from INR 276 crores, and the PAT margin dropped to 8.1% from 11.4% because of the cost inflation and acquisition costs related to recent acquisitions.

Coming to the standalone performance, Sales increased by 6% to INR 634 crores from INR 596 crores on a quarter-on-quarter basis and by 4% sequentially. For the quarter, PAT grew 9% to INR 72 crores from INR 67 crores on a quarter-on-quarter basis and increased 1% sequentially, and PAT margin has increased to 11.4% from 11.2% quarter-on-quarter, but dropped marginally by 36 basis points sequentially. On a YTD basis, sales grew significantly by 14%, to INR 1,845 crores from INR 1,612 crores. And PAT increased by 13% to INR 217 crores from INR 193 crores. PAT margin dropped by 19 basis points from 11.9% to 11.8%. The drop was mainly from the Abrasives segment on account of the raw material cost inflation. Coming to the segmental performance. Abrasives consolidated revenue for the quarter grew by 50% to INR 513 crores compared to INR 341 crores in Q3 of last year and grew 6% sequentially. Standalone Abrasives was almost flat and grew by 0.5% quarter-on-quarter and sequentially by 2% to INR 282 crores.

The newly acquired subsidiaries, Rhodius and AWUKO, added additional sales of INR 145 crores to the top line besides significant growth from the domestic subsidiary as well as subsidiaries in Russia and America. On a YTD basis, consolidated sales grew by 61% to INR

1,510 crores. And for standalone, it grew by 7% to INR 827 crores. AWUKO and Rhodius added additional sales of INR 443 crores during the first 9 months of FY '23.

Profit before finance cost and tax at the consolidated level was lower by 56% at INR 21 crores as against INR 47 crores in Q3 of last year and by 26% sequential basis. On YTD basis, consolidated PBIT degrew by 48% to INR 67 crores, and for standalone, it degrew by 9% to INR 107 crores. The lower profit is mainly due to the raw material cost impact in standalone and the integration costs for the newly acquired subsidiaries.

In respect of Electro Minerals, the consolidated revenue for the quarter was at INR 412 crores versus INR 361 crores in Q3 of last year, resulting in an increase of 14%. Standalone Electro Minerals was almost flat and grew by 0.5% to INR 173 crores from INR 172 crores in Q2 and de-grew by 2% quarter-on-quarter basis. Our Russian subsidy, Volzhsky, registered significant growth, whereas the South African subsidy, Foskor Zirconia, degrew.

On a year-to-date basis, consolidated sales grew by 26% to INR 1,228 crores and for standalone, it grew by 16% to INR 524 crores. Profit before finance costs and tax at consolidated level was at INR 82 crores. That's against INR 63 crores of Q3 last year and INR 69 crores in Q2 of current financial year. Profitability growth was due to strong performance in the standalone as well as overseas subsidiaries on account of the higher realization with increasing demand of minerals.

On a YTD basis, consolidated PBIT grew by 40% to INR 210 crores, and for standalone, it grew significantly by 48% to INR 84 crores. In respect of the Ceramics, the consolidated revenue for the quarter was higher by 24% at INR 264 crores. That's again INR 213 crores in Q3 of last year, and sequential growth was 4%. Standalone Ceramics grew by 23% to INR 219 crores on a quarter-on-quarter basis with 4% sequential growth on account of strong demand from end user industries and geographies.

Subsidiaries in Australia and America also produced a significant growth. On a YTD basis, the consolidated sales grew by 28% to INR 762 crores. And for standalone, it grew by 27% to INR 623 crores. Profit before finance costs and tax at consolidated level grew by 54% to INR 66 crores from INR 43 crores on a quarter-on-quarter basis and grew 3% sequentially on account of growth in volume, realization and product mix. On YTD basis, consolidated PBIT grew by 52% to INR 189 crores, and for standalone it grew significantly by 53% to INR 154 crores.

And on the finance front, there was a debt of INR 265 crores in the standalone books with a total consolidated debt of INR 384 crores as of December 31, 2022, as compared to INR 382 crores as of September. The debt-equity ratio was at 0.14 for consolidated as of Q3. 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 our forex policy.

On the cash flow front, we have a strong balance sheet as is evidenced by net cash position and lower debt-equity ratio. The cash and cash equivalents, including the deposits at net of borrowings, was at INR 30 crores. This concludes my update on finance. I'll now request Mr.

Sridharan, our Director of Finance and Strategy, to walk us through the performance of Russian subsidiary, VAW and the recent acquisitions.

Sridharan Rangarajan: Thank you, Ananth and Padmanabhan. Good morning to all of you. We started the year with a lot of concern on Russia because that's when the Ukraine conflict started. I would like to state here that our local leadership have managed the situation very well and glad to tell that they have done an excellent work. And they have done a good performance. And I think as we shared last time, that the company is not under sanction. The product is not under any restricted category, nor its directors or its employees. The company is in a position to carry on the business with the best effort both from domestic as well as from international front.

They delivered a top line of RUB 1.95 billion and profit of RUB 402 million. I would say that the rouble got converted at 1.27 for this quarter compared to 1.01 in the same period last year. YTD basis also, both sales and profit grew by double digits. VAW was able to collect all his dues and it continues to be debt free and keep his liquidity.

Capacity utilization is normal, and they are able to sell more products in Russia. Depending on the mix, they are able to swing this. We expect the yearly performance to be better than the previous year, both in top line and the bottom line. So the message is they are in good state. We hope they are able to continue this trajectory..

Now coming to Rhodius. We have acquired this company, and we are in control of this company for the past 9 months. We tried to state that we put in place a reasonable leadership team in Rhodius. We have a CFO. We have an IT head. We have in-sourced the entire common services that was provided by the holding company earlier. So both accounting IT infrastructures are all in-stores as of December.

So the progress is good, and they will be in a position to manage the department as well. They have recruited people in the respect to organization. So I would say that practically, the organization is in good shape.

Rhodius in Q3 achieved a net sales of EUR 15 million compared to EUR 14 million in Q2. YTD basis, they have done EUR 47 million sales, and they're on plan at this stage. We expect the full year to be EUR 68 million to EUR 70 million. We expect the full year loss to be about EUR 3.5 million to EUR 4 million.

The reason for the loss are as follows: integration cost of about EUR 1.5 million, goodwill write-off of about EUR 2.8 million. And if you exclude these, there will be a small profit of EUR 600,000. The profitability is lower as they have to absorb material cost push, freight cost increase and a small energy cost increase. Besides this, they also need to pay a compensation to employees as recommended by the government to off-set the inflation. This is paid as of December. So this is a significant cost that they absorb, almost about EUR 0.5 million. The normal profit would have been around EUR 3 million to EUR 3.5 million. We expect FY '24 a profit. And from there on, we will progress towards PBIT margin of around 12% to 14% by '27.

So in summary, Rhodius is in good shape. We have done top line in place. There are some unexpected cost push largely coming out of the Ukraine crisis. I think the leadership is in place. We will progress from here well towards achieving the profitability.

As far as AWUKO is concerned, I think, again, I'm glad to say that we have the local leadership is in place. Chief Operating Officer is in place. The marketing team is in place. We are working towards setting up the finance team, organizing them. So that is work-in-progress at this stage. So it took quite a lot of time in bringing team in place. So that's a big challenge to us. We are fortunate to have some of the leadership teams to come who have got industry experience and they are able to add value to this business.

However, I think in the interim, the fixed cost has to be spent, and top line, since it's not coming through, you see a loss in AWUKO. This was expected, and it is in line with our expectation. This quarter, they achieved 2.2 million sales against 2 million in Q2, and we expect the full year sales will be around 10 million.

I think we also expect the full year loss to be about EUR 4 million, which is after considering the Christmas bonus, which was paid for the first time after several years that the company could not pay. Hence, for better employee motivation, we paid the Christmas bonus this time. Losses are predominantly, as I said, to lower absorption of costs due to lower sales. This is in line with our expectation. We feel by FY '24, AWUKO would break even.

I would say overall, we could end this year with the sales of about INR 4,500 crores to INR 4,600 crores at consolidated level. This would be a growth of 38%. Roughly 50% of the growth is from organic, 50% of the growth is through acquisitions. Acquisitions would contribute about INR 600 crores of the growth as a full year.

PBIT margin, we could end up somewhere between INR 525 crores to INR 550 crores with a healthy margin growth in Ceramics and Electro Minerals business. Abrasives EBIT margin will be lower. This is largely from AWUKO, Rhodius and standalone. We expect the consolidated PBIT margin would be around 5% FY '23.

I know this is a concern. Standalone EBIT margin has shown improvement in Q3. If this trend is continued and improved in FY '24, which we feel we would be able to do that, and losses from AWUKO and Rhodius stop, we expect EBIT margin for Abrasives in FY '24 to be about 9%.

Rhodius is doing fine. Top line is coming through. We faced the cost push for material and logistics costs. So far, the energy cost has not impacted Rhodius as we have contracted the energy costs earlier. We expect energy costs would impact in FY '24. However, material cost is softening. We need to focus on volume, the current trend of traveling in the projected growth trajectory.

There are 6 synergies identified, and we have put in place mechanisms to work through the 6 synergies. I'm glad to report that as far as sourcing opportunity is concerned, both Rhodius and

AWUKO are strongly working with our Electro Mineral divisions and establish the product, which is the most important phase of the sourcing one. So that has happened. Now they will start sourcing, and they really find this a good arrangement to work with CUMI.

Rhodius needs to work in both CUMI, and Rhodius needs to work on the synergy as far as Thin Wheel projects in India is concerned, which is a work in progress. In the year, we expect programs will be in place.

It just concluded union budget plans to spend heavily on capex programs. These augurs well for the Thin Wheel consumption, and we should be working towards that.

AWUKO will take a year to bring it into break-even. It has good potential. Products are of good quality. We are slowly winning the confidence of the customer back. Supply chain is getting restored. We will start working on the synergy with India once we stabilize AWUKO operation. I know in the interim, the losses are a concern to all. And to some extent then, we expected this in AWUKO, or and its impact on Rhodius was not anticipated. But the business model is solid, and we are confident that Rhodius will add greater value to CUMI in the long run.

With that, I will conclude the remarks and probably we'll open up for your questions.

Moderator: The first question is from the line of Ravi Swaminathan from Spark Capital.

Ravi Swaminathan: With respect to the Abrasives business, so basically, growth has been continuing to remain muted in the Abrasives sector.

Moderator: Sorry to interrupt, sir. Request you to please start the question again. There were some audio loss at the beginning.

Ravi Swaminathan: So I just wanted to check with you regarding the muted growth in the Abrasives category. So basically, what is the reason behind that? Is it that the end markets have been on the slower side or there has been a higher share of imports. If you can give your broad perspective, it would be great.

N. Ananthaseshan: Yes. So the Abrasives market, if you look at it, the segments, what we call the precision segment, has been doing reasonably well. While the last Q1, Q2 and the previous quarter saw a good pickup in precision abrasives, we also saw a little bit of a slowdown in Q3, especially coming from the 2-wheeler, farm equipment and also the hand tools industry.

In the case of some of the retail products, we've also seen the higher competition from imports at much lower predatory pricing, as I would say, because we also would remember that Q1, Q2 saw lower imports and for various reasons from China. And after the opening up of the COVID restrictions, you have a lot more imports coming in. Obviously, the stocks are coming in as imports.

In addition, there has been some, I would say, slowdown in a few government projects in specific markets. Also in addition to that, we had consciously focused on better margin segments, while by kind of weaning away from low margin, high competition-intensive segments in the product groups in the places.

So it's a combination of all this. But then the good news is that we have been consciously been moving in terms of being making better margins and focusing on growing product groups which are more sustainable in terms of growth and margins that we will see in the quarters to come.

Ravi Swaminathan: And with respect to the Electro Minerals business, basically, the margins were surprisingly on the higher side. So last quarter, you had mentioned that there might be some normalization, but the margins have continued to climb. Can you can talk about the sustainability of these kind of margins?

N. Ananthaseshan: Well, as you all know, the big chunk of the Electro Minerals business is both in now in Russia and in India. And while the Russian business has been having a good run, they have been able to produce and sell and also kind of shift their sales share into the domestic market and in rouble terms also benefit out of it.

In the domestic market, the volumes have been steady, while they also have been a pressure on the prices. So realizations have also pushed down the overall sales, but the volume is still there.

Yes. So it's a combination of things. But I would believe that the overall margins for Electro Minerals would be around the 15%, as we have been mentioning now.

Moderator: We have the next question from the line of Sujit Jain from ASK Investment Managers Limited.

Sujit Jain: Sir, if you can just give the position in terms of inventory data, payable days. And if you can just repeat the debt position.

P. Padmanabhan: As far as Debt is concerned, the debt-equity ratio was at 0.14 at the consolidated level, and we have the debt of INR 265 crores in standalone books. And at the consolidated level, it is at INR 384 crores. And if you take the cash balances, net of borrowings will be INR 30 crores surplus. This is the position as far as the cash flow is concerned.

Sujit Jain: And Y-o-Y, how is the position is good?

P. Padmanabhan: And on the Y-o-Y one, this is a balance sheet position.

Sujit Jain: What was the December quarter both in standalone and console in the base Q3 last year?

P. Padmanabhan: In December quarter, standalone debt was INR 268 crores. And at the consolidated level, it was at INR 376 crores.

Sujit Jain: And then coming to your consol inventory days, data days and payable days.

P. Padmanabhan: It comprised of various NTPs and it varies with the geographies. On an average, we can say that it will be around, say, 30 to 35 days overall.

Sujit Jain: And just to understand VAW business better. When rouble depreciates against European, against euro, because 45% is basically export to European nations, does it benefit? How does the currency play out when rouble depreciates, how does it work for the company? Because then you have also converted eventually into rupees.

Sridharan Rangarajan: So it will benefit the company because, as you rightly observed, the depreciation approval against euro and dollar first would benefit the local balance sheet in local P&L and balance sheet in rouble. And when again, convert this back into Indian rupee, depending on how the fluctuation happens in INR, it will again benefit this. So that is where we see this profitability and top lines are in good stead.

Sujit Jain: And if you can just help me with 9 month sales and profit numbers of VAW.

Sridharan Rangarajan: What's your question? Could you repeat that?

Sujit Jain: The 9-month sales profit grew in double digits. The absolute figures for 9 months VAW.

Sridharan Rangarajan: So sales is about INR 750 crores compared to INR 540 crores of last year.

Sujit Jain: And profit?

Sridharan Rangarajan: Profit is about INR 150 crores compared to INR 100 crores of last year.

Sujit Jain: And you spoke about Rhodius, eventually margins going up to 12% -14% band. This is by FY '26, right?

Sridharan Rangarajan: FY '27.

Sujit Jain: FY '27. This is the PBT margin you are talking about, right?

Sridharan Rangarajan: Yes. PBT margin, correct.

Sujit Jain: And in terms of the commentary, probably Rhodius by FY '24 would be PBT-neutral. AWUKO would do that in FY '25.

Sridharan Rangarajan: No, FY '24, we are expecting AWUKO also to be neutral. But definitely, company-wise, they will have a zero PBT and EBIT could have a small loss there.

Sujit Jain: So for the full year, both entities will turn PBT neutral FY '24, Rhodius and AWUKO?

Sridharan Rangarajan: Rhodius will make a profit EBIT-wise.

Moderator: The next question is from the line of Ankur from HDFC Life.

Ankur Sharma: Just one question again on the standalone Abrasives business, where we've seen this flattening out of top line, both Q-on-Q and Y-o-Y. So if you could just help us understand, I know you did talk about some segments kind of slowing down, and you also maybe were drawing from some of the lower-margin businesses, But, a, if you could talk about overall industry, how is that doing? And is that still growing in high single digits, volume or pricing, whichever you want to talk about it? And how do you see that in, say, '24? And then how do you see specifically for CUMI that business shaping up on the top line front?

N. Ananthaseshan: Yes. Well, Abrasives, if you look at it overall, while the demand across segments broadly has been positive, the industry had been hit in Q1 and Q2 by significant raw material push. And that has pressurized many of us to put up prices. And we saw that over the last 3 quarters, quarter-on-quarter pricing increases, which has rarely happened in the Abrasives industry.

Coming to Q2 and second half of Q2, Q3, we also saw the input prices coming down. That also put pressure on industry to go down on prices, and it's always a battle between the distribution channels, end users and industry. So there has been in some segments like the position where we could hold on to prices, but in some other segments where we can't.

The precision segment is one which is our strength, and that has grown both in the domestic and in the export market as well. And I would believe that going forward, there is one segment which will see a significant robust growth, while the retail segment, which is driven largely by the sheets and rolls, the precision segments will see higher competition intensity. But then given the capacity is what we have built and also the products, the inputs we get from Rhodius in terms of the real product portfolio should hold a good stead going forward.

Ankur Sharma: And would there have also been, because you said input prices have come down, so there have also been an element of dealer destocking expecting prices to come down, and that's also the reason why maybe growth was slightly slow?

N. Ananthaseshan: Yes, yes.

Ankur Sharma: Sorry, I didn't catch that.

N. Ananthaseshan: No. I think there is also that because there is also the kind of a hope and then there's a pressure on prices also to come down because commodity prices have come down as inputs. So from the market, you also see that pressure.

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

Harshit Patel: Yes. Sir, India Electro Minerals revenues are now almost 70% to 80% higher vis-à-vis the pre-COVID times. I remember our brown fused plus white fused capacity used to be around 30,000, 35,000 tons pre-COVID. So how much have we expanded in last 2 years? And what will be the current utilization levels over that?

N. Ananthaseshan: Observation and a good question. We did have, as you said, about 30-odd thousand tons of capacities pre-COVID. And during the COVID times, we spent effort on increasing that capacities, both in the furnacing side and on the processing side. And today overall, the Indian capacities would be in the region of about 60,000 -65,000 tons per year.

So to answer your question going forward, this is one area where we would continue to look at ways of increasing the capacities, but this is contingent to getting additional power from the Government of Kerala, and that is one area we are working on.

So there is an opportunity because this is a raw material business and which is addressing both the refractories and the Abrasive segments, which feeds into whether it is into the core industries like steel, cement, carbon black, et cetera. So definitely, yes, there is an opportunity to grow in that segment.

Harshit Patel: What would be the capacity utilization number at the moment?

N. Ananthaseshan: Today, I would believe around 80%.

Harshit Patel: Okay. Just a follow to that, we are now doing almost more than 15% EBIT margin in this standalone Electro Minerals at the moment, and we have done that for the last 3 quarters now. Do you think it will revert to the historical levels of 8% to 9% when the prices will cool down? Or our margins are structurally much higher now because of a better scale and a very different product mix. I think you have highlighted the improvements you have done on the brown fused alumina side, the synthetic version that you were doing. So what would be the steady-state margins in this business when the commodity prices will cool down?

N. Ananthaseshan: As I said earlier, the commodity prices going down will auger well on the purchase side. And though the realization will maybe a little bit pressure on realizations, overall contributions will still remain robust. And these changes what we have brought about the EMD business is very structural, I would believe. And the cost coverage is also much better with the volume increase going up. So I don't think we'll go back to the historical levels of 8% to 9%. It will be closer around this 13%, 14% is what we are seeing today.

Harshit Patel: Just a small last question from my side. It has been quite some time that we have commercialized the SiC-based ceramics portfolio. So could you give some flavour on what kind of revenues we are doing from that product line? What are the margins that we are earning? Are the margins higher or lower than the current portfolio of industrial set-up. That would be my last.

N. Ananthaseshan: Yes. We kind of commercialize the ceramics, what we call RBSiC ceramic parts, about 1 year, 1.5 years ago. The commercialization has happened. These are parts. They're not tonnage parts. They are very specific to applications, nature of industry. So hence, it is built to customer requirements. So the margins there would be definitely be different from what we have as a bulk ceramic.

Where we would definitely be growing as the SiCs as an application beyond what we see as rare and thermal applications. So that is an opportunity for to grow into in terms of volumes. So different applications, different volume segments, but definitely another profitable segment is possible.

Moderator: The next question is from the line of Aditya Mongia from Kotak Securities.

Aditya Mongia: The first question that I had was probably, just for my understanding, your Russian facility, as you rightly said, has grown quite meaningfully Y-o-Y, whereas I had this notion that technically, Russian facility is driven by silicon carbide capacities that are being chock up block. So if you could give us a sense of how, let's say, profit numbers have become 1.5x, remains kind of about similar that kind of quantum in this year would be useful for us to appreciate what is happening? And how would the future hold in for this business?

N. Ananthaseshan: Yes, the Russian subsidiary also this. Apart from silicon carbide, we also have what we call the ceramics, this is the high-temperature applications and also the abrasive segments. While all the 3 segments have reasonably grown, what we see is in the silicon carbide space, the demand, at least in this quarter, this quarter for the domestic markets has been significant.

And the product mix we are addressing is largely now in domestic, but also the customers who are there in the Western markets continue to buy from us. The profits obviously in rouble terms is better because what we also saw that the power costs and the raw material costs have not increased significantly. So that has also helped.

Aditya Mongia: Understood. The second question that I had was on the Ceramics segment. You've been growing more than 20% for some time now. As you think through kind of continuing to lower this pace for a longer period of time, which are 2, 3 key sub-segments that are going to kind of drive this growth? And should one think of these growth numbers moderating down over time or kind of sustaining at these levels?

N. Ananthaseshan: Yes. So the bulk ceramic segments are ware ceramics, the engineered ceramics and also the thermo-ceramics. Now what has happened over time is these are the 3 segments which are very design intensive. And what we now do is work with customers not only in terms of providing just the material, but also taking the design services in the fold.

So the ware ceramics segment kind of developing into more a design services installation segment and which is obviously giving us a better share of the wallet of the customer. And similarly, in the thermo segment, focusing on projects and focusing on projects not only in India, but also globally in segments like glass, cement, ceramics. Carbon black has also helped.

The engineered ceramics segment for the power distribution transmission and also for the new energy businesses are robust and that is also giving strength to this growth. We believe that the growth of about 20% what we see is broadly sustainable going forward.

Aditya Mongia Understood. Putting one last question, and this is more kind of kind of mathematical in nature. See, there's this line item called other unallocable expenses, which has been kind of rising quite sharply and eating into your reported margin numbers. So even the segmented numbers are great, we don't see that in overall numbers. Could you give us a sense of what is driving this line item over the last 2, 3 years and how to think about it as we go forward?

Sridharan Rangarajan: So the consolidated level, you are seeing an unallocated expense of INR 68 crores compared to INR 37 crores. And for that, that's where your question….

Aditya Mongia: So it's jumped up in 2 years, to is a lot more.

Sridharan Rangarajan: Yes. So I think the components largely there are the costs which are generic in nature. So one, the biggest cost is about the dividend tax from Russia, which we cannot absorb it in Cyprus is one component. And there is also a professional charge that we incurred in terms of the acquisition cost. And we are also shoring up people in terms of managing these acquisitions, which we would like to support for a temporary nature.

So those are the costs which are sitting at there. You were looking at how do I look at it in future. So there are certain amount of costs which will continue. My guess is that somewhere in the range of about INR 60 crores- INR 65 crores, one should start looking at that.

Aditya Mongia: Understood. It shouldn't be growing along with sales as much because up to the period, these are more start-up costs for the acquisitions that you have done.

P. Padmanabhan: Yes. Right.

Moderator: We have the next question from the line of Sanjay Dam from Old Bridge Capital.

Sanjay Dam: Sir, could you confirm…….

N. Ananthaseshan: Sir, You're not audible, sir. There are lot of disturbance in your line.

Sanjay Dam: Am I audible now?

N. Ananthaseshan: Yes.

Sanjay Dam: Sir, in your guidance, sir, you mentioned the EBIT is INR 525 crores to INR 550 crores. Did I hear right, at the consol level?

P. Padmanabhan: Yes, INR 525 crores to INR 550 crores, correct.

Sanjay Dam: So basically, again, to correct myself, if I look at our 9-month numbers, kind of we've done about 380 -- sorry?

P. Padmanabhan: 380 Crores?

Sanjay Dam: INR 380-odd crores, INR 384 crores.

P. Padmanabhan: Yes.

Sanjay Dam: Okay. So we're expecting somewhere around INR 160-odd crores in the fourth quarter?

P. Padmanabhan: Yes.

Moderator: We have the next question from the line of Sanjaya Satapathy from Ampersand Capital.

Sanjaya Satapathy: Sir, while you have mentioned about the, I mean, your improvement that you will see in your subsidiaries outside of India. So can you just articulate your views on how all these entities will come together? And how will some kind of a synergistic benefit for the enterprise?

N. Ananthaseshan: Yes. So the major subsidiaries in the segments of Electro Minerals are in Russia and in South Africa and the Indian part of the business.

So, the Russian subsidiary is largely focused on the silicon carbide part, whereas the South African part is on zirconia. And in India, we focus on the fused aluminas, right. So what happens is for the Indian market, you also have a requirement not only for fused aluminas, but also silicon carbide, which is currently of significant import. Now what we bring about as a synergy benefit is that our processing infrastructure available in India, in other parts of the world, which we are leveraging to value add to the raw material that we're bringing in from Russia and then supplying out of India. That's one level of synergy we're looking at.

So the market gets a full basket of products from one source, and it's a global in nature. In the case of abrasives, we see through today the presence in India, the presence in America, which is largely for the precision abrasives. And through the Rhodius and AWUKO, the presence of the coated and cutting and mining wheels in Germany.

So as a synergy benefit for the Abrasives as a raw material supplier, we are now a global supplier, not only for the Indian market, but also for the Russian subsidiaries as well. For the German markets, for the German entities, India is also a market which offers opportunities. And also through our distribution channels in Russia and other parts of the world, we can distribute both the AWUKO and the Rhodius range of products in addition to their channels as well.

So broadly, I would say, raw material linkages, complementary portfolio for the Rhodius and AWUKO businesses through offering CUMI's products into their markets and offering Indian market access to the Rhodius and AWUKO range of products and a channel for conversion for the abrasives in Germany and other parts of the U.S. is broadly is what we see as a synergy.

Ceramics, of course, we are mostly customer businesses. So hence, whether we have a customer position in Russia or in other parts of the world, we use the local entities to deliver our products.

Sanjaya Satapathy: Understood. And if I can just ask that going forward, will your growth be so much dependent on acquisitions that have been in last 8- 10 years or it will be like a lot more your own product development capability because now that you are present in such a meaningful way in so many locations?

N. Ananthaseshan: I would say, I mean, it should be both. Because, one, each entity has its own inherent strengths and for product development and for improvement.

So for example, the location in Russia brings to us a competitive advantage in terms of raw materials, in terms of energy prices, and choosing to produce volumes in that location where products are energy-intensive or process energy-intensive would be one way of leveraging that strength and growing. But it does not take away any opportunity in terms of identifying complementary or supplementary, I would say, entities which can add to our portfolio. But it has to make a meaning for each of those segments or even for the newer segment of new emerging businesses like the high purity silicon carbide and others, which are what I would call the advanced materials.

Sanjaya Satapathy: So my point is that will you be looking to do a lot acquisitions in foreseeable future or you will be more focused on stabilizing the lead and taking the advantage of the synergies which are evident.

N. Ananthaseshan: Yes. Obviously, the focus now would be on getting the Rhodius and AWUKO operations running and turning around and now delivering on the synergy benefits, but also keeping an eye on for acquisitions in other segments as well.

Moderator: We have the next question from Prolin Nandu from Goldfish Capital.

Prolin Nandu: Sir, I want to start with the suggestion that since we have subsidiaries in lots of countries and lots of subsidiaries, I mean, at least if you can give quarter-on-quarter, I mean, every quarter, if you can release a slide deck which will have top line and EBIT number for each of the subsidiaries, that will make our analysts as we know life better in some time. So that's one suggestion that I wanted to give. You obviously give the consol and the standalone numbers.

But subsidiary-wise, if you can give it in the slide deck, that will be very helpful.

Sir, my first question is on the domestic Abrasives business. And you mentioned that in the retail is where you have to pass on the price and you are letting go of some of these segments. Could you help us understand as to in terms of your overall Abrasives domestic sales, How much is retail? And what part of portfolio are you facing the pricing pressure? Because where I'm coming from, sir, is that during COVID, the Chinese imports were not possible. At that time, most of our customers had experienced the better quality of product that we were supplying. And you had also mentioned in the past call that some of that would be sticky. So in that context, how much of that stickiness have we been able to retain despite such price rises in the segment?

N. Ananthaseshan: So if you look at our portfolio, around 30-odd percent of the product group is what I would call a retail focus, which would largely be the part of business portfolio of sheets and rolls, cutting disks, which goes your carpenters, painters, fabricators, et cetera. So these are the ones which are distributed through the local hardware store, for example, right.

And this can also be imported in bulk. So this definitely is one segment which is facing price pressure, while the segments like in the industrial consumables, as I call, which is, let's say, the ones, the grinding wheels, which go on to mix and machines, which are used in MSMEs and SMEs, and in the precision abrasives, which goes to much higher end customer segments. So they are much more robust.

So the pressures on retail is broadly on this coated abrasives, which is the sheets and rolls, and also on the India segments. And this is one area where we are also strengthening our retail distribution.

Prolin Nandu: And just an additional follow-on on that.

Moderator: Sorry to interrupt. Due to time constraints, we will need to end the question-and-answer session here, sir.

Prolin Nandu: I just have one last question, allow me to go ahead. That would be on M&A, as the previous participant last asked, 10 years, we have made lots of acquisitions. But given now how geopolitically things are shaping up in terms of energy prices and energy crisis or whatever you want to call it, how does that change our acquisition strategy going forward as to whatever our learnings based on some of the acquisitions that we have made and also in light of some of the changing geopolitics? How has our acquisition strategy changed going forward?

Sridharan Rangarajan: I don't think there is any change. We continue to have an appetite for acquisition largely coming from wherever we need to have a technological gap to be addressed and wherever we need to have market access, we continue to be focused on that.

And to the extent we can do this acquisition with the conservative balance sheet still maintained, we will continue to focus on it. I don't think we will change from that strategy of what we are looking at in M&A.

The geopolitical tensions keeps coming and going. They all play out sometime to the advantage, sometime there could be a stress. But I think if we have to look at the long run, I think we should continue to have that focus.

Moderator: Ladies and gentlemen, that was our last question for today. I now hand the conference over to the management for the closing comments. Over to you, sir.

N. Ananthaseshan: So thank you all so much again for joining on this call. We did hear the announcement of budget. I'm sure that there are a lot of positives for the company going forward, and we hope to leverage on that. And while we expect another challenging quarter, we believe that India and CUMI is well placed to take advantage of this. And we will continue to focus on our operations, turning-around strategies, on-ground strategies and the newer mandates and of course, on our innovation as is our tradition.

So thank you all so much again for joining in, and looking forward to the call the next quarter.

Moderator: On behalf of ICICI Securities, that concludes the conference call. Thank you for joining us. You may now disconnect your lines.